APPENDIX 4D

APN Convenience Retail REIT
Half-Year Report
Half-year ended 31 December 2019

Note on Stapling Arrangements

The 'APN Convenience Retail REIT' stapled group ("Group") was established on 27 July 2017 by stapling the securities of the following entities:

- Convenience Retail REIT No.1 (ARSN 101 227 614);
- Convenience Retail REIT No.2 (ARSN 619 527 829); and
- Convenience Retail REIT No.3 (ARSN 619 527 856).

The following information is based on the consolidated financial statements of Convenience Retail REIT No.2 (APN Convenience Retail REIT) for the half-year ended 31 December 2019.

Results for announcement to the market

	APN Convenience Retail REIT	
	$'000	
Revenues from ordinary activities	down 0.16% to 16,184	
Profit from ordinary activities after tax attributable to members	up 34.60% to 19,464	
Net profit for the period attributable to members	up 34.60% to 19,464	
Funds From Operations (FFO) [1]	9,033	
Net tangible assets per security	**31 Dec 2019** $3.13	**30 Jun 2019** $2.96

[1]: Funds from Operations (FFO) for the financial half-year has been calculated on the following page.

Funds From Operations (FFO)		
	31 Dec 2019 $'000	**31 Dec 2018 $'000**
Statutory net profit / (loss) for the period	19,464	14,461
Adjusted for:		
- Straight line lease revenue recognition	(2,052)	(2,340)
- Net (gain) / loss on change in fair value of:		
Investment properties	(8,421)	(4,452)
Derivatives	(153)	578
- Amortisation of borrowing costs	180	208
- Amortisation of leasing costs and incentives	15	6
FFO	**9,033**	**8,461**
Key financial metrics		
Distribution declared ($'000)	9,347	8,247
Distributions per security (cents per security)	10.90	10.45
FFO payout ratio (%)	101.21%	97.47%

Other Information

Distributions	**Amount per security (cents)**	**$'000**
Quarter ended 30 Sep 2019 (78,910,283 units on issue)	5.450	4,300
Quarter ended 31 Dec 2019 (92,594,423 units on issue)	5.450	5,047
Total	**10.900**	**9,347**
Previous corresponding period [3]	10.450	8,247
Record date for determining entitlements to the distribution	31 December 2019	
Details of any distribution reinvestment plan in operation	The Group has a distribution reinvestment plan (DRP) in place. The DRP is not currently open.	
Last date for receipt of an election notice for participation in any distribution reinvestment plan	Eligible securityholders may elect to participate in the plan in accordance with the DRP Rules.	

Note: Franked amount per unit is not applicable

For further details, please refer to the following documents:

- Directors' Report and Condensed Financial Statements (attached)
- Half-year Results Announcement (separate ASX release)
- Investor presentation (separate ASX release)

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Chantal Churchill
Company Secretary

18 February 2020

‘APN Convenience Retail REIT’ being

Convenience Retail REIT No. 2 and its Controlled Entities

ARSN 619 527 829

Interim Financial Report for the half-year ended

31 December 2019

Stapling arrangement

The ‘APN Convenience Retail REIT’ stapled group (“Group”) was established on 27 July 2017 by stapling the securities of the following entities:

- Convenience Retail REIT No.1;
- Convenience Retail REIT No.2; and
- Convenience Retail REIT No.3.

These consolidated financial statements represent the consolidated results of APN Convenience Retail REIT for the half-year ended 31 December 2019.

Contents

Directors' report

The directors of APN Funds Management Limited ("APN FM"), the Responsible Entity of Convenience Retail REIT No. 2 (the "Fund") present the interim financial report on the consolidated entity (the "Group"), being the Fund and its controlled entities, for the half-year ended 31 December 2019. The Fund is one of three entities that together comprise the stapled APN Convenience Retail REIT which is listed on the Australian Securities Exchange ("ASX") (ASX Ticker: "AQR").

To comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

Information about the directors

The following persons were directors of the Responsible Entity during the half-year and up to the date of this report:

Geoff Brunsdon AM	Chairman and Independent Director
Howard Brenchley	Independent Director
Jennifer Horrigan	Independent Director
Michael Johnstone	Independent Director
Michael Groth	Resigned as Alternate Director for Howard Brenchley effective 2 July 2019
Joseph De Rango	Appointed as Alternate Director for Howard Brenchley effective 1 September 2019

Principal activities

The principal activity of the Group is to own and manage a quality portfolio of convenience retail properties that offer relatively secure income streams and have the potential for capital growth. The parent entity of the Group is Convenience Retail REIT No. 2 (the "Fund").

There has been no significant change in the activities of the Group during the half year. The Group did not have any employees during the period.

Review of operations

The results of the operations of the Group are disclosed in the condensed consolidated statement of profit or loss and other comprehensive income. A summary of APN Convenience Retail REIT's results for the half-year is as follows:

	Half-year ended 31 December 2019 $'000	**Half-year ended 31 December 2018 $'000**
Net property income	12,667	12,318
Straight line rental income	2,052	2,340
Interest income	14	14
Total revenue	**14,733**	**14,672**
Management fees	(1,202)	(1,143)
Finance costs	(2,352)	(2,594)
Corporate costs	(289)	(348)
Total expenses	**(3,843)**	**(4,085)**
Net profit [1]	**10,890**	**10,587**
Fair value gain / (loss) on derivatives	153	(578)
Fair value gain / (loss) on investment properties	8,421	4,452
Statutory net profit / (loss)	**19,464**	**14,461**

[1] Net profit is presented before fair value adjustments associated with investment properties and other financial assets in accordance with the presentation format outlined in Convenience Retail REIT's PDS dated 28 June 2017.

