

APN | Coburg North Retail Fund

ARSN 601 833 363

Annual Report for the Financial Year

Ended 30 June 2016

Directors' report

The directors of APN Funds Management Limited (ACN 080 674 479) ("the Responsible Entity") submit herewith the annual financial report of APN Coburg North Retail Fund ("the Fund") for the year ended 30 June 2016. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names of the directors of the Responsible Entity during and since the end of the financial year are:

Name

Geoff Brunson (Chairman and Independent Non-Executive Director)
Howard Brenchley (Non-Executive Director)
Michael Johnstone (Independent Non-Executive Director)
Jennifer Horrigan (Independent Non-Executive Director)
Michael Groth (Chief Financial Officer and Alternate Director for Howard Brenchley)

Principal activities

The Fund is a registered managed investment fund domiciled in Australia. The Fund was registered with the Australian Securities & Investments Commission on 29 September 2014 and began operations on 6 February 2015.

The principal activity of the closed-end unlisted property Fund is to invest in a single asset, which offers a sustainable income yield and has the potential for capital growth.

The Fund did not have any employees during the year.

Changes in state of affairs

During the financial year there was no significant change in the state of affairs of the Fund.

Future developments

The Fund will seek to increase its value by actively managing the property, leasing the vacant space and extending the lease term of the major tenant to maximize the weighted average lease expiry ("WALE") profile.

Review of operations of the Fund

The principal investment objective of the Fund is to provide investors with a high and consistent income distribution that maintains its real value for the life of the Fund.

Results

The results of the operations of the Fund are disclosed in the Statement of Profit or Loss and Other Comprehensive Income. The net profit for the year ended 30 June 2016 was \$1,007,000 (2015: Loss \$886,000).

Distributions

In respect of the financial year ended 30 June 2016 a final distribution of 0.6333 cents per unit was paid to the unitholders on 11 July 2016 (2015: 0.6166 cents per unit). The total distribution paid to unitholders in respect of the financial year ended 30 June 2016 was 7.6000 cents per unit (2015: 3.0830 cents per unit).

For full details of distributions paid and payable during the year, refer to note 5 to the financial statements.

Auditor's independence declaration

The Auditor's Independence Declaration is included on page 4 of the annual report.

Subsequent events

There has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Fund, the results of the Fund, or the state of affairs of the Fund in future financial years.

Fund information in the directors' report

Fees paid to the Responsible Entity out of Fund property during the financial year are disclosed in note 9 to the financial statements.

The number of units in the Fund held by the Responsible Entity and its associates as at the end of the financial year is disclosed in note 9 to the financial statements.

The number of interests in the Fund issued during the financial year, withdrawals from the Fund during the financial year, and the number of interests in the Fund at the end of the financial year is disclosed in note 7 to the financial statements.

The value of the Fund's assets as at the end of the financial year is disclosed in the Balance Sheet as "Total Assets" and the basis of valuation is included in note 1 to the financial statements.

Options granted

No options were:

- Granted over unissued units in the Fund during or since the end of the financial year; or
- Granted to the Responsible Entity.

No unissued units in the Fund were under option as at the date on which this Report is made.

No units were issued in the Fund during or since the end of the financial year as a result of the exercise of an option over unissued units in the Fund.

Indemnification of officers of the responsible entity and auditors

APN Funds Management Limited ('the Company') has agreed to indemnify the directors and officers of the Company and its related bodies corporate, both past and present, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors and officers of the Company and its controlled entities, except where the liability arises out of unlawful conduct. The Company will meet the full amount of any such liabilities, including costs and expenses. The Company may also indemnify any employee by resolution of the Directors. In addition, the Company has paid a premium in respect of a contract insuring against a liability incurred by an officer of the Company. The Company has not indemnified or made a relevant agreement to indemnify the auditor of the Fund or of any related body (corporate) against a liability incurred by the auditor.

Rounding off of amounts

The Fund is a fund 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.

Signed in accordance with a resolution of the directors of the Responsible Entity made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors



Geoff Brunson

Chairman

MELBOURNE, 17 August 2016

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

17 August 2016

Dear Board Members

Independence Declaration –APN Coburg North Retail Fund

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 annual financial report for APN Coburg North Retail Fund.

As lead audit partner for the audit of the financial statements of APN Coburg North Retail Fund for the financial year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Neil Brown
Partner
Chartered Accountants

Independent Auditor's Report to the Unitholders of APN Coburg North Retail Fund

We have audited the accompanying financial report of APN Coburg North Retail Fund ("the Fund"), which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the period ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Fund as set out on pages 7 to 24.

