APN | Property Group

APN Property Group Limited and its controlled entities (“APD”)
Appendix 4D – Half Year Financial Report for the period ended 31 December 2016

Results for announcement to the market

	Half year ended 31 December 2016 $’000	Half year ended 31 December 2015 $’000	%
Revenues from ordinary activities	12,411	24,808	(50.0%)
Profit from ordinary activities after tax attributable to members	3,453	16,056	(78.5%)
Loss from discontinued operations after tax attributable to members	(433)	(101)	328.7%
Net profit for the period attributable to members	3,020	15,955	(81.1%)
Net tangible assets per share	33.7 cents	33.5 cents	

Dividends

	Half year ended 31 December 2016 $’000	Half year ended 31 December 2015 $’000
Interim (cents per share); 100% franked amount	1.25	1.25

Record date for determining entitlement	1 March 2017
Payment date	17 March 2017

The further information required by the listing rules is included in the accompanying Half Year Financial Report. Refer to the Directors’ Report for an explanation of the operational and financial results of the Group.

Chantal Churchill
Company Secretary
22 February 2017

APN Property Group Limited

ABN 30 109 846 068

Financial report for the six months ended 31 December 2016

Directors' report

The directors of APN Property Group Limited ('APN' or 'the Group') present herewith their report for the six months ended 31 December 2016.

The names of the directors of the company during or since the end of the period are:

Christopher Aylward – Non-Executive Chairman (transitioned on 1 January 2017)
Timothy Slattery – Executive Director
Howard Brenchley – Non-Executive Director
Clive Appleton – Independent Non-Executive Director
Anthony (Tony) Young – Independent Non-Executive Director

Review of Results and Operations

Summary

The Group's Operating Earnings[1] increased 97% to $3.7 million for the period to 31 December 2016 versus $1.9 million for the prior comparative period (pcp) (restated to classify Healthcare Operations as a discontinued operation following its 27 June 2016 divestment). On a statutory cents per share (cps) basis, Operating Earnings[1] were 0.55 cents compared to 0.64 cents in the pcp, with the current period result materially impacted by the accounting treatment arising from the 10 cent per share special dividend paid in October 2016. Excluding the impact of this special dividend, Operating Earnings[1] per share totalled 1.22 cents for the six month period. Total Funds under Management (FuM) from continuing operations increased 10% from 30 June 2016 to $2.4 billion as at 31 December 2016.

Statutory net profit after tax was $3.0 million for the period versus $16.0 million in the pcp, noting that the divested Healthcare Operations contributed $11.2 million to the pcp statutory result. Statutory diluted earnings per share totalled 0.31 cps compared to 5.37 cps for the period ended 31 December 2015.

The Group's financial position remains healthy, with net assets amounting to $107.7 million, including cash of $27.5 million, co-investments and investment property of $69.2 million and $24.2 million respectively and borrowings associated with the finance of investment property of $10.4 million.

Details of the Group's Operating Earnings after tax for the period are as follows:

	Dec-2016 $'000	Dec-2015 $'000
Fund management fees	6,410	5,296
Performance and transaction fees	747	931
Asset and project management fees	71	(68)
Registry and other fees	1,258	1,208
Total net funds management income	**8,486**	**7,367**
Co-investment income	1,992	1,312
Rental and other property related income	1,188	500
Total net income	**11,666**	**9,179**
Employment costs	(4,322)	(4,043)
Occupancy costs	(492)	(484)
Sales & Marketing costs	(394)	(306)
Other costs	(1,055)	(1,266)
Depreciation & amortisation	(75)	(82)
Finance income / (expense)	82	(31)
Operating earnings before tax	**5,410**	**2,967**
Income tax expense	(1,668)	(1,063)
Net Operating earnings after tax and MI[1]	**3,742**	**1,904**
Other non-operating items, including income tax	(289)	2,989
Profit / (loss) from discontinued operations after tax and MI	(433)	11,062
Statutory profit after tax	**3,020**	**15,955**

1: Operating Earnings is an unaudited after tax metric used by management as the key performance measurement of underlying performance of the Group. Where necessary, restatements of prior comparative period results have occurred to reclassify the Healthcare Operations as a discontinued operation. It also makes adjustments for certain non-operating items recorded in the income statement including minority interests, discontinued operations (Europe), business development expenses and realised / unrealised fair value movements on the Group's co-investments and investment properties.

