APN | Nowra Property Fund

ABN 11 447 236 806

Annual Report for the Financial Year Ended
30 June 2021

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DIRECTORS' REPORT

The directors of APN Funds Management Limited (ACN 080 674 479), the Responsible Entity of APN Nowra Property Fund (the "Fund") present the financial statements of the Fund for the financial year ended 30 June 2021.

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
Joseph De Rango	Alternate Director for Howard Brenchley

Principal activities

The Fund is an unregistered managed investment fund domiciled in Australia. The principal activity of the Fund is to own and manage a single commercial property that offers sustainable and secure income stream to investors with the potential for capital growth.

The Fund did not have any employees during the year.

Significant changes in the state of affairs

There were no other significant changes in the state of affairs of the Fund during the financial 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 Fund's primary asset has performed well through the ongoing disruption caused by the COVID-19 pandemic. The Fund has received no request for rent relief and remains well placed for the following reasons:

- The Fund derives all of its income from a secure lease covenant with Home Consortium which is guaranteed by Woolworths Limited.
- There is 10.1 years remaining on Home Consortium's current lease.
- The sublease agreement between the centres' sole tenant, Home Consortium and Bunnings Warehouse came to end in FY21 with Bunnings vacating the premises. This sublease arrangement had no impact on the income of the Fund.
- Fund's total gearing is 41.28%, below the loan to value (LVR) covenant of 50%.
- The Fund's interest coverage ratio (ICR), which measures the Fund's ability to service its' debt obligations, remains strong at 4.03 times, well above the covenant of 2.00 times.
- The Fund's debt is hedged at 100% in order to protect the Fund against fluctuations in interest rates, providing certainty over financing requirements until March 2023.

Results

The results of the Fund are disclosed in the statement of profit or loss and other comprehensive income. The Fund's total comprehensive income for the year ended 30 June 2021 was $1,224,000 (2020: $2,248,000).

Distributions

Distributions of $1,080,000 were declared by the Fund during the financial year ended 30 June 2021 (2020: $1,047,000).

For full details of distributions paid and/or payable during the financial year, refer to note 6 to the financial statements.

Matters subsequent to the end of the financial year

Other than those disclosed in note 17, there has not been any other matter or circumstance occurring subsequent to 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.

Future developments

The Fund will continue to seek to increase the value of its investments by actively managing its property and cash flows 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 4.

Fund information in the directors' report

Fees paid to the Responsible Entity during the financial year are disclosed in note 14 to the financial statements. The Responsible Entity and its associates' security holdings in the Fund are also disclosed in note 14.

The number of securities in the Fund on issue at the end of the financial year is disclosed in note 5 to the financial statements.

The value of the Fund's assets at the end of the financial year is disclosed in the statement of financial position as "total assets" and the basis of valuation is included in note 2 to the financial statements.

Options granted

As the Fund is an externally managed vehicle, no options were:

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

No unissued securities in the Fund were under option as at the date on which this report is made.

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

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 A*SIC 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

Geoff Brunsdon AM
Director

Melbourne, 12 August 2021

Deloitte Touche Tohmatsu
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12 August 2021

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

Dear Board Members

Independence Declaration – APN Nowra Property Fund

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

As lead audit partner for the audit of the financial statements of APN Nowra Property Fund for the financial year ended 30 June 2021, 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

DELOITTE TOUCHE TOHMATSU

M Stretton

Mark Stretton
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Independent Auditor's Report to the Unitholders of APN Nowra Property Fund

Opinion

We have audited the financial report of APN Nowra Property Fund (the "Fund") which comprises the statement of financial position as at 30 June 2021, the statement of profit or loss and other comprehensive income, the statement of changes in equity and 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:

- Giving a true and fair view of the Fund's financial position as at 30 June 2021 and of its financial performance for the year then ended; and
- 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 & Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants *(including Independence Standards)* (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 for the year ended 30 June 2021, 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.

Deloitte.

