

APN | Coburg North Retail Fund

ARSN: 601 833 363

Annual Report for the Financial Year Ended
30 June 2019

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Directors' report

The directors of APN Funds Management Limited (ACN 080 674 479) ("APN FM"), the Responsible Entity of APN Coburg North Retail Fund (the "Fund") present their annual report together with the financial statements of the Fund, for the financial year ended 30 June 2019.

In order 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 AM	(Independent Chairman)
Howard Brenchley	(Independent Director)
Jennifer Horrigan	(Independent Director)
Michael Johnstone	(Independent Director)
Michael Groth	(Alternate Director for Howard Brenchley)

Principal activities

The principal activity of the Fund is to invest in a single asset, which offers a sustainable income yield and has the potential for capital growth. The Fund is a registered managed investment fund domiciled in Australia.

There has been no significant change in the activities of the Fund during the year. The Fund did not have any employees during the year.

Review of operations

During the financial year, the Fund continued to manage its assets in accordance with the governing documents of the Fund and the Fund's Constitution.

The results of operations of the Fund are disclosed in the statement of profit or loss and other comprehensive income. The Fund's statutory net profit for the year ended 30 June 2019 was \$633,000 (30 June 2018: \$1,725,000).

Distributions

Distributions of \$775,000 were declared by the Fund during the financial year ended 30 June 2019 (2018: \$775,000).

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

Matters subsequent to the end of the financial year

No circumstances have arisen since the end of the year which have significantly affected or may significantly affect the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future years.

Future developments

The Fund will continue to seek to increase the value of investments by actively managing its property and cash flows and to provide attractive returns to the unitholders by the way of cash distributions and capital growth.

Auditor's independence declaration

A copy of the external auditor's independence declaration, as required under section 307C of the *Corporations Act 2001* is included on page 3.

DIRECTORS' REPORT

Indemnification of officers of the Responsible Entity and auditors

APN Funds Management Limited ("APN FM") in its capacity as the Responsible Entity of the Fund has agreed to indemnify the directors and officers of APN FM and its related body's corporate, both past and present, against all liabilities to another person (other than APN FM or a related body corporate) that may arise from their position as directors and officers of APN FM and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. APN FM will meet the full amount of any such liabilities, including costs and expenses. In addition, APN FM has paid a premium in respect of a contract insuring against a liability incurred by an officer of the Fund. Under the contract of insurance, disclosure of the nature of the insured liabilities and the amount of premium paid is prohibited. APN FM has not indemnified or made a relevant agreement to indemnify the auditor of the Fund or of any related body (corporate) against a liability incurred by the auditor.

Rounding 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 to the nearest thousand dollars, unless otherwise stated.

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

On behalf of the directors

A handwritten signature in dark ink, appearing to read 'G. Brunsdon', with a long horizontal line extending to the right.

Geoff Brunsdon AM
Director

Melbourne, 15 August 2019

15 August 2019

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

Dear Board Members

Independence Declaration – APN Coburg North Retail Fund

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of APN Funds Management Limited, the Responsible Entity, regarding the annual financial report for APN Coburg North Retail Fund.

As lead audit partner for the audit of the financial report of APN Coburg North Retail Fund for the financial year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Neil Brown
Partner
Chartered Accountants

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

Opinion

We have audited the financial report of APN Coburg North Retail Fund (the "Fund") which comprises the statement of financial position as at 30 June 2019, the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- (i) giving a true and fair view of the Fund's financial position as at 30 June 2019 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

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

Other Information

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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



DELOITTE TOUCHE TOHMATSU



Neil Brown
Partner
Chartered Accountants

Melbourne, 15 August 2019

DIRECTORS' DECLARATION

The directors of APN Funds Management Limited, the Responsible Entity of APN Coburg North Retail Fund, 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 are in compliance with International Financial Reporting Standards, as stated in note 2 to the financial statements; and
- (c) 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.

