APN | Regional Property Fund

ARSN 110 488 821

and its Controlled Funds

Annual Report for the Financial Year

Ended 30 June 2018

Directors' report

The directors of APN Funds Management Limited (ACN 080 674 479) ("APN FM"), the Responsible Entity of APN Regional Property Fund (the "Fund") present the annual report on the consolidated entity (the "Group"), being the Fund and its controlled entities, 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

B.Com, FCA, F Fin, FAICD

Independent Chairman

- A Director since 2009.
- Chairman since 2012
- Member of the Audit, Risk & Compliance Committee and member of the Nomination & Remuneration Committee.

Geoff has had a career in investment banking spanning more than 30 years. He is currently Chairman of Sims Metal Management Ltd, MetLife Insurance Ltd and IPE Ltd. He is a Director of The Wentworth Group of Concerned Scientists and Purves Environmental Custodians.

Geoff was previously Managing Director and Head of Investment Banking of Merrill Lynch International (Australia) Limited until 2009. Geoff was a member of the listing committee of the Australian Stock Exchange between 1993 and 1997, a member of the Takeovers Panel between 2007 and 2016 and Chairman of Redkite (supporting families who have children with cancer) until 2015 and is now a Patron. He is a Fellow of FINSIA, a Fellow of the Institute of Company Directors and a Fellow of Chartered Accountants Australia & New Zealand.

Jennifer Horrigan

BBus, GradDipMgt, GradDipAppFin, MAICD

Independent Director

- A Director since 2012
- Chairman of the Audit, Risk & Compliance Committee and member of the Nomination & Remuneration.

Jennifer brings 25 years' experience across investment banking, financial communications and investor relations. She was formerly the Chief Operating Officer in Australia of the independent investment bank Greenhill & Co. She has extensive experience in enterprise management, including the supervision and management of compliance, HR and financial management.

Jennifer is also a director of QV Equities (ASX: QVE) and is Chairman of Redkite (national cancer charity supporting children and young people with cancer and their families) and a Director of Breast Cancer Trials (leading independent clinical trials body in Australia & NZ).

Michael Johnstone

BTRP, LS, AMP (Harvard)

Independent Director

- A Director since 2009.
- Chairman of the Audit, Compliance & Risk Management Committee and a member of the Nomination & Remuneration Committee.

Michael has 40 years of global business experience in chief executive and general management roles and more recently in non-executive directorships. He has lived and worked in overseas locations including the USA, has been involved in a range of industries and has specialised in corporate and property finance and investment, property development and funds management. His career has included lengthy periods in corporate roles including 10 years as one of the Global General Managers of the National Australia Bank Group. He has extensive experience in mergers and acquisitions, capital raising and corporate structuring.

Michael is a non-executive director of the responsible entity of the listed Folkestone Education Trust. He is also a non-executive director of a number of unlisted companies and has had considerable involvement in the not for profit sector.

Howard Brenchley

BEc

- A Director since 1998.
- Independent Director since March 2018.

Independent Director	Howard has a long history in the Australian property investment industry with over 30 years' experience analysing and investing in the sector. Howard joined APN FM in 1998 and was responsible for establishing the APN FM business. In this capacity he developed a suite of new property securities and direct property funds, including the flagship APN AREIT Fund and the APN Property for Income Fund, both market leading property securities funds in Australia. Prior to joining APN FM, Howard was co-founder and research director of Property Investment Research Pty Limited, one of Australia's leading independent research companies, specialising in the property fund sector. Howard is also a director of APN PG (since 1998) and National Storage Holdings Limited (since 2014) and National Storage Financial Services Limited (since 2015), both listed as National Storage REIT (ASX Code: NSR).
Michael Groth BCom, BSc, DipIFR, CA Alternate Director for Howard Brenchley	▪ An Alternate Director since 2014. Michael's professional career includes over seven years with KPMG Melbourne, where he worked closely with a number of major listed companies and stockbrokers before moving to the United Kingdom to work in the financial services industry and for a government regulatory body. Since joining APN PG in 2006, Michael has had broad exposure across all areas of the group and was appointed Chief Financial Officer in June 2014. Michael is responsible for accounting, taxation and treasury across the business and is a key contributor to setting APN PG's direction and strategy.
Chantal Churchill BSc(Psych), DipHRM Company Secretary	• Company Secretary since December 2016. Chantal is the Company Secretary for the APN Group and is responsible for the company secretarial, corporate governance, risk management and compliance functions. Chantal has over 15 years' experience in corporate governance, risk management and compliance across the financial services industry. Prior to joining APN in 2015, Chantal held compliance and risk roles at Arena Investment Management, Tabcorp and Invesco Australia. Chantal is a member of the Governance Institute of Australia.