Total net income from continuing operations increased $2.5 million for the period to $11.7 million. Net fund management fees increased 21% to $6.4 million, reflecting both the growth in FuM compared to the pcp and the emerging scale benefits of the Group's Real Estate Securities platform.

Net performance and transaction fees of $0.7 million were recognised in the period from the establishment of the APN Retail Property Fund compared to the recognition of the profit share income from the sale and settlement of the Newmark APN Auburn Property Fund in the pcp.

Income from co-investments increased 52% to $2.0 million following the continuation of investments under Group's co-investing business model. Two significant co-investments were made in the period, $13.1 million in support of Industria REIT's WesTrac Newcastle acquisition and associated equity raise and $10.1 million to support the December 2016 establishment of the APN Retail Property Fund. Rental and other property related income increased to $1.2 million for the current half, reflecting the Group's ownership of 7-Eleven Eagleby (sold November 2016), the Service Centre South Nowra (sold December 2016) and the Woolworths Limited guaranteed South Nowra investment property.

The Group continued to focus on tight operating cost control, with operating costs increasing by $0.2 million or 2.7% compared to the pcp. Expenses associated with a new share based long term incentive plan, modest employment cost growth and continued investment in APN's sales and marketing presence, partially mitigated by discontinued Healthcare Operation costs offsets, are all contained within this increase.

Other non-operating items and discontinued operations contributed to a loss of $0.7 million for the period compared to a profit after tax of $14.1 million in the pcp. In the current period non-operating items included net mark-to-market adjustments on APN's co-investment stakes ($1.1 million loss versus pcp gain of $3.0 million), net gains on divestment of investment property ($0.9 million) and the discontinued Healthcare Operations ($0.3 million loss versus pcp profit of $11.2 million).

Real Estate Securities

Highlights

- Funds under Management steady at $1.5 billion
- Average net inflows across all open funds of over $11 million per month
- February 2017 launch of the New Zealand APN AREIT PIE Fund

Real Estate Securities (RES) Funds under Management totalled $1.5 billion as at 31 December, down $36 million compared to 30 June 2016. Total net inflows for the period remained healthy at over $70 million, despite volatile market conditions and increases to longer term interest rate expectations, but this was offset by unfavourable AREIT sector mark-to-market valuation adjustments of $80 million and the penultimate return of $27 million from the wind-up of the legacy APN Unlisted Property Fund.

APN has recently launched the APN AREIT PIE Fund for the New Zealand market. This product initiative leverages APN's existing AREIT expertise by tailoring the APN AREIT Fund to meet the specific requirements of New Zealand investors for a tax simplified investment. This product is a logical extension to APN's presence in the New Zealand market which, since its establishment in 2013, has seen FuM grow to over $48 million at 31 December 2016.

Against the recent backdrop of increased market volatility and investors focus on yield, APN's suite of RES funds, with their focus on defensive, real estate backed, income streams are ideally positioned. Distribution yields from the APN AREIT Fund and APN Asian REIT Fund have now risen to 6.26% and 6.55% respectively at 31 January 2017, delivering a significant premium to the RBA cash rate and the yields from their respective index benchmarks of 5.12% and 4.58%.

Industria REIT

Highlights

- Funds under Management up 32% to $558 million
- WesTrac Newcastle acquired for $158.6 million
- $85 million in new equity raised

Industria REIT's (IDR) Funds under Management increased 32% to $558 million as at 31 December 2016 following the $158.6 million acquisition of WesTrac Newcastle and increased property valuations.

The acquisition of WesTrac Newcastle delivered a best-in-class facility to IDR's property portfolio, significantly improving scale and portfolio metrics, with the Weighted Average Lease Expiry (WALE) increasing from 5 years to ~8 years and Funds From Operations and Distributions per Security increasing by ~2%.

