

# **APN | Coburg North Retail Fund**

ARSN 601 833 363

Annual Report for the Financial Year Ended  
30 June 2018

## 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 2018.

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 financial year and up to the date of this report:

Geoff Brunsdon (Chairman and Independent Director)  
Howard Brenchley (Independent Director)  
Michael Johnstone (Independent Director)  
Jennifer Horrigan (Independent Director)  
Michael Groth (Alternate Director for Howard Brenchley)

### Principal activities

The Fund is a registered managed investment fund domiciled in Australia.

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.

### Review of operations

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 2018 was \$1,725,000 (2017: \$1,072,000).

### Distributions

In respect of the financial year ended 30 June 2018 a final distribution of 0.5833 cents per unit was paid to the unitholders on 10 July 2018 (2017: 0.6333 cents per unit). The total distribution paid to unitholders in respect of the financial year ended 30 June 2018 was 6.9996 cents per unit (2017: 7.6000 cents per unit).

For full details of distributions paid and payable during the year, refer to note 7 to the financial statements.

### Changes in state of affairs

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

### 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.

### Future developments

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

### Options granted

As the Fund is an externally managed vehicle, 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**

The Responsible Entity has agreed to indemnify the directors and officers of the Responsible Entity and its related bodies corporate, both past and present, against all liabilities to another person (other than the Responsible Entity or a related body corporate) that may arise from their position as directors and officers of the Responsible Entity and its controlled entities, except where the liability arises out of unlawful conduct.

The Responsible Entity will meet the full amount of any such liabilities, including costs and expenses. The Responsible Entity may also indemnify any employee by resolution of the directors. In addition, the Responsible Entity has paid a premium in respect of a contract insuring against a liability incurred by an officer of the Responsible Entity. The Responsible Entity 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.

#### **Auditor's independence declaration**

The auditor's independence declaration is included on page 4 of the annual report.

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

A handwritten signature in black ink, appearing to read 'G. Brunson', written over a horizontal line.

**Geoff Brunson**

Chairman

MELBOURNE, 16 August 2018

16 August 2018

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

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 2018, 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

### *Opinion*

We have audited the financial report of APN Coburg North Retail Fund (the "Fund") which comprises the statement of financial position as at 30 June 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Fund is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Fund's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### *Basis for Opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Fund in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of APN Funds Management Limited (the "Responsible Entity"), would be in the same terms if given to the directors as at the time of this auditor's report.

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

### *Other Information*

The directors of the Responsible Entity (the "directors") are responsible for the other information. The other information comprises the directors' report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## *Responsibilities of the Directors for the Financial Report*

The directors are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Fund to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

## *Auditor's Responsibilities for the Audit of the Financial Report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

# Deloitte.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



DELOITTE TOUCHE TOHMATSU



Neil Brown  
Partner  
Chartered Accountants

Melbourne, 16 August 2018

## 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 2 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

A handwritten signature in black ink, appearing to read 'G. Brunsdon', written over a horizontal line.

**Geoff Brunsdon**  
Chairman

MELBOURNE, 16 August 2018



## Statement of Profit or Loss and Other Comprehensive Income for the financial year ended 30 June 2018

	Notes	2018 \$'000	2017 \$'000
<b>Income</b>			
Rental Income		1,581	1,577
Straight line rental income recognition		(11)	(33)
Changes in the fair value of investment properties		911	294
Changes in the fair value of financial liabilities		23	84
Other Income		-	13
<b>Total income</b>		<b>2,504</b>	<b>1,935</b>
<b>Expenses</b>			
Net property expenses		209	284
Investment management fee		123	121
Registry fee		10	10
Auditor's remuneration	10	22	23
Finance costs		372	380
Other expenses		43	45
<b>Total expenses</b>		<b>779</b>	<b>863</b>
<b>Net profit / (loss)</b>		<b>1,725</b>	<b>1,072</b>
<b>Other comprehensive income</b>			
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<b>1,725</b>	<b>1,072</b>

Notes to the financial statements has been included in the accompanying notes.

## Statement of Financial Position as at 30 June 2018

	Notes	2018 \$'000	2017 \$'000
<b>Assets</b>			
Cash and cash equivalents		150	78
Trade and other receivables	4	117	114
Derivative financial instrument		1	-
Investment properties	5	20,500	19,600
<b>Total assets</b>		<b>20,768</b>	<b>19,792</b>
<b>Liabilities</b>			
Payables	6	128	120
Distribution payable	7	65	70
Derivative financial instrument		-	22
Interest bearing liabilities	8	9,486	9,441
<b>Total liabilities</b>		<b>9,679</b>	<b>9,653</b>
<b>Net assets</b>		<b>11,089</b>	<b>10,139</b>
<b>Equity attributable to unitholders</b>			
Contributed equity		10,971	10,971
Retained earnings		118	(832)
<b>Total equity</b>	9	<b>11,089</b>	<b>10,139</b>

Notes to the financial statements has been included in the accompanying notes.