Principal activities

The Fund is a registered managed investment fund domiciled in Australia. The principal activity of the Fund is direct property investment and management.

The Fund did not have any employees during the year.

Review of operations

The principal investment objective of the Fund is to maximise unitholder value through investment in properties with strong lease covenants, secure income streams and potential for capital growth.

The primary assets of the Fund are investments in two wholly owned and controlled funds which own the Honeysuckle House and Honeysuckle House 2 properties.

Work is progressing on completing the necessary leasing and capital expenditure projects, an important step in maximising the value of the properties, in advance of the proposed liquidity event for all investors. It is currently anticipated that the liquidity event will be provided by 31 December 2018 and will include an opportunity for those investors who wish to retain their investment in the Fund to do so.

Results

The results of the operations of the Fund are disclosed in the consolidated Statement of Profit or Loss and Other Comprehensive Income of these financial statements. The consolidated profit attributable to unitholders for the year ended 30 June 2018 was $8,217,000 (2017: $4,723,000).

Distributions

In respect of the financial year ended 30 June 2018 a final distribution of 2.375 cents per unit was paid to unitholders on 31 July 2018 (2017: 2.375 cents per unit). The total distribution paid to unitholders in respect to the year ended 30 June 2018 was 9.500 cents per unit (2017: 9.500 cents per unit).

Changes in state of affairs

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

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 Group, the results of the Group, or the state of affairs of the Group in future financial years.

Future developments

The Group 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.

Meeting of Directors
The following table sets out the number of directors' meetings (including meetings of committees of directors) for APN FM, held during the financial year and the number of meetings attended by each director (while they were a director or committee member).

	Board		Audit, Compliance and Risk Management committee		Nomination and Remuneration committee	
Directors	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
Geoff Brunsdon	13	12	10	10	2	2
Jennifer Horrigan	13	13	10	10	2	2
Michael Johnstone	13	12	10	9	2	2
Howard Brenchley	13	11	N/A	N/A	N/A	N/A
Michael Groth [(i)]	13	13	N/A	N/A	N/A	N/A

[(i)] Alternate for Howard Brenchley

Director's interests in the Fund

Directors of the Responsible Entity are not entitled to any interests in the Fund, or any rights or options over interests in the Group. No director has entered into contracts to which the director is a party or under which the director is entitled to a benefit that confers a right to call for or deliver an interest in the Group.

Fund information in the directors' report
In accordance with the Trust Constitution the Responsible Entity is entitled to receive:

- a management fee of up to 1.0% of the gross asset value of the Group, payable quarterly in arrears; and
- reimbursement of fund expenses incurred by the Responsible Entity on behalf of the Group.

Fees paid to the Responsible Entity out of the Group during the financial year are disclosed in note 13 to the consolidated financial statements.

The number of units in the Group held by the Responsible Entity and its associates as at the end of the financial year is disclosed in note 13 to the consolidated financial statements.

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

The value of the Fund's assets as at the end of the financial year is disclosed in the consolidated Statement of Financial Position as "Total Assets" and the basis of valuation is included in note 2 to the financial statements.

Options granted

No options were:

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

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

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

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 Group or of any related body (corporate) against a liability incurred by the auditor.

Non-audit services

During the year, the auditor of the Group performed certain other services in addition to their statutory duties.

The directors of the Responsible Entity has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the audit committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Responsible Entity and have been reviewed by the Board to ensure they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Group, acting as advocate for the Group or jointly sharing economic risks and rewards.

Non-audit services relate to audit of compliance plan and other approved advisory services, which amounted to $3,260 (2017: $3,260) for the year ended 30 June 2018.

Auditor's independence declaration

The auditor's Independence Declaration is included on page 7 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

Geoff Brunsdon
Chairman
MELBOURNE, 16 August 2018

Corporate Governance Statement

APN Funds Management Limited (APN FM) is the Responsible Entity of the APN Regional Property Fund. APN FM is a wholly owned subsidiary of APN Property Group Limited (APN PG or Company), a company listed on the Australian Securities Exchange (ASX). Both companies have a separate Board of Directors and each operates independently of the other. Importantly, APN FM is comprised of a majority of independent directors, including an independent chairman, each of whom have a legal obligation to put the interests of investors in the Fund ahead of their own and those of APN FM's sole shareholder, APN PG.

Through its directors, executives and staff, APN FM and the Company are committed to high standards of governance. The corporate governance framework incorporates the requirements of market regulators, adopted codes and charters, documented policies and procedures and guidance from industry best practice. These policies and practices will remain under regular review as the corporate governance environment and good practice evolve.

