

APN Regional Property Fund and its Controlled Funds

ARSN 110 488 821

Consolidated Financial Report for the Half
Year Ended 31 December 2008

Directors' report

The directors of APN Funds Management Limited (ARSN 080 674 479) ("the Responsible Entity") submit herewith the consolidated financial report of APN Regional Property Fund ("the Fund") and of its controlled funds ("the Consolidated Fund") for the half year ended 31 December 2008. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names of the directors of the Responsible Entity during or since the end of the half year are:

Name	
Christopher Aylward	Michael Butler
Clive Appleton	John Harvey
Howard Brenchley	David Blight
Andrew Cruickshank	

The above named directors held office during and since the end of the half year except for:

- David Blight – appointed 24 November 2008

Principal activities

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

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

The Consolidated Fund did not have any employees during the half year.

Review of operations

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

Results

The results of the operations of the Consolidated Fund are disclosed in the condensed consolidated income statement of these financial statements. The loss attributable to unitholders for the half year ended 31 December 2008 was \$6,483,000 (2007: Profit of \$2,280,000).

At 31 December 2008 there was a commitment of \$1,200,000 to the Commonwealth Bank of Australia to repay a portion of borrowings held by the Consolidated Fund. Available funds in a cash deposit account were used to fulfil the commitment and the transaction was completed on 2 February 2009.

The unprecedented wave of economic events during the period has led to a significant decline in the value of the investment properties held by the Consolidated Fund. All investment properties have been revalued as at balance date using an independent valuer and a write down in the carrying value of approximately 9.79 % has been recognised as a loss in the income statement.

As a result of these valuation adjustments, the loan to valuation ratio (LVR), which is a key covenant in the Consolidated Fund's loan facility agreement, is near its covenant limit of 65% as calculated in accordance with the facility agreement. The impact that any future market deterioration may have on the operations of the Consolidated Fund is unknown, but may include further declines in the fair value of these properties.

The Responsible Entity regularly monitors the LVR position and maintains regular communication with the lender. Where the prospect of a breach of the LVR covenant arises, action to mitigate this position would be initiated. Typically this would require the repayment of some debt to a level that restored the LVR covenant. Financing a debt reduction may require the sale of assets or reduction of distributions or a combination of both.

Distributions

In respect of the half year ended 31 December 2008 a final distribution of 2.125 cents per unit was paid to the unitholders on 2 February 2009 (2007: 2.2125 cents per unit). The total distribution paid to unitholders in respect to the half year ended 31 December 2008 was 4.25 cents per unit (2007: 4.425 cents per unit).

For full details of distributions paid and payable during the half year, refer to note 2 to the financial statements.

Auditor's independence declaration

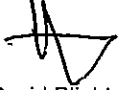
The Auditor's Independence Declaration is included on page 4 of the half year report.

Rounding off of amounts

The Consolidated Fund is a fund of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the directors of the Responsible Entity made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the Directors



David Blight
Director

MELBOURNE, 27 February 2009

The Board of Directors
APN Funds Management Limited
101 Collins St
MELBOURNE VIC 3000

Dear Sirs

INDEPENDENCE DECLARATION – APN REGIONAL PROPERTY FUND AND ITS CONTROLLED FUNDS

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

As lead audit partner for the review of the financial statements of APN Regional Property Fund and its Controlled Funds for the half-year ended 31 December 2008, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Peter A. Caldwell
Partner
Chartered Accountants
Melbourne, 27 February 2009

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE UNITHOLDERS OF APN REGIONAL PROPERTY FUND AND ITS CONTROLLED FUNDS

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of APN Regional Property Fund ("the Fund") and its Controlled Funds (together "the Consolidated Fund"), which comprises the condensed balance sheet as at 31 December 2008, and the condensed income statement, condensed cash flow statement, condensed statement of recognised income and expense, condensed cash flow statement for the half-year ended on that date, selected explanatory notes and the directors' declaration of the Consolidated Fund comprising the Fund and the entities it controlled as set out on pages 6 to 12.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Responsible Entity are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Consolidated Fund's financial position as at 31 December 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Fund and the Consolidated Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of APN Regional Property Fund and its Controlled Funds is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Consolidated Fund's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



DELOITTE TOUCHE TOHMATSU



Peter A. Caldwell
Partner
Chartered Accountants
Melbourne, 27 February 2009

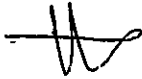
Directors' declaration

The directors of the Responsible Entity declare that:

- a) in the directors' opinion, there are reasonable grounds to believe that the Consolidated Fund will be able to pay its debts as and when they become due and payable;
- b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Consolidated Fund.

Signed in accordance with a resolution of the directors of the Responsible Entity made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors



David Blight
Director
MELBOURNE, 27 February 2009

**Condensed consolidated income statement
for the half year ended 31 December 2008**

Note	Half year ended 31 December 2008 \$'000	Half year ended 31 December 2007 \$'000
INCOME		
Rental income	3,867	3,643
Interest	114	126
Unrealised changes in the fair value of investments	(7,777)	1,090
Other income	-	81
TOTAL INCOME	(3,796)	4,940
EXPENSES		
Investment management fee	-	-
Property management expenses	984	925
Other expenses	88	128
Auditor's remuneration	25	7
Finance costs (excluding finance costs attributable to unitholders)	1,590	1,600
TOTAL EXPENSES	2,687	2,660
(LOSS)/PROFIT ATTRIBUTABLE TO UNITHOLDERS	(6,483)	2,280
FINANCE COSTS ATTRIBUTABLE TO UNITHOLDERS		
Distributions to unitholders	2 (1,386)	(1,443)
Decrease/(increase) in net assets attributable to unitholders	7,869	(837)
NET PROFIT	-	-

Notes to the financial statements are included on pages 12 to 13.

