



APN | Convenience Retail REIT

Convenience Retail REIT No. 1 ARSN 101 227 614
Convenience Retail REIT No. 2 ARSN 619 527 829
Convenience Retail REIT No. 3 ARSN 619 527 856

ANNUAL REPORT
2020

2020

APN Convenience Retail REIT is a listed Australian Real Estate Investment Trust (“REIT”) (ASX code: AQR) that wholly owns a portfolio of 79 service station and convenience retail assets located across Australia with a skew towards the eastern seaboard, independently valued at \$445 million. The portfolio is leased to high-quality tenants on attractive, long-term leases. The objective of the REIT is to provide investors with sustainable and stable income and the potential for both income and capital growth through annual rental increases.

Contents

01	PERFORMANCE SNAPSHOT
02	LETTER FROM THE FUND MANAGER
04	ABOUT THE MANAGER
05	SENIOR MANAGEMENT
06	DIVERSIFIED PORTFOLIO
07	STRONG LEVEL OF INCOME SECURITY
08	FINANCIAL REPORT
11	Directors' report
19	Corporate governance statement
20	Auditor's independence declaration
21	Independent auditor's report
56	SUMMARY OF SECURITYHOLDERS
58	CORPORATE DIRECTORY

Performance snapshot

Financial Performance

21.8c

DISTRIBUTION
PER SECURITY

▲ 4.3% on FY2019

21.6c

FFO
PER SECURITY

▲ 0.4% on FY2019¹

\$3.27

NTA
PER SECURITY

▲ 10.5% from June 2019

Portfolio Performance

\$31.9m

VALUATION
UPLIFT

2.8%

CONTRACTED ANNUAL
RENTAL GROWTH

10.6yrs

WEIGHTED AVERAGE
LEASE EXPIRY

Capital Management

\$90.2m

TOTAL COMMITTED
ACQUISITIONS

\$101.6m

NEW EQUITY
RAISED²

16.5%

GEARING³

¹ FFO per security reflects the issuance of new securities during the period. ² Excludes \$10.7m of new equity raised post balance date comprising \$10.0m from the securities purchase plan and \$0.7m from the DRP for the June 2020 quarter distribution. ³ Pro forma gearing of 24.8% after adjusting for new equity raised post balance, fund-through development pipeline of \$22.4m and contracted acquisitions of \$38m.

LETTER FROM THE FUND MANAGER



Dear Securityholders,

It is my pleasure to present the Annual Report for APN Convenience Retail REIT (the 'Fund') for the financial year ended 30 June 2020.

No one could ever have imagined a financial year like 2020 with plenty more twists and turns to come I'm sure. Yet despite this extraordinary year, I'm delighted to report that APN Convenience Retail REIT is in a very healthy position. The Fund has secure and transparent cash flows backed by long-term leases to national and international tenants and benefits from a strong balance sheet with gearing at the bottom of our target range. This will ensure that we can continue to deliver on our strategy of providing investors with a defensive and growing income stream.

The Fund's investments are defensive due to their exposure to non-discretionary spending, and the portfolio is unique and considered difficult to replicate given the limited availability of strategically located land which is not impacted by zoning restrictions. These factors will ensure that this asset class continues to be a sought-after investment and reliable income source.

We maintain a strong focus on actively managing the portfolio and pursuing acquisition and divestment opportunities to enhance the Fund and create long term sustainable value for securityholders.

Financial results

During the year, APN Convenience Retail REIT recorded a statutory profit of \$45.8 million.

The Fund delivered distributions for FY2020 of \$20.5 million, or 21.8 cents per security, representing an increase of 4.3% on FY2019. This income combined with the Fund's strong security price performance has resulted in a total return for securityholders for the financial year of 14.7%, outperforming the S&P/ASX 300 A-REIT Accumulation Index by 36.3%.

Funds from Operations (FFO) for the period was \$19.3 million, representing an increase of 13.3% on FY2019. On a per security basis, FFO of 21.6 cents per security which

represents a 0.4% increase on FY2019 due to the issuance of new securities during the period. The increase in FFO was primarily driven by a 6.9% increase in net property income due to like-for-like property rental growth of 2.8%, the contribution from 12 acquisitions completed during the period and a full year's contribution from the Mount Larcom acquisition in August 2018.

Net tangible assets per security increased during the period by 31 cents, or 10.5%, to \$3.27.

Property performance

The portfolio continues to be resilient in the midst of the COVID-19 pandemic, with all sites remaining open and trading and with minimal impact on rental income. We expect service station and convenience retail properties to remain highly sought after as a stable and defensive asset class due to their long leases and strong lease covenants.

The portfolio is well diversified by geography, tenant and site type. It is underpinned by long-term leases to high quality and experienced global operators, with 97% of the rental income derived directly from major service station tenants.

The portfolio remains 100% occupied and is supported by a long weighted average lease expiry (WALE) of 10.6 years as well as an attractive lease expiry profile with 74% of rental income expiring in FY2030 and beyond, providing securityholders with a strong level of income security.

The portfolio also provides a sustainable and growing income stream with 80% of rental income being subject to annual increases of 3% or more and 20% being linked to CPI rental escalations, resulting in an average portfolio rental growth of 2.8% per annum.

As at 30 June 2020, the APN Convenience Retail REIT portfolio comprised 79 properties with the total portfolio value increasing by \$89.9 million, or 25.1%, to \$448.2 million during the financial year. This increase was driven by \$58 million of net acquisitions and a \$31.9 million revaluation uplift.

On 30 June 2020, Chevron (AA/Aa2 credit ratings), who are one of the world's leading integrated energy companies, operating in excess of 19,500 service stations in 84 countries, announced that they had successfully completed the acquisition of Puma Energy Australia. Puma Energy Australia is the tenant at 46 sites in the Fund's portfolio, representing 58% of AQR's rental income at the time of acquisition.

The portfolio's weighted average capitalisation rate tightened by 33 basis points to 6.58% with 76 of the 79 properties being the subject of independent valuations during the period.

The revaluation uplift is a strong endorsement of the portfolio and reflects the enhanced credit quality of a Chevron lease covenant for 46 of our properties.

Continued execution of successful acquisition strategy

During the period we successfully committed to \$90.2 million of property acquisitions of which \$67.8 million has settled, while \$22.4 million relates to development projects which are forecast to complete in FY2021. In addition to these acquisitions, we also completed \$9.8 million of divestments during the period. Subsequent to financial year end, the Fund has also contracted a further \$38 million of property acquisitions which are due to settle by the end of September 2020.

These transactions will contribute to extending the portfolio WALE, improving geographic diversification and strengthening the quality and diversification of tenants. They also demonstrate our patient and focused approach to our acquisition growth strategy which includes developing partnerships with developers and tenants to enhance the Fund and create long-term sustainable value for securityholders.

Capital management

APN Convenience Retail REIT's balance sheet is in a position of strength and flexibility, with a gearing ratio of 16.5%. After adjusting for the remaining \$22.4 million development pipeline and contracted acquisitions of \$38 million, the pro forma gearing of 24.8% is at the bottom of our target range of 25 – 40%. This provides the Fund significant capacity to deliver on its strategy of investing in strategically located convenience retail assets while maintaining a prudent balance sheet.

During the period, the Fund raised \$101.6 million of new equity comprising:

- \$88 million of fully underwritten institutional placements and an \$8.1 million security purchase plan; and
- \$5.5 million proceeds from AQR's Distribution Reinvestment Plan (DRP) for the September 2019 and December 2019 quarters.

Subsequent to 30 June 2020, the Fund also completed a \$10 million security purchase plan in July 2020 while the DRP remained activated for the June 2020 quarter distribution, raising a further \$0.7 million.

During the period, the Fund refinanced \$105 million of existing debt facilities as well increased the total debt facility limit by \$40 million. The overall result was an increase in the weighted average debt maturity by 2.2 years to 3.8 years, a 0.3% reduction in the weighted average interest margin and improved funding and flexibility that will support our growth plans.

Strategy and outlook

The Fund is very well positioned with a strong balance sheet that has a significantly reduced gearing (16.5% versus 32.3% at June 2019) allowing the Fund to pursue additional acquisition opportunities that deliver further long-term sustainable earnings growth for securityholders.

FY2021 FFO and distribution guidance is 21.8 – 22.0 cents per security, subject to current market conditions continuing and no unforeseen events.

This guidance includes the acquisitions contracted post balance date but assumes no further acquisitions.

I would like to take this opportunity to thank you for your continued support of APN Convenience Retail REIT, and we look forward to another successful year ahead.

Yours sincerely,



Chris Brockett
Fund Manager
APN Convenience Retail REIT



ABOUT THE MANAGER

The Responsible Entity is APN Funds Management Limited (APN FM). APN FM has appointed Convenience Retail Management Pty Ltd as Manager. APN FM and Convenience Retail Management Pty Ltd are wholly owned subsidiaries of APN Property Group Limited (APN).

APN is a specialist real estate investment manager established in 1996. APN trades on the ASX under the code "APD".

APN Property Group - aligned and experienced manager



Strong investor alignment

- APN is strongly aligned to delivering investor returns – owning a \$36.3 million co-investment stake
- Simple and transparent sliding fee structure – no additional transactional or performance fees



Focused and dedicated management team

- Dedicated Fund Manager and management team
- Leveraging 19 average years of experience in real estate



Governance overseen by independent Board

- Independent Board, ensuring robust governance framework
- 30 years average experience and Director roles on Boards including Sims Metal, MetLife, QV Equities, Folkestone, and the Chairman was a member of the Takeovers Panel for nine years



Manager with long track record and deep relationships across capital and investment markets

- Relationships generate leasing, investment opportunities and access to multiple capital sources
- A specialist real estate investment manager since 1996 - including direct and listed real estate mandates

SENIOR MANAGEMENT



Chris Brockett
Fund Manager

Chris joined APN in March 2016 and was previously responsible for managing the Direct Property Funds business before the listing of the Convenience Retail REIT.

Chris has over 14 years of experience in direct real estate, funds and asset management, predominately in the retail property space.

Prior to joining APN, Chris was with Vicinity Centres for over 13 years, where he held a number of senior roles including Head of their Unlisted Funds Management business (formerly known as Centro MCS Direct Property) where he was responsible for funds under management of \$1.7 billion, comprising 75 properties, across a number of Australian, New Zealand and US unlisted property funds. More recently, he has been responsible for managing Vicinity Centres' key joint venture partnerships.

Chris holds a Bachelor of Business at Swinburne University and is also a member of the Institute of Chartered Accountants Australia and New Zealand.



Jessie Chen
Head of Accounting -
Managed Funds

Jessie has extensive experience across financial reporting, internal controls and external audit, and leads a team that is responsible for accounting, taxation and treasury across all managed funds at APN Property Group.

Prior to joining APN, Jessie's professional career includes over eight years at Deloitte where she provided assurance and advisory services to a range of ASX listed, multinational and boutique wealth management companies reporting under international accounting standards.

She holds a Bachelor of Commerce/ Media & Communications from the University of Melbourne, and is a member of Chartered Accountants Australia and New Zealand.



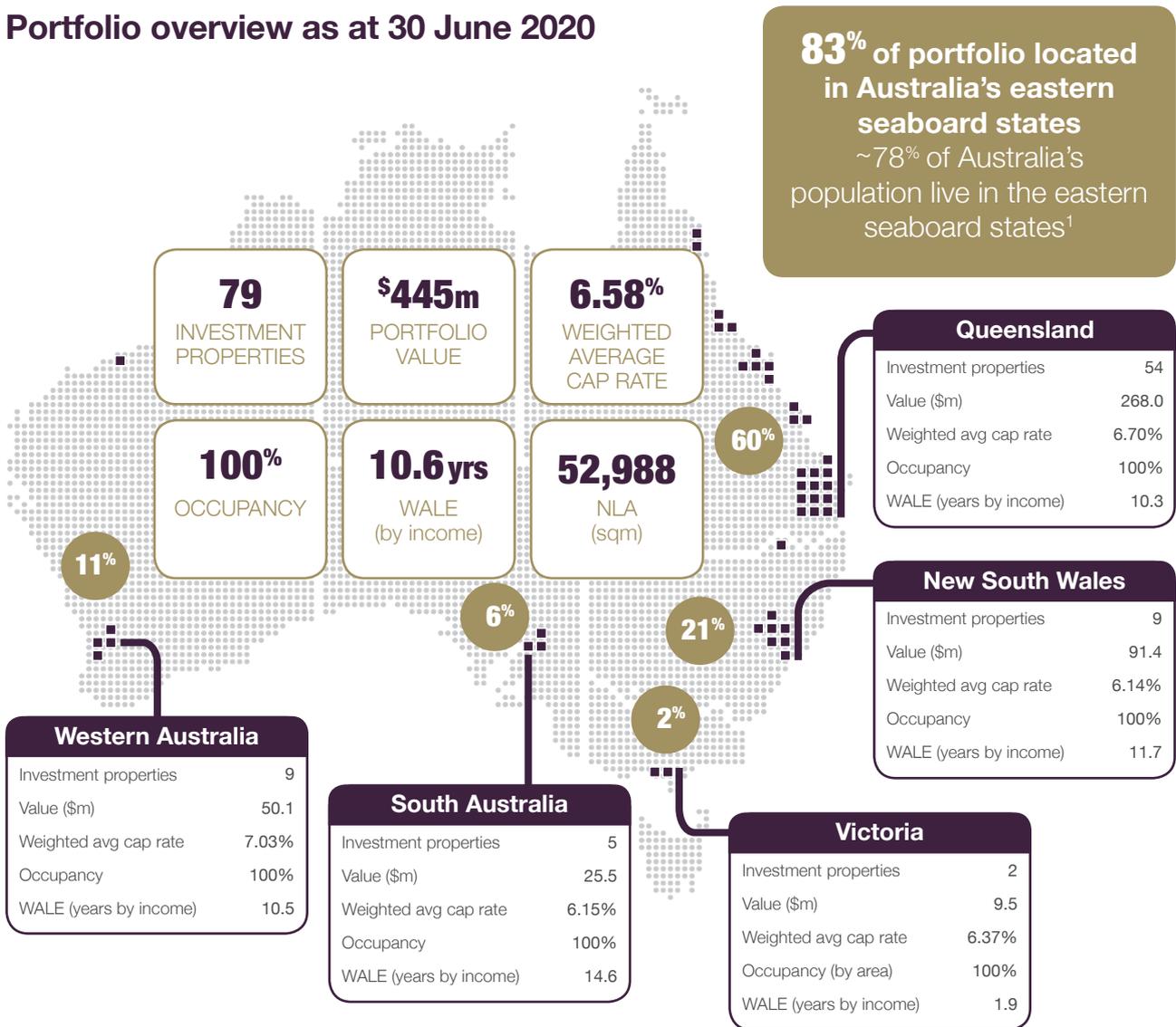
Gordon Korkie
Business Manager –
Direct Real Estate

