APN | Property Group

APN Property Group Limited ("APD")
Appendix 4D – Half Year Financial Report for the period ended 31 December 2019

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 2019 comprising 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. Prior period comparative information represents the results of APN for the period 01 July 2018 to 31 December 2018.

Results for announcement to the market

	Half year ended 31 Dec 2019 $'000	Half year ended 31 Dec 2018 $'000	%
Revenues from ordinary activities	13,669	13,502	1%
Profit from ordinary activities after tax attributable to stapled security holders	17,404	6,024	189%
Profit/(Loss) from discontinued operations after tax attributable to stapled security holders	–	(14)	100%
Net profit for the period attributable to stapled security holders	17,404	6,010	190%
Net tangible assets per stapled security	43.4 cents	38.6 cents	

Dividends and Distributions

Interim dividend and distribution in respect of:	Half year ended 31 Dec 2019	Half year ended 31 Dec 2018
APN Property Group Limited: Dividend (cents per share); 100% franked amount	1.13	1.25
APD Trust: Distribution (cents per unit)	0.47	–
Total	1.60	1.25

Record date for determining entitlement	26 February 2020
Payment date	13 March 2020

APN | Property Group

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.

CChurchill

Chantal Churchill
Company Secretary
20 February 2020

APN Property Group Limited

ABN 30 109 846 068

Financial report for the six months ended 31 December 2019

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 2019 comprising 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. Prior period comparative information represents the results of APN for the period 1 July 2018 to 31 December 2018 or as at 30 June 2019 as indicated.

Directors’ report

The directors of APN present their report for the six months ended 31 December 2019.

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
Howard Brenchley – Independent Director
Clive Appleton – Independent Director
Anthony (Tony) Young – Independent Director (Resigned on 30 August 2019)

Changes in the state of affairs

On 13 December 2019, APN completed the stapling of ordinary shares in the Company to ordinary units in the Trust to form a stapled group, as approved by shareholders at the 2019 annual general meeting (‘Stapling Proposal’). The Stapling occurred by a contractual stapling of an ordinary unit in the Trust with an ordinary share in the Company so that neither can be dealt with without the other in an identical manner, at the same time and subject to the same restrictions. As a result, the shares in the Company are stapled to units in the Trust on a one to one basis, so that all securityholders hold units in the Trust and shares in the Company. The Group has retained the same ASX ticker code (‘APD’) and will continue to trade as APN Property Group.

Review of Results and Operations

Summary

The Group delivered a strong result, with Operating Earnings after tax of $6.4 million or 2.03 cents per security (cps) for the six months ended 31 December 2019, higher than the prior comparative period (pcp) result of $4.8 million or 1.55 cents per share. Statutory profit was $17.4 million, representing diluted earnings of 5.61 cps versus $6.0 million and 1.94 cps in the pcp.

Funds Under Management (FUM) from continuing operations increased to $3.1 billion compared to $2.9 billion at 30 June 2019 and $2.8 billion at 31 December 2018. Average FUM for the period increased by $121 million and $210 million compared to 30 June 2019 and 31 December 2018, respectively.

Cash and cash equivalents remained relatively unchanged at $15.6 million for the six months to 31 December 2019. The Group’s net tangible assets increased to $138.1 million, including co-investment stakes valued at $129.3 million and the associated limited recourse borrowings of $6.0 million. Net Tangible Assets (NTA) per security was 43.4 cents, up from 40.2 cents at 30 June 2019.

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

	Company $'000	Trust $'000	Group Half-year ended Dec-2019 $'000	Group Half-year ended Dec-2018 $'000
Fund management fees	7,963	–	7,963	7,616
Performance and transaction fees	223	–	223	322
Asset and project management fees	199	–	199	139
Registry and other fees	1,160	–	1,160	1,151
Total net funds management income	**9,545**	–	9,545	**9,228**
Co-investment income	2,368	1,657	4,025	3,593
Rental and other property related income	–	–	–	637
Total net income	**11,913**	**1,657**	**13,570**	**13,458**
Employment costs	(3,765)	–	(3,765)	(4,932)
Occupancy costs	(115)	–	(115)	(345)
Sales & Marketing costs	(388)	–	(388)	(229)
Other costs	(1,242)	(29)	(1,271)	(1,030)
Depreciation	(338)	–	(338)	(69)
Finance income / (expense)	(57)	(68)	(125)	(129)
Operating earnings before tax	**6,008**	**1,560**	**7,568**	**6,724**
Income tax expense	(1,150)	–	(1,150)	(1,899)
Operating Earnings after tax[1]	**4,858**	**1,560**	**6,418**	**4,825**
Non-operating items, including income tax	12,151	(1,165)	10,986	1,199
Profit / (loss) from discontinued operations after tax	–	–	–	(14)
Statutory profit after tax	**17,009**	**395**	**17,404**	**6,010**

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 discontinued operations, certain business development expenses and realised / unrealised fair value movements on the Group's co-investments and investment properties.

