

**NSX APPENDIX 2C**  
**Preliminary Final Report**  
**Year ended 30 June 2014**

**Name of entity:** APN Regional Property Fund  
**ARSN:** 110 488 821

**Results for announcement to the market**

|   | <b>\$'000</b>                   |                                 |
|---|---------------------------------|---------------------------------|
| Revenues from ordinary activities                                 | down 5.3% to 6,896              |                                 |
| Profit from ordinary activities after tax attributable to members | up 357.1% to 6,558              |                                 |
| Net profit for the period attributable to members                 | up 357.1% to 6,558              |                                 |
| Net tangible assets per unit                                      | <b>30 June 2014</b><br>\$0.8562 | <b>30 June 2013</b><br>\$0.7279 |

| <b>Distributions</b>   | <b>Amount per unit (cents)</b> | <b>\$'000</b> |
|--|--------------------------------|---------------|
| Interim  | 5.18                           | 1,688         |
| Final  | 2.10                           | 685           |
| <b>Total</b>   | <b>7.28</b>                    | <b>2,373</b>  |
| Previous corresponding period                                | 3.63                           | 1,183         |
| Record date for determining entitlements to the distribution | 30 June 2014                   |               |

Note: Franked amount per unit is not applicable

**For further details, please refer to the following documents:**

- Directors' Report and Financial Statements (attached)



John Freemantle  
Company Secretary  
21 August 2014

# **APN | Regional Property Fund**

ARSN 110 488 821

and its Controlled Funds

Annual Report for the Financial Year

Ended 30 June 2014

## Directors' report

The directors of APN Funds Management Limited (ACN 080 674 479) ("the Responsible Entity") submit herewith the annual financial report of APN Regional Property Fund and of its controlled funds ("the Fund") for the year ended 30 June 2014. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names of the directors of the Responsible Entity at the date of this report are:

### **Name**

Geoff Brunsdon

Howard Brenchley

Michael Johnstone

Jennifer Horrigan

Michael Groth (alternate Director for Howard Brenchley appointed 20 March 2014)

The above named directors held office during and since the end of the financial year.

### **Principal activities**

The Fund is a registered managed investment fund domiciled in Australia. The principal activity of the Fund is direct property investment and management.

There has been no significant change in the activities of the Fund during the financial year.

The Fund did not have any employees during the year.

### **Changes in state of affairs**

During the financial year there was no significant change in the state of affairs of the Fund.

### **Future developments**

The Fund will continue to pursue its policy of increasing returns through active investment selection.

Disclosure of information regarding likely developments in the operations of the Fund in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Fund. Accordingly, this information has not been disclosed in this report.

### **Review of operations**

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

The primary assets of the Fund are investments in four wholly owned and controlled funds which own Honeysuckle House, Honeysuckle House 2 and Parkes Shopping Centre properties.

During the year, the Fund sold one of its investment properties located in Grafton. Total net proceeds of \$10,512,000 were used to repay debt.

In May 2014 the Responsible Entity successfully renegotiated the Fund's debt facility with a new lender Bank of Melbourne. The new facility has a three year term and is for a limit of \$20,000,000. The existing facility was reduced by a total of \$11,134,000 during the financial year via the proceeds received from the sale of the investment property in Grafton, and as part of an amortisation requirement of the facility using the Fund's cash reserves.

### **Results**

The results of the operations of the Fund are disclosed in the statement of profit or loss and other comprehensive income of these financial statements. The consolidated profit attributable to unitholders for the year ended 30 June 2014 was \$6,557,000 (2013: \$1,434,000).

### **Distributions**

In respect of the financial year ended 30 June 2014 a final distribution of 2.1008 cents per unit was paid to unitholders on 31 July 2014 (2013: 0.90625 cents per unit). The total distribution paid to unitholders in respect to the year ended 30 June 2014 was 7.277 cents per unit (2013: 3.625 cents per unit).

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

### **Subsequent events**

There has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Fund, the results of the Fund, or the state of affairs of the Fund in future financial years.

### **Corporate governance statement**

APN Funds Management Limited is the Responsible Entity of Generation Healthcare REIT. APN Funds Management is a wholly owned subsidiary of APN Property Group Limited, an ASX listed company.

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Guidelines), unless otherwise stated.

### **Board Independence**

APN Funds Management Limited (APN FM) is a wholly owned subsidiary of APN Property Group Limited (APN PG), a company listed on the Australian Securities Exchange (ASX). Both companies have separate Board structures and each operates independently of the other. The Board of APN FM comprises four Directors, three of whom are independent of the business and of the board of APN PG. The names Board members are set out on page 2.

Importantly, all directors of APN FM have a legal obligation to put the interests of investors in the fund ahead of their own and those of APN FM's sole shareholder, APN PG.

The Board of APN has adopted the following Corporate Governance policies and procedures:

### **Role and responsibility of the board**

Without limitation to the duties and responsibilities of directors under the Corporations Act, the Constitution and all applicable laws, in order to ensure that APN FM complies with its responsibilities, the Board has adopted a board charter setting out its roles and responsibilities (including the roles and responsibilities of the Chairman). In accordance with the board charter, the Board is responsible for:

- the oversight of APN FM, including its control and accountability systems;
- subject to its overriding duties to security holders in the respective Funds, setting the aims, strategies and policies of APN FM;
- where appropriate, ratifying the appointment and the removal of senior executives including, but not limited to the fund managers of the respective Funds;
- providing input into and final approval of management's development of strategy and performance objectives in respect of the Funds;
- reviewing, ratifying and monitoring systems of risk management and internal compliance and control, codes of conduct and legal compliance, particularly in respect of the Funds;
- identifying conflict of interest situations within APN FM's business and the business of the Funds and:
- determining whether the conflict of interest situation is to be avoided or whether it can be appropriately controlled; and
- if the conflict of interest situation can be appropriately controlled, determining and implementing the procedure necessary to control the conflict;
- monitoring senior management's performance and implementation of strategy and ensuring appropriate resources are available;
- approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures in respect of the Funds;
- approving the issue of disclosure documents in respect of the respective Funds; and
- approving and monitoring financial and other reporting obligations of the respective Funds, in particular ensuring compliance with the continuous disclosure obligations of the respective Funds under the Corporations Act and the Listing Rules.

A copy of the Board Charter is available at the Company's website ([www.apngroup.com.au](http://www.apngroup.com.au)).

### **Terms of appointment**

The Board has adopted a letter of appointment that contains the terms on which non-executive directors are to be appointed, including individual Directors' roles and responsibilities and the basis upon which they will be indemnified by the Responsible Entity. Non-executive Directors are entitled to take independent advice at the cost of the Responsible Entity in relation to their role as members of the Board.

### **Review of board performance**

The performance of the Board is reviewed at least annually by the Board. The evaluation includes a review of:

- the Board's membership and the charters of the Board and its committees;
- Board processes and its committee's effectiveness in supporting the Board; and
- the performance of the Board and its committees.

An annual review of each Director's performance is undertaken by the Chairman, after consultation with the other directors.

### **Audit, Compliance and Risk Management Committee**

The Board has appointed an Audit, Compliance and Risk Management Committee to oversee certain responsibilities of the Responsible Entity. The Committee's primary responsibility is to ensure a sound system of risk oversight and internal control. During the year, the Committee has received reports detailing the effectiveness of APN FM's current risk management programme from management and advised the Board accordingly. The specific responsibilities of the Committee include:

#### **Audit**

##### **External audit**

- to recommend to the Board the final accounts in respect of each of the Funds and APN FM (in its own capacity);
- to recommend to the Board the appointment and removal of the Fund's external auditors (including providing the Board with fee proposals in relation to the external auditors);
- to monitor compliance with the Corporations Act 2001 (Cth) in relation to auditor rotation;
- to undertake periodic reviews in order to monitor the effectiveness, objectivity and independence of the external auditors;
- to review, consider and advise the Board on the adequacy of the audit plan proposed by the external auditors;
- to review all of the external auditors' reports;
- to commission such enquiry by the external auditors as the Committee deems appropriate;
- to consider management's responses to matters that arise from external audits;
- to conduct regular reviews of management's activity pertaining to audit findings to ensure any issues are being dealt with in a timely manner; and
- to perform annual assessments of the auditors' compliance with any applicable laws, regulations and any other relevant requirements.

##### **Financial statements**

- to review the financial statements and related notes, and ensure they are consistent with information known to the Committee and that they reflect appropriate accounting principles, standards and regulations;
- to review external auditors' reviews or audits of the Funds' financial statements and corresponding reports;
- to make recommendations to the Board regarding any significant changes required in external auditors' audit plans;
- to review accounting and reporting issues as they arise;
- to review, and advise the Board on, any disputes or issues that may arise during the course of an audit; and
- to advise the Board on any material matters that arise during an audit that the Committee becomes aware of.