Directors' Responsibility for the Financial Report

The directors of the Responsible Entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards as they apply a non-going concern basis and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, 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 the Responsible Entity, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of APN Coburg North Retail Fund is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the period ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.



DELOITTE TOUCHE TOHMATSU



Neil Brown
Partner
Chartered Accountants

Melbourne, 17 August 2016

Directors' declaration

The directors of the Responsible Entity 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 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 Fund; and
- c) in the directors' opinion, the attached financial statements are in accordance with International Financial Reporting Standards as referred to in Note 1 to the financial statements.

Signed in accordance with a resolution of the directors of the Responsible Entity made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



Geoff Brunsdon
Chairman

MELBOURNE, 17 August 2016

Statement of Profit or Loss and Other Comprehensive Income for the financial year ended 30 June 2016

	Note	2016 \$'000	2015 \$'000
Income			
Rental		1,689	782
Interest		1	1
Changes in the fair value of investment properties		155	(1,254)
Changes in the fair value of financial liabilities		(20)	(86)
Total income		1,825	(557)
Expenses			
Investment management fee		122	49
Registry fee		10	4
Other expenses		32	24
Auditor's remuneration	8	24	16
Net property expenses		256	94
Finance costs		374	142
Total expenses		818	329
Net Profit / (loss)		1,007	(886)
Other comprehensive income			
Other comprehensive income		-	-
Total comprehensive income / (loss)		1,007	(886)

Notes to the financial statements are included on pages 12 to 24.

Statement of Financial Position as at 30 June 2016

	Note	2016 \$'000	2015 \$'000
Assets			
Cash and cash equivalents		184	223
Trade and other receivables	2	223	150
Investment properties	3	19,232	19,077
Total assets		19,639	19,450
Liabilities			
Payables	4	118	124
Distribution payable	5	70	68
Financial liabilities		106	86
Interest bearing liabilities	6	9,436	9,428
Total liabilities		9,730	9,706
Net assets	7	9,909	9,744
Equity attributable to unitholders			
Contributed equity		10,971	10,971
Retained earnings		(1,062)	(1,227)
Total equity		9,909	9,744

Notes to the financial statements are included on pages 12 to 24.

Statement of Changes in Equity for the financial year ended 30 June 2016

	Contributed equity \$'000	Retained earnings \$'000	Total \$'000
Balance at 6 February 2015	10,971	-	10,971
Net loss for the period	-	(886)	(886)
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	(886)	(886)
Distributions paid to investors	-	(341)	(341)
Balance at 30 June 2015	10,971	(1,227)	9,744
Net profit for the year	-	1,007	1,007
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	(220)	10,751
Distributions paid to investors	-	(842)	(842)
Balance at 30 June 2016	10,971	(1,062)	9,909

Notes to the financial statements are included on pages 12 to 24.

Statement of Cash Flows for the financial year ended 30 June 2016

	Note	2016 Inflows/ (Outflows) \$'000	2015 Inflows/ (Outflows) \$'000
Cash flows from operating activities			
Rental received		1,355	641
Interest received		1	1
Other expenses paid		(187)	11
Net cash provided by operating activities	10(b)	1,169	653
Cash flows from investing activities			
Payments associated with investment properties		-	(20,330)
Net cash used in investing activities		-	(20,330)
Cash flows from financing activities			
Receipts from the issue of units to unit holders		-	10,971
Borrowings drawn		-	9,450
Finance costs paid		(368)	(248)
Distributions paid		(840)	(273)
Net cash used in financing activities		(1,208)	19,900
Net increase in cash and cash equivalents held		(39)	223
Cash and cash equivalents at beginning of the financial year		223	-
Cash and cash equivalents at end of the financial year	10(a)	184	223

Notes to the financial statements are included on pages 12 to 24.

Notes to the financial statements

1. Summary of significant accounting policies

Statement of compliance & basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ("A-IFRS"). Compliance with the A-IFRS ensures that the financial statements and notes of the Fund comply with International Financial Reporting Standards ("IFRS").

The financial statements were authorised for issue by the directors on 17 August 2016.

The financial report has 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.

In the application of A-IFRS management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

The Fund has an investment property with a carrying amount of \$19,232,000 (2015: \$19,077,000) (see note 3), representing estimated fair value. This carrying amount reflects certain assumptions about expected future rentals, rent-free periods, operating costs and appropriate discount and capitalisation rates. In forming these assumptions, the Responsible Entity considered information about current and recent sales activity, current market rents, discount and capitalisation rates for properties similar to that owned by the Fund, as well as an independent valuation of the Fund's investment property.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2016.