Total net funds management income increased by $0.3 million to $9.5 million. Recurring fee income grew by $0.4 million or 5% to $9.3 million compared to pcp following an increased average FUM balance and the effect of changes in the composition of FUM between different products and strategies. Income from performance and transaction fees were lower by $0.1 million to $0.2 million, predominantly reflecting the performance fee earned on the successful completion of the APN Steller Development Fund in the period versus a higher establishment fee from the APN Nowra Property Fund in the pcp.

Co-investment income increased 12% to $4.0 million compared to the pcp, comprising distributions received from the APN Regional Property Fund co-investment, increased distributions from APN Industria REIT (ADI) and APN Convenience Retail REIT (AQR).

Operating costs reduced 15% to $5.5 million in the current period reflecting favourable changes to share based payment expenses (including reversal) arising from changes to senior executives within the period. The reduction in employment costs was offset by an increased investment in sales and marketing activities and new product development costs not yet generating material revenue. Changes versus the pcp in APD's occupancy costs, depreciation and finance expenses reflect the adoption of AASB 16 *Leases*.

The Group's income tax expense was $0.7 million lower primarily due to the change in tax arrangements as a result of the stapling restructure.

Non-operating items (net of tax) totalled $11.0 million for the period largely due to the reversal of deferred tax liabilities as part of the stapling process and favourable mark-to-market adjustments on APN's co-investment in ADI and AQR which in aggregate totalled $4.1 million offset by $0.5 million of business development costs including APN's stapling implementation expenses. Excluded from business development costs are $0.4 million (before tax) in new product development related employment and other costs which are included in Operating Earnings after Tax.

Real Estate Securities (RES)

Highlights

- FUM of $1.7 billion
- Asian REIT Fund $58 million of FUM at 31 Dec 2019, up 30%
- Actively considering launch of new funds

APN's Real Estate Securities funds have continued to deliver strong returns in line with our 'property for income' philosophy. Division FUM declined by $11.0 million over the 6 months to $1,673.0 million, primarily driven by net outflows of $25.0 million as the Hayne Royal Commission outcomes impacted some distribution channels.

The APN AREIT Fund delivered a 15.5% return for calendar year 2019 and has delivered annualised returns since inception of 13.6%. The APN Asian REIT Fund delivered 23.8% over the year to December 2019 and 15.0% per annum since its inception in July 2011, and grew FUM by 30% to $58 million in the half.

In the current low interest rate economic environment, the Board believes APN's Real Estate Securities investment products continue to be well placed to meet demand from investors looking for relatively high and reliable cash income streams from high quality commercial real estate. APN is making additional investments in its sales, marketing and distribution capabilities with the objective of ensuring the company continues to be well placed as an independent investment manager to service investors and advisors as the market evolves following the Hayne Royal Commission.

APN Industria REIT (ADI)

Highlights

- FUM increased $104 million to $848 million
- 29 transactions over ~7,000 sqm in leasing completed
- $57 million of properties acquired

Funds under Management increased $104 million or 14% to $848 million as at 31 December, following the acquisition of $57 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 8.5% to 10.2 cents and NTA per security increased 4.4% to $2.83 at the end of the period. Occupancy remained strong, increasing to 98% from 96% in June 2019, while the portfolio weight average lease expiry was 5.8 years.

APN's active property management approach delivered further results for ADI during the period with leasing transactions of ~7,000sqm 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.

Since 2017, ADI has been actively reducing carbon emissions by completing lighting and plant upgrades to enhance building efficiencies and reducing energy consumptions by installing 1.9 megawatts of Solar PV, reducing tenancy occupancy costs, and enhancing leasing and retention prospects which have contributed to deliver strong ongoing occupancy and leasing results.

ADI successfully raised $47 million of equity in the period to fund acquisitions and provide additional balance sheet capacity for further growth opportunities. With gearing at 29% at balance date and a FY20 forecast cash distribution yield of 5.7% (based on 18 February 2020 market closing price) ADI continues to attract investors seeking high quality risk adjusted income and capital investment returns.

APN Convenience Retail REIT (AQR)

Highlights

- FUM increased $40 million to $399 million
- Committed to $78.7 million of acquisitions, taking the pro-forma FUM to $438.3 million on completion
- Raised $46.5 million of new equity
- Refinanced $105 million of existing debt facilities and a $40 million increase to the facility limit

APN Convenience Retail REIT's FUM increased by $40 million to $399 million as at 31 December 2019, which included $12.3 million of revaluation gains and a series of property acquisitions in the period. AQR secured $78.7 million of property acquisitions, of which $35.4 million has settled (including $6.2 million for Orana, WA in January 2020) while $43.3 million relates to fund-through development projects which are forecast to complete in calendar year 2020. The Fund also completed $9.4 million of selective divestments in the period aimed at recycling capital and improving the overall quality of the portfolio.

During December 2019, Puma Energy announced that it had entered into a conditional Share Sale Agreement to sell its Australian fuel business to Chevron. Chevron's current market capitalisation is over US$200 billion and its credit rating is AA. The change of control lease consent process is underway in respect of the Fund's 46 leases with Puma Energy (representing 63% of total rental income) to Chevron.

