

APN Property Group Limited ("APD")

Appendix 4D – Half Year Financial Report for the period ended 31 December 2020

Note on Stapling Arrangements

The 'APN Property Group' stapled group (the "Group" or "APD") was established on 13 December 2019 by stapling the securities of the following entities:

- APN Property Group Limited and its consolidated entities ("APN" or "Company"); and
- APD Trust (the "Trust" or "APD Trust")

The Group retained the same ASX ticker code ('APD') and continues to trade as APN Property Group.

These consolidated financial statements present the consolidated results of APD for the period ended 31 December 2020. Prior period comparative information represents the results of APN for the period 1 July 2019 to 12 December 2019 and APD comprising APN and the Trust from 13 December 2019 to 31 December 2019.

Results for announcement to the market

	Half year ended 31 Dec 2020 \$'000	Half year ended 31 Dec 2019 \$'000	%
Revenues from ordinary activities	13,277	13,598*	(2%)
Profit from ordinary activities after tax attributable to stapled security holders	22,936	17,404	32%
Net profit for the period attributable to stapled security holders	22,936	17,404	32%
Net tangible assets per stapled security	42.4 cents	43.4 cents	

* Prior period comparatives have been restated to classify costs of sales totalling \$71,000 as a reduction in Revenues from ordinary activities. There has been no overall impact to Net Profit for the period attributable to stapled security holders.

Dividends and Distributions

Interim dividend and distribution in respect of:	Half year ended 31 Dec 2020	Half year ended 31 Dec 2019
APN Property Group Limited: Dividend (cents per share); 100% franked amount	0.93	1.13
APD Trust: Distribution (cents per unit)	0.77	0.47
Total	1.70	1.60

Record date for determining entitlement	31 December 2020
Payment date	4 March 2021

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

Chantal Churchill
Company Secretary
18 February 2021

APN Property Group Limited

ABN 30 109 846 068

Financial report for the six months ended 31 December 2020

Stapling arrangement

The 'APN Property Group' stapled group (the "Group" or "APD") was established on 13 December 2019 by stapling the securities of the following entities:

- APN Property Group Limited and its consolidated entities ("APN" or "Company"); and
- APD Trust (the "Trust" or "APD Trust")

The Group retained the same ASX ticker code ('APD') and continues to trade as APN Property Group.

These consolidated financial statements present the consolidated results of APD for the period ended 31 December 2020. Prior period comparative information represents the results of APN for the period 1 July 2019 to 12 December 2019 and APD comprising APN and the Trust from 13 December 2019 to 31 December 2019 or APD as at 30 June 2020 as indicated.

Note: References to shares and securities refer to stapled securities in APN Property Group unless specifically stated.

Directors' report

The directors of APN present their report for the six months ended 31 December 2020.

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

Christopher Aylward – Non-Executive Chairman
 Timothy Slattery – Chief Executive Officer and Managing Director
 Clive Appleton – Independent Director
 Howard Brenchley – Independent Director
 Danielle Carter – Independent Director

Review of Results and Operations

Summary

The Group delivered a strong result, with Operating Earnings after tax of \$6.7 million or 2.05 cents per stapled security (cps) for the six months ended 31 December 2020, higher than the prior comparative period (pcp) result of \$6.4 million or 2.03 cps. Statutory profit was \$22.9 million, representing diluted earnings of 7.13 cps versus \$17.4 million and 5.61 cps in the pcp.

Funds Under Management (FUM) as at 31 December 2020 increased by \$0.2 billion to \$2.9 billion compared to \$2.7 billion at 30 June 2020. Average FUM for the period of \$2.7 billion decreased by \$17 million and \$293 million compared to six month periods to 30 June 2020 and 31 December 2019, respectively.

Cash and cash equivalents at 31 December 2020 was \$21.1 million (up 29% from 30 June 2020). The Group's Net Tangible Assets (NTA) increased 22% to \$139.4 million over the same period, including co-investment stakes valued at \$133.6 million. NTA per stapled security was 42.4 cents, up 18% from 35.8 cents at 30 June 2020.

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

	Company \$'000	Trust \$'000	Group Half-year ended Dec-2020 \$'000	Company \$'000	Trust \$'000	Group Half-year ended Dec-2019 \$'000
Fund management fees	7,277	–	7,277	7,991	–	7,991
Performance and transaction fees	375	–	375	223	–	223
Asset, leasing and project management fees	544	–	544	199	–	199
Registry and other fees	1,127	–	1,127	1,160	–	1,160
Total net funds management income	9,323	–	9,323	9,573	–	9,573
Co-investment income	420	3,534	3,954	2,368	1,657	4,025
Total net income	9,743	3,534	13,277	11,941	1,657	13,598
Employment costs	(3,678)	–	(3,678)	(3,765)	–	(3,765)
Occupancy costs	(92)	–	(92)	(115)	–	(115)
Sales & Marketing costs	(71)	–	(71)	(416)	–	(416)
Other costs	(975)	(26)	(1,001)	(1,242)	(29)	(1,271)
Depreciation	(337)	–	(337)	(338)	–	(338)
Finance income / (expense)	463	(642)	(179)	(57)	(68)	(125)
Operating earnings before tax	5,053	2,866	7,919	6,008	1,560	7,568
Income tax expense	(1,210)	–	(1,210)	(1,150)	–	(1,150)
Operating Earnings after tax¹	3,843	2,866	6,709	4,858	1,560	6,418
Non-operating items, including income tax	500	15,727	16,227	12,151	(1,165)	10,986
Statutory profit after tax	4,343	18,593	22,936	17,009	395	17,404