Gordon has over nine years' experience in the property industry across retail, office and industrial sectors, working across funds management, corporate advisory, investment management and investor relations. Gordon joined APN funds management in August 2016 with previous roles at Federation Centres (now Vicinity Centres) and within equity research at Credit Suisse.

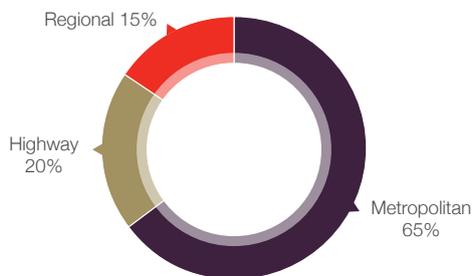
Gordon holds a Bachelor of Management Studies (1st Class Honours) from the University of Waikato and a Master of Commerce from the University of New South Wales.

DIVERSIFIED PORTFOLIO

Portfolio overview as at 30 June 2020

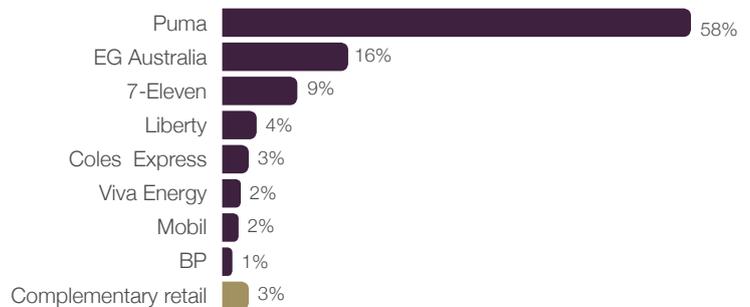


Portfolio by classification



85% of the portfolio are metropolitan or highway sites

Top tenants by income



Major tenants account for **97%** of portfolio income

¹ ABS 3101.0 - Australian Demographic Statistics, June 2019. Eastern Seaboard states defined as NSW, VIC, QLD.

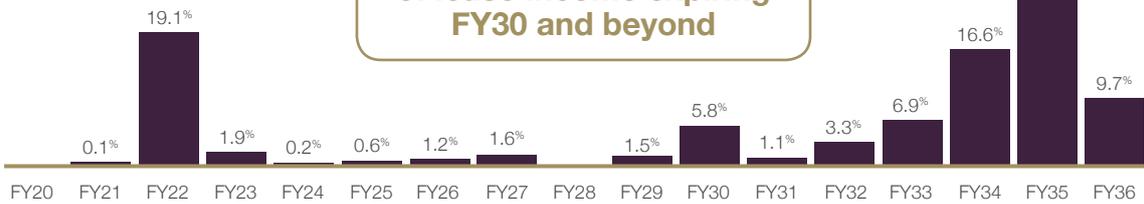
STRONG LEVEL OF INCOME SECURITY

Lease expiry profile (by income)

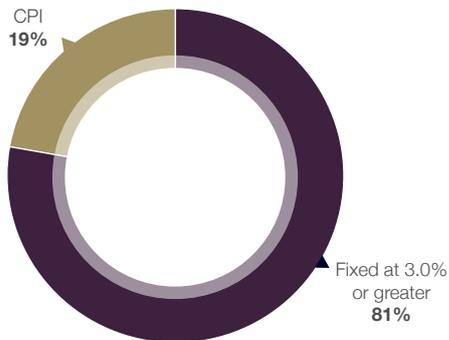
No. of service station tenant expiries:



74%
of lease income expiring
FY30 and beyond



Rent review type by income



80%
of income subject
to fixed annual
increases of
3% or more

2.8%
Average annual
rental growth
across the
portfolio¹

¹ Assuming CPI of 1.8%



Financial report

‘APN Convenience Retail REIT’
being **Convenience Retail REIT No. 2** and
its **Controlled Entities** ARSN 619 527 829

Stapling arrangement

The ‘APN Convenience Retail REIT’ stapled group (“Group”) was established on 27 July 2017 by stapling the securities of the following entities:

- Convenience Retail REIT No.1;
- Convenience Retail REIT No.2; and
- Convenience Retail REIT No.3.

These consolidated financial statements represent the consolidated results of APN Convenience Retail REIT for the full financial year.

FINANCIAL REPORT

Contents

Directors' report	11
Corporate governance statement	19
Auditor's independence declaration	20
Independent auditor's report	21
Directors' declaration	25
Consolidated statement of profit or loss and other comprehensive income	26
Consolidated statement of financial position	27
Consolidated statement of changes in equity	28
Consolidated statement of cash flows	29
Notes to the consolidated financial statements	30
<i>About this report</i>	30
1 General information	30
2 Statement of compliance	30
3 Critical accounting judgements and key sources of estimation uncertainty	31
<i>Performance</i>	32
4 Segment information	32
5 Revenue	32
6 Investment properties	33
<i>Capital structure, financing and risk management</i>	39
7 Contributed equity	39
8 Distributions	40
9 Earnings per security	40
10 Borrowings	41
11 Capital risk management	45
12 Financial and risk management	45
13 Commitment and contingencies	47
<i>Efficiency of operation</i>	48
14 Cash and cash equivalents	48
15 Trade and other receivables	49
16 Trade and other payables	50
<i>Other notes</i>	51
17 Income taxes	51
18 Related party transactions	51
19 Controlled entities	52
20 Remuneration of auditors	53
21 Parent entity financial information	53
22 Subsequent events	54
23 Adoption of new and revised accounting standards	55



DIRECTORS' REPORT

The directors of APN Funds Management Limited (“APN FM”), the Responsible Entity of Convenience Retail REIT No. 2 (the “Fund”) present the financial report on the consolidated entity (the “Group”), being the Fund and its controlled entities for the financial year ended 30 June 2020. The Fund is one of three entities that together comprise the stapled entity APN Convenience Retail REIT which is listed on the Australian Securities Exchange (“ASX”) (ASX Ticker: “AQR”).

To comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

Information about the directors

The following persons were directors of the Responsible Entity during the financial year and up to the date of this report:



DIRECTORS' REPORT



Geoff Brunson AM

B.Com, CA, F Fin, FAICD

Independent Chairman

- Director since 2009
- Chairman since 2012

Member of the Audit, Risk & Compliance Committee and member of the Nomination & Remuneration Committee.

Geoff has had a career in investment banking spanning more than 30 years. He is currently Chairman of Sims Metal Management Ltd and MetLife Insurance Ltd. He is a Director of The Wentworth Group of Concerned Scientists and Purves Environmental Custodians.

Geoff was previously Managing Director and Head of Investment Banking of Merrill Lynch International (Australia) Limited until 2009.

Geoff was a member of the Listing Committee of the Australian Stock Exchange between 1993 and 1997, a member of the Takeovers Panel between 2007 and 2016 and Chairman of Redkite (supporting families who have children with cancer) until 2015 and is now a Patron. He is a Fellow of FINSIA, a Fellow of the Institute of Company Directors and a Fellow of Chartered Accountants Australia & New Zealand.



Howard Brenchley

BEc

Independent Director

- Director since 1998
- Independent Director since March 2018

Howard has a long history in the Australian property investment industry with over 30 years' experience analysing and investing in the sector.

Howard joined APN in 1998 and was responsible for establishing the APN FM business. In this capacity he developed a suite of new property securities and direct property funds, including the flagship APN AREIT Fund and the APN Property for Income Fund, both market leading property securities funds in Australia.

Prior to joining APN, Howard was co-founder and research director of Property Investment Research Pty Limited, one of Australia's leading independent research companies, specialising in the property fund sector.

Howard is also a director of APN PG (since 2004), National Storage Holdings Limited (since 2014) and National Storage Financial Services Limited (since 2015), both listed as National Storage REIT (ASX Code: NSR).



Michael Johnstone

BTRP, LS, AMP (Harvard)

Independent Director

- Director since 2009

Chairman of the Nomination & Remuneration Committee and member of the Audit, Risk & Compliance Committee.

Michael has 45 years of global experience in Chief Executive and General Management Roles and more recently in company directorships. His two principal corporate executive engagements have been with Jennings Industries Ltd and the National Australia Banking Group. At Jennings, he was successively General Manager of AVJennings Homes, General Manager Commercial Property, CEO of Jennings Properties Limited (Centro etc.) and President Jennings USA. Within NAB, he was Global Manager Real Estate responsible for commercial property lending and corporate property investment. He has extensive experience in mergers and acquisitions, capital raising, property investment and funds management. In the not for profit sector, he has chaired the Cairnmillar Institute and been a board member of the Salvation Army and Yarra Community Housing.

Michael is also a non-executive director of Charter Hall Social Infrastructure REIT (CQE) and in the private sector, a non-executive director of Dennis Family Holdings and Chairman of Dennis Family Homes.

DIRECTORS' REPORT



Jennifer Horrigan

BBus, GradDipMgt, GradDipAppFin,
MAICD

Independent Director

- Director since 2012

Chairman of the Audit, Risk & Compliance Committee and member of the Nomination & Remuneration Committee.

Jennifer brings 25 years' experience across investment banking, financial communications and investor relations. She was formerly the Chief Operating Officer in Australia of the independent investment bank Greenhill & Co. She has extensive experience in enterprise management, including the supervision and management of compliance, HR and financial management.

Jennifer is also a director of QV Equities (ASX: QVE), Yarra Funds Management Limited and is Chairman of Redkite (national cancer charity supporting children and young people with cancer and their families).



Michael Groth

BCom, BSc, DiplFR, CA

Alternate Director for Howard Brenchley

- Alternate Director since March 2014
- Resigned as CFO and Alternate Director in September 2019

Michael's professional career includes over seven years with KPMG Melbourne, where he worked closely with a number of major listed companies and stockbrokers before moving to the United Kingdom to work in the financial services industry and for a government regulatory body.

Since joining APN in 2006, Michael has had broad exposure across all areas of the group and was appointed Chief Financial Officer in June 2014. Michael is responsible for accounting, taxation and treasury across the business and is a key contributor to setting APN's direction and strategy.



Joseph De Rango

BCom, BBIS (IBL)

Alternate Director for Howard Brenchley

- CFO and Alternate Director since September 2019

Joseph was appointed as Chief Financial Officer of APN Property Group Limited on 1 September 2019. He has over 13 years' experience in real estate, corporate advisory and investment banking.

Joseph has had broad exposure across all areas of the APN Property Group and is a member of APN's executive leadership team. He has led and been responsible for a number of significant corporate finance transactions including real estate acquisitions, equity raisings and bank financings, as well as being integrally involved with the successful IPOs of APN Convenience Retail REIT (ASX: AQR) and APN Industria REIT (ASX: ADI) in 2017 and 2013 respectively. Prior to joining APN, Joseph held leadership roles and worked on a broad range of transactions at National Australia Bank and PricewaterhouseCoopers.



Chantal Churchill

BSc(Psych), DipHRM, GIA(Cert)

Company Secretary and Head of Risk and Compliance

- Company Secretary since December 2016

Chantal is the Company Secretary and Head of Risk and Compliance for the APN Property Group. Chantal is responsible for the company secretarial, corporate governance, risk management and compliance functions.

