2010 ANNUAL REPORT

APN | Direct Property Funds

APN National Storage Property Trust ARSN 101 227 712
APN Property Plus Portfolio ARSN 101 227 614
APN Retirement Properties Fund ARSN 093 243 424
APN Regional Property Fund ARSN 110 488 821

APN Funds Management Limited
ABN 60 080 674 479 | AFSL No 237500

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2010 ANNUAL REPORT

APN | National Storage Property Trust

ARSN 101 227 712

and its Controlled Trust

Annual Report for the Financial Year

Ended 30 June 2010

APN National Storage Property Trust

Manager's Report

Market overview 2010

In the context of a volatile global economic environment, the last 12 months have seen the Australian economy perform relatively strongly. Whilst the impact of the Global Financial Crisis (GFC) lingers in many countries, the Australian economy has been typified by ongoing resilience. Key indicators such as unemployment and Gross Domestic Product (GDP) growth have remained strong. The unemployment rate was 5.2% at 30 June 2010; GDP growth to March 2010 was 2.7%; and the Consumer Price Index (CPI) rose at a rate of 2.9%. These metrics compare favourably with many other developed economies. In the US for instance, the unemployment rate ended the year at 9.5% after peaking at 10.1% in October 2009.

As a result of the fundamental strength of the Australian economy, the Reserve Bank of Australia (RBA) has tightened monetary policy in an attempt to gradually slow demand. Accordingly, we have seen the target cash rate increase six times (by 25bps each time) since October 2009 to a rate of 4.5% in June 2010. It has been these increases, along with the significantly higher margins that banks charge (over and above the base rate), that has impacted borrowers. As total borrowing costs increased, the amount of free cash flow available from all forms of investment has reduced.

Investment markets have been volatile in the face of inconsistent news flow on broader economic data. In the US for instance the benchmark interest rate stands at 0.25% reflecting the weakness in consumer and business sentiment. However, these historically low interest rates have not been the panacea for economic recovery. US households continue to repair balance sheets while corporations remain cautious, limiting capital investment and new employment as fears of a double dip recession in the US and European Union sovereign debt concerns play on decision makers minds.

Australian equity markets reflect this caution (as measured by the S&P/ASX 200 Accumulation Index) returning 13.1% for the 12 months to 30 June. In this environment of general uncertainty it has been the more defensive sectors that outperformed. The S&P/ASX 200 Property Accumulation Index ("the Index") reflected this sentiment, delivering a total return of 20.4%.

It is now apparent that Australian direct property markets most likely hit the bottom in late 2009. Whilst many expect that some markets will remain under pressure in the future we may find this downturn was in fact one of the mildest on record. Metrics that support this contention include the fact that key office markets peak vacancy rates were well below those peaks in the last serious downturn. Melbourne and Sydney recorded peak vacancies of 6.8% and 9.1% respectively in this downturn while in the early 1990s the peaks were 25.8% and 22.4% respectively. However, despite the fact that retail sales were supported by stimulus spending during much of the financial year, the reality of higher interest rates had taken its toll with consumers moderating spending in line with a drop in confidence (Westpac-Melbourne Institute Consumer Confidence Index down in May and June).

Direct property values steadied during the year. Capitalisation rates that had been rising for all markets and sectors since 2007 were seen to stabilise over the last financial year as valuers became confident that sales evidence supported slightly more positive prospects for commercial property markets. Indeed, with leading property researcher Jones Lang Lasalle predicting rental growth and yield compression over the next few years for most sectors, the scene is set for a steady increase in domestic property values in the medium term.

The outlook for the unlisted real estate funds has improved over the last 12 months. The recovery theme is illustrated by the Mercer/IPD Australian Pooled Property Index for the 12 months to the end of June 2010 which showed that Australian unlisted property trusts delivered a total return of 4.0%. The Index indicated that the second quarter of 2010 had been the first period since November 2008 that reflected a positive annual return. This is consistent with a direct property market where values have generally stabilised.

Whilst the property outlook is positive, the challenge for many unlisted real estate managers is to access funding to recapitalise over-geared balance sheets. Where debt funding is available, it remains expensive with banks charging margins of 200 basis points to 300 basis points for refinancing of existing debts by unlisted trusts with elevated gearing.

Investment strategy

The APN National Storage Property Trust (the Trust) invests in 37 self storage properties leased to National Storage (Operations) Pty Ltd (NSO). The Trust was one of the first vehicles in Australia to offer investors the opportunity to invest in the self storage sector.

The Trust has a clearly defined strategy to reduce debt in order to facilitate a refinancing of its bank debt facilities. This strategy has been approached in three different ways:

- Pursuing an asset sales programme. This proved to be challenging due to limited number of willing buyers.
- Applying surplus operating cash flow (usually paid as unitholder distributions) towards debt reduction. During the year $11.1 million in debt was repaid from surplus operating cash flow.

- Assessing equity raising options to reduce the Trust's debt. The parlous state of capital markets, particularly for unlisted property trusts, however, made an equity raising unviable without seriously diluting unitholder value. An equity raising has subsequently not been pursued to date.

We've made some headway in achieving several key objectives set last year. Firstly, we have sourced alternative sources of senior debt finance through the joint borrowing arrangements with NSO which were approved at a Unitholder Meeting in December 2009. These arrangements see the value of the businesses operating from the Trust's properties being used as additional security for the new senior debt facility with the National Australia Bank (NAB).

Secondly, as part of the arrangements with NSO we have agreed to work together to pursue a liquidity event in 2012-2013. This event is likely to occur via a trade sale or stock exchange listing of the Trust properties together with the NSO businesses. Critically, these arrangements ensure that the Trust does not have to sell properties at depressed prices in the current market.

On 17 September 2010, drew down the new NAB senior debt facility with the support of an extension of the term of the existing Gresham mezzanine debt facility. We anticipate regular unitholder distributions will be reinstated sometime in the 2011 calendar year, albeit at a reduced level due to the high cost and amortisation requirements of the extended mezzanine facility.

With the refinancing now complete, our key objective for the coming year is to repay the mezzanine debt as quickly as possible. We will be exploring all avenues to achieve this objective, including asset sales with the co-operation of NSO on a going concern basis, equity raisings and alternative sources of finance on more favourable terms.

Performance

The Trust's properties declined in value by 1.28% during the year to $264,600,000. This was driven largely by the decline in value of the Fund's properties (which was reflected in increased capitalisation rates).

The net asset value of the Trust increased by 4.5%to $1.0041 despite the decline in property valuations over the period. This was due to the retention of cash usually used to pay unitholder distributions which was used to reduce debt.

Yours sincerely

Steven Lawford
Fund Manager, APN National Storage Property Trust

Directors' report

The directors of APN Funds Management Limited (ACN 080 674 479) (the Responsible Entity) submit herewith the annual financial report of APN National Storage Property Trust and of its controlled trust (the Trust) for the year ended 30 June 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 financial year are:

Name

Christopher Aylward	Andrew Cruickshank	David Blight
Clive Appleton	Michael Butler	Geoff Brunsdon
Howard Brenchley	John Harvey	Michael Johnstone

The above named directors held office during and since the end of the financial 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 Trust is a registered managed investment trust domiciled in Australia. The principal activity of the Trust is to invest in properties with strong lease covenants, secure income streams and potential for capital growth.

There has been no significant change in the activities of the Trust during the financial year.

The Trust did not have any employees during the year.

Changes in state of affairs

During the financial year there was no significant change in the state of affairs of the Trust.

Future developments

Disclosure of information regarding likely developments in the operations of the Trust in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Trust. Accordingly, this information has not been disclosed in this report.

Review of operations

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

Investment properties

During the year, the Trust sold one of its investment properties in Tweed Heads, Queensland for a total price of $3,850,000. Total proceeds, less settlement adjustments, were used to repay debt.

Unitholder meeting

During the financial year, a unitholders meeting was held and the following resolutions were approved:

1. That APN Funds Management Limited as Responsible Entity of the APN National Storage Property Trust (Trust) be authorised to enter into a joint borrowing arrangement with National Storage (Operations) Pty Ltd in relation to the Trust as contemplated in the explanatory memorandum to the notice of meeting; and
2. That APN Funds Management Limited as Responsible Entity of APN National Storage Property Trust (Trust) be authorised to extend the date by which it must provide unitholders in the Trust with a strategy for exit from the Trust to 30 June 2012.

Debt facilities

The existing Suncorp debt facility was reduced by $11,121,000 during the financial year. The reduction in debt was funded by proceeds from the sale of the Tweed Heads property and cash retained from the suspension of distributions to unitholders, in accordance with the facility agreement.

The Trust is currently in the process of refinancing its debt with the National Australia Bank Limited (NAB). Negotiations with both existing and new lenders continue in an effort to ensure the best outcome for unitholders is delivered. In order to facilitate this process, the Trust has received waivers from its current lenders for the loan to value ratio covenants contained in the facilities for 30 June 2010, 31 July 2010 and 31 August 2010.

A key term of the proposed new NAB facility is that the National Storage (Operations) Pty Ltd (NSO) businesses operating from Trust properties be used to secure the loan. There will also be small transactional facilities totalling no more than $2.1m where NSO is the sole borrower which will be secured against the Trust properties and NSO businesses. As such, the Trust will enter into the proposed new senior debt facility as a joint borrower with NSO.

All proceeds of the new facilities must be used to refinance the Trust's existing debt facilities.

On 13 August 2010, the Responsible Entity received a new and final credit approved term sheet from NAB. The Trust has pre-paid $675,000 in establishment fees to NAB as part of the proposed new debt facility. Documentation of the new facility is currently being finalised and is expected to be executed by 31 August 2010, which is the expected drawdown date of the new facility.

On 30 July 2010 the Responsible Entity also received a new and final credit approved term sheet with the Trust's current mezzanine lender Gresham to rollover the current facility and retain Gresham as a secondary lender. This facility will be aligned with the senior facility with NAB.

Going concern

The Trust's current debt facilities are due to expire in October 2010. The Directors must therefore consider the appropriateness of the Trust continuing as a going concern. This is discussed further in note 1 to the financial statements. The Directors have formed the view that there will be an outcome that will ensure the Trust is able to continue as a going concern.

However the Directors advise that there is significant uncertainty as to the Trust continuing as a going concern and note that it remains reliant on the support of its lenders.

Results

The results of the operations of the Trust are disclosed in the statement of comprehensive income of these financial statements. The net profit for the year ended 30 June 2010 was $4,340,000 (2009: loss of $31,596,000).

Distributions

In respect of the financial year ended 30 June 2010 a final distribution of 0.35354 cents per unit is due to be paid to unitholders on 31 August 2010 (2009: 0.71258 cents per unit).

For full details of distributions paid and payable during the year, refer to note 5 to the financial statements.

Auditor's independence declaration

The Auditor's independence declaration is included on page 7 of the annual report.

Subsequent events

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

Trust information in the directors' report

Fees paid to the Responsible Entity out of Trust property during the financial year are disclosed in note 9 to the financial statements.

The number of units in the Trust held by the Responsible Entity as at the end of the financial year is disclosed in note 9 to the financial statements.

The number of interests in the Trust issued during the financial year, withdrawals from the Trust during the financial year, and the number of interests in the Trust at the end of the financial year is disclosed in note 7 to the financial statements.

The value of the Trust's assets as at the end of the financial year is disclosed in the Statement of financial position as "Total assets" and the basis of valuation is included in note 1 to the financial statements.

Options granted

No options were:
- Granted over unissued units in the Trust during or since the end of the financial year; or
- Granted to the Responsible Entity.

No unissued units in the Trust were under option as at the date on which this report is made. No units were issued in the Trust during or since the end of the financial year as a result of the exercise of an option over unissued units in the Trust.

Indemnification of officers of the Responsible Entity and auditors

During or since the end of the financial year, the Responsible Entity has not indemnified or made a relevant agreement to indemnify an officer of the Responsible Entity or auditor of the Trust or of any related body (corporate) against a liability incurred as such an officer or auditor. In addition, the Responsible Entity has not paid, or agreed to pay, a premium in respect of a contract insuring against a liability incurred by an officer of the Responsible Entity or auditor of the Trust.

Rounding off of amounts

The Trust is a Trust 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.298(2) of the Corporations Act 2001.

On behalf of the Directors

David Blight
Director
MELBOURNE, 25 August 2010

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

DX: 111
Tel: +61 (0) 3 9671 7000
Fax: +61 (0) 3 9671 7001
www.deloitte.com.au

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

Dear Directors

INDEPENDENCE DECLARATION – APN NATIONAL STORAGE PROPERTY TRUST AND ITS CONTROLLED TRUST

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

As lead audit partner for the audit of the financial statements of APN National Storage Property Trust and its Controlled Trust for the financial year ended 30 June 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 audit; and
(ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

DELOITTE TOUCHE TOHMATSU

Peter A. Caldwell
Partner
Chartered Accountants
Melbourne, 25 August 2010

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

DX: 111
Tel: +61 (0) 3 9671 7000
Fax: +61 (0) 3 9671 7001
www.deloitte.com.au

INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF APN NATIONAL STORAGE PROPERTY TRUST AND ITS CONTROLLED TRUST

We have audited the accompanying financial report of APN National Storage Property Trust ("the Trust") and its Controlled Trust, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Trust and the entity it controlled at the year's end or from time to time during the financial year as set out on pages 10 to 30.

Directors' Responsibility for the Financial Report

The directors of the Responsible Entity are responsible for the preparation and fair presentation of the 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 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. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the consolidated financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report 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 consolidated entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Deloitte.

Auditor's Independence Declaration

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

Auditor's Opinion

In our opinion:

(a) the financial report of APN National Storage Property Trust and its Controlled Trust is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated Trust's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1 in the financial report which indicates that the Consolidated Trust's debt facilities are due to expire in October 2010. In addition, the Consolidated Trust has breached a loan to valuation ("LVR") covenant of its debt facilities at 31 July 2010, which has resulted in a "default event" whereby the existing facility providers have discretion to withdraw the facilities. The Responsible Entity has obtained waivers from the facility providers until the 31 August 2010 test date, and is currently in negotiations with a new lender, National Australia Bank, to restructure the existing debt facilities. Under the proposal, National Australia Bank will provide the Consolidated Trust with a new senior debt facility to replace the existing facilities currently held with Suncorp. The facility held with Gresham will be rolled over and Gresham will remain as a mezzanine lender. The formal documentation of the proposed new facility has not been finalised as at the date of this report. These conditions, along with other matters as set forth in Note 1 "Going Concern", indicate the existence of a material uncertainty which may cast significant doubt about the Trust's ability to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business at the amounts stated in the financial report.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Peter A. Caldwell
Partner
Chartered Accountants
Melbourne, 25 August 2010

Directors' declaration

The directors of the Responsible Entity declare that:

a) in the directors' opinion, there are reasonable grounds to believe that the Trust 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 Trust.

c) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards as referred to in Note 1 of the financial statements.