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

Total net funds management income decreased by \$0.25 million to \$9.32 million. Recurring fee income decreased by \$0.4 million or 4% to \$8.9 million compared to pcp due to the decrease in average FUM balance, partially offset by increased property management income. Income from performance and transaction fees of \$0.4 million mainly represented the performance fee earned on the APN Coburg North Retail Fund's successful completion.

Directors' report

Co-investment income decreased 2% to \$4.0 million compared to the pcg, comprising distributions received from investments in APN's listed and unlisted funds.

Operating costs reduced 13% to \$4.8 million in the period largely due to a reduction in sales and marketing and travel (other costs) spending as a result of the COVID-19 affected operating environment. The increase in net finance expense reflects a reduction in interest income due to lower interest rates and higher drawn debt compared to pcg.

Non-operating items (net of tax) totalled \$16.2 million largely due to favourable mark-to-market adjustments on APN's co-investment in ADI, AQR and the APN Regional Property Fund which in aggregate totalled \$16.5 million, offset by \$0.2 million of business development costs.

Real Estate Securities (RES)

Highlights

- **FUM of \$1.3 billion (up 5%)**
- **APN Global REIT Income Fund launched in September 2020**

APN's Real Estate Securities rebounded strongly in HY21 following a COVID-19 affected FY20. Division FUM increased by \$63 million over the six months to \$1,292 million, with mark-to-market revaluations of \$146 million partially offset by net fund outflows of \$83 million.

The APN AREIT Fund was up 16.5% on a total return basis in the December half and has delivered annualised returns since inception of 11.1%. The APN Asian REIT Fund was down 1.9% over the half to December 2020 but has delivered 11.1% per annum since its inception in July 2011.

The APN Global REIT Income Fund was launched in September 2020, extending APN's suite of real estate securities funds and providing investors with the opportunity to gain exposure to North American, Asia Pacific and European markets. The new fund leverages our existing distribution relationships and investment team capabilities, with the additional support of on the ground overseas investment expertise based in New York. In the current low interest rate economic environment, the Board believes APN's new and existing Real Estate Securities investment products are well placed to meet demand from investors looking for relatively high and reliable cash income streams from high quality commercial real estate.

APN Industria REIT (ADI)

Highlights

- **FUM increased \$99 million to \$952 million**
- **~25,100 sqm in leasing completed**
- **\$108 million of properties acquisitions announced**

FUM increased \$99 million or 12% to \$952 million as at 31 December, following the announced acquisition of \$108 million of assets and portfolio revaluations during the period.

APN Industria REIT reported a strong set of results for the period. Funds From Operations (FFO) grew 8.2% to 19.8 million or 10.0 cents per security, and NTA per stapled security increased 2.1% to \$2.88 at the end of the period. Occupancy remained strong, increasing to 97% from 96% in June 2020, while the portfolio weighted average lease expiry was 5.1 years.

APN's active property management approach delivered further results for ADI during the period with leasing transactions of ~25,100 sqm completed. This strong operating result highlights APN's team's tenant-focused, partnership approach that seeks to deliver innovative and simple solutions for their business accommodation needs in the industrial and business park sectors.

ADI successfully raised \$35 million of equity in December 2020 via an institutional placement to fund announced acquisitions at Adelaide Airport, South Australia and Stapylton, Queensland. ADI raised an additional \$20 million of equity in January 2021 via an oversubscribed security purchase plan, demonstrating the strong support the fund receives from its existing and new investors. With gearing at 31.1% and a FY21 forecast cash distribution yield of 6.0% (based on 16 February 2021 market closing price), ADI represents an attractive yield for investors, with capacity to deploy additional capital to further grow the portfolio.

Directors' report

APN Convenience Retail REIT (AQR)

Highlights

- FUM increased \$91 million to \$543 million
- Committed to \$81.9 million of acquisitions and developments, taking pro-forma FUM to \$620 million on completion
- Raised \$42 million of new equity

APN Convenience Retail REIT's FUM increased by \$91 million to \$543 million as at 31 December 2020, which included \$11.1 million of revaluation gains and a series of property acquisitions in the period. AQR secured \$81.9 million of new property acquisitions and developments, of which \$54.0 million settled in the period.

AQR's key earnings measure FFO increased to \$12.3 million in the half, an increase of 36.7% versus the prior corresponding period. Distributions increased to 11.0 cents per stapled security, up 0.5% over the pc. Net Tangible Asset backing increased by 8 cents to \$3.35 per stapled security.