APN FM and the Company conducts its business in accordance with these charters and codes, as well as other key policies which are published on its website. These include:

- Board Charter
- Audit, Risk and Compliance Committee Charter
- Nomination and Remuneration Charter
- Code of Conduct
- Communication Policy
- Conflicts of Interest and Related Party Transactions Policy
- Continuous Disclosure Policy
- Diversity Policy
- Privacy Policy
- Securities Trading Policy

APN FM's full corporate governance statement can be downloaded from the Company's website at http://apngroup.com.au/about-us/governance.

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

Tel: +61 3 9671 7000
Fax: +61 3 9671 7001
www.deloitte.com.au

16 August 2018

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

Dear Board Members

Independence Declaration – APN Regional Property 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 Regional Property Fund.

As lead audit partner for the audit of the financial statements of APN Regional Property 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 faithfully

DELOITTE TOUCHE TOHMATSU

Peter A. Caldwell
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

Tel: +61 3 9671 7000
Fax: +61 3 9671 7001
www.deloitte.com.au

Independent Auditor's Report to the Security Holders of APN Regional Property Fund

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of APN Regional Property Fund (the "Fund") and its controlled entities (collectively, the "Consolidated Fund") which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity, the consolidated 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 Consolidated Fund is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Consolidated 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 Consolidated 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Member of Deloitte Touche Tohmatsu Limited
Liability limited by a scheme approved under Professional Standards Legislation

Deloitte.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Valuation of investment properties held at fair value As at 30 June 2018 the Consolidated Fund's investment properties represent the largest category of assets with a carrying value of \$51.1m, including a \$5.4m revaluation gain recognised in the consolidated statement of profit or loss as disclosed in Note 5. The investment properties are measured under the fair value model. The determination of fair value requires significant judgement due to the degree of subjectivity used by management, together with their internal and external valuation specialists (the "valuers"), in estimating the inputs used in the determination of the fair value of the investment properties including; net market rentals, capitalisation rates, terminal yields and discount rates.	In conjunction with our valuation specialists, our procedures included, but were not limited to: - evaluating the independence, competence and objectivity of the valuers; - assessing the scope of the valuers' work; - assessing the currency of the valuation date; - challenging the appropriateness of the valuation techniques and the inputs used by the valuers, including; the net market rentals, capitalisation rates, actual tenancy schedules and assessing overall values selected with reference to industry practice and external industry economic data; - testing on a sample basis, the passing rental balances by agreeing them back to signed lease agreements; and - Recalculating the mathematical accuracy of a sample of the valuation models. We have also assessed the appropriateness of the related disclosures in Note 5 to the financial statements.

Other Information

The directors of the Responsible Entity (the "directors") are responsible for the other information. The other information comprises the Directors' Report and NSX Additional Information, 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 Consolidated 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 Consolidated Fund or to cease operations, or has no realistic alternative but to do so.

Deloitte.

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 Consolidated 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 Consolidated 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 Consolidated 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Consolidated Fund to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Consolidated Fund's audit. We remain solely responsible for our audit opinion.

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.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

DELOITTE TOUCHE TOHMATSU

Peter A. Caldwell
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;

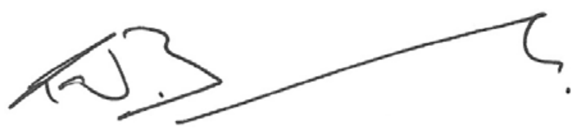
b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Fund;

c) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards as referred to in note 2 of the financial statements; and

d) the directors have been given the declarations required by s.295A of the *Corporations Act 2001*.

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, 16 August 2018

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

	Notes	Consolidated 2018 $'000	Consolidated 2017 $'000
Income			
Rental Income		5,056	5,244
Straight line rental income recognition		(56)	36
Interest Income		20	19
Changes in the fair value of investment properties		5,435	1,757
Other Income		-	22
Total income		**10,455**	**7,078**
Expenses			
Net Property expenses		1,098	1,186
Investment management fee		379	352
Custodian fee		28	27
Auditor's remuneration	11	26	27
Finance costs		521	549
Other expenses		186	214
Total expenses		**2,238**	**2,355**
Net profit		**8,217**	**4,723**
Other comprehensive income			
Other comprehensive income		-	-
Total comprehensive income		**8,217**	**4,723**
Earnings per unit			
Basic (cents per unit)	10	31.2	17.9
Diluted (cents per unit)	10	31.2	17.9

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

Statement of Financial Position
as at 30 June 2018

	Notes	Consolidated 2018 $'000	Consolidated 2017 $'000
Assets			
Cash and cash equivalents		2,044	2,028
Receivables and other assets	4	273	68
Investment properties	5	51,100	45,300
Total assets		**53,417**	**47,396**
Liabilities			
Payables	6	707	417
Distribution payable	7	626	626
Interest bearing liabilities	8	14,991	14,971
Total liabilities		**16,324**	**16,014**
Net assets		**37,093**	**31,382**
Equity attributable to unitholders			
Contributed Equity		21,970	21,970
Retained Earnings		15,123	9,412
Total equity	9	**37,093**	**31,382**