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

On behalf of the directors of the Responsible Entity, APN Funds Management Limited.



Geoff Brunsdon AM
Director

Melbourne, 15 August 2019

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2019

	Notes	2019 \$'000	2018 \$'000
Revenue			
Rental income		1,687	1,581
Straight line rental income recognition		2	(11)
Total revenue for continuing operations		1,689	1,570
Other income			
Net fair value gain / (loss) on investment property		(2)	911
Net fair value gain / (loss) on derivatives		(130)	23
Total other income		(132)	934
Total income		1,557	2,504
Expenses			
Property expenses		(396)	(209)
Management fees	13	(121)	(123)
Finance costs	6	(354)	(372)
Other expenses		(53)	(75)
Total expenses		(924)	(779)
Net profit / (loss) for the period		633	1,725
Other comprehensive income			
Other comprehensive income		-	-
Total comprehensive income for the period		633	1,725

Notes to the financial statements have been included in the accompanying pages.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	2019 \$'000	2018 \$'000
Assets			
Cash and cash equivalents	10	223	150
Trade and other receivables	11	51	117
Investment property	3	20,500	20,500
Total assets		20,774	20,767
Liabilities			
Trade and other payables	12	(142)	(128)
Distributions payable	5	(65)	(65)
Derivative financial instruments	7	(128)	1
Interest bearing liabilities	6	(9,492)	(9,486)
Total liabilities		(9,827)	(9,678)
Net assets		10,947	11,089
Equity			
Contributed equity	4	10,971	10,971
Retained earnings		(24)	118
Total Equity		10,947	11,089

Notes to the financial statements have been included in the accompanying pages.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2019

	Notes	Contributed equity \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 July 2017		10,971	(832)	10,139
Net profit for the period		-	1,725	1,725
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	1,725	1,725
Distributions to unitholders		-	(775)	(775)
Balance at 30 June 2018		10,971	118	11,089
Balance at 1 July 2018		10,971	118	11,089
Net profit for the period		-	633	633
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	633	633
Distributions to unitholders	5	-	(775)	(775)
Balance at 30 June 2019		10,971	(24)	10,947

Notes to the financial statements have been included in the accompanying pages.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2019

	Notes	2019 \$'000	2018 \$'000
Cash flows from operating activities			
Net rental income received		1,317	1,360
Other expenses paid		(134)	(208)
Finance costs paid		(335)	(349)
Net cash inflow / (outflow) from operating activities	10	1,183	803
Cash flows from financing activities			
Proceeds from borrowings	10	-	50
Distributions paid		(775)	(781)
Net cash inflow / (outflow) from financing activities		(1,110)	(731)
Net increase / (decrease) in cash and cash equivalents		73	72
Cash and cash equivalents at the beginning of the financial year		150	78
Cash and cash equivalents at the end of the financial year		223	150

Notes to the financial statements have been included in the accompanying pages.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

APN Coburg North Retail Fund (the “Fund”) is a registered managed investment scheme domiciled in Australia.

APN Funds Management Limited (ACN 080 674 479) (“APN FM”), is a public company incorporated and operating in Australia, is the Responsible Entity of the Fund. The registered office and its principal place of business is Level 30, 101 Collins Street, Melbourne VIC 3000.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following.

2.1. Statement of compliance

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

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

The financial statements were authorised for issue by the directors on 15 August 2019.

2.2. Basis of preparation

The financial statements have been prepared on the basis of historical cost, except for the revaluation of investment properties and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. All amounts are presented in Australia 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*, issued by the Australian Securities and Investments Commission, 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.

2.3. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation and are initially measured at cost, including transaction costs.

Subsequent to initial recognition, investment properties are measured at fair value (inclusive of adjustments for straight line rental revenue recognition, unamortised lease incentives and capital expenditure obligations), with gains and losses arising from changes in the fair value of investment properties included in the statement of profit or loss and other comprehensive income in the period in which they arise.