Occupancy remains at 100%, which together with a weighted average lease expiry of 10.6 years to high quality international and national tenants, providing stable and growing income for investors to deliver on AQR's 'property for income' objective.

AQR continues to actively review acquisition opportunities while maintaining a disciplined approach to growth. In addition to acquisitions already agreed, the Fund is in exclusive due diligence on a further \$44.5 million of sites and continues to engage with developers and vendors on new opportunities.

Direct Funds (Direct)

Highlights

- \$1.4 billion value of offers submitted
- Actively looking at opportunities to launch new direct unlisted property funds
- FUM of \$140 million
- APN Coburg North Retail Fund successfully closed
- Active asset management across the portfolio

FUM decreased 7% for the period to \$140 million, predominantly due to the completion of the APN Coburg North Retail Fund, partially offset by increased valuation of the APN Regional Property Fund.

The sale of Coburg North Shopping Centre provided a successful outcome for fund investors, selling for a ~13% premium to acquisition price.

As part of APN's active approach to asset management, a number of capital expenditure projects were completed that assisted with leasing activity, including both attracting and retaining tenants. These works assist reducing tenant occupancy costs and improving the overall amenity offering, thereby improving the attractiveness of the assets to prospective tenants.

The direct property team remains an active but disciplined participant in the commercial property market, seeking the right property opportunity that will deliver appropriate risk adjusted returns for APN's extensive retail, sophisticated and wholesale investor base.

Distributions and Guidance

On 15 December 2020, the directors declared a fully franked interim dividend of 0.93 cps and interim distribution of 0.77 cps for the period ended 31 December 2020, to be paid on 4 March 2021 to all shareholders registered on 31 December 2020. This represents an increase of 6% over the pc.

Distribution guidance has been upgraded to 3.20 to 3.50 cps for the full year 2021 (up from 2.50 to 2.80 cps originally), subject to a continuation of the current market conditions and no unforeseen events.

Directors' report

Subsequent events

Market overview and COVID-19

The COVID-19 pandemic has continued to impact global and local economies significantly, and created uncertainty and market volatility. Whilst there has been a slowdown of transaction activity during the pandemic, real estate with resilient income performed well due to their defensive nature across the group. Income security combined with low balance sheet gearing continued to attract strong investment flows, particularly during the second quarter of HY21 for both APN Industria REIT and APN Convenience Retail REIT. The early stages of the COVID-19 pandemic significantly impacted REITs globally with the Australian REIT market more severely affected due to its higher exposure to retail assets and larger offshore ownership. Since the March 2020 sell-off which saw AREITs decline more than 35%, the sector has staged a significant recovery, ending calendar year 2020 down a modest negative 4%.

Whilst Australia's strong economic response and recovery along with its successful management of COVID has increased landlord income certainty resulting in distributions being reinstated, albeit some at reduced levels, uncertainty remains due to the roll-out timeline and efficacy of the COVID vaccine, resurgent infection rates around the world and potential for domestic outbreaks. Given the continuing uncertainty of COVID-19 pandemic, the economic and financial impacts in the future may materially differ from those estimated by the Group at the reporting date, including the future fair value of the investments held and future management fees earned.

Long term incentive

Subsequent to balance date, APN has offered a long term incentive ('LTI') plan to selected senior executives. The LTI plan provides the right to acquire stapled securities in APD in three equal tranches at a nominated exercise price of \$0.57 subject to the satisfaction of agreed service and performance hurdles (i.e. vesting conditions). On satisfaction of the vesting conditions the stapled securities are issued to the employee with the exercise price being financed by a limited recourse loan.

Other than disclosed above, the directors have not become aware of any other significant matter or circumstances that have arisen since 31 December 2020, 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 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, 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
Chairman
Melbourne, 18 February 2021

Auditor's Independent Declaration



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18 February 2021

The Board of Directors
APN Property Group Limited
Level 30, 101 Collins Street
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 half year financial report of APN Property Group Limited for the half-year ended 31 December 2020, 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

A handwritten signature in black ink, appearing to read "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, appearing to read "Neil Brown".

Neil Brown
Partner
Chartered Accountants

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

Conclusion

We have reviewed the half-year financial report of APN Property Group Limited (the "Company") and its subsidiaries (the "Group"), which comprises the condensed consolidated statement of financial position as at 31 December 2020, and the condensed consolidated statement of 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 as set out on pages 8 to 23.

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 the Group is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2020 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*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

Directors' Responsibilities 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 Responsibilities for the Review of the Half-year Financial Report

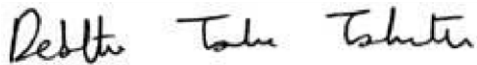
Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2020 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*.

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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.



DELOITTE TOUCHE TOHMATSU



Neil Brown
Partner
Chartered Accountants

Melbourne, 18 February 2021

Directors' declaration

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; 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 directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'Aylward', with a large, stylized flourish extending from the end.