Adoption of new and revised accounting Standards and Interpretations

In the current year, the Fund 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 annual reporting period. Except where noted, the adoption of these Standards and Interpretations has not had a material impact on the financial statements. These include:

Standard	Explanation
AASB 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality'	This amendment completes the withdrawal of references to AASB 1031 in all Australian Accounting Standards and Interpretations, allowing that Standard to effectively be withdrawn.
AASB 2015-4 'Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent'	<p>The amendments to AASB 128 align the relief available in AASB 10 and AASB 128 in respect of the financial reporting requirements for Australian groups with a foreign parent. The amendments require that the ultimate Australian entity shall apply the equity method in accounting for interests in associates and joint ventures if either the entity or the group is a reporting entity, or both the entity and group are reporting entities.</p> <p>The application of these amendments does not have any material impact on the disclosures or the amounts recognised in the Fund's financial statements.</p>

AASB Accounting Standards not yet effective

At the date of authorisation of the financial report, the Standards and Interpretations listed below were in issue but not yet effective. These are not expected to have any material impact on the Fund's financial report in future reporting periods.

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	30 June 2019
AASB 15 'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15', AASB 2015-8 'Amendments to Australian Accounting Standards – Effective date of AASB 15	1 January 2018	30 June 2019
AASB 16 'Leases'	1 January 2019	30 June 2020
AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'	1 January 2016	30 June 2017
AASB 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture', AASB 2015-10 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128'	1 January 2018	30 June 2019
AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle	1 January 2016	30 June 2017
AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'	1 January 2016	30 June 2017
AASB 2015-5 'Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception'	1 January 2016	30 June 2017
AASB 2016-1 'Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses'	1 January 2017	30 June 2018
AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	1 January 2017	30 June 2018

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Clarifications to IFRS 15 'Revenue from Contracts with Customers	1 January 2018	30 June 2019

Rounding off of amounts

The Fund is a fund 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.

Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Revenue

Rental income arising in the ordinary course of activities is recognised at the fair value of the consideration received or receivable net of the amount of goods and services tax levied and is recognised on a straight-line basis over the lease term. Rental income not received at reporting date, is reflected in the balance sheet as a receivable or if paid in advance, as rent in advance.

Interest revenue is recognised as it accrues on a time proportionate basis taking into account the effective yield on the financial assets.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments or other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(c) Loans and receivables

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment. Receivables may include amounts for interest. Interest is accrued at the reporting date from the time of last payment in accordance with the policy set out in note 1(a) above.

(d) Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value at the reporting date. Gains or losses arising from changes in the fair value of investments are included in profit or loss in the period in which they arise.

(e) Expenses

All expenses, including responsible entity fees, are recognised in the Statement of Profit or Loss and Other Comprehensive Income on an accruals basis.

(f) Distributions

In accordance with the Fund's constitution, the Fund is required to distribute its distributable (taxable) income, and any other amounts determined by the Responsible Entity, to unitholders by way of cash or reinvestment into the Fund.

Distributions to unitholders comprise the income of the Fund to which the unitholders are presently entitled. The distributions are payable monthly.

(g) Applications and redemptions

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund are recorded gross of any exit fees payable after the cancellation of units redeemed.

The application and redemption prices are determined as the net asset value of the Fund adjusted for the estimated transaction costs, divided by the number of units on issue on the date of the application or redemption.

(h) Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

(i) Income tax

Under current income tax legislation the Fund is not liable to pay income tax as the net income of the Fund is assessable in the hands of the beneficiaries (the unitholders) who are 'presently entitled' to the income of the Fund. There is no income of the Fund to which the unitholders are not presently entitled and additionally, the Fund Constitution requires the distribution of the full amount of the net income of the Fund to the unitholders each period.

As a result, deferred taxes have not been recognised in the financial statements in relation to differences between the carrying amounts of assets and liabilities and their respective tax bases, including taxes on capital gains which could arise in the event of a sale of investments for the amount at which they are stated in the financial statements. In the event that taxable gains are realised by the Fund, these gains would be included in the taxable income that is assessable in the hands of the unitholders as noted above.

Realised capital losses are not distributed to unitholders but are retained within the Fund to be offset against any realised capital gains. The benefit of any carried forward capital losses are also not recognised in the financial statements. If in any period realised capital gains exceed realised capital losses, including those carried forward from earlier periods and eligible for offset, the excess is included in taxable income that is assessable in the hands of unitholders in that period and is distributed to unitholders in accordance with the requirements of the Fund Constitution.