##### **Risk management**

- to monitor the management of risks relevant to APN FM and the Funds;
- to review and make recommendations to the Board regarding APN FM's current risk management program (including all internal policies developed and implemented to manage and identify all of the identified risks) and whether it identifies all areas of potential risk;
- to review and make recommendations to the Board on the strategic direction, objectives and effectiveness of APN FM's financial and risk management policies; and
- to oversee investigations of allegations of fraud or malfeasance and, where required, report details to relevant authorities.

##### **Compliance**

- to monitor the compliance of APN FM with:
- the Corporations Act;
- the compliance plan of each Fund;
- the constitution of each Fund;
- the Australian Financial Services Licence (AFSL) of APN FM; and
- where a Fund is a Listed Scheme, the Listing Rules;
- to report to the Board any breach of the obligations listed above;
- to report to the Australian Securities and Investments Commission (ASIC) if the Committee is of the view that APN FM has not taken, or does not propose to take, appropriate action to deal with a matter reported;
- to assess at regular intervals whether each Fund's compliance plan is adequate;
- to report to the Board on its assessment of each Fund's compliance plan; and

- to make recommendations to the Board about any changes that it considers should be made to the Funds' compliance plans.

#### **Related party transactions and conflicts of interest**

The Committee must monitor compliance with the Conflicts Policy adopted by APN PG and APN FM in respect of the APN Group and comply with the obligations under the Conflicts Policy.

Without limiting its obligations under the Conflicts Policy, the Committee will ensure that:

- any breach of the Conflicts Policy is noted on the compliance breach register;
- the activity which caused the breach is reviewed and any steps necessary to ensure compliance with the Conflicts Policy in the future are taken; and
- in cases of significant breaches or likely breaches, ASIC is notified in accordance with section 912D(1) of the Corporations Act.

A copy of the Audit, Compliance and Risk Management Committee Charter is available at the Company's website ([www.apngroup.com.au](http://www.apngroup.com.au)).

The Committee currently comprises three Directors, all of whom are independent as defined by the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. The Committee members are Micheal Johnstone, Geoff Brunsdon and Jennifer Horrigan.

#### **Nomination and remuneration**

The Board has appointed a Nomination and Remuneration Committee to oversee the responsibilities of the Company for ensuring adequacy of the size and composition of the board of APN FM for itself and each APN fund. The specific responsibilities of the Committee include:

- determining the appropriate size and composition of the APN FM Board;
- the necessary and desirable competencies of Directors;
- the appointment, re-appointment and removal of Directors;
- developing formal and transparent procedures and criteria for the selection of candidates for, and appointments to, the APN FM Board;
- developing a succession plan for the APN FM Board and regularly reviewing the plan approved by the APN FM Board;
- implementing induction procedures designed to allow new APN FM Board appointees to participate fully and actively in APN FM Board decision-making at the earliest opportunity;
- implementing induction programs that enable Directors to gain an understanding of:
  - financial, strategic, operational and risk management position of APN FM;
  - their rights, duties and responsibilities; and
  - the role of the APN FM Board and other committees;
- providing Directors and key executives with access to continuing education to update their skills and knowledge and provide them access to internal and external sources of information which enhance their effectiveness in their roles;
- developing a process for performance and remuneration evaluation of the APN FM Board, its committees, Directors, and key executives, which can be made available to the public;
- developing remuneration and incentive policies which motivate Directors and management to pursue the long-term growth and success of APN FM within an appropriate control framework;
- developing policies which demonstrate a clear relationship between key executive performance and remuneration;
- the remuneration and incentive policies for senior management;
- the remuneration packages of senior management and Directors and whether securityholder approval is needed for any change to remuneration of Directors;
- any report on executive remuneration that may be required by the ASX Listing Rules or the *Corporations Act 2001* (Cth) or proposed for inclusion in the annual report.

A copy of the Nomination and Remuneration Committee Charter is available on the Company's website ([www.apngroup.com.au](http://www.apngroup.com.au)).

The Committee currently comprises three Directors, all of whom are independent as defined by the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. The names of the Committee members are set out on page 2.

#### **Diversity**

APN Property Group, including APN Funds Management Limited embraces a practice of Workplace Diversity as

follows:

### ***What is Workplace Diversity?***

Workplace diversity recognises and leverages the different skills and perspectives people bring to our organisation through their gender, culture, physical and mental ability, sexual orientation, age, socio economic background, language, religion, education, and family/ marital status. It also refers to diverse ways of thinking and ways of working.

### ***Statement of Commitment***

As an organisation we recognise the benefits to be gained from a diverse workforce where the differing skills, perspectives and experiences of individuals from different backgrounds can lead to more innovative and efficient business practices.

We are committed to creating an environment in which the principles of diversity are embedded in the culture and systems of the organisation and where every individual has the opportunity to excel.

### ***Diversity Policy***

APN Property Group has adopted a Diversity Policy (a copy of which is available at the Company's website ([www.apngroup.com.au](http://www.apngroup.com.au))). The aims of the Diversity Policy are:

- to articulate APN Property Group's commitment to diversity within its organisation at all levels (including employee level, senior executive level and Board level); and
- to establish objectives and procedures which are designed to foster and promote diversity within APN Property Group. This includes placing obligations on APN Property Group and its Board to set objectives, measure against those objectives and disclose progress at appropriate intervals.

### ***Gender Diversity Objectives***

In accordance with its Diversity Policy, APN Property Group has set measureable objectives to achieve gender and other diversity, and has appointed the Compliance Officer to monitor compliance with those objectives and to report to the Board of APN Property Group at least annually.

For the financial year 2014/2015, APN Property Group has set the following measureable objectives for gender and other diversity:

- the selection process for Board appointments, having regard for the need to maintain an appropriate mix of skills, experience, expertise and diversity will consider at least one female candidate wherever reasonably possible;
- the selection process for senior management appointments, having regard for the need to maintain an appropriate mix of skills, experience, expertise and diversity will consider at least one female candidate wherever reasonably possible;
- the process for recruitment of new employees, having regard for the skills and expertise required for the role, will consider at least one female candidate wherever reasonably possible;
- flexible work arrangements to balance family and other commitments with the role will continue to be considered for all employees, where the requirements of the role permit;
- the Diversity Policy is available to all staff at all times; and
- all staff responsible for employment and promotion of employees will be reminded of the Diversity Policy and these objectives at least annually.

APN Property Group will report on the outcome of these measurable objectives each year.

For the financial year 2013/2014, APN Property Group set similar measureable objectives for gender and other diversity. These objectives and a report on the outcome are set out below:

- *the selection process for Board appointments, having regard for the need to maintain an appropriate mix of skills, experience, expertise and diversity will consider at least one female candidate wherever reasonably possible.*

During the year Mr John Lim resigned as a director and was not replaced. No new Board appointments were made in this financial year, other than the appointment of Mr Michael Groth as an alternate director for Mr Howard Branchley on the Board of APN Funds Management Limited. Mr Groth has been employed by APN since 2006.

- *the selection process for senior management appointments, having regard for the need to maintain an appropriate mix of skills, experience, expertise and diversity will consider at least one female candidate wherever reasonably possible.*

Mr Michael Groth was appointed to the position of Chief Financial Officer, during the year. Mr Groth has been employed by APN since 2006 and was Corporate Finance Manager prior to this appointment. There were no other senior management appointments in this financial year.

- *the process for recruitment of new employees, having regard for the skills and expertise required for the role, will consider at least one female candidate wherever reasonably possible.*

Fourteen new appointments were made during the year of which seven (50%) were female;

- *flexible work arrangements to balance family and other commitments with the role will continue to be considered for all employees, where the requirements of the role permit.*

Flexible work arrangements have been agreed with a number of employees in relation to family balance, maternity needs and illness;

- *the Diversity Policy is available to all staff at all times.*

The policy was available on the company intranet which is available to all staff at all times; and

- *all staff responsible for employment and promotion of employees will be reminded of the Diversity Policy and these objectives at least annually.*

Staff were reminded on each occasion of a new appointment.

#### **Gender Diversity in APN Property Group**

At the date of this report, the proportion of women in APN Property Group was:

- Board of APN Property Group Limited: nil
- Board of APN Funds Management Limited (Responsible Entity of this fund): 25%
- Senior Management of the APN Property Group: 14%
- All employees of APN Property Group: 36%

#### **Other corporate governance policies and charters**

Refer to the Company's website ([www.apngroup.com.au](http://www.apngroup.com.au)) for:

- Board Charter;
- Audit, Compliance and Risk Management Committee Charter; and
- Nomination and Remuneration Committee Charter

and the following corporate governance policies, which have been adopted by all entities (including the Responsible Entity) within the APN Group in accordance with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations:

- Securities Trading Policy;
- Continuous Disclosure Policy;
- Code of Conduct;
- Related Party Transactions and Conflicts of Interest Policy;
- Privacy Policy; and
- Communications Policy.