Christopher Aylward
Chairman
Melbourne, 18 February 2021

Condensed consolidated statement of profit or loss and other comprehensive income

for the half-year ended 31 December 2020

	Note	Half-year ended	
		31 Dec 2020 \$'000	31 Dec 2019 \$'000
Revenue	3	13,277	13,598
Finance income		52	96
Administration expenses		(5,179)	(5,905)
Business development and other costs	4	(35)	(365)
Fair value adjustments		16,456	3,987
Finance costs		(231)	(221)
Profit before tax		24,340	11,190
Income tax (expense) / benefit	5	(1,404)	6,214
Profit for the period		22,936	17,404
Total comprehensive income for the period		22,936	17,404
Profit / (loss) / Total comprehensive income for the period attributable to:			
Equity holders of the parent – Company		4,343	17,009
Equity holders of the non-controlling interests – Trust		18,593	395
		22,936	17,404
Basic Earnings per stapled security (cents) attributable to:			
Equity holders of the parent – Company	9	1.34	5.66
Equity holders of the non-controlling interests – Trust	9	5.94	0.13
Basic earnings per stapled security (cents) attributable to stapled securityholders of APN Property Group	9	7.28	5.79
Diluted Earnings per stapled security (cents) attributable to:			
Equity holders of the parent – Company	9	1.33	5.48
Equity holders of the non-controlling interests – Trust	9	5.80	0.13
Diluted earnings per stapled security (cents) attributable to stapled securityholders of APN Property Group	9	7.13	5.61

Notes to the condensed consolidated financial statements are included in the accompanying pages.

Condensed consolidated statement of financial position

as at 31 December 2020

	Note	31 Dec 2020 \$'000	30 Jun 2020 \$'000
Current assets			
Cash and cash equivalents		21,070	16,299
Trade and other receivables		5,694	5,983
Financial assets – held for sale	6	–	6,946
Total current assets		26,764	29,228
Non-current assets			
Financial assets	6	133,592	107,561
Property, plant and equipment		541	549
Intangible assets	7	1,700	1,700
Right of use assets		1,850	2,108
Deferred tax assets		154	552
Total non-current assets		137,837	112,470
Total assets		164,601	141,698
Current liabilities			
Trade and other payables		8,469	8,993
Current tax liabilities		538	852
Provisions		3,004	3,485
Borrowings	10	9,000	–
Lease liability		482	460
Total current liabilities		21,493	13,790
Non-current liabilities			
Borrowings	10	–	9,000
Provisions		381	326
Lease liability		1,494	1,742
Total non-current liabilities		1,875	11,068
Total liabilities		23,368	24,858
Net assets		141,233	116,840
Contributed Equity			
Equity holders of the parent – Company			
Issued capital	11	88,296	82,854
Reserves		3,578	4,377
Retained earnings		24,756	23,466
		116,630	110,697
Equity holders of non-controlling interests – Trust			
Issued capital	11	26,252	23,851
Retained earnings		(1,649)	(17,708)
		24,603	6,143
Total equity		141,233	116,840

Notes to the condensed consolidated financial statements are included in the accompanying pages.

Condensed consolidated statement of changes in equity

for the half-year ended 31 December 2020

	APN Property Group Limited				APD Trust	
	Share capital \$'000	Retained earnings \$'000	Equity-settled employee benefits reserve \$'000	Total attributable to equity holders of the parent \$'000	Non-controlling interests \$'000	Total Equity of the Group \$'000
Balance at 1 Jul 2019 (as previously reported)	102,885	19,654	5,271	127,810	–	127,810
Effect of change in accounting policy for the initial application of AASB 16 Leases	–	477	–	477	–	477
Balance at 1 Jul 2019 (restated)	102,885	20,131	5,271	128,287	–	128,287
Profit for the period	–	17,009	–	17,009	395	17,404
Equity consolidation to facilitate formation of the Group	(20,035)	(3,816)	–	(23,851)	23,851	–
Payment of dividends (note 8)	–	(4,706)	–	(4,706)	–	(4,706)
Share options exercised by employees	2	–	–	2	–	2
Recognition of share-based payments expense	–	–	(888)	(888)	–	(888)
Balance at 31 Dec 2019	82,852	28,618	4,383	115,853	24,246	140,099
Balance as at 1 Jul 2020	82,854	23,466	4,377	110,697	6,143	116,840
Profit for the period	–	4,343	–	4,343	18,593	22,936
Payment of dividends (note 8)	–	(3,053)	–	(3,053)	(2,534)	(5,587)
Issue of stapled securities	2,560	–	–	2,560	2,401	4,961
Share options exercised by employees	2,035	–	–	2,035	–	2,035
Transfer of share options costs exercised by employees	847	–	(847)	–	–	–
Recognition of share-based payments expense	–	–	48	48	–	48
Balance at 31 Dec 2020	88,296	24,756	3,578	116,630	24,603	141,233

Notes to the condensed consolidated financial statements are included in the accompanying pages.