(j) Goods and services tax

Income, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(k) Impairment of financial assets

Financial assets, other than those at fair value through the profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. Objective evidence of impairment can exist for example where there has been a significant or prolonged decline in the fair value below cost. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(l) Payables

Trade payables and other accounts payable are recognised when the Fund becomes obliged to make future payments resulting from the purchase of goods and services. Payables include liabilities and accrued expenses owing by the Fund which are unpaid as at balance date.

(m) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

(n) Provisions

Provisions are recognised when the Fund has a present obligation as a result of a past event, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

An onerous contract is considered to exist where the Fund has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

2. Receivables

	2016 \$'000	2015 \$'000
Accounts receivable	70	23
Prepaid expenses	85	103
Leased asset	68	24
	223	150

3. Investments

	2016 \$'000	2015 \$'000
Investment properties at fair value		
Carrying amount at the beginning of the year	19,077	-
Additions	-	18,900
Disposals	-	-
Costs associated with investment properties	-	1,430
Straight line lease revenue recognition	(45)	(23)
Realised gain/(loss) on sale of investment properties	-	-
Changes in fair value of investment properties	200	(1,230)
Carrying amount at the end of the year	19,232	19,077

Fair value measurement, valuation techniques and inputs

Management has considered the nature, characteristics and risks of its investment property as well as the level of fair value hierarchy within which the fair value measurements are categorised.

The adopted valuation for investment property is the mid-point of the valuations determined using the discounted cash flow (DCF) method and the income capitalisation method. The DCF and Income capitalisation methods use unobservable inputs in determining fair value, as per the table below:

Unobservable inputs

Fair value hierarchy	Fair value at 30 June 2016 \$'000	Valuation technique	Inputs used to measure fair value	Range of unobservable inputs 30 June 2016
Level 3	19,232	DCF and income capitalisation method	Net passing rent - \$/sqm Net market rent - \$/sqm Adopted discount rate Adopted terminal yield Adopted capitalisation rate	\$200 - \$695 \$200 - \$695 7.25% - 7.75% 6.75% - 7.25% 6.75% - 7.25%

Definitions

A definition is provided below for each of the inputs used to measure fair value:

Discounted cash flow method (DCF)	Under the DCF method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the assets life including an exit or terminal value. The DCF method involves a projection of a series of cash flows on a real property interest. To this projected cash flow series, an appropriate, market derived discount rate is applied to establish the present value of the income stream associated with the real property.
Income capitalisation approach	This method involves assessing the total net market income receivable from the property and capitalising this in perpetuity to derive a capital value, with allowances for capital expenditure reversions.
Net passing rent	Net passing rent is the contracted amount for which a property or space within a property is leased. In a net rent situation, the owner recovers outgoings from the tenant on a pro-rata basis (where applicable).
Net market rent	A net market rent is the estimated amount for which a property or space within a property should lease for between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and wherein the parties have each acted knowledgeably, prudently and without compulsion.
Adopted capitalisation rate	The rate at which net market income is capitalised to determine the value of a property. The rate is determined with regards to market evidence and the prior external valuation.
Adopted discount rate	The rate of return used to convert a monetary sum, payable or receivable in the future, into present value. Theoretically it should reflect the opportunity cost of capital, that is, the rate of return the capital can earn if put to other uses having similar risk. The rate is determined with regards to market evidence and the prior external valuation.
Adopted terminal yield	The capitalisation rate used to convert income into an indication of the anticipated value of the property at the end of the holding period when carrying out a discounted cash flow calculation. The rate is determined with regards to market evidence and the prior external valuation.

Valuation process

The aim of the valuation process is to ensure that assets are held at fair value in the Fund's accounts and that the Fund is compliant with applicable regulations (Corporations Act, ASIC) and the relevant Accounting Standards.

The investment portfolio consists of 1 property located in the inner city suburb of Coburg Hill, Melbourne which was independently valued as at 30 June 2016. The Fund's external valuation was performed by independent professionally qualified valuers who hold a recognised relevant professional qualification and have specialised expertise in the investment property valued. This independent valuation was performed by m3property and dated 30 June 2016.

Appropriate capitalisation rate, discount rate and terminal yields based on comparable market evidence and recent external valuation parameters are used to produce a capitalisation and discounted cash flow valuation. The adopted value is generally a mid-point of these two approaches.