(a) Valuation process

The purpose of the valuation process is to ensure that assets are held at fair value and all applicable regulations (*Corporations Act 2001* and ASIC regulations) and the relevant Accounting Standards are complied with.

NOTES TO THE FINANCIAL STATEMENTS

External valuations are performed by independent professionally qualified valuers who hold a recognised relevant professional qualification and have specialised expertise in the class of investment properties being valued and are performed for each investment property on at least a three-year rotational basis. Internal valuations are performed by the Fund's internal property team in the intervening periods and are reviewed and approved by the Board.

The adopted fair value is determined using the income capitalisation method where the key valuation inputs are net passing rent, net market rent and capitalisation rates based on comparable market evidence.

(b) Derecognition

An investment property is derecognised upon disposal or when no future economic benefits are expected from use. The gain or loss arising on derecognition of the property is measured as the difference between the net proceeds from disposal and its carrying amount at disposal date and is recognised in the statement of profit or loss and other comprehensive income in the period in which the property is derecognised.

2.4. Rental income

Rental income from investment properties comprise of lease components (including base rent, recoveries of property tax and property insurance) and non-lease components that primarily consists of property outgoing recoveries. Rental income is recognised at the fair value of consideration receivable (exclusive of GST).

Rental income relating to lease components are recognised on a straight-line basis over the term of the lease for the period where the rental income is fixed and determinable. For leases where the rental income is determined based on unknown future variables such as inflation, market reviews or other variables, rental income is recognised on an accrual basis in accordance with the terms of the lease.

Rental income from property outgoing recoveries are recognised as the costs are incurred, which is typically when the services are provided. For the year ended 30 June 2019, total property outgoings recovered was \$118,000 (2018: \$113,000).

Rental income not received at reporting date, is reflected in the consolidated statement of financial position as a receivable or if paid in advance, as rent in advance.

2.5. Lease incentives, commissions and other costs

Lease incentives provided to tenants, such as fit-outs or rent-free periods and leasing commissions and other costs incurred in entering into a lease, are recognised as a reduction of rental income on a straight-line basis over the non-cancellable term of the lease.

2.6. Contributed equity

Issued and paid up securities are recognised at the fair value of the consideration received by the Fund, net of direct transaction costs.

2.7. Distributions

A liability for any distribution declared on or before the end of the reporting period is recognised in the statement of financial position in the reporting period to which the distribution pertains.

2.8. Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income in the period in which they arise.

NOTES TO THE FINANCIAL STATEMENTS

2.9. Finance costs

Interest expense is recognised in the statement of profit or loss and other comprehensive income using the effective interest rate method except where it is incurred for the construction of any qualifying asset, where it is capitalised during the period of time that is required to complete and prepare the asset for its intended use.

The effective interest rate method calculates the amount to be recognised over the relevant period at the rate that exactly discounts estimated future cash receipts (including all fees that form an integral part of the financial instrument, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition. There were no substantial modifications to the terms of existing financial liabilities.

2.10. Derivatives – interest rate contracts

Derivatives are categorised as financial instruments at fair value through profit or loss and are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date based on counterparty bank valuations. Counterparty bank valuations are tested for reasonableness by discounting the estimated future contractual cashflows and using market interest rates for a substitute instrument at the measurement date.

The resulting gain or loss is recognised immediately in the statement of profit or loss and other comprehensive income as hedge accounting has not been applied.

2.11. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash in banks or other short term highly liquid investments, net of outstanding bank overdrafts.

Cash flows are included in the statement of cash flows 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. Rental receivables

Rent receivables are recorded initially at fair value (including GST) and subsequently at amortised cost in accordance with AASB 9 Financial Instruments ("AASB 9").

With effect from 1 July 2018, the impairment allowance for rental receivable and other financial assets (other than those measured at fair value through profit and loss) is measured using the simplified approach based on its lifetime expected credit loss.