The directors note however, that there is significant uncertainty as to the Trust continuing as a going concern as referred to in Note 1 of the financial statements. Specifically, the Trust remains reliant on the support of its lenders to remain a going concern.

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

On behalf of the Directors

David Blight
Director
MELBOURNE, 25 August 2010

Statement of comprehensive income
for the financial year ended 30 June 2010

	Note	Consolidated 2010 $'000	Consolidated 2009 $'000
Income			
Rental		25,317	26,372
Interest		108	209
Changes in the fair value of property investments		(1,018)	(39,841)
Changes in the fair value of financial assets		(111)	(275)
Realised loss on sale of property investments		(87)	(111)
Other income		-	50
Total income		**24,209**	**(13,596)**
Expenses			
Investment management fee		928	1,270
Custodian fee		70	79
Other expenses		697	754
Auditor's remuneration	8	74	51
Finance costs		18,100	15,846
Total expenses		**19,869**	**18,000**
Net profit/(loss)		**4,340**	**(31,596)**
Other comprehensive income			
Other comprehensive income		-	-
Total comprehensive income		**4,340**	**(31,596)**

Notes to the financial statements are included on pages 15 to 30.

Statement of financial position
as at 30 June 2010

		Consolidated		
	Note	2010 $'000	2009 $'000	1 July 2008 $'000
Assets				
Cash and cash equivalents		3,033	4,935	6,339
Receivables and other assets	2	18,824	16,077	15,135
Investment properties	3	247,431	252,203	332,643
Total assets		**269,288**	**273,215**	**354,117**
Liabilities				
Payables	4	3,782	3,113	3,592
Distribution payable	5	982	663	2,210
Interest bearing liabilities	6	171,090	180,016	226,503
Total liabilities		**175,854**	**183,792**	**232,305**
Net assets		**93,434**	**89,423**	**121,812**
Equity attributable to unitholders				
Contributed equity		89,322	89,322	89,322
Retained earnings		4,112	101	32,490
Total equity	7	**93,434**	**89,423**	**121,812**

Notes to the financial statements are included on pages 15 to 30.

Statement of changes in equity
for the financial year ended 30 June 2010

	Consolidated		
	Contributed equity $'000	**Retained earnings $'000**	**Total $'000**
Balance at 1 July 2008	**-**	**-**	**-**
Effect of changes in accounting policies:			
Effect of changes in accounting policies for obligations arising on liquidation	89,322	32,490	121,812
As restated	**89,322**	**32,490**	**121,812**
Net loss for the year	-	(31,596)	(31,596)
Other comprehensive income	-	-	-
Total comprehensive income for the period	**-**	**(31,596)**	**(31,596)**
Swap reserve	-	(130)	(130)
Distributions paid to investors	-	(663)	(663)
Balance at 30 June 2009	**89,322**	**101**	**89,423**
Net profit for the year	-	4,340	4,340
Other comprehensive income	-	-	-
Total comprehensive income for the period	**-**	**4,340**	**4,340**
Distributions paid to investors	-	(329)	(329)
Balance at 30 June 2010	**89,322**	**4,112**	**93,434**

Notes to the financial statements are included on pages 15 to 30.

Statement of cash flows
for the financial year ended 30 June 2010

	Note	Consolidated 2010 Inflows/ (Outflows) $'000	Consolidated 2009 Inflows/ (Outflows) $'000
Cash flows from operating activities			
Rental income received		24,021	24,793
Interest received		110	273
Other expenses paid		(3,362)	(2,528)
Net cash provided by operating activities	10(b)	**20,769**	**22,538**
Cash flows from investing activities			
Payments associated with investment properties		(183)	(513)
Proceeds from disposal of investment properties		3,850	40,907
Net cash provided by investing activities		**3,667**	**40,394**
Cash flows from financing activities			
Distributions paid		(9)	(2,210)
Finance costs paid		(15,872)	(16,342)
Repayment of borrowings		(10,457)	(45,784)
Net cash used in financing activities		**(26,338)**	**(64,336)**
Net decrease in cash and cash equivalents held		(1,902)	(1,404)
Cash and cash equivalents at beginning of the financial year		4,935	6,339
Cash and cash equivalents at end of the financial year	10(a)	**3,033**	**4,935**

Notes to the financial statements are included on pages 15 to 30.

Notes to the financial statements

1. Summary of significant accounting policies
Statement of compliance & basis of preparation

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

The financial statements were authorised for issue by the directors on 25 August 2010.

The financial report has been prepared on the basis of historical cost, except for the revaluation of investment properties and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

In the application of A-IFRS management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2010 and the comparative information presented in these financial statements. Effective for this current financial year end, parent entity columns are no longer presented in consolidated financial report. Instead, financial information of the parent entity is disclosed by way of note. This requirement as a result of the Corporations Amendment (Corporate Reporting Reform) Bill 2010 was passed by the House of Representatives on 21 June 2010, and passed by the Senate on 24 June 2010.

Going concern

This financial report has been prepared on a going concern basis.

For reasons discussed below, significant uncertainty exists in relation to the ability of the Trust to continue as a going concern and therefore whether the Trust will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

The Trust's current debt facilities are due to expire in October 2010. Resolutions approved at a unitholder meeting during the period have allowed the Responsible Entity to proceed with negotiations with new lenders National Australia Bank (NAB) for a proposed new senior debt facility. Under the proposal, NAB will provide the Trust with a new senior debt facility to replace the existing senior debt facility currently held with Suncorp. It is proposed that the mezzanine facility held with Gresham will be rolled over and Gresham will remain as a mezzanine lender, albeit on different terms. As documentation of the proposed new facility has not been finalised, significant uncertainty currently exists in relation to the Trust's ability to refinance the existing facility upon expiry.

The Directors have determined that it is appropriate to prepare the yearend financial report on a going concern basis. The Directors have formed this view based on a number of factors including:

- The Trust has received a new credit approved term sheet from NAB in relation to the proposed new senior debt facility;
- The Trust has received an investment committee approved term sheet for the rollover of the existing debt facility with mezzanine lender Gresham;
- The Trust has pre-paid part of the establishment fee in relation to the proposed new senior debt facility;
- The deed of co-operation between the Trust and NSO has been agreed and finalised;
- Waivers of the LVR covenants under the existing senior and mezzanine facilities are in place until 31 August 2010.

Whilst the Directors advise that the Trust remains reliant on the support of its current and future lenders, based on the factors noted above the Directors believe negotiations with the lenders will be satisfactorily concluded.

The financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts, nor to the amounts of liabilities that might be necessary should the Trust not continue as a going concern.

Adoption of new and revised accounting Standards and Interpretations

In the current year, the Trust has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. 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 2009-2 Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments.
AASB 2009-2 is applicable for annual reporting periods beginning on or after 1 January 2009. The adoption of AASB 2009-2 has resulted in expanded AASB 7 disclosures in respect of fair value measurements and liquidity risk. This has not affected the amounts recognised in the financial statements. The Fund has elected to not provide comparative information for these expanded disclosures in the current year in accordance with the transitional relief offered by these amendments.

(iv) AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project.
AASB 2008-5 is applicable for annual reporting periods beginning on or after 1 January 2009. The adoption of AASB 2008-5 has resulted in accounting changes for presentation, recognition and measurement purposes, while some other amendments that relate to terminology and editorial changes. This has none or minimal impact on 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.

(v) AASB 2007-10 Further Amendments to Australian Accounting Standards arising from AASB 101
AASB 2007-10 is applicable for annual reporting periods beginning on or after 1 January 2009. This Amending Standard changes the term ‘general purpose financial report’ to ‘general purpose financial statements’ and the term ‘financial report’ to ‘financial statements’, where relevant, in Australian Accounting Standards (including Interpretations) to better align with IFRS terminology. The adoption of this standard has not affected any of the amounts recognised in the financial statements.

(vi) 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
30 June 2010	Decreased by $93,434,000	Increased by $89,322,000	Increased by $4,112,000	Nil
30 June 2009	Decreased by $89,423,000	Increased by $89,322,000	Increased by $101,000	Nil
1 July 2008	Decreased by $121,812,000	Increased by $89,322,000	Increased by $32,490,000	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.

The adoption of AASB 2008-2 has impacted the *Statement of Comprehensive Income* in relation to distributions is as follows:

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	
30 June 2010	Decreased by $329,000	Decreased by $4,669,000	Decreased by $4,340,000	Increased by $4,340,000
30 June 2009	Decreased by $663,000	Increased by $32,259,000	Increased by $31,596,000	Decreased by $31,596,000

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

As at	Net Profit for the period	Other comprehensive income	Distributions paid to unitholders	Contributed Equity	Retained Earnings
30 June 2010	Increased by $4,340,000	Nil	Increased by $329,000	Nil	Increased by $4,669,000
30 June 2009	Decreased by $31,726,000	Nil	Increased by $663,000	Nil	Decreased by $32,259,000

Rounding off of amounts

The Trust is a Trust 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 indicated.

Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the yearend financial report:

(a) Investment income

Distribution income is recognised on a receivable basis as of the date the unit value is quoted ex-distribution or is recognised on an entitlement basis.

Rental income from investment properties is recognised on a straight line basis over the lease term. Rental income not received at reporting date, is reflected in the balance sheet as a receivable or if paid in advance, as rent in advance.

Interest revenue is recognised as it accrues on a time proportionate basis taking into account the effective yield on the financial assets.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments or other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

(c) Investments

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value. Gains or losses arising from changes in the fair value of investments are included in profit and loss in the period in which they arise.

(d) Loans and receivables

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment. Receivables may include amounts for interest and trust distributions. Trust distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment in accordance with the policy set out in note 1(a) above.

(e) Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured at its fair value at the reporting date. Gains or losses arising from changes in the fair value of investment properties are included in profit and loss in the period in which they arise.

(f) Expenses

All expenses, including responsible entity fees and custodian fees, are recognised in the statement of comprehensive income on an accruals basis.

(g) Distributions

In accordance with the Trust's constitution, the Trust fully distributes its distributable (taxable) income, and any other amounts determined by the responsible entity, to unitholders by way of cash or reinvestment into the Trust.

Distributions to unitholders comprise the income of the Trust to which the unitholders are presently entitled. The distributions are payable quarterly.

(h) Applications and redemptions

Applications received for units in the Trust are recorded net of any entry fees payable prior to the issue of units in the Trust. Redemptions from the Trust are recorded gross of any exit fees payable after the cancellation of units redeemed.

The application and redemptions prices are determined as the net asset value of the Trust adjusted for the estimated transaction costs, divided by the number of units on issue on the date of the application or redemption.

(i) Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

(j) Income tax

Under current income tax legislation the Trust is not liable to pay income tax as the net income of the Trust is assessable in the hands of the beneficiaries (the unitholders) who are 'presently entitled' to the income of the Trust. There is no income of the Trust to which the unitholders are not presently entitled and additionally, the Trust Constitution requires the distribution of the full amount of the net income of the Trust to the unitholders each period.

As a result, deferred taxes have not been recognised in the financial statements in relation to differences between the carrying amounts of assets and liabilities and their respective tax bases, including taxes on capital gains which could arise in the event of a sale of investments for the amount at which they are stated in the financial statements. In the event that taxable gains are realised by the Trust, these gains would be included in the taxable income that is assessable in the hands of the unitholders as noted above.

Realised capital losses are not distributed to unitholders but are retained within the Trust to be offset against any realised capital gains. The benefit of any carried forward capital losses are also not recognised in the financial statements. If in any period realised capital gains exceed realised capital losses, including those carried forward from earlier periods and eligible for offset, the excess is included in taxable income that is assessable in the hands of unitholders in that period and is distributed to unitholders in accordance with the requirements of the Trust Constitution.

(k) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

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

(l) Impairment of financial assets

Financial assets, other than those at fair value through the profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. Objective evidence of impairment can exist for example where there has been a

significant or prolonged decline in the fair value below cost. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.
The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(m) Payables

Trade payables and other accounts payable are recognised when the Trust becomes obliged to make future payments resulting from the purchase of goods and services. Payables include liabilities and accrued expenses owing by the Trust which are unpaid as at balance date.

(n) Derivative financial instruments

The Trust enters into derivative financial instruments such as interest rate swaps, to manage its exposure to interest rates. Derivatives are categorised as held for trading and are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit and loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit and loss depends on the nature of the hedge relationship.

(o) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

(p) Provisions

Provisions are recognised when the Trust has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

An onerous contract is considered to exist where the Trust has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

(q) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Trust and entities controlled by the Trust. Control is achieved where the Trust has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

(r) AASB Accounting Standards not yet effective

At the date of authorisation of the financial report, a number of standards and Interpretations were in issue but not yet effective.

Initial application of the following Standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the Trust and the Trust's financial report:

	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Standard		
▪ AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 January 2010	30 June 2011
▪ AASB 124 Related Party Disclosures (revised December 2009), AASB 2009-12 Amendments to Australian Accounting Standards	1 January 2011	30 June 2012
▪ AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Financial arising from AASB 9	1 January 2013	30 June 2014

Initial application of the following Standards is not expected to have any material impact on the financial report of the Trust:

	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Standard/Interpretation		
▪ AASB 2010-1 Amendments to Australian Accounting Standards – Limited Exemption from Comparative AASB 7 Disclosures for First-time Adopters (ASSB 1 & AASB 7)	1 July 2010	30 June 2011
▪ AASB 2010-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project (AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13)	1 January 2011	30 June 2011

2. Receivables

	2010 $'000	2009 $'000
Leased asset	17,169	15,838
Financial asset	63	173
Prepaid expenses	1,584	57
Interest receivable	8	9
	18,824	**16,077**

3. Investments

	2010 $'000	2009 $'000
Investment properties at fair value		
Carrying amount at the beginning of the period	252,203	332,643
Additions	-	-
Disposals	(3,850)	(41,000)
Costs associated with investment properties	183	512
Realised loss on sale of investment properties	(87)	(111)
Change in fair value of investment properties	(1,018)	(39,841)
Carrying amount at the end of the period	**247,431**	**252,203**

The carrying amount of investment property is the fair value of the property as determined by the Directors of the Responsible Entity, based on valuations that have been received from a registered independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued.

Fair values were determined using the capitalisation of net passing income and the discounted cash flow methods and also having regard to recent market transactions for similar properties in the same location as the Trust's investment property.

Investment property comprises a number of retail properties that are leased to third parties. Each of the leases contains an initial non-cancellable period. Subsequent renewals are negotiated with the lessee.