Condensed consolidated statement of cash flows

for the half-year ended 31 December 2020

	Note	Half-year Ended	
		31 Dec 2020 \$'000	31 Dec 2019 \$'000
Cash flows from operating activities			
Receipts from customers		9,560	10,486
Payments to suppliers and employees		(6,357)	(10,664)
Interest received		52	51
Distributions received		3,837	3,980
Interest and other costs of finance paid		(180)	(160)
Income tax paid		(1,320)	(983)
Net cash provided by operating activities		5,592	2,710
Cash flows from investing activities			
Payments for investments		(8,297)	(897)
Proceeds on sale / return of capital from investments		5,789	3,134
Payments for property, plant and equipment		(72)	(73)
Net cash provided by / (used in) investing activities		(2,580)	2,164
Cash flows from financing activities			
Repayment of the lease liabilities		(276)	(266)
Proceeds from issue of equity securities		2,035	2
Dividends paid		-	(4,706)
Net cash (used in) / provided by financing activities		1,759	(4,970)
Net increase / (decrease) in cash and cash equivalents		4,771	(96)
Cash and cash equivalents at the beginning of the period		16,299	15,672
Cash and cash equivalents at the end of the period		21,070	15,576

Notes to the condensed consolidated financial statements are included in the accompanying pages.

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Notes to the condensed consolidated financial statements

About This Report

1. 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, with exception to the new accounting standards that became effective for the current reporting period as mentioned below.

The interim financial statements were authorised for issue by the directors on 18 February 2021.

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 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 2020 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. Where applicable, the comparative information has been reclassified to conform to the current period's presentation.

Adoption of new and revised accounting standards

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

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 its operations and effective for the current reporting period. Their adoption has not had any significant impact on the amounts reported in the financial statements but may affect the accounting for future transactions or arrangements. New and revised Standards and amendments thereof and Interpretations effective for the current period that are relevant to the Group include:

- AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business
- AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material
- AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework
- AASB 2019-5 Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia
- AASB 2020-4 Amendments to Australian Accounting Standards – COVID-19-Related Rent Concessions

Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Group has not applied the following new and revised Australian Accounting Standards, Interpretations and amendments that have been issued but are not yet effective:

- AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current
- AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments

Notes to the condensed consolidated financial statements

Performance

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
<ul style="list-style-type: none"> Real Estate Securities funds 	<ul style="list-style-type: none"> Property securities funds and investment mandates 	<ul style="list-style-type: none"> APN AREIT Fund APN Property for Income Fund APN Property for Income Fund No. 2 APN Asian REIT Fund APN AREIT NZ PIE Fund APN Global REIT Income Fund Property Securities Investment Mandates
<ul style="list-style-type: none"> Industrial Real Estate fund 	<ul style="list-style-type: none"> Listed real estate investment trust (REIT) 	<ul style="list-style-type: none"> APN Industria REIT (ADI)
<ul style="list-style-type: none"> Convenience Retail Property fund 	<ul style="list-style-type: none"> Listed real estate investment trust (REIT) 	<ul style="list-style-type: none"> APN Convenience Retail REIT (AQR)
<ul style="list-style-type: none"> Direct Real Estate funds 	<ul style="list-style-type: none"> Fixed term Australian property funds Wholesale property funds 	<ul style="list-style-type: none"> APN Regional Property Fund APN Coburg North Retail Fund APN Steller Development Fund APN Nowra Property Fund APN Development Fund No.2
<ul style="list-style-type: none"> Investment revenue 	<ul style="list-style-type: none"> Investment income received or receivable from investments 	

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 comparative information has been reclassified to conform to the current period's presentation.

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

	Segment revenue		Segment profit	
	Half-year ended		Half-year ended	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
	\$'000	\$'000	\$'000	\$'000
Real estate securities funds	3,632	5,069	1,574	1,771
Industrial real estate fund	2,758	2,311	1,869	1,321
Convenience retail property fund	1,773	1,203	1,339	738
Direct real estate funds	878	947	330	388
Investment revenue	3,954	4,025	3,954	4,025
	12,995	13,555	9,066	8,243
Unallocated revenue and expenses				
Other Income	282	43	282	43
Finance income			52	96
Central administration			(913)	(255)
Depreciation			(337)	(338)
Finance costs			(231)	(221)
			7,919	7,568
Income tax expense			(1,210)	(1,150)
Net operating earnings after tax	13,277	13,598	6,709	6,418
Pre-tax business acquisition / restructuring costs			(156)	(452)
Pre-tax fair value adjustments			16,456	3,987
Gain on disposal of investments			121	87
Income tax expense			(194)	7,364
			16,227	10,986
Total	13,277	13,598	22,936	17,404

There were no intersegment sales during the half-year.

Notes to the condensed consolidated financial statements

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 for the half-year is outlined below.