2.13. Trade and other payables

Trade and other amounts payable are recorded initially at fair value (including GST) and subsequently at amortised cost. The average credit term on purchases is 30 days and they are non-interest bearing. The Fund has management policies in place to ensure that all amounts are paid within the applicable credit terms.

2.14. Income taxes

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

Accordingly, deferred taxes associated with these AMIT Funds have not been recognised in the financial statements in relation to differences between the carrying amounts of assets and liabilities and their respective tax bases, including taxes on capital gains/losses which could arise in the event of a sale of properties for the amount at which they are stated in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Realised capital losses are not attributed to unitholders but instead are retained within the AMIT Funds to be offset against realised capital gains. The benefit of any carried forward capital losses is also not recognised in the financial statements. If in any period realised capital gains exceed realised capital losses, including those carried forward from earlier periods and eligible for offset, the excess is included in taxable income attributed to unitholders as noted above. For the year-ended 30 June 2019, there were no unrecognised carried forward capital losses (2018: \$nil).

2.15. Use of estimates and critical accounting judgments

In the application of the Fund's accounting policies, the directors have made judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The judgements, estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, however 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 financial statements and estimates with a significant risk of material adjustments are disclosed below and where applicable, in the relevant notes to the financial statements.

2.16. New accounting standards and interpretations

(a) New and revised AASBs affecting amounts reported and/or disclosures in the financial statements

The Fund has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current year. These include:

Standard/ Interpretation	Impact on financial statements
AASB 9 <i>Financial Instruments</i> ("AASB 9")	<p>The Fund has applied AASB 9 using the modified retrospective approach and the related consequential amendments to other Accounting Standards for the first time. The requirements under AASB 9 that are applicable to the Fund and the impact of its application is disclosed below:</p> <p>(a) <i>Classification and measurement of existing financial assets as at 1 July 2018 ("existing financial assets")</i></p> <p>The directors have reviewed and assessed the Fund's existing financial assets as at 1 July 2018 based on the facts and circumstances that existed at that date and have concluded that the application of AASB 9 has had no material impact on the classification or measurement of the Fund's financial assets. Financial assets that were measured at fair value through profit or loss (FVTPL) or amortised cost under AASB 139 continue to be measured at fair value or amortised cost under AASB 9.</p> <p>(b) <i>Impairment of existing financial assets and rent receivables</i></p> <p>The directors have reviewed and assessed the Fund's existing financial assets and rent receivables for impairment using the AASB 9 expected credit loss model as opposed to the AASB 139 incurred credit loss model and have concluded that the application of AASB 9 has had no material impact on the Fund's impairment allowance required for existing financial assets and rent receivables.</p>
AASB 15 <i>Revenue from Contracts with Customers</i> ("AASB 15")	<p>The Fund has applied AASB 15 <i>Revenue from Contracts with Customers</i> ("AASB 15") for the first time in the current year. AASB 15 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.</p>

NOTES TO THE FINANCIAL STATEMENTS

The directors have reviewed and assessed the Fund's recognition and measurement of revenue from 1 July 2018 based on the facts and circumstances that existed from this date and have concluded that the application of AASB 15 has had no impact as rental income is not within scope of AASB 15.

(b) Standards and interpretations in issue not yet adopted

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

Standard/ Interpretation	Impact on financial statements
AASB 16 Leases ("AASB 16") (applying to annual periods beginning on or 1 January 2019)	<p>AASB 16 Leases, applying to annual periods beginning on or after 1 January 2019, introduces a comprehensive model for the identification, recognition and measurement of lease arrangements for lessors and lessees. For lessees, AASB 16 replaces the existing recognition and measurement requirements for operating leases (off balance sheet commitment and an expense, recognised on a straight-line basis over the lease term) with both a right-of-use ("ROU") asset and a corresponding liability in the statement of financial position for all qualifying leases. Under this new treatment, the initial measurement of both the asset and liability equates to the net present value ("NPV") of the unavoidable lease payments (inclusive of incentives and costs). Subsequently the asset value recognised is expensed as depreciation over the term of the lease and an interest expense is recognised as part of extinguishing the lease liability (reflecting the unwinding of the NPV of the unavoidable lease payments).</p> <p>For the year ended 30 June 2019, the Fund has not identified any contracts for which it is a lessee. 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.</p>

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.	