The Responsible Entity uses the Group's Funds from Operations ("FFO") as the key performance indicator.

FFO adjusts statutory net profit / (loss) for certain items that are non-cash, unrealised or capital in nature, in line with the guidelines established by the Property Council of Australia. Statutory net profit / (loss) is determined in accordance with Australian Accounting Standards and includes a number of non-cash items including fair value movements, straight line lease accounting adjustments and amortisation of borrowing and leasing costs and incentives.

A reconciliation of statutory net profit / (loss) to FFO is outlined as follows:

Funds from operations

	Half-year ended 31 December 2019 $'000	Half-year ended 31 December 2018 $'000
Statutory net profit / (loss) for the period	**19,464**	**14,461**
Adjusted for:		
Straight line lease revenue recognition	(2,052)	(2,340)
Fair value (gain) / loss on investment properties	(8,421)	(4,452)
Fair value (gain) / loss on derivatives	(153)	578
Amortisation of borrowing costs	180	208
Amortisation of leasing costs and rent-free adjustments	15	6
FFO	**9,033**	**8,461**
Key financial performance metrics:		
FFO per security (cents)	10.77 c	10.72 c
Distributions per security (cents)	10.90 c	10.45 c
Payout Ratio (Distribution per security / FFO per security)	101.21 %	97.47 %
Statutory earnings / (loss) per security (cents per security)	23.21 c	18.32 c
Weighted average securities on issue (thousands)	83,868	78,920
Securities on issue (thousands)	92,594	78,920
Distribution declared (thousands)	$9,347	$8,247

Operating result

The Group's total Funds From Operations increased by $0.5 million to $9 million in comparison to the corresponding half year. The key drivers of this result included:

- acquisition of five additional properties post IPO;
- contractual annual rent increases; and
- net property income growth was partially offset by increases in management fees and finance costs as a result of portfolio revaluation uplift and property acquisitions.

Net tangible assets and asset valuations

16 properties were independently valued at 31 December 2019. Overall, the entire portfolio increased in valuation by $12.3 million due to annual rent increases that occurred in the six-month period to 31 December 2019 as well as a tightening of the portfolio's weighted average market capitalisation rate from 7.01% at 30 June 2019 to 6.91% as at 31 December 2019.

Market overview

Service station investments remain a sought-after asset class. The business of selling fuel and convenience goods is currently performing strongly relative to many other industries. The strength of the industry adds confidence to purchasers already attracted by long lease terms, strong lease covenants and contracted annual increases.

The affordability of most service stations is also a contributing factor to the continued strength of this sector. Below $5,000,000 there is an active market for such investment property, and the majority of older assets are sub-$3,000,000, which is highly accessible for private investors.

The convenience retail portion of the service station revenue model has become increasingly important in recent years. Convenience retail continues to outperform fuel in both revenue growth and margins, offering competitive differentiation, incremental sales and access to previously untapped demographics (i.e. non-drivers) in what is a highly fragmented market. Major service station operators will look to develop their in-store offering across groceries, pre-packaged meal offerings and non-food product offerings, and at the same time expand partnerships with quick service and fast food retail operators. Some major fast food operators have also expressed interest in growing their non-shopping centre store footprint.

As a result of ongoing population growth, supply of new service stations has recently gained momentum with over 300 new service stations on track to be completed between 2020 and 2022. However, a number of these new services stations will replace older existing service stations and will not materially raise current stock levels. The majority of these new service stations will be located in QLD (36%), followed by VIC (21%), NSW (20%} and WA (13%).

BP, United Petroleum, Caltex and 7-Eieven will tenant the majority (60%) of projects currently under construction.

Distributions

Distributions of $9,347,000 were declared by the Group during the half-year ended 31 December 2019 (31 December 2018: $8,247,000).

For full details of distributions paid and/or payable during the half-year, refer to note 6 of the condensed consolidated financial statements.

Auditor's independence declaration

A copy of the external auditor's independence declaration, as required under section 307C of the *Corporations Act 2001* is set out on page 5.

Matters subsequent to the end of the financial period

On 6 January 2020 and 7 February 2020, the Group acquired 342 Albany Highway, Orana, WA and 225 Womma Road, Edinburgh North, SA, respectively. The acquisitions were funded using the equity proceeds received from the Security Purchase Plan ("SPP") completed on 14 October 2019.

On 17 February 2020, an extension of the existing debt facility from incumbent financiers was approved, which included an increase in the facility limit of $40,000,000.

There has not been any other matter or circumstance occurring subsequent to the end of the half-year that has significantly affected, or may significantly affect, the operations of the Group, the results of the Group, or the state of affairs of the Group in future financial years.

Rounding of amounts

The Group is an entity 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 interim financial report have been rounded to the nearest thousand dollars, unless otherwise stated.

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

On behalf of the directors

Geoff Brunsdon AM
Director

Melbourne, 18 February 2020

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18 February 2020

The Board of Directors
APN Funds Management Limited
Level 30, 101 Collins Street
MELBOURNE VIC 3000

Dear Board Members

Independence Declaration – APN **Convenience Retail REIT**

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 Funds Management Limited, the Responsible Entity, regarding the half-year financial report for APN Convenience Retail REIT.