AQR's key earnings measure FFO increased to $9.0 million over the half, an increase of 6.8% versus the prior corresponding period. Distributions increased 10.9 cents per security or 4.3% over the pcp. Net Tangible Asset backing increased by 17 cents to $3.13 per security.

Occupancy remains at 100%, which together with a weighted average lease expiry of 11 years to quality recognisable 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. The Fund remains committed to continuing to develop long term partnerships with developers and tenants to maximise securityholder value through the existing portfolio and future off-market and other growth opportunities.

Direct Funds (Direct)

Highlights

- $975 million value of offers submitted
- Actively looking at launching new direct unlisted property funds
- FUM of $147 million, up 3%
- APN Steller Development Fund delivered a 17.7% IRR
- Active asset management across the portfolio

Funds under Management increased 3% for the period, to $147 million. This is predominantly due to the APN Nowra Property Fund valuation increasing by 5.3% to $26 million.

The APN Steller Development Fund delivered its final project, providing a successful outcome for investors having returned $1.35 per unit and an IRR of 17.7% over the fund's life.

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

The Boards of the Company and the Trust has declared distributions for the half of 1.60 cents per stapled security, comprising a 1.13 cps fully franked interim dividend and 0.47 cps interim trust distribution. This represents an increase of 28% over the pcp.

Distribution guidance for FY2020 is confirmed at 3.15 per stapled security (an increase of 15% versus FY2019), subject to a continuation of the current market conditions and no unforeseen events. The distribution guidance for the June 2020 half is reaffirmed at 1.55 cents per security.

Subsequent events

Dividend

Since the balance date, the directors have declared a fully franked interim dividend of 1.13 cents and interim distribution of 0.47 cents per stapled security for the period ended 31 December 2019, to be paid on 13 March 2020 to all shareholders registered on 26 February 2020.

Borrowings

APD's bank loan facility of $8.0 million (drawn to $6.0 million as at 31 December 2019) which was due to expire in March 2020 (financial statements - note 10) has, subsequent to balance date, been increased to $9.0 million and extended to 30 September 2021.

Other than disclosed above, the directors have not become aware of any other significant matter or circumstances that have arisen since 31 December 2019, 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.

Directors' report

Auditor's independence declaration

The auditor's independence declaration is included on page 6 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, 20 February 2020

Deloitte.

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20 February 2020

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 financial statements of APN Property Group Limited for the financial half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Neil Brown
Partner
Chartered Accountants

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

Report on the Half-Year Financial Report

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 2019, the condensed consolidated statement of profit and 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, being the consolidated stapled entity. The consolidated stapled entity comprises APN Property Group Limited (“the Company”), APD Trust (“the Trust”) and the entities they controlled at the end of the half-year or from time to time during the half-year as set out on pages 9 to 28.

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 2019 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 the Company, 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.

Deloitte.

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 2019 and of its performance for the half-year ended on that date; and

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Neil Brown
Partner
Chartered Accountants

Melbourne, 20 February 2020

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

Christopher Aylward
Chairman
Melbourne, 20 February 2020

Condensed consolidated statement of profit or loss and other comprehensive income

for the half-year ended 31 December 2019

	Note	Half-year ended 31 Dec 2019 $'000	Half-year ended 31 Dec 2018 $'000
Continuing operations			
Revenue	3	13,669	13,502
Cost of sales		(99)	(44)
Net revenue		13,570	13,458
Finance income		96	208
Administration expenses		(5,877)	(6,605)
Business development and other costs	4	(365)	(1,808)
Fair value adjustments		3,987	3,443
Finance costs		(221)	(337)
Profit before tax		11,190	8,359
Income tax expense	5	6,214	(2,335)
Profit for the period from continuing operations		**17,404**	**6,024**
Discontinued operation			
(Loss) / profit for the period from discontinued operations		–	(14)
Profit for the period		**17,404**	**6,010**
Total comprehensive income for the period		**17,404**	**6,010**
Profit / (loss) / Total comprehensive income for the period attributable to:			
Equity holders of the parent – Company		**17,009**	**6,010**
Equity holders of the non-controlling interests –Trust		**395**	**–**
		17,404	**6,010**
Basic Earnings per security (cents) attributable to:			
Equity holders of the parent – Company	9	5.66	1.98
Equity holders of the non-controlling interests – Trust	9	0.13	–
Basic earnings per stapled security (cents) attributable to stapled securityholders of APN Property Group	9	5.79	1.98
Diluted Earnings per security (cents) attributable to:			
Equity holders of the parent – Company	9	5.48	1.94
Equity holders of the non-controlling interests – Trust	9	0.13	–
Diluted earnings per stapled security (cents) attributable to stapled securityholders of APN Property Group	9	5.61	1.94