Leases as lessor

The Trust leases out its investment property under operating leases. The future minimum lease payments receivable under non-cancellable leases are as follows:

	2010 $'000	2009 $'000
Less than one year	24,608	27,156
Between one and five years	106,040	117,017
More than five years	158,477	179,688
	289,125	**323,861**

4. Payables

	2010 $'000	2009 $'000
Accounts payable	763	816
Accrued expenses	762	118
Prepaid rent	2,256	2,179
	3,781	**3,113**

5. Distributions paid and payable

	2010		2009	
	Cents per unit	$'000	Cents per unit	$'000
Distribution paid during the period	-	-	-	-
Distribution payable for current period	0.35354	329	0.71258	663
Distribution payable for prior period	0.70258	653	-	-
	1.05612	**982**	**0.71258**	**663**

6. Interest bearing liabilities

	2010 $'000	2009 $'000
Secured bank loans – senior debt	145,427	155,016
Secured bank loans – mezzanine debt	25,663	25,000
	171,090	**180,016**

The bank loans are secured by registered first mortgage over the Trust's investment properties. The loans are payable in October 2010 and bear interest payable monthly.

The Trust is currently in the process of refinancing its debt facilities with the National Australia Bank Limited (NAB) and to retain Gresham as a mezzanine debt lender. Negotiations with lenders continue to ensure the best outcome for unitholders is delivered. In order to facilitate this process, the Trust received waivers from its current lenders for the covenants contained in the facilities until 31 August 2010.

7. Equity

	2010 Units	2009 Units
Units on Issue		
On issue at beginning of the year	93,055,632	93,055,632
Applications	-	-
Redemptions	-	-
Units issued upon reinvestment of distributions	-	-
On issue at year end	**93,055,632**	**93,055,632**

	2010 $'000	2009 $'000
Movements in equity		
At beginning of the year	89,423	121,812
Unit applications	-	-
Unit redemptions	-	-
Units issued upon reinvestment of distributions	-	-
Swap reserve	-	(130)
Net profit/(loss) for the period	4,340	(31,596)
Distributions paid to unitholders	(329)	(663)
Total equity	**93,434**	**89,423**

Each unit represents a right to an individual share in the Trust 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 Trust.

8. Remuneration of auditors

	2010 $	2009 $
Auditor of the Trust		
Auditing or reviewing the financial report	37,777	32,329
Other non-audit services*	36,512	18,701
	74,289	**51,030**

*Other non-audit services include tax, audit of compliance plan and other approved advisory services.
The auditor of the Trust is Deloitte Touche Tohmatsu.

9. Related party disclosures

The Responsible Entity of APN National Storage Property Trust is APN Funds Management Limited (ACN 080 674 479) whose immediate and ultimate parent entity is APN Property Group Limited (ACN 109 846 068). Accordingly transactions with entities related to the APN Property Group are disclosed below.

APN Funds Management Limited also acts as the manager of the Trust.

Transactions with related parties have taken place at arm's length and in the ordinary course of business. The following related party transactions took place during the period:

- Investment management fees of $928,000 (2009: $1,270,000) were paid to the Responsible Entity.
- Registry and accounting fees of $63,000 (2009: $69,000) were paid to the Responsible Entity.

Key management personnel

The Trust does not employ personnel in its own right. However it is required to have an incorporated Responsible

Entity to manage the activities of the Trust and personnel of this entity are considered the Key Management Personnel of the Trust.

The names of the key management personnel of the Responsible Entity during the financial year were:
- Christopher Aylward (resigned as Director 19 October 2009 but remains as key management personnel)
- Howard Brenchley (Director)
- Clive Appleton (resigned as Director 19 October 2009 but remains as key management personnel)
- David Blight (Director)
- Andrew Cruickshank (resigned as Non Executive Director 19 October 2009)
- Michael Butler (resigned as Independent Non Executive Director 19 October 2009)
- John Harvey (Independent Non Executive Director)
- Geoff Brunsdon (appointed Independent Non Executive Director 19 October 2009)
- Michael Johnstone (appointed Independent Non Executive Director 25 November 2009)
- John Freemantle (Chief Financial Officer)

The positions noted above for the Trust's key management personnel are the positions held within the Responsible Entity and not the Trust itself.

Key management personnel compensation

Key management personnel are paid by the parent of the Responsible Entity for their services to APN Property Group Limited. Payments made from the Trust to the Responsible Entity do not include any amounts attributable to the compensation of key management personnel in respect of services rendered to the Trust itself.

Holdings of units by related parties

Related parties may purchase and sell units in the Fund in accordance with their respective constitutions and product disclosure statements. Details of units held in the Fund by related parties are set out below:

	Number of units held	
	2010	**2009**
Responsible entity and its associates		
APN Property For Income Fund	3,032,789	3,032,789
APN Property For Income Fund No.2	2,654,867	2,654,867
APN Direct Property Fund	7,652,164	7,652,164

Related party investments held by the Trust

The Trust may purchase and sell units in other approved trusts managed by APN Funds Management Limited or its associates in the ordinary course of business at application and redemption prices calculated in accordance with the constitutions of those trusts.

The Trust has no investment in APN Funds Management Limited, its associates or in other approved trusts managed by APN Funds Management Limited (2009: Nil).

During or since the end of the financial year, none of the key management personnel held units in the Trust, either directly, indirectly, or beneficially.

Directors' loans

No loans were made by the Trust to the key management personnel and / or their related parties.

10. Notes to the cash flow statement

(a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash includes cash on hand and in banks and investments in money market instruments net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the cash flow statement is reconciled to the balance sheet as follows:

	2010 $'000	2009 $'000
Cash	3,033	4,935
Total cash and cash equivalents	**3,033**	**4,935**

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

	2010 $'000	2009 $'000
Net profit /(loss)	**4,340**	**(31,596)**
Adjustments for:		
Rental income recognised on straight lining basis	(1,332)	(1,510)
Realised loss on sale of property investments	87	111
Change in fair value of property investments	(315)	38,332
Change in fair value of derivative assets	111	275
Amortisation of borrowing costs	1,494	1,135
Write-down of investment property	1,332	1,510
Interest paid classified as financing activity	15,872	16,342
Changes in net assets:		
(Increase)/decrease in receivables and other assets	(1,489)	(1,446)
Increase/(decrease) in payables	669	(615)
Net cash provided by operating activities	**20,769**	**22,538**

(c) Non-cash financing and investing activities

During the year no income distributions were reinvested by unitholders for additional units in the Parent Trust (2009: Nil).

11. Financial risk management

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

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

These activities expose the Trust to a variety of financial risks including credit risk, liquidity risk and market risk which includes interest rate risk.

The overall risk management program seeks to mitigate these risks and reduce volatility on the Trust's financial performance. Financial risk management is carried out centrally by the Responsible Entity under policies approved by the board of directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign currency risk, interest rate risk, credit risk, use of derivative financial instruments and non derivative financial instruments, and the investment of excess liquidity.

(a) Financial risk management objectives

The Trust outsources the investment management to APN Funds Management Limited, who provide services to the Trust, co-ordinate access to domestic financial markets, and manages the financial risks relating to the operations of the Trust in accordance with an investment mandate set out in accordance with the Trust's constitution and product disclosure statement. The Responsible Entity has determined that the appointment of these managers is appropriate for the Trust and is in accordance with the Trust's investment strategy.
The Trust's overall risk management programme focuses on ensuring compliance with the Trust's product disclosure statement and seeks to maximise the returns derived for the level of risk to which the Trust is exposed.

The Trust's investment objective is to provide investors with maximum unitholder value through investment in properties with strong lease covenants, secure income streams and potential for capital growth.

The Trust does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the Trust's investment policies, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the Responsible Entity on a continuous basis.

It is the Responsible Entity's aim to invest in such a way that any risks the Trust is exposed to are minimised, while at the same time endeavouring to achieve the investment objectives of the Trust.

Trust Company Limited acts as master custodian on behalf of the Responsible Entity and, as such, provides services including physical custody and safekeeping of assets, settlement of trades, collection of dividends and accounting for investment transactions.

The Trust's activities expose it primarily to the financial risks of changes in interest rates. The Trust enters into derivative financial instruments to manage its exposure to interest rate risk, including:

- interest rate cap transactions to mitigate the risk of rising interest rates.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in Note 1 to the financial statements.

(c) Capital risk management

The Responsible Entity's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for unitholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Trust consists of cash and cash equivalents and the proceeds from the issue of the units of the Trust. An investment made by unitholders into the Trust is considered medium to long term and illiquid. There is currently no market on which units may be traded and there are no buy-back, redemption or withdrawal facilities available to unitholders at this present time. The Responsible Entity has a focused strategy to grow unitholder value. In the past future acquisitions by the Trust have been considered to achieve this result. Strict investment criteria have been developed to ensure that any future acquisitions are not value dilutive, for the Trust, on either a yield or net asset basis.

In line with a resolution passed at a unitholder's meeting, the Trust has begun an orderly sale of the Trust's assets, thereby returning capital to investors. The Responsible Entity has strict guidelines that must be followed in carrying out this resolution to ensure it is in the best interest of unitholders. The Responsible Entity's strategy continues to focus on maximising the capital value of unitholders' investments.

(d) Categories of financial instruments

The Trust has investments in the following categories of financial assets and liabilities:

	2010 $'000	2009 $'000
Financial assets designated as at fair value through profit and loss	63	173
Loans and receivables	18,939	16,076
Financial liabilities measured at amortised cost	(176,296)	(184,175)

The carrying amount of interest-bearing liabilities for the Trust as at 30 June 2010 is $171,531,000 (2009: $180,016,000).

(e) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Trust. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Credit risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The Trust has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the financial risk of financial loss from default.

The Trust's investment objective is to find high quality tenants predominately with a stable credit history. The Trust measures credit risk on a fair value basis.

The maximum exposure to credit risk as at 30 June 2010 and at 30 June 2009 is the carrying amounts of financial assets recognised in the balance sheet of the Trust. The Trust holds no collateral as security and the credit quality of all financial assets that are neither past due or impaired is consistently monitored in order to identify any potential adverse changes in the credit quality.

The Trust has significant credit risk exposure to one single counterparty being National Storage Operations, the lessee of all of the properties held by the Trust. Thorough assessment of the credit quality of the customer has been undertaken and its operations are reviewed on a continuous basis. National Storage Operations is a market leader in key storage markets and due to the consistent growth the counterparty has experienced in both revenue and occupancy the Responsible Entity does not believe a high level of credit risk exists.

Derivative counterparties and cash transactions are limited to financial institutions that meet the Responsible Entity's minimum credit rating criteria. Credit risk arising on loans and receivable balances is monitored on an ongoing basis with the result that the exposure to bad debts by the Trust is not significant. There are no significant financial assets that have had renegotiated terms that would otherwise have been past due or impaired.

Credit risk associated with receivables is considered minimal. Other receivables balances are not significant to the Trust's operations.

(f) Liquidity risk

Liquidity risk includes the risk that the Trust, as a result of its operations:

- will not have sufficient funds to settle a transaction on the due date;
- will be forced to sell financial assets at a value which is less than what they are worth; or
- may be unable to settle or recover a financial asset at all.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Trust manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. To help reduce these risks the Trust:

- has a liquidity policy which targets a minimum and average level of cash and cash equivalents to be maintained;
- has readily accessible standby facilities and other funding arrangements in place;
- has a liquidity portfolio structure that requires surplus funds to be invested in various types of liquid instruments ranging from highly liquid to liquid instruments.

The Trust's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities. However, as unitholders are unable to withdraw their units at any time, the Trust is therefore not exposed to the liquidity risk of meeting unitholders' withdrawals at any time.

The Trust's main liquidity risk is its ability to refinance its current borrowings. Realised profits generated by the Trust are to be returned to unitholders as described in the Trust's Constitution and as such realised profits are not used to support the refinancing activities or the Trust. To assist in mitigating refinancing risk the Responsible Entity is in regular contact with the financial institutions.

The table below shows an analysis of the contractual maturities of key liabilities which forms part of the Trust's assessment of liquidity risk:

	Less than 3 months $'000	3 months to 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
2010					
Liabilities					
Accounts payable	(3,782)	-	-	-	(3,782)
Distribution payable	(982)	-	-	-	(982)
Interest bearing liabilities	(1,424)	(175,197)	-	-	(176,621)
	(6,188)	**(175,197)**	**-**	**-**	**(181,385)**

	Less than 3 months $'000	3 months to 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
2009					
Liabilities					
Accounts payable	(3,113)	-	-	-	(3,113)
Distribution payable	(663)	-	-	-	(663)
Interest bearing liabilities	(3,461)	(10,672)	(187,131)	-	(201,264)
	(7,237)	**(10,672)**	**(187,131)**	**-**	**(205,040)**

The Trust is able to sufficiently meet its liquidity obligations through the receipt of rental income, via re-financing of debt or the realisation of the sale of investment properties where required.

(g) Market risk

Market risk is the risk that the fair value of future cash flows of the Trust's financial instruments will fluctuate because of changes in market conditions or factors. The Investment Manager manages the financial risks relating to the operations of the Trust in accordance with an investment mandate set out in accordance with the Trust's constitution and product disclosure statement. The Trust's investment mandate is to provide investors with maximum unitholder value through investment in properties with strong lease covenants, secure income streams and potential for capital growth. There has been no change to the Trust's exposure to market risk or the manner in which it manages and measures the risk. The component of market risk to which the Trust is exposed is interest rate risk.

Interest rate risk

The Trust's interest bearing financial assets and liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The risk is measured using sensitivity analysis.

As at balance date, the Trust's exposure to interest rates is as follows:

Assets: Cash and cash equivalents at fair values of $3,033,000 (2009: $4,935,000) with a weighted average interest rate of 3.49% (2009: 4.53%).

Liabilities: Interest-bearing liabilities at amortised cost of $171,531,000 (2009: $180,016,000) with a weighted average interest rate of 9.14% (2009: 7.59%).

Derivatives - interest rate cap contracts

During the period the Trust entered into a new debt facility with a floating interest rate being applied. An interest rate cap transaction has been entered into with a cap rate of 4.5% being applied thereby mitigating the Trust's exposure to rising interest rates in the future.

The following table details the notional principal amounts and fair value of the interest rate cap contract outstanding:

Type of contract	Expiration	Underlying	Notional amount of contracts outstanding	Fair value (assets)	Fair value (liabilities)
			$	$'000	$'000
As at 30 June 2010					
Interest rate cap	October 2010	Interest rates	157,000,000	63	-
				63	**-**

The interest rate cap settles on a monthly basis. The floating rate on the debt being applied is the Australian BBSY. The counterparty settles the difference between the fixed and floating interest rate if the fixed rate is breached on a net basis.

