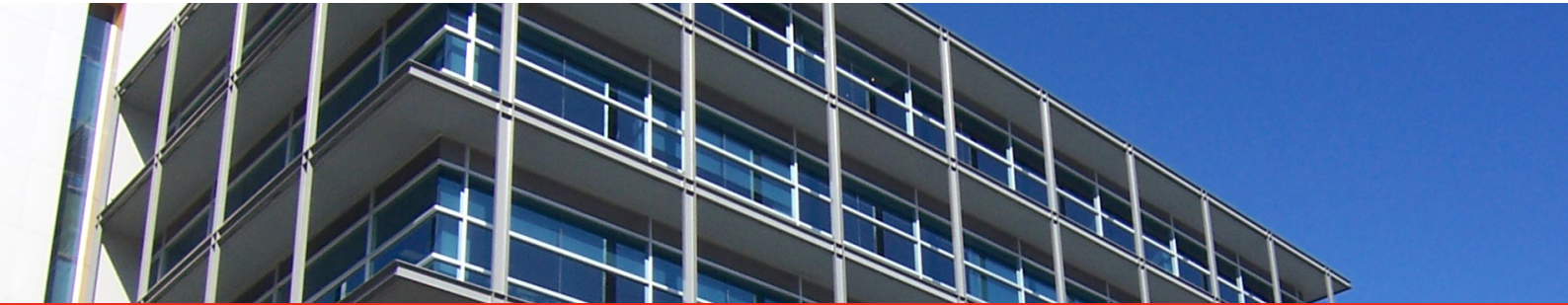


# **APN** | Regional Property Fund

ARSN 110 488 821



## **2015 ANNUAL REPORT**

### **APN Funds Management Limited**

ACN 080 674 479

AFSL No 237500

# Contents

Manager's report	i
Directors' report	2
Auditor's independence declaration	10
Independent audit report	11
Directors' declaration	13
Statement of profit or loss and other comprehensive income	14
Statement of financial position	15
Statement of changes in equity	16
Statement cash flows	17
Notes to the financial statements	18

**2015 Annual Report**





# Manager's report

## Direct property markets overview

The last twelve months have seen a continued bifurcation of some of Australia's commercial property markets with strong investor appetite driving record pricing levels despite mixed underlying fundamentals across the various key sectors. We see this as a simple outcome of an investment market driven by low cost of equity and debt and plentiful access to both coupled with an economy that has been relatively weak.

Office markets saw 205k sqm of net absorption over the past 12 months, the majority coming from Sydney and Melbourne which recorded 138k and 123k sqm of net absorption, respectively, well above the long term average of circa 60k sqm for each market. This is a strong signal that office markets are recovering however this is likely a more prolonged condition in mining states.

JLL estimates that the vacancy rate for the Sydney and Melbourne CBD's to be 7.8% and 10.1% respectively as at 30 June 2015. These represent a decline in vacancy of 2.2% for Sydney and 1.1% for Melbourne over the year. Lower net effective rents and more attractive lease terms are making the CBD more attractive, prompting tenants to search in the CBD rather than suburban locations which is also seeing a reduction in supply due to residential conversions.

Prime office yields in the Sydney and Melbourne CBD's firmed to average 6.00% and 6.38% respectively. Further yield tightening is expected to occur over the final half of the year driven by low interest rates and apparent strong competition for assets and portfolio's.

We will continue to monitor vacancy rates in our CBDs; white collar employment levels; and business confidence as leading indicators of the state of Australia's office markets.

Retail sales recorded growth of 4.9% year-on-year, clearly led by positive spill-overs of the housing boom to household goods as well as NSW overall. It is stronger retail sales that gives us confidence that rental growth will rebound from the retail sector thereby underpinning its position as the most attractive sub sector in Australian property markets. The demand from foreign retailers for prime CBD retail space and also quality regional centres is strong. We expect this trend to continue to underpin demand for space over the next 12 months too. Development activity has focussed on the sub-regional and neighbourhood centres that cater for growth in local populations.



Well leased retail property continues to be an attractive asset class for us.

The industrial sector continues to deliver steady returns with an average comparable rental growth of 2.4% and occupancy levels at 95% for FY15. Industry demand drivers remain positive with benefitting from 3rd party logistics, online shopping & data centres. State wise, the pent up demand for residential assets in NSW has driven the conversion of some industrial zoned land therefore limiting supply which was the major driver behind rent growth. Victoria was largely flat as supply continued to meet demand whilst the other states with a greater reliance on mining were negatively impacted.

Prime grade properties are now trading at historically low yields and secondary property sale yields have firmed considerably as the risk premium between prime and secondary assets starts to converge at this point in the cycle.

The Residential sector was characterised by record levels of building approvals, commencements and robust house price growth over the twelve months to June 2015. Performance was largely underpinned by historically low interest rate levels, supply constraints and strong demand from both domestic purchasers and offshore investors. Research by RP Data released to the end of June 2015 shows dwelling values increased by 9.8% on a national basis over the year.

Despite such strong price growth at a national level, the emergence of a two-tiered market separating the nation's largest housing markets in Sydney and Melbourne from the smaller state capitals and those underpinned by the mining/resources sector has also been evident as values increased by 16.2% in Sydney, 11.2% in Melbourne compared to, 3.4% in Brisbane, 4.5% in Adelaide and, 0.9% in Perth. In contrast to this strong price growth, data suggests that over the twelve months to June 2015, rental rates nationally rose by just 1.1% for houses and 1.4% for units, suggesting investors have been willing to accept lower returns from this asset class. Over the short to medium term the Australian residential market is likely to be influenced by the completion of material new dwelling supply as well as the influences on demand from regulatory reform, particularly implementation of more stringent lender capital requirements and further monitoring of offshore purchaser activity.



# Fund update

## Fund overview

The APN Regional Property Fund (the Fund) is a direct property fund which is invested in two office buildings in Newcastle. The Fund is listed on the National Stock Exchange under the code APR.

