APN | Property Group

APN Property Group Limited and its controlled entities ("APD")
Appendix 4D – Half Year Financial Report for the period ended 31 December 2017

Results for announcement to the market

	Half year ended 31 Dec 2017 $'000	Half year ended 31 Dec 2016 $'000	%
Revenues from ordinary activities	14,595	12,411	18%
Profit from ordinary activities after tax attributable to members	9,536	3,453	176%
Loss from discontinued operations after tax attributable to members	20	(433)	105%
Net profit for the period attributable to members	9,556	3,020	216%
Net tangible assets per share	37.5 cents	33.7 cents	

Dividends

	Half year ended 31 Dec 2017	Half year ended 31 Dec 2016
Interim (cents per share); 100% franked amount	1.25	1.25

Record date for determining entitlement	1 March 2018
Payment date	16 March 2018

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.

Churchill

Chantal Churchill
Company Secretary
21 February 2018

APN Property Group Limited

ABN 30 109 846 068

Financial report for the six months ended 31 December 2017

Directors' report

The directors of APN Property Group Limited ('APN' or 'the Group') present herewith their report for the six months ended 31 December 2017.

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

Christopher Aylward – Non-Executive Chairman
Timothy Slattery – Executive Director, Chief Executive Officer and Managing Director
Howard Brenchley – Non-Executive Director
Clive Appleton – Independent Director
Anthony (Tony) Young – Independent Director

Review of Results and Operations

Summary

Operating Earnings[1] increased 37% to $5.1 million for the period to 31 December 2017, representing 1.67 cents per share (cps). For the prior comparative period (pcp) Operating Earnings[1,2] were $3.7 million, or 1.22 cps. Statutory net profit after tax was $9.6 million versus $3.0 million in the pcp. Statutory diluted earnings per share totalled 3.13 cps compared to 0.31 cps for the period ended 31 December 2016.

Total Funds under Management (FuM) from continuing operations increased 11% to $2.8 billion following the successful Initial Public Offer (IPO) of Convenience Retail REIT and settlement of its IPO property acquisitions.

The financial position of the Group remains healthy. Net assets totalled $119.4 million at 31 December, including cash of $14.8 million, co-investments and investment property of $100.7 million and $24.2 million respectively. Borrowings of $10.5 million and $6.0 million associated with the finance of investment property and co-investment stakes respectively are modest and non-recourse to the other Group assets. Subsequent to balance date, the maturity date of the $6.0 million borrowing has been extended to 31 March 2020.

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

	Dec-2017 $'000	Dec-2016 $'000
Fund management fees	7,098	6,410
Performance and transaction fees	866	747
Asset and project management fees	60	71
Registry and other fees	1,109	1,258
Total net funds management income	**9,133**	**8,486**
Co-investment income	3,550	1,992
Rental and other property related income	832	1,188
Total net income	**13,515**	**11,666**
Employment costs	(5,270)	(4,322)
Occupancy costs	(288)	(492)
Sales & Marketing costs	(336)	(394)
Other costs	(971)	(1,055)
Depreciation & amortisation	(113)	(75)
Finance income / (expense)	(209)	82
Operating earnings before tax	**6,328**	**5,410**
Income tax expense	(1,193)	(1,668)
Net Operating earnings after tax and MI[1]	**5,135**	**3,742**
Non-operating items, including income tax	4,401	(289)
Profit / (loss) from discontinued operations after tax and MI	20	(433)
Statutory profit after tax	**9,556**	**3,020**

1: Operating Earnings is an unaudited after tax metric used by management as the key performance measurement of underlying performance of the Group. It adjusts statutory profit for certain non-operating items recorded in the income statement including minority interests, discontinued operations (Europe and Healthcare), business development expenses and realised / unrealised fair value movements on the Group's co-investments and investment properties.

2: Represents Operating Earnings per Share (EPS) adjusted to exclude the accounting impact of the 10 cents per share special dividend paid in October 2016. On a statutory basis, Operating EPS for the six months to 31 December 2016 was 0.55 cps.