#### **Compliance with ASX Corporate Governance Guidelines**

The Responsible Entity complies with all of the ASX Corporate Governance Principles and Recommendations.

#### **Director's interests in the Fund**

Directors of the Responsible Entity are not entitled to any interests in the Fund, or any rights or options over interests in the Fund. No director has entered into contracts to which the director is a party or under which the director is entitled to a benefit that confers a right to call for or deliver an interest in the Fund.

#### **Fund information in the directors' report**

In accordance with the trust constitution the Responsible Entity is entitled to receive:

- a management fee of up to 1.0% of the gross asset value of the Fund and the consolidated entities, payable quarterly in arrears; and
- reimbursement of fund expenses incurred by the Responsible Entity on behalf of the Fund.

Fees paid to the Responsible Entity out of Fund property during the financial year are disclosed in note 11 to the financial statements.

The number of units in the Fund held by the Responsible Entity as at the end of the financial year is disclosed in note 11 to the financial statements.

The number of interests in the Fund issued during the financial year, withdrawals from the Fund during the financial year, and the number of interests in the Fund at the end of the financial year is disclosed in note 7 to the financial statements.

The value of the Fund's assets as 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 1 to the financial statements.



### Options granted

No options were:

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

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

No units 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 units in the Fund.

### Indemnification of officers of the responsible entity and auditors

APN Funds Management ('the Company') has agreed to indemnify the directors and officers of the Company and its controlled entities, both past and present, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors and officers of the Company and its controlled entities, except where the liability arises out of unlawful conduct. The Company will meet the full amount of any such liabilities, including costs and expenses. The Company may also indemnify any employee by resolution of the Directors. In addition, the Company has paid a premium in respect of a contract insuring against a liability incurred by an officer of the Company. The Company 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.

### Non-audit services

During the year, the auditor of the Fund performed certain other services in addition to their statutory duties.

The board of the Responsible Entity has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the audit committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Responsible Entity and have been reviewed by the Board to ensure they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Fund, acting as advocate for the Fund or jointly sharing economic risks and rewards.

Non-audit services relate to tax compliance, audit of compliance plan and other approved advisory services, which amounted to \$3,321 (2013: \$28,966) for the year ended 30 June 2014.

### Auditor's independence declaration

The Auditor's Independence Declaration is included on page 9 of the annual report.

### Rounding off of amounts

The Fund is a fund of the kind referred to in ASIC Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

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

On behalf of the Directors



**Geoff Brunsdon**

Chairman

MELBOURNE, 21 August 2014

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

21 August 2014

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 annual financial report for APN Regional Property Fund and its Controlled Funds.

As lead audit partner for the audit of the financial statements of APN Regional Property Fund and its Controlled Funds for the financial year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Neil Brown  
Partner  
Chartered Accountants

## Independent Auditor's Report to the Unitholders of APN Regional Property Fund and its Controlled Funds

We have audited the accompanying financial report of APN Regional Property Fund and its Controlled Funds (collectively, "the Fund"), which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Fund, comprising the Fund and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 12 to 34.

### *Directors' Responsibility for the Financial Report*

The directors of the Responsible Entity 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 is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

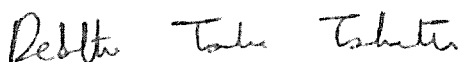
### *Auditor's Independence Declaration*

In conducting our audit, 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 of Responsible Entity, would be in the same terms if given to the directors as at the time of this auditor's report.

## *Opinion*

In our opinion:

- (a) the financial report of APN Regional Property Fund and its Controlled Funds is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Fund's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.



DELOITTE TOUCHE TOHMATSU



Neil Brown  
Partner  
Chartered Accountants

Melbourne, 21 August 2014

## Directors' declaration

The directors of the Responsible Entity 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 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;
- c) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards as referred to in Note 1 of the financial statements; and
- d) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

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

On behalf of the Directors



**Geoff Brunsdon**

Chairman

MELBOURNE, 21 August 2014

Statement of profit or loss and other comprehensive income  
for the financial year ended 30 June 2014

|  | Note | Consolidated   |                |
|--|------|----------------|----------------|
|  |      | 2014<br>\$'000 | 2013<br>\$'000 |
| <b>Income</b>                                      |      |                |                |
| Rental   |      | 6,879          | 7,250          |
| Interest   |      | 17             | 33             |
| Changes in the fair value of investment properties |      | 3,664          | (956)          |
| Changes in the fair value of derivatives           |      | 91             | (91)           |
| <b>Total income</b>                                |      | <b>10,651</b>  | <b>6,236</b>   |
| <b>Expenses</b>                                    |      |                |                |
| Investment management fee                          |      | 403            | 445            |
| Custodian fee                                      |      | 25             | 26             |
| Property management expenses                       |      | 2,055          | 2,187          |
| Other expenses                                     |      | 137            | 153            |
| Auditor's remuneration                             | 9    | 29             | 54             |
| Finance costs                                      |      | 1,445          | 1,937          |
| <b>Total expenses</b>                              |      | <b>4,094</b>   | <b>4,802</b>   |
| <b>Net profit</b>                                  |      | <b>6,557</b>   | <b>1,434</b>   |
| <b>Other comprehensive income</b>                  |      |                |                |
| Other comprehensive income                         |      | -              | -              |
| <b>Total comprehensive income</b>                  |      | <b>6,557</b>   | <b>1,434</b>   |
| <b>Earnings per unit</b>                           |      |                |                |
| Basic (cents per unit)                             | 8    | 20.1           | 4.4            |
| Diluted (cents per unit)                           | 8    | 20.1           | 4.4            |

Notes to the financial statements are included on pages 17 to 33.

Statement of financial position  
as at 30 June 2014

|   |      | Consolidated   |                |
|---|------|----------------|----------------|
|   | Note | 2014<br>\$'000 | 2013<br>\$'000 |
| <b>Assets</b>                             |      |                |                |
| Cash and cash equivalents                 |      | 1,046          | 1,162          |
| Receivables and other assets              | 2    | 90             | 258            |
| Investment properties                     | 3    | 47,960         | 54,410         |
| <b>Total assets</b>                       |      | <b>49,096</b>  | <b>55,830</b>  |
| <b>Liabilities</b>                        |      |                |                |
| Payables                                  | 4    | 522            | 749            |
| Distribution payable                      | 5    | 685            | 296            |
| Derivative financial liability            |      | -              | 91             |
| Interest bearing liabilities              | 6    | 19,963         | 30,952         |
| <b>Total liabilities</b>                  |      | <b>21,170</b>  | <b>32,088</b>  |
| <b>Net assets</b>                         |      | <b>27,926</b>  | <b>23,742</b>  |
| <b>Equity attributable to unitholders</b> |      |                |                |
| Contributed equity                        |      | 27,470         | 27,470         |
| Retained earnings                         |      | 456            | (3,728)        |
| <b>Total equity</b>                       | 7    | <b>27,926</b>  | <b>23,742</b>  |

Notes to the financial statements are included on pages 17 to 33.

Statement of changes in equity  
for the financial year ended 30 June 2014

|  | Consolidated                    |                                |                 |
|--|---------------------------------|--------------------------------|-----------------|
|  | Contributed<br>equity<br>\$'000 | Retained<br>earnings<br>\$'000 | Total<br>\$'000 |
| <b>Balance at 1 July 2012</b>                    | <b>27,470</b>                   | <b>(3,979)</b>                 | <b>23,491</b>   |
| Net profit for the year                          | -                               | 1,434                          | 1,434           |
| Other comprehensive income                       | -                               | -                              | -               |
| <b>Total comprehensive income for the period</b> | <b>-</b>                        | <b>1,434</b>                   | <b>1,434</b>    |
| Distributions paid to investors                  | -                               | (1,183)                        | (1,183)         |
| <b>Balance at 30 June 2013</b>                   | <b>27,470</b>                   | <b>(3,728)</b>                 | <b>23,742</b>   |
| Net profit for the year                          | -                               | 6,557                          | 6,557           |
| Other comprehensive income                       | -                               | -                              | -               |
| <b>Total comprehensive income for the period</b> | <b>27,470</b>                   | <b>6,557</b>                   | <b>6,557</b>    |
| Distributions paid to investors                  | -                               | (2,373)                        | (2,373)         |
| <b>Balance at 30 June 2014</b>                   | <b>27,470</b>                   | <b>456</b>                     | <b>27,926</b>   |

Notes to the financial statements are included on pages 17 to 33.