## Property performance

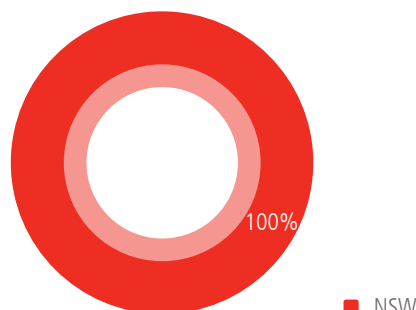
The Fund had a number of highlights in relation to its portfolio during the year including the following:

- Increase in net property income of 2.39% on a like for like basis (ignoring Parkes asset sold during period);
- The Fund sold the Parkes Shopping Centre asset, at book value, for \$10.2 million in February 2015;
- Occupancy across the office assets remains at 100% at 30 June 2015 (by income);
- The Fund's WALE (by area) is approximately 2.6 years
- Arrears at 30 June 2015 were minimal at 2.6% of net passing income.

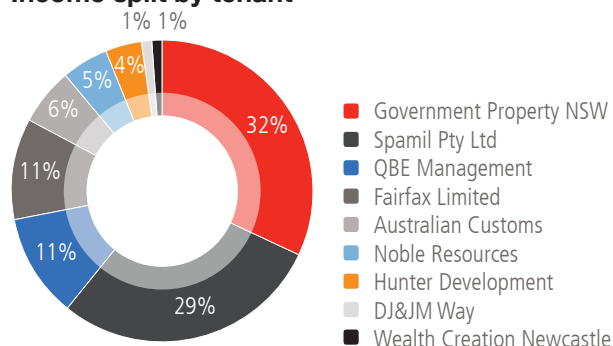
The Fund's portfolio was revalued at 30 June 2015, resulting in a tightening of the portfolio's weighted average cap rate from 9.56% to 9.31% and an increase in the portfolio's value (on a like for like basis) of 4% to \$39.25 million.

In the last 12 months, the Fund has also entered into agreements (subject to documentation and execution) to lease and extend circa 3,300 sqm of office space across both office buildings.

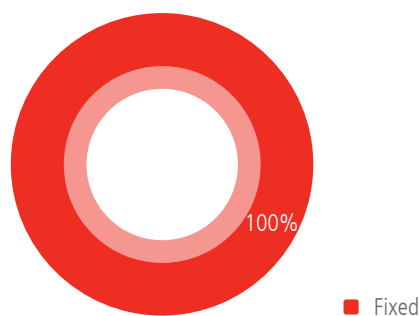
### Asset distribution (by value)



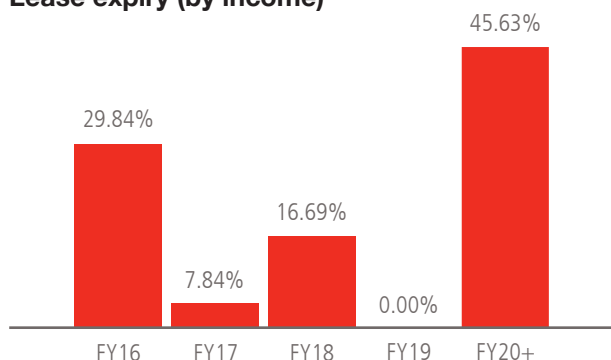
### Income split by tenant



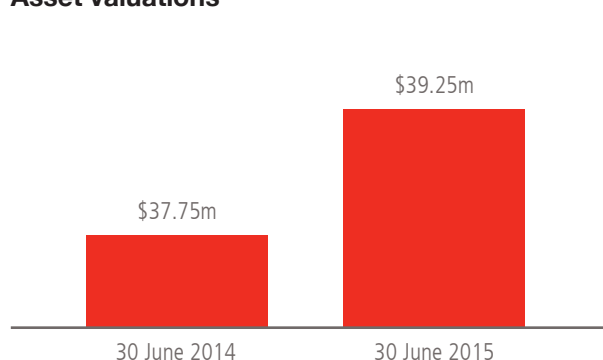
### Rent review profile (by income)



### Lease expiry (by income)



### Asset valuations



## Fund performance

The Fund delivered a solid set of results over the period despite a more challenging leasing environment.

Distributions for the 12 months to 30 June 2015 was 8.7 cents per unit (CPU) which is a 19.2% increase over the previous period's distribution of 7.3cpu. The distribution rate reflect a yield of approximately 10.2% on June 2014 net asset value (NAV) or 8.7% on original \$1.00 unit price.

Over the period the Fund's net asset value (NAV) per unit increased by 9.2% to \$0.9349 per unit as a result of valuation increases over the year. The Fund's gearing has been successfully reduced with its key loan to valuation ratio decreasing to 38.2% from 41.9% at the start of the period as a result of the sale of the Parkes property (with proceeds being applied to reduce debt).

## Strategy and outlook

APN continues to implement the strategy announced in 2013 to realise the Fund's assets over the period to 2016 at net tangible asset backing (subject to market conditions) and to make periodic withdrawal offers where possible.

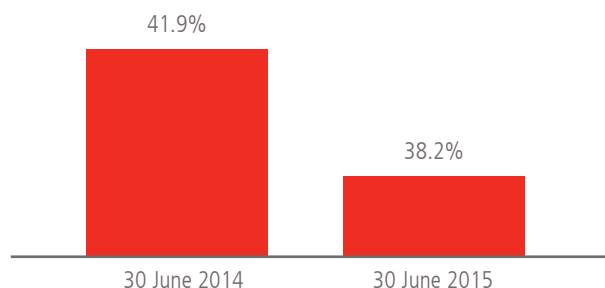
Yours sincerely



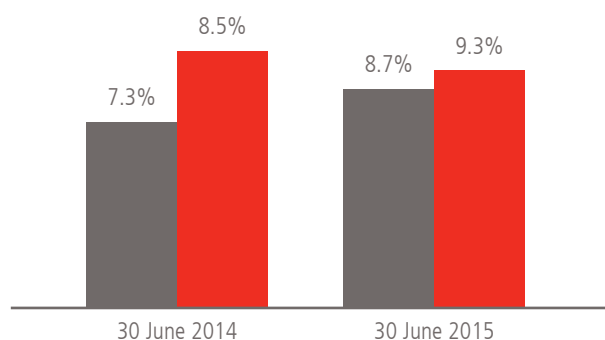
**Michael Suckling**

Head of Direct Property Funds and Fund Manager

### Gearing



### Distribution yield performance



■ DPU yield on original \$1.00 issue price  
■ DPU yield on NAV

Note: distribution yield performance FY14 and FY15 NAV based on commencing NAV of \$0.8562 and \$0.9349 respectively.