Management has continued to actively manage the Fund during the period, successfully leasing ~6,700 sqm of vacancy and completing a further ~14,100 sqm of renewal transactions. Occupancy remains solid at 96% and, with a WALE of 7.8 years and a simple and transparent investment proposition, IDR is well positioned for investors looking for dependable lower risk income yields.

Direct Funds

Highlights

- Funds under Management up 56% to $320 million
- Successful launch of the $106 million APN Retail Property Fund
- Construction commenced for 3 of the 6 Steller projects

Funds under Management increased 56% to $320 million as at 31 December 2016 compared to $205 million at 30 June 2016. APN successfully capitalised on its balance sheet strength and flexibility during the period to launch the $106 million APN Retail Property Fund. This balance sheet strength provided transaction certainty for Puma Energy (Australia) Pty Ltd and permitted the Group time to capture the strong equity demand from its established distribution channels.

In conjunction with this new fund, APN is continuing discussions regarding a number of additional properties which may be included with the APN Retail Property Fund at a future point in time to create a total portfolio of approximately $350 million (including approximately $80 million of assets currently managed by APN in the APN Property Plus Portfolio). A potential future listing of this Fund on ASX is also under consideration.

Good progress was made during the period in the APN Steller Development Fund with construction well underway on 3 of the 6 projects. Securing the required level of pre-sales remains a focus for the remaining projects.

The success of the APN Retail Property Fund continues to demonstrate APN's disciplined and focused approach on pursuing new product opportunities that deliver risk-adjusted returns attractive to our investor base, and reinforces our position as a trusted manager for investors seeking commercial property opportunities with strong and regular income returns.

Earnings Guidance

The Operating Earnings[1] guidance, on a statutory basis, of 1.60 to 2.00 cps as confirmed in November's Annual General Meeting remains current, albeit toward the lower end of this range as far as current market conditions stand. In accordance with our earnings guidance practice, only transactions which have been completed or are sufficiently certain are reflected in this guidance.

Subsequent events

Dividend

Since the balance date, the directors have declared a fully franked interim dividend of 1.25 cents per share for the period ended 31 December 2016, to be paid on 17 March 2017 to all shareholders registered on 1 March 2017.

Other than disclosed above, the directors have not become aware of any other significant matter or circumstances that has arisen since 31 December 2016, that has affected or may affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent years, which has not been covered in this report.

Auditor's independence declaration

The auditor's independence declaration is included on page 5 of the half-year report.

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.

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

On behalf of the Directors

Christopher Aylward
Non-Executive Chairman
Melbourne, 22 February 2017

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

Tel: +61 3 9671 7000
Fax: +61 3 9671 7001
www.deloitte.com.au

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

22 February 2017

Dear Board Members,

Independence declaration – APN Property Group Limited

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

As lead audit partner for the review of the financial statements of APN Property Group Limited for the half-year ended 31 December 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 review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Peter A. Caldwell
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

Tel: +61 3 9671 7000
Fax: +61 3 9671 7001
www.deloitte.com.au

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

We have reviewed the accompanying half-year financial report of APN Property Group Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2016, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity 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 consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 8 to 22.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company 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 control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and 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 half-year 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 APN Property Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. 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 review 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 APN Property Group Limited is not in accordance with the *Corporations Act 2001*, including:

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

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Peter A. Caldwell
Partner
Chartered Accountants
Melbourne, 22 February 2017

Directors' declaration

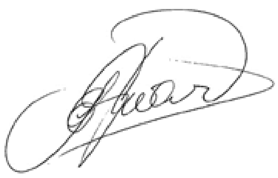
The directors declare that:

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

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

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

On behalf of the Directors



Christopher Aylward
Non-Executive Chairman
Melbourne, 22 February 2017

Condensed consolidated statement of profit or loss and other comprehensive income for the half-year ended 31 December 2016