Statement of cash flows  
for the financial year ended 30 June 2014

|   | Note  | Consolidated                             |  |
|---|-------|--|--|
|   |       | 2014<br>Inflows/<br>(Outflows)<br>\$'000 | 2013<br>Inflows/<br>(Outflows)<br>\$'000 |
| <b>Cash flows from operating activities</b>                   |       |  |  |
| Rental income received  |       | 4,949                                    | 5,091                                    |
| Interest received   |       | 19                                       | 35                                       |
| Expenses paid   |       | (643)                                    | (922)                                    |
| <b>Net cash provided by operating activities</b>              | 12(b) | <b>4,325</b>                             | <b>4,204</b>                             |
| <b>Cash flows from investing activities</b>                   |       |  |  |
| Payments associated with investment properties                |       | (436)                                    | (286)                                    |
| Proceeds from sale of investment properties                   |       | 10,550                                   | -  |
| <b>Net cash provided by investing activities</b>              |       | <b>10,114</b>                            | <b>(286)</b>                             |
| <b>Cash flows from financing activities</b>                   |       |  |  |
| Distributions paid  |       | (1,984)                                  | (1,152)                                  |
| Finance costs paid  |       | (1,580)                                  | (2,183)                                  |
| Repayment of borrowings                                       |       | (10,991)                                 | (1,600)                                  |
| <b>Net cash used in financing activities</b>                  |       | <b>(14,555)</b>                          | <b>(4,935)</b>                           |
| Net decrease in cash and cash equivalents held                |       | (116)                                    | (1,017)                                  |
| Cash and cash equivalents at beginning of the financial year  |       | 1,162                                    | 2,179                                    |
| <b>Cash and cash equivalents at end of the financial year</b> | 12(a) | <b>1,046</b>                             | <b>1,162</b>                             |

Notes to the financial statements are included on pages 17 to 33.

# Notes to the financial statements

## 1. Summary of significant accounting policies

### Statement of compliance & basis of preparation

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

The financial statements were authorised for issue by the directors on 21 August 2014.

The financial report has been prepared on the basis of historical cost, except for the revaluation of investment properties and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

In the application of A-IFRS management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed below and where applicable, in the relevant notes to the financial statements.

The Fund has investment properties with a net carrying amount of \$47,960,000 (2013: \$54,410,000) (see note 3), representing estimated fair value. These carrying amounts reflect certain assumptions about expected future rentals, rent-free periods, operating costs and appropriate discount and capitalisation rates. In forming these assumptions, the Responsible Entity considered information about current and recent sales activity, current market rents, and discount and capitalisation rates, for properties similar to those owned by the Fund, as well as independent valuations of the Fund's investment properties.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2014 and the comparative information presented in these financial statements.

### Adoption of new and revised accounting Standards and Interpretations

In the current year, 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 annual reporting period. Except where noted, the adoption of these Standards and Interpretations has not had a material impact on the financial statements. These include:

|  |  |
|--|--|
| AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'  | This standard removes the individual key management personnel disclosure requirements in AASB 124 'Related Party Disclosures'. As a result the Fund only discloses the key management personnel compensation in total and for each of the categories required in AASB 124.   |
| AASB CF 2013-1 'Amendments to the Australian Conceptual Framework' and AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (Part A Conceptual Framework)' | This amendment has incorporated IASB's Chapters 1 and 3 Conceptual Framework for Financial Reporting as an Appendix to the Australian Framework for the Preparation and Presentation of Financial Statements. As a result the Australian Conceptual Framework now supersedes the objective and the qualitative characteristics of financial statements, as well as the guidance previously available in Statement of Accounting Concepts SAC 2 'Objective of General Purpose Financial Reporting'. |
| AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'  | AASB 10 changes the definition of control such that an investor controls an investee when a) it has power over an investee; b) it is exposed, or has rights, to variable returns from its involvement with the investee, and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. The current and comparative information included in these financial statements have been                         |

prepared under a consolidated basis. The consolidated subsidiaries are 100% owned by the Fund and there is no change in the assessment of control during the period. The adoption of this standard does not change or have any material impact on the financial statements.

AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'

AASB 12 requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. This has resulted in additional disclosures in notes 14 and 17.

AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'

AASB 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, AASB 13 does not change the requirements regarding which items should be measured or disclosed at fair value. Other than the additional disclosures, the application of AASB 13 does not have any material impact on the amounts recognised in the financial statements.

AASB 127 'Separate Financial Statements (2011)' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'

This deals with the requirements for separate financial statements, which have been carried over largely unamended from AASB 127 prior issuance of AASB 10.

AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle'

A number of pronouncements are amended as a result of the 2009-2011 annual improvements cycle. The amendments to each standards may be adopted separately.

AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments'

The transition guidance amendments to AASB 10 'Consolidated Financial Statements' and related Standards and Interpretations clarify the circumstances in which adjustments to an entity's previous accounting for its involvement with other entities are required and the timing of such adjustments.

### AASB Accounting Standards not yet effective

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

| Standard   | Effective for annual reporting periods beginning on or after  | Expected to be initially applied in the financial year ending  |
|--|---|--|
| <ul style="list-style-type: none"> <li>AASB 9 'Financial Instruments', and the relevant amending standards'</li> <li>AASB 1031 'Materiality' (2013)</li> <li>AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'</li> <li>AASB 2013-3 'Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets'</li> <li>AASB 2013-4 'Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting'</li> <li>AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities'</li> <li>AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'</li> <li>AASB 2014-1 'Amendments to Australian Accounting Standards' <ul style="list-style-type: none"> <li>Part A: 'Annual Improvements 2010-2012 and 2011-2013 Cycles'</li> <li>Part B: 'Defined Benefit Plans: Employee</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>1 January 2017</li> <li>1 January 2014</li> <li>1 January 2014</li> <li>1 January 2014</li> <li>1 January 2014</li> <li>1 January 2014</li> <li>1 January 2014</li> <li>1 July 2014</li> </ul> | <ul style="list-style-type: none"> <li>30 June 2018</li> <li>30 June 2015</li> <li>30 June 2015</li> <li>30 June 2015</li> <li>30 June 2015</li> <li>30 June 2015</li> <li>30 June 2015</li> <li>30 June 2015</li> </ul> |

|   |                |              |
|---|----------------|--------------|
| Contributions (Amendments to AASB 119)  |                |              |
| ▪ Part C: 'Materiality'   |                |              |
| ▪ AASB 2014-1 'Amendments to Australian Accounting Standards' – Part D: 'Consequential Amendments arising from AASB 14' | 1 January 2016 | 30 June 2017 |
| ▪ AASB 2014-1 'Amendments to Australian Accounting Standards' – Part E: 'Financial Instruments'                         | 1 January 2015 | 30 June 2016 |
| ▪ AASB 14 'Regulatory Deferral Accounts'  | 1 January 2016 | 30 June 2017 |

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

| Standard/Interpretation  | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|--|--|---|
| ▪ Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)                   | 1 January 2016   | 30 June 2017  |
| ▪ Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) | 1 January 2016   | 30 June 2017  |
| ▪ IFRS 15 'Revenue from Contracts with Customers'  | 1 January 2017   | 30 June 2018  |

### Rounding off of amounts

The Fund is a fund of the kind referred to in ASIC Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the financial report have been rounded off to the nearest thousand dollars, unless otherwise indicated.

### Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the year end financial report:

#### (a) Revenue

Distribution income is recognised on a receivable basis as of the date the unit value is quoted ex-distribution or is recognised on an entitlement basis.

Rental income arising in the ordinary course of activities is recognised at the fair value of the consideration received or receivable net of the amount of goods and services tax levied and is recognised on a straight-line basis over the lease term. Rental income not received at reporting date, is reflected in the balance sheet as a receivable or if paid in advance, as rent in advance.

Interest revenue is recognised as it accrues on a time proportionate basis taking into account the effective yield on the financial assets.

#### (b) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments or other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

#### (c) Investments in managed investment schemes

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value. The investments are designated at fair value through the profit or loss as they are managed and their performance is evaluated on a fair value basis in accordance with the investment strategy. Gains or losses arising from changes in the fair value of investments are included in profit or loss in the period in which they arise. Fair value of the scheme is determined by reference to the scheme's change in fair value of its underlying investment properties.

#### (d) Loans and receivables

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment. Receivables may include amounts for dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment in accordance with the policy set out in note 1(a) above.

**(e) Investment property**

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the investment property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

**(f) Expenses**

All expenses, including responsible entity fees and custodian fees, are recognised in the statement of comprehensive income on an accruals basis.

**(g) Distributions**

In accordance with the Fund's constitution, the Fund fully distributes its distributable (taxable) income, and any other amounts determined by the responsible entity, to unitholders by way of cash or reinvestment into the Fund. Distributions to unitholders comprise the income of the Fund to which the unitholders are presently entitled. The distributions are payable quarterly and at the end of June each year.

**(h) Applications and redemptions**

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund are recorded gross of any exit fees payable after the cancellation of units redeemed.

The application and redemption prices are determined as the net asset value of the Fund adjusted for the estimated transaction costs, divided by the number of units on issue on the date of the application or redemption.

**(i) Debt and equity instruments**

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

**(j) Income tax**

Under current income tax legislation the Fund is not liable to pay income tax as the net income of the Fund is assessable in the hands of the beneficiaries (the unitholders) who are 'presently entitled' to the income of the Fund. There is no income of the Fund to which the unitholders are not presently entitled and additionally, the Fund Constitution requires the distribution of the full amount of the net income of the Fund to the unitholders each period.