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

Condensed consolidated statement of financial position

as at 31 December 2019

	Note	31 Dec 2019 $'000	30 Jun 2019 $'000
Current assets			
Cash and cash equivalents		15,576	15,672
Trade and other receivables		6,430	5,554
Financial assets – held for sale	6	8,460	11,376
Total current assets		30,466	32,602
Non-current assets			
Financial assets	6	120,850	116,096
Property, plant and equipment		404	396
Intangible assets	7	1,740	1,756
Right of use assets		2,362	–
Deferred tax assets		232	–
Total non-current assets		125,588	118,248
Total assets		156,054	150,850
Current liabilities			
Trade and other payables		2,783	3,453
Current tax liabilities		2,395	210
Provisions		2,012	3,343
Borrowings	10	6,004	6,004
Lease liability		438	–
Total current liabilities		13,632	13,010
Non-current liabilities			
Borrowings	10	–	–
Provisions		347	1,061
Lease liability		1,976	–
Deferred tax liabilities	5	–	8,969
Total non-current liabilities		2,323	10,030
Total liabilities		15,955	23,040
Net assets		140,099	127,810
Contributed Equity			
Equity holders of the parent **–** Company			
Issued capital	11	82,852	102,885
Reserves		4,383	5,271
Retained earnings		28,618	19,654
		115,853	127,810
Equity holders of non-controlling interests – Trust			
Issued capital	11	23,851	–
Retained earnings		395	–
		24,246	–
Total equity		140,099	127,810

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

Condensed consolidated statement of changes in equity

for the half-year ended 31 December 2019

	APN Property Group Limited				APD Trust	
	Share capital	Retained earnings	Equity-settled employee benefits reserve	Total Attributable to equity holders of the parent	Non-controlling interests	Total Equity of the Group
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 Jul 2018	102,882	12,180	4,810	119,872	–	119,872
Profit for the period	–	6,010	–	6,010	–	6,010
Payment of dividends (note 8)	–	(3,137)	–	(3,137)	–	(3,137)
Share options exercised by employees	2	–	–	2	–	2
Recognition of share-based payments expense	–	–	218	218	–	218
Balance at 31 Dec 2018	102,884	15,053	5,028	122,965	–	122,965
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 as 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**

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

Condensed consolidated statement of cash flows

For the half-year ended 31 December 2019

	Note	Half-year Ended 31 Dec 2019 $'000	Half-year Ended 31 Dec 2018 $'000
Cash flows from operating activities			
Receipts from customers		10,486	11,925
Payments to suppliers and employees		(10,664)	(7,844)
Interest received		51	191
Distributions received		3,980	3,536
Interest and other costs of finance paid		(160)	(316)
Income tax paid		(983)	(1,078)
Net cash provided by operating activities		2,710	6,414
Cash flows from investing activities			
Payments for investments		(897)	(3,865)
Proceeds on sale / return of capital from investments		3,134	2,740
Payments for property, plant and equipment		(73)	(9)
Net cash flow on disposal of subsidiary		–	12,185
Net cash provided by / (used in) investing activities		2,164	11,051
Cash flows from financing activities			
Repayment of the lease liabilities		(266)	–
Proceeds from issue of equity securities		2	2
Dividends paid		(4,706)	(3,137)
Net cash (used in) / provided by financing activities		(4,970)	(3,135)
Net increase / (decrease) in cash and cash equivalents		(96)	14,330
Cash and cash equivalents at the beginning of the period		15,672	14,986
Cash and cash equivalents at the end of the period		15,576	29,316

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

Contents

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 20 February 2020.

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 2019 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.

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

- AASB 16 Leases and related amending standards
- AASB 2018-1 Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle
- AASB 2018-3 Amendments to Australian Accounting Standards – Reduced Disclosure Requirements
- Interpretation 23 Uncertainty over Income Tax Treatments and AASB 2017-4 Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments

Other than as described below, the application of these standards and amendments is not expected to have any material impact on the disclosures or the amounts recognised in the Group's condensed consolidated financial statements.

Impact of the application of AASB 16

<u>Recognition and measurement of lease:</u>

The Group has applied AASB 16 Lease for the first time. AASB 16 introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. The Group has applied AASB 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under AASB 117; which:

- Requires the Group to recognise the cumulative effect of initially applying AASB 16 as an adjustment to the opening balance of retained earnings at the date of initial application;
- Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments;

- Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows; and
- Financial impact of initial application of AASB 16;
  - The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 July 2019 is 4.80%; and
  - The following table shows the operating lease commitments disclosed applying AASB 117 at 1 July 2019, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the statement of financial position at the date of initial application.

Impact on retained earnings as at 1 July 2019	**$'000**
Operating lease commitments at 30 June 2019	2,972
Effect of discounting the above amounts	(353)
Present value of the lease payments due in periods that are included in the lease term and not previously included in operating lease commitments	2,619
Lease liabilities recognised at 1 July 2019	2,619

The Group has recognised $2,619,000 of right-of-use assets and $2,619,000 of lease liabilities upon transition to AASB16. Straight-line lease liabilities and unamortised rent incentives, adjusted for deferred tax, as at 1 July 2019 totalling $477,000 was adjusted to opening retained earnings at this date.

