

# APN Regional Property Fund and its Controlled Funds

ARSN 110 488 821

Interim Financial Report for the half-year ended  
31 December 2019

# Contents

---

Directors' report	1
Auditor's independence declaration	3
Independent auditor's report	4
Directors' declaration	6
Condensed consolidated statement of profit or loss and other comprehensive income	7
Condensed consolidated statement of financial position	8
Condensed consolidated statement of changes in equity	9
Condensed consolidated statement of cash flows	10
Notes to the condensed consolidated financial statements	11

# Directors' report

---

The directors of APN Funds Management Limited (ACN 080 674 479), the Responsible Entity of APN Regional Property Fund (the "Fund"), present the interim financial report of the Fund and its controlled funds (the "Group") 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 Brenchley	Independent Director
Jennifer Horrigan	Independent Director
Michael Johnstone	Independent Director
Michael Groth	Resigned as Alternate Director for Howard Brenchley effective 2 July 2019
Joseph De Rango	Appointed as Alternate Director for Howard Brenchley effective 1 September 2019

## Principal activities

The principal activity of the Group is direct property investment. The Fund is a registered managed investment scheme domiciled in Australia.

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

The Group did not have any employees during the period.

## Review of operations

The principal investment objective of the Group is to maximise unitholder value through investment in properties with strong lease covenants, secure income streams and potential for capital growth.

## Operating results

The results of the operations of the Group are disclosed in the condensed consolidated statement of profit or loss and other comprehensive income. The net profit for the half-year ended 31 December 2019 was \$1,509,000 (31 December 2018 net profit: \$1,929,000).

## Distributions

In respect of the half-year ended 31 December 2019, a final distribution of 2.550 cents per unit was paid to the unitholders on 31 January 2020 (2018: 2.375 cents per unit). The total distributions paid to unitholders during the half-year ended 31 December 2019 was 5.100 cents per unit (31 December 2018: 4.750 cents per unit).

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

## Directors' report (continued)

---

### **Rounding of amounts**

The Group 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.



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 Regional Property Fund and its Controlled Funds**

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

As lead audit partner for the review of the financial statements of APN Regional Property Fund and its Controlled Funds for the half-year ended 31 December 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 Regional Property Fund and its Controlled Funds**

### **Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of APN Regional Property Fund (the "Fund") and its controlled funds (collectively, the "Group") which comprises the condensed consolidated statement of financial position as at 31 December 2019, the condensed consolidated statement of profit and loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Fund and the entities it controlled at the end of the half-year or from time to time during the half-year as set out in 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 consolidated entity'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 Group 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 Group is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity'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 Regional Property 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 consolidated 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 Group.

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.



Geoff Brunsdon AM  
Director

Melbourne, 11 February 2020



# Condensed consolidated 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
<b>Income</b>			
Rental income		2,526	2,686
Straight line rental income recognition		68	(75)
Interest income		3	11
Net fair value gain on investment properties		8	537
Net fair value gain / (loss) on derivatives		1	-
<b>Total income</b>		<b>2,606</b>	<b>3,159</b>
<b>Expenses</b>			
Net property expenses		(512)	(586)
Investment management fees	8	(174)	(206)
Finance costs		(324)	(288)
Other expenses		(87)	(150)
<b>Total expenses</b>		<b>1,097</b>	<b>1,230</b>
<b>Net profit / (loss) for the period</b>		<b>1,509</b>	<b>1,929</b>
<b>Other comprehensive income</b>			
Other comprehensive income		-	-
<b>Total comprehensive income for the period</b>		<b>1,509</b>	<b>1,929</b>