Total net income increased $1.8 million or 16% to $13.5 million for the half. The successful establishment and IPO of Convenience Retail REIT and a full contribution from Industria REIT's September 2016 acquisition of WesTrac Newcastle were the primary drivers to net fund management fees increasing 11% to $7.1 million as compared to the pcp. Net performance and transaction fees of $0.9 million were consistent to the pcp and were attributable to Convenience Retail REITs establishment in the current period and the establishment of a related predecessor fund in the prior period.

Income from co-investments increased 78% to $3.6 million for the period following an additional $16.7 million investment to increase the Group's stake in Industria REIT and establish a material co-investment in Convenience Retail REIT. Rental and other property related income decreased to $0.8 million for the current period, following the sale of 7-Eleven Eagleby (November 2016) and the Service Centre South Nowra (December 2016).

Operating costs increased $0.6 million or 10% compared to the pcp following the decision in late FY2017 to increase the resources and capability associated with our Direct Funds management platform. Disciplined cost control on operating costs remains a significant focus of management.

The Group's average tax rate declined from 31% to 19% for the period following the finalisation and utilisation of prior period unrecognised capital loss deductions arising from the liquidation of a subsidiary.

Non-operating items (net of tax) of $4.4 million were recognised in the current period following positive mark-to-market adjustments on APN's co-investment stakes. The pcp loss of $0.3 million included an unfavourable $1.1 million net mark-to-market adjustment partially offset by net gains on divestment of investment property totalling $0.9 million.

Real Estate Securities (RES)

Highlights

- FuM totalling $1.7 billion, up 8%
- Average net inflows of $9.2 million per month across all strategies

Funds under Management increased $127 million for the period to $1,661 million. Net inflows across all strategies contributed $55 million to this increase with the balance of $72 million representing favourable mark-to-market valuation gains.

Strong net flows continued for the Colonial First State (CFS) AREIT investment mandate, albeit moderating towards the end of the period, offsetting below expectation net inflows to the APN AREIT Fund as investors took the opportunity to rebalance asset allocations to growth asset classes. The APN AREIT PIE Fund, launched in March 2017, reported moderate net inflows that were behind expectations following the departure of a key staff member from our New Zealand distribution partner (now replaced). Pleasingly momentum continued during the period for the APN Asian REIT Fund, with FuM increasing 51% to $19 million at balance date.

With products focused on defensive, real estate backed, income streams, APN's suite of RES funds remain ideally positioned to deliver attractive monthly income yields to investors and remain an important part of a diversified investment portfolio.

Industria REIT (IDR)

Highlights

- FuM steady at $646 million
- ~ 10,400 sqm in leasing transacted

Industria REIT's Funds under Management remained steady at $646 million as at 31 December.

Management continued its highly disciplined focus on executing initiatives and opportunities that maximise security holder risk adjusted returns. Initiatives implemented during the period include an on-market security buy-back, an increase in distribution frequency to quarterly, active property management and leasing (including the completion of the BTP solar initiative that is expected to deliver a 15% yield on cost) and a rigorous application on property fundamentals when evaluating portfolio composition and growth opportunities.

Occupancy remains solid at 95% with 23 leasing transactions representing ~10,400 sqm occurring during the period, a pleasing outcome that proves the teams focus on tenant engagement is driving meaningful outcomes of fund investors. WALE closed the period at 7.3 years and Industria is on track to deliver to its FY18 Funds from Operations forecast growth of 2 - 3% over FY17.

As at 31 December 2017, IDR is forecast to provide investors with a distribution yield of approximately 6.5% and exposure to a high quality and low-risk portfolio of assets.

Direct Funds (Direct)

Highlights

- FuM steady at $124 million
- 3 of 6 Steller projects completed in line with forecast

Funds under Management at 31 December remained steady at $124 million versus $125 million at 30 June.

New leasing transactions for the APN Regional Property Fund delivered strong results with increased WALE and valuation while in the APN Steller Development Fund the first 3 of the 6 projects were completed in line with forecasts allowing the first return of 28 cents per security to be paid to investors.

Disciplined efforts from our expanded team have continued during the period, scouring the market for attractive new direct property opportunities. Over 20 potential opportunities passed initial screening for further detailed evaluation. Ultimately we were unsuccessful on each of these opportunities as we will not compromise on underlying property fundamentals and therefore through the cycle value for investors.