All interest rate cap contracts are designated as cash flow hedges in order to reduce the Trust's cash flow exposure resulting from variable interest rates on borrowings. The interest rate caps and the interest payments on the loan occur monthly.

The following table details the notional principal amounts and fair values of interest rate cap contract outstanding as at the previous reporting date:

Type of contract	Expiration	Underlying	Notional amount of contracts outstanding	Fair value (assets)	Fair value (liabilities)
			$	$'000	$'000
As at 30 June 2009					
Interest rate cap	October 2010	Interest rates	157,000,000	173	-
				173	**-**

Interest rate sensitivity
The sensitivity analysis below have been determined based on the Trust's exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period, in the case of instruments that have floating interest rates. A 250 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

The interest rate movements have been determined based on management's best estimate, having regard to historical levels of changes in interest rates and the current debt environment in which the Trust operates. Actual movements in the interest rate may be greater or less than anticipated due to a number of factors, including unusually large market shocks both in the global and domestic property markets. As a result, historic variations in interest rates are not a definitive indicator of future variations.

For Trust, a 250 basis point increase in interest rates would have decreased net profit, and decreased total equity by $4,276,000 (2009: a 25 basis point increase resulting in a decrease of $497,000); an equal change in the opposite direction would have increased net profit before finance costs attributable to unitholders, and increased total equity by $42767,000 (200: a 25 basis point decrease resulting in a decrease of $497,000). The methods and assumptions used to prepare the sensitivity analysis have not changed and it is performed on the same basis for 2009.

(h) Fair value of financial instruments

The directors of the Responsible Entity consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values.

The fair values and net fair values of financial assets and financial liabilities are determined as follows:
- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and
- the fair value of derivative instruments, included in hedging assets and liabilities, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments.

Fair value measurements recognised in the statement of financial position
- The following table provides an analysis of financial instruments that are measured at fair value at 30 June 2010, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:
- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Fair value measurement as at 30 June 2010			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets at FVTPL				
Derivative financial assets	-	63	-	**63**
Total	**-**	**63**	**-**	**63**
Financial liabilities at FVTPL				
Financial liabilities designated at fair value through profit of loss	-	-	-	**-**
Total	**-**	**-**	**-**	**-**

- Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1 include listed property securities traded on the Australian Stock Exchange (ASX).
- Financial instruments that trade in markets that are not considered active but values are based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include financial derivatives whose fair value have been determined using dealer quotations.
- Classified within level 3 are financial instruments whose values are derived from significantly unobservable inputs as there is no active market.

12. Consolidated trusts

	Country of incorporation	Ownership interest	
		2010	2009
Parent Trust			
APN National Storage Property Trust	Australia		
Controlled Trust			
National Storage Victorian Property Trust	Australia	100%	100%

13. Contingent liabilities and contingent assets

The Trust has received an assessment from the State Revenue Office of Victoria for $3,172,950 in relation to a possible obligation to pay stamp duty on the transfer of the Victorian properties to the custodian. The assessment is being disputed by the Responsible Entity. The Responsible Entity had obtained a deed of indemnity for the full exposure from National Storage Operations Pty Limited, the previous owner of the properties at the time the Trust began its operations. Consequently, the Responsible Entity anticipates that any possible liability will ultimately be borne by National Storage Operations Pty Limited and not the Trust. There has not been any further development in relation to this matter at the date of authorisation of this financial report.

14. Subsequent events

Other than as referred to in Note 1 going concern, since 30 June 2010 there have been no other matters or circumstances that have significantly affected or may significantly affect the Trust.

15. Parent entity disclosures

Financial position

	2010 $'000	2009 $'000
Assets		
Current assets	9,019	10,750
Non-current assets	262,941	264,974
Total assets	**271,960**	**275,724**
Liabilities		
Current liabilities	4,149	3,176
Non-current liabilities	174,377	183,125
Total liabilities	**178,526**	**186,301**
Net assets	**93,434**	**89,423**
Equity attributable to unitholders		
Contributed equity	89,322	89,322
Retained earnings	4,112	101
Total equity	**93,434**	**89,423**

Financial performance

	Year ended 30 June 2010 $'000	Year ended 30 June 2009 $'000
Net profit/(loss)	4,340	(31,596)
Other comprehensive income	-	-
Total comprehensive income	**4,340**	**(31,596)**

During the financial year ended 30 June 2010, the parent entity did not enter into any guarantees in relation to debts of its subsidiaries (2009: Nil).

Other than as referred to in Note 13, there are no contingent liabilities or contractual commitments for acquisitions of property, plant or equipment as at 30 June 2010 in the parent entity (2009: Nil).

16. Additional information

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

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

APN | Property Plus Portfolio

ARSN 101 227 614

Annual Report for the Financial Year Ended 30 June 2010

APN Property Plus Portfolio

Manager's Report

Market overview 2010

In the context of a volatile global economic environment, the last 12 months have seen the Australian economy perform relatively strongly. Whilst the impact of the Global Financial Crisis (GFC) lingers in many countries, the Australian economy has been typified by ongoing resilience. Key indicators such as unemployment and Gross Domestic Product (GDP) growth have remained strong. The unemployment rate was 5.2% at 30 June 2010; GDP growth to March 2010 was 2.7%; and the Consumer Price Index (CPI) rose at a rate of 2.9%. These metrics compare favourably with many other developed economies. In the US for instance, the unemployment rate ended the year at 9.5% after peaking at 10.1% in October 2009.

As a result of the fundamental strength of the Australian economy, the Reserve Bank of Australia (RBA) has tightened monetary policy in an attempt to gradually slow demand. Accordingly, we have seen the target cash rate increase six times (by 25bps each time) since October 2009 to a rate of 4.5% in June 2010. It has been these increases, along with the significantly higher margins that banks charge (over and above the base rate), that has impacted borrowers. As total borrowing costs increased, the amount of free cash flow available from all forms of investment has reduced.

Investment markets have been volatile in the face of inconsistent news flow on broader economic data. In the US for instance the benchmark interest rate stands at 0.25% reflecting the weakness in consumer and business sentiment. However, these historically low interest rates have not been the panacea for economic recovery. US households continue to repair balance sheets while corporations remain cautious limiting capital investment and new employment as fears of a double dip recession in the US and European Union sovereign debt concerns play on decision makers minds.

Australian equity markets reflect this caution (as measured by the S&P/ASX 200 Accumulation Index) returning 13.1% for the 12 months to 30 June. In this environment of general uncertainty it has been the more defensive sectors that outperformed. The S&P/ASX 200 Property Accumulation Index ("the Index") reflected this sentiment, delivering a total return of 20.4%.

It is now apparent that Australian direct property markets most likely hit the bottom in late 2009. Whilst many expect that some markets will remain under pressure in the future we may find this downturn was in fact one of the mildest on record. Metrics that support this contention include the fact that key office markets peak vacancy rates were well below those peaks in the last serious downturn. Melbourne and Sydney recorded peak vacancies of 6.8% and 9.1% respectively in this downturn while in the early 1990s the peaks were 25.8% and 22.4% respectively. However, despite the fact that retail sales were supported by stimulus spending during much of the financial year, the reality of higher interest rates had taken its toll with consumers moderating spending in line with a drop in confidence (Westpac-Melbourne Institute Consumer Confidence Index down in May and June).

Direct property values steadied during the year. Capitalisation rates that had been rising for all markets and sectors since 2007 were seen to stabilise over the last financial year as valuers became confident that sales evidence supporting slightly more positive prospects for commercial property markets. Indeed, with leading property researcher Jones Lang Lasalle predicting rental growth and yield compression over the next few years for most sectors, the scene is set for a steady increase in domestic property values in the medium term.

The outlook for the unlisted real estate funds has improved over the last 12 months. The recovery theme is illustrated by the Mercer/IPD Australian Pooled Property Index for the 12 months to the end of June 2010 which showed that Australian unlisted property trusts delivered a total return of 4.0%. The Index indicated that the second quarter of 2010 had been the first period since November 2008 that reflected a positive annual return. This is consistent with a direct property market where values have generally stabilised.

Whilst the property outlook is positive, the challenge for many unlisted real estate managers is to access funding to recapitalise over-geared balance sheets. Where debt funding is available, it remains expensive with banks charging margins of 200 basis points to 300 basis points for refinancing of existing debts by unlisted trusts with elevated gearing.

Investment strategy

The APN Property Plus Portfolio (Fund) invests in 23 fuel and retail convenience properties. The Fund's properties are all leased to high quality tenants on long term leases.

Over the year, fuel and retail convenience property experienced a significant increase in demand from private investors seeking alternatives to investing in shares and other asset classes. As a result, we have seen a considerable increase in the value of the Fund's portfolio over the year.
During the year the Fund sold a property at 325 Kingston Road, Logan Central, Queensland for $2.1 million representing an initial yield of 8.7% to the purchaser. The net proceeds were used to reduce the Fund's bank debt.

At 30 June 2010 the Fund's loan to valuation ratio (LVR) was 58.4% based on the latest independent portfolio valuation. This ratio compares favourably against the bank facility covenant of 65%. Despite having significant headroom, it is our intention to continue to progressively sell properties to reduce debt as we target an LVR of 50%. This may also provide sufficient liquidity to make withdrawal offers to unitholders although this will be subject to bank approval and to prevailing market conditions.

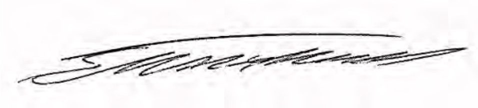
Looking at the year ahead, we expect that valuations will stabilise at current levels after the significant improvement in 2009/2010. Furthermore, we expect that distributions will remain at current levels as the increase in rents (provided by the annual rent reviews in each lease) will be offset by rising interest rates.

Performance

During the year the Fund's net asset value (NAV) increased 20.53% and was $1.5569 as at 30 June 2010. This was due to an increase in the value of the Fund's property portfolio of 10.85% to $86.63m on a like for like basis.

The Fund distributed a total of 9.00 cents per unit for the 12 months to 30 June 2010. This represents an annualised yield of 5.78% on the Fund's $1.5569 NAV price at the end of the period. The tax advantaged portion of the distribution was 100% which generally enhances the after tax return for investors.

Yours sincerely



Steven Lawford
Fund Manager, APN Property Plus Portfolio

Directors' report

The directors of APN Funds Management Limited (ACN 080 674 479) ("the Responsible Entity") submit herewith the annual financial report of APN Property Plus Portfolio ("the Fund") for the year ended 30 June 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 financial year are:

Name

Christopher Aylward	Andrew Cruickshank	David Blight
Clive Appleton	Michael Butler	Geoff Brunsdon
Howard Brenchley	John Harvey	Michael Johnstone

The above named directors held office during and since the end of the financial 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 Fund is a registered managed investment fund domiciled in Australia. The principal activity of the Fund is to invest in quality properties that are primarily retail properties or fuel outlets, which offer relatively secure income streams and have the potential for capital growth.

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

The Fund did not have any employees during the year.

Changes in state of affairs

During the financial year there was no significant change in the state of affairs of the Fund.

Future developments

The Fund will continue to pursue its policy of increasing returns through active investment selection. Disclosure of information regarding likely developments in the operations of the Fund in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Fund. Accordingly, this information has not been disclosed in this report.

Review of operations

The principal investment objective of the Fund is to provide investors with a high and consistent income distribution that maintains its real value for the life of the Fund.

During the year, the Fund sold one of its investment properties both located in Queensland for a total sale price of $2,100,000. Settlement occurred in October 2009 and the proceeds of the sales were used to repay debt.

Results

The results of the operations of the Fund are disclosed in the statement of comprehensive income of these financial statements. The net profit for the year ended 30 June 2010 was $10,324,000 (2009: loss of $4,154,000).

Distributions

In respect of the financial year ended 30 June 2010 a final distribution of 2.25 cents per unit was paid to the unitholders on 26 July 2010 (2009: 1.975 cents per unit). The total distribution paid to unitholders in respect of the financial year ended 30 June 2010 was 9.0 cents per unit (2009: 7.9 cents per unit).

For full details of distributions paid and payable during the year, refer to note 5 to the financial statements.

Auditor's independence declaration

The Auditor's Independence Declaration is included on page 36 of the annual report.

Subsequent events

There has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Fund, the results of the Fund, or the state of affairs of the Fund in future financial years.

Fund information in the directors' report

Fees paid to the Responsible Entity out of Fund property during the financial year are disclosed in note 9 to the financial statements.

The number of units in the Fund held by the Responsible Entity as at the end of the financial year is disclosed in note 9 to the financial statements.

The number of interests in the Fund issued during the financial year, withdrawals from the Fund during the financial year, and the number of interests in the Fund at the end of the financial year is disclosed in note 7 to the financial statements.

The value of the Fund's assets as at the end of the financial year is disclosed in the Balance Sheet as "Total Assets" and the basis of valuation is included in note 1 to the financial statements.

Options granted

No options were:

- Granted over unissued units in the Fund during or since the end of the financial year; or
- Granted to the Responsible Entity.

No unissued units in the Fund were under option as at the date on which this Report is made. No units were issued in the Fund during or since the end of the financial year as a result of the exercise of an option over unissued units in the Fund.

Indemnification of officers of the responsible entity and auditors

During or since the end of the financial year, the Responsible Entity has not indemnified or made a relevant agreement to indemnify an officer of the Responsible Entity or auditor of the Fund or of any related body (corporate) against a liability incurred as such an officer or auditor. In addition, the Responsible Entity has not paid, or agreed to pay, a premium in respect of a contract insuring against a liability incurred by an officer of the Responsible Entity or auditor of the Fund.

Rounding off of amounts

The 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.298(2) of the Corporations Act 2001.

On behalf of the Directors

David Blight
Director
MELBOURNE, 25 August 2010

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

DX: 111
Tel: +61 (0) 3 9671 7000
Fax: +61 (0) 3 9671 7001
www.deloitte.com.au

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

Dear Directors

INDEPENDENCE DECLARATION – APN PROPERTY PLUS PORTFOLIO

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 regarding the annual financial report for APN Property Plus Portfolio.

As lead audit partner for the audit of the financial statements of APN Property Plus Portfolio for the financial year ended 30 June 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 audit; and
(ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

DELOITTE TOUCHE TOHMATSU

Peter A. Caldwell
Partner
Chartered Accountants
Melbourne, 25 August 2010

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

DX: 111
Tel: +61 (0) 3 9671 7000
Fax: +61 (0) 3 9671 7001
www.deloitte.com.au

INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF APN PROPERTY PLUS PORTFOLIO

We have audited the accompanying financial report of APN Property Plus Portfolio, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the fund at the year's end as set out on pages 39 to 56.

