

APN Regional Property Fund and its Controlled Funds

ARSN 110 488 821

Consolidated Financial Report for the Half
Year Ended 31 December 2017

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 2017. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Name

Geoff Brunsdon (Chairman and Independent Non-Executive Director)
Howard Brenchley (Non-Executive Director)
Michael Johnstone (Independent Non-Executive Director)
Jennifer Horigan (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 2017 was \$4,749,000 (2016: \$2,011,000).

Distributions

In respect of the quarter ended 31 December 2017 a final distribution of 2.375 cents per unit was paid to unitholders on 31 January 2018 (2016: 2.375 cents per unit). The total distributions paid to unitholders in respect of the half year ended 31 December 2017 was 4.750 cents per unit (2016: 4.750 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, 15 February 2018

15 February 2018

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

Dear Board Members

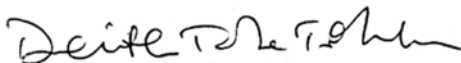
Independence Declaration – APN Regional Property Fund and its Controlled Funds

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 2017, 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



Peter A. Caldwell
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 consolidated statement of financial position as at 31 December 2017, the condensed consolidated statement of profit and loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Fund at the end of the half-year or from time to time during the half-year as set out in pages 6 to 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's financial position as at 31 December 2017 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 Trust 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.

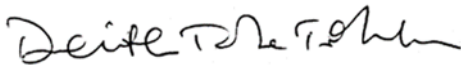
Auditor's Independence Declaration

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 Trust's financial position as at 31 December 2017 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



Peter A. Caldwell
Partner
Chartered Accountants

Melbourne, 15 February 2018

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, 15 February 2018

Condensed consolidated statement of profit or loss and other comprehensive income for the half year ended 31 December 2017

	Note	Half year ended 31 December 2017 \$'000	Half year ended 31 December 2016 \$'000
Income			
Rental income		2,564	2,594
Interest		10	10
Net changes in the fair value of investment properties		3,211	600
Other Income		-	22
Total income		5,785	3,226
Expenses			
Investment management fee		183	175
Property management expenses		508	602
Other expenses		85	153
Auditor's remuneration		6	6
Finance costs		254	279
Total expenses		1,036	1,215
Net profit		4,749	2,011
Other comprehensive income			
Other comprehensive income		-	-
Total comprehensive income		4,749	2,011

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

**Condensed consolidated statement of financial position
as at 31 December 2017**

	Note	31 December 2017 \$'000	30 June 2017 \$'000
Assets			
Cash and cash equivalents		2,140	2,028
Other receivables		279	69
Investment properties		48,600	45,300
Total assets		51,019	47,397
Liabilities			
Payables		533	418
Distribution payable	2	626	626
Interest bearing liabilities	3	14,981	14,971
Total liabilities		16,140	16,015
Net assets		34,879	31,382
Equity attributable to unitholders			
Contributed Equity		21,970	21,970
Retained Earnings		12,909	9,412
Total equity	4	34,879	31,382

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 2017**

	Contributed Equity \$'000	Retained Earnings \$'000	Total \$'000
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
Balance at 1 July 2017	21,970	9,412	31,382
Net profit for the period	-	4,749	4,749
Other comprehensive income	-	-	-
Total comprehensive income for the period	-	4,749	4,749
Distributions to unitholders	-	(1,252)	(1,252)
Balance at 31 December 2017	21,970	12,909	34,879

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 2017**

	Half year ended 31 December 2017 Inflows/ (Outflows) \$'000	Half year ended 31 December 2016 Inflows/ (Outflows) \$'000
Cash flows from operating activities		
Rental income received	2,019	1,967
Other income	-	22
Interest received	10	10
Other expenses paid	(369)	(397)
Net cash provided by operating activities	1,660	1,602
Cash flows from investing activities		
Payments associated with investment properties	(128)	-
Net cash provided by investing activities	(128)	-
Cash flows from financing activities		
Distributions paid	(1,252)	(1,523)
Finance costs paid	(168)	(141)
Net cash used in financing activities	(1,420)	(1,664)
Net increase in cash and cash equivalents held	112	(62)
Cash and cash equivalents at beginning of the half year	2,028	1,828
Cash and cash equivalents at end of the half year	2,140	1,766

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 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 2017 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 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses (AASB 112).
- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107.
- AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle.

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 2017		31 December 2016	
	Cents per unit	\$'000	Cents per unit	\$'000
Distribution paid during the period	2.375	626	2.375	626
Distribution payable	2.375	626	2.375	626
	4.750	1,252	4.750	1,252

3. Interest bearing liabilities

	31 December 2017 \$'000	30 June 2017 \$'000
Secured bank loan (net of borrowing costs)	14,981	14,971
Total	14,981	14,971

The \$15,000,000 bank loan is secured by registered first mortgages over the Fund's investment properties and includes an amount of \$19,000 of deferred borrowing costs that have been allocated against the total amount of the facility utilised at balance date (2017: \$29,000). The loan is repayable in December 2018 and bears interest payable quarterly. All financial covenants were satisfied as at 31 December 2017, with the Fund's Loan to Value Ratio (LVR) being 30.86% (2016: 33.11%), which is within the limit of 60% and Interest Cover Ratio (ICR) being 7.49 (2017: 6.80), which is greater than the minimum requirement of 2.0.

4. Equity

	Half year ended 31 December 2017 Units	Half year ended 31 December 2016 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 2017 \$'000	Half year ended 31 December 2016 \$'000
Movements in equity		
At beginning of the period	31,382	29,165
Unit applications	-	-
Capital raising costs	-	-
Net profit for the period	4,749	2,011
Distributions paid to unitholders	(1,252)	(1,252)
Total equity	34,879	29,924

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.

5. 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 applies to those financial instruments whose values are derived from quoted prices in active markets for identical assets or liabilities and include listed property securities traded on the Australian Stock Exchange (ASX).
- Level 2 applies to those financial instruments whose values are 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) and include those financial instruments that trade in markets that are not considered active whose values are based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs.
- Level 3 applies to those financial instruments whose values are derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). These include investments in unlisted property trusts and property syndicates. The fair value of these investments is determined using the latest available prices provided by the investment managers of these investments. These prices may have been calculated using models with unobservable inputs and assumptions that may not necessarily be supported by prices from observable current market transactions. The limited availability of observable market transactions in the same instrument suggests that the valuation of these investments is subject to a greater uncertainty and would require greater judgement.

During the half year, there were no financial liabilities at FVTPL (2016: Nil).

During the year, there were no transfers into or out of Level 3 (2016: Nil).

6. 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.

7. Contingencies and commitments

There are no commitments and contingencies in effect at 31 December 2017 (2016: Nil).

8. 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.

9. Net tangible asset backing

	Half year ended 31 December 2017 Cents per security	Half year ended 31 December 2016 Cents per security
Net tangible asset backing	1.3224	1.1346

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

10. Earnings per unit

	2017 Cents per unit	2016 Cents per unit
Basic and Diluted	18.00	7.60

11. 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
MELBOURNE VIC 3000
Tel: (03) 8656 1000