3. INVESTMENT PROPERTIES

3.1. Reconciliation of carrying amounts

	2019 \$'000	2018 \$'000
Carrying amount at the beginning of the financial year	20,500	19,600
Straight-line rental revenue recognition	2	(11)
Net gain/(loss) on fair value adjustments ¹	(2)	911
Carrying amount at the end of the financial year	20,500	20,500

¹ The net gain in fair value adjustments is wholly unrealised and has been recognised as "net fair value gain / (loss) on investment properties" in the statement of profit or loss and other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

3.2. Leasing arrangements

The Fund leases out its investment property via operating leases. The minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements as receivable are as follows:

	2019 \$'000	2018 \$'000
Less than one year	1,551	1,572
Between one and five years	5,748	5,199
More than five years	9,071	10,576
	16,370	17,347

3.3. Key estimates and assumptions – fair value and the valuation process

The determination of the fair value of investment property is subject to a number of key estimates and assumptions. 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 fair value of investment property is the price at which it could be exchanged between knowledgeable and willing parties in an arms' length transaction. The best evidence of fair value is current prices in an active market for comparable properties (i.e. properties with similar investment characteristics including, but not limited to, location, lettable area and land area, building characteristics, property conditions, the tenant in occupation, lease terms and income potential).

The fair value of investment property has been assessed to reflect market conditions as at the reporting date. 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.

The adopted valuation for investment properties, including property under development which is substantially complete and has pre-committed leases is determined using the income capitalisation method. The income capitalisation method uses unobservable inputs (i.e. key estimates and assumptions) in determining fair value, as per the table below:

Fair value hierarchy	Fair value 30 June 2019 \$'000	Valuation technique	Inputs used to measure fair value	Range of unobservable inputs
Level 3	20,500	Discounted cash flow method and	Net passing rent - \$/sqm	\$290 - \$770
			Net market rent - \$/sqm	\$200 - \$798
		Income capitalisation method	Adopted capitalisation rate	6.75% - 7.75%
			Adopted discount rate	6.50% - 7.00%
			Adopted terminal yield	6.25% - 6.75%

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.

NOTES TO THE FINANCIAL STATEMENTS

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 some or all outgoings from the tenant on a pro-rata basis (where applicable).
Net market rent	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.

3.4. Sensitivity information

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

4. CONTRIBUTED EQUITY

	2019		2018	
	No.'000	\$'000	No.'000	\$'000
At the beginning of the financial year	11,078	11,089	11,078	10,139
Unit applications	-	-	-	-
Unit redemptions	-	-	-	-
Distributions paid and payable	-	(775)	-	(775)
Total comprehensive income for the year	-	633	-	1,725
At the end of the financial year	11,078	10,947	11,078	11,089

5. DISTRIBUTIONS

	2019		2018	
	Cents per unit	\$'000	Cents per unit	\$'000
Distributions paid during the year	6.4163	710	6.4163	710
Distributions payable	0.5833	65	0.5833	65
Total distributions paid / payable	6.9996	775	6.9996	775

6. INTEREST-BEARING LIABILITIES

	2019 \$'000	2018 \$'000
Secured bank loan ¹	9,492	9,486

¹ Includes deferred borrowing costs of \$7,774 (2018: \$13,577) that have been allocated against the total amount drawn at balance date.