		Consolidated	
		Half-year ended	
		31 Dec 2016	31 Dec 2015
	Note	$'000	$'000
Continuing operations			
Revenue	3	12,411	24,808
Cost of sales		(959)	(3,830)
Net revenue		11,452	20,978
Finance income		789	589
Administration expenses		(6,336)	(7,585)
Fair value adjustments and business acquisition costs	4	75	14,410
Finance costs		(495)	(159)
Profit before tax		5,485	28,233
Income tax expense		(2,032)	(8,532)
Profit for the period from continuing operations		**3,453**	**19,701**
Discontinued operation			
Loss for the period from discontinued operations		(369)	(102)
Profit for the period		**3,084**	**19,599**
Other comprehensive income, net of income tax			
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations		(2)	96
Other comprehensive (loss) / income for the period (net of income tax)		(2)	96
Total comprehensive income for the period		**3,082**	**19,695**
Profit / (Loss) attributable to:			
Equity holders of the parent		3,020	15,955
Non-controlling interests		64	3,644
		3,084	19,599
Total comprehensive income / (loss) for the period:			
Equity holders of the parent		3,018	16,051
Non-controlling interests		64	3,644
		3,082	19,695
Earnings per share			
From continuing and discontinued operations			
Basic (cents per share)	11	0.31	5.48
Diluted (cents per share)	11	0.31	5.37
From continuing operations			
Basic (cents per share)	11	0.46	5.51
Diluted (cents per share)	11	0.46	5.40

Notes to the financial statements are included on pages 13 to 22.

Condensed consolidated statement of financial position as at 31 December 2016

	Note	Consolidated 31 December 2016 $'000	Consolidated 30 June 2016 $'000
Current assets			
Cash and cash equivalents		27,464	72,031
Trade and other receivables		5,836	6,855
Financial assets – held for sale	8	3,672	62,990
Total current assets		36,972	141,876
Non-current assets			
Investments in joint venture		1	1
Financial assets	8	65,560	43,924
Trade and other receivables		5,995	6,000
Property, plant and equipment		125	173
Investment Properties	9	24,200	38,050
Deferred tax assets		99	–
Intangible assets	6	1,739	1,760
Total non-current assets		97,719	89,908
Total assets		134,691	231,784
Current liabilities			
Trade and other payables		2,811	39,365
Borrowings	10	10,429	36,408
Current tax liabilities		6,068	5,606
Provisions		2,688	4,279
Total current liabilities		21,996	85,658
Non-current liabilities			
Trade payables and other payables		3,447	3,447
Provisions		1,500	1,443
Deferred tax liabilities		–	4,249
Total non-current liabilities		4,947	9,139
Total liabilities		26,943	94,797
Net assets		107,748	136,987
Equity			
Issued capital	7	102,878	102,566
Reserves		3,879	3,545
Retained earnings		991	30,940
Equity attributable to equity holders of the parent		107,748	137,051
Non-controlling interests		–	(64)
Total equity		107,748	136,987

Notes to the financial statements are included on pages 13 to 22.

Condensed consolidated statement of changes in equity for the half-year ended 31 December 2016

	Share capital	Retained earnings	Equity-settled employee benefits reserve	Foreign currency translation reserve	Total Attributable to equity holders of the parent	Non-controlling interest	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 Jul 2015	101,832	(12,362)	2,768	(1,657)	90,581	5,810	96,391
Profit for the period	–	15,955	–	–	15,955	3,644	19,599
Translation of foreign subsidiary company	–	–	–	96	96	–	96
Total comprehensive income for the period	–	15,955	–	96	16,051	3,644	19,695
Payment of dividends:							
Equity holders of the parent	–	(755)	–	–	(755)	–	(755)
'- Non-controlling interest	–	–	–	–	–	(36)	(36)
Issue of ordinary shares under employee share gift plan	43	–	(43)	–	–	–	–
Recognition of share-based payments	–	–	650	–	650	–	650
Balance at 31 Dec 2015	101,875	2,838	3,375	(1,561)	106,527	9,418	115,945
Balance at 1 Jul 2016	102,566	30,940	3,394	151	137,051	(64)	136,987
Profit for the period	–	3,020	–	–	3,020	64	3,084
Translation of foreign subsidiary company	–	–	–	(2)	(2)	–	(2)
Total comprehensive income for the period	–	3,020	-	(2)	3,018	64	3,082
Payment of dividends – Equity holders of the parent	–	(32,969)	–	–	(32,969)	–	(32,969)
Share options exercised by employees	291	–	–	–	291	–	291
Transfer of share options cost exercised by employees	21	–	(21)	–	–	–	–
Recognition of share-based payments	–	–	357	–	357	–	357
Balance at 31 Dec 2016	102,878	991	3,730	149	107,748	–	107,748

