

APN Regional Property Fund and its Controlled Funds

ARSN 110 488 821

Consolidated Financial Report for the Half
Year Ended 31 December 2016

Directors' report

The directors of APN Funds Management Limited (ACN 080 674 479) ("the Responsible Entity") submit herewith the consolidated financial report of APN Regional Property Fund and of its Controlled Funds (together "the Fund") for the half year ended 31 December 2016. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names of the directors of the Responsible Entity during or since the end of the half year are:

Name

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

The above named directors held office during and since the end of the half year.

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.

There has been no significant change in the activities of the Fund during the half year.

The Fund did not have any employees during the half year.

Review of operations

The principal 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.

Results

The results of the operations of the Fund are disclosed in the condensed consolidated statement of comprehensive income of these financial statements. The profit for the half year ended 31 December 2016 was \$2,011,000 (2015: \$5,652,000).

Distributions

In respect of the quarter ended 31 December 2016 a final distribution of 2.375 cents per unit was paid to unitholders on 31 January 2017 (2015: 2.250 cents per unit). The total distributions paid to unitholders in respect of the half year ended 31 December 2016 was 4.750 cents per unit (2015: 4.500 cents per unit).

For full details of distributions paid and payable during the half year, refer to note 2 to the financial statements.

Auditor's independence declaration

The Auditor's Independence Declaration is included on page 3 of the half year report.

Rounding off of amounts

The Fund is a fund of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

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

On behalf of the Directors



Geoff Brunsdon
Director
MELBOURNE, 16 February 2017

16 February 2017

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

Dear Board Members

Independence Declaration –APN Regional Property Fund and its Controlled Funds

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of APN Funds Management Limited, the Responsible Entity, regarding the half-year financial report for APN Regional Property Fund and its Controlled Funds.

As lead audit partner for the review of the financial statements of APN Regional Property Fund and its Controlled Funds for the half-year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Neil Brown
Partner
Chartered Accountants

Independent Auditor's Review Report to the Unitholders of APN Regional Property Fund and its Controlled Funds

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of APN Regional Property Fund and its Controlled funds (collectively, "the Fund"), which comprises the condensed statement of financial position as at 31 December 2016, and condensed statement of profit or loss and other comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Fund and the entities it controlled at the end of the half-year or from time to time during the half-year as set out in page 6-13.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Responsible Entity of the Fund ("the Directors") are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Fund financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Fund ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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


Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors, would be in the same terms if given to the Directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Fund is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Fund's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



DELOITTE TOUCHE TOHMATSU



Neil Brown
Partner
Chartered Accountants

Melbourne, 16 February 2017

Directors' declaration

The directors of the Responsible Entity (APN Funds Management Limited) 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; and
- b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with Australian Accounting Standards and the Corporations Regulations 2001 and giving a true and fair view of the financial position and performance of the Consolidated Fund.

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

On behalf of the Directors



Geoff Brunsdon
Director
MELBOURNE, 16 February 2017

Condensed consolidated statement of profit or loss and other comprehensive income for the half year ended 31 December 2016

	Note	Half year ended 31 December 2016 \$'000	Half year ended 31 December 2015 \$'000
Income			
Rental income		2,594	2,861
Interest		10	5
Net changes in the fair value of investment properties		600	3,750
Other Income		22	186
Total income		3,226	6,802
Expenses			
Investment management fee		175	157
Property management expenses		602	529
Other expenses		153	158
Auditor's remuneration		6	6
Finance costs		279	300
Total expenses		1,215	1,150
Net profit		2,011	5,652
Other comprehensive income			
Other comprehensive income		-	-
Total comprehensive income		2,011	5,652

Notes to the condensed consolidated financial statements are included on pages 11 to 13.

**Condensed consolidated statement of financial position
as at 31 December 2016**

	Note	31 December 2016 \$'000	30 June 2015 \$'000
Assets			
Cash and cash equivalents		1,766	1,828
Other receivables		50	79
Investment properties		44,100	43,500
Total assets		45,916	45,407
Liabilities			
Payables		380	380
Distribution payable	2	626	897
Interest bearing liabilities		14,986	14,965
Total liabilities		15,992	16,242
Net assets		29,924	29,165
Equity attributable to unitholders			
Contributed Equity		21,970	21,970
Retained Earnings		7,954	7,195
Total equity	3	29,924	29,165

Notes to the condensed consolidated financial statements are included on pages 11 to 13.