Directors' Responsibility for the Financial Report

The directors of the Responsible Entity are responsible for the preparation and fair presentation of the 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 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. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the fund's preparation and fair presentation of the financial report 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 fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Deloitte.

Auditor's Independence Declaration

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

Auditor's Opinion

In our opinion:

(a) the financial report of APN Property Plus Portfolio is in accordance with the *Corporations Act 2001*, including:

 (i) giving a true and fair view of the fund's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

DELOITTE TOUCHE TOHMATSU

Peter A. Caldwell
Partner
Chartered Accountants
Melbourne, 25 August 2010

Directors' declaration

The directors of the Responsible Entity declare that:

a) in the directors' opinion, there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable;

b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Fund.

c) in the directors' opinion, the attached financial statements are in accordance with International Financial Reporting Standards as referred to in Note 1 to the financial statements.

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

On behalf of the Directors

David Blight
Director

MELBOURNE, 25 August 2010

Statement of comprehensive income
for the financial year ended 30 June 2010

	Note	2010 $'000	2009 $'000
Income			
Rental		6,476	6,968
Interest		109	72
Realised (loss)/gain on sale of investment properties		(122)	400
Unrealised changes in the fair value of investment properties		8,316	(6,674)
Total income		**14,779**	**766**
Expenses			
Investment management fee		650	464
Registry fee		21	20
Other expenses		145	169
Auditor's remuneration	8	26	34
Net property expenses		308	259
Finance costs		3,305	3,974
Total expenses		**4,455**	**4,920**
Net profit/(loss)		**10,324**	**(4,154)**
Other comprehensive income			
Other comprehensive income		-	-
Total comprehensive income		**10,324**	**(4,154)**

Notes to the financial statements are included on pages 44 to 56.

Statement of financial position
as at 30 June 2010

	Note	2010 $'000	2009 $'000	1 July 2008 $'000
Assets				
Cash and cash equivalents		3,463	3,403	1,487
Trade and other receivables	2	1,108	1,340	4,934
Investment properties	3	85,880	79,492	90,884
Total assets		**90,451**	**84,235**	**97,305**
Liabilities				
Payables	4	810	832	780
Distribution payable	5	567	498	561
Interest bearing liabilities	6	49,833	51,719	58,633
Total liabilities		**51,210**	**53,049**	**59,974**
Net assets	7	**39,241**	**31,186**	**37,331**
Equity attributable to unitholders				
Contributed equity		20,636	20,636	20,636
Retained earnings		18,605	10,550	16,695
Total equity		**39,241**	**31,186**	**37,331**

Notes to the financial statements are included on pages 44 to 56.

Statement of changes in equity
for the financial year ended 30 June 2010

	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	20,636	16,695	37,331
As restated	**20,636**	**16,695**	**37,331**
Net loss for the year	-	(4,154)	(4,154)
Other comprehensive income	-	-	-
Total comprehensive income for the period	**-**	**(4,154)**	**(4,154)**
Distributions paid to investors	-	(1,991)	(1,991)
Balance at 30 June 2009	**20,636**	**10,550**	**31,186**
Net profit for the year	-	10,324	10,324
Other comprehensive income	-	-	-
Total comprehensive income for the period	**-**	**10,324**	**10,324**
Distributions paid to investors	-	(2,269)	(2,269)
Balance at 30 June 2010	**20,636**	**18,605**	**39,241**

Notes to the financial statements are included on pages 44 to 56.

Statement of cash flows
for the financial year ended 30 June 2010

	Note	2010 Inflows/ (Outflows) $'000	2009 Inflows/ (Outflows) $'000
Cash flows from operating activities			
Rental received		6,286	6,645
Interest received		104	73
Other expenses paid		(870)	(599)
Net cash provided by operating activities	10(b)	**5,520**	**6,119**
Cash flows from investing activities			
Payments associated with investment properties		(294)	(512)
Proceeds from sale of investment properties		2,100	9,180
Net cash provided by investing activities		**1,806**	**8,668**
Cash flows from financing activities			
Payments for redemption of units		-	-
Proceeds from borrowings		-	-
Repayment of borrowings		(1,950)	(7,010)
Finance costs paid		(3,117)	(3,807)
Distributions paid		(2,199)	(2,054)
Net cash used in financing activities		**(7,266)**	**(12,871)**
Net increase in cash and cash equivalents held		60	1,916
Cash and cash equivalents at beginning of the financial year		3,403	1,487
Cash and cash equivalents at end of the financial year	10(a)	**3,463**	**3,403**

Notes to the financial statements are included on pages 44 to 56.

Notes to Financial Statements

1. Summary of significant accounting policies

Statement of compliance & basis of preparation

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

The financial statements were authorised for issue by the directors on 25 August 2010.

The financial report has been prepared on the basis of historical cost, except for the revaluation of investment properties and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

In the application of A-IFRS management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2010 and the comparative information presented in these financial statements.

Adoption of new and revised accounting Standards and Interpretations

In the current year, the Fund has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. 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 2009-2 Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments.
AASB 2009-2 is applicable for annual reporting periods beginning on or after 1 January 2009. The adoption of AASB 2009-2 has resulted in expanded AASB 7 disclosures in respect of fair value measurements and liquidity risk. This has not affected the amounts recognised in the financial statements. The Fund has elected to not provide comparative information for these expanded disclosures in the current year in accordance with the transitional relief offered by these amendments.

(iv) AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project.
AASB 2008-5 is applicable for annual reporting periods beginning on or after 1 January 2009. The adoption of AASB 2008-5 has resulted in accounting changes for presentation, recognition and measurement purposes, while some other amendments that relate to terminology and editorial changes. This has none or minimal impact on 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.

(v) AASB 2007-10 Further Amendments to Australian Accounting Standards arising from AASB 101
AASB 2007-10 is applicable for annual reporting periods beginning on or after 1 January 2009. This Amending Standard changes the term 'general purpose financial report' to 'general purpose financial statements' and the term 'financial report' to 'financial statements', where relevant, in Australian Accounting Standards (including Interpretations) to better align with IFRS terminology. The adoption of this standard has not affected any of the amounts recognised in the financial statements.

(vi) 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
30 June 2010	Decreased by $39,241,000	Increased by $20,636,000	Increased by $18,605,000	Nil
30 June 2009	Decreased by $31,186,000	Increased by $20,636,000	Increased by $10,550,000	Nil
1 July 2008	Decreased by $37,331,000	Increased by $20,636,000	Increased by $16,695,000	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.

The adoption of AASB 2008-2 has impacted the *Statement of Comprehensive Income* in relation to distributions is as follows:

Financial 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	
30 June 2010	Decreased by $2,269,000	Increased by $8,055,000	Increased by $10,324,000	Increased by $10,324,000
30 June 2009	Decreased by $1,991,000	Increased by $6,145,000	Decreased by $4,154,000	Decreased by $4,154,000

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

As at	Net profit for the period	Other comprehensive income	Distributions paid to unitholders	Contributed equity	Retained earnings
30 June 2010	Increased by $10,324,000	Nil	Increased by $2,269,000	Nil	Increased by $8,055,000
30 June 2009	Decreased by $4,154,000	Nil	Increased by $1,991,000	Nil	Decreased by $6,145,000

Rounding off of amounts

The 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 indicated.

Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the yearend financial report:

(a) Investment income

Rental income arising in the ordinary course of activities is recognised at the fair value of the consideration received or receivable net of the amount of goods and services tax levied and is recognised on a straight-line basis over the lease term. Rental income not received at reporting date, is reflected in the balance sheet as a receivable or if paid in advance, as rent in advance.

Interest revenue is recognised as it accrues on a time proportionate basis taking into account the effective yield on the financial assets.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments or other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(c) Loans and receivables

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment. Receivables may include amounts for interest. Interest is accrued at the reporting date from the time of last payment in accordance with the policy set out in note 1(a) above.

(d) Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value at the reporting date. Gains or losses arising from changes in the fair value of investments are included in profit or loss in the period in which they arise.

(e) Expenses

All expenses, including responsible entity fees and custodian fees, are recognised in the statement of comprehensive income on an accruals basis.

(f) Distributions

In accordance with the Fund's constitution, the Fund is required to distribute its distributable (taxable) income, and any other amounts determined by the responsible entity, to unitholders by way of cash or reinvestment into the Fund.

Distributions to unitholders comprise the income of the Fund to which the unitholders are presently entitled. The distributions are payable quarterly.

(g) Applications and redemptions

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund are recorded gross of any exit fees payable after the cancellation of units redeemed.

The application and redemption prices are determined as the net asset value of the Fund adjusted for the estimated transaction costs, divided by the number of units on issue on the date of the application or redemption.

(h) Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

(i) Income tax

Under current income tax legislation the Fund is not liable to pay income tax as the net income of the Fund is assessable in the hands of the beneficiaries (the unitholders) who are 'presently entitled' to the income of the Fund. There is no income of the Fund to which the unitholders are not presently entitled and additionally, the Fund Constitution requires the distribution of the full amount of the net income of the Fund to the unitholders each period.

As a result, deferred taxes have not been recognised in the financial statements in relation to differences between the carrying amounts of assets and liabilities and their respective tax bases, including taxes on capital gains which could arise in the event of a sale of investments for the amount at which they are stated in the financial statements. In the event that taxable gains are realised by the Fund, these gains would be included in the taxable income that is assessable in the hands of the unitholders as noted above.

Realised capital losses are not distributed to unitholders but are retained within the Fund to be offset against any realised capital gains. The benefit of any carried forward capital losses are also not recognised in the financial statements. If in any period realised capital gains exceed realised capital losses, including those carried forward from earlier periods and eligible for offset, the excess is included in taxable income that is assessable in the hands of unitholders in that period and is distributed to unitholders in accordance with the requirements of the Fund Constitution.

(j) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

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

(k) Impairment of financial assets

Financial assets, other than those at fair value through the profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. Objective evidence of impairment can exist for example where there has been a significant or prolonged decline in the fair value below cost. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(l) Payables

Trade payables and other accounts payable are recognised when the Fund becomes obliged to make future payments resulting from the purchase of goods and services. Payables include liabilities and accrued expenses owing by the Fund which are unpaid as at balance date.

(m) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

(n) Provisions

Provisions are recognised when the Fund has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

An onerous contract is considered to exist where the Fund has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

(o) AASB Accounting Standards not yet effective

At the date of authorisation of the financial report, a number of standards and Interpretations were in issue but not yet effective. Initial application of the following Standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the Fund and the Fund's financial report:

	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Standard		
▪ AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 January 2010	30 June 2011
▪ AASB 124 Related Party Disclosures (revised December 2009), AASB 2009-12 Amendments to Australian Accounting Standards	1 January 2011	30 June 2012
▪ AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Financial arising from AASB 9	1 January 2013	30 June 2014

Initial application of the following Standards is not expected to have any material impact on the financial report of the Fund:

	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Standard/Interpretation		
▪ AASB 2010-1 Amendments to Australian Accounting Standards – Limited Exemption from Comparative AASB 7 Disclosures for First-time Adopters (ASSB 1 & AASB 7)	1 July 2010	30 June 2011
▪ AASB 2010-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project (AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13)	1 January 2011	30 June 2011

2. Receivables

	2010 $'000	2009 $'000
Accounts receivable	44	59
Prepaid interest	303	426
Interest receivable	11	7
Leased asset	750	848
	1,108	**1,340**

3. Investments

	2010 $'000	2009 $'000
Investment properties at fair value		
Carrying amount at the beginning of the year	79,492	90,884
Additions	-	-
Disposals	(2,100)	(5,630)
Costs associated with investment properties	294	512
Realised (loss)/gain on sale of investment properties	(122)	400
Changes in fair value of investment properties	8,316	(6,674)
Carrying amount at the end of the year	**85,880**	**79,492**

The investment portfolio consists of 23 properties located throughout Australia. The carrying amount of the properties is fair value. For six of the properties, fair value was determined by a registered independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. This independent valuation was performed by m3property and dated 30 June 2010.

A directors' valuation was used to determine the fair value of the remaining properties. The methodology and market evidence used in the independent valuations was replicated and used to determine the fair value as at 30 June 2010.

Fair values were determined using the capitalisation of net passing income and the discounted cash flow methods and also having regard to recent market transactions for similar properties in the same location as the Fund's investment property. Investment property comprises a number of retail properties that are leased to third parties. Each of the leases contains an initial non-cancellable period. Subsequent renewals are negotiated with the lessee.

Leases as lessor

The Fund leases out its investment property under operating leases. The future minimum lease payments receivable under non-cancellable leases are as follows:

	2010 $'000	2009 $'000
Less than one year	6,704	7,073
Between one and five years	28,675	27,897
More than five years	15,173	22,359
	50,552	**57,329**

4. Payables

	2010 $'000	2009 $'000
Accounts payable	359	387
Prepaid rent	440	434
Accrued expenses	11	11
	810	**832**

5. Distributions paid and payable

	2010		2009	
	Cents per unit	$'000	Cents per unit	$'000
Distribution paid during the year	6.750	1,702	5.925	1,493
Distribution payable	2.250	567	1.975	498
	9.000	**2,269**	**7.900**	**1,991**

6. Interest bearing liabilities

	2010 $'000	2009 $'000
Secured bank loan – fixed rate	39,833	50,169
Secured bank loan – floating rate	10,000	1,550
	49,833	**51,719**

The bank loan is secured by registered first mortgage over the Fund's investment properties. The loan is payable in October 2012 and bears interest payable quarterly.

All covenants were satisfied as at 30 June 2010 with the Fund's LVR being 57.56%, which is well within the limit of 65% (2009: 64.49%).

7. Equity

	2010 Units	2009 Units
Units on issue		
On issue at beginning of the year	25,204,954	25,204,954
Applications	-	-
Redemptions	-	-
Units issued upon reinvestment of distributions	-	-
On issue at year end	**25,204,954**	**25,204,954**

	2010 $'000	2009 $'000
Movements in equity		
At beginning of the year	31,186	37,331
Unit applications	-	-
Unit redemptions	-	-
Units issued upon reinvestment of distributions	-	-
Net profit/(loss) for the period	10,324	(4,154)
Distributions paid to unitholders	(2,269)	(1,991)
Total equity	**39,241**	**31,186**

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

8. Remuneration of auditors

	2010 $	2009 $
Auditor of the Fund		
Auditing or reviewing the Financial Report	16,041	16,459
Other non-audit services*	10,433	17,067
	26,474	**33,526**

*Other non-audit services include tax, audit of compliance plan and other approved advisory services.
The auditor of the Fund is Deloitte Touche Tohmatsu.