# **APN | Regional Property Fund**

ARSN 110 488 821

and its Controlled Funds

Annual Report for the Financial Year

Ended 30 June 2015

## 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 all of its controlled funds ("the Fund") for the year ended 30 June 2015. 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 during and since the end of the financial year are:

### **Name**

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

### **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.

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 two wholly owned and controlled funds which own the Honeysuckle House and Honeysuckle House 2 properties.

During the year, the Fund sold two of its investment properties located in Parkes. Total net proceeds of \$10,200,000 were used to repay a portion of the Fund's debt and also to facilitate a Withdrawal Offer.

The existing debt facility of \$20,081,000 was reduced by a total of \$5,081,000 during the financial year via the proceeds received from the sale of the investment properties in Parkes.

### **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 2015 was \$4,877,000 (2014: \$6,557,000).

### **Distributions**

In respect of the financial year ended 30 June 2015 a final distribution of 3.0750 cents per unit was paid to unitholders on 31 July 2015 (2014: 2.1008 cents per unit). The total distribution paid to unitholders in respect to the year ended 30 June 2015 was 8.7000 cents per unit (2014: 7.2777 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**

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.



The APN Property Group comprises a number of companies including parent entity, APN Property Group Limited (APN) and wholly owned subsidiary, APN Funds Management Limited (APN FM). APN FM is the Responsible Entity for the managed investment schemes currently operated by APN, which includes the APN Regional Property Fund.

The boards of APN and APN FM operate independently of each other.

- The board of APN (Board) comprises four directors, who collectively have a relevant interest in over 30% of the issued capital of the company. Two directors are also executives of the company. The Board is responsible for the overall management of the Company and of the APN Group and is strongly focussed on serving the interests of all shareholders.
- The board of APN FM comprises four Directors, three of whom are independent of the business and of the board of APN. All directors of APN FM have a legal obligation to put the interests of investors in the respective managed funds, ahead of their own, and those of APN.

The Board considers that separation of the boards ensures that the responsibility for managing the interests of shareholders in APN is completely independent of managing the interests of the APN funds and their respective investors. The separation also assists in enhancing the identification and management of conflicts of interest and related party transactions within the APN Group.

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

#### **Role and responsibility of the Board**

The Board is responsible for the overall management of the Company and of the APN Group including the determination of the APN Group's strategic direction.

Without limitation to the duties and responsibilities of directors under the Corporations Act, the Constitution and all applicable laws, the Board is responsible for:

- Oversight of the APN Group, including its control and accountability systems;
- Setting the aims, strategies and policies of the APN Group, in particular in respect of:
  - the direction of the APN Group's property funds management business (including the establishment of new funds from time to time);
  - and the decisions to co-invest in APN managed funds;
- Appointing and removing the managing director of APN (or equivalent); and where appropriate, ratifying the appointment and the removal of senior executives of APN including, but not limited to, the chief financial officer (or equivalent) and company secretary;
- Providing input into and final approval of management's development of corporate strategy and performance objectives for the APN Group;
- Reviewing, ratifying and monitoring systems of risk management and internal compliance and control, codes of conduct and legal compliance for the APN Group;
- Monitoring senior management's performance and implementation of strategy and ensuring appropriate resources are available;
- Approving and monitoring the progress of major capital expenditure, financial reporting, capital management and acquisitions and divestitures within the APN Group; and
- Approving and monitoring financial and other reporting obligations of entities within the APN Group.

#### **Audit and risk management**

The Board has not appointed an audit and risk management committee and accordingly is responsible for the audit and risk management functions in respect of the Company. The audit and risk management functions of the Board are:

##### **External audit**

- to determine the appointment and removal of external auditors;
- to monitor compliance with the Corporations Act in relation to auditor rotation;
- to undertake periodic reviews in order to monitor the effectiveness, objectivity and independence of the external auditor;
- to review and consider the adequacy of the audit plan proposed by the external auditors;
- to review all of the external auditor's reports;
- to commission such enquiry by the external auditors as the Board 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 external auditor's compliance with any applicable laws, regulations and any other relevant requirements.

### **Financial statements**

- to review APN's financial statements and related notes, and ensure they are consistent with information known to Board members and that they reflect appropriate accounting principles, standards and regulations;
- to review the external auditor's reviews or audits of APN's financial statements and corresponding reports;
- to consider any significant changes required in the external auditor's audit plans;
- to review accounting and reporting issues as they arise; and
- to review any disputes or issues that may arise during the course of an audit.

### **Risk management**

- to monitor the management of risks relevant to the APN Group;
- to review the APN Group's current risk management program (including all internal policies developed and implemented to manage and identify all of the identified risks (Governance Policies)) and whether it identifies all areas of potential risk and also ensures the APN Group has in place:
  - a procedure for identifying risks and controlling financial or other impacts on the APN Group;
  - an adequate system of internal control, management of business risks and safeguarding of assets;
  - a system for reporting and investigating breaches of the APN Group's compliance and risk management procedures and Governance Policies; and
  - a review of internal control systems and the operational effectiveness of the Governance Policies and procedures related to risk and control; and
- to ensure that regular audits of the Governance Policies are conducted to monitor compliance;
- to monitor compliance with the APN Group Conflicts of Interest and Related Party Transactions Policy and comply with its obligations under the policy;
- to oversee investigations of allegations of fraud or malfeasance.

The Board will immediately delegate the audit and risk management functions to a board committee if so required by the Listing Rules, Corporations Act or any other applicable laws.

### **Nomination and remuneration**

The Board has not appointed a nomination and remuneration committee and accordingly is responsible for the nomination and remuneration functions in respect of the entities within the APN Group. The nomination and remuneration functions of the Board are:

- determining the appropriate size and composition of the Board, together with the board of APN FM;
- 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 Board and the board of APN FM in the context of each board's existing composition and structure;
- developing a succession plan for the Board and the board of APN FM and regularly reviewing the succession plan;
- implementing induction procedures designed to allow new directors to participate fully and actively in Board decision-making at the earliest opportunity;
- implementing induction programs that enable directors to gain an understanding of:
  - the APN Group's financial, strategic, operational and risk management position;
  - their rights, duties and responsibilities which, in the case of directors of APN FM, includes their specific duties and responsibilities as directors of a corporate trustee and responsible entity; and
  - the role of the Board and Board 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 Board, its committees and individual 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 the APN Group 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 executives within the APN Group; and
- the remuneration packages of senior executives and directors.