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

	Consolidated		
	Contributed Equity $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2016	**21,970**	**7,195**	**29,165**
Net profit for the year	-	4,723	4,723
Other comprehensive income	-	-	-
Total comprehensive income for the period	**-**	**4,723**	**4,723**
Distributions paid to investors	-	(2,506)	(2,506)
Balance at 30 June 2017	**21,970**	**9,412**	**31,382**
Net profit for the year	-	8,217	8,217
Other comprehensive income	-	-	-
Total comprehensive income for the period	**-**	**8,217**	**8,217**
Distributions paid to investors	-	(2,506)	(2,506)
Balance at 30 June 2018	**21,970**	**15,123**	**37,093**

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

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

	Note	Consolidated 2018 Inflows/ (Outflows) $'000	Consolidated 2017 Inflows/ (Outflows) $'000
Cash flows from operating activities			
Rental income received		3,882	4,048
Interest received		21	19
Expenses paid		(450)	(580)
Finance costs paid		(510)	(504)
Net cash inflow / (outflow) from operating activities	14	**2,943**	**2,983**
Cash flows from investing activities			
Payments associated with investment properties		(421)	(7)
Net cash provided by investing activities		**(421)**	**(7)**
Cash flows inflow / (outflow) from financing activities			
Distributions paid		(2,506)	(2,776)
Net cash inflow / (outflow) from financing activities		**(2,506)**	**(2,776)**
Net increase in cash and cash equivalents held		16	200
Cash and cash equivalents at beginning of the financial year		2,028	1,828
Cash and cash equivalents at end of the financial year	14	**2,044**	**2,028**

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 Regional Property 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

This financial report is a general purpose financial report 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 consolidated financial statements and notes of the Fund and the Group comply with International Financial Reporting Standards ("IFRS").

The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing these consolidated financial statements, the Group is a for-profit entity.

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.

In the application of Australian Accounting Standards 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 circumstances, 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 Australian Accounting Standards that have significant effects on the consolidated financial statements and estimates with a significant risk of material adjustments in the next year are disclosed below and where applicable, in the relevant notes to the consolidated financial statements.

The Group has investment properties with a net carrying amount of $51,100,000 (2017: $45,300,000) (see note 5), representing estimated fair value based on market conditions as at the reporting date. These carrying amounts reflect 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 those owned by the Group, as well as independent valuations of the Group's investment properties. While this represents the best estimate of fair value at the reporting date, the property market dynamics and fundamentals at the point in time the property is sold may mean that the actual price achieved is higher or lower than the most recent best estimate of that properties fair value.

2.3 Future strategy of the Fund

On 24 May 2018, the Responsible Entity provided an update to investors on the Funds' strategy and proposed liquidity event. As detailed in this update, the liquidity event is now targeted to be provided by 31 December 2018.

While the mechanism for providing a liquidity event for all investors has not been finalised, it may involve a recapitalisation of the Fund (by raising sufficient new equity to fund a withdrawal offer for existing investors) who will exit the Fund, or terminating the Fund and realising its assets, settling its liabilities and termination costs and distributing the resultant net proceeds to all investors on a pro-rata basis.

The directors have concluded that currently the recapitalisation of the Fund is the most probable liquidity event outcome and accordingly the financial statements have been prepared on a going concern basis. However, this will be dependent on the market conditions at the time the liquidity event is finalised.

If the Fund is instead terminated and wound up, its assets would be realised and liabilities settled. As the valuation of assets and liabilities requires the use of many estimates, judgements and assumptions, the directors caution that there are uncertainties inherent in realising assets and settling liabilities in a wind-up. Therefore, the actual realisation of assets and settlement amounts of liabilities could be for amounts higher or lower than that indicated in this financial report.

In addition to the above, the Fund's debt facility of $16,000,000 (2017: $16,000,000) has a scheduled maturity date in December 2018. This facility is secured by registered first mortgage over the Fund's investment properties. Subsequent to balance date, Management has initiated discussions with the current debt provider to extend the maturity of the existing facility in conjunction with the provision of a liquidity event. The Fund is well within all of its financial covenants and as such it is management's current view that it will be able to secure a term extension or new facility on commercially acceptable terms.

2.4 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Fund and entities controlled by the Fund. Control is achieved where the Fund has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

2.5 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.

2.6 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 consolidated 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 consolidated financial statements.

Realised capital losses are not attributed to unitholders but instead are retained within the Group to be offset against realised capital gains. The benefit of any carried forward capital losses are also not recognised in the consolidated 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.