Notes to the financial statements are included on pages 13 to 22.

Condensed consolidated statement of cash flows for the half-year ended 31 December 2016

	Note	Consolidated Half-year Ended 31 Dec 2016 $'000	31 Dec 2015 $'000
Cash flows from operating activities			
Receipts from customers		10,663	11,800
Payments to suppliers and employees		(8,748)	(8,053)
Interest received		737	241
Distributions received		2,744	1,867
Interest and other costs of finance paid		(495)	(159)
Income tax paid		(491)	(769)
Net cash (used in) / provided by operating activities		4,410	4,927
Cash flows from investing activities			
Payment for co-investment		(23,251)	(15,037)
Proceeds on sale of co-investment		58,803	1,948
Payment for property, plant and equipment		(6)	(45)
Payment for investment properties (net costs of sale)		(4,250)	(21,113)
Proceeds from sale of investment properties		15,692	–
Payment to non-controlling shareholders of disposed subsidiaries		(32,097)	–
Income tax paid on sale of subsidiaries		(5,143)	–
Net cash provided by / (used in) investing activities		9,748	(34,247)
Cash flows from financing activities			
(Repayment of) / proceeds from borrowings		(26,045)	21,590
Proceeds from issue of shares		291	–
Dividends paid:			
- Equity holders of the parent		(32,969)	(755)
- Non-controlling interests		–	(36)
Net cash (used in) / provided by financing activities		(58,723)	20,799
Net decrease in cash and cash equivalents		(44,565)	(8,521)
Net effect of foreign exchange translations		(2)	97
Cash and cash equivalents at the beginning of the period		72,031	20,343
Cash and cash equivalents at the end of the period		27,464	11,919

Notes to the financial statements are included on pages 13 to 22.

Notes to the condensed consolidated financial statements

1. Significant accounting policies

Statement of compliance

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

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. 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 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 have been rounded off to the nearest thousand dollars, unless otherwise stated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2016 annual financial report, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Group has adopted all the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period.

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

Standard
• AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions if Interests in Joint Operations
• AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation
• AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements
• AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle
• AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101
• AASB 2015-5 Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception

The application of these amendments does not have any material impact on the disclosures or the amounts recognised in the Group's condensed consolidated financial statements.

2. Segment information

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 • Wholesale funds	• APN Property Plus Portfolio • APN Regional Property Fund • Newmark APN Auburn Property Fund • APN Coburg North Retail Fund • APN Steller Development Fund • APN Retail Property Fund • 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

(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.