**Condensed consolidated balance sheet
as at 31 December 2008**

	Note	31 December 2008 \$'000	30 June 2008 \$'000
ASSETS			
Cash and cash equivalents		3,954	4,025
Other receivables		474	530
Investment properties		70,500	78,150
TOTAL ASSETS		74,928	82,705
LIABILITIES (excluding liabilities attributable to unitholders)			
Payables		340	293
Distribution payable	2	693	722
Interest bearing liabilities		46,872	46,798
TOTAL LIABILITIES (excluding liabilities attributable to unitholders)		47,905	47,813
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		27,023	34,892
Liabilities attributable to unitholders		(27,023)	(34,892)
NET ASSETS		-	-

Notes to the financial statements are included on pages 12 to 13.

**Condensed consolidated statement of recognised income and expense
for the half year ended 31 December 2008**

	Half year ended 31 December 2008 \$'000	Half year ended 31 December 2007 \$'000
Net profit for the period	-	-
Total recognised income and expense for the period	-	-

Notes to the financial statements are included on pages 12 to 13.

**Condensed consolidated cash flow statement
for the half year ended 31 December 2008**

	Half year ended 31 December 2008 Inflows/ (Outflows) \$'000	Half year ended 31 December 2007 Inflows/ (Outflows) \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Rental income received	2,916	2,897
Interest received	130	127
Other expenses paid	(82)	(96)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,964	2,928
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments associated with investment properties	(127)	(9)
NET CASH USED IN INVESTING ACTIVITIES	(127)	(9)
CASH FLOWS FROM FINANCING ACTIVITIES		
Distributions paid	(1,415)	(1,439)
Finance costs paid (excluding distributions to unitholders)	(1,493)	(1,530)
NET CASH USED IN FINANCING ACTIVITIES	(2,908)	(2,969)
Net decrease in cash and cash equivalents held	(71)	(50)
Cash and cash equivalents at beginning of the half year	4,025	4,309
Cash and cash equivalents at end of the half year	3,954	4,259

Notes to the financial statements are included on pages 12 to 13.

1. Summary of significant accounting policies

Statement of compliance

The half year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half year financial report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

Basis of preparation

The condensed financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Consolidated Fund is a fund of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the half year report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the Fund's 2008 annual financial report for the financial year ended 30 June 2008.

2. Distributions paid and payable

	31 December 2008		31 December 2007	
	Cents per unit	\$'000	Cents per unit	\$'000
Distribution paid during the period	2.125	693	2.2125	721
Distribution payable	2.125	693	2.2125	722
	4.250	1,386	4.4250	1,443

3. Net Assets attributable to unitholders

	Half year ended 31 December 2008	Half year ended 31 December 2007
	Units	Units
Units on Issue		
On issue at beginning of the period	32,616,337	32,616,337
Applications	-	-
Redemptions	-	-
Units issued upon reinvestment of distributions	-	-
On issue at end of the period	32,616,337	32,616,337
	\$'000	\$'000
Movements in Net Assets Attributable to Unitholders		
At beginning of the period	34,892	37,550
Unit applications	-	-
Capital raising costs	-	-
Net transfer from income statement for the period	(7,869)	837
Net assets attributable to unitholders	27,023	38,387

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

4. Segment information

The Consolidated Fund and its controlled entities operate in the property industry in Australia and as the operations are located in Australia, it has only one business segment and one geographical segment.

5. Contingencies and commitments

A commitment of \$1,200,000 was in effect at 31 December 2008 due to the Commonwealth Bank of Australia to repay a portion of borrowings held by the Fund (2007: Nil). Available funds in a cash deposit account were used to fulfil the commitment and the transaction was completed on 2 February 2009.

5. Contingencies and commitments (continued)

The Consolidated Fund has received legal advice on a potential stamp duty liability with the New South Wales Office of State Revenue involving unit issues, unit redemptions and asset acquisitions in the Consolidated Fund. The Responsible Entity is currently in the process of compiling all of the information relevant to these transactions and intends making full disclosure of the transactions to the New South Wales Office of State Revenue for the purposes of determining whether any duty should have been paid on these transactions and to ensure that any outstanding duty is duly paid. The New South Wales Office of State Revenue is yet to make an assessment on this issue.

An estimate of the potential maximum liability directly and indirectly attributable to the Consolidated Fund is \$1,622,000 exclusive of any penalties and interest charges.

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

6. Subsequent Events

Apart from the item disclosed in note 5, there has not arisen in the interval between the end of the financial period and the date of this report, any material transactions or events in the opinion of the Responsible Entity, to affect significantly the operation of the Consolidated Fund, the results of those operations, or the state of affairs of the Consolidated Fund, in the future.

7. Additional Information

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

Principal Registered Office

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

Principal Place of Business

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