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

### **The Board of APN FM has adopted Corporate Governance policies and procedures as follows:**

#### **Role and responsibility of the Board of APN Funds Management Limited**

The Board is responsible for the overall management of the Company and in particular the proper governance as Responsible Entity for the managed investment schemes currently operated by APN.

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

### **Audit, Compliance and Risk Management Committee for Managed Investment Schemes – APN Funds Management Limited**

The board of APN FM has established an Audit, Compliance and Risk Management Committee. Responsibility for overseeing APN FM's responsibilities for audit, compliance and risk management for itself and each APN fund is managed by this committee.

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

### **Nomination and Remuneration Committee for Managed Investment Schemes – APN Funds Management Limited**

The board of APN FM has established a Nomination and Remuneration Committee for overseeing APN FM's responsibilities for ensuring adequacy of the size and composition of the board of APN FM for itself and each APN fund.

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

### **Composition, Structure and Processes**

The Board currently comprises four directors (two of whom are also executives of the company). Each has a significant relevant interest in the Company. The names of the directors are set out on page 2.

### **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 the basis upon which they will be indemnified by the Company. Non-executive directors are entitled to take independent advice at the cost of the Company 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 (if any);
- Board processes and its committees' (if any) effectiveness in supporting the Board; and
- the performance of the Board and its committees (if any).

A review of each Director's performance is undertaken by the Chairman, after consultation with the other directors, prior to a director standing for re-election.

### **Ethical Standards, Market Communication and Conflict of Interest**

#### ***Code of Conduct***

The Board of the Company has adopted a Code of Conduct that applies to all directors and employees of the Company and its subsidiaries. The purpose of the Code of Conduct is to clarify the standards of ethical behaviour required of the Company directors and all employees and encourage the observance of those standards, and to ensure high standards of corporate and individual behaviour are observed by all of the Company's employees in the context of their employment with the Company. By adoption of the Code of Conduct, the Company wants to ensure that all persons dealing with the Company, whether it be employees, shareholders, investors, customers or competitors, can be guided by the stated values and policies of the Company.

The Code of Conduct also sets out the Board's view on conflicts of interest and related party transactions involving directors and employees and other legal and compliance obligations of the Company including corporate opportunities, confidentiality, fair dealing, protection of and proper use of Company information and assets, compliance with laws and regulations and encouraging the reporting of unlawful or unethical conduct.

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

#### ***Securities Trading Policy***

The Company has adopted a Securities Trading Policy that summarises the law relating to insider trading and other relevant provisions and sets out the procedures of the Company and its subsidiaries for permission and disclosure of trading by directors and employees in APN Group securities.

The Securities Trading Policy applies to all directors, executives, senior management and other employees of the Company and its subsidiaries and is designed to prevent breaches of the insider trading provisions by directors and employees of the Company and its subsidiaries. The Securities Trading Policy confirms that it is the responsibility of all directors and employees to comply with the insider trading provisions of the Corporations Act and to bring information in relation to any actual or potential insider trading to the attention of the relevant officer of the Company.

or its subsidiaries, as appropriate.

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

#### ***Continuous Disclosure***

The Company has adopted a Continuous Disclosure Policy to ensure that shareholders and the market have equal and timely access to material information regarding developments in relation to the Company in accordance with applicable disclosure requirements in both the Corporations Act and the ASX Listing Rules. Such information will relate to matters including the financial position, performance, ownership and governance in relation to the Company.

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

#### ***Communication with shareholders***

The Company has adopted a Communications Policy in order to ensure that there is effective communication between the Company and its shareholders, and also to encourage shareholders to participate at general meetings.

In accordance with the Company's Communications Policy, the APN Group website ([www.apngroup.com.au](http://www.apngroup.com.au)) is a significant component of the communications strategy. The Company ensures that its website is continually updated and contains recent announcements, webcasts, presentations, disclosure documents, market information and answers to frequently asked questions.

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

#### ***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 2015/2016, 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 employees at all times; and
- all employees 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 2014/2015, APN Property Group set similar measurable 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.*  
The Board made one new appointment during the year. Mr Tim Slattery was appointed in September 2014 to fill the vacancy arising from the resignation of Mr John Lim the previous year. Mr Slattery is an executive director and has been with APN for a number of years. There were no changes to the Board of APN FM during the year.
- 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.*  
There were no 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.*  
Thirteen new appointments were made during the year of which six (46%) 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 employees at all times.*  
The policy was available on the company intranet which is available to all staff at all times;
- all employees responsible for employment and promotion of employees will be reminded of the Diversity Policy and these objectives at least annually.*  
Employees 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: 25%
- Senior Management of the APN Property Group: 17%
- All employees of APN Property Group: 33%

### **Sustainability**

APN Property Group, including APN Funds Management Limited believes that the sustainability of the business is intrinsically linked to the successful management of its financial, social and environmental risks, obligations and opportunities. We believe those companies that adopt sustainable practices are more likely to generate better long term returns for investors.

This philosophy is embedded in the culture of the business and monitored to ensure critical business risks are carefully managed. This is evidenced in the following key objectives:

#### **Our Investors**

- Prioritise the interests of investors;
- Separate Boards operating independently of each other to manage conflicts between the interests of investors in APN PG and investors in the funds we manage;
- Strong focus on investment performance; and
- Regular and meaningful communications to investors.

#### **Our Community**

- Significant value attributed to 'sustainability conscious' companies in the investment decision process of the APN managed 'real estate securities' funds;
- Bias to 'green' rated direct property investments and development opportunities; and
- Corporate values ethos required of all staff - integrity, passion, respect, accountability and professionalism.

#### **Our Staff**

- Demanding recruitment standards;



- Attractive remuneration incentives for strong performance;
- Focus on diversity; and
- Employee engagement in overall business performance, including regular staff briefings.

#### **Our Governance**

- Independent Board to manage the Responsible Entity of APN's managed funds;
- Strict compliance regime to ensure compliance with legislative framework overseen by independent Board Compliance Sub-Committee;
- Documented compliance program and Company Policies to regulate compliance requirements; and
- Annual compliance audits.