Early signs are beginning to emerge of a shift in core commercial property markets and sentiment that we expect to lead to opportunities that will appeal to our core investor base. The Group stands ready, including via the provision of balance sheet support, to capitalise on these opportunities as they emerge.

Convenience Retail REIT (CRR)

Highlights

- FuM totalling $327 million
- $133 million equity raise and ASX listing completed
- 2 additional earnings accretive acquisitions completed

Convenience Retail REIT (CRR) successfully listed on the Australian Securities Exchange (ASX) during the period with trading commencing on 27 July 2017 with an initial market capitalisation of ~$237 million (at the issue price of $3.00).

Formed from two of APN's existing unlisted direct funds together with a new portfolio of 25 petrol station sites, CRR is a strong exponent of the benefits to the Group of the Direct funds division.

Since listing CRR has completed two earnings accretive acquisitions and now owns a portfolio of 68 properties valued at approximately $324 million. Funds From Operations (FFO) and distribution guidance have been upgraded from original PDS forecasts and the fund stands ready to deploy additional capital of up to $26 million for opportunities that add value, on a risk adjusted basis, for CRR security holders.

Earnings and Dividend Guidance

Operating Earnings[1] guidance, on a statutory basis, is confirmed at 2.35 to 2.65 cps. In accordance with our earnings guidance practice, only transactions which have been completed or are sufficiently certain are reflected in this guidance and it remains subject to a continuation of the current market conditions.

Dividend Guidance has been upgraded by 0.25 cents per share (cps) to 2.25 cps for the full year, comprising the 1.25 cps fully franked interim dividend declared today and a forecast fully franked final dividend of 1.00 cps.

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 2017, to be paid on 16 March 2018 to all shareholders registered on 1 March 2018.

Borrowings

Bank loan facilities totaling $8.0 million (drawn to $6.0 million as at 31 December 2017) and $10.53 million (fully drawn) are due to expire in June 2018 and November 2018 respectively (financial statements - note 10). Subsequent to 31 December 2017, the $8.0 million loan facility has been extended to 31 March 2020. Discussions have commenced with the existing financier to extend the remaining $10.53 million facility.

Other than disclosed above, the directors have not become aware of any other significant matter or circumstances that has arisen since 31 December 2017, 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, 21 February 2018

Deloitte Touche Tohmatsu
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21 February 2018

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

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 2017, 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 faithfully

DELOITTE TOUCHE TOHMATSU

Peter A. Caldwell
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
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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 2017, 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 2017 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 2017 and of its performance for the half-year ended on that date; and

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

DELOITTE TOUCHE TOHMATSU

Peter A. Caldwell
Partner
Chartered Accountants

Melbourne, 21 February 2018

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, 21 February 2018

Condensed consolidated statement of profit or loss and other comprehensive income for the half-year ended 31 December 2017

		Consolidated	
		Half-year ended	
		31 Dec 2017	31 Dec 2016
	Note	$'000	$'000
Continuing operations			
Revenue	3	14,595	12,411
Cost of sales		(1,080)	(959)
Net revenue		13,515	11,452
Finance income		142	789
Administration expenses		(6,978)	(6,336)
Fair value adjustments and business acquisition costs	4	6,618	75
Finance costs		(351)	(495)
Profit before tax		12,946	5,485
Income tax expense		(3,410)	(2,032)
Profit for the period from continuing operations		**9,536**	**3,453**
Discontinued operation			
Profit / (loss) for the period from discontinued operations		20	(369)
Profit for the period		**9,556**	**3,084**
Other comprehensive income, net of income tax			
Items that may be subsequently reclassified to profit or loss			
Exchange differences arising on translation of foreign operations		–	(2)
Other comprehensive income / (loss) for the period (net of income tax)		–	(2)
Total comprehensive income for the period		**9,556**	**3,082**
Profit / (loss) attributable to:			
Equity holders of the parent		9,556	3,020
Non-controlling interests		–	64
		9,556	3,084
Total comprehensive income / (loss) for the period:			
Equity holders of the parent		9,556	3,018
Non-controlling interests		–	64
		9,556	3,082
Earnings per share:			
From continuing and discontinued operations			
Basic (cents per share)	11	3.20	0.31
Diluted (cents per share)	11	3.13	0.31
From continuing operations			
Basic (cents per share)	11	3.19	0.46
Diluted (cents per share)	11	3.12	0.46