As a result, deferred taxes have not been recognised in the financial statements in relation to differences between the carrying amounts of assets and liabilities and their respective tax bases, including taxes on capital gains which could arise in the event of a sale of investments for the amount at which they are stated in the financial statements. In the event that taxable gains are realised by the Fund, these gains would be included in the taxable income that is assessable in the hands of the unitholders as noted above.

Realised capital losses are not distributed to unitholders but are retained within the Fund to be offset against any realised capital gains. The benefit of any carried forward capital losses are 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 that is assessable in the hands of unitholders in that period and is distributed to unitholders in accordance with the requirements of the Fund Constitution.

**(k) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the cash flow statement 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.

**(l) Impairment of financial assets**

Financial assets, other than those at fair value through the profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the

investment have been impacted. Objective evidence of impairment can exist for example where there has been a significant or prolonged decline in the fair value below cost.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### **(m) Payables**

Trade payables and other accounts payable are recognised when the Fund becomes obliged to make future payments resulting from the purchase of goods and services. Payables include liabilities and accrued expenses owing by the Fund which are unpaid as at balance date.

#### **(n) Borrowings**

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

#### **(o) Derivative financial instruments**

The Fund enters into derivative financial instruments such as interest rate swaps, to manage its exposure to interest rates. Derivatives are categorised as held for trading 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. The resulting gain or loss is recognised in profit and loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit and loss depends on the nature of the hedge relationship.

#### **(p) Provisions**

Provisions are recognised when the Fund has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

An onerous contract is considered to exist where the Fund has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

#### **(q) Earnings per unit**

##### **(i) Basic earnings per unit**

Basic earnings per unit is calculated as net profit attributable to unitholders of the Fund for the year divided by the weighted average number of ordinary units outstanding during the year, adjusted for bonus elements in ordinary units issued during the year.

##### **(ii) Diluted earnings per unit**

Diluted earnings per unit adjust the figures used in the determination of basic earnings per unit to take into account the effect of interest and other financing costs associated with dilutive potential ordinary units and the weighted average number of units assumed to have been issued for no consideration in relation to dilutive potential ordinary units.

#### **(r) Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Fund and entities controlled by the Fund. Control is achieved where the Fund has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are

eliminated in full on consolidation.

## 2. Receivables and other assets

|                     | 2014<br>\$'000 | 2013<br>\$'000 |
|---------------------|----------------|----------------|
| Accounts receivable | 28             | 179            |
| Prepaid expenses    | 60             | 77             |
| Other               | 2              | 2              |
|                     | <b>90</b>      | <b>258</b>     |

Accounts receivable are non-interest bearing and are generally on 0-30 day terms. An impairment loss would be recognised when there is objective evidence that an individual receivable is impaired.

As at 30 June 2014, no receivables were impaired (2013: Nil).

The ageing analysis of accounts receivable as at 30 June 2014 is as follows:

|   | 2014<br>\$'000 | 2013<br>\$'000 |
|---|----------------|----------------|
| Ageing analysis of receivables not impaired |                |                |
| 0-30 days                                   | -              | 40             |
| 31-90 days                                  | 9              | 46             |
| 91+ days                                    | 19             | 93             |
|   | <b>28</b>      | <b>179</b>     |

## 3. Investment properties

|   | 2014<br>\$'000 | 2013<br>\$'000 |
|---|----------------|----------------|
| Investment properties at fair value   |                |                |
| Carrying amount at the beginning of the period                              | 54,410         | 55,080         |
| Additions   | -              | -              |
| Disposals   | (10,550)       | -              |
| Costs associated with investment properties                                 | 436            | 286            |
| Changes in fair value of investment properties recognised in profit or loss | 3,664          | (956)          |
| <b>Carrying amount at the end of the period</b>                             | <b>47,960</b>  | <b>54,410</b>  |

### Fair value measurement, valuation techniques and inputs

In determining the appropriate classes of investment property, management has considered the nature, characteristics and risks of its investment properties as well as the level of fair value hierarchy within which the fair value measurements are categorised.

The adopted valuation for investment properties is the mid-point of the valuations determined using the discounted cash flow (DCF) method and the income capitalisation method. The DCF and Income capitalisation methods use unobservable inputs in determining fair value, as per the table below:

#### Unobservable inputs

| Fair value hierarchy | Fair value at 30 June 2014<br>\$'000 | Valuation technique                  | Inputs used to measure fair value   | Range of unobservable inputs 30 June 2014  |
|----------------------|--------------------------------------|--------------------------------------|---|--|
| Level 3              | 47,960                               | DCF and income capitalisation method | Net passing rent - \$/sqm<br>Net market rent - \$/sqm<br>Adopted capitalisation rate<br>Adopted discount rate<br>Adopted terminal yield | \$190 - \$500<br>\$190 - \$500<br>9.25% - 10.25%<br>9.75% - 10.75%<br>9.25% - 10.50% |

## Definitions

A definition is provided below for each of the inputs used to measure fair value:

|                                   |  |
|-----------------------------------|--|
| Discounted cash flow method (DCF) | Under the DCF method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the assets life including an exit or terminal value. The DCF method involves a projection of a series of cash flows on a real property interest. To this projected cash flow series, an appropriate, market derived discount rate is applied to establish the present value of the income stream associated with the real property. |
| Income capitalization approach    | 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 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, the owner recovers outgoings from the tenant on a pro-rata basis (where applicable).   |
| Net market rent                   | A net market rent is the estimated amount for which a property or space within a property should lease 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. In a net rent, the owner recovers outgoings from the tenant on a pro-rata basis (where applicable).  |
| 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.   |

## Valuation process

The aim of the valuation process is to ensure that assets are held at fair value in the Fund's accounts and that the Fund is compliant with applicable regulations (Corporations Act, ASIC) and the relevant Accounting Standards.

The investment portfolio consists of 4 properties located in regional New South Wales which were independently valued as at 30 June 2014. The Fund's external valuations are performed by independent professionally qualified valuers who hold a recognised relevant professional qualification and have specialised expertise in the investment properties valued. The valuations were performed by Colliers International and m3Property Strategists and dated 30 June 2014 and 30 April 2014 respectively.

Appropriate capitalisation rate, discount rate and terminal yields based on comparable market evidence and recent external valuation parameters are used to produce a capitalisation and discounted cash flow valuation. The adopted value is generally a mid-point of these two approaches.

## Sensitivity analysis

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

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

When calculating the income capitalisation approach, the net market income 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 increase (softening) in the adopted capitalisation rate could potentially offset the impact to fair value. The same can be said for decrease in the net market rent and a decrease (tightening) in the adopted capitalisation rate. A



directionally opposite change in the net market rent and the adopted capitalisation rate could potentially magnify the impact to the fair value.

When assessing a discounted cash flow, the adopted discount rate and adopted terminal yield have a strong interrelationship in deriving at a fair value given the discount rate will determine the rate in which the terminal value is discounted to the present value.

In theory, an increase (softening) in the adopted discount rate and a decrease (tightening) in the adopted terminal yield could potentially offset the impact to the fair value. The same can be said for a decrease (tightening) in the discount rate and an increase (softening) in the adopted terminal yield. A directionally similar change in the adopted discount rate and the adopted terminal yield could potentially magnify the impact to fair value.

#### Leases as lessor

The Fund leases out its investment property under operating leases. The future minimum lease payments receivable under non-cancellable leases are as follows:

|                            | 2014<br>\$'000 | 2013<br>\$'000 |
|----------------------------|----------------|----------------|
| Less than one year         | 5,795          | 5,628          |
| Between one and five years | 15,837         | 16,499         |
| More than five years       | 940            | 3,099          |
|                            | <b>22,572</b>  | <b>25,226</b>  |

#### 4. Payables

|                  | 2014<br>\$'000 | 2013<br>\$'000 |
|------------------|----------------|----------------|
| Accounts payable | 278            | 295            |
| Prepaid rent     | 104            | 183            |
| Accrued expenses | 95             | 227            |
| Other            | 45             | 44             |
|                  | <b>522</b>     | <b>749</b>     |

#### 5. Distributions paid and payable

|                                   | 2014           |              | 2013           |              |
|-----------------------------------|----------------|--------------|----------------|--------------|
|                                   | Cents per unit | \$'000       | Cents per unit | \$'000       |
| Distribution paid during the year | 5.1769         | 1,688        | 2.7187         | 887          |
| Distribution payable              | 2.1008         | 685          | 0.9063         | 296          |
|                                   | <b>7.2777</b>  | <b>2,373</b> | <b>3.6250</b>  | <b>1,183</b> |

#### 6. Interest bearing liabilities

|                       | 2014<br>\$'000 | 2013<br>\$'000 |
|-----------------------|----------------|----------------|
| Cash advance facility | 19,963         | 30,952         |
|                       | <b>19,963</b>  | <b>30,952</b>  |

|   | 2014<br>\$'000 | 2013<br>\$'000 |
|---|----------------|----------------|
| Financing arrangements                                |                |                |
| The Fund has access to the following lines of credit: |                |                |
| Cash advance facility                                 | 20,000         | 32,000         |
| Cash advance facility utilised at balance date        | 20,000         | 31,072         |
| Cash advance facility not utilised at balance date    | -              | 928            |

In May 2014 the Responsible Entity successfully renegotiated the Fund's debt facility with a new lender Bank of Melbourne. The new facility has a three year term and is for a limit of \$20,000,000. The existing facility was reduced by a total of \$11,134,000 during the financial year via the proceeds received from the sale of the investment property in Grafton, and as part of an amortisation requirement of the facility using the Fund's cash reserves.