#### **Compliance with ASX Guidelines**

The Company meets all of the ASX Guidelines, except in relation to the following:

- Recommendation 2.1 – a majority of the Board should be independent directors.
- Recommendation 2.2 – the chairperson should be an independent director
- Recommendation 2.3 – the roles of chair and chief executive officer should not be exercised by the same individual
- Recommendation 2.4 – the Board should establish a nomination committee
- Recommendations 4.1, 4.2, 4.3 and 4.4 – the Board should establish an audit committee comprising only non-executive directors, a majority of independent directors and chaired by an independent director, who is not a chair of the board
- Recommendation 8.1 – the board should establish a remuneration committee

The Board has carefully considered its size and composition, together with the specialist knowledge of the property and property securities sector of its directors, and formed the view that based on its current composition, it has the necessary skills and motivation to ensure that the Company performs strongly, and there is sufficient accountability in the structure of the Board, to ensure the outcomes and objectives sought by the ASX Guidelines are achieved. The Board considers that this has been enhanced through the separation of the boards of APN and the Responsible Entity of the APN funds, APN FM.

Having regard for the size of the APN Group and separation of responsibilities between the Board of the Company and the independent board of APN FM, the Board considered that incorporating the audit and risk management and nomination and remuneration procedures into the function of the Board is an appropriate way of addressing the accountability and efficiencies sought to be achieved by the ASX Guidelines. This position is regularly reviewed to ensure the outcomes and objectives under the ASX Guidelines continue to be achieved.

#### **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 \$5,716 (2014: \$3,321) for the year ended 30 June 2015.

### **Auditor's independence declaration**

The Auditor's Independence Declaration is included on page 10 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, 20 August 2015

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

20 August 2015

Dear Board Members

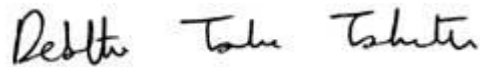
**Independence Declaration –APN Regional Property Fund and its Controlled Funds**

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 2015, 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 2015, 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 13 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.

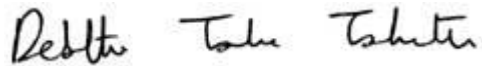
### *Auditor's Independence Declaration*

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 2015 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, 20 August 2015



## 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, 20 August 2015

Statement of Profit or Loss and Other Comprehensive Income  
for the financial year ended 30 June 2015

	Note	Consolidated	
		2015 \$'000	2014 \$'000
<b>Income</b>			
Rental		6,173	6,879
Interest		43	17
Changes in the fair value of investment properties		1,335	3,664
Changes in the fair value of derivatives		-	91
<b>Total income</b>		<b>7,551</b>	<b>10,651</b>
<b>Expenses</b>			
Investment management fee		383	403
Custodian fee		27	25
Property management expenses		1,301	2,055
Other expenses		139	137
Auditor's remuneration	9	29	29
Finance costs		795	1,445
<b>Total expenses</b>		<b>2,674</b>	<b>4,094</b>
<b>Net profit</b>		<b>4,877</b>	<b>6,557</b>
<b>Other comprehensive income</b>			
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<b>4,877</b>	<b>6,557</b>
<b>Earnings per unit</b>			
Basic (cents per unit)	8	18.5	20.1
Diluted (cents per unit)	8	18.5	20.1

Notes to the financial statements are included on pages 18 to 33.

# Statement of Financial Position

as at 30 June 2015

	Note	Consolidated	
		2015 \$'000	2014 \$'000
<b>Assets</b>			
Cash and cash equivalents		1,357	1,046
Receivables and other assets	2	155	90
Investment properties	3	39,250	47,960
<b>Total assets</b>		<b>40,762</b>	<b>49,096</b>
<b>Liabilities</b>			
Payables	4	370	522
Distribution payable	5	812	685
Interest bearing liabilities	6	14,923	19,963
<b>Total liabilities</b>		<b>16,105</b>	<b>21,170</b>
<b>Net assets</b>		<b>24,657</b>	<b>27,926</b>
<b>Equity attributable to unitholders</b>			
Contributed Equity		21,970	27,470
Retained Earnings		2,687	456
<b>Total equity</b>	7	<b>24,657</b>	<b>27,926</b>

Notes to the financial statements are included on pages 18 to 33.

## Statement of Changes in Equity

for the financial year ended 30 June 2015

Consolidated				
	Note	Contributed equity \$'000	Retained earnings \$'000	Total \$'000
<b>Balance at 1 July 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>-</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>
Net profit for the year		-	4,877	4,877
Other comprehensive income		-	-	-
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>4,877</b>	<b>4,877</b>
Distributions paid to investors		-	(2,646)	(2,646)
Withdrawal Offer	7	(5,500)	-	(5,500)
<b>Balance at 30 June 2015</b>		<b>21,970</b>	<b>2,687</b>	<b>24,657</b>

Notes to the financial statements are included on pages 18 to 33.

# Statement of Cash Flows

for the financial year ended 30 June 2015

	Note	Consolidated	
		2015 Inflows/ (Outflows) \$'000	2014 Inflows/ (Outflows) \$'000
<b>Cash flows from operating activities</b>			
Rental income received		4,706	4,949
Interest received		43	19
Expenses paid		(1,346)	(643)
<b>Net cash provided by operating activities</b>	12(b)	<b>3,403</b>	<b>4,325</b>
<b>Cash flows from investing activities</b>			
Payments associated with investment properties		(155)	(436)
Proceeds from sale of investment properties		10,200	10,550
<b>Net cash provided by investing activities</b>		<b>10,045</b>	<b>10,114</b>
<b>Cash flows from financing activities</b>			
Distributions paid		(2,519)	(1,984)
Finance costs paid		(37)	(1,580)
Repayment of borrowings		(5,081)	(10,991)
Withdrawal Offer		(5,500)	-
<b>Net cash used in financing activities</b>		<b>(13,137)</b>	<b>(14,555)</b>
Net increase / (decrease) in cash and cash equivalents held		311	(116)
Cash and cash equivalents at beginning of the financial year		1,046	1,162
<b>Cash and cash equivalents at end of the financial year</b>	12(a)	<b>1,357</b>	<b>1,046</b>

Notes to the financial statements are included on pages 18 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 20 August 2015.