With effect from 1 July 2019, the Group's new accounting policies in respect to the recognition and measurement of leases are as follows:

The Group assesses whether a contract is or contains a lease, at the inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and are tested for impairment in accordance with AASB 136. Right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset.

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 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [AASB 10 & AASB 128], AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections
- 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

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
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)	• APN Industria REIT (ADI)
• Convenience Retail Property fund	• Listed real estate investment trust (REIT)	• APN Convenience Retail REIT (AQR)
• Direct Real Estate funds	• Fixed term Australian property funds	• APN Regional Property Fund • APN Coburg North Retail Fund • APN Steller Development Fund • APN Nowra Property Fund[(i)]
	• Wholesale property funds	• APN Development Fund No.2
• Investment revenue	• Investment and rental income received or receivable from investments	
Discontinued operations		
• European Real Estate funds	• Fixed term European property funds	• APN Champion Retail Fund

(i) The APN Nowra Property Fund which owns a commercial property (as disclosed Note 8) was successfully syndicated on 8 November 2018. Prior to 8 November 2018, the contributions associated with this commercial property have been recorded in the Investment revenue 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.

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 2019 $'000	31 Dec 2018 $'000	31 Dec 2019 $'000	31 Dec 2018 $'000	31 Dec 2019 $'000	31 Dec 2018 $'000
Continuing operations						
Real estate securities funds	5,085	4,945	5,041	4,909	1,771	2,107
Industrial real estate fund	2,366	1,966	2,311	1,966	1,321	1,058
Convenience retail property fund	1,203	1,214	1,203	1,214	738	784
Direct real estate funds	947	1,139	947	1,139	388	489
Investment revenue	4,068	4,238	4,068	4,230	4,068	4,230
	13,669	13,502	13,570	13,458	8,286	8,668
Unallocated revenue and expenses						
Finance income					96	208
Central administration					(255)	(1,746)
Depreciation					(338)	(69)
Finance costs					(221)	(337)
					7,568	**6,724**
Income tax expense					(1,150)	(1,899)
Net operating earnings after tax & Non-controlling interests (NCI)	**13,669**	**13,502**	**13,570**	**13,458**	**6,418**	**4,825**
Pre-tax business acquisition / restructuring costs					(452)	(381)
Pre-tax fair value adjustments					3,987	3,443
Gain on disposal of investments					87	–
Loss on disposal of subsidiary (note 13)					–	(1,427)
Income tax expense					7,364	(436)
					10,986	**1,199**
Total from continuing operations	**13,669**	**13,502**	**13,570**	**13,458**	**17,404**	**6,024**
Discontinued operations						
European real estate funds	–	–	–	–	–	(14)
					–	**(14)**
Total	**13,669**	**13,502**	**13,570**	**13,458**	**17,404**	**6,010**

(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.

	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 2019						
Funds management fees	4,021	2,137	1,160	689	–	8,007
Performance and transaction fees	–	–	–	180	43	223
Asset and project management fees	–	229	–	25	–	254
Registry and other income	1,064	–	43	53	–	1,160
	5,085	2,366	1,203	947	43	9,644
Distribution income (i) (ii)	–	–	–	–	4,025	4,025
	5,085	2,366	1,203	947	4,068	13,669
31 December 2018						
Funds management fees	3,922	1,908	1,144	678	–	7,652
Performance and transaction fees	–	–	–	322	–	322
Asset and project management fees	–	58	–	81	–	139
Registry and other income	1,023	–	70	58	–	1,151
Rental income from investment properties	–	–	–	–	645	645
	4,945	1,966	1,214	1,139	645	9,909
Distribution income (i) (ii)	–	–	–	–	3,593	3,593
	4,945	1,966	1,214	1,139	4,238	13,502

(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 $4,024,000 (31 Dec 18: $3,592,000).

4. Results for the period

Half-year ended	31 Dec 2019 $'000	31 Dec 2018 $'000
(a) Profit/(loss) for the period has been arrived after charging/crediting the following gains and losses and other expenses:		
Share based payments expense	888	(218)
(b) Profit/(loss) for the period includes the following impairment, fair value adjustments and business development and other costs:		
Aborted business development / acquisition costs	(14)	(97)
Group restructuring expenses	(438)	(284)
Gain on disposal of investment	87	–
Loss on disposal of subsidiaries (Note 13)	–	(1,427)
	(365)	(1,808)