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

DELOITTE TOUCHE TOHMATSU

M Stretton

Mark Stretton
Partner
Chartered Accountants

Melbourne, 12 August 2021

DIRECTORS' DECLARATION

The directors of APN Funds Management Limited, the Responsible Entity of APN Nowra Property 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, 12 August 2021

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2021

	Notes	2021 $'000	2020 $'000
Revenue	3	1,873	1,876
Total revenue from continuing operations		**1,873**	**1,876**
Other income			
Net fair value gain on investment property		-	1,277
Net fair value gain / (loss) on financial liabilities		195	(106)
Total other income		**195**	**1,171**
Total income		**2,068**	**3,047**
Expenses			
Property costs		(187)	(130)
Management fees		(190)	(195)
Finance costs	7	(419)	(420)
Other expenses		(48)	(54)
Total expenses		**(844)**	**(799)**
Net profit for the year		**1,224**	**2,248**
Other comprehensive income		-	-
Total comprehensive income for the year		**1,224**	**2,248**

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

STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Notes	2021 $'000	2020 $'000
Current assets			
Cash and cash equivalents	11	169	214
Trade and other receivables	12	8	5
Other assets		102	63
Total current assets		**279**	**282**
Non-current assets			
Investment property	4	25,508	25,500
Total non-current assets		**25,508**	**25,500**
Total assets		**25,787**	**25,782**
Current liabilities			
Trade and other payables	13	(141)	(93)
Distributions payable	6	(90)	(87)
Derivative financial instrument	8	(179)	(187)
Total current liabilities		**(410)**	**(367)**
Non-current liabilities			
Derivative financial instrument	8	(114)	(301)
Borrowings	7	(10,522)	(10,517)
Total non-current liabilities		**(10,636)**	**(10,818)**
Total liabilities		**(11,046)**	**(11,185)**
Net assets		**14,741**	**14,597**
Equity			
Contributed equity		12,369	12,369
Retained earnings		2,372	2,228
Total equity		**14,741**	**14,597**

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2021

	Notes	Contributed equity $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2019		12,369	1,027	13,396
Net profit for the year		-	2,248	2,248
Other comprehensive income		-	-	-
Total comprehensive income for the year		**-**	**2,248**	**2,248**
Distributions to unitholders	6	-	(1,047)	(1,047)
Balance at 30 June 2020		**12,369**	**2,228**	**14,597**
Balance 1 July 2020		12,369	2,228	14,597
Net profit for the year		-	1,224	1,224
Other comprehensive income		-	-	-
Total comprehensive income for the year		**-**	**1,224**	**1,224**
Distributions to unitholders	6	-	(1,080)	(1,080)
Balance at 30 June 2021		**12,369**	**2,372**	**14,741**

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

STATEMENT OF CASH FLOWS

For the year ended 30 June 2021

	Notes	2021 $'000	2020 $'000
Cash flows from operating activities			
Net rental income received		1,639	1,774
Other expenses paid		(185)	(266)
Finance costs paid		(414)	(408)
Net cash inflow from operating activities	11	**1,040**	**1,100**
Cash flows from investing activities			
Payments for capital expenditure on investment property		(8)	(3)
Net cash outflow from investing activities		**(8)**	**(3)**
Cash flows from financing activities			
Distributions paid		(1,077)	(1,045)
Net cash outflow from financing activities		**(1,077)**	**(1,045)**
Net (decrease) / increase in cash and cash equivalents		(45)	52
Cash and cash equivalents at the beginning of the financial year		214	162
Cash and cash equivalents at the end of the financial year	11	**169**	**214**

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

1. GENERAL INFORMATION

APN Nowra Property Fund is an unregistered managed investment scheme domiciled in Australia. APN Funds Management Limited is the Responsible Entity of the Fund.

The address of its registered office and principal place of business is as follows:

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

2. 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. Going concern

The Fund has assessed its ability to continue as a going concern taking into account of all information available for a period of 12 months from the date of issuing the financial statements. The impact of the COVID-19 pandemic has been minimal to the Fund's tenant. Whilst the situation is still evolving, the directors of the Responsible Entity remains confident that the Fund will be able to continue trading and realise assets and discharge liabilities in its ordinary course of business. In reaching this position, the following factors have been considered:

- the Fund has adequate levels of liquidity through its operating cash flows, and predicts the same over forthcoming financial year;
- the Fund derives all of its income from a secure lease covenant with Home Consortium. which is guaranteed by Woolworths Limited. The remaining lease term on the current lease with Home Co is 10.1 years;
- The sublease agreement between the centres' sole tenant, Home Consortium and Bunnings Warehouse came to end in FY21 with Bunnings vacating the premises. This sublease arrangement had no impact on the income of the Fund.
- the Fund has adequate levels of headroom with debt covenants as disclosed in note 7.1 and the Fund does not expect any covenants to be breached; and
- the Fund's debt is hedged to a level of 100%.