6.1. Summary of borrowing arrangements

This facility agreement contains both financial and non-financial covenants and undertakings that are customary for secured debt facilities of this nature. The key financial covenants (with capitalised terms being defined terms in the agreement) that apply to the Fund are as follows:

		2019	2018
Loan to Value Ratio ("LVR")	At all times, LVR does not exceed 60%.	46.34%	46.34%
Interest Cover Ratio ("ICR")	On 30 June each year, ICR is not less than 2.0 times.	2.82 times	3.28 times

6.2. Finance costs

	2019 \$'000	2018 \$'000
Interest expense paid / payable	253	293
Line fees	95	74
Amortisation of borrowing costs	6	5
Total	354	372

NOTES TO THE FINANCIAL STATEMENTS

7. DERIVATIVES – INTEREST RATE CONTRACTS

The Fund has a debt facility subject to floating interest rates. The Fund uses derivative financial instruments to manage its exposure to interest rates such as interest rate swaps (to lock in fixed interest rates) and/or interest rate caps (to limit exposure to rising floating interest rates).

All derivative financial instruments are entered into on terms that provide pari-passu security and cross collateralisation rights over the Fund's investment property (via first registered real property mortgages) and other assets (via a first ranking general "all assets" security agreement) in conjunction with the Fund's debt facility.

Generally, the interest rate swap contracts settle on a quarterly basis, generally coinciding with the dates on which interest is payable on the underlying debt. The floating rate incurred on the debt is Australian BBSY. The difference between the fixed and floating interest rate is settled on a net basis by the relevant counterparty. The interest rate contracts have not been identified as hedging instruments and any movements in the fair value are recognised immediately in the statement of profit or loss and other comprehensive income.

As at the reporting date, the fair value of interest rate contracts held by the Fund was:

	2019 \$'000	2018 \$'000
Interest rate contract	(128)	1

The Fund's interest rate contract in effect at reporting date covered 100% (2018: 100%) of the principle drawn under the debt facility and the contract details are as follows:

	Notional Value \$'000	Swap Effective Date	Swap Expiry Date	Weighted average interest rate
2019: Interest rate swaps				
Interest rate contract	9,500	December 2017	October 2020	2.15%
2018: Interest rate swaps				
Interest rate contract	9,500	December 2017	October 2020	2.15%

8. FINANCIAL RISK MANAGEMENT

The Responsible Entity is responsible for ensuring a prudent risk management culture is established for the Fund. This is reflected in the adoption of a Risk Management Framework that clearly defines risk appetite and risk tolerance limits which are consistent with the Fund's investment strategy.

The Fund's dedicated Manager is responsible for overseeing the establishment and implementation of appropriate systems, controls and policies to manage the Fund's financial risk exposure. The focus is on ensuring compliance with the approved Risk Management Framework whilst seeking to maximise unitholders' returns.

The effective design and operation of the risk management systems, controls and policies is overseen by the Responsible Entity and its Audit, Compliance and Risk Management Committee.

Risk management in respect to financial instruments is achieved via written policies that establish risk appetite and tolerance limits in respect to exposure to interest rate risk, credit risk, the use of derivative financial instruments and non-derivative financial instruments and the investment of excess liquidity. Compliance with these policies and exposure limits is reviewed by the Responsible Entity on a continuous basis.

NOTES TO THE FINANCIAL STATEMENTS

8.1. Financial instruments

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

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

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

8.2. Market risk (including interest rate risk)

The Fund is subject to market risk (the risk that borrowings or derivatives are repriced to different interest rate margins on refinance or renewal arising from changes in the debt markets) and interest rate risk (the risk that a change in interest rates may have on the Fund's profitability, cashflows and/or financial position) predominately through its borrowings, derivatives and cash exposures.

The interest rates applicable to each category of financial instrument are disclosed in the applicable note to the financial statements.

Market risk sensitivity

The Fund's sensitivity to an assumed 25 basis point change in interest rates or interest rate margins as at the reporting date, on the basis that the change occurred at the beginning of the reporting period, is outlined in the table below. An increase / (decrease) in interest rates will result in an increase / (decrease) in net profit respectively.