9. Related party disclosures

The Responsible Entity of APN Property Plus Portfolio is APN Funds Management Limited (ACN 080 674 479) whose immediate and ultimate parent entity is APN Property Group Limited (ACN 109 846 068). Accordingly transactions with entities related to the APN Property Group are disclosed below.

APN Funds Management Limited also acts as the manager of the Fund.

Transactions with related parties have taken place at arm's length and in the ordinary course of business.

- Investment management fees of $650,000 (2009: $464,000) were paid to the Responsible Entity.
- Registry fees of $21,000 (2009: $20,000) were paid to the Responsible Entity.

Key management personnel

The Fund does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the Fund and the personnel of this entity are considered the Key Management Personnel of the Fund.

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

- Christopher Aylward (resigned as Director 19 October 2009 but remains key management personnel)
- Howard Brenchley (Director)
- Clive Appleton (resigned as Director 19 October 2009 but remains key management personnel)
- David Blight (appointed as Director and key management personnel 24 November 2008)
- Andrew Cruickshank (resigned as Non Executive Director 19 October 2009)
- Michael Butler (resigned as Independent Non Executive Director 19 October 2009)
- John Harvey (Independent Non Executive Director)
- John Freemantle (Chief Financial Officer)
- Geoff Brunsdon (appointed Independent Non Executive Director 19 October 2009)
- Michael Johnstone (appointed Independent Non Executive Director 25 November 2009)

The positions noted above for the Fund's key management personnel are the positions held within the Responsible Entity and not the Fund itself.

Key management personnel compensation

Key management personnel are paid by the parent of the Responsible Entity for their services to APN Property Group Limited. Payments made from the Fund to the Responsible Entity do not include any amounts attributable to the compensation of key management personnel in respect of services rendered to the Fund itself.

Holdings of units by related parties

Related parties may purchase and sell units in the Fund in accordance with their respective constitutions and product disclosure statements. Details of units held in the Fund by related parties are set out below:

	Number of units held	
	2010	**2009**
Responsible entity and its associates		
APN Property For Income Fund	3,946,900	3,946,900
APN Property For Income Fund No.2	1,545,455	1,545,455

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

Directors' loans

No loans were made by the Fund to the key management personnel and / or their related parties.

10. Notes to the cash flow statement

(a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash includes cash on hand and in banks and investments in money market instruments net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the cash flow statement is reconciled to the balance sheet as follows:

	2010 $'000	2009 $'000
Cash	3,463	3,403
Total cash and cash equivalents	**3,463**	**3,403**

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

	2010 $'000	2009 $'000
Net profit	**10,324**	**(4,154)**
Adjustments for:		
Rental income recognised on straight lining basis	98	(2)
Change in fair value of investment properties	(8,218)	6,672
Write-down of investment properties	(98)	2
Realised loss/(gains) on sale of investment properties	122	(400)
Amortisation of borrowing costs	64	95
Interest paid classified as financing activity	3,117	3,807
Changes in net assets:		
Decrease in income and other receivables	134	47
(Decrease)/increase in creditors and accruals	(23)	52
Net cash provided by operating activities	**5,520**	**6,119**

(c) Non-cash financing and investing activities

During the year no income distributions were reinvested by unitholders for additional units in the Fund (2009: Nil).

11. Financial risk management

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

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

These activities expose the Fund to a variety of financial risks including credit risk, liquidity risk and market risk which includes interest rate risk.

The overall risk management program seeks to mitigate these risks and reduce volatility on the Fund's financial performance. Financial risk management is carried out centrally by the Responsible Entity under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign currency risk, interest rate risk, credit risk, use of derivative financial instruments and non derivative financial instruments, and the investment of excess liquidity.

(a) Financial risk management objectives

The Fund outsources the investment management to APN Funds Management Limited, who provide services to the Fund, co-ordinate access to domestic financial markets, and manages the financial risks relating to the operations of the Fund in accordance with an investment mandate set out in accordance with the Fund's constitution and product disclosure statement. The Responsible Entity has determined that the appointment of these managers is appropriate for the Fund and is in accordance with the Fund's investment strategy.

The Fund's overall risk management programme focuses on ensuring compliance with the Fund's product disclosure statement and seeks to maximise the returns derived for the level of risk to which the Fund is exposed. The Fund's investment objective is to provide investors with maximum unitholder value through investment in properties with strong lease covenants, secure income streams and potential for capital growth.

The Fund does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. Compliance with policies and exposure limits is reviewed by the Responsible Entity on a continuous basis.

It is the Responsible Entity's aim to invest in such a way that any risks the Fund is exposed to are minimised, while at the same time endeavouring to achieve the investment objectives of the Fund.

Trust Company Limited acts as master custodian on behalf of the Responsible Entity and, as such, provides services including physical custody and safekeeping of assets, settlement of trades and accounting for investment transactions.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in Note 1 to the financial statements.

(c) Capital risk management

The Responsible Entity's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for unitholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Fund consists of cash and cash equivalents and the proceeds from the issue of the units of the Fund. An investment made by unitholders into the Fund is considered medium to long term and illiquid. There is currently no market on which units may be traded and there are no buy-back, redemption or withdrawal facilities available to unitholders at this present time.

The Responsible Entity has a focused strategy to grow unitholder value and future acquisitions by the Fund may be considered. This will require future additional capital raisings. Strict investment criteria have been developed to ensure that any future acquisitions are not value dilutive, for the Fund, on either a yield or net asset basis. The overall investment strategy remains unchanged from the prior year.

(d) Categories of financial instruments

The Fund has investments in the following categories of financial assets and liabilities:

	2010 $'000	2009 $'000
Financial assets designated as at fair value through profit and loss	3,463	3,403
Loans and receivables	1,108	1,340
Financial liabilities measured at amortised cost	(51,210)	(53,049)

The carrying amount of interest-bearing liabilities as at 30 June 2010 is $49,833,000 (2009: $51,719,000).

(e) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Fund.

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Credit risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The Fund has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the financial risk of financial loss from default.

The Fund's investment objective is to find high quality customers predominately with a stable credit history. The Fund measures credit risk on a fair value basis.

The maximum exposure to credit risk as at 30 June 2010 and at 30 June 2009 is the carrying amounts of financial assets recognised in the balance sheet of the Fund. The Fund holds no collateral as security and the credit quality of all financial assets that are neither past due or impaired is consistently monitored in order to identify any potential adverse changes in the credit quality.

The Fund does not have any significant credit risk exposure to any single counterparty or counterparties having similar characteristics.

Cash transactions are limited to financial institutions that meet the Responsible Entity's minimum credit rating criteria. Credit risk arising on loans and receivable balances is monitored on an ongoing basis with the result that the exposure to bad debts by the Fund is not significant. There are no significant financial assets that have had renegotiated terms that would otherwise have been past due or impaired.

Receivables are non-interest bearing and are generally on 30 day terms. An impairment loss would be recognised when there is objective evidence that an individual receivable is impaired. As at 30 June 2010, no receivables were impaired nor past due (2009: Nil). Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

For the Fund, the ageing analysis of receivables at 30 June 2010 is as follows:

	2010 $'000	2009 $'000
Ageing analysis of receivables not impaired		
0-30 days	1,074	1,286
31-90 days	8	33
91+ days	26	21
	1,108	**1,340**

Credit risk associated with receivables is considered minimal. Other receivables balances are not significant to the Fund's operations.

(f) Liquidity risk

Liquidity risk includes the risk that the Fund, as a result of its operations:

- will not have sufficient funds to settle a transaction on the due date;
- will be forced to sell financial assets at a value which is less than what they are worth; or
- may be unable to settle or recover a financial asset at all.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. The Fund manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

To help reduce these risks the Fund:

- has a liquidity policy which targets a minimum and average level of cash and cash equivalents to be maintained;
- has readily accessible standby facilities and other funding arrangements in place;
- has a liquidity portfolio structure that requires surplus funds to be invested in various types of liquid instruments ranging from highly liquid to liquid instruments.

The Fund's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities. However, as unitholders are unable to withdraw their units at any time, the Fund is therefore not exposed to the liquidity risk of meeting unitholders' withdrawals at any time.

The Fund's main liquidity risk is its ability to refinance its current borrowings. Realised profits generated by the Fund are to be returned to unitholders as described in the Fund's Constitution and as such realised profits are not used to support the refinancing activities or the Fund. To assist in mitigating refinancing risk the Responsible Entity is in regular contact with the financial institutions.

The table below shows an analysis of the contractual maturities of key liabilities which forms part of the Fund's assessment of liquidity risk:

	Less than 3 months $'000	3 months to 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
2010					
Liabilities					
Accounts payable	(809)	-	-	-	(809)
Distribution payable	(567)	-	-	-	(567)
Interest bearing liabilities	(708)	(2,155)	(53,867)	-	(56,730)
	(2,084)	**(2,155)**	**(53,867)**	**-**	**(58,106)**
2009					
Liabilities					
Accounts payable	(832)	-	-	-	(832)
Distribution payable	(498)	-	-	-	(498)
Interest bearing liabilities	(769)	(2,343)	(59,444)	-	(62,556)
	(2,099)	**(2,343)**	**(59,444)**	**-**	**(63,886)**

The Fund is able to sufficiently meet its liquidity obligations through the receipt of rental income, via re-financing of debt or the realisation of the sale of investment properties where required.

(g) Market risk

Market risk is the risk that the fair value of future cash flows of the Fund's financial instruments will fluctuate because of changes in market conditions or factors. The Investment Manager manages the financial risks relating to the operations of the Fund in accordance with an investment mandate set out in accordance with the Fund's constitution and product disclosure statement. The Fund's investment mandate is to provide investors with maximum unitholder value through investment in properties with strong lease covenants, secure income streams and potential for capital growth. There has been no change to the Fund's exposure to market risk or the manner in which it manages and measures the risk. The component of market risk to which the Fund is exposed is interest rate risk.

Interest rate risk

The Fund's interest bearing financial assets and liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The risk is measured using sensitivity analysis.

As at balance date, the Fund's exposure to interest rates is as follows:
Assets: Cash and cash equivalents at fair values of $3,463,000 (2009: $3,403,000) with a weighted average interest rate of 3.49% (2009: 4.53%).
Liabilities: Interest-bearing liabilities at amortised cost of $49,833,000 (2009: $51,719,000) with a weighted average interest rate of 5.75% (2009: 6.22%).

Interest rate sensitivity

The sensitivity analyses below have been determined based on the Fund's exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period, in the case of instruments that have floating interest rates. A 250 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

The interest rate movements have been determined based on management's best estimate, having regard to historical levels of changes in interest rates and the current debt environment in which the Fund operates. Actual movements in the interest rate may be greater or less than anticipated due to a number of factors, including unusually large market shocks both in the global and domestic property markets. As a result, historic variations in interest rates are not a definitive indicator of future variations.

For the Fund, a 250 basis point increase in interest rates would have decreased net profit and decreased total equity by $76,000 (2009: a 25 basis point increase resulting in a decrease of $63,000); an equal change in the opposite direction would have increased net profit and increased total equity by $76,000 (2009: a 25 basis point decrease resulting in an increase of $63,000). The methods and assumptions used to prepare the sensitivity analysis have not changed and it is performed on the same basis for 2009.

The methods and assumptions used to prepare the sensitivity analysis have not changed in the year.

(h) Fair value of financial instruments

The directors of the Responsible Entity consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values with the exception of secured bank loans which have a fair value of $49,860,000.

The fair values and net fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

As the Fund does not hold any financial instruments designated or measured at fair value, the Fund has not presented a fair value hierarchy.

12. Contingent liabilities and contingent assets

There are no commitments and contingencies in effect at 30 June 2010 (2009: Nil).

13. Subsequent events

Since 30 June 2010 there have been no matters or circumstances that have significantly affected or may significantly affect the Fund.

14. Additional information

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

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

APN | Retirement Properties Fund

ARSN 093 243 424

Annual Report for the Financial Year Ended 30 June 2010

APN Retirement Properties Fund

Manager's Report

Market overview 2010

In the context of a volatile global economic environment, the last 12 months have seen the Australian economy perform relatively strongly. Whilst the impact of the Global Financial Crisis (GFC) lingers in many countries, the Australian economy has been typified by ongoing resilience. Key indicators such as unemployment and Gross Domestic Product (GDP) growth have remained strong. The unemployment rate was 5.2% at 30 June 2010; GDP growth to March 2010 was 2.7%; and the Consumer Price Index (CPI) rose at a rate of 2.9%. These metrics compare favourably with many other developed economies. In the US for instance, the unemployment rate ended the year at 9.5% after peaking at 10.1% in October 2009.

As a result of the fundamental strength of the Australian economy, the Reserve Bank of Australia (RBA) has tightened monetary policy in an attempt to gradually slow demand. Accordingly, we have seen the target cash rate increase six times (by 25bps each time) since October 2009 to a rate of 4.5% in June 2010. These increases, along with the significantly higher margins that banks charge (over and above the base rate) have impacted borrowers. As total borrowing costs increased, the amount of free cash flow available from all forms of investment has reduced.

Investment markets have been volatile in the face of inconsistent news flow on broader economic data. In the US for instance the benchmark interest rate stands at 0.25% reflecting the weakness in consumer and business sentiment. However, these historically low interest rates have not been the panacea for economic recovery. US households continue to repair balance sheets while corporations remain cautious, limiting capital investment and new employment as fears of a double dip recession in the US and European Union sovereign debt concerns play on decision makers minds.

Australian equity markets reflect this caution (as measured by the S&P/ASX 200 Accumulation Index) returning 13.1% for the 12 months to 30 June. In this environment of general uncertainty it has been the more defensive sectors that outperformed. The S&P/ASX 200 Property Accumulation Index ("the Index") reflected this sentiment, delivering a total return of 20.4%.

It is now apparent that Australian direct property markets most likely hit the bottom in late 2009. Whilst many expect that some markets will remain under pressure in the future we may find this downturn was in fact one of the mildest on record. Metrics that support this contention include the fact that key office markets peak vacancy rates were well below those peaks in the last serious downturn. Melbourne and Sydney recorded peak vacancies of 6.8% and 9.1% respectively in this downturn while in the early 1990s the peaks were 25.8% and 22.4% respectively. However, despite the fact that retail sales were supported by stimulus spending during much of the financial year, the reality of higher interest rates had taken its toll with consumers moderating spending in line with a drop in confidence (Westpac-Melbourne Institute Consumer Confidence Index down in May and June).

Direct property values steadied during the year. Capitalisation rates that had been rising for all markets and sectors since 2007 were seen to stabilise over the last financial year as valuers became confident that sales evidence provided slightly more positive prospects for commercial property markets. Indeed, with leading property researcher Jones Lang Lasalle predicting rental growth and yield compression over the next few years for most sectors, the scene is set for a steady increase in domestic property values in the medium term.