Chantal has over 15 years' professional experience in company administration, corporate governance, risk and compliance having been involved with several listed and unlisted public companies. Prior to joining APN in 2015, Chantal held various risk and compliance roles predominately in financial services and funds management including seven years at Arena Investment Management.

Chantal is a member of the Governance Institute of Australia.

DIRECTORS' REPORT

Meetings of Directors

The following table sets out the number of directors' meetings (including meetings of committees of directors for APN FM) held during the financial year and the number of meetings attended by each director (while they were a director or committee member).

Directors	APN FM Board		Audit, Risk and Compliance Committee		Nomination and Remuneration Committee	
	Held ¹	Attended	Held ¹	Attended	Held ¹	Attended
Geoff Brunsdon AM	14	14	6	6	1	1
Jennifer Horrigan	14	14	6	6	1	1
Michael Johnstone	14	14	6	6	1	1
Howard Brenchley	14	13	N/A	N/A	N/A	N/A
Michael Groth ²	2	-	N/A	N/A	N/A	N/A
Joseph De Rango ³	12	-	N/A	N/A	N/A	N/A

1 Number of meetings held during the time the director held office or was a member of the committee during the year.

2 Michael Groth resigned as Alternate Director for Howard Brenchley on 2 September 2019. Mr Groth attended each Board Meeting held in his capacity as CFO.

3 Joseph De Rango was appointed as Alternate Director for Howard Brenchley on 2 September 2019. Mr De Rango attended each Board Meeting held in his capacity as CFO.

Principal activities

The principal activity of the Group is to own and manage a quality portfolio of convenience retail properties that offer secure income streams and have the potential for capital growth.

The Fund is a registered managed investment fund domiciled in Australia and forms part of APN Convenience Retail REIT which is listed on the Australian Securities Exchange ("ASX") (ASX Ticker: "AQR"), with the parent entity being Convenience Retail REIT No. 2.

No significant change in the nature of these activities occurred during the financial year. The Group did not have any employees during the year.

Significant changes in the state of affairs

During the year, the Group raised \$100.7 million from:

- the institutional placements ("Placements") and Security Purchase Plans ("SPP") announced on the ASX in October 2019, November 2019 and June 2020; and
- the new stapled securities issued to the Group's appointed underwriter of its distribution reinvestment plan.

All new stapled securities issued ranks equally with the Group's existing securities.

There were no other significant changes in the state of affairs of the Group during the financial year.

Review of operations

The principal investment objective of the Group is to invest in convenience retail properties that provide investors with a high and consistent income distribution that maintains its real value for the life of the Group.

The results of the operations of the Group are disclosed in the consolidated statement of profit or loss and other comprehensive income.

The Group's total comprehensive income was \$45,799,000 for the financial year ended 30 June 2020 (30 June 2019: \$24,001,000). A summary of APN Convenience Retail REIT's results for the financial year is as follows:

	30 June 2020 \$'000	30 June 2019 \$'000
Net property income	26,352	24,732
Straight line rental income	4,175	4,473
Other income	111	-
Interest income	25	22
Total revenue	30,663	29,227
Management fees	(2,526)	(2,295)
Other expenses	(693)	(684)
Finance costs	(4,595)	(5,186)
Total expenses	(7,814)	(8,165)
Profit / (loss)	22,849	21,062
Fair value loss on derivatives	(952)	(2,402)
Fair value gain on investment properties	23,902	5,341
Total comprehensive income / (loss) for the year	45,799	24,001

The Responsible Entity uses the Group's Funds from Operations ("FFO") as the key performance indicator.

FFO adjusts statutory net profit / (loss) for certain items that are non-cash, unrealised or capital in nature, in line with the guidelines established by the Property Council of Australia. Statutory net profit / (loss) is determined in accordance with Australian Accounting Standards and includes a number of non-cash items including fair value movements, straight line lease accounting adjustments and amortisation of borrowing and leasing costs and incentives.

DIRECTORS' REPORT

A reconciliation of statutory net profit / (loss) to FFO since the establishment of the Group is outlined as follows:

Funds from Operations	30 June 2020 \$'000	30 June 2019 \$'000
Statutory net profit / (loss)	45,799	24,001
<i>Adjusted for:</i>		
Reversal of straight line lease revenue recognition	(4,175)	(4,473)
Reversal of fair value (gain) / loss on investment properties	(23,902)	(5,341)
Reversal of fair value (gain) / loss on derivatives	952	2,402
Add back amortisation borrowing costs	483	385
Add back amortisation leasing costs and rent-free adjustments	107	25
FFO	19,264	16,999
Key financial performance metrics:		
FFO per security (cents)	21.61 c	21.54 c
Distributions per security (cents)	21.80 c	20.90 c
Payout Ratio (Distribution per security / FFO per security)	100.88%	97.03%
Statutory earnings / (loss) per security (cents per security)	51.37 c	30.41 c
Weighted average securities on issue (thousands)	89,153	78,918
Securities on issue (thousands)	109,685	78,910
Distribution declared (thousands)	\$20,451	\$16,494

Operating Result

The Group's total Funds from Operations increased by \$2,265,000 to \$19,264,000. The key drivers of this result included:

- acquisition of additional properties post corresponding year end;
- contractual annual rent increases; and
- net property income growth was partially offset by increases in management fees as a result of portfolio revaluation uplift and property acquisitions.

Net tangible assets and asset valuations

As at balance date, 64 properties were subject to external independent valuations performed by Savills Valuations Pty Ltd. As a result of this exercise, the value of these properties increased by \$18,970,000 since interim reporting at 31 December 2019. The uplift is primarily due to annual rent increases as well as a small tightening of the portfolio's weighted average market capitalisation rate.

The remaining 15 properties were subject to Directors' valuations as at 30 June 2020. This portfolio increased by \$590,000 since 31 December 2019, predominantly due to the annual rent increases.

Overall, the entire investment properties portfolio increased in valuation by \$19,560,000 as at balance date in addition to the fair value gain recognised for the half-year ended 31 December 2019.

Market Overview

Service station investments remain highly sought after as a stable and defensive asset class due to their long leases and strong lease covenants. While the COVID-19 outbreak in March 2020 has impacted global financial markets and economic conditions more generally, fuel and convenience retail businesses have continued to trade through domestic lock down periods and have played an important role in the community as an essential service, proving this asset class is one of the most resilient.

Transaction volumes have decreased since March 2020, however investment yields have remained steady with agents reporting heightened interest in single tenant investments (supermarkets, Liquor, Quick Service Retail and Fuel) given they have continued to trade through government-imposed lock downs. The depth of the market has certainly reduced as private investors deal with the uncertainty of impacts from COVID-19.

The affordability of most service stations is also a contributing factor to the continued strength of this sector. Below \$5,000,000 there is an active market for such investment property, and the majority of older assets are sub-\$3,000,000, which is highly accessible for private investors.

Likely developments

Current uncertainty in the financial markets and broader disruption arising from the COVID 19 outbreak remain factors which are all outside the control of the Directors, and the Board of APN Funds Management Limited continues to focus on key risks and opportunities that are within their control. Principally these include:

- Investing in strategically located services station and convenience retail assets with long term leases to quality tenants;
- Providing investors with an attractive, defensive and growing income stream, with the potential for capital growth over time;
- Maintaining a capital structure that is conservatively geared and debt expiry profile that is staggered and reduces material bullet repayment risks;
- Operating in an environment where there is alignment of interest between management and securityholders through a meaningful co-ownership stake; and
- Ensuring the fund has appropriate compliance systems and processes in place and fosters a corporate culture consistent with investor and community expectations surrounding accountability, ownership, and a strong degree of honesty and integrity that puts customers first.

The Board believes that APN Convenience Retail REIT is well placed with regard to the above risks and opportunities, and accordingly will continue to deliver a sustainable and growing income yield over the long term.

Distributions

Distributions of \$20,451,000 were declared by the Group during the financial year ended 30 June 2020 (2019: \$16,494,000).

For full details of distributions paid and/or payable during the financial year, refer to note 8 of the consolidated financial statements.

Matters subsequent to the end of the financial year

Other than matters noted in note 22, there has not been any other matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of the Group, or the state of affairs of the Group in future financial years.

Non-audit services

During the year, the auditor of the Group performed certain other services in addition to their statutory duties.⁷⁷⁷

The directors of the Responsible Entity have 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 Group, acting as advocate for the Group or jointly sharing economic risks and rewards.

Details of the amounts paid to the auditor, which includes the amounts paid for non-audit services relating to audit of compliance plan and other approved advisory services, are set out in note 20 to the consolidated financial statements.

DIRECTORS' REPORT

Auditor's Independence Declaration

A copy of the external auditor's independence declaration, as required under section 307C of the *Corporations Act 2001* is set out on page 20.

Options granted

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

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

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

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

Indemnification of officers of the Responsible Entity and auditors

APN Funds Management Limited ("APN FM") in its capacity as the Responsible Entity of the Group has agreed to indemnify the directors and officers of APN FM and its related body's corporate, both past and present, against all liabilities to another person (other than APN FM or a related body corporate) that may arise from their position as directors and officers of APN FM and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. APN FM will meet the full amount of any such liabilities, including costs and expenses. In addition, APN FM has paid a premium in respect of a contract insuring against a liability incurred by an officer of the Group. Under the contract of insurance, disclosure of the nature of the insured liabilities and the amount of premium paid is prohibited. APN FM has not indemnified or made a relevant agreement to indemnify the auditor of the Group or of any related body (corporate) against a liability incurred by the auditor.

Fund information in the directors' report

Fees paid to the Responsible Entity during the financial year and the number of securities in the Group held by the Responsible Entity, its associates and independent directors are disclosed in note 18 to the consolidated financial statements. Other than the directors included in note 18, no other directors own securities, or rights or options over securities in the Group.

The number of securities in the Group issued, bought back and cancelled during the financial year, and the number of securities on issue at the end of the financial year is disclosed in note 7 to the consolidated financial statements.

The value of the Group's assets as at the end of the financial year is disclosed in the consolidated statement of financial position as "total assets" and the basis of valuation is included in note 6 to the consolidated financial statements.

Rounding of amounts

The Group is an entity of the kind referred to in *ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191*, dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the directors' report and the financial report have been rounded to the nearest thousand dollars, unless otherwise stated.

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

On behalf of the directors



Geoff Brunsdon AM

Director

Melbourne, 18 August 2020

CORPORATE GOVERNANCE STATEMENT

APN Convenience Retail REIT (**Fund**) is a triple stapled entity comprising the following three managed investment schemes (**MIS**):

- Convenience Retail REIT No. 1;
- Convenience Retail REIT No. 2; and
- Convenience Retail REIT No. 3

Securityholders in the Fund hold a unit of each of the above entities that are stapled together, such that an individual unit in one of the above entities may not be transferred or dealt with without the others. The Fund is listed on the Australian Securities Exchange (**ASX**) under the code AQR.

APN Funds Management Limited is the Responsible Entity (**APN FM or Responsible Entity**) of each of the three MIS's. APN FM has appointed Convenience Retail Management Pty Ltd (**Manager**) as the Manager. APN FM and the Manager are wholly owned subsidiaries of APN Property Group Limited (**APN PG**). APN Property Group (**APN**) comprises the staple of APN PG and APD Trust and trades on the ASX under the code APD. APN and its subsidiaries together are referred to as the "**APN Group**" in this Statement. APN FM oversees the management and strategic direction of APN's listed and unlisted managed investment schemes and mandates (**APN Funds**) in its role as responsible entity, trustee and/or manager.

The board of APN FM (**Board**) comprises four Independent Directors (including the Chairman), one of whom is also an APN PG Director. Each Director has a legal obligation to put the interests of investors in the funds for which APN FM is responsible entity and/or trustee of ahead of their own and those of APN FM's sole shareholder, APN PG.

The Responsible Entity is committed to achieving and demonstrating the highest standards of governance. The Fund's Corporate Governance Statement (**Statement**) has been prepared in accordance with the principles and recommendations set by the ASX Corporate Governance Council (Corporate Governance Principles and Recommendations 4th Edition) (**Recommendations**), and any departure from these Recommendations are stated within.

The Responsible Entity's governance framework, as summarised in the Statement has been designed to ensure that the Fund meets its ongoing statutory obligations, discharges its responsibilities to all stakeholders and acts with compliance and integrity.

The Statement outlines the main corporate governance practices in place throughout the financial year ended 30 June 2020 (**Reporting Period**) and incorporates the requirements of market regulators, adopted codes and charters, documented policies and procedures and guidance from industry best practice. These policies and practices remain under regular review as the corporate governance environment and good practices evolve.

The full corporate governance statement is available on the fund website at: <https://apngroup.com.au/fund/apn-convenience-retail-reit/about-us/corporate-governance/>.

As APN FM and the Manager do not employ staff directly, the necessary management and resources for the operation of the Fund are provided by APN PG. For this reason, staff are governed by APN Group policies. The policies, charters and codes referred to in this Statement are available on the Fund's website at <https://apngroup.com.au/fund/apn-convenience-retail-reit/about-us/corporate-governance/>.