The Fund's Loan to Value Ratio as at 30 June 2014 was 41.87%, within the limit of 60% (2013: 57% within the limit of 60%). The Fund's Interest Cover Ratio as at 30 June 2014 was 3.22 times, within the limit of 2.0 times (2013: 2.35 times within the limit of 1.5 times).

The cash advance facility is secured by registered first mortgage over the Fund's investment properties. The facility includes an amount of \$118,000 of deferred borrowing costs that have been allocated against the total amount of the facility utilised at balance date (2013: \$120,000). The cash advance facility is payable in May 2017 and bears interest payable quarterly.

## 7. Equity

|   | 2014<br>Units     | 2013<br>Units     |
|---|-------------------|-------------------|
| <b>Units on issue</b>                           |                   |                   |
| On issue at beginning of the year               | 32,616,337        | 32,616,337        |
| Applications                                    | -                 | -                 |
| Redemptions                                     | -                 | -                 |
| Units issued upon reinvestment of distributions | -                 | -                 |
| <b>On issue at year end</b>                     | <b>32,616,337</b> | <b>32,616,337</b> |

|   | 2014<br>\$'000 | 2013<br>\$'000 |
|---|----------------|----------------|
| <b>Movements in equity</b>                      |                |                |
| At beginning of the year                        | 23,742         | 23,491         |
| Unit applications                               | -              | -              |
| Unit redemptions                                | -              | -              |
| Units issued upon reinvestment of distributions | -              | -              |
| Net profit/(loss) for the period                | 6,557          | 1,434          |
| Distributions paid to unitholders               | (2,373)        | (1,183)        |
| <b>Total equity</b>                             | <b>27,926</b>  | <b>23,742</b>  |

Each unit represents a right to an individual share in the Fund per the Constitution. There are no separate classes of units and each unit has the same rights attaching to it as all other units in the Fund.

## 8. Earnings per unit

|         | 2014<br>Cents per unit | 2013<br>Cents per unit |
|---------|------------------------|------------------------|
| Basic   | 20.1                   | 4.4                    |
| Diluted | 20.1                   | 4.4                    |

## 9. Remuneration of auditors

|  | 2014<br>\$    | 2013<br>\$    |
|--|---------------|---------------|
| <b>Auditor of the Fund</b>                 |               |               |
| Auditing or reviewing the Financial Report | 25,714        | 25,040        |
| Other non-audit services*                  | 3,321         | 28,966        |
|  | <b>29,035</b> | <b>54,006</b> |

\*Other non-audit services include tax, audit of compliance plan and other approved advisory services.  
The auditor of the Fund is Deloitte Touche Tohmatsu.

## 10. Segment information

The Fund has a single operating segment, namely a single portfolio of direct property assets that are managed in accordance with a single investment strategy that is outlined in the Fund's product disclosure statement. The property assets are all located in regional New South Wales and therefore all investment income is derived from this geographic location.

### Major customers

The Fund is domiciled in Australia and receives its total revenue from external customers in Australia. The Fund has a number of customers from whom it receives rental revenue. The amounts received from major customers of the Fund are set out below:

|            | 2014                            |        | 2013                            |        |
|------------|---------------------------------|--------|---------------------------------|--------|
|            | % of total<br>rental<br>revenue | \$'000 | % of total<br>rental<br>revenue | \$'000 |
| Customer 1 | 22.54                           | 1,404  | 17.54                           | 1,336  |
| Customer 2 | 15.46                           | 963    | 12.40                           | 944    |
| Customer 3 | 11.43                           | 712    | 10.94                           | 833    |
| Customer 4 | 9.56                            | 595    | 9.35                            | 712    |

## 11. Related party disclosures

The Responsible Entity of APN Regional Property Fund is APN Funds Management Limited (ACN 080 674 479) whose immediate and ultimate parent entity is APN Property Group Limited (ACN 109 846 068). Accordingly transactions with entities related to the APN Property Group are disclosed below.

APN Funds Management Limited also acts as the manager of the Fund.

Transactions with the Responsible Entity have taken place at arms length and in the ordinary course of business. Amounts are as follows

- Investment management fees of \$403,000 of which \$90,000 was payable at 30 June 2014 (2013: \$445,000 of which \$105,000 was payable at 30 June 2013).
- Registry and accounting fees of \$41,000 of which \$10,000 was payable at 30 June 2014 (2013: \$41,000 of which \$10,000 was payable at 30 June 2013).

### Key management personnel

The Fund does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the Fund and personnel of this entity are considered the Key Management Personnel of the Fund.

The names of the key management personnel of the Responsible Entity during the financial year were:

- Howard Brenchley (Director)
- Geoff Brunsdon (Chairman and Independent Non-Executive Director)
- Michael Johnstone (Independent Non-Executive Director)
- Jennifer Horrigan (Independent Non Executive Director)
- John Freemantle (Company Secretary)
- Michael Groth (Chief Financial Officer and alternate Director for Howard Brenchley)

The positions noted above for the Fund's key management personnel are the positions held within the Responsible Entity and not the Fund itself.

**Key management personnel compensation**

Key management personnel are paid by the parent of the Responsible Entity for their services to APN Property Group Limited. Payments made from the Fund to the Responsible Entity do not include any amounts attributable to the compensation of key management personnel in respect of services rendered to the Fund itself.

**Holdings of units by related parties**

Related parties may purchase and sell units in the Fund in accordance with their respective constitutions and product disclosure statements. Details of units held in the Fund by related parties are set out below:

|  | Number of units held |            |
|--|----------------------|------------|
|  | 2014                 | 2013       |
| <b>Responsible entity and its associates</b> |                      |            |
| APN Unlisted Property Fund                   | 12,420,000           | 12,420,000 |
| APN Direct Property Fund                     | -                    | 60,000     |

**Related party investments held by the Fund**

The fund may purchase and sell units in other approved funds managed by APN Funds Management Limited or its associates in the ordinary course of business at application and redemption prices calculated in accordance with the constitutions of those funds.

The Fund has no investment in APN Funds Management Limited, its associates or in other approved funds managed by APN Funds Management Limited (2013: Nil).

During or since the end of the financial year, none of the key management personnel held units in the Fund, either directly, indirectly, or beneficially.

**Directors' loans**

No loans were made by the Fund to the key management personnel and / or their related parties.

**12. Notes to the cash flow statement****(a) Reconciliation of cash and cash equivalents**

For the purposes of the cash flow statement, cash includes cash on hand and in banks and investments in money market instruments net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the cash flow statement is reconciled to the statement of financial position as follows:

|  | 2014<br>\$'000 | 2013<br>\$'000 |
|--|----------------|----------------|
| Cash at bank                           | 1,046          | 1,162          |
| <b>Total cash and cash equivalents</b> | <b>1,046</b>   | <b>1,162</b>   |

**(b) Reconciliation of profit for the period to net cash provided by operating activities**

|   | 2014<br>\$'000 | 2013<br>\$'000 |
|---|----------------|----------------|
| Net profit  | 6,557          | 1,434          |
| <b>Adjustments for:</b>                             |                |                |
| Change in fair value of investment properties       | (3,664)        | 956            |
| Change in fair value of derivatives                 | (91)           | 91             |
| Amortisation of borrowing costs                     | 12             | 61             |
| Interest paid classified as financing activity      | 1,400          | 1,877          |
| <b>Changes in net assets:</b>                       |                |                |
| (Increase)/decrease in income and other receivables | 45             | 158            |
| Increase in creditors and accruals                  | 66             | (373)          |
| <b>Net cash provided by operating activities</b>    | <b>4,325</b>   | <b>4,204</b>   |

**(c) Non-cash financing and investing activities**

During the period there were no non-cash financing and investing activities in the Fund (2013: Nil).

### **13. Financial risk management**

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

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

These activities expose the Fund to a variety of financial risks including credit risk, liquidity risk and market risk which includes interest rate risk.

The overall risk management program seeks to mitigate these risks and reduce volatility on the Fund's financial performance. Financial risk management is carried out centrally by the Responsible Entity under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign currency risk, interest rate risk, credit risk, use of derivative financial instruments and non derivative financial instruments, and the investment of excess liquidity.

