

APN Coburg North Retail Fund

ARSN 601 833 363

Interim Financial Report for the half year ended

31 December 2019

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Directors' report

The directors of APN Funds Management Limited (ACN 080 674 479), the Responsible Entity of APN Coburg North Retail Fund (the "Fund"), present the interim financial report of the Fund for the half-year ended 31 December 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 half-year and up to the date of this report:

Geoff Brunsdon AM	Chairman and Independent Director
Howard Branchley	Independent Director
Jennifer Horrigan	Independent Director
Michael Johnstone	Independent Director
Michael Groth	Resigned as Alternate Director for Howard Branchley effective 2 July 2019
Joseph De Rango	Appointed as Alternate Director for Howard Branchley effective 1 September 2019

Principal activities

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

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

During the half 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 the operations of the Fund are disclosed in the condensed statement of profit or loss and other comprehensive income. The net profit for the half-year ended 31 December 2019 was \$411,000 (31 December 2018 net profit: \$378,000).

Distributions

In respect of the half-year ended 31 December 2019, a final distribution of 0.5833 cents per unit was paid to the unitholders on 10 January 2020 (2018: 0.5833 cents per unit). The total distributions paid to unitholders during the half-year ended 31 December 2019 was 3.4998 cents per unit (31 December 2018: 3.4998 cents per unit).

For full details of distributions paid and payable during the half-year, refer to note 3 to the condensed financial statements.

Auditor's independence declaration

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

Matters subsequent to the end of the half year

There has not been any matter or circumstance occurring subsequent to the end of the half-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.

Directors' report (continued)

Rounding of amounts

The Fund is an entity 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 interim 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 s.306(3) of the *Corporations Act 2001*.

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

A handwritten signature in black ink, appearing to be 'G. Brunsdon', followed by a long horizontal line extending to the right.

Geoff Brunsdon AM
Director

Melbourne, 11 February 2020

11 February 2020

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 half-year financial report for APN Coburg North Retail Fund.

As lead audit partner for the review of the financial report of APN Coburg North Retail Fund for the half-year ended 31 December 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 review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours faithfully



DELOITTE TOUCHE TOHMATSU



Lani Cockrem
Partner
Chartered Accountants

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of APN Coburg North Retail Fund (the "Fund"), which comprises the condensed statement of financial position as at 31 December 2019, 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 as set out in pages 6 to 15.

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 2019 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 2019 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



Lani Cockrem
Partner
Chartered Accountants
Melbourne, 11 February 2020

Directors' declaration

The directors of APN Funds Management Limited, the Responsible Entity of APN Coburg North Retail Fund (the "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; and
- (b) in the directors' opinion, the attached condensed 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 s.303(5) of the *Corporations Act 2001*.

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

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, 11 February 2020

Condensed statement of profit or loss and other comprehensive income

for the half-year ended 31 December 2019

		Half-year ended 31 December 2019	Half-year ended 31 December 2018
	Notes	\$'000	\$'000
Revenue			
Rental income		852	793
Straight line rental income recognition		(1)	(3)
Total revenue for continuing operations		851	790
Other income			
Net fair value gain / (loss) on investment property		1	3
Net fair value gain / (loss) on financial liabilities		42	(33)
Total other income		43	(30)
Total income		894	760
Expenses			
Property expenses		(198)	(99)
Management fees	8	(60)	(62)
Finance costs		(177)	(179)
Other expenses		(48)	(42)
Total expenses		(483)	(382)
Net profit / (loss) for the period		411	378
Other comprehensive income			
Other comprehensive income		-	-
Total comprehensive income for the period		411	378

Notes to the condensed financial statements are included in the accompanying pages.

Condensed statement of financial position

as at 31 December 2019

	Notes	31 December 2019 \$'000	30 June 2019 \$'000
Assets			
Cash and cash equivalents		276	223
Trade and other receivables		4	51
Investment property	5	20,505	20,500
Total assets		20,785	20,774
Liabilities			
Trade and other payables		(168)	(142)
Distributions payable	3	(65)	(65)
Derivative financial instruments	7	(87)	(128)
Interest bearing liabilities	4	(9,495)	(9,492)
Total liabilities		(9,815)	(9,827)
Net assets		10,970	10,947
Equity			
Contributed equity	6	10,971	10,971
Retained earnings		(1)	(24)
Total Equity		10,970	10,947

Notes to the condensed financial statements are included in the accompanying pages.

Condensed statement of changes in equity

for the half-year ended 31 December 2019

	Notes	Contributed equity \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 July 2018		10,971	118	11,089
Net profit for the period		-	378	378
Other comprehensive income		-	-	-
Total comprehensive income for the period		-	496	11,467
Distributions to unitholders	3	-	(388)	(388)
Balance at 31 December 2018		10,971	108	11,079
Balance at 1 July 2019		10,971	(24)	10,947
Net profit for the period		-	411	411
Other comprehensive income		-	-	-
Total comprehensive income for the period		-	387	11,358
Distributions to unitholders	3	-	(388)	(388)
Balance at 31 December 2019		10,971	(1)	10,970

Notes to the condensed financial statements are included in the accompanying pages.

Condensed statement of cash flows

for the half-year ended 31 December 2019

Notes	Half year ended 31 December 2019 \$'000	Half year ended 31 December 2018 \$'000
Cash flows from operating activities		
Net rental income received	708	685
Other expenses paid	(84)	(93)
Finance costs paid	(183)	(177)
Net cash inflow / (outflow) from operating activities	441	415
Cash flows from financing activities		
Distributions paid	(388)	(388)
Net cash inflow / (outflow) from financing activities	(388)	(388)
Net increase / (decrease) in cash and cash equivalents	53	27
Cash and cash equivalents at the beginning of the half year	223	150
Cash and cash equivalents at the end of the half year	276	177

Notes to the condensed financial statements are included in the accompanying pages.