Given consideration to the above, the directors of the Responsible Entity believe that the Fund will be able to meet its debts as and when they fall due for at least a period of 12 months from the date of the financial statements. Therefore, the financial statements have been prepared on a going concern basis.

2.2. 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 12 August 2021.

2.3. Basis of preparation

The financial statements have been prepared on the basis of historical cost, except for the revaluation of investment property and financial instruments. Cost is based on the fair value 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.

2.4. Investment property

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

Subsequent to initial recognition, investment property is 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 property 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.

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 property 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 or discounted cashflow 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 it is withdrawn from use, and 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.

2.5. Rental income

Rental income from investment property comprises 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 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.

2.6. Outgoing recoveries

Income from property outgoing recoveries are recognised as the costs are incurred, which is typically when the services are provided. Outgoing recoveries not received at reporting date are reflected in the statement of financial position as trade and other receivables.

2.7. 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.

2.8. 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.

2.9. 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.

2.10. 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.

2.11. 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.

2.12. 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 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.

2.13. 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.

2.14. 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").

Impairment of financial assets and rent receivables

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.

2.15. 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.

2.16. 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 8 November 2018, 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 basis, 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.

Realised capital losses are not attributed to unitholders but instead are retained within the AMIT Fund 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 2021, there were no unrecognised carried forward capital losses (2020: $nil).

2.17. 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 critical judgements, estimates and assumptions made in current period are contained in note 4.

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 where applicable, in the relevant notes to the financial statements.

2.18. 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.

(b) Standards and interpretations on issue but not yet effective

There are no other standards that are not yet effective and that are expected to have a material impact on the Fund in the current or future reporting periods and on foreseeable future transactions.

3. REVENUE

Revenue from investment property comprises of lease components (including base rent, recoveries of property tax and property insurance) and non-lease components that primarily consists of property outgoing recoveries.

	2021 $'000	2020 $'000
Rental income	1,824	1,821
Outgoing recoveries	49	55
Total revenue	**1,873**	**1,876**

4. INVESTMENT PROPERTY

The Fund invests in a single asset which is located at 190 Princes Highway, Nowra, New South Wales.

4.1. Reconciliation of carrying amounts

	2021 $'000	2020 $'000
Carrying amount at the beginning of the financial year	25,500	24,220
Capital expenditure on existing investment property	8	3
Net gain on fair value adjustments [1]	-	1,277
Carrying amount at the end of the financial year	**25,508**	**25,500**

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

4.2. Leasing arrangements

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

	2021 $'000	2020 $'000
Less than one year	1,873	1,853
Between one and five years	7,788	7,752
More than five years	10,641	12,955
	20,302	**22,560**

4.3. 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 property as well as the level of fair value hierarchy within which the fair value measurements are categorised.

The adopted valuation for investment property, 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 2021 $'000	Valuation technique	Inputs used to measure fair value	Range of unobservable inputs
Level 3	25,508	Discounted cash flow method and income capitalisation method	Net passing rent - $/sqm	$140 - $140
			Net market rent - $/sqm	$140 - $140
			Adopted capitalisation rate	7.00% - 7.00%
			Adopted discount rate	7.50% - 7.50%
			Adopted terminal yield	8.00% - 8.00%

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 asset's life including an exit or terminal value. The DCF method involves a projection of a series of cash flows on a real property interest. To this projected cash flow series, an appropriate, market derived discount rate is applied to establish the present value of the income stream associated with the real property.
Income capitalisation method	This method involves assessing the total net market income receivable from the property and capitalising this in perpetuity to derive a capital value, with allowances for capital expenditure and passing rent reversions.
Net passing rent	Net passing rent is the contracted amount for which a property or space within a property is leased. In a net rent situation, the owner recovers 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.

4.4. Sensitivity information

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 calculating fair value using the discounted cash flow approach, 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 its 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 the fair value.

Sensitivity analysis has been performed on the fair value adopted at 30 June 2021, based on a range of potential capitalisation rate and discount rate movements on the Fund's investment property as compared to the capitalisation rates and discount rates adopted at 30 June 2021. Capitalisation rates and discount rates are considered to be key unobservable inputs that would have a material impact on the fair value adopted if they moved.

Outcomes of the sensitivity analysis are set out below, a decrease in the valuation of investment property results in a decrease to net profit, and an increase in the valuation of investment property results in an increase to net profit.