#### **(a) Financial risk management objectives**

The Fund outsources the investment management to APN Funds Management Limited, who provide services to the Fund, co-ordinate access to domestic financial markets, and manages the financial risks relating to the operations of the Fund in accordance with an investment mandate set out in accordance with the Fund's constitution and product disclosure statement. The Responsible Entity has determined that the appointment of these managers is appropriate for the Fund and is in accordance with the Fund's investment strategy.

The Fund's overall risk management programme focuses on ensuring compliance with the Fund's product disclosure statement and seeks to maximise the returns derived for the level of risk to which the Fund is exposed.

The Fund's investment objective is to provide investors with maximum unitholder value through investment in properties with strong lease covenants, secure income streams and potential for capital growth.

The Fund does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the Funds investment policies, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the Responsible Entity on a continuous basis.

It is the Responsible Entity's aim to invest in such a way that any risks the Fund is exposed to are minimised, while at the same time endeavoring to achieve the investment objectives of the Fund.

Trust Company Limited acts as master custodian on behalf of the Responsible Entity and, as such, provides services including physical custody and safekeeping of assets, settlement of trades, collection of dividends and accounting for investment transactions.

#### **(b) Significant accounting policies**

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 1 to the financial statements.

#### **(c) Capital risk management**

The Responsible Entity's objective when managing capital is to safeguard the Fund's ability to continue as a going concern, so that it can continue to provide returns for unitholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Fund consists of cash and cash equivalents and the proceeds from the issue of the units of the Fund. An investment made by unitholders into the Fund is considered medium to long term and illiquid. As the Fund is listed on the National Stock Exchange of Australia, there is a market on which units may be traded. The Responsible Entity has a focused strategy to grow unitholder value and future acquisitions by the Fund may be considered. This will require future additional capital raisings. Strict investment criteria have been developed to ensure that any future acquisitions are not value dilutive, for the Fund, on either a yield or net asset basis. The overall investment strategy remains unchanged from the prior year.

#### **(d) Categories of financial instruments**

The Fund has investments in the following categories of financial assets and liabilities:

|  | 2014<br>\$'000 | 2013<br>\$'000 |
|--|----------------|----------------|
| Financial assets at fair value through profit and loss | 49,006         | 55,572         |
| Loans and receivables                                  | 90             | 258            |
| Financial liabilities measured at amortised cost       | (21,170)       | (32,088)       |

The carrying amount of interest-bearing liabilities as at 30 June 2014 is \$19,963,000 (2013: \$30,952,000).

#### (e) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Fund. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Credit risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The Fund has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the financial risk of financial loss from default.

The Fund's investment objective is to find high quality customers predominately with a stable credit history. The Fund measures credit risk on a fair value basis.

The maximum exposure to credit risk as at 30 June 2014 and at 30 June 2013 is the carrying amount of financial assets recognised in the balance sheet of the Fund. The Fund holds no collateral as security and the credit quality of all financial assets that are neither past due or impaired is consistently monitored in order to identify any potential adverse changes in the credit quality.

The Fund does not have any significant credit risk exposure to any single counterparty or counterparties having similar characteristics.

Cash transactions are limited to financial institutions that meet the Responsible Entity's minimum credit rating criteria. Credit risk arising on loans and receivable balances is monitored on an ongoing basis with the result that the exposure to bad debts by the Fund is not significant. There are no significant financial assets that have had renegotiated terms that would otherwise have been past due or impaired.

Credit risk associated with receivables is considered minimal. Other receivables balances are not significant to the Fund's operations.

#### (f) Liquidity risk

Liquidity risk includes the risk that the Fund, as a result of its operations:

- will not have sufficient funds to settle a transaction on the due date;
- will be forced to sell financial assets at a value which is less than what they are worth; or
- may be unable to settle or recover a financial asset at all.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Fund manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. To help reduce these risks the Fund:

- has a liquidity policy which targets a minimum and average level of cash and cash equivalents to be maintained;
- has a liquidity portfolio structure that requires surplus funds to be invested in various types of liquid instruments ranging from highly liquid to liquid instruments.

The Fund's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities. As the Fund is listed on the National Stock Exchange of Australia, there is a market on which units may be traded and the Fund is therefore not exposed to the liquidity risk of meeting unitholders' withdrawals at any time.

The Fund's main liquidity risk is its ability to refinance its borrowings. To assist in mitigating refinancing risk the Responsible Entity is in regular contact with the financial institutions.

In May 2014 the Responsible Entity successfully renegotiated the Fund's debt facility with a new lender Bank of Melbourne. The new facility has a three year term and is for a limit of \$20,000,000. The existing facility was reduced by a total of \$11,134,000 during the financial year via the proceeds received from the sale of the investment property in Grafton, and as part of an amortisation requirement of the facility using the Fund's cash reserves.

The table below shows an analysis of the contractual maturities of key liabilities (based on undiscounted contractual

cashflows) which forms part of the Fund's assessment of liquidity risk:

| 2014                         | Less than 3 months<br>\$'000 | 3 months to 1 year<br>\$'000 | 1 to 5 years<br>\$'000 | Over 5 years<br>\$'000 | Total<br>\$'000 |
|------------------------------|------------------------------|------------------------------|------------------------|------------------------|-----------------|
| <b>2014 Liabilities</b>      |                              |                              |                        |                        |                 |
| Accounts payable             | (522)                        | -                            | -                      | -                      | (522)           |
| Distribution payable         | (685)                        | -                            | -                      | -                      | (685)           |
| Interest bearing liabilities | (192)                        | (614)                        | (19,967)               | -                      | (20,773)        |
|                              | <b>(1,399)</b>               | <b>(614)</b>                 | <b>(19,967)</b>        | <b>-</b>               | <b>(21,980)</b> |
| <b>2013 Liabilities</b>      |                              |                              |                        |                        |                 |
| Accounts payable             | (749)                        | -                            | -                      | -                      | (749)           |
| Distribution payable         | (296)                        | -                            | -                      | -                      | (296)           |
| Interest bearing liabilities | (721)                        | (2,115)                      | (30,835)               | -                      | (33,671)        |
|                              | <b>(1,766)</b>               | <b>(2,115)</b>               | <b>(30,835)</b>        | <b>-</b>               | <b>(34,716)</b> |

The Fund is able to sufficiently meet its liquidity obligations through the receipt of rental income, via re-financing of debt or the realisation of the sale of investment properties where required.

**(g) Market risk**

Market risk is the risk that the fair value of future cash flows of the Fund's financial instruments will fluctuate because of changes in market conditions or factors. The Investment Manager manages the financial risks relating to the operations of the Fund in accordance with an investment mandate set out in accordance with the Fund's constitution and product disclosure statement. The Fund's investment mandate is to provide investors with maximum unitholder value through investment in properties with strong lease covenants, secure income streams and potential for capital growth. There has been no change to the Fund's exposure to market risks or the manner in which it manages and measures the risk. The component of market risk to which the Fund is exposed is interest rate risk.

**Interest rate risk**

The Fund's interest bearing financial assets and liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The risk is measured using sensitivity analysis.

As at balance date, the Fund's exposure to interest rates is as follows:

**Assets:** Cash and cash equivalents at fair values of \$1,046,000 (2013: \$1,162,000) with a weighted average interest rate of 2.17% (2013: 2.93%)

**Liabilities:** Interest-bearing liabilities at amortised cost of \$19,963,000 (2013: \$30,952,000) with a weighted average interest rate of 5.4476% (2013: 5.8341%)

**Derivatives**

During the year the Fund terminated the interest rate swap it had in place with its previous lender. The Fund no longer holds any interest rate swaps.

The following table details the notional principal amounts and fair value of the interest rate cap contract outstanding at the previous reporting date:

| Type of contract          | Expiration | Underlying     | Notional amount of contracts outstanding<br>\$ | Fair value (assets)<br>\$'000 | Fair value (liabilities)<br>\$'000 |
|---------------------------|------------|----------------|--|-------------------------------|------------------------------------|
| <b>As at 30 June 2013</b> |            |                |  |                               |                                    |
| Interest rate swap        | March 2014 | Interest rates | 25,600,000                                     | -                             | 91                                 |
|                           |            |                |  | -                             | 91                                 |

### Interest rate sensitivity

The sensitivity analysis below has been determined based on the Fund's exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period, in the case of instruments that have floating interest rates. A 250 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. The interest rate movements have been determined based on management's best estimate, having regard to historical levels of changes in interest rates and the current debt environment in which the Fund operates.

Actual movements in the interest rate may be greater or less than anticipated due to a number of factors, including unusually large market shocks both in the global and domestic property markets. As a result, historic variations in interest rates are not a definitive indicator of future variations.