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
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18 August 2019

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

Dear Board Members

Independence Declaration – APN Convenience Retail REIT

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 Convenience Retail REIT.

As lead audit partner for the audit of the financial report of APN Convenience Retail REIT for the financial year ended 30 June 2020, 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

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Member of Deloitte Asia Pacific Limited and the Deloitte Network.

INDEPENDENT AUDITOR'S REPORT



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Independent Auditor's Report to the Stapled Security Holders of APN Convenience Retail REIT

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of APN Convenience Retail REIT, being Convenience Retail REIT No. 2 and its controlled entities (collectively, the "Group") which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of APN Funds Management Limited (the "Responsible Entity"), would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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INDEPENDENT AUDITOR'S REPORT



Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p>Valuation of investment properties held at fair value</p> <p>As at 30 June 2020 the Group's investment properties represent the largest category of assets with a carrying value of \$448,159k, including a \$23,902k revaluation gain recognised in the consolidated statement of profit or loss and other comprehensive income as disclosed in note 6.</p> <p>The investment properties are measured under the fair value model. The determination of fair value requires significant judgement due to the degree of subjectivity used by management, together with their internal and external valuation specialists (the "valuers"), in estimating the inputs used in the determination of the fair value of the investment properties including, but not limited to:</p> <ul style="list-style-type: none"> • net passing rentals; • net market rentals; • average market rental growth rates; • terminal yields; • discount rates; and, • capitalisation rates. 	<p>In conjunction with our valuation specialists, our procedures relating to the valuation of the investment properties included, but were not limited to:</p> <ul style="list-style-type: none"> - evaluating the independence, competence and objectivity of the valuers by understanding their credentials, their experiences, their remuneration basis and the extent of their relationship to APN; - assessing the scope of the valuers' work; - assessing the timeliness of the valuation and the date at which it was given, in relation to the financial year end; - challenging the appropriateness of the valuation techniques against industry practice and approach, and assessing the reasonableness of the approaches adopted in light of COVID-19; - on a sample basis, challenging the appropriateness of the net market rentals, the average market rental growth rates, the terminal yields, the discount rates and the capitalisation rates with reference to external industry and market economic data; - testing on a sample basis, the passing rental balances by agreeing them back to tenancy schedules and signed lease agreements, and considering the impact of any rent deferrals or rent reductions thereon; - reviewed tenancy schedules in light of COVID-19 to understand the composition of the tenants, including their location, their industry and for material clients, any publicly available information on the underlying performance of those tenants; and - recalculating the mathematical accuracy of a sample of the valuation models. <p>We have also assessed the appropriateness of the disclosures in note 6 to the financial statements.</p>



Other Information

The directors of the Responsible Entity (the "Directors") are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists

INDEPENDENT AUDITOR'S REPORT

Deloitte.

related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



DELOITTE TOUCHE TOHMATSU



Neil Brown
Partner
Chartered Accountants
Melbourne, 18 August 2020

DIRECTORS' DECLARATION

The directors of APN Funds Management Limited, the Responsible Entity of Convenience Retail REIT No. 2 (the "Fund"), declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable;
- (b) in the directors' opinion, the attached consolidated financial statements are in compliance with International Financial Reporting Standards, as stated in note 2 to the consolidated financial statements;
- (c) in the directors' opinion, the attached consolidated financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Fund and the Group; and
- (d) (d) the directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

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

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



Geoff Brunsdon AM

Director

Melbourne, 18 August 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2020

	Notes	2020 \$'000	2019 \$'000
Revenue	5	29,175	27,196
Straight line rental income recognition		4,175	4,473
Other income		111	-
Total revenue from continuing operations		33,461	31,669
Other income			
Interest income		25	22
Net fair value gain / (loss) on investment properties	6	23,902	5,341
Fair value (loss) / gain on derivatives		(952)	(2,402)
Total other income		22,975	2,961
Total income		56,436	34,630
Expenses			
Property costs		(2,823)	(2,464)
Management fees	18	(2,526)	(2,295)
Finance costs	10	(4,595)	(5,186)
Other expenses		(693)	(684)
Total expenses		(10,637)	(10,629)
Net profit / (loss)		45,799	24,001
Attributable to:			
Securityholders of Convenience Retail REIT No. 2		26,629	12,654
Securityholders of non-controlling interests ¹		19,170	11,347
		45,799	24,001
Other comprehensive income		-	-
Total comprehensive income for the year		45,799	24,001
Total comprehensive income is attributable to:			
Securityholders of Convenience Retail REIT No. 2		26,629	12,654
Securityholders of non-controlling interests ¹		19,170	11,347
		45,799	24,001
Earnings per security			
Basic and diluted (cents per security)	9	51.37	30.41

¹ Represents the net profit and comprehensive income attributable to the other stapled entities comprising the APN Convenience Retail REIT Group.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	2020 \$'000	2019 \$'000
Current assets			
Cash and cash equivalents	14	2,331	289
Trade and other receivables	15	856	95
Other assets		274	30
Total current assets		3,461	414
Non-current assets			
Investment properties	6	448,159	358,293
Total non-current assets		448,159	358,293
Total assets		451,620	358,707
Current liabilities			
Trade and other payables	16	(6,993)	(2,846)
Distributions payable	8	(5,978)	(4,123)
Derivative financial instruments	10	(1,190)	(898)
Total current liabilities		(14,161)	(7,867)
Non-current liabilities			
Derivative financial instruments	10	(2,305)	(1,646)
Borrowings	10	(75,826)	(115,400)
Total non-current liabilities		(78,131)	(117,046)
Total liabilities		(92,292)	(124,913)
Net assets		359,328	233,794
Equity			
<i>Securityholders of Convenience Retail REIT No. 2:</i>			
Contributed equity	7	149,718	114,004
Retained earnings		16,215	(317)
<i>Securityholders of non-controlling interests¹:</i>			
Contributed equity	7	160,403	95,931
Retained earnings		32,992	24,176
Total equity		359,328	233,794
Net tangible assets (\$ per security)		3.27	2.96

¹ Represents the net assets attributable to the other stapled entities comprising the APN Convenience Retail REIT Group.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

	Notes	Contributed equity \$'000	Retained earnings \$'000	Total equity \$'000	Non-controlling interests ¹ \$'000	Total equity \$'000
Balance at 1 July 2018		114,019	(4,867)	109,152	117,166	226,318
Net profit / (loss)		-	12,654	12,654	11,347	24,001
Other comprehensive income		-	-	-	-	-
Total comprehensive income for the year		-	12,654	12,654	11,347	24,001
Security issuance costs	7	-	-	-	(1)	(1)
Securities buy-back	7	(15)	-	(15)	(15)	(30)
Distributions paid or payable	8	-	(8,104)	(8,104)	(8,390)	(16,494)
Balance as at 30 June 2019		114,004	(317)	113,687	120,107	233,794
Net profit / (loss)		-	26,629	26,629	19,170	45,799
Other comprehensive income		-	-	-	-	-
Total comprehensive income for the year		-	26,629	26,629	19,170	45,799
Issue of new securities	7	36,344	-	36,344	65,215	101,559
Security issuance costs	7	(565)	-	(565)	(676)	(1,241)
Securities buy-back	7	(65)	-	(65)	(67)	(132)
Distributions paid or payable	8	-	(10,097)	(10,097)	(10,354)	(20,451)
Balance as at 30 June 2020		149,718	16,215	165,933	193,395	359,328

¹ Represent the equity attributable to the other stapled entities comprising the APN Convenience Retail REIT Group.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2020

	Notes	2020 \$'000	2019 \$'000
Cash flows from operating activities			
Net rental income received		27,701	24,036
Other income received		111	-
Interest received		22	25
Other expenses paid		(761)	(2,677)
Finance costs paid		(4,707)	(4,945)
Net cash inflow / (outflow) from operating activities	14	22,366	16,439
Cash flows from investing activities			
Proceeds from sale of investment properties	6	9,800	-
Payments for acquisition of investment properties	6	(70,080)	(7,881)
Payments for capital expenditure on investment properties	6	(1,525)	(106)
Net cash (outflow) / inflow from investing activities		(61,805)	(7,987)
Cash flows from financing activities			
Net proceeds from borrowings	14	(39,462)	5,416
Net proceeds from issue of new securities		100,712	-
Equity issuance and liquidity offer costs paid		(1,888)	(29)
Distributions paid		(18,596)	(16,317)
Distributions reinvested		847	-
Payments for securities buy-back		(132)	(30)
Net cash inflow / (outflow) from financing activities		41,481	(10,960)
Net increase / (decrease) in cash and cash equivalents		2,042	(2,508)
Cash and cash equivalents at the beginning of the financial		289	2,797
Cash and cash equivalents at the end of the financial year		2,331	289

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

NOTES TO THE FINANCIAL STATEMENTS

About this Report

1. General information

APN Convenience Retail REIT is a stapled entity listed on the Australian Securities Exchange (trading under ASX Ticker: "AQR"), incorporated and operating in Australia. APN Convenience Retail REIT comprises Convenience Retail REIT No. 2 and its controlled entities.

APN Funds Management Limited, a public company incorporated and operating in Australia, is the Responsible Entity of Convenience Retail REIT No. 2. The registered office and its principal place of business is Level 30, 101 Collins Street, Melbourne, VIC 3000.

2. Statement of compliance

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

The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing these consolidated financial statements, the Group is a for-profit entity.

The financial statements were authorised for issue by the directors on 18 August 2020.

2.1. Going concern

The Group has assessed its ability to continue as a going concern taking into account of all information available for a period of 12 months from the date of issuing the consolidated financial statements. The impact of the COVID-19 pandemic has been minimal with only four small non-fuel tenants experiencing challenging and uncertain period. Whilst the situation is still evolving, the directors of the Responsible Entity remain confident that the Group will be able to continue trading and realise assets and discharge liabilities in its ordinary course of business. In reaching this position, the following factors have been considered:

- 100% of the Group's portfolio comprises an asset class which are classified as essential services and remain open for trading throughout the COVID-19 pandemic;
- 97% of the Group's rental income is derived from major fuel tenants who are well-capitalised national and international business with significant exposure to non-discretionary consumer expenditure;

- the Group has adequate levels of liquidity through its operating cash flows and has available debt lines to be drawn if required. Total undrawn debt facility as at the date of issuing the consolidated financial statements is \$88m;
- the Group has adequate levels of headroom with respect to its financial and non-financial covenants as disclosed in note 10.1 and the Group does not expect any covenants to be breached; and
- the Group's debt is hedged to a level of 91.44%.

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

2.2 Basis of preparation

The consolidated financial statements have 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. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. All amounts are presented in Australia dollars, unless otherwise noted.

The Group is an entity of the kind referred to in *ASIC Corporations (Rounding in Financials / Directors' Reports) Instrument 2016/191*, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

2.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Fund and its controlled entities (the “Group”) – refer to note 19 for a list of controlled entities as at year end. Control is achieved where the Fund:

- has power over the investee
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Responsible Entity of the Fund reassesses whether or not the Fund controls an investee if the facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Fund obtains control over the subsidiary and ceases when the Fund loses that control. Income and expenses of a subsidiary are included in the consolidated financial statements from the date the Fund obtains control until the date the Fund loses control. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.3 Other accounting policies

Significant accounting policies that summarise the measurement basis used and are relevant to an understanding of the consolidated financial statements are provided throughout the notes to the consolidated financial statements.

2.4 The notes to the consolidated financial statements

The notes to these consolidated financial statements include information required to understand the consolidated financial statements that is relevant and material to the operations, financial position and performance of the Group. The notes have been collated into sections to help users find and understand inter-related information. Information is considered material and relevant if, for example:

- the amount in question is significant by virtue of its size or nature;
- it is important to understand the results of the Group;
- it helps explain the impact of significant changes in the Group’s business; or
- it relates to an aspect of the Group’s operations that is important to its future performance.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group’s accounting policies, the directors have made judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The judgements, estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, however actual results may differ from these estimates. The critical judgements, estimates and assumptions made in the current period are contained in the following notes:

Note	Description
Note 6 – Investment properties	Fair value measurement and valuation processes

NOTES TO THE FINANCIAL STATEMENTS

Performance

This section shows the results and performance of the Group and includes detailed information in respect to the revenues, expenses and the profitability of the Group and its reporting segments. It also provides information on the investment properties that underpin the Group's performance.

4. Segment information

The Group derives all income from investment in properties located in Australia. The Group is deemed to have only one operating segment and that is consistent with the reporting reviewed by the chief operating decision makers.

5. Revenue

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

	2020 \$'000	2019 \$'000
Rental income	26,905	25,169
Outgoing recoveries	2,270	2,027
Total revenue	29,175	27,196

Recognition and measurement

Rental income

Rental income is recognised at the fair value of consideration receivable (exclusive of GST). Rental income relating to lease components is recognised on a straight-line basis over the term of the lease for the period where the rental income is fixed and determinable. For leases where the rental income is determined based on unknown future variables such as inflation, market reviews or other variables, rental income is recognised on an accrual basis in accordance with the terms of the lease.