2.7 Investment property

Investment properties are properties held to earn rental income and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the investment property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

2.8 Loans and receivables

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment. Receivables may include amounts for dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established.

2.9 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.

2.10 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, net of outstanding bank overdrafts.

2.11 Goods and services tax

Revenue, 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.

2.12 Distributions

Distributions to unitholders comprise the income of the Group to which the unitholders are presently entitled. The distributions are payable quarterly each year.

2.13 Applications and redemptions

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

2.14 Expenses

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

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

2.15 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.

2.16 Payables

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

2.17 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.

2.18 Provisions

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 Group 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.

2.19 Earnings per unit

(i) Basic earnings per unit
Basic earnings per unit is calculated as net profit attributable to unitholders of the Group for the year divided by the weighted average number of ordinary units outstanding during the year, adjusted for bonus elements in ordinary units issued during the year.

(ii) Diluted earnings per unit

Diluted earnings per unit adjusts the figures used in the determination of basic earnings per unit to take into account the effect of interest and other financing costs associated with dilutive potential ordinary units and the weighted average number of units assumed to have been issued for no consideration in relation to dilutive potential ordinary units.

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 Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current 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 Group'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 *Financial Instruments*, AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, AASB 2014-1 *Amendments to Australian Accounting Standards (Part E – Financial Instruments]*, AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)*	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*, and AASB 2016-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 15*	1 January 2018	30 June 2019
Interpretation 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018	30 June 2019
Interpretation 23 *Uncertainty over Income Tax Treatments, AASB 2017-4 Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments*	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 and other assets

	2018 $'000	2017 $'000
Accounts receivable	234	38
Prepaid expenses	39	30
	273	**68**

Accounts receivable are non-interest bearing and are generally on 0-30 day terms. An impairment loss would be recognised when there is objective evidence than an individual receivable is impaired.

As at 30 June 2018, no receivables were impaired (2017: $nil). The ageing analysis of accounts receivable is as follows:

	2018 $'000	2017 $'000
Ageing analysis of receivables not impaired		
0-30 days	196	15
31-90 days	38	11
91+ days	-	13
	234	**39**

5. Investment properties

	2018 $'000	2017 $'000
Investment properties at fair value		
Carrying amount at the beginning of the period	45,300	43,500
Capital expenditure on investment properties	421	7
Straight line lease revenue recognition	(56)	36
Changes in fair value of investment properties recognised in profit or loss	5,435	1,757
Carrying amount at the end of the period	**51,100**	**45,300**

Fair value measurement, valuation techniques and inputs

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

The adopted valuation methodology for investment properties is the mid-point of the valuations determined using the discounted cash flow (DCF) and the Income Capitalisation methods. 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	51,100	DCF and Income Capitalisation method	Net passing rent - $/sqm Net market rent - $/sqm Adopted capitalisation rate Adopted discount rate Adopted terminal yield	$380 - $454 $300 - $400 7.50% - 8.50% 7.75% - 8.25% 7.25% - 7.75%

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 method	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 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.

AASB 16 *Leases*, applying to annual periods beginning on or 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 two properties located in Newcastle, New South Wales, which were independently valued as at 30 June 2018. The Fund's external valuations are performed by independent professionally qualified valuers who hold a recognised relevant professional qualification and have specialised expertise in the investment properties valued. The valuations were performed by Savills Valuations Pty Ltd and dated 30 June 2018.

Appropriate capitalisation rates, discount rates 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.

In theory, an increase (softening) in the adopted discount rate and a decrease (tightening) in the adopted terminal yield could potentially offset the impact to the fair value. The same can be said for a decrease (tightening) in the discount rate and an increase (softening) in the adopted terminal yield. A directionally similar change in the adopted discount rate and the adopted terminal yield could potentially magnify the impact to fair value.

Leasing arrangements

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

	2018 $'000	2017 $'000
Less than one year	5,309	4,630
Between one and five years	5,617	8,236
More than five years	-	-
	10,926	**12,866**

6. Payables

	2018 $'000	2017 $'000
Accounts payable	270	229
Prepaid rent	236	117
Accrued expenses	161	31
Other	40	40
	707	**417**

7. Distributions paid and payable

	2018		2017	
	Cents per unit	$'000	Cents per unit	$'000
Distribution paid during the year	7.125	1,880	7.125	1,880
Distribution payable	2.375	626	2.375	626
	9.500	**2,506**	**9.500**	**2,506**

8. Interest bearing liabilities

	2018 $'000	2017 $'000
Cash advance facility	14,991	14,971
	14,991	**14,971**

	2018 $'000	2017 $'000
Financing arrangements – The Fund has access to the following lines of credit:		
Cash advance facility	16,000	16,000
Cash advance facility utilised at balance date	15,000	15,000
Cash advance facility not utilised at balance date	**1,000**	**1,000**

The cash advance facility is secured by registered first mortgage over the Group's investment properties. The cash advance facility is repayable in December 2018 and bears interest payable quarterly. Management has initiated discussions with the current debt provider to extend the maturity this facility in conjunction with the provision of a liquidity event. The Fund is well within all of its financial covenants and as such it is management's current view that it will be able to secure a term extension or new facility on commercially acceptable terms and continue as a going concern.