The following illustrates the effect on operating profit before finance costs attributable to unitholders and liabilities attributable to unitholders from possible changes in market risk that were reasonably possible based on the risk the Fund was exposed to at reporting date:

For the Fund, a 250 basis point increase in interest rates would have decreased net profit, and decreased total equity by \$12,000 (2013: a 250 basis point increase resulting in an increase of \$106,000); an equal change in the opposite direction would have increased net profit, and increased total equity by \$12,000 (2013: a 250 basis point decrease resulting in a decrease of \$106,000). The methods and assumptions used to prepare the sensitivity analysis have not changed and it is performed on the same basis for 2013.

### (h) Fair value of financial instruments

The directors of the Responsible Entity consider that the carrying amount of financial assets and financial liabilities, recorded in the financial statements approximates their fair values.

The fair values and net fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.
- the fair value of derivative instruments, included in hedging assets and liabilities, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments.
- the fair value of the Parent's investment in managed investment schemes is determined by reference to the scheme's change in fair value of its underlying investment properties.

### Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured at fair value at 30 June 2014, grouped into Levels 1 to 3 based on the degree to which the fair value 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 2014 |                   |                   |                 |
|---|---|-------------------|-------------------|-----------------|
|   | Level 1<br>\$'000                         | Level 2<br>\$'000 | Level 3<br>\$'000 | Total<br>\$'000 |
| <b>Financial liabilities at FVTPL</b>                                 |   |                   |                   |                 |
| Financial liabilities designated at fair value through profit of loss | -   | -                 | -                 | -               |
| <b>Total</b>  | -   | -                 | -                 | -               |



| Fair value measurement as at 30 June 2013                             |          |           |          |           |
|---|----------|-----------|----------|-----------|
|   | Level 1  | Level 2   | Level 3  | Total     |
|   | \$'000   | \$'000    | \$'000   | \$'000    |
| <b>Financial liabilities at FVTPL</b>                                 |          |           |          |           |
| Financial liabilities designated at fair value through profit of loss | -        | 91        | -        | 91        |
| <b>Total</b>  | <b>-</b> | <b>91</b> | <b>-</b> | <b>91</b> |

- Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1 include listed property securities traded on the Australian Stock Exchange (ASX).
- Financial instruments that trade in markets that are not considered active but values are based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include financial derivatives whose fair values have been determined using dealer quotations.
- Classified within level 3 are financial instruments whose values are derived from significantly unobservable inputs as there is no active market.

#### 14. Consolidated entities

|                                       | Country of incorporation | Ownership interest |      |
|---------------------------------------|--------------------------|--------------------|------|
|                                       |                          | 2014               | 2013 |
| <b>Parent entity</b>                  |                          |                    |      |
| APN Regional Property Fund            | Australia                |                    |      |
| <b>Controlled entities</b>            |                          |                    |      |
| Greenpoint Shopping Village Unit Fund | Australia                | 100%               | 100% |
| Honeysuckle House Unit Fund           | Australia                | 100%               | 100% |
| Grafton Commercial Unit Fund          | Australia                | 100%               | 100% |
| Parkes Commercial Unit Fund           | Australia                | 100%               | 100% |
| Honeysuckle House Unit Fund No.2      | Australia                | 100%               | 100% |
| Parkes Commercial Unit Fund No.2      | Australia                | 100%               | 100% |

The Fund has no significant restrictions on its ability to access or use the assets and settle the liabilities of the group.

During the financial year, the Fund did not enter into any contractual arrangements that could require the parent or its subsidiaries to provide financial support to one of the consolidated entities (2013: Nil). Furthermore, neither the parent nor its subsidiaries have provided non-contractual financial or other support to one of the consolidated entities during the financial year (2013: Nil). There is currently no intention to provide contractual or non-contractual financial or other support to one of the consolidated entities going forward.

#### 15. Contingent liabilities and contingent assets

The Fund has received legal advice on a possible stamp duty liability with the New South Wales Office of State Revenue involving unit issues, unit redemptions and asset acquisitions in the Fund. The Responsible Entity is currently in the process of compiling all of the information relevant to these transactions and intends making full disclosure of the transactions to the New South Wales Office of State Revenue for the purposes of determining whether any duty should have been paid on these transactions and to ensure that any outstanding duty is duly paid. The New South Wales Office of State Revenue is yet to make an assessment on this issue. An estimate of the possible maximum liability directly and indirectly attributable to the Fund is \$1,622,000 exclusive of any penalties and interest charges.

The Responsible Entity considers it unlikely that any possible stamp duty liability will ultimately be borne by the Fund as it will seek to recover any such liability payable. There has not been any further development in relation to this matter at the date of authorisation of this financial report.

#### 16. Subsequent events

There has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Fund, the results of the Fund, or the state of affairs of the Fund in future financial years.

## 17. Parent entity disclosures

| Financial position                        | 2014<br>\$'000                                | 2013<br>\$'000                                |
|---|---|---|
| <b>Assets</b>                             |   |   |
| Current assets                            | 6,451   | 6,195   |
| Non-current assets                        | 42,496  | 49,313  |
| <b>Total assets</b>                       | <b>48,947</b>                                 | <b>55,508</b>                                 |
| <b>Liabilities</b>                        |   |   |
| Current liabilities                       | 1,058   | 723   |
| Non-current liabilities                   | 19,963  | 31,043  |
| <b>Total liabilities</b>                  | <b>21,021</b>                                 | <b>31,766</b>                                 |
| <b>Net assets</b>                         | <b>27,926</b>                                 | <b>23,742</b>                                 |
| <b>Equity attributable to unitholders</b> |   |   |
| Contributed equity                        | 27,470  | 27,470  |
| Retained earnings                         | 456   | (3,728)                                       |
| <b>Total equity</b>                       | <b>27,926</b>                                 | <b>23,742</b>                                 |
| <b>Financial performance</b>              | <b>Year ended<br/>30 June 2014<br/>\$'000</b> | <b>Year ended<br/>30 June 2013<br/>\$'000</b> |
| Net profit                                | 6,557   | 1,434   |
| Other comprehensive income                | -   | -   |
| <b>Total comprehensive income</b>         | <b>6,557</b>                                  | <b>1,434</b>                                  |

During the financial year ended 30 June 2014, the parent entity did not enter into any guarantees in relation to debts of its subsidiaries (2013: Nil).

Other than as referred to in Note 15, there are no contingent liabilities or contractual commitments for acquisitions of property, plant or equipment as at 30 June 2014 in the parent entity (2013: Nil).

## 18. Additional information

APN Funds Management Limited, a public company incorporated and operating in Australia, is the Responsible Entity of APN Regional Property Fund.

### Principal registered office

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

### Principal place of business

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

## NSX Additional Information

### APN Regional Property Fund – Fully paid securities

Fully paid unitholders (299 in total) as at 30 July 2014

| Unitholder   | Units             | %             |
|--|-------------------|---------------|
| 1 RBC Investor Services Australia Nominees Pty Limited A/C APN AST                                 | 12,420,000        | 38.08         |
| 2 Sandhurst Trustees Limited A/C AIMS PSF A/C  | 3,190,477         | 9.78          |
| 3 JP Morgan Nominees Australia Limited ACF Brookfield Capital Management Limited as RE for BAO A/C | 2,857,143         | 8.76          |
| 4 Equity Trustees Limited ATF EQT Spectrum Credit Opportunities Fund                               | 2,000,000         | 6.13          |
| 5 Netwealth Investments Limited A/C Wrap Services  | 751,431           | 2.30          |
| 6 JP Morgan Nominees Australia Limited A/C The Multiplex Income UPT Domestic Trust                 | 714,286           | 2.19          |
| 7 Mr Geoffrey John Pedersen & Mrs Patricia Pedersen ATF Pedersen Family Superannuation Fund        | 440,500           | 1.35          |
| 8 Haltolla Pty Ltd ATF Midwood Superannuation Fund   | 322,000           | 0.99          |
| 9 Mr Geoffrey John Pedersen  | 252,358           | 0.77          |
| 10 Craig Brown Pty Ltd T/A CRB Holdings Pty Ltd ATF Superannuation Fund                            | 220,000           | 0.68          |
| <b>Top 10 fully paid unitholders</b>   | <b>23,168,195</b> | <b>71.03</b>  |
| <b>Balance of units held</b>   | <b>9,448,142</b>  | <b>28.97</b>  |
| <b>Total fully paid unitholders</b>  | <b>32,616,337</b> | <b>100.00</b> |

| Spread of unitholder                       |                   |             |
|--|-------------------|-------------|
| Size of unitholding                        | Units             | Unitholders |
| 1-1,000                                    | -                 | -           |
| 1,001-5,000                                | 4,105             | 1           |
| 5,001-10,000                               | 653,103           | 67          |
| 10,001-100,000                             | 7,604,742         | 213         |
| 100,001 and over                           | 24,354,387        | 18          |
| <b>Total of all fully paid unitholders</b> | <b>32,616,337</b> | <b>299</b>  |