

APN Regional Property Fund and its Controlled Funds

ARSN 110 488 821

Consolidated Financial Report for the Half
Year Ended 31 December 2009

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 (together "the Consolidated Fund") for the half year ended 31 December 2009. 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 | John Harvey | David Blight |
| Clive Appleton | Andrew Cruickshank | Geoff Brunsdon |
| Howard Brenchley | Michael Butler | Michael Johnstone |

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

- Christopher Aylward – resigned 19 October 2009
- Clive Appleton – resigned 19 October 2009
- Andrew Cruickshank – resigned 19 October 2009
- Michael Butler – resigned 19 October 2009
- Geoff Brunsdon – appointed 19 October 2009
- Michael Johnstone – appointed 25 November 2009

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 maximise unitholder value through investment in properties with strong lease covenants, secure income streams and potential for capital growth.

During the period the Consolidated Fund refinanced its debt facility with the Commonwealth Bank of Australia. The new facility has a term of three years. An amount of \$2,500,000 was repaid using cash reserves, reducing the overall facility amount. In order to continue to reduce debt levels and strengthen the Consolidated Fund's balance sheet, the Responsible Entity chose to suspend the payment of distributions to unitholders during the period.

Results

The results of the operations of the Consolidated Fund are disclosed in the condensed consolidated statement of comprehensive income of these financial statements. The loss for the half year ended 31 December 2009 was \$132,000 (2008: loss of \$6,483,000).

Distributions

In respect of the half year ended 31 December 2009 no distribution was paid to the unitholders (2008: 2.125 cents per unit). The total distribution paid to unitholders in respect to the half year ended 31 December 2009 was nil (2008: 4.25 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 3 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 half year 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, 24 February 2010

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

Dear Board Members

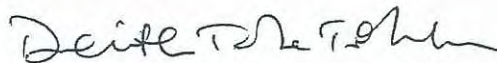
INDEPENDENCE DECLARATION – APN REGIONAL PROPERTY FUND AND ITS CONTROLLED FUNDS

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

As lead audit partner for the review of the financial statements of APN Regional Property Fund and its Controlled Funds for the half-year ended 31 December 2009, 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 Caldwell
Partner
Chartered Accountants
Melbourne, 24 February 2010

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

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 consolidated statement of financial position as at 31 December 2009, and the condensed consolidated statement of comprehensive income, condensed consolidated statement of cash flows and condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and the directors' declaration of the consolidated entity comprising the Fund and the entities it controlled at the end of the half-year as set out on pages 6 to 13.

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 Interim and Other Financial Reports 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 2009 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

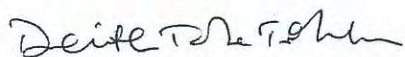
Deloitte.

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 2009 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, 24 February 2010

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, 24 February 2010

**Condensed consolidated statement of comprehensive income
for the half year ended 31 December 2009**

| | Note | Half year ended 31 December 2009 \$'000 | Half year ended 31 December 2008 \$'000 |
|--|------|---|---|
| Income | | | |
| Rental income | | 3,361 | 3,867 |
| Interest | | 41 | 114 |
| Unrealised changes in the fair value of investments | | (935) | (7,777) |
| Unrealised changes in the fair value of financial assets | | (240) | - |
| Total income | | 2,227 | (3,796) |
| Expenses | | | |
| Investment management fee | | 80 | - |
| Property management expenses | | 890 | 984 |
| Other expenses | | 83 | 88 |
| Auditor's remuneration | | 44 | 25 |
| Finance costs | | 1,262 | 1,590 |
| Total expenses | | 2,359 | 2,687 |
| Net loss | | (132) | (6,483) |
| Other comprehensive income | | | |
| Other comprehensive income | | - | - |
| Total comprehensive income | | (132) | (6,483) |

Notes to the condensed consolidated financial statements are included on pages 11 to 13.