As lead audit partner for the review of the financial statements of APN Convenience Retail REIT 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 Unitholders of APN Convenience Retail REIT

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of APN Convenience Retail REIT, which comprises of Convenience Retail REIT No. 2 (the "Fund") and its controlled entities (collectively, the "Group"), 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 comprising the Fund and the entities it controlled at the end of the half-year or from time to time during the half-year as set out in pages 8 to 25.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Responsible Entity of the Fund (the "Directors") are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal 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 Group ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, Deloitte.

which has been given to the Directors, 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 the Group 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, 18 February 2020

Directors' declaration

The directors of APN Funds Management Limited, the Responsible Entity of Convenience Retail REIT No. 2 (the "Fund"), declare that:

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

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

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

On behalf of the directors of the Responsible Entity, APN Funds Management Limited.

Geoff Brunsdon AM
Director

Melbourne, 18 February 2020

Condensed consolidated statement of profit or loss and other comprehensive income

for the half-year ended 31 December 2019

	Notes	Half-year ended 31 December 2019 $'000	Half-year ended 31 December 2018 $'000
Revenue			
Rental income	4	14,132	13,870
Straight line rental income recognition		2,052	2,340
Total revenue from continuing operations		**16,184**	**16,210**
Other income			
Interest income		14	14
Net fair value gain on investment properties	4	8,421	4,452
Fair value gain / (loss) on derivatives		153	(578)
Total other income		**8,588**	**3,888**
Total income		**24,772**	**20,098**
Expenses			
Property costs		(1,465)	(1,552)
Management fees	11	(1,202)	(1,143)
Finance costs		(2,352)	(2,594)
Other expenses		(289)	(348)
Total expenses		**(5,308)**	**(5,637)**
Profit / (loss) for the period		**19,464**	**14,461**
Attributable to:			
Securityholders of Convenience Retail REIT No. 2		11,677	7,775
Securityholders of non-controlling interests[1]		7,787	6,686
		19,464	**14,461**
Other comprehensive income		-	-
Total comprehensive income for the period		**19,464**	**14,461**
Total comprehensive income is attributable to:			
Securityholders of Convenience Retail REIT No. 2		11,677	7,775
Securityholders of non-controlling interests[1]		7,787	6,686
		19,464	**14,461**
Earnings per security			
Basic and diluted (cents per security)	7	23.21	18.32

[1] Represents the net profit and other comprehensive income attributable to the other stapled entities comprising the APN Convenience Retail REIT Group.

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

Condensed consolidated statement of financial position

as at 31 December 2019

	Notes	31 December 2019 $'000	30 June 2019 $'000
Current assets			
Cash and cash equivalents		1,473	289
Trade and other receivables		195	95
Other assets	12	6,799	30
Total current assets		**8,467**	**414**
Non-current assets			
Investment properties	4	390,384	358,293
Total non-current assets		**390,384**	**358,293**
Total assets		**398,851**	**358,707**
Current liabilities			
Trade and other payables		(2,673)	(2,846)
Distributions payable	6	(5,047)	(4,123)
Derivative financial instruments	8	(945)	(898)
Borrowings	8	(73,426)	-
Total current liabilities		**(82,091)**	**(7,867)**
Non-current liabilities			
Derivative financial instruments	8	(1,447)	(1,646)
Borrowings	8	(25,252)	(115,400)
Total non-current liabilities		**(26,699)**	**(117,046)**
Total liabilities		**(108,790)**	**(124,913)**
Net assets		**290,061**	**233,794**
Equity			
Securityholders of Convenience Retail REIT No. 2:			
Contributed equity	5	138,159	114,004
Retained earnings		6,736	(317)
Securityholders of non-controlling interests[1]:			
Contributed equity	5	117,925	95,931
Retained earnings		27,241	24,176
Total equity		**290,061**	**233,794**
Net tangible assets (dollars per security)		3.13	2.96

[1] Represents the net assets attributable to the other stapled entities comprising the APN Convenience Retail REIT Group.

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

Condensed consolidated statement of changes in equity

for the half-year ended 31 December 2019

	Notes	Contributed equity $'000	Retained earnings $'000	Total $'000	Non-controlling interests[1] $'000	Total equity $'000
Balance at 1 July 2018		**114,019**	**(4,867)**	**109,152**	**117,166**	**226,318**
Net profit / (loss) for the period		-	7,775	7,775	6,686	14,461
Other comprehensive income		-	-	-	-	-
Total comprehensive income for the period		**-**	**7,775**	**7,775**	**6,686**	**14,461**
Issue of contributed equity		-	-	-	-	-
Security issuance costs		(1)	-	(1)	-	(1)
Distributions paid or payable	6	-	(4,084)	(4,084)	(4,163)	(8,247)
Balance at 31 December 2018		**114,018**	**(1,176)**	**112,842**	**119,689**	**232,531**
Balance at 1 July 2019		**114,004**	**(317)**	**113,687**	**120,107**	**233,794**
Net profit / (loss) for the period		-	11,677	11,677	7,787	19,464
Other comprehensive income		-	-	-	-	-
Total comprehensive income for the period		**-**	**11,677**	**11,677**	**7,787**	**19,464**
Issue of contributed equity	5	24,147	-	24,147	21,984	46,131
Securities buy-back	5	(64)	-	(64)	(67)	(131)
Securities issued under distribution reinvestment plan (DRP)	5	187	-	187	196	383
Security issuance costs	5	(115)	-	(115)	(118)	(233)
Distributions paid or payable	6	-	(4,624)	(4,624)	(4,723)	(9,347)
Balance at 31 December 2019		**138,159**	**6,736**	**144,895**	**145,166**	**290,061**

[1] Represent the equity attributable to the other stapled entities comprising the APN Convenience Retail REIT Group.