## Statement of Changes in Equity for the financial year ended 30 June 2018

	Notes	Contributed equity \$'000	Retained earnings \$'000	Total \$'000
<b>Balance at 30 June 2016</b>		<b>10,971</b>	<b>(1,062)</b>	<b>9,909</b>
Net profit for the year		-	1,072	1,072
Other comprehensive income		-	-	-
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>1,072</b>	<b>1,072</b>
Distributions paid to investors		-	(842)	(842)
<b>Balance at 30 June 2017</b>		<b>10,971</b>	<b>(832)</b>	<b>10,139</b>
Net profit for the year		-	1,725	1,725
Other comprehensive income		-	-	-
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>1,725</b>	<b>1,725</b>
Distributions paid to investors	7	-	(775)	(775)
<b>Balance at 30 June 2018</b>		<b>10,971</b>	<b>118</b>	<b>11,089</b>

Notes to the financial statements has been included in the accompanying notes

Statement of Cash Flows  
for the financial year ended 30 June 2018

	Notes	2018 Inflows/ (Outflows) \$'000	2017 Inflows/ (Outflows) \$'000
<b>Cash flows from operating activities</b>			
Rental received		1,360	1,312
Interest received		-	-
Other expenses paid		(208)	(197)
Finance costs paid		(349)	(379)
<b>Net cash inflow / (outflow) from operating activities</b>	12	<b>803</b>	<b>736</b>
<b>Cash flows from investing activities</b>			
Payments associated with investment properties		-	-
<b>Net cash inflow / (outflow) from investing activities</b>		<b>-</b>	<b>-</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings	12	50	-
Distributions paid		(781)	(842)
<b>Net cash inflow / (outflow) from financing activities</b>		<b>(731)</b>	<b>(842)</b>
Net (decrease) in cash and cash equivalents held		72	(106)
Cash and cash equivalents at the beginning of the financial year		78	184
<b>Cash and cash equivalents at end of the financial year</b>	12	<b>150</b>	<b>78</b>

Notes to the financial statements has been included in the accompanying notes.

# Notes to the Financial Statements

## 1. General information

APN Funds Management Limited, a public company incorporated and operating in Australia, is the Responsible Entity of APN Coburg North Retail Fund. The address of its registered office and principal place of business is as follows:

Level 30  
101 Collins Street  
MELBOURNE VIC 3000  
Tel: (03) 8656 1000

## 2. Significant accounting policies

### 2.1 Statement of compliance & basis of preparation

These financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and Interpretations, and complies with other requirements of the law. Compliance with Australian Accounting Standards 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 16 August 2018.

### 2.2 Basis of preparation

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.

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. In estimating the fair value of an asset or a liability, the Fund takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Fund has an investment property with a carrying amount of \$20,500,000 (2017: \$19,600,000) (see note 5), 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.

### 2.3 Income recognition

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.

AASB 15 *Revenue from Contracts with Customers*, applying to annual periods beginning on or after 1 January 2018, requires an entity to recognise revenue in a manner that represents the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled. Rental income is not within scope of AASB 15 and the impact on the Group's other revenue balances is immaterial because services are billed as they are provided on a cost recovery basis.

## 2.4 Taxation

The Fund is a “flow-through” entity for Australian income tax purposes and has elected into the Attribution Managed Investment Trusts rules from the 2017 income year, such that the determined trust components of the Fund will be taxable in the hands of the beneficiaries (the unitholders) on an attribution basis.

Accordingly, 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/losses which could arise in the event of a sale of investments for the amount at which they are stated in the financial statements.

Realised capital losses are not attributed to unitholders but instead are retained within the Fund to be offset against 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 attributed to unitholders as noted above.

## 2.5 Investment property

Investment property, which is property held to earn rental income 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

## 2.6 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.

## 2.7 Impairment of financial assets

Financial assets, other than those at fair value through the profit or loss, are assessed for indicators of impairment at each balance sheet date. 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. 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 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.

## 2.8 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.

## 2.9 Goods and services tax

Income, expenses, assets and liabilities 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.

## 2.10 Distributions

Distributions to unitholders comprise the income of the Fund to which the unitholders are presently entitled.

The distributions are payable monthly.