2. Segment information (cont'd)

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

	Segment revenue		Segment net revenue[i]		Segment profit	
	Half-year ended		Half-year ended		Half-year ended	
	31 Dec 2016 $'000	31 Dec 2015 $'000	31 Dec 2016 $'000	31 Dec 2015 $'000	31 Dec 2016 $'000	31 Dec 2015 $'000
Continuing operations						
Real estate securities funds	6,131	5,260	5,254	4,377	2,481	1,812
Industrial real estate fund	1,380	1,153	1,380	1,153	621	331
Direct real estate funds	2,813	2,026	2,731	1,876	1,821	1,130
Investment revenue	1,992	1,311	1,992	1,311	1,992	1,311
	12,316	9,750	11,357	8,717	6,915	4,584
Unallocated revenue and expenses						
Other income	95	–	95	–	95	–
Finance income					789	589
Central administration					(1,819)	(1,965)
Depreciation and amortisation					(75)	(82)
Finance costs					(495)	(159)
					5,410	**2,967**
Income tax expense					(1,668)	(1,063)
Net operating earnings after tax & Non-controlling interests (NCI)	**12,411**	**9,750**	**11,452**	**8,717**	**3,742**	**1,904**
Pre-tax fair value adjustments / business acquisition costs					75	4,191
Income tax expense					(364)	(1,202)
					(289)	**2,989**
Total revenue, net revenue and profit after tax from continuing operations	**12,411**	**9,750**	**11,452**	**8,717**	**3,453**	**4,893**
Discontinued operations						
European real estate funds	11	189	11	189	(171)	(52)
Healthcare real estate fund [ii]	139	15,058	139	12,261	52	10,856
Income tax expense					124	(3,292)
Non-controlling interest					(64)	(2,340)
					(59)	**5,172**
Pre-tax fair value adjustments / gain on disposal of co-investments					(535)	10,219
Income tax expenses					161	(3,025)
Non-controlling interest					–	(1,304)
					(374)	**5,890**
Total	**12,561**	**24,997**	**11,602**	**21,167**	**3,020**	**15,955**

[i] Segment net revenue is segment revenue less direct costs.
[ii] This segment was discontinued following the disposal of subsidiaries on 27 June 2016.

There were no intersegment sales during the half-year.

Segment assets and liabilities

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

3. 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 December 2015 included revenue from the Healthcare real estate fund segment. This operation was reclassified to discontinued operations in the current period following its sale on 27 June 2016.

	Consolidated	
Half-year ended	**31 Dec 2016 $'000**	**31 Dec 2015 $'000**
Continuing operations		
Fund management fees	7,330	7,404
Performance and transaction fees	747	11,922
Asset and project management fees	1,084	1,779
Registry and other income	1,258	1,208
	10,419	22,313
Distribution income	1,992	2,495
	12,411	24,808

4. Results for the period

	Consolidated	
Half-year ended	**31 Dec 2016 $'000**	**31 Dec 2015 $'000**
(a) Profit/(loss) for the period has been arrived after charging / crediting the following gains and losses and other expenses:		
Share based payments expenses	(357)	(650)
(b) Impairment, fair value adjustments and business acquisition costs:		
Profit/(loss) for the period includes the following impairment, fair value adjustments and business acquisition costs:-		
Change in fair value of financial assets designated as at fair value through profit or loss	(1,586)	14,460
Changes in unrealised fair value of investment properties	–	(119)
Aborted business development / acquisition costs	(181)	(74)
Gain/(Loss) on disposal of investment	–	143
Gain/(Loss) on disposal of investment properties	1,842	–
	75	14,410

5. Dividends

Half-year ended	**31 Dec 2016**		**31 Dec 2015**	
Fully paid ordinary shares	**Cents per share**	**Total $'000**	**Cents per share**	**Total $'000**
Recognised amounts				
Final dividend	0.50	1,570	0.25	755
Special dividend	10.00	31,399	–	–
	10.50	32,969	0.25	755
Unrecognised amounts				
Interim dividend	1.25	3,925	1.25	3,903
	1.25	3,925	1.25	3,903

Directors have declared a fully franked interim dividend of 1.25 cents per share for the period ended 31 December 2016 (2015: 1.25 cents per share, fully franked). This will be paid on 17 March 2017 to all shareholders registered on 1 March 2017.