5. Income taxes

Half-year ended	31 Dec 2019 $'000	31 Dec 2018 $'000
Tax (expense)/income comprises:		
Current tax (expense)/income	(3,215)	(1,146)
Adjustments recognised in the current year in relation to prior years	47	232
Deferred tax (expense)/income relating to the origination and reversal of temporary differences	9,382	(1,151)
Adjustments to deferred tax attributable to changes in tax rates and laws	–	(270)
Total tax expense for continuing operations	6,214	(2,335)
The expense for the year can be reconciled to the accounting profit as follows:		
Profit from operations	11,190	8,345
Less: Profit from APD Trust not subject to income tax	(395)	–
	10,795	8,345
Income tax expense calculated at 27.5%	(2,969)	(2,295)
Effect of expenses that are not deductible in determining taxable profit	(46)	(2)
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 change in income tax rate from 30% to 27.5% (effective 1 July 2018)	–	(270)
	6,193	(2,567)
Adjustments recognised in the current year in relation to the current tax of prior years	21	232
	6,214	(2,335)

5.1 Deferred tax balances

Temporary differences	1 July 2019 $'000	Recognised in profit and loss $'000	Recognised in retained earnings $'000	31 Dec 2019 $'000
Provisions and accruals	1,514	(399)	(181)	934
Property, plant and equipment / Investment properties	4	–	–	4
Blackhole expenditure	206	50	–	256
Intangible assets	(510)	–	–	(510)
Unrealised gains on revaluation of investments	(10,183)	9,731	–	(452)
Net deferred tax assets / (liabilities)	(8,969)	9,382	(181)	232

Capital Investments

6. Financial Assets

Financial assets carried at fair value through profit and loss	31 Dec 2019 $'000	30 Jun 2019 $'000
Current assets – Financial assets held for sale (a)	8,460	11,376
Non-current assets – Financial assets (b)	120,850	116,096
	129,310	127,472

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.

b) Co-investments in related parties with carrying amount of $73,301,000 (2018: $64,065,000) 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 2019				
Co-investments	117,223	2,341	9,746	129,310
30 June 2019				
Co-investments	114,756	–	12,716	127,472

During the period, co-investments previously at Level 1 have been reclassified to Level 2 after reconsideration of the inputs in determining the fair value of the investments.

e) Reconciliation of Level 3 fair value measurements:

Fair value through profit or loss	31 Dec 2019 $'000	30 Jun 2019 $'000
Opening balance	12,716	3,763
- Unrealised profit/(loss) recognised	(157)	(947)
Return of capital	–	19,200
Purchases	95	(7,320)
Disposals	(2,908)	(1,980)
Closing balance	9,746	12,716

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.

7. Intangible Assets

Half-year ended	Management rights $'000	Software $'000	Total $'000
Gross carrying amount			
Balance at 1 July 2018	1,700	473	2,173
Additions	–	35	35
Balance at 30 June 2019	1,700	508	2,208
Additions	–	–	–
Balance at 31 December 2019	1,700	508	2,208
Accumulated amortisation / impairment losses			
Balance at 1 July 2018	–	(431)	(431)
Depreciation expense	–	(21)	(21)
Balance at 30 June 2019	–	(452)	(452)
Depreciation expense	–	(16)	(16)
Balance at 31 December 2019	–	(468)	(468)
Net book value			
At 30 June 2019	1,700	56	1,756
At 31 December 2019	1,700	40	1,740

Capital Structure, Financing and Risk Management

8. Dividends

Half-year ended	31 Dec 2019		31 Dec 2018	
Fully paid ordinary shares	**Cents per share**	**Total $'000**	**Cents per share**	**Total $'000**
Recognised amounts:				
Final dividend	1.50	4,706	1.00	3,137
Stapling special dividend to facilitate the formation of the Group	1.20	3,186	–	–
	1.70	7,892	1.00	3,137
Unrecognised amounts:				
Interim dividend	1.13	3,593	1.25	3,922
Interim distribution	0.47	1,495	–	–
	1.60	5,088	1.25	3,922

On 13 December 2019, 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) paid by APN Property Group Limited of $23,851,447, to all shareholders registered on 11 December 2019, were compulsorily applied to subscribe for 318,019,289 units in APD Trust.

Directors have declared a fully franked interim dividend of 1.13 cents and interim distribution of 0.47 cents per stapled security for the period ended 31 December 2019 (2018: 1.25 cents per share, fully franked) to be paid on 13 March 2020 to all shareholders registered on 26 February 2020.

9. Earnings per Security

	31 Dec 2019	31 Dec 2018
Basic earnings per security (cents)		
Equity holders of the parent – Company	5.66	1.98
Equity holders of the non-controlling interests –Trust	0.13	–
Basic earnings per stapled security (cents)	5.79	1.98
Diluted earnings per security (cents)		
Equity holders of the parent – Company	5.48	1.94
Equity holders of the non-controlling interests – Trust	0.13	–
Diluted earnings per stapled security (cents)	5.61	1.94

9.1 Basic earnings per share

	31 Dec 2019 $'000	31 Dec 2018 $'000
The earnings used in the calculation of basic earnings per security is as follows:		
Profit for the year attributable to equity holders of the parent	17,009	6,010
Profit for the year attributable to equity of the non-controlling interests	395	–
Profit for the year from discontinued operations used in the calculation of basic earnings per security from discontinued operations	–	14
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	(362)	(199)
Basic EPS earnings	17,042	5,825
Basic EPS earnings attributable to equity holders of the parent	16,647	5,825
Basic EPS earnings attributable to equity of the non-controlling interests	395	–
	17,042	5,825