The outlook for unlisted real estate funds has improved over the last 12 months. The recovery theme is illustrated by the Mercer/IPD Australian Pooled Property Index for the 12 months to the end of June 2010 which showed that Australian unlisted property trusts delivered a total return of 4.0%. The Index indicated that the second quarter of 2010 had been the first period since November 2008 that reflected a positive annual return. This is consistent with a direct property market where values have generally stabilised.

Whilst the property outlook is positive, the challenge for many unlisted real estate managers is to access funding to recapitalise over-geared balance sheets. Where debt funding is available, it remains expensive with banks charging margins of 200 basis points to 300 basis points for refinancing of existing debts by unlisted trusts with elevated gearing.

Investment strategy

The APN Retirement Properties Fund (Fund) is a closed end, fixed term fund which invests in five retirement villages in metropolitan Melbourne. The villages are managed by Lend Lease Primelife (a wholly owned subsidiary of Lend Lease Group) under a 20 year management agreement which has approximately 8.5 years to run.

As previously communicated to unitholders, the Fund has been terminated in accordance with the constitution. In July 2010 we granted an option to Lend Lease Primelife (LLP) to buy the Fund's five retirement village assets for $36 million. LLP paid a non-refundable $2 million option fee for this right which forms part of the deposit for the sale if exercised. The option expires on 10 January 2011 and will settle two months following the exercise of the option. Net proceeds from the sale will be distributed to investors.

In the unlikely event the sale does not proceed, we will undertake a marketing campaign to sell the assets and return unitholder capital. In this case, LLP would forfeit the $2 million option fee which would be distributed to unitholders.

The Fund has performed extremely well since inception (June 1999) and if the LLP transaction is completed we would expect unitholders will receive approximately the 30 June 2010 net asset value of $2.8569 per unit. As at 30 June 2010 the Fund's total return since inception was a healthy 14.63%.

Performance*

During the year, the Fund's net asset value (NAV) increased 0.88% and was $2.8569 as at 30 June 2010.

The Fund distributed a total of 29.00 cents per unit for the 12 months to 30 June 2010. This represents an annualised yield of 10.15% on the Fund's $2.8569 net asset value per unit (NAV) price at the end of the period. The tax advantaged portion of the distribution was 3.94% which generally enhances the after tax return for investors.

Yours sincerely

Steven Lawford
Fund Manager, APN Retirement Properties Fund

Directors' report

The directors of APN Funds Management Limited (ACN 080 674 479) ("the Responsible Entity") submit herewith the annual financial report of APN Retirement Properties Fund ("the Fund") for the year ended 30 June 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 financial year are:

Name

Christopher Aylward	Andrew Cruickshank	David Blight
Clive Appleton	Michael Butler	Geoff Brunsdon
Howard Brenchley	John Harvey	Michael Johnstone

The above named directors held office during and since the end of the financial 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

Termination of the fund

In accordance with the Fund's constitution (and as described in the product disclosure statement), the Responsible Entity of the Fund gave notice to unitholders that the Fund would be terminating as of 31 December 2008. Ernst & Young have been appointed by the Responsible Entity to conduct an orderly sale of the Fund's assets to achieve a price above or as near possible to their book values. It is the Responsible Entity's intention to ensure that the Fund maximizes the return to unitholders from the sale of the assets.

The Fund will continue to operate and pay monthly distributions until the sale and settlement of all of its investment properties takes place.

Principal activities

The Fund is a registered managed investment fund domiciled in Australia. The principal activity of the Fund is to invest in real property based income streams, being interests in five modern retirement villages situated in Melbourne, Australia.

Apart from the termination of the Fund outlined above, there has been no significant change in the activities of the Fund during the financial year.

The Fund did not have any employees during the year.

Changes in state of affairs

During the financial year there was no significant change in the state of affairs of the Fund.

Future developments

The Fund will continue to pursue its policy of increasing returns to unitholders.

Disclosure of information regarding likely developments in the operations of the Fund in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Fund. Accordingly, this information has not been disclosed in this report.

Review of operations

The principal investment objective of the Fund is to provide investors with a high and consistent monthly income distribution that maintains its real value for the life of the Fund.

As the Fund is no longer a going concern, the following financial report for the financial year ended 30 June 2010 has been prepared in accordance with the wind up basis of accounting. Under the wind up basis of accounting, assets are stated at their net realisable values and liabilities are stated at their anticipated settlement amounts. The net adjustment required to convert from the going concern basis of accounting to the wind up basis of accounting was a decrease in net assets of $731,000 (2009: decrease of $727,000). This is due to an adjustment to the recognition of estimated selling costs to be incurred in the sale of the Fund's investment properties. For full details of the basis of preparation of the financial report, refer to note 1 of the financial statements.

Results

The results of the operations of the Fund are disclosed in the statement of comprehensive income of these financial statements. After allowing for the estimated selling costs likely to be incurred as a result of the sale of the Fund's investment properties, the net profit for the year ended 30 June 2010 was $2,866,000 (2009: loss of $519,000).

Distributions

In respect of the financial year ended 30 June 2010 a final distribution of 2.4167 cents per unit was paid to the unitholders on 15 July 2010 (2009: 3.6254 cents per unit). The total distribution paid to unitholders in respect of the financial year period ended 30 June 2010 was 29.004 cents per unit (2009: 25.6254 cents per unit).

For full details of distributions paid and payable during the year, refer to note 5 to the financial statements.

Auditor's independence declaration

The Auditor's Independence Declaration is included on page 62 of the annual report.

Subsequent events

On 26 July 2010, the Responsible Entity entered into an option agreement with Lend Lease Prime Life Limited (LLP) to sell all five retirement villages for a total sale price of $36,000,000. A non-refundable option fee of $2,000,000 was paid by LLP upon execution of the agreement. If the option is exercised by LLP the option fee forms part of the deposit for the sale of the retirement villages. The option expires in January 2011 with settlement due to occur two months after the exercise of the option. The net proceeds, after all debts and costs are retired, will be distributed to unitholders as soon as practicable following the sale of the assets. The Fund will continue to operate and pay monthly distributions until the sale and settlement of all of its investment properties takes place.

Fund information in the directors' report

Fees paid to the Responsible Entity out of Fund property during the financial year are disclosed in note 9 to the financial statements.

The number of units in the Fund held by the Responsible Entity as at the end of the financial year is disclosed in note 9 to the financial statements.

The number of interests in the Fund issued during the financial year, withdrawals from the Fund during the financial year, and the number of interests in the Fund at the end of the financial year is disclosed in note 7 to the financial statements.

The value of the Fund's assets as at the end of the financial year is disclosed in the Balance Sheet as "Total Assets" and the basis of valuation is included in note 1 to the financial statements.

Options granted

No options were:

- Granted over unissued units in the Fund during or since the end of the financial year; or
- Granted to the Responsible Entity.

No unissued units in the Fund were under option as at the date on which this Report is made.

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

Indemnification of officers of the responsible entity and auditors

During or since the end of the financial year, the Responsible Entity has not indemnified or made a relevant agreement to indemnify an officer of the Responsible Entity or auditor of the Fund or of any related body (corporate) against a liability incurred as such an officer or auditor. In addition, the Responsible Entity has not paid, or agreed to pay, a premium in respect of a contract insuring against a liability incurred by an officer of the Responsible Entity or auditor of the Fund.

Rounding off of amounts

The 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.298(2) of the Corporations Act 2001.

On behalf of the Directors

David Blight
Director
MELBOURNE, 25 August 2010

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

DX: 111
Tel: +61 (0) 3 9671 7000
Fax: +61 (0) 3 9671 7001
www.deloitte.com.au

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

Dear Directors

INDEPENDENCE DECLARATION – APN RETIREMENT PROPERTIES FUND

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 regarding the annual financial report for APN Retirement Properties Fund.

As lead audit partner for the audit of the financial statements of APN Retirement Properties Fund for the financial year ended 30 June 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 audit; and
(ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Peter A. Caldwell
Partner
Chartered Accountants
Melbourne, 25 August 2010

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

DX: 111
Tel: +61 (0) 3 9671 7000
Fax: +61 (0) 3 9671 7001
www.deloitte.com.au

INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF APN RETIREMENT PROPERTIES FUND

We have audited the accompanying financial report of APN Retirement Properties Fund ("the Fund"), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Fund as set out on pages 65 to 81.

Directors' Responsibility for the Financial Report

The directors of the Responsible Entity are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) as they apply on a non-going concern basis as disclosed in note 1 to the financial statements and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the 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 an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial report 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 Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Deloitte.

Auditor's Independence Declaration

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

Auditor's Opinion

In our opinion, the financial report of APN Retirement Properties Fund is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Fund's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Peter A. Caldwell
Partner
Chartered Accountants
Melbourne, 25 August 2010

Directors' declaration

The directors of the Responsible Entity declare that:

a) in the directors' opinion, there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable;

b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Fund.

c) in the directors' opinion, the attached financial statements are in accordance with the basis of accounting as referred to in Note 1 to the financial statements.

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

On behalf of the Directors

David Blight
Director

MELBOURNE, 25 August 2010

Statement of comprehensive income
for the financial year ended 30 June 2010

	Note	2010 $'000	2009 $'000
Income			
Rental		3,403	3,335
Interest		23	27
Unrealised changes in the fair value of investment properties		200	(2,235)
Total income		**3,626**	**1,127**
Expenses			
Investment management fee		126	135
Registry fee		20	21
Other expenses		81	107
Auditor's remuneration	8	32	36
Write-down of investment properties to net realisable value		4	727
Finance costs		497	620
Total expenses		**760**	**1,646**
Net profit/(loss)		**2,866**	**(519)**
Other comprehensive income			
Other comprehensive income		-	-
Total comprehensive income		**2,866**	**(519)**

Notes to the financial statements are included on pages 70 to 81.

Statement of financial position
as at 30 June 2010

	Note	Wind up basis 2010 $'000	Wind up basis 2009 $'000	Going concern basis 1 July 2008 $'000
Assets				
Cash and cash equivalents		572	690	438
Prepayments and other receivables	2	69	30	54
Investment properties	3	35,269	35,073	38,000
Total assets		**35,910**	**35,793**	**38,492**
Liabilities				
Payables	4	168	168	153
Distribution payable	5	220	330	193
Interest bearing liabilities	6	9,524	9,524	9,524
Total liabilities		**9,912**	**10,022**	**9,870**
Net assets	7	**25,998**	**25,771**	**28,622**
Equity attributable to unitholders				
Contributed equity		18,260	18,260	18,260
Retained earnings		7,738	7,511	10,362
Total equity		**25,998**	**25,771**	**28,622**

Notes to the financial statements are included on pages 70 to 81.

Statement of changes in equity
for the financial year ended 30 June 2010

	Contributed equity $'000	Retained earnings $'000	Total $'000
Balance as at 1 July 2008	-	-	-
Effect of changes in accounting policies:			
Effect of changes in accounting for obligations arising on liquidation	18,260	10,362	28,622
As restated	**18,260**	**10,362**	**28,622**
Net loss for the year	-	(519)	(519)
Other comprehensive income	-	-	-
Total comprehensive income for the period	**-**	**(519)**	**(519)**
Distributions paid to investors	-	(2,332)	(2,332)
Balance at 30 June 2009	**18,260**	**7,511**	**25,771**
Net profit for the year	-	2,866	2,866
Other comprehensive income	-	-	-
Total comprehensive income for the period	**-**	**2,866**	**2,866**
Distributions paid to investors	-	(2,639)	(2,639)
Balance at 30 June 2010	**18,260**	**7,738**	**25,998**

Notes to the financial statements are included on pages 70 to 81.

Cash Flow Statement
for the financial year ended 30 June 2009

	Note	2010 Inflows/ (Outflows) $'000	2009 Inflows/ (Outflows) $'000
Cash flows from operating activities			
Rental received		3,403	3,335
Interest received		23	27
Other expenses paid		(298)	(314)
Net cash provided by operating activities	10(b)	**3,128**	**3,048**
Cash flows from investing activities			
Payments associated with investment properties		-	(35)
Net cash used in investing activities		**-**	**(35)**
Cash flows from financing activities			
Finance costs paid		(497)	(566)
Distributions paid		(2,749)	(2,195)
Net cash used in financing activities		**(3,246)**	**(2,761)**
Net (decrease)/increase in cash and cash equivalents held		(118)	252
Cash and cash equivalents at beginning of the financial year		690	438
Cash and cash equivalents at end of the financial year	10(a)	**572**	**690**

Notes to the financial statements are included on pages 70 to 81.

Notes to Financial Statements

1. Summary of significant accounting policies

Statement of compliance & basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law as it applies to an entity that is not a going concern.

The financial statements were authorised for issue by the directors on 25 August 2010.

The financial report has been prepared on a wind up basis as described below.

In accordance with the Fund's constitution (and as described in the product disclosure statement) the Responsible Entity of the Fund gave notice to unitholders that the Fund would be terminating as of 31 December 2008. Ernst & Young have been appointed by the Responsible Entity to conduct an orderly sale of the Fund's assets to achieve a price above or as near possible to their book values. The Fund will continue to operate and pay monthly distributions until the sale and settlement of all of its investment properties takes place.

As the Fund is no longer a going concern, the financial statements for the financial year ended 30 June 2010 have been prepared on a wind up basis of accounting. Under the wind up basis of accounting assets are measured at their net realisable values and liabilities are measured at their anticipated settlement amounts.

The valuation of assets and liabilities requires many estimates and assumptions and therefore there are uncertainties inherent in carrying out a wind up. As a result, the actual realization of assets and settlement of liabilities could be higher or lower than amounts indicated in this financial report. The assumptions, judgements and estimates used are based on current market conditions and information available as at balance date.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2010 and the comparative information presented in these financial statements, under a wind up basis of accounting.

Adoption of new and revised accounting Standards and Interpretations

In the current year, the Fund has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. 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 2009-2 Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments.
AASB 2009-2 is applicable for annual reporting periods beginning on or after 1 January 2009. The adoption of AASB 2009-2 has resulted in expanded AASB 7 disclosures in respect of fair value measurements and liquidity risk. This has not affected the amounts recognised in the financial statements. The Fund has elected to not provide comparative information for these expanded disclosures in the current year in accordance with the transitional relief offered by these amendments.

(iv) AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project.
AASB 2008-5 is applicable for annual reporting periods beginning on or after 1 January 2009. The adoption of AASB 2008-5 has resulted in accounting changes for presentation, recognition and measurement purposes, while some other amendments that relate to terminology and editorial changes. This has none or minimal impact on 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.