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

# Condensed consolidated statement of financial position

as at 31 December 2019

	Notes	31 December 2019 \$'000	30 June 2019 \$'000
<b>Assets</b>			
Cash and cash equivalents		936	1,063
Trade and other receivables		2	150
Other assets		20	68
Investment properties	5	54,051	52,829
<b>Total assets</b>		<b>55,009</b>	<b>54,110</b>
<b>Liabilities</b>			
Trade and other payables		(578)	(594)
Distribution payable	3	(639)	(545)
Derivative financial instruments	7	(307)	(308)
Interest bearing liabilities	4	(18,168)	(17,569)
<b>Total liabilities</b>		<b>(19,692)</b>	<b>(19,016)</b>
<b>Net assets</b>		<b>35,317</b>	<b>35,094</b>
<b>Equity</b>			
Contributed equity	6	19,563	19,571
Retained earnings		15,754	15,523
<b>Total Equity</b>		<b>35,317</b>	<b>35,094</b>

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

# Condensed consolidated statement of changes in equity

for the half-year ended 31 December 2019

	Notes	Contributed equity \$'000	Retained earnings \$'000	Total \$'000
<b>Balance at 1 July 2018</b>		<b>21,970</b>	<b>15,123</b>	<b>37,093</b>
Net profit for the period		-	1,929	1,929
Other comprehensive income		-	-	-
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>1,929</b>	<b>4,749</b>
Distributions to unitholders		-	(1,252)	(1,252)
<b>Balance at 31 December 2018</b>		<b>21,970</b>	<b>15,800</b>	<b>37,770</b>
<b>Balance at 1 July 2019</b>		<b>19,571</b>	<b>15,523</b>	<b>35,094</b>
Net profit for the period		-	1,509	1,509
Other comprehensive income		-	-	-
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>1,509</b>	<b>1,509</b>
Recapitalisation costs		(8)	-	(8)
Distributions to unitholders	3	-	(1,278)	(1,278)
<b>Balance at 31 December 2019</b>		<b>19,563</b>	<b>15,754</b>	<b>35,317</b>

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

# Condensed consolidated 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
<b>Cash flows from operating activities</b>		
Net rental income received	2,089	2,205
Interest received	4	11
Other expenses paid	(239)	(490)
Finance costs paid	(313)	(303)
<b>Net cash inflow / (outflow) from operating activities</b>	<b>1,541</b>	<b>1,423</b>
<b>Cash flows from investing activities</b>		
Payments for capital expenditure on investment properties	(1,055)	(188)
<b>Net cash inflow / (outflow) from investing activities</b>	<b>(1,055)</b>	<b>(188)</b>
<b>Cash flows from financing activities</b>		
Recapitalisation and liquidity offer costs paid	(8)	(41)
Distributions paid	(1,193)	(1,252)
Proceeds from borrowings	588	-
<b>Net cash inflow / (outflow) from financing activities</b>	<b>(613)</b>	<b>(1,293)</b>
Net increase / (decrease) in cash and cash equivalents	(127)	(58)
Cash and cash equivalents at the beginning of the period	1,063	2,044
<b>Cash and cash equivalents at the end of the period</b>	<b>936</b>	<b>1,986</b>

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

# Notes to the condensed consolidated financial statements

---

## 1. GENERAL INFORMATION

APN Regional Property Fund (the “Fund”) is a registered managed investment scheme domiciled in Australia. APN Funds Management Limited (“APN FM”) (ACN 080 674 479) 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

### 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 consolidated 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 Group 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 Group’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.

### 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:

---

Standard/ Interpretation	Impact on financial statements
AASB 16 <i>Leases</i> (“AASB 16”)	The Group 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.

---

## Notes to the condensed consolidated financial statements

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).

As at 31 December 2019, the Group 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 Group.

### 3. DISTRIBUTIONS

	31 December 2019		31 December 2018	
	Cents per security	\$'000	Cents per security	\$'000
Distributions paid during the period	2.550	639	2.375	626
Distributions payable	2.550	639	2.375	626
<b>Total distributions paid / payable</b>	<b>5.100</b>	<b>1,278</b>	<b>4.750</b>	<b>1,252</b>

### 4. INTEREST BEARING LIABILITIES

	31 December 2019 \$'000	30 June 2019 \$'000
Secured bank loan	18,218	17,630
Capitalised borrowing cost	(50)	(61)
<b>Total borrowings at balance date</b>	<b>18,168</b>	<b>17,569</b>

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 Group are tested annually at 30 June and remains unchanged from those disclosed in the most recent annual report.