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

Condensed consolidated statement of financial position as at 31 December 2017

	Note	Consolidated 31 Dec 2017 $'000	Consolidated 30 Jun 2017 $'000
Current assets			
Cash and cash equivalents		14,791	18,640
Trade and other receivables		5,905	8,701
Total current assets		20,696	27,341
Non-current assets			
Financial assets	8	100,704	77,820
Property, plant and equipment		505	260
Investment properties	9	24,200	24,200
Intangible assets	6	1,737	1,758
Total non-current assets		127,146	104,038
Total assets		147,842	131,379
Current liabilities			
Trade and other payables		2,944	2,684
Borrowings	10	16,486	10,456
Current tax liabilities		1,083	1,629
Provisions		1,874	2,164
Total current liabilities		22,387	16,933
Non-current liabilities			
Provisions		1,380	1,205
Deferred tax liabilities		4,647	1,383
Total non-current liabilities		6,027	2,588
Total liabilities		28,414	19,521
Net assets		119,428	111,858
Equity			
Issued capital	7	102,880	102,879
Reserves		4,455	4,089
Retained earnings		12,093	4,890
Total equity attributable to equity holders of the parent		119,428	111,858

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 2017

	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 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 (note 5)	–	(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 expense	–	–	357	–	357	–	357
Balance at 31 Dec 2016	102,878	991	3,730	149	107,748	–	107,748
Balance at 1 Jul 2017	102,879	4,890	4,089	–	111,858	–	111,858
Profit for the period	–	9,556	–	–	9,556	–	9,556
Payment of dividends – Equity holders of the parent (note 5)	–	(2,353)	–	–	(2,353)	–	(2,353)
Share options exercised by employees	1	–	–	–	1	–	1
Recognition of share-based payments expense	–	–	366	–	366	–	366
Balance at 31 Dec 2017	102,880	12,093	4,455	–	119,428	–	119,428

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 2017

	Note	Consolidated	
		Half-year Ended	
		31 Dec 2017 $'000	31 Dec 2016 $'000
Cash flows from operating activities			
Receipts from customers		9,935	10,663
Payments to suppliers and employees		(7,385)	(8,748)
Interest received		146	737
Distributions received		4,325	2,744
Interest and other costs of finance paid		(351)	(495)
Income tax paid		(691)	(491)
Net cash provided by operating activities		5,979	4,410
Cash flows from investing activities			
Payment for co-investments		(17,238)	(23,251)
Proceeds on sale / return of capital from co-investments		950	58,803
Payment for property, plant and equipment		(337)	(6)
Payment for investment properties		–	(4,250)
Proceeds from sale of investment properties (net costs of sale)		–	15,692
Refund of deposit paid for investment property		3,146	–
Payment to non-controlling shareholders of disposed subsidiaries		–	(32,097)
Income tax paid on sale of subsidiaries		–	(5,143)
Net cash (used in) / provided by investing activities		(13,479)	9,748
Cash flows from financing activities			
Proceeds from / (repayment of) borrowings		6,004	(26,045)
Proceeds from issue of shares		–	291
Dividends paid to equity holders of the parent		(2,353)	(32,969)
Net cash provided by / (used in) financing activities		3,651	(58,723)
Net decrease in cash and cash equivalents		(3,849)	(44,565)
Net effect of foreign exchange translations		–	(2)
Cash and cash equivalents at the beginning of the period		18,640	72,031
Cash and cash equivalents at the end of the period		14,791	27,464

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 therefore this report should be read in conjunction with the Company's 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 2017 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 1048 Interpretation of Standards
• AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses
• AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107
• AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016

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 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	• Property securities funds and investment mandates	• APN AREIT Fund • APN Property for Income Fund • APN Property for Income Fund No. 2 • APN Asian REIT Fund • APN AREIT NZ PIE Fund • Property Securities Investment Mandates
• Industrial Real Estate fund	• Listed real estate investment trust (REIT)	• Industria REIT (IDR)
• Convenience Retail Property fund (i)	• Listed real estate investment trust (REIT)	• Convenience Retail REIT (CRR) (i)
• Direct Real Estate funds	• Fixed term Australian property funds • Wholesale property funds	• APN Regional Property Fund • APN Coburg North Retail Fund • APN Steller Development Fund • APN Retail Property Fund (i) • APN Property Plus Portfolio (i) • APN Development Fund No.2
• Investment revenue	• Investment and rental income received or receivable from investments	
Discontinued operations		
• European Real Estate funds • Healthcare Operations	• De-listed real estate investment trust (REIT) and fixed term European property funds	• APN Champion Retail Fund • APN European Retail Property Group