	Net Profit			
	Capitalisation rate		Discount rate	
	0.25% increase $'000	0.25% decrease $'000	0.25% increase $'000	0.25% decrease $'000
Investment property	(402)	428	(431)	441

The results of the sensitivity analysis above demonstrate that the in the event of a softening in capitalisation rates, the Fund's financial position and key financial covenants required by its borrowing arrangements would not be materially impacted to the extent that its going concern assumption would need to be reconsidered.

5. CONTRIBUTED EQUITY

	2021 No.	2020 No.
At the beginning of the financial year	13,092,000	13,092,000
Issue of contributed equity	-	-
At the end of the financial year	**13,092,000**	**13,092,000**

6. DISTRIBUTIONS

	2021		2020	
	Cents per unit	$'000	Cents per unit	$'000
Distributions paid during the year	7.5625	(990)	7.3337	(960)
Distributions payable	0.6875	(90)	0.6667	(87)
Total distributions paid and payable	**8.2500**	**(1,080)**	**8.0004**	**(1,047)**

7. BORROWINGS

	2021 $'000	2020 $'000
Cash advance facility utilised	(10,530)	(10,530)
Deferred borrowing costs	8	13
Total borrowings	**(10,522)**	**(10,517)**

7.1. Summary of borrowing arrangements

The cash advance facility is secured over the Fund's investment property (via first registered real property mortgages) and other assets (via a first ranking general "all assets" security agreement). The total facility limit is $10.53 million, has been fully drawn and expires in March 2023.

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:

		2021
Loan to Value Ratio ("LVR")	At all times, LVR does not exceed 50%.	41.28%
Interest Cover Ratio ("ICR")	On 30 June each year, ICR is not less than 2.0 times.	4.03 times

7.2. Finance costs

	2021 $'000	2020 $'000
Interest expense paid and payable	(314)	(314)
Line fees	(105)	(106)
Total finance costs	**(419)**	**(420)**

8. 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:

	2021 $'000	2020 $'000
Current liabilities		
Interest rate contracts	(179)	(187)
Non-current liabilities		
Interest rate contracts	(114)	(301)

The Fund's interest rate contract in effect at reporting date covered 100% (2020: 100%) of the principle drawn under the debt facility and the contract details are as follows:

	Notional Value $'000	Weighted average fixed interest rate
2021: Interest rate swaps		
Interest rate contract	7,900	
Interest rate contract	2,630	
Total / Weighted average	**10,530**	**2.16%**
2020: Interest rate swaps		
Interest rate contract	7,900	
Interest rate contract	2,630	
Total / Weighted average	**10,530**	**2.16%**

9. 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.

9.1. Financial instruments

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

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

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.

9.2. 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 2021		
Variable rate instruments	(26)	26
Derivative financial instruments	(28)	(108)
	(54)	**(82)**
30 June 2020		
Variable rate instruments	(26)	26
Derivative financial instruments	(36)	(89)
	(62)	**(63)**

9.3. Credit risk

The Fund is subject to credit risk (the risk a 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.

9.4. 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 can withstand a 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.

2021 Liabilities	**Within 1 year $'000**	**Between 1 and 2 years $'000**	**Over 2 years $'000**	**Total contractual cash flows $'000**	**Carrying amounts $'000**
Trade and other payables	(141)	-	-	(141)	(141)
Distribution payable	(90)	-	-	(90)	(90)
Interest-bearing liabilities	(172)	(10,680)	-	(10,853)	(10,522)
Interest rate contracts	(210)	(133)	-	(342)	(293)
	(613)	**(10,813)**	**-**	**(11,426)**	**(11,046)**

2020 Liabilities	**Within 1 year $'000**	**Between 1 and 2 years $'000**	**Over 2 years $'000**	**Total contractual cash flows $'000**	**Carrying amounts $'000**
Trade and other payables	(93)	-	-	(92)	(93)
Distribution payable	(87)	-	-	(87)	(87)
Interest-bearing liabilities	(206)	(217)	(10,688)	(11,111)	(10,517)
Interest rate contracts	(163)	(152)	(109)	(424)	(488)
	(549)	**(369)**	**(10,797)**	**(11,714)**	**(11,185)**

9.5. 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 2021			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial liabilities at FVTPL				
Interest rate contracts	-	(293)	-	(293)
Total	**-**	**(293)**	**-**	**(293)**

	Fair value measurement as at 30 June 2020			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial liabilities at FVTPL				
Interest rate contracts	-	(488)	-	(488)
Total	**-**	**(488)**	**-**	**(488)**

There were no transfers between levels during the current or prior financial years.