Rental income not received at reporting date, is reflected in the consolidated statement of financial position as a receivable or if paid in advance, as rent in advance.

Outgoing recoveries

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

Lease incentives, commissions and other costs

Lease incentives provided to tenants, such as fit-outs or rent-free periods and leasing commissions and other costs incurred in entering into a lease, are recognised as a reduction of rental income on a straight-line basis over the non-cancellable term of the lease.

Rent concessions

Rent concessions provided to tenants that have been impacted by the COVID-19 pandemic comprised short term waivers related to future occupancy and are treated as lease modifications. Such modifications are recognised on a straight-line basis over the non-cancellable term of the modified lease. As at balance date, all waivers provided were on a short-term basis and in aggregate were insignificant to the Group's total rental income.

6. Investment properties

Investment properties represent convenience retail properties held for deriving rental income. For all investment properties, the current use equates to the highest and best use.

6.1 Reconciliation of carrying amounts

	2020 \$'000	2019 \$'000
Carrying amount at beginning of the financial year	358,293	340,429
Purchase of investment properties	63,528	7,313
Acquisition costs associated with purchase of investment properties	2,987	568
Capital additions to existing investment properties	1,495	106
Straight line rental revenue recognition	4,175	4,473
Capitalised leasing incentives and fees	91	88
Amortisation of lease incentives and fees	(107)	(25)
Disposals of investment properties	(9,800)	-
Net gain / (loss) on fair value adjustments:		
Net gain / (loss) on fair value adjustments ¹	23,968	5,341
Net gain (loss) / on disposal of investment properties	(66)	-
Purchase of land held for development	3,565	-
Development work in progress	30	-
Carrying amount at end of the financial year	448,159	358,293

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

Included within the investment property fair value is a deduction of \$nil (2019: \$nil) representing lease incentive commitments the Group has provided under the lease contracts.

6.2 Leasing arrangements

The majority of the investment properties are leased to tenants under long term operating leases. Rentals are receivable from the tenants monthly. Revenue from top three tenants represent \$26,234,000 (2019: three tenants represent \$23,704,000) of the Group's total revenue.

Minimum lease payments to be received under non-cancellable operating leases of investment properties not recognised in the financial statements as receivable are as follows:

	2020 \$'000	2019 \$'000
Within one year	30,097	25,831
More than one year but not more than five years	79,298	72,370
More than five years	277,494	272,443
	386,889	370,644

For the year ended 30 June 2020, the Group did not have any contracts for which it is a lessee. The Group is a lessor by virtue of the lease arrangements associated with its investment properties.

NOTES TO THE FINANCIAL STATEMENTS

6.3 Contractual obligations

Under some of the lease agreements applicable to investment properties, the Group is responsible for capital and structural repairs to the premises (except to the extent required due to the tenant's act, omissions or particular use). This contractual obligation can include the requirement to replace underground tanks and/or LPG tanks if they become worn out, obsolete, inoperable or incapable of economic repair.

During the year, the replacement of the underground tanks for one of the three investment properties (i.e. Cnr Vardys Rd & Turbo Rd, Marayong, NSW) was completed. As at the reporting date, the other two investment properties that have been identified which require underground tank replacements remain outstanding. The current forecast capital expenditure required to replace the two underground tanks is \$1,200,000 which has been reflected as a reduction in the valuation of the applicable investment property as at the reporting date.

6.4 Individual valuation and carrying amounts

The investment portfolio consists of 79 properties located throughout Australia. 64 properties were independently valued at 30 June 2020. The Group'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 being valued. Current year independent valuations were performed by Savills Valuations Pty Ltd (2019: Jones Lang LaSalle Advisory Services Pty Ltd and Savills Valuations Pty Ltd).

As at 30 June 2020, the remaining 15 properties were subject to internal valuations performed by the Group's internal property team and have been reviewed and approved by the Board. The carrying amounts of these investment properties have been determined based on Directors' valuations.

	Latest independent valuation		Carrying amounts		Capitalisation rate	
	Valuation date	\$'000	2020 \$'000	2019 \$'000	2020 %	2019 %
397 Pacific Hwy, Belmont North, NSW	Jun-20	6,440	6,440	6,080	6.25%	6.50%
Cnr Vardys Rd & Turbo Rd, Marayong, NSW	Jun-20	9,050	9,050	7,910	6.50%	6.75%
511 Pacific Highway, South Kempsey, NSW	Jun-20	23,310	23,310	19,340	6.00%	7.00%
172 New England Highway, Rutherford, NSW	Jun-20	6,260	6,260	5,360	6.00%	6.75%
Cnr Northcote St & Main Rd, Heddon Greta, NSW	Jun-20	10,200	10,200	8,760	6.00%	6.75%
Cnr Weakleys & Glenwood Drives, Thornton, NSW	Jun-20	9,900	9,900	8,900	6.00%	6.50%
M 449 Victoria Street, Wetherill Park, NSW	Jun-20	9,230	9,230	7,920	5.75%	6.50%
1 Blueberry Road, Moree NSW	Jun-20	11,910	11,910	10,700	6.50%	7.00%
2948 Old Cleveland Rd, Capalaba, QLD	Jun-20	4,990	4,990	4,730	7.00%	7.25%
Cnr Anzac Ave & Josey Rd, Mango Hill, QLD	Jun-20	3,350	3,350	3,220	6.75%	7.00%
550 -560 Samford Rd, Mitchelton, QLD	Jun-20	4,420	4,420	4,060	7.00%	7.25%
420 - 426 Mt Cotton Rd, Capalaba, QLD	Jun-20	4,120	4,120	3,960	7.00%	7.25%
1233 Wynnum Rd, Murrarie, QLD	Jun-20	5,480	5,480	5,350	7.00%	7.25%
17 - 25 Toombul Rd, Northgate, QLD	Jun-20	4,050	4,050	3,920	7.00%	7.25%
124 - 130 Paradise Rd, Slacks Creek, QLD	Jun-20	4,100	4,100	4,000	7.00%	7.25%
108 Compton Rd, Woodridge, QLD	Jun-20	5,740	5,740	5,580	6.25%	6.25%
708 Gympie Rd, Lawnton, QLD	Jun-20	4,690	4,690	4,370	7.00%	7.25%
353 Redbank Plains Rd, Redbank Plains, QLD	Jun-20	5,590	5,590	5,560	6.25%	6.25%
264 Browns Plains Rd, Browns Plains, QLD	Jun-20	5,740	5,740	5,840	6.25%	6.25%
Sovereign Avenue, Bray Park, QLD	Jun-20	4,170	4,170	4,190	6.25%	6.25%
21 Ingham Road, West End, QLD	Jun-20	5,940	5,940	5,600	6.25%	6.50%
921 Nambour Connection Rd, Nambour, QLD	Jun-20	1,460	1,460	1,330	7.25%	7.75%
1380 Boundary Rd, Wacol, QLD ²	Jun-19	5,400	-	5,400	-	7.25%
19038 Bruce Highway, Bowen, QLD	Jun-20	4,050	4,050	3,750	6.75%	7.00%

NOTES TO THE FINANCIAL STATEMENTS

	Latest independent valuation		Carrying amounts		Capitalisation rate	
	Valuation date	\$'000	2020 \$'000	2019 \$'000	2020 %	2019 %
25 Bolam Street, Garbutt, QLD	Jun-20	2,750	2,750	2,360	6.75%	7.50%
4545 Flinders Highway, Reid River, QLD	Jun-20	2,830	2,830	2,710	8.50%	8.50%
71 Thompson Street, Charters Towers, QLD	Jun-20	6,150	6,150	5,930	8.00%	8.00%
77-79 Bowen Road, Rosslea, QLD	Jun-20	2,970	2,970	2,630	6.25%	6.75%
900 Ingham Road, Bohle, QLD	Jun-20	6,800	6,800	6,320	6.75%	7.00%
45 Range Road, Sarina, QLD	Jun-20	2,160	2,160	1,920	7.00%	7.50%
2 Mulgrave Street, Gin Gin, QLD	Jun-20	4,410	4,410	3,960	7.00%	7.50%
161 Thozet Road, Koongal, QLD	Jun-20	2,270	2,270	2,080	6.75%	7.00%
74 Connor Street, Zilzie, QLD	Jun-20	1,730	1,730	1,570	6.75%	7.00%
1 Flinders Street, Monto, QLD	Jun-20	1,410	1,410	1,280	7.00%	7.25%
102-104 Cook Street, Portsmith, QLD	Jun-20	6,310	6,310	5,670	6.75%	7.25%
28 Supply Road, Edmonton, QLD	Jun-20	6,520	6,520	6,040	6.25%	6.50%
45 Arnold Street, Aeroglen, QLD	Jun-20	3,970	3,970	3,670	6.75%	7.00%
49 Tolga Road, Atherton, QLD	Jun-20	2,030	2,030	1,860	7.00%	7.25%
656 Bruce Highway, Woree, QLD	Jun-20	1,620	1,620	1,470	6.75%	7.00%
2215 David Low Way, Peregian Beach, QLD	Jun-20	3,640	3,640	3,370	6.75%	7.00%
10 Takalvan Street, Bundaberg, QLD	Jun-20	2,100	2,100	1,780	6.25%	7.00%
60 Hawkins Crescent, Bundamba, QLD	Jun-20	19,760	19,760	17,720	6.25%	6.75%
1129 Morandah Access Road, Moranbah, QLD	Jun-20	6,720	6,720	6,020	6.50%	7.00%
273-279 Gympie Rd, Kedron, QLD	Jun-20	3,730	3,730	3,400	6.25%	6.75%
34-36 Cessna Drive, Caboolture, QLD	Jun-20	7,180	7,180	6,400	6.25%	6.75%
164-170 David Low Way, Diddilibah, QLD	Jun-20	3,640	3,640	3,400	7.00%	7.25%
282 Wardell Street, Enoggera, QLD	Jun-20	2,120	2,120	1,910	6.50%	7.00%
840 Steve Irwin Way, Glasshouse Mountains, QLD	Jun-20	5,500	5,500	5,000	6.75%	7.25%
1977 Anzac Avenue, Mango Hill, QLD	Jun-20	4,410	4,410	4,000	6.50%	7.00%
216 Preston Road, Manly West, QLD ²	Jun-19	2,200	-	2,200	-	7.25%
72 Walker Street, Maryborough, QLD	Jun-20	2,340	2,340	2,130	7.25%	7.75%
127 Kingston Road, Woodridge, QLD	Jun-20	5,430	5,430	4,710	6.25%	7.00%
1965 D'Aguilar Highway, Villeneuve, QLD ²	Jun-19	1,900	-	1,900	-	8.25%
983 Waterworks Road, The Gap, QLD	Jun-20	3,590	3,590	3,240	6.50%	7.00%
63 Raceview Street, Raceview, QLD ¹	Jun-19	9,710	9,710	9,710	6.75%	6.75%
14 Rosemary Street, Durack, QLD ¹	Jun-19	5,700	5,900	5,700	6.75%	6.75%
205 Old Gympie Road, Dakabin, QLD ¹	Jun-19	4,650	4,730	4,650	6.50%	6.50%
Cnr Edith St and Bruce Hwy, Cluden, QLD	Jun-20	13,830	13,830	12,500	6.75%	7.25%
22 Nicholson Street, Banana, QLD	Jun-20	3,680	3,680	3,600	7.50%	7.50%
25 Kiernan Drive, Roseneath, QLD	Jun-20	7,730	7,730	7,250	7.00%	7.25%
53793 Bruce Hwy, Mount Larcom, QLD	Jun-20	7,760	7,760	7,313	6.50%	6.75%
591 Dorset Rd, Bayswater North, VIC	Jun-20	4,810	4,810	4,330	6.25%	6.50%
Cnr Thompson Rd & Victoria St, Geelong North, VIC	Jun-20	4,670	4,670	4,390	6.50%	6.75%
753 North Lake Rd, Southlake, WA	Jun-20	6,200	6,200	6,280	7.75%	7.75%
Cnr Amherst & Nicholsons Rd, Canningvale, WA	Jun-20	6,600	6,600	6,150	7.50%	7.50%
1 Wishart Street, Gwelup, WA	Jun-20	4,080	4,080	3,700	6.50%	7.00%

NOTES TO THE FINANCIAL STATEMENTS

	Latest independent valuation		Carrying amounts		Capitalisation rate	
	Valuation date	\$'000	2020 \$'000	2019 \$'000	2020 %	2019 %
224 Clontarf Road, Hamilton Hill, WA	Jun-20	5,120	5,120	4,620	6.50%	7.00%
1182 Chapman Road, Glenfield, WA	Jun-20	5,200	5,200	4,740	7.75%	8.25%
1 Kakadu Road, Yanchep, WA	Jun-20	6,130	6,130	5,540	6.75%	7.25%
Lot 401 Great Northern Highway, South Hedland, WA	Jun-20	5,870	5,870	5,340	7.50%	8.00%
702 Main North Road, Gepps Cross, SA ^{1&3}	Oct-19 ⁴	5,055	5,055	-	6.35%	-
337 St Vincent Street East, Port Adelaide, SA ^{1&3}	Nov-19 ⁴	5,170	5,170	-	6.00%	-
226-228 Bridge Road, Pooraka, SA ¹	Oct-19 ⁴	5,250	5,250	-	6.00%	-
2341 Albany Highway, Gosnells, WA ^{1&3}	Oct-19 ⁴	4,754	4,754	-	6.10%	-
323 North East Road, Hampstead Gardens, SA ^{1&3}	Oct-19 ⁴	4,646	4,645	-	6.35%	-
225 Womma Road, Edinburgh North, SA ^{1&3}	Oct-19 ⁴	5,410	5,410	-	6.10%	-
342-346 Albany Highway, Orana, WA ^{1&3}	Jul-19	6,150	6,150	-	6.50%	-
130 Edwards Street, Ayr, QLD ^{1&3}	Jun-19	4,950	4,950	-	6.75%	-
51-55 Aerodrome Road, Maroochydore, QLD ^{1&3}	Aug-19	6,850	6,850	-	6.75%	-
Lot 1 / 437 Yaamba Road, Park Avenue, QLD ^{1&3}	Sep-19	5,650	5,830	-	6.75%	-
73-77 Railway Street, Gatton, QLD ^{1&3}	Feb-20	5,100	5,100	-	6.75%	-
176 Otho Street, Inverell, NSW ^{1&3}	Feb-20	5,100	5,100	-	6.25%	-
Land held for development						
473-477 North East Road & 37 Ramsay Avenue, Hillcrest, SA ³	N/A	N/A	3,595	-	N/A	-
Total investment properties			448,159	358,293		

1 The carrying amount of investment property that were not independently valued as at period end have been determined based on Directors' valuations.