**Condensed consolidated statement of changes in equity
for the half year ended 31 December 2016**

	Contributed Equity \$'000	Retained Earnings \$'000	Total \$'000
Balance at 1 July 2015	21,970	2,687	24,657
Net profit for the period	-	5,652	5,652
Other comprehensive income	-	-	-
Total comprehensive income for the period	-	5,652	5,652
Distributions to unitholders	-	(1,186)	(1,186)
Balance at 31 December 2015	21,970	7,153	29,123
Balance at 1 July 2016	21,970	7,195	29,165
Net profit for the period	-	2,011	2,011
Other comprehensive income	-	-	-
Total comprehensive income for the period	-	2,011	2,011
Distributions to unitholders	-	(1,252)	(1,252)
Balance at 31 December 2016	21,970	7,954	29,924

Notes to the condensed consolidated financial statements are included on pages 11 to 13.

**Condensed consolidated statement of cash flows
for the half year ended 31 December 2016**

	Half year ended 31 December 2016 Inflows/ (Outflows) \$'000	Half year ended 31 December 2015 Inflows/ (Outflows) \$'000
Cash flows from operating activities		
Rental income received	1,967	2,444
Other Income	22	186
Interest received	10	5
Other expenses paid	(397)	(439)
Net cash provided by operating activities	1,602	2,196
Cash flows from investing activities		
Payments associated with investment properties	-	-
Net cash provided by investing activities	-	-
Cash flows from financing activities		
Distributions paid	(1,523)	(1,405)
Finance costs paid	(141)	(200)
Net cash used in financing activities	(1,664)	(1,605)
Net increase in cash and cash equivalents held	(62)	591
Cash and cash equivalents at beginning of the half year	1,828	1,357
Cash and cash equivalents at end of the half year	1,766	1,948

Notes to the condensed consolidated financial statements are included on pages 11 to 13.

1. Summary of significant accounting policies

Statement of compliance

The half year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half year financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

Basis of preparation

The condensed financial statements of APN Regional Property Fund and of its Controlled Funds (together "the Fund") have been prepared on the basis of historical cost, except for the revaluation of certain assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Fund is a fund of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The Fund's current finance facility of \$15,000,000 (2015: \$15,000,000) is repayable in May 2017. This cash advance facility is secured by registered first mortgage over the Fund's investment properties. Subsequent to balance date, Management sought and received a credit approved offer for a new facility of \$17,000,000, with a term of 2 years. This offer has been accepted and documentation has commenced.

The accounting policies and methods of computation adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the Fund's 2016 annual financial report, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Adoption of new and revised Standards and Interpretations

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 their operations and effective for the current half year. New and revised Standards and amendments thereof and Interpretations effective for the current half year that are relevant to the Fund include:

- AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle
- AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101

The adoption of amending Standards does not have any impact on the disclosures or the amounts recognised in the Fund's half year financial statements.

2. Distributions paid and payable

	31 December 2016		31 December 2015	
	Cents per unit	\$'000	Cents per unit	\$'000
Distribution paid during the period	2.375	626	2.250	593
Distribution payable	2.375	626	2.250	593
	4.750	1,252	4.500	1,186

3. Equity

	Half year ended 31 December 2016 Units	Half year ended 31 December 2015 Units
Units on issue		
On issue at beginning of the period	26,374,836	26,374,836
Applications	-	-
Redemptions	-	-
Units issued upon reinvestment of distributions	-	-
On issue at end of the period	26,374,836	26,374,836

	Half year ended 31 December 2016 \$'000	Half year ended 31 December 2015 \$'000
Movements in equity		
At beginning of the period	29,165	24,657
Unit applications	-	-
Capital raising costs	-	-
Net profit for the period	2,011	5,652
Distributions paid to unitholders	(1,252)	(1,186)
Total equity	29,924	29,123

Each unit represents a right to an individual share in the Consolidated 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 Consolidated Fund.

4. 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 consolidated statement of profit or loss and other comprehensive income.

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and
- the fair value of the Parent's investment in managed investment schemes is determined by reference to the scheme's change in fair value of its underlying investment properties.

Fair value measurements recognised in the statement of financial position

Financial instruments that are measured at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

During the half year, there were no financial liabilities at FVTPL (2015: Nil).

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

The Directors consider the carrying amounts of the Fund's financial instruments approximate their fair values.

5. Segment information

The Fund 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 fund's product disclosure statement. The property assets are all located in regional New South Wales and therefore all investment income is derived from this geographic location.

6. Contingencies and commitments

There are no commitments and contingencies in effect at 31 December 2016 (2015: Nil).

7. Subsequent events

Subsequent to balance date, Management sought and received a credit approved offer for a new secured cash advance facility of \$17,000,000, with a term of 2 years. This offer has been accepted and documentation has commenced.

There has not been any other 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.

7. Net tangible asset backing

	Half year ended 31 December 2016 Cents per security	Half year ended 31 December 2015 Cents per security
Net tangible asset backing	1.1346	1.1042

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

9. Additional information

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

Principal registered office

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

Principal place of business

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