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 \$39,250,000 (2014: \$47,960,000) (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 2015 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:

Standard	Explanation
AASB 2012-3 'Amendments to Australian Accounting Standards Offsetting Financial Assets and Financial Liabilities'	<p>The amendments to AASB 132 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.</p> <p>The directors of the Fund have assessed whether certain of its financial assets and financial liabilities qualify for offset based on the criteria set out in the amendments and concluded that the application of the amendments does not have any material impact on the amounts recognised in the Fund's consolidated financial statements.</p>
AASB 2013-3 'Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets'	<p>The amendments to AASB 136 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the</p>

	<p>disclosure required by AASB 13 'Fair Value Measurements'.</p> <p>The application of these amendments does not have any material impact on the disclosures in the Fund's consolidated financial statements.</p>
AASB 2013-4 'Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting'	<p>The amendments to AASB 139 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.</p> <p>As the Fund does not have any derivatives that are subject to novation, the application of these amendments does not have any material impact on the disclosures or on the amounts recognised in the Fund's consolidated financial statements.</p>
AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities'	<p>The amendments to AASB 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.</p> <p>As the Fund is not an investment entity (assessment based on the criteria set out in AASB 10 as at 1 July 2014), the application of the amendments does not have any material impact on the disclosures or the amounts recognised in the Fund's consolidated financial statements.</p>
<p>AASB 2014-1 'Amendments to Australian Accounting Standards'</p> <ul style="list-style-type: none"> <li>Part A: 'Annual Improvements 2010-2012 and 2011-2013 Cycles'</li> </ul>	<p>A number of pronouncements are amended as a result of the 2010-2012 and 2011-2013 annual improvements cycle.</p> <p>The combination of these amendments does not have any material impact on the disclosures or on the amounts recognised in the Fund's consolidated financial statements.</p>
<p>AASB 1031 'Materiality' (2013)</p> <p>AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'</p> <p>AASB 2014-1 'Amendments to Australian Accounting Standards' (Part C: Materiality)</p>	<p>The revised AASB 1031 is an interim standard that cross-references to other Standards and the 'Framework for the Preparation and Presentation of Financial Statements' (issued December 2013) that contain guidance on materiality. The AASB is progressively removing references to AASB 1031 in all Standards and Interpretations. Once all of these references have been removed, AASB 1031 will be withdrawn. The adoption of AASB 1031, AASB 2013-9 (Part B) and AASB 2014-1 (Part C) does not have any material impact on the disclosures or the amounts recognised in the Fund's consolidated financial statements.</p>

### 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
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	30 June 2019
AASB 15 'Revenue from Contracts with Customers' and AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15'	1 January 2017	30 June 2018
AASB 2014-3 'Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations'	1 January 2016	30 June 2017
AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'	1 January 2016	30 June 2017

AASB 2014-9 'Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements'	1 January 2016	30 June 2017
AASB 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'	1 January 2016	30 June 2017
AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'	1 January 2016	30 June 2017
AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'	1 January 2016	30 June 2017
AASB 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality'	1 July 2015	30 June 2016
AASB 2015-5 'Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception'	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
-------------------------	--	---

At the date of authorisation, there have been no IASB Standards or IFRIC Interpretations that are issued but not yet effective.

### 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 the 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 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 financial asset 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

	2015 \$'000	2014 \$'000
Accounts receivable	114	28
Prepaid expenses	41	60
Other	-	2
	<b>155</b>	<b>90</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 2015, no receivables were impaired (2014: Nil). The ageing analysis of accounts receivable is as follows:

	2015 \$'000	2014 \$'000
Ageing analysis of receivables not impaired		
0-30 days	-	-
31-90 days	82	9
91+ days	32	19
	<b>114</b>	<b>28</b>

## 3. Investment properties

	2015 \$'000	2014 \$'000
Investment properties at fair value		
Carrying amount at the beginning of the period	47,960	54,410
Additions	-	-
Disposals	(10,200)	(10,550)
Costs associated with sale of investment properties	155	208
Capital expenditure on investment properties	-	228
Changes in fair value of investment properties recognised in profit or loss	1,335	3,664
<b>Carrying amount at the end of the period</b>	<b>39,250</b>	<b>47,960</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 2015 \$'000	Valuation technique	Inputs used to measure fair value	Range of unobservable inputs 30 June 2015
Level 3	39,250	DCF and income capitalisation method	Net passing rent - \$/sqm Net market rent - \$/sqm Adopted capitalisation rate Adopted discount rate Adopted terminal yield	\$300 - \$500 \$300 - \$500 8.75% - 10.00% 10.00% - 10.50% 9.00% - 10.25%

### 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 capitalisation 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.
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 2 properties located in regional New South Wales which were independently valued as at 30 June 2015. 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 dated 30 June 2015.

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 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:

	2015 \$'000	2014 \$'000
Less than one year	4,238	5,795
Between one and five years	8,996	15,837
More than five years	-	940
	<b>13,234</b>	<b>22,572</b>

#### 4. Payables

	2015 \$'000	2014 \$'000
Accounts payable	236	278
Prepaid rent	63	104
Accrued expenses	31	95
Other	40	45
	<b>370</b>	<b>522</b>

#### 5. Distributions paid and payable

	2015		2014	
	Cents per unit	\$'000	Cents per unit	\$'000
Distribution paid during the year	5.6250	1,834	5.1769	1,688
Distribution payable	3.0750	812	2.1008	685
	<b>8.7000</b>	<b>2,646</b>	<b>7.2777</b>	<b>2,373</b>

#### 6. Interest bearing liabilities

	2015 \$'000	2014 \$'000
Cash advance facility	14,923	19,963
	<b>14,923</b>	<b>19,963</b>
	<b>2015 \$'000</b>	<b>2014 \$'000</b>
Financing arrangements – The Fund has access to the following lines of credit:		
Cash advance facility	20,081	20,081
Cash advance facility utilised at balance date	15,000	20,081
Cash advance facility not utilised at balance date	5,081	-

During the year the Fund reduced its debt facility by \$5,081,000 via the proceeds received from the sale of the investment properties in Parkes. The Fund's Loan to Value Ratio as at 30 June 2015 was 38.22%, within the limit of 60% (2014: 41.87% within the limit of 60%). The Fund's Interest Cover Ratio as at 30 June 2015 was 5.62 times, within the limit of 2.0 times (2014: 3.22 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 \$77,000 of deferred borrowing costs that have been allocated against the total amount of the facility utilised at balance date (2014: \$118,000). The cash advance facility is repayable in May 2017 and bears interest payable quarterly.