Sensitivity analysis

Significant inputs	Fair value measurement sensitivity to significant increase in input	Fair value measurement sensitivity to significant decrease in input
Net passing rent - \$/sqm	Increase	Decrease
Net market rent - \$/sqm	Increase	Decrease
Adopted capitalisation rate	Decrease	Increase
Adopted discount rate	Decrease	Increase
Adopted terminal yield	Decrease	Increase

Generally, a change in the assumption made for the adopted capitalisation rates is accompanied by a directionally similar change in the adopted terminal yield. The adopted capitalisation rate forms part of the income capitalisation approach and the adopted terminal yield forms part of the discounted cash flow approach. The midpoint of the two valuations is then adopted.

When calculating the income capitalisation approach, the net market income 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 increase (softening) in the adopted capitalisation rate could potentially offset the impact to 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.

When assessing a discounted cash flow, the adopted discount rate and adopted terminal yield have a strong interrelationship in deriving a fair value given the discount rate will determine the rate in which the terminal value is discounted to the present value.

Leases as lessor

The Fund leases out its investment property under an operating lease. The future minimum lease payments receivable under the non-cancellable lease is as follows:

	2016 \$'000	2015 \$'000
Less than one year	1,568	1,601
Between one and five years	5,540	5,821
More than five years	12,629	13,733
	19,737	21,155

4. Payables

	2016 \$'000	2015 \$'000
Accounts payable	76	76
Accrued expenses and other payables	42	48
	118	124

5. Distributions paid and payable

	2016		2015	
	Cents per unit	\$'000	Cents per unit	\$'000
Distribution paid during the year	6.9667	772	2.4664	273
Distribution payable	0.6333	70	0.6166	68
	7.6000	842	3.0830	341

6. Interest bearing liabilities

	2016 \$'000	2015 \$'000
Secured bank loan	9,436	9,428
	9,436	9,428

The bank loan is secured by registered first mortgage over the Fund's investment property. The loan is repayable in February 2018 and bears interest, payable quarterly.

All covenants were satisfied as at 30 June 2016 with the Fund's Loan to Value Ratio (LVR) being 48.96% (2015: 49.48%), which is within the limit of 60% & Interest Cover Ratio (ICR) of 3.29 (2015: 4.13), which is greater than the minimum requirement of 2.0.

7. Equity

	2016			2015		
	Class A Units	Class B Units	Total Units	Class A Units	Class B Units	Total Units
Units on issue						
On issue at beginning of the year	11,077,521	479	11,078,000	9,352,291	1,725,709	11,078,000
Applications	-	-	-	1,725,230	-	1,725,230
Redemptions	-	-	-	-	(1,725,230)	(1,725,230)
Transfers	479	(479)	-	-	-	-
Units issued upon reinvestment of distributions	-	-	-	-	-	-
On issue at year end	11,078,000	-	11,078,000	11,077,521	479	11,078,000

	2016 \$'000	2015 \$'000
Movements in equity		
At beginning of the year		-
Unit applications	9,744	10,971
Unit redemptions	-	-
Units issued upon reinvestment of distributions	-	-
Net profit for the year	1,007	(886)
Distributions paid to unitholders	(842)	(341)
Total equity	9,909	9,744

Each unit represented a right to an individual share in the Fund per the Constitution. There were two separate classes of units and each unit had the same rights attaching to it as all other units in the Fund. A Class Units had been offered to unitholders pursuant to a Product Disclosure Statement (PDS) issued on 3 November 2014 and supplementary product disclosure statements issued on the 22 December 2014 and 30 January 2015 respectively.

B Class Units had an issue price of \$1.00 and a fixed redemption price of \$1.00 and, in all other respects had the same entitlements as an A Class Unit in the Fund. The Responsible Entity's offer of the redemption of B Class Units was closed during the period ended 30 June 2015 and the remaining B class units were automatically converted to A Class Units on 30 June 2016 at an issue price of \$1.00 per unit.

8. Auditor's remuneration

	2016 \$	2015 \$
Auditor of the Fund		
Auditing or reviewing the Financial Report	19,190	12,600
Other non-audit services*	4,940	3,120
	24,130	15,720

* Other non-audit services include audit of the compliance plan and other approved advisory services.

The auditor of the Fund is Deloitte Touche Tohmatsu.

9. Related party disclosures

The Responsible Entity and Manager of APN Coburg North Retail Fund is APN Funds Management Limited (ACN 080 674 479) whose immediate and ultimate parent entity is APN Property Group Limited (ACN 109 846 068). Accordingly transactions with entities related to APN Property Group Limited are disclosed below.