(i) The Convenience Retail Property Fund segment was established on 27 July 2017 following the successfully establishment and ASX IPO of Convenience Retail REIT (ASX Ticker 'CRR'). Convenience Retail REIT is a stapled entity and comprises Convenience Retail REIT No.1 (formerly APN Property Plus Portfolio), Convenience Retail REIT No.2 (formerly APN Retail Property Fund) and Convenience Retail REIT No.3). Prior to 27 July 2017, the contributions associated with APN Property Plus Portfolio and APN Regional Property Fund have been recorded in the Direct Real Estate funds segment.

Information regarding these reportable segments is presented below. The accounting policies of the reportable segments are the same as the Group's accounting policies. Where applicable, the corresponding segment information in the prior period has been restated to reflect the newly reportable and amended segments in accordance with the Accounting Standards.

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 2017 $'000	31 Dec 2016 $'000	31 Dec 2017 $'000	31 Dec 2016 $'000	31 Dec 2017 $'000	31 Dec 2016 $'000
Continuing operations						
Real estate securities funds	5,793	6,131	4,801	5,254	1,785	2,481
Industrial real estate fund	1,853	1,380	1,853	1,380	987	621
Convenience retail property fund	963	–	963	–	564	–
Direct real estate funds	695	1,774	650	1,755	(124)	845
Investment revenue	4,425	3,031	4,382	2,968	4,382	2,968
	13,729	12,316	12,649	11,357	7,594	6,915
Unallocated revenue and expenses						
Other income	866	95	866	95	866	95
Finance income					142	789
Central administration					(1,810)	(1,819)
Depreciation and amortisation					(113)	(75)
Finance costs					(351)	(495)
					6,328	**5,410**
Income tax expense					(1,193)	(1,668)
Net operating earnings after tax & Non-controlling interests (NCI)	**14,595**	**12,411**	**13,515**	**11,452**	**5,135**	**3,742**
Pre-tax fair value adjustments / business acquisition costs					6,618	75
Income tax expense					(2,217)	(364)
					4,401	**(289)**
Total from continuing operations	**14,595**	**12,411**	**13,515**	**11,452**	**9,536**	**3,453**
Discontinued operations						
European real estate funds	–	11	–	11	(6)	(171)
Healthcare real estate fund	19	139	19	139	26	52
Income tax expense					–	124
Non-controlling interest					–	(64)
					20	**(59)**
Pre-tax fair value adjustments / gain on disposal of co-investments					–	(535)
Income tax expenses					–	161
					–	**(374)**
Total	**14,614**	**12,561**	**13,534**	**11,602**	**9,556**	**3,020**

[i] Segment net revenue is segment revenue less direct costs.

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.

	Consolidated	
Half-year ended	**31 Dec 2017 $'000**	**31 Dec 2016 $'000**
Continuing operations		
Fund management fees	8,135	7,330
Performance and transaction fees	866	747
Asset and project management fees	60	45
Rental income from investment properties	875	1,039
Registry and other income	1,109	1,258
	11,045	10,419
Distribution income	3,550	1,992
	14,595	12,411

4. Results for the period

	Consolidated	
Half-year ended	**31 Dec 2017 $'000**	**31 Dec 2016 $'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	(366)	(357)
(b) 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	6,593	(1,586)
- Aborted business development / acquisition costs	22	(181)
- Gain/(Loss) on disposal of investment	3	–
- Gain/(Loss) on disposal of investment properties	–	1,842
	6,618	75

5. Dividends

Half-year ended	**31 Dec 2017**		**31 Dec 2016**	
Fully paid ordinary shares	**Cents per share**	**Total $'000**	**Cents per share**	**Total $'000**
Recognised amounts:				
Final dividend	0.75	2,353	0.50	1,570
Special dividend	–	–	10.00	31,399
	0.75	2,353	10.50	32,969
Unrecognised amounts:				
Interim dividend	1.25	3,922	1.25	3,925
	1.25	3,922	1.25	3,925

Directors have declared a fully franked interim dividend of 1.25 cents per share for the period ended 31 December 2017 (2016: 1.25 cents per share, fully franked) to be paid on 16 March 2018 to all shareholders registered on 1 March 2018.