	Real estate securities funds \$'000	Industrial real estate fund \$'000	Convenience retail property fund \$'000	Direct real estate funds \$'000	Investment revenue \$'000	Total \$'000
31 December 2020						
Funds management fees	2,723	2,321	1,635	598	–	7,277
Performance and transaction fees	–	–	–	213	162	375
Asset, leasing and project management fees	–	437	81	26	–	544
Registry and other income	909	–	57	41	120	1,127
	3,632	2,758	1,773	878	282	9,323
Distribution income (i) (ii)	–	–	–	–	3,954	3,954
	3,632	2,758	1,773	878	4,236	13,277
31 December 2019						
Funds management fees	4,005	2,137	1,160	689	–	7,991
Performance and transaction fees	–	–	–	180	43	223
Asset, leasing and project management fees	–	174	–	25	–	199
Registry and other income	1,064	–	43	53	–	1,160
	5,069	2,311	1,203	947	43	9,573
Distribution income (i) (ii)	–	–	–	–	4,025	4,025
	5,069	2,311	1,203	947	4,068	13,598

(i) 'Distribution income' is from financial assets classified as at fair value through profit or loss.

(ii) Includes distribution income from related party co-investments of \$3,954,000 (2019: \$4,024,000).

4. Results for the period

Half-year ended

(a) Profit/(loss) for the period has been arrived after charging/crediting the following gains and losses and other expenses:

	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Depreciation of property, plant and equipment and software assets	(80)	(81)
Depreciation of right of use assets	(257)	(257)
Equity-settled share based payment transactions	(48)	888
Operating lease expense	(77)	(78)

(b) Profit/(loss) for the period includes the following impairment, fair value adjustments and business development and other costs:

	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Aborted business development / acquisition costs	(114)	(14)
Group restructuring expenses	(42)	(438)
Gain on disposal of investment	121	87
	(35)	(365)

Notes to the condensed consolidated financial statements

5. Income taxes

Half-year ended

Tax (expense)/income comprises:

	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Current tax (expense)/income	(1,192)	(3,215)
Adjustments recognised in the current half-year in relation to prior years	186	47
Deferred tax (expense)/income relating to the origination and reversal of temporary differences	(398)	9,382
Total tax expense	(1,404)	6,214

The expense for the half-year can be reconciled to the accounting profit as follows:

Profit from operations	24,340	11,190
Less: Profit from APD Trust not subject to income tax	(18,593)	(395)
	5,747	10,795
Income tax expense calculated at 26% (2019: 27.5%)	(1,494)	(2,969)
Effect of expenses that are not deductible in determining taxable profit	(22)	(46)
Effect of income that is exempt from income tax	–	336
Effect of deferred tax balances from the implementation of Stapling	–	8,872
Effect on deferred tax balances due to the difference in applicable tax rates that expected to apply when the asset and liability is realised or settled	(21)	–
	(1,537)	6,193
Adjustments recognised in the current half-year in relation to the current tax of prior years	133	21
	(1,404)	6,214

Notes to the condensed consolidated financial statements

Capital Investments

6. Financial Assets

	31 Dec 2020 \$'000	30 Jun 2020 \$'000
Financial assets carried at fair value through profit and loss		
Current assets – Financial assets held for sale (a)	–	6,946
Non-current assets – Financial assets (b)	133,592	107,561
	133,592	114,507

- a) Represents the sub-underwriting units acquired as part of the April 2019 APN Regional Property Fund recapitalisation and liquidity offer. This investment was acquired with the intention of progressively selling it down to new and existing investors over the coming 6-12 months. During the period, 3,972,000 units were sold and recognised a gain on disposal of \$117,000.
- b) Co-investments in related parties with carrying amount of \$72,294,000 (June 2020: \$59,447,000) have been pledged to secure borrowings of the Group (note 10).
- c) 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.
- d) 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 2020:				
Co-investments	126,379	4,155	3,058	133,592
30 June 2020				
Co-investments	104,137	2,163	8,207	114,507

- e) Reconciliation of Level 3 fair value measurements:

	31 Dec 2020 \$'000	30 Jun 2020 \$'000
Fair value through profit or loss		
Opening balance	8,207	12,716
- Unrealised profit/(loss) recognised	388	(131)
Purchases	65	95
Disposals	(5,602)	(4,473)
Closing balance	3,058	8,207

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.

Notes to the condensed consolidated financial statements

7. Intangible Assets

Half-year ended	Management rights \$'000	Software \$'000	Total \$'000
Gross carrying amount			
Balance at 1 July 2019	1,700	508	2,208
Write-off	–	(68)	(68)
Balance at 30 June 2020 / 31 December 2020	1,700	440	2,140
Accumulated amortisation / impairment losses			
Balance at 1 July 2019	–	(452)	(452)
Depreciation expense	–	(30)	(30)
Write-off	–	42	42
Balance at 30 June 2020 / 31 December 2020	–	(440)	(440)
Net book value			
At 30 June 2020 / 31 December 2020	1,700	–	1,700