## 7. Equity

	2015 Units	2014 Units
<b>Units on issue</b>		
On issue at beginning of the year	32,616,337	32,616,337
Applications	-	-
Redemptions*	(6,241,501)	-
Units issued upon reinvestment of distributions	-	-
<b>On issue at year end</b>	<b>26,374,836</b>	<b>32,616,337</b>
	2015 \$'000	2014 \$'000
<b>Movements in equity</b>		
At beginning of the year	27,926	23,742
Unit applications	-	-
Unit redemptions*	(5,500)	-
Units issued upon reinvestment of distributions	-	-
Net profit/(loss) for the period	4,877	6,557
Distributions paid to unitholders	(2,646)	(2,373)
<b>Total equity</b>	<b>24,657</b>	<b>27,926</b>

\* The Responsible Entity invited Unitholders in the Fund to participate in a Withdrawal Offer, this was finalised in June 2015.

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

	2015 Cents per unit	2014 Cents per unit
Basic	18.5	20.1
Diluted	18.5	20.1

## 9. Remuneration of auditors

	2015 \$	2014 \$
<b>Auditor of the Fund</b>		
Auditing or reviewing the Financial Report	23,545	25,714
Other non-audit services*	5,716	3,321
	<b>29,261</b>	<b>29,035</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:

	2015		2014	
	% of total rental revenue	\$'000	% of total rental revenue	\$'000
Customer 1	35.26	1,494	22.54	1,404
Customer 2	20.46	867	15.46	963
Customer 3	13.13	556	11.43	712
Customer 4	12.39	525	9.56	595

### 11. Related party disclosures

The Responsible Entity and Manager 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 APN Property Group Limited are disclosed below.

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 \$383,000 of which \$94,000 was payable at 30 June 2015 (2014: \$403,000 of which \$90,000 was payable at 30 June 2014).
- Registry and accounting fees of \$41,000 of which \$10,000 was payable at 30 June 2015 (2014: \$41,000 of which \$10,000 was payable at 30 June 2014).

### 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.

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

- Geoff Brunsdon (Chairman and Independent Non-Executive Director)
- Howard Brenchley (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 are the positions held within the Responsible Entity and not the Fund itself.

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 the Responsible Entity's 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	
	2015	2014
<b>Responsible entity and its associates</b>		
APN Unlisted Property Fund	9,500,396	12,420,000

### 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 fair market value.

The Fund has no investment in APN Funds Management Limited, its associates or in other approved funds managed by APN Funds Management Limited (2014: Nil).

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

#### Directors' loans

No loans were made by the Fund to the Responsible Entity's 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:

	2015 \$'000	2014 \$'000
Cash at bank	1,357	1,046
<b>Total cash and cash equivalents</b>	<b>1,357</b>	<b>1,046</b>

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

	2015 \$'000	2014 \$'000
Net profit	4,877	6,557
<b>Adjustments for:</b>		
Change in fair value of investment properties	(1,335)	(3,664)
Change in fair value of derivatives	-	(91)
Amortisation of borrowing costs	57	12
Interest paid classified as financing activity	41	1,400
<b>Changes in net assets:</b>		
(Increase) / decrease in income and other receivables	(85)	45
Increase / (decrease) in creditors and accruals	(152)	66
<b>Net cash provided by operating activities</b>	<b>3,403</b>	<b>4,325</b>

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

During the period there were no non-cash financing and investing activities in the Fund (2014: Nil).

## 13. Financial risk management

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

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

Perpetual Services Pty Limited acts as master custodian on behalf of the Responsible Entity and, as such, provides services including physical custody and safekeeping of assets.

#### **(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. 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:

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Financial assets at fair value through profit and loss	1,357	1,046
Loans and receivables	155	90
Financial liabilities measured at amortised cost	(16,105)	(21,170)

The carrying amount of interest-bearing liabilities as at 30 June 2015 is \$15,000,000 (2014: \$20,081,000).

#### **(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 2015 and at 30 June 2014 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; and
- 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. The existing facility was reduced by a total of \$5,081,000 during the financial year via the proceeds received from the sale of the investment properties in Parkes.

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:

2015	Less than 3 months \$'000	3 months to 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
<b>2015 Liabilities</b>					
Accounts payable	(370)	-	-	-	(370)
Distribution payable	(812)	-	-	-	(812)
Interest bearing liabilities	(117)	(343)	(14,844)	-	(15,304)
	<b>(1,299)</b>	<b>(343)</b>	<b>(14,844)</b>	<b>-</b>	<b>(16,486)</b>
<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>

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 \$1,357,000 (2014: \$1,046,000) with a weighted average interest rate of 1.97% (2014: 2.17%)

**Liabilities:** Interest-bearing liabilities at amortised cost of \$14,923,000 (2014: \$19,963,000) with a weighted average interest rate of 3.7809% (2014: 5.4476%)

### **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 25 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 25 basis point increase in interest rates would have decreased net profit, and decreased total equity by \$8,000 (2014: a 250 basis point increase resulting in an decrease of \$12,000); an equal change in the opposite direction would have increased net profit, and increased total equity by \$8,000 (2014: a 250 basis point resulting in a increase of \$12,000). The methods and assumptions used to prepare the sensitivity analysis have not changed and it is performed on the same basis for 2014.

### **(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.

Financial assets and liabilities held at fair value through the profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through the profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through the profit or loss are measured at fair value with changes in their fair value recognised in the statement of profit or loss and other comprehensive income.

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;
- 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; and
- 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**

Financial instruments that are measured at fair value are 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).

During the year, there were no financial liabilities at FVTPL (2014: Nil).

During the year, there were no transfers into or out of Level 3

The Directors consider the carrying amounts of the Fund's financial instruments approximate their fair values.