9.6. 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.

10. COMMITMENT AND CONTINGENCIES

There are no outstanding contingencies or commitments as at 30 June 2021 (30 June 2020: $nil).

11. CASH AND CASH EQUIVALENTS

11.1. Reconciliation of profit 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.

	2021 $'000	2020 $'000
Reconciliation of cash and cash equivalents		
Cash and cash equivalents	169	214
Reconciliation of net profit to net cash flows from operating activities		
Net profit	1,224	2,248
Add / (less) non-cash items:		
Fair value (gains) / losses on derivatives	(195)	106
Fair value (gains) / losses on investment property	-	(1,277)
Movement in prepaid expenses	25	14
Changes in assets/liabilities:		
Decrease / (increase) in trade and other receivables	(67)	7
Increase / (decrease) in payables	53	2
Net cash inflows from operating activities	**1,040**	**1,100**

11.2. 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.

	2021 $'000	2020 $'000
Borrowings as at 1 July	(10,517)	(10,513)
Non-cash changes:		
Amortisation of capitalised borrowing costs	(5)	(4)
Borrowings at the end of the year	**(10,522)**	**(10,517)**

12. TRADE AND OTHER RECEIVABLES

	2021 $'000	2020 $'000
Accounts receivable	8	5
Total	**8**	**5**

12.1. Ageing analysis of receivables past due but not impaired

	2021 $'000	2020 $'000
0-30 days	3	5
31-90 days	-	-
91+ days	5	-
	8	**5**

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

As at 30 June 2021, no receivables were impaired (2020: $nil). The directors have reviewed and assessed the Fund's existing accounts receivable balance for impairment using the expected credit loss model.

13. TRADE AND OTHER PAYABLES

	2021 $'000	2020 $'000
Accounts payable	(67)	(66)
Accrued expenses	(74)	(27)
Total	**(141)**	**(93)**

14. RELATED PARTY TRANSACTIONS

14.1. 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.

14.2. Transactions with the Responsible Entity and related bodies corporate

The Responsible Entity and Manager of APN Nowra Property Fund is APN Funds Management Limited. APN FM's immediate and ultimate parent entity is APN Property Group Limited (ACN 109 846 068).

Transactions taken place with entities related to APN Property Group Limited are as follows:

	2021		2020	
	Paid $'000	Payable $'000	Paid $'000	Payable $'000
Investment management fees	(178)	(16)	(174)	(16)
Registry fees	(4)	(1)	(4)	(1)
Accounting fees	(4)	(1)	(4)	(1)
Custody fees	(47)	(4)	(46)	(4)
Property management fees	(12)	(1)	(12)	(1)
Reimbursement of costs paid on behalf of the Fund	(6)	(5)	(6)	-
	(251)	**(28)**	**(246)**	**(23)**

14.3. Unitholdings and associated transactions with related parties

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

	2021		2020	
	No. of units	Distributions $	No. of units	Distributions $
APN Property Group	18,338	1,513	18,338	1,467
Howard Brenchley	100,000	8,250	100,000	8,000
Chris Aylward	500,000	41,250	500,000	40,002
Clive Appleton	60,000	4,950	60,000	4,800
Total	**678,338**	**55,963**	**678,338**	**54,269**

15. REMUNERATION OF AUDITORS

	2021 $	2020 $
Deloitte and related network firms		
Audit of financial reports	13,419	12,965
Other assurance and agreed-upon procedures under other legislation or contractual arrangements	-	2,545
	13,419	**15,510**

The auditor of the Fund is Deloitte Touche Tohmatsu.

16. NET TANGIBLE ASSETS

	2021 $ per unit	2020 $ per unit
Net tangible asset per unitholding at 30 June	1.1254	1.1150

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

17. SUBSEQUENT EVENTS

17.1. Acquisition of APN Property Group

On 27 July 2021, securityholders in APN Property Group (ASX: APD), the ultimate and immediate parent entity of APN Funds Management Limited, passed resolutions to approve the acquisition of APD by Dexus Nominee Pty Limited (an entity controlled by Dexus, ASX: DXS). Subsequently, on 4 August 2021 the Supreme Court of Victoria approved the scheme of arrangement and trust scheme. As a result, the transaction will be implemented on 13 August 2021.

Other than the above, 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.