**Condensed consolidated statement of financial position
as at 31 December 2009**

| | Note | 31 December 2009 \$'000 | 30 June 2009 \$'000 |
|---|------|-------------------------------|---------------------------|
| Assets | | | |
| Cash and cash equivalents | | 1,520 | 3,111 |
| Other receivables | | 171 | 612 |
| Derivative financial assets | | 198 | - |
| Investment properties | | 57,521 | 58,350 |
| Total assets | | 59,410 | 62,073 |
| Liabilities | | | |
| Payables | | 594 | 485 |
| Distribution payable | 2 | - | - |
| Interest bearing liabilities | | 34,824 | 37,464 |
| Total liabilities | | 35,418 | 37,949 |
| Net assets | | 23,992 | 24,124 |
| Equity attributable to unitholders | | | |
| Contributed equity | | 27,470 | 27,470 |
| Retained earnings | | (3,478) | (3,346) |
| Total equity | 3 | 23,992 | 24,124 |

Notes to the condensed consolidated financial statements are included on pages 11 to 13.

**Condensed consolidated statement of changes in equity
for the half year ended 31 December 2009**

| | Contributed equity \$'000 | Retained earnings \$'000 | Total \$'000 |
|--|---------------------------------|--------------------------------|-----------------|
| Balance at 1 July 2008 | - | - | - |
| Effect of changes in accounting policies: | | | |
| Effect of changes in accounting for obligations arising on liquidation | 27,470 | 7,422 | 34,892 |
| As restated | 27,470 | 7,422 | 34,892 |
| Total comprehensive income for the period | - | (6,483) | (6,483) |
| Distributions paid to unitholders | - | (1,386) | (1,386) |
| Balance at 31 December 2008 | 27,470 | (447) | 27,023 |
| Total comprehensive income for the period | - | (2,899) | (2,899) |
| Distributions paid to unitholders | - | - | - |
| Balance at 30 June 2009 | 27,470 | (3,346) | 24,124 |
| Total comprehensive income for the period | - | (132) | (132) |
| Distributions paid to unitholders | - | - | - |
| Balance at 31 December 2009 | 27,470 | (3,478) | 23,992 |

Notes to the condensed consolidated financial statements are included on pages 11 to 13.

**Condensed consolidated statement of cash flows
for the half year ended 31 December 2009**

| | Half year ended 31 December 2009 Inflows/ (Outflows) \$'000 | Half year ended 31 December 2008 Inflows/ (Outflows) \$'000 |
|--|---|---|
| Cash flows from operating activities | | |
| Rental income received | 2,682 | 2,916 |
| Interest received | 51 | 130 |
| Other expenses paid | (85) | (82) |
| Net cash provided by operating activities | 2,648 | 2,964 |
| Cash flows from investing activities | | |
| Payments associated with investment properties | (106) | (127) |
| Net cash used in investing activities | (106) | (127) |
| Cash flows from financing activities | | |
| Distributions paid | - | (1,415) |
| Repayment of borrowings | (2,500) | - |
| Finance costs paid | (1,633) | (1,493) |
| Net cash used in financing activities | (4,133) | (2,908) |
| Net decrease in cash and cash equivalents held | (1,591) | (71) |
| Cash and cash equivalents at beginning of the half year | 3,111 | 4,025 |
| Cash and cash equivalents at end of the half year | 1,520 | 3,954 |

Notes to the condensed consolidated financial statements are included on pages 11 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 Consolidated Fund's 2009 annual financial report for the financial year ended 30 June 2009, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Adoption of new and revised Standards and Interpretations

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

(i) *Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101.*

AASB 101 (Revised) is applicable for annual reporting periods beginning on or after 1 January 2009. The adoption of this revised Standard has resulted in changes to the presentation of the financial statements; specifically the presentation of a statement of comprehensive income which replaces the income statement and the presentation of a statement of changes in equity, which replaces the statement of recognised income and expense. This has not affected any of the amounts recognised in the financial statements.

(ii) *AASB 8 Operating Segments*

Revised AASB 8 is applicable for annual reporting periods beginning on or after 1 January 2009. The adoption of this revised Standard has not affected any of the amounts recognised in the financial statements.