2 Investment properties disposed during the year.

3 New investment properties acquired during the year.

4 Fund-through development projects completed during the year. External valuation for these properties were performed on an "as if completed" basis.

The weighted average capitalisation rate for the financial year ended 30 June 2020 was 6.58% (2019: 7.01%).

Recognition and measurement

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes) and are measured initially at cost, including transaction costs.

Subsequent to initial recognition, investment properties are measured at fair value (inclusive of adjustments for straight line rental revenue recognition, unamortised lease incentives and costs and capital expenditure obligations), with gains and losses arising from changes in the fair value of investment properties included in the consolidated statement of profit or loss and other comprehensive income in the period in which they arise.

Valuation process

The purpose of the valuation process is to ensure that assets are held at fair value and all applicable regulations (*Corporations Act 2001* and ASIC regulations) and the relevant Accounting Standards are complied with.

External valuations are performed by independent professionally qualified valuers who hold a recognised relevant professional qualification and have specialised expertise in the class of investment properties being valued and are performed for each investment property on at least a three-year rotational basis. Internal valuations are performed by the Group's internal property team in the intervening periods and are reviewed and approved by the Board.

The adopted fair value is determined using the income capitalisation method where the key valuation inputs are net passing rent, net market rent and capitalisation rates based on comparable market evidence.

NOTES TO THE FINANCIAL STATEMENTS

Derecognition

An investment property is derecognised upon disposal or when it is withdrawn from use, and when no future economic benefits are expected from use. The gain or loss arising on derecognition of the property is measured as the difference between the net proceeds from disposal and its carrying amount at disposal date and is recognised in the consolidated statement of profit or loss and other comprehensive income in the period in which the property is derecognised.

Key estimates and assumptions – fair value and the valuation process

The Group has investment properties with a net carrying amount of \$448,159,000 (2019: \$358,293,000), representing the estimated fair value.

The determination of the fair value of investment property is subject to a number of key estimates and assumptions. Management has considered the nature, characteristics and risks of its investment properties as well as the level of fair value hierarchy within which the fair value measurements are categorised.

The fair value of investment property is the price at which it could be exchanged between knowledgeable and willing parties in an arms' length transaction. The best evidence of fair value is current prices in an active market for comparable properties (i.e. properties with similar investment characteristics including, but not limited to, location, lettable area and land area, building characteristics, property conditions, the tenant in occupation, lease terms and income potential).

The fair value of investment property has been assessed to reflect market conditions as at the reporting date. While this represents the best estimate of fair value at the reporting date, the property market dynamics and fundamentals at the point in time the property is sold may mean that the actual price achieved is higher or lower than the most recent best estimate of that property's fair value.

The adopted valuation for investment properties, including property under development which is substantially complete and has pre-committed leases, is determined using the income capitalisation method. The income capitalisation method uses unobservable inputs (i.e. key estimates and assumptions) in determining fair value, as per the table below:

Fair Value Hierarchy	Fair value 30 June 2020 \$'000	Valuation Technique	Inputs used to measure fair value	Range of unobservable inputs
Level 3	448,159	Income capitalisation method	Net passing rent (per sqm p.a.) Net market rent (per sqm p.a.) Adopted capitalisation rate	\$209 - \$2,028 \$205 - \$1,968 6.00% - 8.50%

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

Income capitalisation method	This method involves assessing the total net market income receivable from the property and capitalising this in perpetuity to derive a capital value, with allowances for capital expenditure reversions.
Net passing rent	Net passing rent is the contracted amount for which a property or space within a property is leased. In the calculation of net rent, the owner recovers outgoings from the tenant on a pro-rata basis (where applicable).
Net market rent	Net market rent is the estimated amount for which a property or space within a property should lease between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and wherein the parties have each acted knowledgeably, prudently and without compulsion. In the calculation of net rent, the owner recovers some or all outgoings from the tenant on a pro-rata basis (where applicable).
Adopted capitalisation rate	The rate at which net market income is capitalised to determine the value of a property. The rate is determined with regards to market evidence and the prior external valuation.

NOTES TO THE FINANCIAL STATEMENTS

6.5 Sensitivity information

When calculating fair value using the income capitalisation approach, the net market rent has a strong interrelationship with the adopted capitalisation rate given the methodology involves assessing the total net market income receivable from the property and capitalising this in perpetuity to derive a capital value. In theory, an increase in the net market rent and an increase (softening) in the adopted capitalisation rate could potentially offset the impact to the fair value. The same can be said for a decrease in the net market rent and a decrease (tightening) in the adopted capitalisation rate. A directionally opposite change in the net market rent and the adopted capitalisation rate could potentially magnify the impact to the fair value.

Due to the impact that the COVID-19 pandemic could have on valuations of investment properties, sensitivity analysis has been performed on the fair values adopted at 30 June 2020, based on a range of potential capitalisation rate movements on the Group's investment properties portfolio as compared to the capitalisation rates adopted at 30 June 2020. Capitalisation rate is considered to be one of the key unobservable input that would have a material impact on the fair values adopted if they moved.

Outcomes of the sensitivity analysis are set out below:

Significant input	Net Profit	
	0.25% decrease in capitalisation rate \$'000	0.25% increase in capitalisation rate \$'000
Investment properties	17,663	(16,357)

The results of the sensitivity analysis demonstrate that in the event of a softening in capitalisation rates, the Group's consolidated financial position would not be materially impacted to the extent that its going concern assumption would need to be reconsidered.

Capital structure, financing and risk management

This section outlines how the Group manages its capital structure and related financing activities and presents the resultant returns delivered to security holders via distributions and earnings per security.

7. Contributed equity

7.1 Carrying amount

	2020 \$'000	2019 \$'000
<i>At the beginning of the financial year</i>	209,935	209,966
Issue of new securities	100,712	-
Security issuance costs	(1,241)	(1)
Securities buy-back	(132)	(30)
Distribution reinvestment	847	-
At the end of the financial year	310,121	209,935
<i>Attributable to:</i>		
Securityholders of Convenience Retail REIT No. 2	149,718	114,004
Securityholders of non-controlling interests	160,403	95,931
	310,121	209,935

7.2 Number of securities on issue

	2020 No.	2019 No.
<i>At the beginning of the financial year</i>	78,910,051	78,920,051
Issue of new securities	30,814,807	-
Securities buy-back	(40,291)	(10,000)
At the end of the financial year	109,684,567	78,910,051

Recognition and measurement

Issued and paid up securities are recognised at the fair value of the consideration received by the Group, net of directly incurred transaction costs.

The securities of APN Convenience Retail REIT (the "Stapled Security") comprise the stapled securities of Convenience Retail REIT No. 1, Convenience Retail REIT No. 3 and this Fund. Whilst these Funds remain stapled, their securities must only be issued, dealt with or disposed of as a Stapled Security.

NOTES TO THE FINANCIAL STATEMENTS

8. Distributions

	2020		2019	
	Cents per security	\$'000	Cents per security	\$'000
<i>Distributions paid during the year:</i>				
Quarter ended 30 Sep	5.450	4,301	5.225	4,124
Quarter ended 31 Dec	5.450	5,046	5.225	4,123
Quarter ended 31 Mar	5.450	5,126	5.225	4,124
<i>Distributions payable:</i>				
Quarter ended 30 Jun	5.450	5,978	5.225	4,123
Total distributions paid/payable	21.800	20,451	20.900	16,494

Recognition and measurement

A liability for any distribution declared on or before the end of the reporting period is recognised in the consolidated statement of financial position in the reporting period to which the distribution pertains.

9. Earnings per security

	2020	2019
Total comprehensive income for the year (\$'000)	45,799	24,001
Weighted average number of securities outstanding (thousands)	89,153	78,918
Basic and diluted earnings (cents per security)	51.37	30.41

Recognition and measurement

Basic earnings per security

Basic earnings per security is calculated as total comprehensive income of the Group divided by the weighted average number of ordinary securities outstanding during the year.

Diluted earnings per security

Diluted earnings per security adjusts the figures used in the determination of basic earnings per security to take into account amounts unpaid on securities and the effect of all dilutive potential ordinary securities.

No dilutive securities were issued/on issue during the current year (2019: nil).

10. Borrowings

	2020 \$'000	2019 \$'000
Non-current		
Bank loans – secured ¹	75,826	115,400
	75,826	115,400

¹ Includes deferred borrowing costs of \$729,000 (2019: \$617,000) that have been allocated against the total amount drawn at balance date.

Recognition and measurement

Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of profit or loss and other comprehensive income in the period in which they arise.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement or repayment of the facility for at least 12 months after the reporting date.

10.1 Summary of borrowing arrangements

The Group has entered into a revolving credit facility agreement with three banks that is secured and cross collateralised over the Group's investment properties (via first registered real property mortgages) and other assets (via a first ranking general "all assets" security agreement).

	2020 \$'000	2019 \$'000
Loan facility limit	165,000	125,000
Amount drawn at balance date	(76,555)	(116,017)
Amount undrawn at balance date	88,445	8,983

As at 30 June 2020, the total revolving credit facility available of \$165,000,000 has the following maturity dates:

- Tranche 1: \$52,500,000 – repayable Feb 2023;
- Tranche 2: \$12,500,000 – repayable Feb 2024;
- Tranche 3: \$21,250,000 – repayable Feb 2024;
- Tranche 4: \$31,250,000 – repayable Feb 2025;
- Tranche 5: \$7,500,000 – repayable Feb 2023;
- Tranche 6: \$20,000,000 – repayable Nov 2023; and
- Tranche 7: \$20,000,000 – repayable Feb 2023.

Under the terms of this facility, each member of the Group is permitted to draw down or repay amounts subject to the overall requirement that the Group remains compliant with the facility's terms and conditions.

This facility agreement contains both financial and non-financial covenants and undertakings that are customary for secured debt facilities of this nature. The key financial covenants (with capitalised terms being defined terms in the agreement) that apply to the Group are as follows:

		2020
Loan to Value Ratio ("LVR")	At all times, LVR does not exceed 50%.	17.08%
Interest Cover Ratio ("ICR")	On 31 December and 30 June each year, ICR is not less than 2.0 times.	5.08 times

NOTES TO THE FINANCIAL STATEMENTS

10.2 Finance costs

	2020 \$'000	2019 \$'000
Interest expense paid / payable	3,776	4,488
Line fees	819	698
Total finance costs	4,595	5,186

The weighted average 'all-in' interest rate for the Group (including bank margin, amortisation of borrowing costs and undrawn line fees) at reporting date was 3.74% (2019: 4.27%).

Recognition and measurement

Interest expense

Interest expense is recognised in the consolidated statement of profit or loss and other comprehensive income using the effective interest rate method except where it is incurred for the construction of any qualifying asset, where it is capitalised during the period of time that is required to complete and prepare the asset for its intended use.

The effective interest rate method calculates the amount to be recognised over the relevant period at the rate that exactly discounts estimated future cash receipts (including all fees that form an integral part of the financial instrument, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition. There were no substantial modifications to the terms of existing financial liabilities.

10.3 Derivatives – interest rate contracts

The Group has a debt facility subject to floating interest rates. The Group uses derivative financial instruments to manage its exposure to interest rates such as interest rate swaps (to lock in fixed interest rates) and/or interest rate caps (to limit exposure to rising floating interest rates).