Transactions with the Responsible Entity have taken place at arm's length and in the ordinary course of business.

Amounts are as follows:

- Investment management fees of \$122,000 of which \$30,000 was payable at 30 June 2016 (2015: \$49,000 of which \$31,000 was payable at 30 June 2015).
- Registry and accounting fees of \$21,000 of which \$5,000 was payable at 30 June 2016 (2015: \$8,000 of which \$5,000 was payable at 30 June 2015).
- Other expenses include reimbursement to the Responsible Entity of \$1,531 (2015: \$90,720) of costs incurred by the Responsible Entity on behalf of the Fund.

Key management personnel

The Fund does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the Fund.

The names of the key management personnel of the Responsible Entity during the financial year were:

- Geoff Brunson (Chairman and Independent Non-Executive Director)
- Howard Brenchley (Non-Executive Director)
- Michael Johnstone (Independent Non-Executive Director)
- Jennifer Horrigan (Independent Non-Executive Director)
- John Freemantle (Company Secretary)
- Michael Groth (Chief Financial Officer and Alternate Director for Howard Brenchley)

The positions noted above are the positions held within the Responsible Entity and not the Fund itself. Key management personnel are paid by the parent of the Responsible Entity for their services to APN Property Group Limited. Payments made from the Fund to the Responsible Entity do not include any amounts attributable to the compensation of the Responsible Entity's key management personnel in respect of services rendered to the Fund itself.

Holdings of units by related parties

Related parties may purchase and sell units in the Fund in accordance with their respective constitutions and product disclosure statements. Details of units held in the Fund by related parties are set out below:

	Number of units held	
	2016	2015
Responsible entity and its associates		
APN Property Group	479	479*

* Class B Units in 2015

During or since the end of the financial year, none of the Responsible Entity's key management personnel held units in the Fund, either directly, indirectly, or beneficially.

Directors' loans

No loans were made by the Fund to the Responsible Entity's key management personnel and / or their related parties.

10. Notes to the cash flow statement

(a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash includes cash on hand and in banks and investments in money market instruments net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the cash flow statement is reconciled to the statement of financial position as follows:

	2016	2015
	\$'000	\$'000
Cash at bank	184	223
Total cash and cash equivalents	184	223

(b) Reconciliation of profit for the year to net cash provided by operating activities

	2016 \$'000	2015 \$'000
Net Profit	1,007	(886)
Adjustments for:		
Rental income recognised on straight line basis	(45)	(23)
Change in fair value of investment properties	(200)	1,230
Change in fair value of derivatives	20	86
Write-down of investment properties	45	23
Amortisation of borrowing costs	9	3
Interest paid classified as financing activity	365	139
Changes in net assets:		
(Increase) in income and other receivables	(26)	(43)
(Decrease) / Increase in creditors and accruals	(6)	124
Net cash provided by operating activities	1,169	653

(c) Non-cash financing and investing activities

During the year no income distributions were reinvested by unitholders for additional units in the Fund.

11. Financial risk management

The Fund undertakes transactions in a range of financial instruments including:

- cash and cash equivalents;
- receivables;
- payables; and
- borrowings.

These activities expose the Fund to a variety of financial risks including credit risk, liquidity risk and market risk which includes interest rate risk.

The overall risk management program seeks to mitigate these risks and reduce volatility on the Fund's financial performance. Financial risk management is carried out centrally by the Responsible Entity under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign currency risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and the investment of excess liquidity.

(a) Financial risk management objectives

The Fund has engaged APN Funds Management Limited ('Investment Manager') to provide services including coordinating access to domestic financial markets, and managing the financial risks relating to the operations of the Fund in accordance with the Fund's constitution and product disclosure statement. The Responsible Entity has determined that this appointment is appropriate for the Fund and is in accordance with the Fund's investment strategy.

The Fund's overall risk management program focuses on ensuring compliance with the Fund's product disclosure statement and seeks to maximise the returns derived for the level of risk to which the Fund is exposed. The Fund's investment objective is to provide investors with maximum unitholder value through investment a property with strong lease covenants, secure income streams and potential for capital growth.

The Fund does not enter into trade financial instruments, including derivative financial instruments, for speculative purposes. Compliance with policies and exposure limits is reviewed by the Responsible Entity on a continuous basis. It is the Responsible Entity's aim to invest in such a way that any risks the Fund is exposed to are minimised, while at the same time endeavoring to achieve the investment objectives of the Fund.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in Note 1 to the financial statements.