(iii) *AASB 132 Financial Instruments: Presentation and AASB 2008-2 Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations Arising on Liquidation (Revised AASB 132).*

Revised AASB 132 is applicable for annual reporting periods beginning on or after 1 January 2009. Previously, unitholders funds were classified as a financial liability and presented as *Net assets attributable to unitholders*, they are now treated as equity and presented as *Contributed Equity* and *Retained Earnings* in the *Statement of Financial Position* and the *Statement of Changes in Equity*. AASB 2008-2 has impacted the *Statement of Financial Position* and *Statement of Changes in Equity* as follows:

| As at | Net Assets Attributable to Unitholders | Contributed Equity | Retained Earnings | Overall impact on Net Assets |
|------------------|--|------------------------------|-----------------------------|------------------------------|
| 31 December 2009 | Decreased by \$23,992,000 | Increased by \$27,470,000 | Decreased by \$3,478,000 | Nil |
| 30 June 2009 | Decreased by \$24,124,000 | Increased by \$27,470,000 | Decreased by \$3,346,000 | Nil |
| 31 December 2008 | Decreased by \$27,023,000 | Increased by \$27,470,000 | Decreased by \$447,000 | Nil |
| 1 July 2008 | Decreased by \$34,892,000 | Increased by \$27,470,000 | Increased by \$7,422,000 | Nil |

Distributions to unitholders that were previously classified as *Finance costs attributable to unitholders* in the *Statement of Comprehensive Income* are now treated as *Distributions Paid* (from Retained Earnings) in the *Statement of Changes in Equity*. Previously, the net change in unitholder liabilities after distributions was reflected as a finance charge.

Adoption of new and revised Standards and Interpretations (continued)

The adoption of AASB 2008-2 has impacted the *Statement of Comprehensive Income* as follows:

| Half year period ended | Finance costs attributable to unitholders | | | Net profit |
|------------------------|---|--|---|--------------------------|
| | Distributions to unitholders | Change in net assets attributable to unitholders | Total finance costs attributable to unitholders | |
| 31 December 2009 | Nil | Increased by \$132,000 | Increased by \$132,000 | Decreased by \$132,000 |
| 30 June 2009 | Nil | Increased by \$2,899,000 | Increased by \$2,899,000 | Decreased by \$2,899,000 |
| 31 December 2008 | Decreased by \$1,386,000 | Increased by \$7,869,000 | Increased by \$6,483,000 | Decreased by \$6,483,000 |

The adoption of AASB 2008-2 has impacted the *Statement of Changes in Equity* as follows:

| As at | Net Profit for the period | Other comprehensive income | Distributions paid to unitholders | Contributed Equity | Retained Earnings |
|------------------|---------------------------|----------------------------|-----------------------------------|--------------------|--------------------------|
| 31 December 2009 | Decreased by \$132,000 | Nil | Nil | Nil | Decreased by \$132,000 |
| 30 June 2009 | Decreased by \$2,899,000 | Nil | Nil | Nil | Decreased by \$2,899,000 |
| 31 December 2008 | Decreased by \$6,483,000 | Nil | Increased by \$1,386,000 | Nil | Decreased by \$7,869,000 |

2. Distributions paid and payable

| | 31 December 2009 | | 31 December 2008 | |
|-------------------------------------|------------------|--------|------------------|--------|
| | Cents per unit | \$'000 | Cents per unit | \$'000 |
| Distribution paid during the period | - | - | 2.125 | 693 |
| Distribution payable | - | - | 2.125 | 693 |
| | - | - | 4.250 | 1,386 |

3. Equity

| | Half year ended 31 December 2009 Units | Half year ended 31 December 2008 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 equity | | |
| At beginning of the period | 24,124 | 34,892 |
| Unit applications | - | - |
| Capital raising costs | - | - |
| Net undistributed comprehensive income for the period | (132) | (7,869) |
| Total equity | 23,992 | 27,023 |

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

5. Contingencies and commitments

There are no commitments in effect at 31 December 2009 (2008: 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).

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

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