6. Intangible assets

Half-year ended	Consolidated Management rights $'000	Software $'000	Total $'000
Gross carrying amount			
Balance at 1 July 2015	3,953	765	4,718
Additions	–	3	3
Transfer	–	(313)	(313)
Derecognised during the year	(2,253)	–	(2,253)
Balance at 30 June 2016	1,700	455	2,155
Additions	–	–	–
Balance at 31 December 2016	1,700	455	2,155
Accumulated amortisation / impairment losses			
Balance at 1 July 2015	–	(666)	(666)
Depreciation expense	–	(42)	(42)
Derecognised during the year	–	313	313
Balance at 30 June 2016	–	(395)	(395)
Depreciation expense	–	(21)	(21)
Balance at 31 December 2016	–	(416)	(416)
Net book value			
At 30 June 2016	1,700	60	1,760
At 31 December 2016	1,700	39	1,739

7. Issued capital

	Consolidated No of shares '000	$'000
Balance at 1 July 2015	302,090	101,832
Share issued under APN Property Group Employee Share Gift Plan	112	43
Balance at 31 December 2015	302,202	101,875

	Consolidated No of shares '000	$'000
Balance at 1 July 2016	313,993	102,566
Share options exercised by employees	–	291
Transfer of share option cost exercised by employees	–	21
Balance at 31 December 2016	313,993	102,878

During the period, the Company issued nil shares (2015: 112,000) to eligible employees under the APN Property Group Employee Share Gift Plan.

At 31 December 2016, included in issued fully paid ordinary shares of 313,993,000 (2015: 302,202,000) are 19,794,000 (2015: 11,296,000) treasury shares relating to employee share option plans.

8. Fair value of financial instruments

	Consolidated	
Financial assets carried at fair value through profit and loss -	**31 Dec 2016 $'000**	**30 Jun 2016 $'000**
Co-investments		
Current assets – Financial assets held for sale	3,672	62,990
Non-current assets – Financial assets	65,560	43,924
	69,232	106,914

(a) The directors consider that the carrying amount of financial assets and financial liabilities that are not measured at fair value in the financial statements approximate their fair value.

(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**
31 December 2016				
Co-investments	53,672	–	15,560	69,232
30 June 2016				
Co-investments	100,781	–	6,133	106,914

There were no transfers between Level 1, 2 and 3 during the period.

(c) Reconciliation of Level 3 fair value measurements

	Consolidated	
Fair value through profit or loss	**31 Dec 2016 $'000**	**30 Jun 2016 $'000**
Opening balance	6,133	1,147
- Realised loss in profit or loss	(716)	(61)
Purchases	10,143	5,047
Settlements	–	–
Closing balance	15,560	6,133

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

- Level 1: the fair value is calculated from quoted prices (unadjusted) in active markets for identical assets or liabilities, and includes 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.

9. Investment Properties

(a) Investment properties represent commercial property owned by the APN Convenience Retail Property Fund, a wholly owned subsidiary of the Group and are held, for the purpose of deriving rental income and/or capital appreciation.

(b) Reconciliation of carrying amount

	Consolidated	
	Investment Properties [(c)]	
Half-year ended	**31 Dec 2016 $'000**	**30 Jun 2016 $'000**
Carrying amount at 1 July 2016	38,050	–
Transfer from property, plant and equipment	–	1,577
Additions	–	35,897
Straight line lease revenue recognition	–	52
Disposals [(iii)]	(13,850)	–
Change in fair value - unrealised	–	524
Carrying amount at 31 December 2016	24,200	38,050

(c) Individual valuation and carrying amounts

		Latest external valuations			
Commercial property [(i)]	**Ownership interest**	**Valuation $'000**	**Date**	**Capitalisation rate**	**Discount rate**
Lot 2, 190-198 Princes Highway, South Nowra, NSW [(ii)]	100%	24,200	Dec 16	7.00%	8.00%

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

(ii) The above investment property has been pledged (first ranking mortgage) to secure borrowings of the Group (note 10).

(iii) On 9 November 2016, 126A, River Hills Road, Eagleby, QLD was sold for $4.85 million compared to its carrying value of $4.6 million at 30 June 2016.

On 15 December 2016, Lot 1, 190-198 Princess Highway, South Nowra, NSW, was sold for $11,320,000 compared to its carrying value of $9.25 million at 30 June 2016.