(c) Capital risk management

The Responsible Entity's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for unitholders in accordance with the Funds Investment Strategy.

The capital structure of the Fund consists of cash and cash equivalents and the proceeds from the issue of the units of the Fund. An investment made by unitholders into the Fund is considered medium to long term and illiquid. There is currently

no market on which units may be traded and there are no buy-back, redemption or withdrawal facilities available to unitholders at this present time.

(d) Categories of financial instruments

The Fund has investments in the following categories of financial assets and liabilities:

	2016 \$'000	2015 \$'000
Loans and receivables	223	150
Financial liabilities measured at amortised cost	(9,730)	(9,706)

The carrying amount of interest-bearing liabilities as at 30 June 2016 is \$9,436,000 (2015: \$9,428,000).

(e) Credit risk

The Fund's investment objective is to find high quality customers with a stable credit history. The Fund measures credit risk on a fair value basis.

The maximum exposure to credit risk as at 30 June 2016 is the carrying amounts of financial assets recognised in the balance sheet of the Fund. The Fund holds no collateral as security and the credit quality of all financial assets that are neither past due or impaired is consistently monitored in order to identify any potential adverse changes in the credit quality.

The Fund does not have any significant credit risk exposure to any single counterparty or counterparties having similar characteristics. Cash transactions are limited to financial institutions that meet the Responsible Entity's minimum credit rating criteria. Credit risk arising on loans and receivable balances is monitored on an ongoing basis with the result that the exposure to bad debts by the Fund is not significant. There are no significant financial assets that have had renegotiated terms that would otherwise have been past due or impaired.

Receivables are non-interest bearing and are generally on 30 day terms. An impairment loss would be recognised when there is objective evidence that an individual receivable is impaired. As at 30 June 2016 no receivables were impaired nor past due. Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value. The ageing analysis of the Fund's receivables is as follows:

	2016 \$'000	2015 \$'000
Ageing analysis of receivables not impaired		
0-30 days	16	23
31-90 days	4	-
91+ days	50	-
	70	23

Credit risk associated with receivables is considered minimal. Other receivables balances are not significant to the Fund's operations.

(f) Liquidity risk

Liquidity risk includes the risk that the Fund, as a result of its operations:

- will not have sufficient funds to settle a transaction or unit redemption on the due date;
- will be forced to sell financial assets at a value which is less than what they are worth; or
- may be unable to settle or recover a financial asset at all.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. The Fund manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

To help reduce these risks the Fund:

- has a liquidity policy which targets a minimum and average level of cash and cash equivalents to be maintained;
- has readily accessible standby facilities and other funding arrangements in place; and
- has a liquidity portfolio structure that requires surplus funds to be invested in various types of liquid instruments ranging from highly liquid to liquid instruments.

The Fund's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities. However, as unitholders are unable to withdraw their units at any time, the Fund is therefore not exposed to the liquidity risk of meeting unitholders' withdrawals at any time.

The Fund's main liquidity risk is its ability to refinance its current borrowings. Realised profits generated by the Fund are to be returned to unitholders as described in the Fund's Constitution and as such realised profits are not used to support the refinancing activities or the Fund. To assist in mitigating refinancing risk the Responsible Entity is in regular contact with financial institutions.

The table below shows an analysis of the contractual maturities of key liabilities (based on undiscounted contractual cashflows) which forms part of the Fund's assessment of liquidity risk:

	Less than 3 months \$'000	3 months to 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
2016					
Liabilities					
Accounts payable	(118)	-	-	-	(118)
Distribution payable	(70)	-	-	-	(70)
Interest bearing liabilities	(76)	(217)	(9,590)	-	(9,883)
Derivative liabilities	(16)	(63)	(46)	-	(125)
	(280)	(280)	(9,636)	-	(10,196)
	Less than 3 months \$'000	3 months to 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
2015					
Liabilities					
Accounts payable	(124)	-	-	-	(124)
Distribution payable	(68)	-	-	-	(68)
Interest bearing liabilities	(81)	(245)	(9,993)	-	(10,319)
Derivative liabilities	(13)	(42)	(45)	-	(100)
	(286)	(287)	(10,038)	-	(10,611)

The Fund is able to sufficiently meet its liquidity obligations through the receipt of rental income, via re-financing of debt or the realisation of the sale of investment property where required.