Includes deferred borrowing costs of $10,000 (2017: $29,000). As at reporting date, the Group is compliant with all financial covenants. The Group's Loan to Value Ratio (LVR) is 29.35% (2017: 33.11%), versus a covenant of 60% and the Interest Cover Ratio (ICR) was 6.66 times (2017: 6.80 times), which is greater than the minimum of 2.00 times.

9. Equity

	2018 Units	2017 Units
Units on issue		
On issue at beginning of the year	26,374,836	26,374,836
Applications	-	-
Redemptions	-	-
Units issued upon reinvestment of distributions	-	-
On issue at year end	**26,374,836**	**26,374,836**

	2018 $'000	2017 $'000
Movements in equity		
At beginning of the year	31,382	29,165
Unit applications	-	-
Unit redemptions	-	-
Units issued upon reinvestment of distributions	-	-
Net profit for the period	8,217	4,723
Distributions paid to unitholders	(2,506)	(2,506)
Total equity	**37,093**	**31,382**

Each unit represents a right to an individual share in the Fund per the Constitution. There are no separate classes of units and each unit has the same rights attaching to it as all other units in the Fund.

10. Earnings per unit

	2018 Cents per unit	2017 Cents per unit
Basic and Diluted	31.15	17.91

11. Remuneration of auditors

	2018 $	2017 $
Audit and review of financial statements	22,539	23,546
Compliance plan and other audit services	3,120	3,260
	25,659	**26,806**

The auditor of the Fund is Deloitte Touche Tohmatsu.

12. Segment information

The Group has a single operating segment, namely a single portfolio of direct property assets that are managed in accordance with a single investment strategy that is outlined in the Group's product disclosure statement. The property assets are all located in Newcastle, New South Wales, and therefore all investment income is derived from this geographic location.

Major customers

The Group is domiciled in Australia and receives its total revenue from external customers in Australia. The Group has a number of customers from whom it receives rental revenue. The amounts received from major customers of the Group are set out below:

	2018		2017	
	% of total rental revenue	$'000	% of total rental revenue	$'000
Customer 1	34.17	1,814	39.12	1,811
Customer 2	30.19	1,603	33.15	1,535
Customer 3	11.23	596	12.39	573
Customer 4	10.91	579	5.71	264

13. Related party disclosures

13.1 Transactions with 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

The below key management personnel of the Responsible Entity hold units in the Fund, either directly, indirectly or beneficially on the same terms and conditions as all other unitholders in the Fund.

	Number of units held	
	2018	2017
Howard Brenchley	91,474	91,474

13.2 Transactions with Responsible Entity and related body corporates

The Responsible Entity and Manager of APN Regional Property 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	379	352
Registry fees	10	10
Accounting fees	10	10
Leasing Fees	-	16
Expense recharges	15	11
	414	**399**

13.3 Holdings of units by related parties

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

	Number of units held	
	2018	**2017**
Responsible entity and its associates		
APN Property for Income Fund	461,740	461,740
APN Property for Income Fund No. 2	345,000	345,000

13.4 Related party investments held by the Fund

The Group may purchase and sell units in other approved funds managed by APN Funds Management Limited or its associates in the ordinary course of business at fair market value.

The Fund has no investment in APN Funds Management Limited, its associates or in other approved funds managed by APN Funds Management Limited (2017: $nil).

13.5 Directors' loans

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

14. Notes to the cash flow statement

14.1 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:

	2018 $'000	2017 $'000
Cash at bank	2,044	2,028
Total cash and cash equivalents	**2,044**	**2,028**

14.2 Reconciliation of profit for the period to net cash provided by operating activities

	2017 $'000	2017 $'000
Net profit for the year	8,217	4,723

Adjustments for:		
Change in fair value of investment properties	(5,435)	(1,757)
Rental income recognised on a straight line basis	56	(36)
Amortisation of borrowing costs	18	38
Changes in net assets:		
(Increase) / decrease in income and other receivables	(203)	(21)
Increase in creditors and accruals	290	36
Net cash provided by operating activities	**2,943**	**2,983**

14.3 Non-cash financing and investing activities

During the period there were no non-cash financing and investing activities in the Fund (2017: Nil).