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

		31 December 2019
Loan to Value Ratio ("LVR")	At all times, LVR does not exceed 55%.	33.71%
Interest Cover Ratio ("ICR")	At all times, ICR is not less than 2.0 times.	6.44 times

## Notes to the condensed consolidated financial statements

### 5. INVESTMENT PROPERTY

#### 5.1 Reconciliation of carrying amount

	31 December 2019 \$'000	30 June 2019 \$'000
Carrying amount at beginning of the period	52,829	51,100
Capital additions to existing investment properties	282	1,343
Capitalised leasing incentives and fees	936	-
Amortisation of lease incentives and fees	(72)	-
Straight line rental revenue recognition	68	(173)
Net gain / (loss) on fair value adjustments <sup>1</sup>	8	559
<b>Carrying amount at end of the period</b>	<b>54,051</b>	<b>52,829</b>

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

#### 5.2 Capital expenditure

During the period, upgrades to entrance foyers, end-of-trip facilities and refurbishment of the bathroom facilities as part of the Group's property improvement initiatives were completed. As at balance date, the total forecast expenditure commitments remain outstanding is estimated to be \$863,000 (30 June 2019: \$219,000).

### 6. CONTRIBUTED EQUITY

	31 December 2019		31 December 2018	
	No.'000	\$'000	No.'000	\$'000
At the beginning of the period	25,078	19,571	26,375	21,970
Unit applications	-	-	-	-
Unit redemptions	-	-	-	-
Units issued upon reinvestment of distributions	-	-	-	-
Recapitalisation costs	-	(8)	-	-
<b>At the end of the period</b>	<b>25,078</b>	<b>19,563</b>	<b>26,375</b>	<b>21,970</b>

### 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 properties	-	-	54,051	54,051
Derivative financial liability	-	(307)	-	(307)
<b>Total</b>	<b>-</b>	<b>(307)</b>	<b>54,051</b>	<b>53,744</b>

## Notes to the condensed consolidated financial statements

	Fair value measurement as at 30 June 2019			
	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Investment properties	-	-	52,829	52,829
Derivative financial liability	-	(308)	-	(308)
<b>Total</b>	-	<b>(308)</b>	<b>52,829</b>	<b>52,521</b>

- 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 Group does not employ personnel in its own right. However, it is required to have a Responsible Entity to manage the activities of the Group. As such there are no staff costs (including fees paid to directors of the Responsible Entity) included in the condensed consolidated 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 Group 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 consolidated financial statements

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
Investment management fees	91	83	103	103
Registry fees	5	5	5	5
Accounting Fees	5	5	5	5
Reimbursement of costs paid on behalf of the Fund	8	3	5	1
	<b>109</b>	<b>96</b>	<b>118</b>	<b>114</b>

### 8.3 Unitholdings and associated transactions with related parties

The below table shows the number of APN Regional Property 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	6,065,243	322,622	-	-
APN Property for Income Fund	-	-	461,740	21,933
APN Property for Income Fund No. 2	-	-	345,000	16,388
Howard Brenchley	91,474	4,665	91,474	4,345
Chris Aylward	2,439,704	124,425	-	-
<b>Total</b>	<b>8,596,421</b>	<b>451,712</b>	<b>898,214</b>	<b>42,666</b>

## 9. COMMITMENT AND CONTINGENCIES

There have been no changes to the contractual obligations disclosed in the Group's annual financial report for the financial year ended 30 June 2019, and there are no other commitments and contingencies in effect at 31 December 2019, other than those disclosed in note 5.

## 10. SUBSEQUENT EVENTS

There has been no matter or circumstance occurring subsequent to the end of the half-year that has significantly affected, or may significant affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

## 11. NET TANGIBLE ASSET BACKING

	31 December 2019 \$	30 June 2019 \$
Net tangible asset backing	1.4062	1.3970