(g) Market risk

Market risk is the risk that the fair value of future cash flows of the Fund's financial instruments will fluctuate because of changes in market conditions or factors. The Responsible Entity manages the financial risks relating to the operations of the Fund in accordance with an investment mandate set out in accordance with the Fund's constitution and product disclosure statement. The Fund's investment mandate is to provide investors with maximum unitholder value through investment in properties with strong lease covenants, secure income streams and potential for capital growth. There has been no change to the Fund's exposure to market risk or the manner in which it manages and measures the risk. The component of market risk to which the Fund is exposed is interest rate risk.

Interest rate risk

The Fund's interest bearing financial assets and liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The risk is measured using sensitivity analysis.

As at balance date, the Fund's exposure to interest rates is as follows:

Assets: Cash and cash equivalents at fair values of \$184,000 (2015: \$223,000) with a weighted average interest rate of 0.30% (2015: 0.53%).

Liabilities: Interest-bearing liabilities at amortised cost of \$9,450,000 (2015: \$9,450,000) with a weighted average interest rate of 3.88% (2015: 3.88%).

Derivatives - interest rate swap contracts

The following table details the notional principal amounts and fair value of the interest rate swap contract outstanding:

Type of contract	Expiration	Underlying	Notional amount of contracts outstanding	Fair value (assets)	Fair value (liabilities)
			\$	\$'000	\$'000
As at 30 June 2016					
Interest rate swaps	December 2017	Interest rates	9,450,000	-	(106)
			9,450,000	-	(106)

The following table details the notional principal amounts and fair value of the interest rate swap contract outstanding as at the previous reporting date:

Type of contract	Expiration	Underlying	Notional amount of contracts outstanding	Fair value (assets)	Fair value (liabilities)
			\$	\$'000	\$'000
As at 30 June 2015					
Interest rate swaps	December 2017	Interest rates	9,450,000	-	(86)
			9,450,000	-	(86)

The interest rate swap settles on a quarterly basis. The floating rate on the debt being applied is the Australian BBSY. The counterparty settles the difference between the fixed and floating interest rate if the fixed rate is breached on a net basis.

All interest rate swaps contracts are designated as cash flow hedges in order to reduce the Fund's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swap payments and the interest payments on the loan occur quarterly.

Interest rate sensitivity

The sensitivity analysis below have been determined based on the Fund's exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period, in the case of instruments that have floating interest rates. A 25 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

The interest rate movements have been determined based on management's best estimate, having regard to historical levels of changes in interest rates and the current debt environment in which the Fund operates. Actual movements in the interest rate may be greater or less than anticipated due to a number of factors, including unusually large market shocks both in the global and domestic property markets. As a result, historic variations in interest rates are not a definitive indicator of future variations.

For the Fund, a 25 basis point increase in interest rates would have increased net profit, and increased total equity by \$30,000 (2015: \$52,000); an equal change in the opposite direction would have decreased net profit, and decreased total equity by \$30,000 (2015: \$52,000).

(h) Fair value of financial instruments

The directors of the Responsible Entity consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values.

The fair values and net fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and
- the fair value of derivative instruments, included in hedging assets and liabilities, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured at fair value at 30 June 2016, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- 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).

Fair value measurement as at 30 June 2016				
	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Financial liabilities at FVTPL				
Financial liabilities designated at fair value through profit of loss	-	(106)	-	(106)
Total	-	(106)	-	(106)

Fair value measurement as at 30 June 2015				
	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Financial liabilities at FVTPL				
Financial liabilities designated at fair value through profit of loss	-	(86)	-	(86)
Total	-	(86)	-	(86)

- Investments whose values are based on quoted market prices in active markets and therefore classified within level 1 include listed property securities traded on the Australian Stock Exchange (ASX).
- Financial instruments that trade in markets that are not considered active but values are based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include financial derivatives whose fair value have been determined using dealer quotations.
- Classified within level 3 are financial instruments whose values are derived from significantly unobservable inputs as there is no active market.

12. Contingent liabilities and contingent assets

There are no commitments and contingencies in effect at 30 June 2016 (2015: Nil).

13. Subsequent events

There have been no matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Fund, the results of the Fund, or the state of affairs of the Fund in future financial years.

14. Net tangible asset backing

	2016	2015
	Cents per security	Cents per security
Net tangible asset backing	0.8944	0.8796

Net tangible asset backing per security is calculated by dividing the equity attributable to unitholders by the number of units on issue.

15. Additional information

APN Funds Management Limited, a public company incorporated and operating in Australia, is the Responsible Entity of APN Coburg North Retail Fund.

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