## 2.11 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.

## 2.12 Expenses

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

## 2.13 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.

## 2.14 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.

## 2.15 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.

## 3. Adoption of new and revised Accounting Standards

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

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:

- AASB 1048 *Interpretation of Standards*
- AASB2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107*

### 3.2 Standards and Interpretations in issue not yet adopted

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 / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 <i>Financial Instruments</i> , AASB 2010-7 <i>Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)</i> , AASB 2014-1 <i>Amendments to Australian Accounting Standards (Part E – Financial Instruments)</i> , AASB 2014-7 <i>Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)</i>	1 January 2018	30 June 2019
AASB 15 <i>Revenue from Contracts with Customers</i> , AASB 2014-5 <i>Amendments to Australian Accounting standards arising from AASB 15</i> , AASB 2015-8 <i>Amendments to Australian Accounting Standards – Effective Date of AASB 15</i> , and AASB 2016-3 <i>Amendments to Australian Accounting Standards – Clarifications to AASB 15</i>	1 January 2018	30 June 2019
Interpretation 22 <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018	30 June 2019
Interpretation 23 <i>Uncertainty over Income Tax Treatments</i> , AASB 2017-4 <i>Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments</i>	1 January 2019	30 June 2020

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
None noted	

#### 4. Receivables

	2018 \$'000	2017 \$'000
Accounts receivable	46	15
Prepaid expenses	71	99
	<b>117</b>	<b>114</b>

Receivables are non-interest bearing and are generally on 30 day terms. The ageing analysis of the Fund's receivables is as follows:

	2018 \$'000	2017 \$'000
<b>Ageing analysis of receivables not impaired</b>		
0-30 days	29	6
31-90 days	15	2
91+ days	2	7
	<b>46</b>	<b>15</b>

An impairment loss is recognised when there is objective evidence that an individual receivable is impaired. As at 30 June 2018 no receivables were impaired. A payment plan has been implemented for one tenant who has \$20,000 (2017: \$6,000) outstanding as at the reporting date. The payment plan is currently being adhered to and the Fund has the benefit of cash security deposits totalling \$21,000 from this tenant. Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

#### 5. Investments

	2018 \$'000	2017 \$'000
<b>Investment properties at fair value</b>		
Carrying amount at the beginning of the year	19,600	19,232
Capital expenditure on investment properties	-	6
Straight line lease revenue recognition	(11)	68
Changes in fair value of investment properties	911	294
<b>Carrying amount at the end of the year</b>	<b>20,500</b>	<b>19,600</b>

#### 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 methodology 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 2018 \$'000	Valuation technique	Inputs used to measure fair value	Range of unobservable inputs 30 June 2018
Level 3	20,500	DCF and income capitalisation method	Net passing rent - \$/sqm Net market rent - \$/sqm Adopted discount rate Adopted terminal yield Adopted capitalisation rate	\$290 - \$770 \$200 - \$798 6.75% - 7.75% 6.50% - 7.00% 6.25% - 6.75%

#### 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 and passing rent 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 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.
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.

AASB 16 *Leases*, applying to annual periods beginning on or after 1 January 2019, introduces a comprehensive model for the identification, recognition and measurement of lease arrangements for lessors and lessees. The recognition and measurement of lease arrangements for lessors remain substantially unchanged.

Based on a preliminary analysis, the Fund has not identified any contracts for which it is a lessee. However, the Fund is a lessor by virtue of the lease arrangements associated with its investment properties. As AASB 16 does not significantly alter lessor accounting, the Fund does not expect a significant impact resulting from the adoption of AASB 16.

#### 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 2001*, ASIC regulations) and the relevant Accounting Standards.

The investment portfolio consists of one property located in the inner city suburb of Coburg Hill, Melbourne which was independently valued as at 30 June 2018. 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 Savills Valuations Pty Ltd and dated 30 June 2018.

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 applying the income capitalisation valuation 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.

### Leasing arrangements

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:

	2018 \$'000	2017 \$'000
Less than one year	1,572	1,620
Between one and five years	5,199	5,428
More than five years	10,576	12,030
	<b>17,347</b>	<b>19,078</b>

### 6. Payables

	2018 \$'000	2017 \$'000
Accounts payable	73	78
Accrued expenses and other payables	55	42
	<b>128</b>	<b>120</b>

### 7. Distributions paid and payable

	2018		2017	
	Cents per unit	\$'000	Cents per unit	\$'000
Distribution paid during the year	6.4163	710	6.9667	772
Distribution payable	0.5833	65	0.6333	70
	<b>6.9996</b>	<b>775</b>	<b>7.6000</b>	<b>842</b>

### 8. Interest bearing liabilities

	2017 \$'000	2017 \$'000
Secured bank loan	9,486	9,441
	<b>9,486</b>	<b>9,441</b>

Includes deferred borrowing costs of \$14,000 (2017: \$9,000). As at reporting date all financial covenants with the Fund's Loan to Value Ratio (LVR) being 46.34% (2017: 48.21%) versus a covenant of 60%. The Interest Cover Ratio (ICR) was 3.28 times (2017: 2.93 times) which is greater than the minimum requirement of 2.00 times.