14.4 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.

	Notes	2018 '000
Borrowings as at the beginning at the year	8	**14,971**
Net cash inflow / (outflow) from financing activities		-
Non-cash changes:		
Deferred borrowing costs		20
Other changes		-
Borrowings at the end of the year	8	**14,991**

15. 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 programme 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 does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the Funds investment policies, which provide written principles on the use of financial derivatives. 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.

Perpetual Services Pty Limited acts as master custodian on behalf of the Responsible Entity and, as such, provides services including physical custody and safekeeping of assets.

15.1 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.

15.2 Capital risk management

The Responsible Entity's objective when managing capital is to safeguard the Fund's ability to continue as a going concern, so that it can continue to provide returns for unitholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Fund consists of cash and cash equivalents and the proceeds from the issue of the units of the Fund. As the Fund is listed on the National Stock Exchange of Australia, there is a market on which units may be traded. The Responsible Entity has a focused strategy to grow unitholder value and future acquisitions by the Fund may be considered. Implementation of this strategy would require future additional capital raisings. Strict investment criteria has been developed to ensure that any future acquisitions are value accretive for the Fund. The overall investment strategy remains unchanged from the prior year.

15.3 Financial Instruments

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

- cash and cash equivalents;
- receivables;
- derivatives;
- 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.

15.4 Categories of financial instruments

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

	2018 $'000	2017 $'000
Loans and receivables	273	69
Financial liabilities measured at amortised cost	(16,324)	(16,014)

The settlement amount of interest-bearing liabilities as at 30 June 2018 is $15,000,000 (2017: $15,000,000).

15.5 Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Fund. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Credit risk controls assess the credit quality of the customer, taking into account its financial position, past experience and other factors. The Fund has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the financial risk of financial loss from default.

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 and at 30 June 2017 is the carrying amount of financial assets recognised in the balance sheet of the Fund. The Fund generally holds collateral in the form of bank or insurance bond guarantees or cash deposits 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.

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 the expected loss model under AASB 9 *Financial Instruments*, effective 1 July 2018, to be immaterial based on the Fund's past experience of collecting rental payments and that the counterparties are experienced and sustainable retailers.

15.6 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 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. The Fund manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Fund's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities. As the Fund is listed on the National Stock Exchange of Australia, there is a market on which units may be traded and 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 borrowings. To assist in mitigating refinancing risk the Responsible Entity is in regular contact with the financial institutions.

However, the Responsible Entity has committed to provide a liquidity event to all investors by 31 December 2018. The liquidity event provided may involve a recapitalisation of the Fund (by raising sufficient new equity to fund a withdrawal offer for existing investors) or via terminating the Fund, realising its assets, paying its liabilities and associated Fund termination costs and distributing the resultant net proceeds to all investors on a pro-rata basis.

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 Contractual Cash Flow $'000
2018					
Liabilities					
Accounts payable	(707)	-	-	-	(707)
Distribution payable	(626)	-	-	-	(626)
Interest bearing liabilities	(79)	(14,923)	-	-	(15,002)
	(1,412)	**(14,923)**	**-**	**-**	**(16,335)**

	Less than 3 months $'000	3 months to 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Total Contractual Cash Flow $'000
2017					
Liabilities					
Accounts payable	(417)	-	-	-	(417)
Distribution payable	(626)	-	-	-	(626)
Interest bearing liabilities	(101)	(310)	(14,811)	-	(15,222)
	(1,144)	**(310)**	**(14,811)**	**-**	**(16,265)**

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 properties where required.

15.7 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 Manager 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 risks 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.

15.8 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 $2,044,000 (2017: $2,028,000) with a weighted average interest rate of 1.12% (2017: 1.31%).
- **Liabilities**: Interest-bearing liabilities at amortised cost with a repayment value of $15,000,000 (2017: $15,000,000) and a weighted average variable interest rate of 3.3643% (2017: 3.3723%).

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 property markets. As a result, historic variations in interest rates are not a definitive indicator of future variations.

The following illustrates the effect on operating profit before finance costs attributable to unitholders and liabilities attributable to unitholders from possible changes in market risk that were reasonably possible based on the risk the Fund was exposed to at reporting date.

For the Fund, a 25 basis point increase in interest rates would have decreased net profit, and decreased total equity by $36,000 (2017: a 25 basis point increase resulting in an decrease of $37,000); an equal change in the opposite direction would have increased net profit, and increased total equity by $36,000 (2017: a 25 basis point decrease resulting in an increase of $37,000). The methods and assumptions used to prepare the sensitivity analysis have not changed and it is performed on the same basis for 2018.

15.9 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.