All derivative financial instruments are entered into on terms that provide pari-passu security and cross collateralisation rights over the Fund's and the Group's investment properties (via first registered real property mortgages) and other assets (via a first ranking general "all assets" security agreement) in conjunction with the Group's revolving credit facility.

Generally, the interest rate swap contracts settle on a quarterly basis, generally coinciding with the dates on which interest is payable on the underlying debt. The floating rate incurred on the debt is Australian BBSY. The difference between the fixed and floating interest rate is settled on a net basis by the relevant counterparty. The interest rate contracts have not been identified as hedging instruments and any movements in the fair value are recognised immediately in the consolidated statement of profit or loss and other comprehensive income.

As at the reporting date, the fair value of interest rate contracts held by the Group was:

	2020 \$'000	2019 \$'000
Current liabilities		
Interest rate contracts	(1,190)	(898)
Non-current liabilities		
Interest rate contracts	(2,305)	(1,646)

NOTES TO THE FINANCIAL STATEMENTS

The Group's interest rate contracts in effect at reporting date covered 91.44% (2019: 77.57%) of the principle drawn under the debt facility and the contract details are as follows:

	Notional Value \$'000	Swap Effective Date	Swap Expiry Date	Weighted average interest rate
2020: Interest rate swaps				
Swap 1	10,000	23 Nov 2017	2 Feb 2022	
Swap 2	20,000	6 Nov 2017	6 Nov 2024	
Swap 3	10,000	2 Aug 2019	2 May 2022	
Swap 4	10,000	29 Mar 2018	2 May 2023	
Swap 5	10,000	2 Nov 2018	2 Nov 2023	
Swap 6	10,000	7 Jan 2020	7 Jan 2023	
Total / Weighted average	70,000			1.96%
2019: Interest rate swaps				
Swap 1	10,000	23 Nov 2017	2 Feb 2022	
Swap 2	20,000	6 Nov 2017	6 Nov 2020	
Swap 3	5,000	20 Dec 2017	20 Dec 2019	
Swap 4	10,000	2 Aug 2019	2 May 2023	
Swap 5	15,000	19 Mar 2018	2 May 2020	
Swap 6	10,000	2 Aug 2019	2 Aug 2022	
Swap 7	10,000	2 Nov 2018	2 Nov 2023	
Swap 8	10,000	7 Jan 2020	7 Jan 2023	
Total / Weighted average	90,000			2.26%

Recognition and measurement

Derivatives are categorised as financial instruments at fair value through profit or loss and are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date based on counterparty bank valuations. Counterparty bank valuations are tested for reasonableness by discounting the estimated future contractual cashflows and using market interest rates for a substitute instrument at the measurement date.

The resulting gain or loss is recognised immediately in the consolidated statement of profit or loss and other comprehensive income as hedge accounting has not been applied.

NOTES TO THE FINANCIAL STATEMENTS

10.4 Fair value hierarchy

The following table provides an analysis of financial instruments that are measured at fair value at 30 June 2020, grouped into Levels 1 to 3 based on the degree to which the fair value inputs are observable:

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value measurement as at 30 June 2020				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial liabilities at FVTPL				
Interest rate contracts	-	(3,495)	-	(3,495)
Total	-	(3,495)	-	(3,495)

Fair value measurement as at 30 June 2019				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial liabilities at FVTPL				
Interest rate contracts	-	(2,544)	-	(2,544)
Total	-	(2,544)	-	(2,544)

There were no transfers between Levels during the financial year.

11. Capital risk management

The Responsible Entity's objectives when managing the capital of the Group is to safeguard its ability to continue as a going concern, so that the Group can continue to provide returns for securityholders in accordance with the Group's investment strategy, and to optimise the capital structure and therefore the Group's cost of capital on a risk adjusted basis.

The capital of the Group is maintained or adjusted through various methods including by adjusting the quantum of distributions paid, raising or repaying debt, issuing or buying back securities or selling assets.

The Group's capital position is primarily monitored through its ratio of net debt to total assets (excluding cash) ("Gearing Ratio"), where a target range of between 25% - 40% has been established.

As at 30 June 2020, APN Convenience Retail REIT's Gearing Ratio was 16.52% (2019: 32.29%) which is a result of the funds raised under the Group's institutional placement and SPP, further strengthening the Group's balance sheet position to complete existing contracted acquisitions, support future acquisitions and managing any potential downward risks in valuations of investment properties.

	2020 \$'000	2019 \$'000
Total borrowings	76,555	116,017
Less: cash and cash equivalents	(2,331)	(289)
Net debt	74,224	115,728
Total assets (excluding cash and cash equivalents)	449,289	358,418
Gearing ratio	16.52%	32.29%

12. Financial and risk management

The Responsible Entity is responsible for ensuring a prudent risk management culture is established for the Group. This is reflected in the adoption of a Risk Management Framework that clearly defines risk appetite and risk tolerance limits which are consistent with the the Group's investment mandate.

The Group's dedicated Fund Manager is responsible for overseeing the establishment and implementation of appropriate systems, controls and policies to manage the Group's risk. The focus is on ensuring compliance with the approved Risk Management Framework whilst seeking to maximise security holder returns.

The effective design and operation of the risk management systems, controls and policies is overseen by the Responsible Entity and its Audit, Risk and Compliance Committee.

Risk management in respect to financial instruments is achieved via written policies that establish risk appetite and tolerance limits in respect to exposure to interest rate risk, credit risk, the use of derivative financial instruments and non-derivative financial instruments and the investment of excess liquidity. Compliance with these policies and exposure limits is reviewed by the Responsible Entity on a continuous basis.

12.1 Financial instruments

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

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

Transactions in these instruments expose the Group to a variety of financial risks including market risk (which includes interest rate risk and other price risks), credit risk and liquidity risk. The Group does not enter into or trade financial instruments, including derivatives, for speculative purposes.

NOTES TO THE FINANCIAL STATEMENTS

12.2 Market risk (including interest rate risk)

The Group is subject to market risk (the risk that borrowings or derivatives are repriced to different interest rate margins on refinance or renewal arising from changes in the debt markets) and interest rate risk (the risk that a change in interest rates may have on the Group's profitability, cashflows and/or financial position) predominately through its borrowings, derivatives and cash exposures.

The interest rates applicable to each category of financial instrument are disclosed in the applicable note to the financial statements.

Market risk sensitivity

The Group's sensitivity to an assumed 100 basis point change in interest rates or interest rate margins as at the reporting date, on the basis that the change occurred at the beginning of the reporting period, is outlined in the table below and includes both increases / decreases in interest payable / receivable and fair value gains or losses on revaluation of derivatives.

	Net Profit	
	100bp increase \$'000	100bp decrease \$'000
30 June 2020		
Variable rate instruments	(766)	766
Derivative financial instruments	2,886	(2,669)
	2,120	(1,903)
30 June 2019		
Variable rate instruments	(1,106)	1,106
Derivative financial instruments	2,984	(3,099)
	1,824	(1,939)

12.3 Credit risk

The Group is subject to credit risk (the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group) predominately through its trade and other receivables, derivatives and cash exposures. The maximum exposure to credit risk at a reporting date is the carrying value of each financial asset as disclosed in the applicable note to the financial statements.

Credit risk is managed by ensuring that at the time of entering into a contractual arrangement or acquiring a property, counterparties or tenants are of appropriate credit worthiness, provide appropriate security or other collateral and/or do not show a history of default. The Group's treasury policy also requires that derivatives and cash transactions are limited to financial institutions that meet minimum credit rating criteria.

12.4 Liquidity risk

The Group is subject to liquidity risk (the risk that the Group will not be able to meet its contractual or other operating obligations).

Liquidity risk is managed by continuously monitoring forecast and actual cash flows, maintaining appropriate head room under debt facilities and matching the maturity profiles of financial assets and liabilities. To help reduce liquidity risks the Group:

- has a policy which targets a minimum level of cash and cash equivalents to be maintained;
- has readily accessible standby facilities and other funding arrangements in place;
- has a debt maturity policy which targets a maximum percentage of total debt maturing in any one 12-month period; and
- has a loan covenant target to ensure that the Group can withstand a downward movement in valuations, a reduction in income and increase in interest rates without breaching loan facility covenants.

NOTES TO THE FINANCIAL STATEMENTS

The Group's liquidity risk profile, based on the contractual maturities of key obligations but before consideration of operating cashflows available, is outlined in the following table.

	Within 1 year \$'000	Between 1 and 2 years \$'000	Over 2 years \$'000	Total contractual cash flows \$'000	Carrying amounts \$'000
2020					
Liabilities					
Payables – current	6,993	-	-	6,993	6,993
Distribution payable	5,978	-	-	5,978	5,978
Interest-bearing liabilities	1,902	1,980	79,555	83,437	75,826
Interest rate contracts	1,529	1,424	1,589	4,542	3,495
	16,402	3,404	81,144	100,950	92,292
2019					
Liabilities					
Payables – current	2,846	-	-	2,846	2,846
Distribution payable	4,123	-	-	4,123	4,123
Interest-bearing liabilities	7,108	65,927	58,878	131,913	115,400
Interest rate contracts	818	738	841	2,397	2,544
	14,895	66,665	59,719	141,279	124,913

12.5 Net fair values

The carrying values of the Group's financial instruments as disclosed in the consolidated statement of financial position approximate their fair values. Refer to the applicable notes to the financial statements for the recognition and measurement principles applied to each type of financial instrument.

13. Commitment and contingencies

Other than the contractual obligations disclosed in note 6, there are no other commitments and contingencies in effect at 30 June 2020 (2019: \$nil).

NOTES TO THE FINANCIAL STATEMENTS

Efficiency of operation

This section presents the Group's working capital position and the efficiency in which it converts operating profits into cash available for securityholders / the reinvestment back into the operations of the Group.

14. Cash and cash equivalents

14.1 Reconciliation of profit for the year to net cash provided by operating activities

For the purpose of the consolidated statement of cash flows, cash and cash equivalents includes cash on hand and bank and short-term deposits at call.

	2020 \$'000	2019 \$'000
Reconciliation of cash and cash equivalent		
Cash and cash equivalents	2,331	289
Reconciliation of net profit / (loss) to net cash flows from operating activities		
Net profit / (loss)	45,799	24,001
<i>Add / (loss) non-cash items:</i>		
Straight line lease revenue recognition	(4,175)	(4,473)
Impairment of rental receivables	57	57
Amortisation of borrowing costs	483	385
Movement in deferred lease incentives	28	(63)
Fair value loss / (gain) on derivatives	952	2,402
Fair value (gain) / loss on investment properties	(23,902)	(5,341)
<i>Changes in assets / liabilities:</i>		
(Increase) / decrease in trade and other receivables	(1,062)	(141)
Increase / (decrease) in payables	4,186	(388)
Net cash inflows from operating activities	22,366	16,439

Recognition and measurement

Cash and cash equivalents comprise cash on hand and cash in banks or other short term highly liquid investments, net of outstanding bank overdrafts.

Cash flows are included in the consolidated statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

14.2 Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Notes	2020 \$'000	2019 \$'000
Borrowings as at beginning of the year	10	115,400	109,742
Net cash inflow / (outflow) from financing activities:			
Proceeds from borrowings		85,567	44,117
Repayments of borrowings		(125,029)	(38,700)
Additional capitalised borrowing costs paid		(595)	(144)
Non-cash changes:			
Amortisation of deferred borrowing costs		483	385
Borrowings as at the end of the year	10	75,826	115,400

15. Trade and other receivables

	2020 \$'000	2019 \$'000
Current		
Rent and recoveries receivable	853	94
Interest receivable	3	1
	856	95

15.1 Ageing analysis of receivables past due but not impaired

	2020 \$'000	2019 \$'000
31-90 days	15	11
91+ days	1	-
	16	11

As at 30 June 2020, rent receivable of \$57,000 was impaired (2019: \$57,000) and expensed in the consolidated statement of profit or loss and other comprehensive income. The Group holds \$25,000 security and/or other collateral (2019: \$nil) and does not have any significant credit risk exposure to any single counterparty or counterparties having similar characteristics in respect of rent receivables past due but not impaired.

There are no significant financial assets that have had renegotiated terms that would otherwise have been past due or impaired.

NOTES TO THE FINANCIAL STATEMENTS

Recognition and measurement

Rent Receivables

Rent receivables are recorded initially at fair value (including GST) and subsequently at amortised cost, less any impairment allowances under the expected credit loss (“ECL”) model.

Impairment allowances for rent receivable and other financial assets (other than those measured at fair value through profit and loss) is assessed at each reporting period and is measured using the simplified approach based on its lifetime ECL. Credit losses are measured as the difference between cash flows due to the Group in accordance with the contract and the cash flows the Group expects to receive.

The Group analyses the age of outstanding receivable balances and debts that are known to be uncollectable are written off when identified.

16. Trade and other payables

	2020 \$'000	2019 \$'000
Current		
Trade payables	3,341	928
Prepaid rental income	2,149	70
Accrued interest expenses	518	738
Accrued other expenses	985	1,110
	6,993	2,846

Recognition and measurement

Trade and other amounts payable are recorded initially at fair value (including GST) and subsequently at amortised cost. The average credit term on purchases is 30 days and they are non-interest bearing.