### 9. Equity

	2018 Units	2017 Units
<b>Units on issue</b>		
On issue at beginning of the year	11,078,000	11,078,000
Applications	-	-
Redemptions	-	-
Transfers	-	-
Units issued upon reinvestment of distributions	-	-
<b>On issue at year end</b>	<b>11,078,000</b>	<b>11,078,000</b>

**Movements in equity**

	2018 \$'000	2017 \$'000
At beginning of the year	10,139	9,909
Unit applications	-	-
Unit redemptions	-	-
Units issued upon reinvestment of distributions	-	-
Net profit for the year	1,725	1,072
Distributions paid to unitholders	(775)	(842)
<b>Total equity</b>	<b>11,089</b>	<b>10,139</b>

**10. Auditor's remuneration**

	2018 \$	2017 \$
Audit and review of financial statements	18,639	19,477
Other non-audit services *	3,120	3,260
	<b>21,759</b>	<b>22,737</b>

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

The auditor of the Fund is Deloitte Touche Tohmatsu.

**11. Related party transactions****11.1 Transactions with directors / key management personnel**

The Fund 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 included in the statement of profit or loss and other comprehensive income.

No fees have been paid to the directors of APN Funds Management Limited in their capacity as directors of the Responsible Entity of the Fund.

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

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.

**11.2 Transactions with Responsible Entity and related body corporates**

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 / Manager have taken place at arm's length and in the ordinary course of business. These transactions are as follows:

	2018 \$'000	2017 \$'000
Investment management fees	123	121
Registry fees	10	10
Accounting fees	10	10
Expense recharges	31	7
	<b>174</b>	<b>148</b>

**11.3 Holdings of units by related parties**

The Responsible Entity, its key management personnel and their related parties may hold units in the Fund, either directly, indirectly or beneficially as outlined below.

Number of units held	
2018	2017

**Responsible entity and its associates**

APN Property Group

479

479

**11.4 Directors' loans**

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

**12. Cash and cash equivalents****12.1 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:

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash at bank	150	78
<b>Total cash and cash equivalents</b>	<b>150</b>	<b>78</b>

**12.2 Reconciliation of profit / (loss) for the year to net cash provided by operating activities**

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Net Profit for the year</b>	<b>1,725</b>	<b>1,072</b>
<b>Adjustments for:</b>		
Rental income recognised on straight line basis	11	33
Change in fair value of investment properties	(911)	(294)
Change in fair value of derivatives	(23)	(84)
Amortisation of borrowing costs	5	14
<b>Changes in net assets:</b>		
Decrease / (increase) in income and other receivables	(12)	(7)
Increase / (decrease) in creditors and accruals	8	2
<b>Net cash provided by operating activities</b>	<b>803</b>	<b>736</b>

**12.3 Non-cash financing and investing activities**

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

**12.4 Reconciliation of liabilities arising from financing activities**

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	<b>Notes</b>	<b>2018</b>
		<b>'000</b>
<b>Borrowings as at the beginning at the year</b>	<b>8</b>	<b>9,441</b>
Net cash inflow / (outflow) from financing activities		50
Non-cash changes:		
Deferred borrowing costs		(5)
Other changes		-
<b>Borrowings at the end of the year</b>	<b>8</b>	<b>9,486</b>

**13. Financial risk management**

The Fund has engaged APN Funds Management Limited (“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 in a property with strong lease covenants, secure income streams and potential for capital growth.

The Fund does not enter into or 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.

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.

### 13.1 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 Fund’s 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.

### 13.2 Financial Instruments

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

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

Transactions in these instruments expose the Fund to a variety of financial risks including market risk (which includes interest rate risk and other price risks), credit risk, liquidity risk and currency risk. The Fund does not enter into or trade financial instruments, including derivatives, for speculative purposes.

### 13.3 Categories of financial instruments

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

	<b>2018</b>	<b>2017</b>
	<b>\$’000</b>	<b>\$’000</b>
<b>Financial Assets</b>		
Loans and receivables	229	114
Financial assets designated as at fair value through profit or loss	1	-
<b>Financial Liabilities</b>		
Financial liabilities designated as at fair value through profit or loss	-	(22)
Financial liabilities measured at amortised cost	(9,679)	(9,624)

The carrying amount of interest-bearing liabilities as at 30 June 2018 is \$9,486,000 (2017: \$9,441,000).