9. Earnings per Security

9.2 Diluted earnings per share

	31 Dec 2019 $'000	31 Dec 2018 $'000
The earnings used in the calculation of diluted earnings per security is as follows:		
Earnings used in the calculation of basic EPS	17,042	5,825
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	154	74
Diluted EPS earnings	17,196	5,899
Diluted EPS earnings attributable to equity holders of the parent	16,801	5,899
Diluted EPS earnings attributable to equity of the non-controlling interests	395	–
	17,196	5,899

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

	31 Dec 2019 '000	31 Dec 2018 '000
Basic EPS - Weighted average number of ordinary securities used in the calculation	**293,891**	**293,891**
Shares deemed to be issued for no consideration in respect of employee options[(i)]	12,415	10,329
Diluted EPS - Weighted average number of ordinary securities used in the calculation	**306,306**	**304,220**
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 security: Share options	12,216	12,412

(i) All potentially dilutive ordinary shares have been included in the Diluted EPS calculation at 31 December 2019.

10. Borrowings

	31 Dec 2019 $'000	30 Jun 2019 $'000
Current financial liabilities: Secured - at amortised cost		
Secured bank loans (a)	6,004	6,004
Total facilities available:		
Secured bank loans	8,000	8,000
Business card facility	200	200
Bank guarantee	500	500
	8,700	8,700
Facilities utilised at balance date:		
Secured bank loans	6,004	6,004
Business card facility	153	147
Bank guarantee	500	500
	6,657	6,651
Facilities not utilised at balance date:		
Secured bank loans	1,996	1,996
Business card facility	47	53
Bank guarantee	–	–
	2,043	2,049

10. Borrowings

During the period, the Group's loans were:

a) This $8,000,000 bank loan facility is repayable in March 2020 and is secured by other financial assets with a carrying amount of $73,301,000 (note 6). As at balance date, this facility is drawn to $6,004,000 with a weighted average effective interest rate of 5.04% per annum (2019: 6.81%), and is subject to the following financial covenants:

	31 Dec 2019	30 Jun 2019
▪ Loan to value ratio will be less than 35% of the market value of other financial assets pledged as security	8.2%	8.3%
▪ Distribution cover ratio will not fall below 2.0 times	12.60 times	11.08 times

Subsequent to 31 December 2019, the bank loan facility has been increased to $9.0 million and extended to 30 September 2021.

11. Contributed Equity

The Company	**31 Dec 2019**		**31 Dec 2018**	
	No of securities ‘000	**Total $’000**	**No of securities ‘000**	**Total $’000**
Balance at beginning of the period	313,743	102,885	313,743	102,882
Share options exercised by employees	–	2	–	2
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	(25)	–	–	–
Balance at end of the period	318,019	82,852	313,743	102,884

The Trust (non-controlling interest)	**31 Dec 2019**		**31 Dec 2018**	
	No of securities ‘000	**Total $’000**	**No of securities ‘000**	**Total $’000**
Balance at beginning of the period	–	–	–	–
Securities issued	318,019	23,851	–	–
Balance at end of the period	318,019	23,851	–	–

During the period, the Company issued 4,301,477 (2018: Nil) shares to eligible employees (including key management personnel) under the APN Employee Performance Securities Plan (EPSP) and cancelled 25,000 (2018: Nil) shares issued under the APN Employee Share Plan.

At 31 December 2019, included in Issued fully paid ordinary securities of 318,019,000 (2018: 313,743,000) are 24,050,000 (2018: 19,776,000) treasury shares relating to employee share option plans.

On 13 December 2019, 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 of $23,851,447, to all shareholders registered on 11 December 2019, and 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. While the Trust remains stapled to the Company, the Trust units must only be issued, dealt with or disposed of in conjunction with the shares of the Company as a Stapled Security. Each security represents an APN Property Group Stapled Security and represents a right to an individual unit in the Trust and an individual share in the Company per the constitutions. There are no separate classes of securities and each security has the same rights attaching to it as all other securities in the Group.

12. Stapling

On 13 December 2019, APN completed the stapling of the ordinary shares in the APN to ordinary units in the Trust to form a stapled group, as approved by shareholders at the 2019 annual general meeting (Stapling Proposal). The Stapling occurred by a 'contractual stapling of an ordinary unit in the Trust with an ordinary share in in the APN so that neither can be dealt with without the other in an identical manner, at the same time and subject to the same restrictions.' As a result, the shares in the APN are stapled to units in the Trust on a one-to-one basis, so that all securityholders hold units in the Trust and shares in the APN. The Group has retained the same ASX ticker code ('APD') and will continue to trade as APN Property Group.

The Trust was established by the transfer of the APN's interest in investments and a secured bank loan to the Trust in exchange for $23,851,447 of equity in the Trust and an intercompany loan. As the investments transferred were already held at fair value, there was no impact on the consolidated net assets. The Company distributed $23,851,447 to its shareholders through a $3,816,232 special fully franked dividend and a capital return distribution of $20,035,215. This amount was compulsorily applied to subscribe for units in the Trust.