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

Condensed consolidated statement of cash flows

for the half-year ended 31 December 2019

	Notes	31 December 2019 $'000	31 December 2018 $'000
Cash flows from operating activities			
Net rental income received		13,128	12,147
Interest received		12	17
Other expenses paid		(2,508)	(1,424)
Finance costs paid		(2,173)	(2,530)
Net cash inflow / (outflow) from operating activities		**8,459**	**8,210**
Cash flows from investing activities			
Payments for acquisition of investment properties		(30,512)	(7,948)
Advances to purchase investment properties		(5,850)	-
Payments for capital expenditure on investment properties		(915)	(8)
Proceeds from disposal of investment properties		9,800	-
Net cash inflow / (outflow) from investing activities		**(27,477)**	**(7,956)**
Cash flows from financing activities			
Net proceeds from borrowings		(16,900)	6,070
Net proceeds from issue of contributed equity		46,000	-
Equity issuance and liquidity offer costs paid		(857)	(26)
Distributions paid		(8,041)	(8,070)
Net cash inflow / (outflow) from financing activities		**20,202**	**(2,026)**
Net increase / (decrease) in cash and cash equivalents		1,184	(1,772)
Cash and cash equivalents at the beginning of the period		289	2,797
Cash and cash equivalents at the end of the period		**1,473**	**1,025**
Non-cash operating activities		383	-

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

Notes to the condensed consolidated financial statements

Contents

ABOUT THIS REPORT

1. GENERAL INFORMATION

APN Convenience Retail REIT is a stapled entity listed on the Australian Securities Exchange (trading under the ASX ticker “AQR”), incorporated and operating in Australia. APN Convenience REIT comprises Convenience Retail REIT No. 2 and its controlled entities.

APN Funds Management Limited, a public company incorporated and operating in Australia, is the Responsible Entity of Convenience Retail REIT No. 2. The registered office and its principal place of business is Level 30, 101 Collins Street, Melbourne, VIC 3000.

2. STATEMENT OF COMPLIANCE

The interim financial report is a general purpose financial report which has been 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 interim financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual report.

The financial statements were authorised for issue by the directors on 18 February 2020.

2.1. Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of investment properties 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 Group is an entity 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 interim 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 interim financial report are consistent with those adopted and disclosed in the Group’s annual financial report for the financial year ended 30 June 2019, except for the impact from adoption of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) described in note 13. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

PERFORMANCE

This section shows the results and performance of the Group and includes information in respect to the profitability of the Group and its reporting segments. It also provides information on the investment properties that underpins the Group’s performance.

3. SEGMENT INFORMATION

The Group derives all income from investment in properties located in Australia. The Group is deemed to have only one operating segment and that is consistent with the reporting reviewed by the chief operating decision makers.

4. INVESTMENT PROPERTIES

Investment properties represent convenience retail properties held for deriving rental income and held for development for future use as investment property. For all investment properties, the current use equates to the highest and best use.

4.1. Reconciliation of carrying amounts

	31 December 2019 $'000	30 June 2019 $'000
Carrying amount at beginning of the period	358,293	340,429
Purchase of investment properties	27,657	7,313
Acquisition costs associated with purchase of investment properties	1,291	568
Purchase of land held for development	1,564	-
Development work in progress	29	-
Capital additions to existing investment properties	886	106
Disposals of investment properties	(9,800)	-
Straight line rental revenue recognition	2,052	4,473
Capitalised leasing incentives and fees	6	88
Amortisation of lease incentives and fees	(15)	(25)
Net gain / (loss) on fair value adjustments:		
Net gain / (loss) on fair value adjustments[1]	8,487	5,341
Net gain / (loss) disposal of investment properties[1]	(66)	-
Carrying amount at end of the period	**390,384**	**358,293**

[1] The net gain in fair value adjustments is wholly unrealised and has been recognised as "net gain in fair value adjustments on investment properties" in the condensed consolidated statement of profit or loss and other comprehensive income.

4.2. Contractual obligations

Under some of the lease agreements applicable to the existing investment properties, the Group is responsible for capital and structural repairs to the premises (except to the extent required due to the tenant's act, omissions or particular use). This contractual obligation can include the requirement to replace underground tanks and/or LPG tanks if they become worn out, obsolete, inoperable or incapable of economic repair.

During the period, the replacement of the underground tanks for one of the three investment properties (i.e. Cnr Vardys Rd & Turbo Rd, Marayong, NSW) was completed. As at the reporting date, the other two investment properties that have been identified which require underground tank replacements remain outstanding. The current forecast capital expenditure required to replace the two underground tanks is $1,200,000 which has been reflected as a reduction in the valuation of the applicable investment property as at the reporting date.

4.3. Individual valuation and carrying amounts

The investment portfolio consists of 72 properties and one land held for development located throughout Australia. 16 existing properties and six new investment properties were respectively independently valued at 31 December 2019 and at acquisition date. The Group's external valuations are performed by independent professionally qualified valuers who hold a recognised relevant professional qualification and have specialised expertise in the investment properties being valued. For 31 December 2019, independent valuations were performed by Jones Lang LaSalle Advisory Services Pty Ltd ("JLL") and Savills Valuations Pty Ltd ("Savills") (30 June 2019: 35 properties were independently valued by JLL and Savills).

The remaining 51 properties were subject to internal valuations performed by the Group's internal property team and have been reviewed and approved by the Board. The carrying amounts of these investment properties have been determined based on Directors' valuations.