#### 14. Consolidated entities

	Country of incorporation	Ownership interest	
		2015	2014
<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 (2014: 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 (2014: 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

In August 2015 the Responsible Entity of the Fund was issued an assessment by the New South Wales Office of State Revenue in respect to a liability for stamp duty under section 113 of the Duties Act 1997. Per the issued Duties Notice of Assessment, Duty of \$487,195 and Interest of \$653,118 have been assessed with payment due by 3 September 2015. However if an amount of \$870,577 is paid by 3 September 2015 the New South Wales Office of State Revenue will remit interest of \$269,736. APN FM, in conjunction with its legal advisors, is investigating the basis of the Notice of Assessment and is considering its position. APN FM is also investigating the rights it may have against the legal firm that provided the original stamp duty advice on establishment of the Fund.

#### 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. Net tangible asset backing

	2015 Cents per security	2014 Cents per security
Net tangible asset backing	0.9349	0.8562

Net tangible asset backing per security is calculated by dividing the equity attributable to unitholders by the number of units on issue.

## 18. Parent entity disclosures

Financial position	2015 \$'000	2014 \$'000
<b>Assets</b>		
Current assets	6,147	6,451
Non-current assets	34,552	42,496
<b>Total assets</b>	<b>40,699</b>	<b>48,947</b>
<b>Liabilities</b>		
Current liabilities	1,119	1,058
Non-current liabilities	14,923	19,963
<b>Total liabilities</b>	<b>16,042</b>	<b>21,021</b>
<b>Net assets</b>	<b>24,657</b>	<b>27,926</b>
<b>Equity attributable to unitholders</b>		
Contributed equity	21,970	27,470
Retained earnings	2,687	456
<b>Total equity</b>	<b>24,657</b>	<b>27,926</b>
<b>Financial performance</b>	<b>Year ended 30 June 2015 \$'000</b>	<b>Year ended 30 June 2014 \$'000</b>
Net profit	4,877	6,557
Other comprehensive income		
<b>Total comprehensive income</b>	<b>4,877</b>	<b>6,557</b>

During the financial year ended 30 June 2015, the parent entity did not enter into any guarantees in relation to debts of its subsidiaries (2014: 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 2015 in the parent entity (2014: Nil).

## 19. 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 (295 in total) as at 30 June 2015

Unitholder	Units	%
1 RBC Investor Services Australia Nominees Pty Limited A/C APN AST	9,500,396	36.02
2 Sandhurst Trustees Limited A/C AIMS PSF A/C	2,440,483	9.25
3 JP Morgan Nominees Australia Limited ACF Brookfield Capital Management Limited as RE for BAO A/C	2,185,507	8.29
4 Equity Trustees Limited ATF EQT Spectrum Credit Opportunities Fund	1,529,854	5.80
5 Netwealth Investments Limited A/C Wrap Services	574,790	2.18
6 JP Morgan Nominees Australia Limited A/C The Multiplex Income UPT Domestic Trust	546,377	2.07
7 Mr Geoffrey John Pedersen & Mrs Patricia Pedersen ATF Pedersen Family Superannuation Fund	500,452	1.90
8 Craig Brown Pty Ltd T/A CRB Holdings Pty Ltd ATF Superannuation Fund	220,000	0.83
9 Mr Geoffrey John Pedersen	200,000	0.76
10 Haltolla Pty Ltd ATF Midwood Superannuation Fund	188,172	0.71
<b>Top 10 fully paid unitholders</b>	<b>17,886,031</b>	<b>67.81</b>
<b>Balance of units held</b>	<b>8,488,805</b>	<b>32.19</b>
<b>Total fully paid unitholders</b>	<b>26,374,836</b>	<b>100.00</b>

Spread of unitholder		
Size of unitholding	Units	Unitholders
1-1,000	-	-
1,001-5,000	17,356	4
5,001-10,000	589,264	65
10,001-100,000	6,691,728	207
100,001 and over	19,076,488	19
<b>Total of all fully paid unitholders</b>	<b>26,374,836</b>	<b>295</b>



## Manager

### **APN Funds Management Limited**

Level 30, 101 Collins Street,  
Melbourne, Victoria 3000

Investor Services Hotline 1800 996 456

Adviser Services Hotline 1300 027 636

Email [apnpg@apngroup.com.au](mailto:apnpg@apngroup.com.au)

Website [www.apngroup.com.au](http://www.apngroup.com.au)

### **Postal Address**

PO Box 18011,  
Melbourne Collins Street East VIC 8003

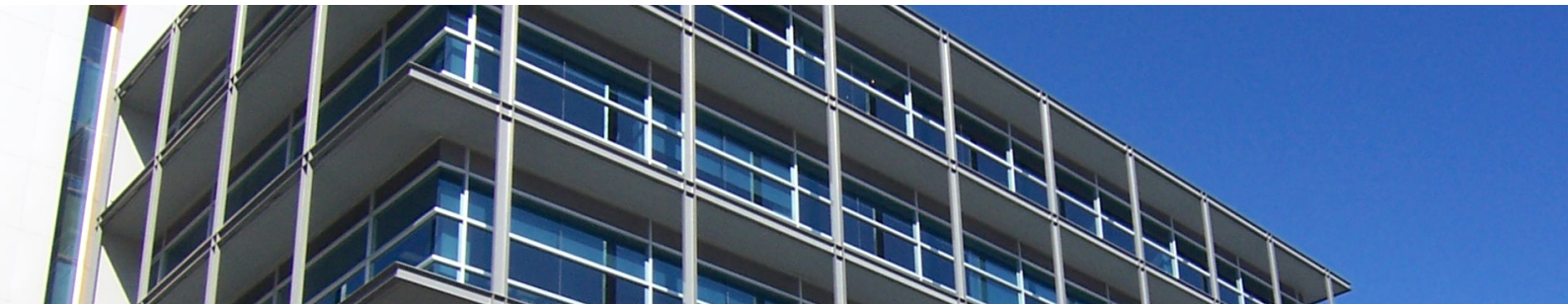
### **External Auditor to the Fund**

Deloitte Touche Tohmatsu

550 Bourke Street,

Melbourne, Victoria 3000





## 2015 ANNUAL REPORT

**APN** | Property Group  
ABN 30 109 846 068

**APN Property Group Limited**

ABN 30 109 846 068  
Level 30, 101 Collins Street,  
Melbourne, Victoria 3000

Telephone (03) 8656 1000  
Email [apnpg@apngroup.com.au](mailto:apnpg@apngroup.com.au)  
Website [www.apngroup.com.au](http://www.apngroup.com.au)