Notes to the condensed 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

2.1. Statement of compliance

The interim 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 interim 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 report.

The financial statements were authorised for issue by the directors on 11 February 2020.

2.2. Basis of preparation

The condensed financial statements 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. 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 Australian dollars, unless otherwise noted.

The Fund is an entity 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 interim 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 interim financial report are consistent with those adopted and disclosed in the Fund's annual financial report for the financial year ended 30 June 2019, except for the impact from adoption of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Fund's current debt facility matures on 30 October 2020. Management has initiated discussions with the current and potential new debt provider to extend the maturity of this facility. The Fund is within all its financial covenants and as such it is management's current view that it will be able to secure a term extension on commercially acceptable terms.

Accordingly, the condensed financial statements have been prepared on a going concern basis.

2.3. 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 its operations and effective for the current half-year. These include:

Notes to the condensed financial statements (continued)

Standard/ Interpretation	Impact on financial statements
AASB 16 <i>Leases</i> ("AASB 16")	<p>The Fund has applied AASB 16 <i>Leases</i> for the first time. For lessees, AASB 16 replaced the 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.</p> <p>Under this new treatment, both the asset and liability are initially measured at 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>As at 31 December 2019, the Fund did not have any contracts for which it is a lessee. The Group is a lessor by virtue of the lease arrangements associated with its investment properties. As AASB 16 does not significantly alter lessor accounting, it did not impact the Fund.</p>

3. DISTRIBUTIONS

	31 December 2019		31 December 2018	
	Cents per security	\$'000	Cents per security	\$'000
Distributions paid during the period	2.9165	323	2.9165	323
Distributions payable	0.5833	65	0.5833	65
Total distributions paid / payable	3.4998	388	3.4998	388

4. INTEREST BEARING LIABILITIES

	31 December 2019	30 June 2019
	\$'000	\$'000
Secured bank loan	9,500	9,500
Capitalised borrowing cost	(5)	(8)
Total borrowings at balance date	9,495	9,492

The debt facility 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 debt facility agreement) that apply to the Fund are tested annually at 30 June and remains unchanged from those disclosed in the most recent annual report. The Fund's current debt facility matures on 30 October 2020. Management has initiated discussions with the current and potential new debt provider to extend the maturity of this facility. The Fund is well within all its financial covenants and as such it is management's current view that it will be able to secure a term extension on commercially acceptable terms.

As at the reporting date, the Fund is compliant with all financial covenants as follows:

		31 December 2019
Loan to Value Ratio ("LVR")	At all times, LVR does not exceed 60%.	46.33%
Interest Cover Ratio ("ICR")	At all times, ICR is not less than 2.0 times.	3.76 times

Notes to the condensed financial statements (continued)

5. INVESTMENT PROPERTY

Reconciliation of carrying amount

	31 December 2019 \$'000	30 June 2019 \$'000
Carrying amount at beginning of the period	20,500	20,500
Capitalised leasing incentives and fees	6	-
Amortisation of lease incentives and fees	(1)	-
Straight line revenue recognition	(1)	2
Net gain / (loss) on fair value adjustments	1	(2)
Carrying amount at end of the period	20,505	20,500

6. CONTRIBUTED EQUITY

6.1 Carrying amount

	31 December 2019		31 December 2018	
	No. '000	\$'000	No. '000	\$'000
At the beginning of the period	11,078	10,971	11,078	11,089
Unit applications	-	-	-	-
Unit redemptions	-	-	-	-
Units issued upon reinvestment of distributions	-	-	-	-
At the end of the period	11,078	10,971	11,078	11,089

7. FAIR VALUE HIERARCHY

The following table provides an analysis of investment properties and financial instruments that are measured at fair value at 31 December 2019, grouped into Levels 1 to 3 based on the degree to which the fair value inputs is observable:

Fair value measurement as at 31 December 2019				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Investment property	-	-	20,505	20,505
Derivative financial liability	-	(87)	-	(87)
Total	-	(87)	20,505	20,418

Fair value measurement as at 30 June 2019				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Investment property	-	-	20,500	20,500
Derivative financial liability	-	(128)	-	(128)
Total	-	(128)	20,500	20,372

Notes to the condensed financial statements (continued)

- 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). The adopted valuation for investment properties 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:

Unobservable 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

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.

There were no transfers between Levels during the half-year (30 June 2019: nil).

8. RELATED PARTY TRANSACTIONS

8.1 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 condensed statement of profit or loss and other comprehensive income.

8.2 Transactions with the Responsible Entity and related bodies corporate

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

Notes to the condensed financial statements (continued)

Transactions with the Responsible Entity / Manager have taken place at arm's length and in the ordinary course of business. The transactions are as follows:

	31 December 2019		31 December 2018	
	Paid \$'000	Payable \$'000	Paid \$'000	Payable \$'000
Management fees	30	30	31	31
Registry fees	3	3	2	3
Accounting fees	3	3	3	3
Reimbursement of costs paid on behalf of the Fund	2	1	1	1
	38	37	37	38

8.3 Unitholdings and associated transactions with related parties

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

	31 December 2019		31 December 2018	
	No. of units	Distributions \$	No. of units	Distributions \$
APN Property Group Limited	479	17	479	17

9. COMMITMENT AND CONTINGENCIES

There are no commitments and contingencies in effect at 31 December 2019 (30 June 2019: nil).

10. SUBSEQUENT EVENTS

There has not been any matter or circumstance occurring subsequent to the end of the half-year that has significantly affected, or may significant affect, the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future financial years.

11. NET TANGIBLE ASSET BACKING

	31 December 2019	31 December 2018
	\$	\$
Net tangible asset backing	0.9898	1.0001

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