	Latest independent valuation		Carrying amounts		Capitalisation rate	
	Valuation date	$'000	31 December 2019 $'000	30 June 2019 $'000	31 December 2019 %	30 June 2019 %
Properties						
397 Pacific Hwy, Belmont North, NSW	Jun-18	5,980	6,320	6,080	6.25%	6.50%
Cnr Vardys Rd & Turbo Rd, Marayong, NSW	Jun-18	7,750	8,890	7,910	6.50%	6.75%
511 Pacific Highway, South Kempsey, NSW	Jun-19	19,340	20,660	19,340	6.75%	7.00%
172 New England Highway, Rutherford, NSW	Jun-19	5,360	5,740	5,360	6.50%	6.75%
Cnr Northcote St & Main Rd, Heddon Greta, NSW	Jun-19	8,760	9,370	8,760	6.50%	6.75%
Cnr Weakleys & Glenwood Drives, Thornton, NSW	Jun-19	8,900	9,140	8,900	6.50%	6.50%
449 Victoria Street, Wetherill Park, NSW	Jun-19	7,920	8,160	7,920	6.50%	6.50%
1 Blueberry Road, Moree NSW	Jun-19	10,700	10,700	10,700	7.00%	7.00%
2948 Old Cleveland Rd, Capalaba, QLD	Jun-18	4,640	4,820	4,730	7.25%	7.25%
Cnr Anzac Ave & Josey Rd, Mango Hill, QLD	Jun-18	3,160	3,270	3,220	7.00%	7.00%
550 - 560 Samford Rd, Mitchelton, QLD	Jun-18	3,980	4,150	4,060	7.25%	7.25%
420 - 426 Mt Cotton Rd, Capalaba, QLD	Jun-18	3,890	4,030	3,960	7.25%	7.25%
1233 Wynnum Rd, Murrarie, QLD	Jun-18	5,240	5,460	5,350	7.25%	7.25%
17 - 25 Toombul Rd, Northgate, QLD	Jun-18	3,840	4,010	3,920	7.25%	7.25%
124 - 130 Paradise Rd, Slacks Creek, QLD	Jun-18	3,920	4,070	4,000	7.25%	7.25%
108 Compton Rd, Woodridge, QLD	Jun-18	5,340	5,830	5,580	6.25%	6.25%
708 Gympie Rd, Lawnton, QLD	Jun-18	4,170	4,370	4,370	7.25%	7.25%
353 Redbank Plains Rd, Redbank Plains, QLD	Jun-18	5,320	5,820	5,560	6.25%	6.25%

264 Browns Plains Rd, Browns Plains, QLD	Jun-18	5,640	5,880	5,840	6.25%	6.25%
Sovereign Avenue, Bray Park, QLD	Jun-18	4,000	4,370	4,190	6.25%	6.25%
21 Ingham Road, West End, QLD	Jun-19	5,600	5,710	5,600	6.50%	6.50%
921 Nambour Connection Rd, Nambour, QLD	Jun-19	1,330	1,370	1,330	7.75%	7.75%
1380 Boundary Rd, Wacol, QLD [1]	Jun-19	5,400	-	5,400	-	7.25%
19038 Bruce Highway, Bowen, QLD	Dec-19	3,900	3,900	3,750	7.00%	7.00%
25 Bolam Street, Garbutt, QLD	Dec-19	2,560	2,560	2,360	7.25%	7.50%
4545 Flinders Highway, Reid River, QLD	Dec-19	2,830	2,830	2,710	8.50%	8.50%
71 Thompson Street, Charters Towers, QLD	Dec-19	6,150	6,150	5,930	8.00%	8.00%
77-79 Bowen Road, Rosslea, QLD	Dec-19	2,860	2,860	2,630	6.50%	6.75%
900 Ingham Road, Bohle, QLD	Dec-19	6,560	6,560	6,320	7.00%	7.00%
45 Range Road, Sarina, QLD	Dec-19	2,090	2,090	1,920	7.25%	7.50%
2 Mulgrave Street, Gin Gin, QLD	Jun-19	3,960	3,960	3,960	7.50%	7.50%
161 Thozet Road, Koongal, QLD	Dec-19	2,190	2,190	2,080	7.00%	7.00%
74 Connor Street, Zilzie, QLD	Dec-19	1,660	1,660	1,570	7.00%	7.00%
1 Flinders Street, Monto, QLD	Dec-19	1,410	1,410	1,280	7.00%	7.25%
102-104 Cook Street, Portsmith, QLD	Dec-19	6,090	6,090	5,670	7.00%	7.25%
28 Supply Road, Edmonton, QLD	Jun-19	6,040	6,220	6,040	6.50%	6.50%
45 Arnold Street, Aeroglen, QLD	Dec-19	3,820	3,820	3,670	7.00%	7.00%
49 Tolga Road, Atherton, QLD	Dec-19	1,960	1,960	1,860	7.25%	7.25%
656 Bruce Highway, Woree, QLD	Dec-19	1,560	1,560	1,470	7.00%	7.00%
2215 David Low Way, Peregian Beach, QLD	Dec-19	3,510	3,510	3,370	7.00%	7.00%
10 Takalvan Street, Bundaberg, QLD	Dec-19	2,020	2,020	1,780	6.50%	7.00%
60 Hawkins Crescent, Bundamba, QLD	Jun-19	17,720	18,250	17,720	6.75%	6.75%
1129 Morandah Access Road, Moranbah, QLD	Jun-19	6,020	6,200	6,020	7.00%	7.00%
273-279 Gympie Rd, Kedron, QLD	Jun-19	3,400	3,460	3,400	6.75%	6.75%
34-36 Cessna Drive, Caboolture, QLD	Jun-19	6,400	6,760	6,400	6.75%	6.75%
164-170 David Low Way, Diddilibah, QLD	Jun-19	3,400	3,510	3,400	7.25%	7.25%
282 Wardell Street, Enoggera, QLD	Jun-19	1,910	1,970	1,910	7.00%	7.00%
840 Steve Irwin Way Glasshouse, Mountains, QLD	Jun-19	5,000	5,120	5,000	7.25%	7.25%
1977 Anzac Avenue, Mango Hill, QLD	Jun-19	4,000	4,090	4,000	7.00%	7.00%
216 Preston Road, Manly West, QLD [1]	Jun-19	2,200	-	2,200	-	7.25%