6. Intangible assets

Half-year ended	Consolidated Management rights $'000	 Software $'000	 Total $'000
Gross carrying amount			
Balance at 1 July 2016	1,700	455	2,155
Additions	–	43	43
Write-off	–	(39)	(39)
Balance at 30 June 2017	1,700	459	2,159
Additions	–	3	3
Balance at 31 December 2017	1,700	462	2,162
Accumulated amortisation / impairment losses			
Balance at 1 July 2016	–	(395)	(395)
Depreciation expense	–	(45)	(45)
Write-off	–	39	39
Balance at 30 June 2017	–	(401)	(401)
Depreciation expense	–	(24)	(24)
Balance at 31 December 2017	–	(425)	(425)
Net book value			
At 30 June 2017	1,700	58	1,758
At 31 December 2017	1,700	37	1,737

7. Issued capital

	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

	Consolidated No of shares '000	 $'000
Balance at 1 July 2017	313,743	102,879
Share options exercised by employees	–	1
Balance at 31 December 2017	313,743	102,880

At 31 December 2017, included in issued fully paid ordinary shares of 313,743,000 (2016: 313,993,000) are 19,779,000 (2016: 19,794,000) treasury shares relating to employee share option plans.

8. Fair value of financial instruments

Financial assets carried at fair value through profit and loss -	**Consolidated 31 Dec 2017 $'000**	**Consolidated 30 Jun 2017 $'000**
Co-investments:		
Non-current assets – Financial assets	100,704	77,820

(a) Co-investments in related parties with carrying amount of $58,759,000 (2016: $Nil) have been pledged to secure borrowings of the Group (note 10).

(b) 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.

(c) 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 2017				
Co-investments	97,228	–	3,476	100,704
30 June 2017				
Co-investments	62,217	–	15,603	77,820

During the period co-investments previously classified at Level 3 were transferred to Level 1 as the fair value measurement for these investments are now derived from quoted prices in an active market.

(d) Reconciliation of Level 3 fair value measurements:

Fair value through profit or loss	**Consolidated 31 Dec 2017 $'000**	**Consolidated 30 Jun 2017 $'000**
Opening balance	15,603	6,133
- Unrealised profit/(loss) recognised	153	(473)
Return of capital	(770)	–
Purchases	–	9,943
Transfer out of Level 3	(11,510)	–
Closing balance	3,476	15,603

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 is held for the purpose of deriving rental income and/or capital appreciation.

(b) Reconciliation of carrying amount

	Consolidated	
	Investment Properties (c)	
	31 Dec 2017 $'000	30 Jun 2017 $'000
Opening balance	24,200	38,050
Disposals	–	(13,850)
Closing balance	24,200	24,200

(c) Individual valuation and carrying amounts

		Latest external valuation		Carrying amount		Capitalisation rate		Discount rate	
Commercial property(i)	Ownership interest	Date	Valuation $'000	Dec 2017 $'000	Jun 2017 $'000	Dec 2017 %	Jun 2017 %	Dec 2017 %	Jun 2017 %
Lot 2, 190-198 Princes Highway, South Nowra, NSW (ii)	100%	Dec 17	24,200	24,200	24,200	7.00%	7.00%	8.50%	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).

