

APN Regional Property Fund and its Controlled Funds

ARSN 110 488 821

Consolidated Financial Report for the Half
Year Ended 31 December 2010

Directors' report

The directors of APN Funds Management Limited (ACN 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 2010. 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

David Blight
Howard Brenchley
Geoff Brunsdon
Michael Johnstone
John Harvey

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.

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 2010 was \$177,000 (2009: loss of \$132,000).

Distributions

In respect of the half year ended 31 December 2010 a final distribution of 0.0075 cents per unit was paid to the unitholders on 31 January 2011 (2009: Nil). The total distribution paid to unitholders in respect to the half year ended 31 December 2010 was 0.015 cents per unit (2009: Nil). 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, 23 February 2011

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 the APN Regional Property Fund and its Controlled Funds.

As lead audit partner for the review of the financial statements of the APN Regional Property Fund and its Controlled Funds for the financial half-year ended 31 December 2010, 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, 23 February 2011

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 2010, and the condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and the 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 or from time to time during the half-year 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 of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

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 a 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 2010 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 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 Fund 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 2010 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, 23 February 2011

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, 23 February 2011

**Condensed consolidated statement of comprehensive income
for the half year ended 31 December 2010**

	Note	Half year ended 31 December 2010 \$'000	Half year ended 31 December 2009 \$'000
Income			
Rental income		3,584	3,361
Interest		28	41
Unrealised changes in the fair value of investments		(1,262)	(935)
Unrealised changes in the fair value of financial assets		-	(240)
Total income		2,350	2,227
Expenses			
Investment management fee		151	80
Property management expenses		853	890
Other expenses		75	83
Auditor's remuneration		40	44
Finance costs		1,408	1,262
Total expenses		2,527	2,359
Net loss		(177)	(132)
Other comprehensive income			
Other comprehensive income		-	-
Total comprehensive income		(177)	(132)

Notes to the condensed consolidated financial statements are included on pages 11 to 12.

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

	Note	31 December 2010 \$'000	30 June 2010 \$'000
Assets			
Cash and cash equivalents		1,767	1,654
Other receivables		443	271
Derivative financial assets		19	19
Investment properties		55,750	56,965
Total assets		57,979	58,909
Liabilities			
Payables		770	565
Distribution payable	2	245	245
Interest bearing liabilities		34,136	34,605
Total liabilities		35,151	35,415
Net assets		22,828	23,494
Equity attributable to unitholders			
Contributed equity		27,470	27,470
Retained earnings		(4,642)	(3,976)
Total equity	3	22,828	23,494

Notes to the condensed consolidated financial statements are included on pages 11 to 12.

**Condensed consolidated statement of changes in equity
for the half year ended 31 December 2010**

	Contributed equity \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 July 2009	27,470	(3,346)	24,124
Net loss for the period	-	(132)	(132)
Other comprehensive income	-	-	-
Total comprehensive income for the period	-	(132)	(132)
Distributions paid to unitholders	-	-	-
Balance at 31 December 2009	27,470	(3,478)	23,992
Balance at 1 July 2010	27,470	(3,976)	23,494
Net loss for the period	-	(177)	(177)
Other comprehensive income	-	-	-
Total comprehensive income for the period	-	(177)	(177)
Distributions paid to unitholders	-	(489)	(489)
Balance at 31 December 2010	27,470	(4,642)	22,828

Notes to the condensed consolidated financial statements are included on pages 11 to 12.

**Condensed consolidated statement of cash flows
for the half year ended 31 December 2010**

	Half year ended 31 December 2010 Inflows/ (Outflows) \$'000	Half year ended 31 December 2009 Inflows/ (Outflows) \$'000
Cash flows from operating activities		
Rental income received	2,646	2,682
Interest received	25	51
Other expenses paid	(172)	(85)
Net cash provided by operating activities	2,499	2,648
Cash flows from investing activities		
Payments associated with investment properties	(47)	(106)
Net cash used in investing activities	(47)	(106)
Cash flows from financing activities		
Distributions paid	(489)	-
Repayment of borrowings	(500)	(2,500)
Finance costs paid	(1,350)	(1,633)
Net cash used in financing activities	(2,339)	(4,133)
Net increase/(decrease) in cash and cash equivalents held	113	(1,591)
Cash and cash equivalents at beginning of the half year	1,654	3,111
Cash and cash equivalents at end of the half year	1,767	1,520

Notes to the condensed consolidated financial statements are included on pages 11 to 12.

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 2010 annual financial report for the financial year ended 30 June 2010, 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 Consolidated 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 their operations and effective for the current reporting period:

- Amendments to AASB 5, 8, 101, 107, 117, 118, 136, and 139 as a consequence of AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project.

AASB 2009-5 introduces amendments into Accounting Standards that are equivalent to those made by the IASB under its program of annual improvements to its standards. A number of the amendments are largely technical, clarifying particular terms, or eliminating unintended consequences. Other changes are more substantial, such as the current/non-current classification of convertible instruments, the classification of expenditures on unrecognized assets in the statement of cash flows and the classification of leases of land and buildings.

The adoption of these amendments has not resulted in any changes to the Consolidated Fund's accounting policies and have no effect on the amounts reported for the current or prior periods.

2. Distributions paid and payable

	31 December 2010		31 December 2009	
	Cents per unit	\$'000	Cents per unit	\$'000
Distribution paid during the period	0.0075	244	-	-
Distribution payable	0.0075	245	-	-
	0.0150	489	-	-

3. Equity

	Half year ended 31 December 2010 Units	Half year ended 31 December 2009 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	23,494	24,124
Unit applications	-	-
Capital raising costs	-	-
Net undistributed comprehensive income for the period	(666)	(7,869)
Total equity	22,828	23,992

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 2010 (2009: Nil).

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 has notified the New South Wales Office of State Revenue of the facts surrounding the potential stamp duty liability via a letter dated in October 2010. A response from the New South Wales Office of State Revenue has not been received on this matter at the date of authorisation of this financial report.

An estimate of the possible 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 possible 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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101 Collins Street
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Tel: (03) 8656 1000