72 Walker Street, Maryborough, QLD	Jun-19	2,130	2,190	2,130	7.75%	7.75%
127 Kingston Road, Woodridge, QLD	Jun-19	4,710	4,850	4,710	7.00%	7.00%
1965 D'Aguilar Highway, Villeneuve, QLD [1]	Jun-19	1,900	-	1,900	-	8.25%
983 Waterworks Road, The Gap, QLD	Jun-19	3,240	3,330	3,240	7.00%	7.00%
63 Raceview Street, Raceview, QLD	Jun-19	9,710	9,710	9,710	6.75%	6.75%
14 Rosemary Street, Durack, QLD	Jun-19	5,700	5,700	5,700	6.75%	6.75%
205 Old Gympie Road, Dakabin, QLD	Jun-19	4,650	4,730	4,650	6.50%	6.50%
Cnr Edith St and Bruce Hwy, Cluden, QLD	Jun-19	12,500	12,880	12,500	7.25%	7.25%
22 Nicholson Street, Banana, QLD	Jun-19	3,600	3,680	3,600	7.50%	7.50%
25 Kiernan Drive, Roseneath, QLD	Jun-19	7,250	7,460	7,250	7.25%	7.25%
53793 Bruce Hwy, Mount Larcom, QLD	Aug-18	7,313	7,480	7,313	6.75%	6.75%
591 Dorset Rd, Bayswater North, VIC	Jun-18	4,300	4,560	4,330	6.25%	6.50%
Cnr Thompson Rd & Victoria St, Geelong North, VIC	Jun-18	4,230	4,630	4,390	6.50%	6.75%
753 North Lake Rd, Southlake, WA	Jun-18	6,200	6,280	6,280	7.75%	7.75%
Cnr Amherst & Nicholsons Rd, Canning Vale, WA	Jun-18	6,600	6,150	6,150	7.50%	7.50%
1 Wishart Street, Gwelup, WA	Jun-19	3,700	3,790	3,700	7.00%	7.00%
224 Clontarf Road, Hamilton Hill, WA	Jun-19	4,620	4,760	4,620	7.00%	7.00%
1182 Chapman Road, Glenfield, WA	Jun-19	4,740	4,890	4,740	8.25%	8.25%
1 Kakadu Road, Yanchep, WA	Jun-19	5,540	5,710	5,540	7.25%	7.25%
Lot 401 Great Northern Highway, South Hedland, WA	Jun-19	5,340	5,500	5,340	8.00%	8.00%
130 Edwards Street, Ayr, QLD [2]	Aug-19	4,740	4,740	-	6.75%	-
51-55 Aerodrome Rd, Maroochydore, QLD [2]	Aug-19	6,850	6,850	-	6.75%	-
226-228 Bridge Rd, Pooraka, SA [2]	Oct-19	5,250	5,250	-	6.00%	-
337 St Vincent St East, Port Adelaide, SA [2]	Dec-19	5,170	5,170	-	6.00%	-
Lot 1 / 437 Yaamba Rd, Park Avenue, QLD [2]	Sep-19	5,650	5,650	-	6.75%	-
Land held for development						
702 Main North Rd, Gepps Cross, SA [2]	N/A	N/A	1,594	-	-	-
Total investment properties			**390,384**	**358,293**		

[1] Investment properties disposed during the period.
[2] New investment properties acquired during the period.

The weighted average capitalisation rate for the period ended 31 December 2019 was 6.91% (30 June 2019: 7.01%).

4.4. Rental income

Rental income from property outgoing recoveries are recognised as the costs are incurred, which is typically when the services are provided. For the half-year ended 31 December 2019, total property outgoings recovered was $1,225,000 (31 December 2018: $1,317,000). Prior period comparatives have been restated to classify property outgoings recovered totalling $1,317,000 as an increase in rental income to align to current period presentation. There has been no overall impact to net revenue or the net profit for the year.

CAPITAL STRUCTURE, FINANCING AND RISK MANAGEMENT

This section outlines how the Group manages its capital structure and related financing activities and presents the resultant returns delivered to securityholders via distributions and earnings per security.

5. CONTRIBUTED EQUITY

5.1. Carrying amount

	31 December 2019 $'000	31 December 2018 $'000
At the beginning of the period	233,794	226,318
Securities issued under distribution reinvestment plan (DRP)	383	-
New securities issued	46,131	-
Security issuance costs	(233)	(1)
Securities buy-back	(131)	-
Distributions paid	(9,347)	(8,247)
Total comprehensive income for the year	19,464	14,461
At the end of the period	**290,061**	**232,531**
Attributable to:		
Equityholders of Convenience Retail REIT No. 2	144,895	112,842
Equityholders of non-controlling interests	145,166	119,689
	290,061	**232,531**

5.2. Number of securities on issue

	31 December 2019 No.	31 December 2018 No.
At the beginning of the period	78,910,051	78,920,051
Securities issued under distribution reinvestment plan (DRP)	116,817	-
Securities buy-back	(40,291)	-
New securities issued	13,607,846	-
At the end of the period	**92,594,423**	**78,920,051**

6. DISTRIBUTIONS

	31 December 2019		31 December 2018	
	Cents per security	$'000	Cents per security	$'000
Distributions paid during the period:				
Quarter ended 30 Sep	5.450	4,300	5.225	4,123
Distributions payable:				
Quarter ended 31 Dec	5.450	5,047	5.225	4,124
Total distributions paid / payable	**10.900**	**9,347**	**10.450**	**8,247**

No dilutive securities were issued / on issue during the period (31 December 2018: nil).