10. Borrowings

	Consolidated	
	31 Dec 2017 $'000	**30 Jun 2017 $'000**
Current financial liabilities: Secured - at amortised cost		
Secured bank loans (a)	10,530	10,530
Unamortised borrowing costs	(48)	(74)
Secured bank loans (b)	6,004	–
	16,486	10,456
Total facilities available:		
Secured bank loans	18,530	10,530
Business card facility	200	200
Bank guarantee	500	500
	19,230	11,230
Facilities utilised at balance date:		
Secured bank loans	16,534	10,530
Business card facility	149	147
Bank guarantee	500	500
	17,183	11,177
Facilities not utilised at balance date:		
Secured bank loans	1,996	–
Business card facility	51	53
Bank guarantee	–	–
	2,047	53

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

(a) This 3 year $10,530,000 bill acceptance/discount facility is secured against Lot 2, 190-198 Princess Highway, South Nowra, NSW (note 9) and is repayable in November 2018. The weighted average effective interest rate at balance date was 2.94% per annum (2017: 3.56%) and the loan is subject to the following financial covenants:

- Loan to value ratio will not exceed 48%; and
- Interest cover ratio will not fall below 2.0 times.

(b) This 1 year $8,000,000 bank loan facility is secured by other financial assets with carrying amount of $58,759,000 (note 8) and is repayable in June 2018. As at balance date, this facility is drawn to $6,003,500, with weighted average effective interest rate of 6.28% per annum (2017: N/A), and is subject to the following financial covenants:

- Loan to value ratio will be less than 35% of the market value of the other financial assets pledged as security; and
- The distribution cover ratio will not fall below 2.0 times

Subsequent to 31 December 2017, the 1 year $8.0 million loan facility has been extended to 31 March 2020.

There have been no other borrowings for the period ended 31 December 2017.

11. Earnings per share

	Consolidated 31 Dec 2017	Consolidated 31 Dec 2016
Basic earnings per share (cents per share)		
From continuing operations	3.19	0.46
From discontinued operations	0.01	(0.15)
	3.20	0.31
Diluted earnings per share (cents per share)		
From continuing operations	3.12	0.46
From discontinued operations	0.01	(0.15)
	3.13	0.31

11.1 Basic earnings per share

	31 Dec 2017 $'000	31 Dec 2016 $'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	9,556	3,020
Profit for the year from discontinued operations used in the calculation of basic earnings per share from discontinued operations	(20)	433
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	(149)	(101)
- Special dividends paid	–	(2,010)
Earnings used in the calculation of basic EPS from continuing operations	9,387	1,342

11.2 Diluted earnings per share

	31 Dec 2017 $'000	31 Dec 2016 $'000
The earnings used in the calculation of diluted earnings per share is as follows:		
Earnings used in the calculation of basic EPS	9,387	1,342
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	52	–
Earnings used in the calculation of diluted EPS from continuing operations	9,439	1,342

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

	31 Dec 2017 '000	31 Dec 2016 '000
Basic EPS - Weighted average number of ordinary shares used in the calculation	**293,891**	**293,891**
Shares deemed to be issued for no consideration in respect of employee options(i)	8,546	185
Diluted EPS - Weighted average number of ordinary shares used in the calculation	**302,437**	**294,076**
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	12,938	20,102

(i) All potentially dilutive ordinary shares have been included in the Diluted EPS calculation at 31 December 2017 (2016: Excludes 8,064,000 potential ordinary shares that are not dilutive because of the special dividend of 10 cents per share paid during the period).

12. Contingent assets and liabilities

Performance entitlement from APN Steller Development Fund

APN Funds Management Limited, a wholly owned subsidiary of the Group and fund manager of APN Steller Development Fund (the Fund), is entitled to a performance fee of 25% of outperformance of the Fund's equity internal rate of return above a hurdle rate of 15%. The performance fee entitlement will be crystallised on the realisation of all Seed Projects or earlier if APN Funds Management Limited is removed as trustee of the Fund other than because of breach or other cause related event.

At 31 December 2017, the ability to earn a performance entitlement is possible, but not probable, as the Fund's equity internal rate of return has not exceeded the performance hurdle of 15%. Accordingly, no asset has been recognised in the financial statements.

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 2017, to be paid on 16 March 2018 to all shareholders registered on 1 March 2018.

Borrowings

Bank loan facilities totaling $8.0 million (drawn to $6.0 million as at 31 December 2017) and $10.53 million (fully drawn) are due to expire in June 2018 and November 2018 respectively (financial statements - note 10). Subsequent to 31 December 2017, the $8.0 million loan facility has been extended to 31 March 2020. Discussions have commenced with the existing financier to extend the remaining $10.53 million facility.

Other than disclosed above, the directors have not become aware of any other significant matter or circumstances that has arisen since 31 December 2017, 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.