The Stapling transaction has been treated as a group reorganisation as it does not meet the requirements of AASB 3 Business Combinations. APN is identified as the parent of the Group with the acquisition accounted for as a change in ownership without a loss of control. The issued ordinary units of the Trust are not owned by APN and are presented as non-controlling interests in the Group although units in the Trust are held directly by the shareholders of APN. The equity in the net assets of APD Trust and the profit/(loss) arising from those net assets have been separately identified in the statements of comprehensive income and financial position. APD Trust's contributed equity and retained earnings are shown as a non-controlling interest (NCI) in the consolidated financial statements in accordance with accounting standards.

Other Notes

13. Disposal of Subsidiaries

On 8 November 2018, the Group lost control of the APN Nowra Property Fund (previously known as APN Convenience Retail Property Fund) upon the successful completion of a capital raising offer announced in late June 2018.

13.1 Consideration received

	31 Dec 2018 $'000
Gross consideration received	
Repayment of intercompany loan after divestment	9,311
Payment for net assets	3,070
	12,381

13.2 Analysis of assets and liabilities over which control was lost

	31 Dec 2018 $'000
Cash and cash equivalents	169
Trade receivables and other receivables	40
Investment Properties – held for sale (note 8)	24,200
Borrowings associated with Investment property – held for sale (Note 11)	(10,511)
Other payables	(117)
	13,781

13.3 Loss on disposal

	31 Dec 2018 $'000
Consideration received	12,381
Net assets divested	(13,781)
Net transaction costs incurred	(27)
Loss on disposal (Note 4)	(1,427)

13.4 Net cash flow

	31 Dec 2018 $'000
Consideration received (net of transaction costs incurred)	12,354
Less: cash and cash equivalents divested	(169)
	12,185

Included in the net profit for the period up to the loss of control on 8 November 2018 is $645,000 revenue and net profit after tax of $692,000.

14. Subsidiaries

During the period, following the Stapling, APD Trust is disclosed as NCI in the consolidated financial statements.

Name of entity	Country of incorporation	31 Dec 2019 $'000	30 Jun 2019 $'000
Subsidiaries			
APD Trust	Australia	–	100%

15. Related party transactions

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

	Parent / NCI		Subsidiaries		Total	
	31 Dec 2019 $	31 Dec 2018 $	31 Dec 2019 $	31 Dec 2018 $	31 Dec 2019 $	31 Dec 2018 $
Other related parties from continuing operations						
Fund management fees	–	–	7,663,820	7,332,975	7,663,820	7,332,975
Performance and transaction fees	–	–	180,302	322,174	180,302	322,174
Asset and project management fees	–	–	254,054	138,582	254,054	138,582
Registry and other income	–	–	1,151,995	1,151,254	1,151,995	1,151,254
Distribution income	3,656,514	3,138,571	367,837	453,877	4,024,351	3,592,448

Investments

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

	31 Dec 2019			31 Dec 2018		
	Units No.	Fair value $	Distribution received/ receivable $	Units No.	Fair value $	Distribution received/ receivable $
APN AREIT Fund	16,814	29,684	1,055	17,194	27,862	297
APN Asian REIT Fund	790,282	1,564,127	42,916	832,289	1,400,743	42,393
APN AREIT PIE Fund	–	–	–	–	–	198
APN Global REIT Income Fund (previously known as APN Asia Pacific REIT Fund)	840,926	747,163	–	9,161	100	–
APN Industria REIT	28,727,712	83,597,642	2,513,705	26,995,821	73,698,591	2,292,746
APN Convenience Retail REIT	9,631,641	33,614,427	1,049,765	9,631,005	27,352,054	1,005,757
APN Coburg North Retail Fund	479	479	17	479	479	17
APN Steller Development Fund	2,750,000	–	93,500	2,750,000	667,700	220,000
APN Development Fund No. 2	2,649,226	1,264,741	–	2,553,988	1,334,714	–
APN Nowra Property Fund	18,338	20,612	731	2,338,000	2,338,000	31,040
APN Regional Property Fund	6,065,243	8,460,407	322,662	–	–	–
APN European Retail Property Group	–	–	–	46,366	–	–

16. Subsequent Events

Dividend

Since the balance date, the directors have declared a fully franked interim dividend of 1.13 cents and interim distribution of 0.47 cents per stapled security for the period ended 31 December 2019, to be paid on 13 March 2020 to all shareholders registered on 26 February 2020.

Borrowings

The existing bank loan facility of $8.0 million (drawn to $6.0 million as at 31 December 2019) which was due to expire in March 2020 (financial statements - note 10) has, subsequent to balance date, been increased to $9.0 million and extended to 30 September 2021.

Other than disclosed above, the directors have not become aware of any other significant matter or circumstances that has arisen since 31 December 2019, 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.