Notes to the condensed consolidated financial statements

Capital Structure, Financing and Risk Management

8. Dividends

Half-year ended	31 Dec 2020		31 Dec 2019	
	Cents per security	Total \$'000	Cents per security	Total \$'000
Fully paid ordinary stapled securities				
Recognised amounts – Company				
2021 Interim dividend	0.93	3,053	–	–
2019 Final dividend	–	–	1.50	4,706
Stapling special dividend to facilitate the formation of the Group	–	–	1.20	3,816
	0.93	3,053	2.70	8,522
Recognised amounts – Trust				
2021 Interim distribution	0.77	2,534	–	–
	1.70	5,587	2.70	8,522
Unrecognised amounts:				
2020 Interim dividend – Company	–	–	1.13	3,593
2020 Interim distribution – Trust	–	–	0.47	1,495
	–	–	1.60	5,088

On 15 December 2020, the directors have declared a fully franked interim dividend of 0.93 cps and interim distribution of 0.77 cps for the period ended 31 December 2020, to be paid on 4 March 2021 to all shareholders registered on 31 December 2020.

In the prior period, a special non-cash dividend of \$3,816,232 (1.20 cents per share) and non-cash capital return of \$20,035,215 (6.30 cents per share) was paid by APN Property Group Limited (total of \$23,851,447) to all shareholders registered on 11 December 2019 and the payment was compulsorily applied to subscribe for 318,019,289 units in APD Trust.

9. Earnings per Stapled Security

	31 Dec 2020	31 Dec 2019
Basic earnings per stapled security (cents)		
Equity holders of the parent – Company	1.34	5.66
Equity holders of the non-controlling interests – Trust	5.94	0.13
Basic earnings per stapled security (cents)	7.28	5.79
Diluted earnings per stapled security (cents)		
Equity holders of the parent – Company	1.33	5.48
Equity holders of the non-controlling interests – Trust	5.80	0.13
Diluted earnings per stapled security (cents)	7.13	5.61

9.1 Basic earnings per stapled security

	31 Dec 2020 \$'000	31 Dec 2019 \$'000
The earnings used in the calculation of basic earnings per stapled security is as follows:		
Profit for the half-year attributable to equity holders of the parent	4,343	17,009
Profit for the half-year attributable to equity of the non-controlling interests	18,593	395
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	(302)	(362)
Basic EPS earnings	22,634	17,042
Basic EPS earnings attributable to equity holders of the parent	4,170	16,647
Basic EPS earnings attributable to equity of the non-controlling interests	18,464	395
	22,634	17,042

Notes to the condensed consolidated financial statements

9.2 Diluted earnings per stapled security

The earnings used in the calculation of diluted earnings per stapled security is as follows:

	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Earnings used in the calculation of basic EPS	22,634	17,042
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	124	154
Diluted EPS earnings	22,758	17,196
Diluted EPS earnings attributable to equity holders of the parent	4,241	16,801
Diluted EPS earnings attributable to equity of the non-controlling interests	18,517	395
	22,758	17,196

9.3 Weighted average number of stapled securities (Basic and Diluted earnings per stapled security)

	31 Dec 2020 '000	31 Dec 2019 '000
Basic EPS - Weighted average number of ordinary securities used in the calculation	310,590	293,891
Stapled securities deemed to be issued for no consideration in respect of employee options ⁽ⁱ⁾	8,438	12,415
Diluted EPS - Weighted average number of ordinary securities used in the calculation	319,028	306,306

The following potential ordinary securities are not dilutive and are therefore excluded from the weighted average number of ordinary securities for the purposes of diluted earnings per stapled security: Share options

(i) All potentially dilutive stapled securities have been included in the Diluted EPS calculation at 31 December 2020.

10. Borrowings

	31 Dec 2020 \$'000	30 Jun 2020 \$'000
Secured bank loan – at amortised cost	9,000	9,000
Disclosed in the financial statements as:		
Current – Secured bank loans	9,000	–
Non-current - Secured bank loans	–	9,000
	9,000	9,000

This \$9,000,000 bank loan facility is repayable in September 2021 and is secured by other financial assets with a carrying amount of \$72,294,000 (note 6). As at balance date, this facility is fully drawn with a weighted average effective interest rate of 3.76% per annum (2019: 5.04%), and is subject to the following financial covenants:

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

31 Dec 2020	30 Jun 2020
12.45%	15.14%
12.86 times	13.71 times

The Group is currently negotiating the refinancing arrangement of this loan.

Notes to the condensed consolidated financial statements

11. Contributed Equity

The Company	31 Dec 2020		31 Dec 2019	
	No of securities '000	Total \$'000	No of securities '000	Total \$'000
Balance at beginning of the period	320,037	82,854	313,743	102,885
Issue of new shares	9,769	2,560	-	-
Share options exercised by employees	-	2,035	-	2
Transfer of share options costs exercised	-	847	-	-
Return of capital to facilitate the formation of the Stapling of the Group	-	-	-	(20,035)
Issue of shares under the APN Employee Performance Securities Plan	-	-	4,301	-
Share option buy-back under the APN Employee Share Plan	(750)	-	(25)	-
Balance at end of the period	329,056	88,296	318,019	82,852

The Trust (non-controlling interest)	31 Dec 2020		31 Dec 2019	
	No of securities '000	Total \$'000	No of securities '000	Total \$'000
Balance at beginning of the period	320,037	23,851	-	-
Issue of new securities	9,769	2,401	318,019	23,851
Share option buy-back under the APN Employee Share Plan	(750)	-	-	-
Balance at end of the period	329,056	26,252	318,019	23,851

On 31 July 2020, the Group issued 9,768,753 new ordinary stapled securities at \$0.5078 per stapled security pursuant to the distribution reinvestment plan.