7. EARNINGS PER SECURITY

	31 December 2019	31 December 2018
Total comprehensive income for the period ($'000)	19,464	14,461
Weighted average number of securities outstanding (thousands)	83,868	78,920
Basic and diluted earnings (cents per security)	**23.21**	**18.32**

No dilutive securities were issued/on issue during the period (31 December 2018: nil).

8. BORROWINGS

	31 December 2019 $'000	30 June 2019 $'000
Current		
Bank loans drawn – secured	73,750	-
Capitalised borrowing cost	(324)	-
Total current borrowings	**73,426**	**-**
Non-current		
Bank loans drawn – secured	25,366	116,017
Capitalised borrowing cost	(114)	(617)
Total non-current borrowings	**25,252**	**115,400**
Total borrowings at balance date	**98,678**	**115,400**

8.1 Summary of borrowing arrangements

The Group has entered into a revolving credit facility agreement with three banks that is secured and cross collateralised over the Group's investment properties (via first registered real property mortgages) and other assets (via a first ranking general "all assets" security agreement). As at reporting date, Management is in progress of finalising the mortgage lodgements of three of the properties acquired during the period.

	31 December 2019 $'000	30 June 2019 $'000
Loan facility limit	125,000	125,000
Amount drawn at balance date	(99,116)	(116,017)
Amount undrawn at balance date	**25,884**	**8,983**

As at 31 December 2019, the total revolving credit facility available of $125,000,000 has the following maturity dates:

- Tranche 1: $73,750,000 – repayable August 2020, and
- Tranche 2: $31,250,000 – repayable August 2022.
- Tranche 3: $20,000,000 – repayable November 2023.

Under the terms of this facility, each member of the Group is permitted to draw down or repay amounts subject to the overall requirement that the Group remains compliant with the facility's terms and conditions. On 17 February 2020, an extension of the existing debt facility from incumbent financiers was approved, which included an increase in the facility limit of $40,000,000.

This facility agreement contains both financial and non-financial covenants and undertakings that are customary for secured debt facilities of this nature. The key financial covenants (with capitalised terms being defined terms in the agreement) that apply to the Group are as follows:

		31 December 2019
Loan to Value Ratio ("LVR")	At all times, LVR does not exceed 50%.	26.15%
Interest Cover Ratio ("ICR")	On 31 December and 30 June each year, ICR is not less than 2.0 times.	4.47 times

8.2 Derivatives – interest rate contracts

The Group has a debt facility subject to floating interest rates. The Group uses derivative financial instruments to manage its exposure to interest rates such as interest rate swaps (to lock in fixed interest rates) and/or interest rate caps (to limit exposure to rising floating interest rates).

All derivative financial instruments are entered into on terms that provide pari-passu security and cross collateralisation rights over the Group's investment properties (via first registered real property mortgages) and other assets (via a first ranking general "all assets" security agreement) in conjunction with the Group's revolving credit facility.

Generally, the interest rate swap contracts settle on a quarterly basis, generally coinciding with the dates on which interest is payable on the underlying debt. The floating rate incurred on the debt is Australian BBSY. The difference between the fixed and floating interest rate is settled on a net basis by the relevant counterparty. The interest rate contracts have not been identified as hedging instruments and any movements in the fair value are recognised immediately in the condensed consolidated statement of profit or loss and other comprehensive income.

	31 December 2019 $'000	30 June 2019 $'000
Current liabilities		
Interest rate contracts	(945)	(898)
Non-current liabilities		
Interest rate contracts	(1,447)	(1,646)

9. FAIR VALUE HIERARCHY

The following table provides an analysis of investment properties and financial instruments that are measured at fair value at 31 December 2019, grouped into Levels 1 to 3 based on the degree to which the fair value inputs is observable:

	Fair value measurement as at 31 December 2019			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Investment properties	-	-	390,384	**390,384**
Interest rate contracts	-	(2,392)	-	**(2,392)**
Total	**-**	**(2,392)**	**390,384**	**387,992**

	Fair value measurement as at 30 June 2019			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Investment properties	-	-	358,293	**358,293**
Interest rate contracts	-	(2,544)	-	**(2,544)**
Total	**-**	**(2,544)**	**358,293**	**355,479**

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). The adopted valuation for investment properties, including property under development which is substantially complete and has pre-committed leases, is determined using the income capitalisation method. The income capitalisation method uses unobservable inputs (i.e. key estimates and assumptions) in determining fair value, as per the table below:

Unobservable inputs	**Fair value measurement sensitivity to significant increase in input**	**Fair value measurement sensitivity to significant decrease in input**
Net passing rent	Increase	Decrease
Net market rent	Increase	Decrease
Adopted capitalisation rate	Decrease	Increase

When calculating fair value using the income capitalisation approach, the net market rent has a strong interrelationship with the adopted capitalisation rate given the methodology involves assessing the total net market income receivable from the property and capitalising this in perpetuity to derive a capital value. In theory, an increase in the net market rent and an increase (softening) in the adopted capitalisation rate could potentially offset the impact to the fair value. The same can be said for a decrease in the net market rent and a decrease (tightening) in the adopted capitalisation rate. A directionally opposite change in the net market rent and the adopted capitalisation rate could potentially magnify the impact to the fair value.