10. Borrowings

	Consolidated	
Half-year ended	**31 Dec 2016 $'000**	**30 Jun 2016 $'000**
Current financial liabilities: Secured - at amortised cost		
Secured bank loans (a)	10,530	21,575
Unamortised borrowing costs	(101)	(167)
Secured bank loans (b)	–	15,000
	10,429	36,408
Total facilities available:		
Secured bank loans	10,530	40,825
Business card facility	200	200
Bank guarantee	500	500
	11,230	41,525
Facilities utilised at balance date:		
Secured bank loans	10,530	36,575
Business card facility	138	173
Bank guarantee	500	500
	11,168	37,248
Facilities not utilised at balance date:		
Secured bank loans	–	4,250
Business card facility	62	27
Bank guarantee	–	–
	62	4,277

During the period, the Group has the following loans:-

(a) Secured bill acceptance/discount facilities:-

- Facility 1: The 3 year $3,097,000 fully drawn bill acceptance/discount facility secured against 126A, River Hills Road, Eagleby, QLD, was fully repaid from the net proceeds received from the sale of the property in November 2016. The weighted average effective interest rate for this loan was 3.71% per annum.

- Facility 2: The 3 year $22,750,000 bill acceptance/discount facility secured against Lots 1 and 2, 190-198 Princess Highway, South Nowra, NSW (refer note 9 for details) was fully drawn during the period before being partially repaid in November/December 2016 from the net proceeds received from the sale of Lot 1, 190-198 Princess Highway, South Nowra, NSW. As at 31 December 2016, the balance outstanding (and facility limit) is $10,530,000, with a weighted average effective interest rate of 3.56% per annum, and is subject to the following financial covenants:

  Term facility (effective from partial repayment of the loan):
  - Loan to value ratio will not exceed 48%; and
  - Interest cover ratio will not fall below 2.0 times

(b) The bank loan of $15,000,000 was fully repaid on 17 July 2016. The weighted average effective interest rate on this bank loan is 5.36% per annum.

There have been no other borrowings for the period ended 31 December 2016.

11. Earnings per share

	Consolidated	
	31 Dec 2016	**31 Dec 2015**
Basic earnings per share (cents per share)		
From continuing operations	0.46	5.51
From discontinued operations	(0.15)	(0.03)
	0.31	5.48
Diluted earnings per share (cents per share)		
From continuing operations	0.46	5.40
From discontinued operations	(0.15)	(0.03)
	0.31	5.37

11.1 Basic earnings per share

	31 Dec 2016 $'000	**31 Dec 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	3,020	15,955
Profit for the year from discontinued operations used in the calculation of basic earnings per share from discontinued operations	433	101
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		
- Ordinary dividends paid	(101)	(28)
- Special dividends paid	(2,010)	–
Earnings used in the calculation of basic EPS from continuing operations	1,342	16,028

11.2 Diluted earnings per share

	31 Dec 2016 $'000	**31 Dec 2015 $'000**
The earnings used in the calculation of diluted earnings per share is as follows:		
Earnings used in the calculation of basic EPS	1,342	16,028
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	–	7
Earnings used in the calculation of diluted EPS from continuing operations	1,342	16,035

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

	31 Dec 2016	**31 Dec 2015**
Basic EPS - Weighted average number of ordinary shares used in the calculation	**293,891**	**290,771**
Shares deemed to be issued for no consideration in respect of employee options	185	5,913
Diluted EPS - Weighted average number of ordinary shares used in the calculation	**294,076**	**296,684**
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(i)	20,102	8,542

(i) Includes 8,064,000 potential ordinary shares (2015: nil) that are not dilutive only because of the special dividend paid during the period.

12. Contingent assets and liabilities

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

Other than disclosed above, there is no change to contingent assets and liabilities during the period.

13. Subsequent events

Dividend

Since the balance date, the directors have declared a fully franked interim dividend of 1.25 cents per share for the period ended 31 December 2016, to be paid on 17 March 2017 to all shareholders registered on 1 March 2017.

Other than disclosed above, the directors have not become aware of any other significant matter or circumstances that has arisen since 31 December 2016, that has affected or may affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent years, which has not been covered in this report.