	Net Profit	
	25 bp increase \$'000	25 bp decrease \$'000
30 June 2019		
Variable rate instruments	(24)	24
Derivative financial instruments	26	(92)
	2	(68)
30 June 2018		
Variable rate instruments	(24)	24
Derivative financial instruments	75	(87)
	51	(63)

8.3. Credit risk

The Fund is subject to credit risk (the risk that counterparty will default on its contractual obligations resulting in financial loss to the Fund) predominately through its trade and other receivables, derivatives and cash exposures. The maximum exposure to credit risk at a reporting date is the carrying value of each financial asset as disclosed in the applicable note to the financial statements.

Credit risk is managed by ensuring that at the time of entering into a contractual arrangement or acquiring a property, counterparties or tenants are of appropriate credit worthiness, provide appropriate security or other collateral and/or do not show a history of default. The Fund's treasury policy also requires that derivatives and cash transactions are limited to financial institutions that meet minimum credit rating criteria.

NOTES TO THE FINANCIAL STATEMENTS

8.4. Liquidity risk

The Fund is subject to liquidity risk (the risk that the Fund will not be able to meet its contractual or other operating obligations).

Liquidity risk is managed by continuously monitoring forecast and actual cash flows, maintaining appropriate head room under debt facilities and matching the maturity profiles of financial assets and liabilities. To help reduce liquidity risks, the Fund:

- has a policy which targets a minimum level of cash and cash equivalents to be maintained;
- has a loan covenant target to ensure that the Fund and its controlled entities can withstand downward movement in valuations, a reduction in income and increase in interest rates without breaching the loan facility covenants.

The Fund's liquidity risk profile, based on the contractual maturities of key obligations but before consideration of operating cashflows available, is outlined in the following table.

2019	Within 1	Between 1	Over 2	Total contractual	Carrying
Liabilities	year	and 2 years	years	cash flows	amounts
	\$'000	\$'000	\$'000	\$'000	\$'000
Trade and other payables	(142)	-	-	(142)	(142)
Distributions payable	(65)	-	-	(65)	(65)
Interest-bearing liabilities	(234)	(9,561)	-	(9,795)	(9,492)
Derivative contract	(122)	(71)	-	(193)	(128)
	(563)	(9,632)	-	(10,195)	(9,827)

2018	Within 1	Between 1	Over 2	Total contractual	Carrying
Liabilities	year	and 2 years	years	cash flows	amounts
	\$'000	\$'000	\$'000	\$'000	\$'000
Trade and other payables	(128)	-	-	(128)	(128)
Distributions payable	(65)	-	-	(65)	(65)
Interest-bearing liabilities	(304)	(359)	(9,601)	(10,264)	(9,486)
Derivative contract	(11)	(4)	6	(9)	1
	(508)	(363)	(9,595)	(10,466)	(9,678)

8.5. Fair value hierarchy

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

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

	Fair value measurement as at 30 June 2019			
	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Financial liabilities at FVTPL				
Interest rate contracts	-	(128)	-	(128)
Total	-	(128)	-	(128)

NOTES TO THE FINANCIAL STATEMENTS

	Fair value measurement as at 30 June 2018			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial liabilities at FVTPL				
Interest rate contracts	-	1	-	1
Total	-	1	-	1

There were no transfers between levels during the financial year.

8.6. Net fair values

The carrying values of the Fund's financial instruments as disclosed in the statement of financial position approximate their fair values. Refer to the applicable notes to the financial statements for the recognition and measurement principles applied to each type of financial instrument.

9. COMMITMENT AND CONTINGENCIES

There are no outstanding contingencies or commitments as at 30 June 2019 (30 June 2018: \$nil).

10. CASH AND CASH EQUIVALENTS

10.1. Reconciliation of profit / (loss) to net cash flows from operating activities

For the purpose of the statement of cash flows, cash and cash equivalents includes cash on hand and bank and short-term deposits at call.