There were no transfers between Levels during the half-year (30 June 2019: nil).

10. COMMITMENT AND CONTINGENCIES

There have been no changes to the contractual obligations disclosed in the Group's annual financial report for the financial year ended 30 June 2019, and there are no other commitments and contingencies in effect at 31 December 2019, other than those disclosed in note 4.

OTHER NOTES

11. RELATED PARTY TRANSACTIONS

11.1 Transactions with key management personnel

The Group does not employ personnel in its own right. However, it is required to have a Responsible Entity to manage the activities of the Fund and its controlled entities. As such there are no staff costs (including fees paid to directors of the Responsible Entity) included in the condensed consolidated statement of profit or loss and other comprehensive income.

11.2 Transactions with the Responsible Entity and related bodies corporate

The Responsible Entity of Convenience Retail REIT No.2 is APN Funds Management Limited ("APN FM") (ACN 080 674 479). Convenience Retail Management Pty Limited has been appointed as the Fund Manager (the "Manager") to provide investment management services and property management services to APN Convenience Retail REIT. The Manager is a related body corporate of APN FM and a wholly owned subsidiary of APN Property Group Limited ("APN PG") (ACN 109 846 068).

Transactions with the Responsible Entity / Manager have taken place at arm's length and in the ordinary course of business. The transactions are as follows:

	31 December 2019		31 December 2018	
	Paid $'000	**Payable $'000**	**Paid $'000**	**Payable $'000**
Management fees[1]	992	210	950	193
Custody fees	37	8	59	7
Reimbursement of costs paid [2]	13	4	14	3
	1,042	**222**	**1,023**	**203**

[1] APN FM is entitled to a base management fee of 0.65% per annum of the Gross Asset Value of the Group (reducing to 0.60% p.a. of Gross Asset Value between $500m and $1,000m, 0.55% p.a. of Gross Asset Value between $1,000m and $1,500m and 0.50% of Gross Asset Value in excess of $1,500m). In addition, the Manager has been appointed, on a non-exclusive basis, to provide property management, financial management, leasing and rent review and project supervision services.

[2] The Manager/Responsible Entity is entitled to be reimbursed all reasonable expenses properly incurred in the performance of services.

11.3 Security holdings and associated transactions with related parties

The below table shows the number of APN Convenience Retail REIT securities held by related parties (including managed investment schemes for which a related party is the Responsible Entity or Investment Manager) and the distributions received or receivable.

	31 December 2019		31 December 2018	
	Number of securities	Distributions $	Number of securities	Distributions $
APN Property Group Limited	7,167	287,894	5,275,288	550,926
APN Funds Management Limited	2,393,278	367,820	4,355,717	455,172
APD Trust	7,231,196	394,100	-	-
APN AREIT Fund	2,311,802	236,609	2,029,639	212,097
APN Property for Income Fund	224,027	24,419	389,027	40,653
APN Property for Income Fund No.2	74,442	8,114	109,442	11,437
CFS AREIT Mandate	346,739	35,488	304,418	31,812
Howard Brenchley	47,925	4,742	39,075	4,083
Geoff Brundson AM	58,850	5,932	50,000	5,225
Tony Young [1]	-	14,403	322,034	33,653
Total	**12,695,426**	**1,379,521**	**12,874,640**	**1,345,058**

[1] Mr. Young ceased to be a director of APN Property Group Limited on 30 August 2019. Holdings are as at 30 August 2019.

13.71% (31 December 2018: 16.31%) of APN Convenience Retail REIT stapled securities are held by APN PG and its related parties.

12. SUBSEQUENT EVENTS

On 6 January 2020 and 7 February 2020, the Group acquired 342 Albany Highway, Orana, WA and 225 Womma Road, Edinburgh North, SA, respectively. The acquisitions were funded using the equity proceeds received from the Security Purchase Plan ("SPP") completed on 14 October 2019. The acquisition purchase price for 342 Albany Highway, Orana, WA was paid in advance of settlement and has been recognised as other assets in the consolidated statement of financial position as at the reporting date. Purchase price and associated acquisition costs are recognised as investment properties upon completion of settlement.

On 17 February 2020, an extension of an existing debt facility from incumbent financiers was approved, which included an increase in the facility limit of $40,000,000.

There has not been any other matter or circumstance occurring subsequent to the end of the half-year that has significantly affected, or may significant affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

13. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

The Group has adopted all of 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 half-year. These include:

Standard/ Interpretation	Impact on financial statements
AASB 16 *Leases* ("AASB 16")	The Group has applied AASB 16 *Leases* for the first time. For lessees, AASB 16 replaced the recognition and measurement requirements for operating leases (off balance sheet commitment and an expense, recognised on a straight-line basis over the lease term) with both a right-of-use ("ROU") asset and a corresponding liability in the statement of financial position for all qualifying leases. Under this new treatment, both the asset and liability are initially measured at the net present value ("NPV") of the unavoidable lease payments (inclusive of incentives and costs). Subsequently, the asset value recognised is expensed as depreciation over the term of the lease and an interest expense is recognised as part of extinguishing the lease liability (reflecting the unwinding of the NPV of the unavoidable lease payments). As at 31 December 2019, the Group did not have any contracts for which it is a lessee. The Group is a lessor by virtue of the lease arrangements associated with its investment properties. As AASB 16 does not significantly alter lessor accounting, it did not impact the Group.