Financial assets and liabilities held at fair value through the profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through the profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through the profit or loss are measured at fair value with changes in their fair value recognised in the statement of profit or loss and other comprehensive income.

During the year, there were no financial liabilities at FVTPL (2017: $Nil).

During the year, there were no transfers into or out of Level 3.

16. Consolidated entities

	Country of incorporation	Ownership interest	
		2018	2017
Parent entity			
APN Regional Property Fund	Australia		
Controlled entities			
Greenpoint Shopping Village Unit Fund	Australia	100%	100%
Honeysuckle House Unit Fund	Australia	100%	100%
Grafton Commercial Unit Fund	Australia	100%	100%
Parkes Commercial Unit Fund	Australia	100%	100%
Honeysuckle House Unit Fund No.2	Australia	100%	100%
Parkes Commercial Unit Fund No.2	Australia	100%	100%

The Fund has no significant restrictions on its ability to access or use the assets and settle the liabilities of the Group.

During the financial year, the Fund did not enter into any contractual arrangements that could require the parent or its subsidiaries to provide financial support to one of the consolidated entities (2017: $Nil). Furthermore, neither the parent nor its subsidiaries have provided non-contractual financial or other support to one of the consolidated entities during the financial year (2017: $Nil). There is currently no intention to provide contractual or non-contractual financial or other support to one of the consolidated entities going forward.

17. Contingent liabilities and contingent assets

The Fund is planning capital expenditure works to upgrading of the current end of trip facilities, foyers and selected common areas to improve the attractiveness and marketability of the assets to both current and prospective tenants. The Fund is anticipating these works will be completed within FY19 at a total cost of approximately $310,000 (2017: The Fund will be undertaking minor upgrade works to the lighting and building management systems at 26 and 28 Honeysuckle Drive. These upgrades are being undertaken to enhance the energy performance of the buildings and to reposition the buildings with a targeted 5 Star NABERS Rating. These works are expected to be completed on 30 September 2017, at a total cost of $205,000).

18. 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.

19. Net tangible asset backing

	2018 $ per security	2017 $ per security
Net tangible asset backing	1.4060	1.1888

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

20. Parent entity disclosures

Financial position	**2018 $'000**	**2017 $'000**
Assets		
Current assets	5,898	6,110
Non-current assets	47,284	41,170
Total assets	**53,182**	**47,280**
Liabilities		
Current liabilities	16,087	927
Non-current liabilities	-	14,971
Total liabilities	**16,087**	**15,898**
Net assets	**37,095**	**31,382**
Equity attributable to unitholders		
Contributed equity	21,970	21,970
Retained earnings	15,123	9,412
Total equity	**37,093**	**31,382**

Financial performance	**Year ended 30 June 2018 $'000**	**Year ended 30 June 2017 $'000**
Net profit	8,217	4,723
Other comprehensive income	-	-
Total comprehensive income	**8,217**	**4,723**

During the financial year ended 30 June 2018, the parent entity did not enter into any guarantees in relation to debts of its subsidiaries (2017: nil).

Other than as referred to in Note 17, there are no contingent liabilities or contractual commitments for acquisitions of property, plant or equipment as at 30 June 2018 in the parent entity (2017: nil).

APN Regional Property Fund – Fully paid securities
Fully paid unitholders (309 in total) as at 30 June 2018

Unitholder		Units	%
1	National Nominees Limited	4,885,685	18.52
2	Sandhurst Trustees Limited A/C AIMS PSF A/C	2,440,483	9.25
3	The Trust Company (Australia) Limited ATF Atrium Real Assets Fund A/C	2,166,989	8.22
4	State Street Australia Ltd ACF ATF EQT Spectrum Credit Ops Fund A/C	1,529,854	5.80
5	Doble Family Super Pty Ltd ATF Doble Family Superannuation Fund	1,167,567	4.43
6	Netwealth Investments Limited A/C Wrap Services	693,838	2.63
7	Mr Geoffrey John Pedersen & Mrs Patricia Pedersen ATF Pedersen Family Superannuation Fund	616,152	2.34
8	Quotidian No 2 Pty Ltd	500,000	1.90
9	Doble Family Pty Ltd ATF Doble Family Investment Trust	498,933	1.89
10	Morrissey Investments Pty Ltd ATF Morrissey Family Trust	359,000	1.36
Top 10 fully paid unitholders		**14,858,501**	**56.34**
Balance of units held		**11,516,335**	**43.66**
Total fully paid unitholders		**26,374,836**	**100.00**

Spread of unitholder

Size of unitholding	Units	Unitholders
1-1,000	-	-
1,001-5,000	17,356	4
5,001-10,000	554,383	60
10,001-100,000	7,612,865	213
100,001 and over	18,190,232	32
Total of all fully paid unitholders	**26,374,836**	**309**