	2019 \$'000	2018 \$'000
Reconciliation of cash and cash equivalents		
Cash and cash equivalents	223	150
Reconciliation of net profit / (loss) to net cash flows from operating activities		
Net profit / (loss)	633	1,725
<i>Add / (less) non-cash items:</i>		
Straight line lease revenue recognition	(2)	11
Fair value (gains)/losses on investment properties	2	(911)
Fair value (gains)/losses on derivatives	130	(23)
Amortisation of borrowing costs	6	5
<i>Changes in assets/liabilities:</i>		
Decrease/(increase) in trade and other receivables	67	(12)
Increase/(decrease) in payables	13	8
Net cash inflows from operating activities	849	803

10.2. Reconciliation of liabilities arising from financing activities

The table below details changes in the Fund'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 Fund's statement of cash flows as cash flows from financing activities.

NOTES TO THE FINANCIAL STATEMENTS

	2019 \$'000	2018 \$'000
Borrowings as at 1 July	9,486	9,441
Net cash inflow / (outflow) from financing activities:		
Proceeds from borrowings	-	50
Additional capitalised borrowing costs paid	-	(10)
Non-cash changes:		
Amortisation of capitalised borrowing costs	6	5
Borrowings as at 30 June	9,492	9,486

11. TRADE AND OTHER RECEIVABLES

	2019 \$'000	2018 \$'000
Accounts receivable	3	46
Prepaid expenses	47	71
	51	117

11.1. Ageing analysis of receivables past due but not impaired

	2019 \$'000	2018 \$'000
0-30 days	1	29
31-90 days	-	15
91+ days	2	2
	3	46

Accounts receivable are non-interest bearing and are generally on 0-30 day terms.

As at 30 June 2019, no receivables were impaired (2018: \$nil) and expensed in the statement of profit or loss and other comprehensive income. The directors have reviewed and assessed the Fund's existing accounts receivable balance for impairment using the expected credit loss model.

12. TRADE AND OTHER PAYABLES

	2019 \$'000	2018 \$'000
Accounts payable	87	73
Accrued expenses	55	55
Total	142	128

13. RELATED PARTY TRANSACTIONS

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, as such there are no staff costs (including fees paid to directors of the Responsible Entity) included in the statement of profit or loss and other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

13.2. Transactions with the Responsible Entity and related bodies corporate

The Responsible Entity and Manager of the Fund is APN Funds Management Limited (ACN 080 674 479) ("APN FM") 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:

	2019		2018	
	Paid \$'000	Payable \$'000	Paid \$'000	Payable \$'000
Management fees	91	30	92	31
Registry fees	8	2	8	2
Accounting Fees	8	2	8	2
Reimbursement of costs paid on behalf of the Fund	3	1	11	22
	110	35	119	57

13.3. Unitholdings and associated transactions with related parties

The below table shows the number of the Fund's securities held by its related parties (including managed investment schemes for which a related party is the Responsible Entity or Manager) and the distributions received or receivable.

	2019		2018	
	Number of units	Distributions \$	Number of units	Distributions \$
APN Property Group Limited	479	33	479	33

14. REMUNERATION OF AUDITORS

	2019 \$	2018 \$
Audit and review of financial statements	18,139	19,477
Other non-audit services:		
Compliance plan audit	3,120	3,260
	21,259	22,737

The auditor of the Fund is Deloitte Touche Tohmatsu.

15. NET TANGIBLE ASSETS

	2019 \$ per unit	2018 \$ per unit
Net tangible asset per unitholding at 30 June	0.9882	0.9997

Net tangible asset per unitholding is calculated by dividing net assets (adjusted to exclude intangible assets) by the number of units.

NOTES TO THE FINANCIAL STATEMENTS

16. SUBSEQUENT EVENTS

There have been no significant events or transactions that have arisen since reporting date which, in the opinion of the directors, would affect significantly the operations of the Fund, the results of those operations, or the state of affairs of the Fund.