### 13.4 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 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.

### 13.4.1 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 \$150,000 (2017: \$78,000) with a weighted average interest rate of 0.01% (2017: 0.20%).
- **Liabilities:**
  - Interest-bearing liabilities at amortised cost with a repayment value of \$9,500,000 (2017: \$9,450,000) and a weighted average variable interest rate of 2.45% (2017: 2.97%).
  - Interest rate swaps with a notional amount of \$9,500,000 (2017: \$9,450,000) and a weighted average fixed interest rate of 2.15% (2017: 2.71%).

#### 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) \$'000	Fair value (liabilities) \$'000
<b>As at 30 June 2018</b>					
Interest rate swaps	October 2020	Interest rates	9,500,000	1	-
			<b>9,500,000</b>	<b>1</b>	<b>-</b>

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) \$'000	Fair value (liabilities) \$'000
<b>As at 30 June 2017</b>					
Interest rate swaps	December 2017	Interest rates	9,450,000	-	(22)
			<b>9,450,000</b>	<b>-</b>	<b>(22)</b>

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 on a net basis.

All interest rate swaps contracts are 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 has 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 markets. As a result, historic variations in interest rates are not a definitive indicator of future variations.

	Change in variable 2018 (+ / -)	Change in variable 2017 (+ / -)	Effect on net profit	
			2018 \$'000	2017 \$'000
Interest rate risk	25 bp	25 bp	52	6

An increase/(decrease) in interest rates will result in an increase/(decrease) in net profit respectively.

### 13.5 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 2018 is the carrying amounts of financial assets recognised in the balance sheet of the Fund. For selected, but not all, tenants the Fund holds collateral such as bank guarantees or cash deposits as security. The collateral held usually represents 3 – 6 month's rent and outgoings due under the terms of the lease. 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.

Credit risk associated with receivables is considered minimal. Other receivables balances are not significant to the Group's operations. The Group has determined the impact of AASB 9 *Financial Instruments*, effective 1 July 2018, to be immaterial as the Fund's investments are carried at fair value through profit or loss. Regarding the expected loss model under AASB 9, the Fund expects the impact to be immaterial based on the Fund's past experience of collecting rental payments and that the counterparties are experienced and sustainable retailers.

### 13.6 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 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. To assist in mitigating refinancing risk the Responsible Entity is in regular contact with financial institutions.

	Less than 3 months \$'000	3 months to 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
<b>2018</b>					
<b>Liabilities</b>					
Accounts payable	(128)	-	-	-	(128)
Distribution payable	(65)	-	-	-	(65)

Interest bearing liabilities	(62)	(237)	(10,264)	-	(10,563)
Derivative liabilities	(2)	(9)	2	-	(9)
	<b>(257)</b>	<b>(246)</b>	<b>(10,266)</b>	<b>-</b>	<b>(10,765)</b>

	Less than 3 months \$'000	3 months to 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
<b>2017</b>					
<b>Liabilities</b>					
Accounts payable	(120)	-	-	-	(120)
Distribution payable	(70)	-	-	-	(70)
Interest bearing liabilities	(70)	(9,523)	-	-	(9,593)
Derivative liabilities	(24)	(23)	-	-	(47)
	<b>(284)</b>	<b>(9,546)</b>	<b>-</b>	<b>-</b>	<b>(9,830)</b>

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

### 13.7 Fair value of financial instruments

The following table provides an analysis of financial instruments that are measured at fair value at 30 June 2018, grouped into Levels 1 to 3 (as defined at note 2.2) based on the degree to which the fair value is observable:

	Fair value measurement as at 30 June 2018			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial liabilities at FVTPL</b>				
Derivatives	-	1	-	1
<b>Total</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>1</b>

	Fair value measurement as at 30 June 2017			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial liabilities at FVTPL</b>				
Derivatives	-	(22)	-	(22)
<b>Total</b>	<b>-</b>	<b>(22)</b>	<b>-</b>	<b>(22)</b>

### 14. Net tangible asset backing

	2018 \$ per unit	2017 \$ per unit
<b>Net tangible asset backing</b>	<b>0.9997</b>	<b>0.9144</b>

Net tangible asset backing per unit is calculated by dividing the equity attributable to unitholders (adjusted to exclude intangible assets) by the number of units on issue.

### 15. Contingent liabilities and contingent assets

There are no commitments and contingencies in effect at 30 June 2018 (2017: Nil).

### 16. 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.