During the period, there were no new stapled securities (2019: 4,301,477) issued to eligible employees (including key management personnel) under the APN Employee Performance Securities Plan (EPSP) and 750,000 stapled securities were cancelled (2019: 25,000) that were previously issued under the APN Employee Share Plan.

At 31 December 2020, included in Issued fully paid ordinary securities of 329,056,000 (2019: 318,019,000) are 17,741,000 (2019: 24,050,000) treasury stapled securities relating to employee share option plans.

In the prior period, a special non-cash dividend of \$3,816,232 (1.20 cents per share) and non-cash capital return of \$20,035,215 (6.30 cents per share) was paid by the Company (totalling \$23,851,447) to all shareholders registered on 11 December 2019, and the proceeds were compulsorily applied to subscribe for 318,019,289 units in the Trust. The units of the Trust have been stapled on a one-for-one basis to an equal number of shares in the Company (together a 'Stapled Security') to form APN Property Group.

Notes to the condensed consolidated financial statements

Other Notes

12. Related party transactions

Transactions between the Group and its other related parties are set out below:

	Parent / NCI		Subsidiaries		Total	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
	\$	\$	\$	\$	\$	\$
Other related parties						
Fund management fees	-	-	7,042,103	7,663,820	7,042,103	7,663,820
Performance and transaction fees	-	-	213,000	180,302	213,000	180,302
Asset, leasing and project management fees	-	-	544,096	254,054	544,096	254,054
Registry and other income	-	-	1,006,952	1,151,995	1,006,952	1,151,995
Distribution income	3,690,118	3,656,514	263,599	367,837	3,953,717	4,024,351

Investments

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

	31 Dec 2020			31 Dec 2019		
	Units No.	Fair value \$	Distribution received/receivable \$	Units No.	Fair value \$	Distribution received/receivable \$
APN AREIT Fund	16,669	23,910	1,171	16,814	29,684	1,055
APN Asian REIT Fund	802,200	1,305,421	40,098	790,282	1,564,127	42,916
APN Global REIT Income Fund	1,351,790	2,825,782	22,775	840,926	747,163	-
APN Industria REIT	28,719,327	82,424,468	2,470,571	28,727,712	83,597,642	2,513,705
APN Convenience Retail REIT	12,414,040	43,945,702	1,265,837	9,631,641	33,614,427	1,049,765
APN Coburg North Retail Fund	479	479	491	479	479	17
APN Steller Development Fund	-	-	-	2,750,000	-	93,500
APN Development Fund No. 2	2,714,286	1,228,486	-	2,649,226	1,264,741	-
APN Nowra Property Fund	-	-	500	18,338	20,612	731
APN Regional Property Fund	971,162	1,828,892	152,274	6,065,243	8,460,407	322,662
APN Data Centre Fund	100	100	-	-	-	-

13. Subsequent Events

Market overview and COVID-19

The COVID-19 pandemic has continued to impact global and local economies significantly, and created uncertainty and market volatility. Whilst there has been a slowdown of transaction activity during the pandemic, real estate with resilient income performed well due to their defensive nature across the group. Income security combined with low balance sheet gearing continued to attract strong investment flows, particularly during the second quarter of HY21 for both APN Industria REIT and APN Convenience Retail REIT. The early stages of the COVID-19 pandemic significantly impacted REITs globally with the Australian REIT market more severely affected due to its higher exposure to retail assets and larger offshore ownership. Since the March 2020 sell-off which saw AREITs decline more than 35%, the sector has staged a significant recovery, ending calendar year 2020 down a modest negative 4%.

Whilst Australia's strong economic response and recovery along with its successful management of COVID has increased landlord income certainty resulting in distributions being reinstated, albeit some at reduced levels, uncertainty remains due to the roll-out timeline and efficacy of the COVID vaccine, resurgent infection rates around the world and potential for domestic outbreaks. Given the continuing uncertainty of COVID-19 pandemic, the economic and financial impacts in the future may materially differ from those estimated by the Group at the reporting date, including the future fair value of the investments held and future management fees earned.

Long term incentive

Subsequent to balance date, APN has offered a long term incentive ('LTI') plan to selected senior executives. The LTI plan provides the right to acquire stapled securities in APD in three equal tranches at a nominated exercise price of \$0.57 subject to the satisfaction of agreed service and performance hurdles (i.e. vesting conditions). On satisfaction of the vesting conditions the stapled securities are issued to the employee with the exercise price being financed by a limited recourse loan.

Other than disclosed above, the directors have not become aware of any other significant matter or circumstances that have arisen since 31 December 2020, 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.