Other notes

17. Income taxes

Recognition and measurement

All funds that comprise APN Convenience Retail REIT are “flow-through” entities for Australian income tax purposes that have elected into the Attribution Managed Investment Trusts rules (“AMIT Funds”) from the 2017 income year, such that the determined trust components of each AMIT Fund will be taxable in the hands of the beneficiaries (the securityholders) on an attribution basis.

Accordingly, deferred taxes associated with these AMIT Funds have not been recognised in the financial statements in relation to differences between the carrying amounts of assets and liabilities and their respective tax bases, including taxes on capital gains / losses which could arise in the event of a sale of properties for the amount at which they are stated in the consolidated financial statements.

Realised capital losses are not attributed to securityholders but instead are retained within the AMIT Funds to be offset against realised capital gains. The benefit of any carried forward capital losses is also not recognised in the financial statements. If in any period realised capital gains exceed realised capital losses, including those carried forward from earlier periods and eligible for offset, the excess is included in taxable income attributed to securityholders as noted above. For the year-ended 30 June 2020, there were no unrecognised carried forward capital losses (2019: \$nil).

18. Related party transactions

18.1 Transactions with key management personnel

The Group does not employ personnel in its own right. However, it is required to have a Responsible Entity to manage the activities of the Fund and its controlled entities. As such there are no staff costs (including fees paid to directors of the Responsible Entity) included in the consolidated statement of profit or loss and other comprehensive income.

18.2 Transactions with the Responsible Entity and related bodies corporate

The Responsible Entity of Convenience Retail REIT No. 2 is APN Funds Management Limited (“APN FM”) (ACN 080 674 479). Convenience Retail Management Pty Limited has been appointed as the Fund Manager (the “Manager”) to provide investment management services and property management services to APN Convenience Retail REIT. The Manager is a related body corporate of APN FM and a wholly owned subsidiary of APN Property Group Limited (“APN PG”) (ACN 109 846 068).

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

	2020		2019	
	Paid \$'000	Payable \$'000	Paid \$'000	Payable \$'000
Management fees ¹	2,297	230	2,105	190
Custody fees	84	9	76	7
Reimbursement of costs paid	27	-	24	6
	2,408	239	2,205	203

¹ APN FM is entitled to a base management fee of 0.65% per annum of the Gross Asset Value of the Group (reducing to 0.60% p.a. of Gross Asset Value between \$500m and \$1,000m, 0.55% p.a. of Gross Asset Value between \$1,000m and \$1,500m and 0.50% of Gross Asset Value in excess of \$1,500m). In addition, the Manager has been appointed, on a non-exclusive basis, to provide property management, financial management, leasing and rent review and project supervision services.

NOTES TO THE FINANCIAL STATEMENTS

18.3 Security holdings and associated transactions with related parties

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

	2020		2019	
	Number of securities	Distributions \$	Number of securities	Distributions \$
APN Property Group Limited	7,167	288,626	5,275,288	1,102,535
APN Funds Management Limited	2,393,278	628,688	2,029,639	424,195
APD Trust	8,279,619	1,239,440	4,355,717	910,345
APN AREIT Fund	5,529,155	663,941	389,027	81,307
APN Property for Income Fund	507,123	63,232	109,442	22,873
APN Property for Income Fund No.2	159,478	382,804	304,418	63,623
CFS AREIT Mandate	1,033,887	113,039	39,075	8,167
Howard Brenchley	59,331	11,209	50,000	10,450
Geoff Brunsdon AM	58,850	12,347	322,034	67,305
Chris Aylward	1,048,423	57,139	-	-
Tim Slattery	770	168	-	-
Joseph De Rango	6,003	1,230	-	-
Total	19,083,084	3,461,863	12,874,640	2,690,800

17.40% (2019: 16.32%) of APN Convenience Retail REIT stapled securities are held by APN PG and its related parties.

19. Controlled entities

	Country of incorporation	Percentage owned (%)	
		2020	2019
Parent entity			
Convenience Retail REIT No. 2	Australia		
Non-controlling interests			
Convenience Retail REIT No. 1	Australia	-	-
Convenience Retail REIT No. 3	Australia	-	-

Convenience Retail REIT No. 1 and Convenience Retail REIT No. 3 were acquired through a stapling arrangement, and thus no ownership has been obtained. The financial results and financial position attributable to these entities are disclosed as 'non-controlling interests' in the consolidated financial statements.

20. Remuneration of auditors

	2020 \$'000	2019 \$'000
Deloitte and related network firms*		
Audit or review of financial reports:		
Group	38,000	38,000
Controlled entities	31,000	26,000
	69,000	64,000
Statutory assurance services required by legislation to be provided by the auditor	10,200	6,000
Total	79,200	70,000

*The auditor of the Group is Deloitte Touche Tohmatsu.

21. Parent entity financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2020 \$'000	2019 \$'000
Financial position		
Current assets	1,550	159
Non-current assets	194,400	173,920
Total assets	195,950	174,079
Current liabilities	(5,947)	(3,689)
Non-current liabilities	(24,070)	(56,703)
Total liabilities	(30,017)	(60,392)
Net assets	165,933	113,687
Equity		
Issued capital	149,718	114,004
Retained earnings	16,215	(317)
Total equity	165,933	113,687
Financial performance		
Profit for the financial year	26,629	12,654
Other comprehensive income	-	-
Total comprehensive income	26,629	12,654

At 30 June 2020, the parent entity had not provided guarantees (2019: \$nil), has no contingent liabilities (2019: \$nil) and no contractual commitments (2019: \$nil).

NOTES TO THE FINANCIAL STATEMENTS

22. Subsequent events

22.1 Acquisition of investment properties

Subsequent to 30 June 2020, the Group completed its acquisition of Brisbane Airport Link Service Centre and one land held for development totaling \$12.2 million. These acquisitions were funded from the Group's existing debt facility.

Further, on 14 August 2020, the Group agreed to acquire three Coles Express sites in Queensland collectively for \$27.5m. These acquisitions will be debt funded.

22.2 Security purchase plan

On 15 July 2020, the Group successfully completed its security purchase plan ("SPP") announced on 22 June 2020. A total of \$10 million was raised under the SPP and 3.2 million new stapled securities ("New Securities") were issued under the SPP and allotted on 20 July 2020. The New Securities issued under the SPP ranks equally with existing securities and will carry the same voting rights and entitlements to receive distributions.

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

22.3 COVID-19 pandemic

The COVID-19 pandemic has created unprecedented uncertainty, in particular the continued lack of market transactions which are ordinarily a strong source of evidence for valuations of investment properties. Actual economic events and conditions in the future may be materially different from those estimated by the Group at the reporting date. In the event that COVID-19 impacts are more severe or prolonged than anticipated, the fair value of the Group's investment properties may be adversely impacted. At the date of issuing the consolidated financial statements, an estimate of the future impact of COVID-19 on the Group's investment properties cannot be made as this will depend on the magnitude and duration of the economic downturn, where the full range of possible effects are currently unknown.

At the date of signing these financial statements, no additional rent relief has been granted by the Group since the reporting date and there are no outstanding tenant discussions.

Other than those mentioned above, there has not been any other matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of the Group, or the state of affairs of the Group in future financial years.

23. Adoption of new and revised accounting standards

23.1 New and revised AASBs affecting amounts reported and/or disclosures in consolidated the financial statements

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current year. These include:

Standard / Interpretation	Impact on financial statements
AASB 16 <i>Leases</i> ("AASB 16") (applying to annual periods beginning on or 1 January 2019)	<p>AASB 16 <i>Leases</i>, applying to annual periods beginning on or after 1 January 2019, introduces a comprehensive model for the identification, recognition and measurement of lease arrangements for lessors and lessees. For lessees, AASB 16 replaces the existing recognition and measurement requirements for operating leases (off balance sheet commitment and an expense, recognised on a straight-line basis over the lease term) with both a right-of-use ("ROU") asset and a corresponding liability in the statement of financial position for all qualifying leases. Under this new treatment, the initial measurement of both the asset and liability equates to the net present value ("NPV") of the unavoidable lease payments (inclusive of incentives and costs). Subsequently the asset value recognised is expensed as depreciation over the term of the lease and an interest expense is recognised as part of extinguishing the lease liability (reflecting the unwinding of the NPV of the unavoidable lease payments).</p> <p>For the year ended 30 June 2020, the Group has not identified any contracts for which it is a lessee. The Group is a lessor by virtue of the lease arrangements associated with its investment properties. As AASB 16 does not significantly alter lessor accounting, there is no impact to the Group.</p>

23.2 Standards and Interpretations on issue but not yet effective

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations were also on 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
AASB 2019-5 <i>Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia</i>	1 January 2020
<p>The Amending Standard requires entities that intend to be compliant with IFRS standards to disclose information required by AASB 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> for the potential effect of each IFRS pronouncement that has not yet been issued by the AASB.</p>	

SUMMARY OF SECURITYHOLDERS

Twenty largest holders of quoted equity securities as at 3 August 2020

Rank	Name	No. of fully paid ordinary shares	%IC
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	12,018,644	10.63
2	NATIONAL NOMINEES LIMITED	9,618,358	8.51
3	PERPETUAL CORPORATE TRUST LTD	8,289,157	7.33
4	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	7,904,811	6.99
5	CITICORP NOMINEES PTY LIMITED	5,522,526	4.88
6	THE TRUST COMPANY (AUSTRALIA) LIMITED	2,772,059	2.45
7	APN FUNDS MANAGEMENT LTD	2,402,816	2.13
8	BNP PARIBAS NOMS PTY LTD	2,267,545	2.01
9	SCJ PTY LIMITED	1,109,538	0.98
10	HOLUS NOMINEES PTY LTD	1,048,423	0.93
11	MR STEPHEN CRAIG JERMYN	1,009,538	0.89
12	THE CASS FOUNDATION LIMITED	1,000,000	0.88
13	ONE MANAGED INVESTMENT FUNDS LIMITED	975,000	0.86
14	NETWEALTH INVESTMENTS LIMITED	843,040	0.75
15	JAN HOLDINGS PTY LTD	650,000	0.57
16	FZIC PTY LTD	633,000	0.56
17	MR MICHAEL KENNETH HANSEN & MRS ALISON BETTY HANSEN	604,917	0.53
18	NEWECONOMY COM AU NOMINEES PTY LIMITED	560,253	0.50
19	STRATEGIC VALUE PTY LTD	524,552	0.46
20	BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD	479,222	0.42
Total		60,233,399	53.27

SUMMARY OF SECURITYHOLDERS

Distribution of holders of equity securities as at 3 August 2020

Range	Securities	No. of holders	%
100,001 and Over	68,147,368	60	60.27
10,001 to 100,000	34,941,437	1,504	30.90
5,001 to 10,000	7,236,748	983	6.40
1,001 to 5,000	2,677,776	828	2.37
1 to 1,000	67,477	213	0.06
Total	113,070,806	3,588	100.00
Unmarketable Parcels	1,595	81	0.00

Substantial Holder Notices as at 3 August 2020

Name	Date of Notice (ASX)	Number of securities	%
Moelis Australia Limited and entities	23 June 2020	6,420,422	5.85
APN Property Group and Holus Nominees Pty Limited and Lauren Investments Pty Limited and related entities	26 June 2020	18,958,130	17.28

On-market buy back

There were no on-market buy-backs during the year.

CORPORATE DIRECTORY

APN Convenience Retail REIT

Convenience Retail REIT No. 1 ARSN 101 227 614
Convenience Retail REIT No. 2 ARSN 619 527 829
Convenience Retail REIT No. 3 ARSN 619 527 856

Responsible Entity

APN Funds Management Limited

ACN 080 674 479
AFS Licence No: 237500

Directors

Geoff Brunsdon AM, Independent Chairman
Howard Brenchley, Independent Director
Michael Johnstone, Independent Director
Jennifer Horrigan, Independent Director
Michael Groth, Alternate Director for Howard Brenchley
(Resigned in September 2019)
Joseph De Rango, Alternate Director for Howard Brenchley

Company Secretary

Chantal Churchill

Manager

Convenience Retail Management Pty Ltd

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Share Registry

Link Market Services Limited

Locked Bag A14
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E registrars@linkmarketservices.com.au

Stock Exchange Listing

APN Convenience Retail REIT stapled securities are listed on the Australian Securities Exchange (ASX: AQR)



ZARRAFFA'S
COFFEE
DRIVE THRU
OPEL. Sam

MAXIMUM HEIGHT 3.0m

ZARRAFFA'S
COFFEE
Drive
Thru
CAUTION
Fixed Gantry
Ahead!
No Tailgating
No Swerving
No Cutting
No Pedestrians





ZARRAFFA'S
COFFEE

Drive
Thru

CAUTION
Food Quality
Ahead!

Slow Down
No Talking
No Cell Phone
No Pedestrians

ZARRAFFA'S
COFFEE





Responsible Entity

APN Funds Management Limited

ACN 080 674 479 AFSL No 237500

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