(v) AASB 2007-10 Further Amendments to Australian Accounting Standards arising from AASB 101
AASB 2007-10 is applicable for annual reporting periods beginning on or after 1 January 2009. This Amending Standard changes the term 'general purpose financial report' to 'general purpose financial statements' and the term 'financial report' to 'financial statements', where relevant, in Australian Accounting Standards (including Interpretations) to better align with IFRS terminology. The adoption of this standard has not affected any of the amounts recognised in the financial statements.

(vi) 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
30 June 2010	Decreased by $25,998,000	Increased by $18,260,000	Increased by $7,738,000	Nil
30 June 2009	Decreased by $25,771,000	Increased by $18,260,000	Increased by $7,511,000	Nil
1 July 2008	Decreased by $28,622,000	Increased by $18,260,000	Increased by $10,362,000	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.

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

Financial 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	
30 June 2010	Decreased by $2,639,000	Decreased by $227,000	Decreased by $2,866,000	Increased by $2,866,000
30 June 2009	Decreased by $2,332,000	Increased by $2,851,000	Decreased by $519,000	Decreased by $519,000

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
30 June 2010	Increased by $2,866,000	Nil	Increased by $2,639,000	Nil	Decreased by $227,000
30 June 2009	Decreased by $519,000	Nil	Increased by $2,332,000	Nil	Decreased by $2,851,000

Rounding off of amounts

The 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.

Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the yearend financial report:

(a) Investment income

Rental income arising from the ordinary course of activities is recognised at the fair value of the consideration received or receivable net of the amount of goods and services tax levied and is recognised on a straight-line basis over the agreement term. Rental income not received at reporting date, is reflected in the balance sheet as a receivable or if paid in advance, as rent in advance.

Interest revenue is recognised as it accrues on a time proportionate basis taking into account the effective yield on the financial assets.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments or other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value, net of outstanding bank overdrafts.

(c) Loans and receivables

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment. Receivables may include amounts for dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment in accordance with the policy set out in note 1(a) above.

(d) Investment property

Under a wind up basis of accounting investment property is measured at its net realisable value. Estimated selling costs to be incurred in the sale of the investment properties are deducted from the property's fair value at the reporting date to obtain its net realisable value. Changes or adjustments to estimated selling costs are included in the profit or loss in the period in which they arise.

Gains or losses arising from changes in the value of investment properties are included in the profit or loss in the period in which they arise.

(b) Expenses

All expenses, including responsible entity fees and custodian fees, are recognised in the statement of comprehensive income on an accruals basis.

(f) Distributions

In accordance with the Fund's constitution, the Fund fully distributes its distributable (taxable) income, and any other amounts determined by the responsible entity, to unitholders by way of cash or reinvestment into the Fund.

Distributions to unitholders comprise the income of the Fund to which the unitholders are presently entitled. The distributions are payable monthly.

(g) Applications and redemptions

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund are recorded gross of any exit fees payable after the cancellation of units redeemed.

The application and redemption prices are determined as the net asset value of the Fund adjusted for the estimated transaction costs, divided by the number of units on issue on the date of the application or redemption.

(h) Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

(i) Income tax

Under current income tax legislation the Fund is not liable to pay income tax as the net income of the Fund is assessable in the hands of the beneficiaries (the unitholders) who are 'presently entitled' to the income of the Fund. There is no income of the Fund to which the unitholders are not presently entitled and additionally, the Fund Constitution requires the distribution of the full amount of the net income of the Fund to the unitholders each period.

As a result, deferred taxes have not been recognised in the financial statements in relation to differences between the carrying amounts of assets and liabilities and their respective tax bases, including taxes on capital gains which could arise in the event of a sale of investment properties for the amount at which they are stated in the financial statements. In the event that taxable gains are realised by the Fund, these gains would be included in the taxable income that is assessable in the hands of the unitholders as noted above.

Realised capital losses are not distributed to unitholders but are retained within the Fund to be offset against any realised capital gains. The benefit of any carried forward capital losses are also not recognised in the financial statements. If in any period realised capital gains exceed realised capital losses, including those carried forward from earlier periods and eligible for offset, the excess is included in taxable income that is assessable in the hands of unitholders in that period and is distributed to unitholders in accordance with the requirements of the Fund Constitution.

(j) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a net 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.

(k) Impairment of financial assets

Financial assets, other than those at fair value through the profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. Objective evidence of impairment can exist for example where there has been significant or prolonged decline in the fair value below cost. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(l) Payables

Trade payables and other accounts payable are recognised when the Fund becomes obliged to make future payments resulting from the purchase of goods and services. Payables include liabilities and accrued expenses owing by the Fund which are unpaid as at balance date.

(m) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

(n) Provisions

Provisions are recognised when the Fund has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

An onerous contract is considered to exist where the Fund has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

(o) Derivative financial instruments

The Fund enters into derivative financial instruments such as interest rate swaps to manage its exposure to interest rates. Derivatives are categorised as held for trading and are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit and loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit and loss depends on the nature of the hedge relationship.

The fair value of interest rate swaps is the estimated amount that the Fund would receive or pay to terminate the swap at the reporting date.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in the profit and loss.

(p) AASB Accounting Standards not yet effective

At the date of authorisation of the financial report, a number of standards and Interpretations were in issue but not yet effective.

Initial application of the following Standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the Fund and the Fund's financial report:

	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Standard		
▪ AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 January 2010	30 June 2011
▪ AASB 124 Related Party Disclosures (revised December 2009), AASB 2009-12 Amendments to Australian Accounting Standards	1 January 2011	30 June 2012
▪ AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Financial arising from AASB 9	1 January 2013	30 June 2014

Initial application of the following Standards is not expected to have any material impact on the financial report of the Fund:

	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Standard/Interpretation		
▪ AASB 2010-1 Amendments to Australian Accounting Standards – Limited Exemption from Comparative AASB 7 Disclosures for First-time Adopters (ASSB 1 & AASB 7)	1 July 2010	30 June 2011
▪ AASB 2010-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project (AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13)	1 January 2011	30 June 2011

2. Receivables

	2010 $'000	2009 $'000
Prepaid expenses	69	30
	69	**30**

3. Investments

	2010 $'000	2009 $'000
Investment properties at net realisable value		
Carrying amount at the beginning of the period	35,073	38,000
Additions	-	-
Disposals	-	-
Costs associated with investment properties	-	35
Write-down of investment properties to net realisable value	(4)	(727)
Changes in fair value	200	(2,235)
Carrying amount at the end of the period	**35,269**	**35,073**

As at 30 June 2010, investment properties are valued under a wind up basis of accounting and are measured at net realisable value. Estimated selling costs to be incurred in the sale of the investment properties are deducted from the property's fair value at the reporting date to obtain its net realisable value.

On 26 July 2010, the Responsible Entity entered into an option agreement with Lend Lease Prime Life Limited (LLP) to sell all five retirement villages for a total sale price of $36,000,000. The Directors have adopted this sale price as the fair value of the investment properties and selling costs to be incurred in the sale have been deducted from the fair value as the reporting date to obtain their net realisable value, as shown above.

4. Payables

	2010 $'000	2009 $'000
Accounts payable	137	138
Accrued expenses	31	30
	168	**168**

5. Distributions paid and payable

	2010		2009	
	Cents per unit	**$'000**	**Cents per unit**	**$'000**
Distribution paid during the period	26.5837	2,419	22.0000	2,002
Distribution payable	2.4167	220	3.6254	330
	29.0004	**2,639**	**25.6254**	**2,332**

6. Interest bearing liabilities

	2010 $'000	2009 $'000
Secured bank loan (floating)	9,524	9,524
	9,524	**9,524**

The bank loan is secured by registered first mortgage over the Fund's interests in the retirement villages. The loan is payable on 30 June 2013 and bears interest payable monthly.

7. Equity

	2010 Units	2009 Units
Units on issue		
On issue at beginning of the year	9,100,000	9,100,000
Applications	-	-
Redemptions	-	-
Units issued upon reinvestment of distributions	-	-
On issue at year end	**9,100,000**	**9,100,000**

	2010 $'000	2009 $'000
Movements in equity		
At beginning of the year	25,771	28,622
Unit applications	-	-
Unit redemptions	-	-
Units issued upon reinvestment of distributions	-	-
Net profit/(loss) for the period	2,866	(519)
Distributions paid to unitholders	(2,639)	(2,332)
Total equity	**25,998**	**25,771**

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

8. Remuneration of auditors

	2010 $	2009 $
Auditor of the Fund		
Auditing or reviewing the Financial Report	16,042	20,414
Other non-audit services*	16,168	15,874
	32,210	**36,288**

*Other non-audit services include tax, audit of compliance plan and other approved advisory services.
The auditor of the Fund is Deloitte Touche Tohmatsu.

9. Related party disclosures

The Responsible Entity of APN Retirement Properties Fund is APN Funds Management Limited (ACN 080 674 479) whose immediate and ultimate parent entity is APN Property Group Limited (ACN 109 846 068). Accordingly transactions with entities related to the APN Property Group are disclosed below.

APN Funds Management Limited also acts as the manager of the Fund.

Transactions with related parties have taken place at arm's length and in the ordinary course of business.

- Investment management fees of $126,000 (2009: $135,000) were paid to the Responsible Entity.
- Registry fees of $20,000 (2009: $21,000) were paid to the Responsible Entity.

Key management personnel

The Fund does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the Fund and personnel of this entity are considered the Key Management Personnel of the Fund.

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

- Christopher Aylward (resigned as Director 19 October 2009 but remains key management personnel)
- Howard Brenchley (Director)
- Clive Appleton (resigned as Director 19 October 2009 but remains key management personnel)

- David Blight (Director)
- Andrew Cruickshank (resigned as Non Executive Director 19 October 2009)
- Michael Butler (resigned as Independent Non Executive Director 19 October 2009)
- John Harvey (Independent Non Executive Director)
- John Freemantle (Chief Financial Officer)
- Geoff Brunsdon (appointed Independent Non Executive Director 19 October 2009
- Michael Johnstone (appointed Independent Non Executive Director 25 November 2009)

The positions noted above for the Fund's key management personnel are the positions held within the Responsible Entity and not the Fund itself.

Key management personnel compensation

Key management personnel are paid by the parent of the Responsible Entity for their services to APN Property Group Limited. Payments made from the Fund to the Responsible Entity do not include any amounts attributable to the compensation of key management personnel in respect of services rendered to the Fund itself.

Holdings of units by related parties

Related parties may purchase and sell units in the Fund in accordance with their respective constitutions and product disclosure statements. Details of units held in the Fund by related parties are set out below:

	Number of units held	
	2010	**2009**
Responsible entity and its associates		
APN Direct Property Fund	1,818,999	1,818,999

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

Directors' loans

No loans were made by the Fund to the key management personnel and/or their related parties.

10. Notes to the cash flow statement

(a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash includes cash on hand and in banks and investments in money market instruments net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the cash flow statement is reconciled to the balance sheet as follows:

	2010 $'000	**2009 $'000**
Cash	572	690
Total cash and cash equivalents	**572**	**690**

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

	2010 $'000	**2009 $'000**
Net profit /(loss)	**2,866**	**(519)**
Adjustments for:		
Net changes in fair value of investments	(200)	2,235
Write-down of investment properties to net realisable value	4	727
Interest paid classified as financing activity	497	566
Changes in net assets:		
(Increase)/decrease in income receivable	(39)	24
Increase/(decrease) in creditors and accruals	-	15
Net cash provided by operating activities	**3,128**	**3,048**

(c) Non-cash financing and investing activities

During the year no income distributions were reinvested by unitholders for additional units in the Fund (2009: Nil).

11. Financial risk management

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

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

These activities expose the Fund to a variety of financial risks including credit risk, liquidity risk and market risk which includes interest rate risk and other price risk.

The overall risk management program seeks to mitigate these risks and reduce volatility on the Fund's financial performance. Financial risk management is carried out centrally by the Responsible Entity under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign currency risk, interest rate risk, credit risk, use of derivative financial instruments and non derivative financial instruments, and the investment of excess liquidity.

(a) Financial risk management objectives

The Fund outsources the investment management to APN Funds Management Limited, who provides services to the Fund, co-ordinates access to domestic financial markets, and manages the financial risks relating to the operations of the Fund in accordance with an investment mandate set out in accordance with the Fund’s constitution and product disclosure statement. The Responsible Entity has determined that the appointment of this manager is appropriate for the Fund and is in accordance with the Fund’s investment strategy.

The Fund’s overall risk management programme focuses on ensuring compliance with the Fund’s product disclosure statement and seeks to maximise the returns derived for the level of risk to which the Fund is exposed.

The Fund’s investment objective is to provide investors with maximum unitholder value through investment in properties with strong lease covenants, secure income streams and potential for capital growth.

The Fund does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the Fund’s investment policies, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the Responsible Entity on a continuous basis.

It is the Responsible Entity’s aim to invest in such a way that any risks the Fund is exposed to are minimised, while at the same time endeavouring to achieve the investment objectives of the Fund.

Perpetual Trustees Limited acts as master custodian on behalf of the Responsible Entity and, as such, provides services including physical custody and safekeeping of assets, settlement of trades, collection of dividends and accounting for investment transactions.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 1 to the financial statements.

(c) Capital risk management

The capital structure of the Fund consists of cash and cash equivalents and the proceeds from the issue of the units of the Fund. An investment made by unitholders into the Fund is considered medium to long term and illiquid. There is currently no market on which units may be traded and there are no buy-back, redemption or withdrawal facilities available to unitholders at this present time.

In accordance with the Fund’s constitution (and as described in the product disclosure statement), the Responsible Entity of the Fund gave notice to unitholders that the Fund would be terminating as of 31 December 2008. Ernst & Young have been appointed by the Responsible Entity to conduct an orderly sale of the Fund’s assets to achieve a price above or as near possible to their book values. It is the Responsible Entity’s intention to ensure that the Fund maximizes the return to unitholders from the sale of the assets.

(d) Categories of financial instruments

The Fund has the following categories of financial assets and liabilities:

	2010 $'000	2009 $'000
Financial assets designated as at fair value through profit and loss	-	-
Loans and receivables	69	30
Financial liabilities measured at amortised cost	(9,912)	(10,022)

The carrying amount of interest-bearing liabilities as at 30 June 2010 is $9,524,000 (2009: $9,524,000).

(e) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Fund. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Credit risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The Fund has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the financial risk of financial loss from default. The Fund's investment objective is to find high quality customers predominately with a stable credit history. The Fund measures credit risk on a fair value basis.

The maximum exposure to credit risk as at 30 June 2010 and at 30 June 2009 is the carrying amounts of financial assets recognised in the balance sheet of the Fund. The Fund holds no collateral as security and the credit quality of all financial assets that are neither past due or impaired is consistently monitored in order to identify any potential adverse changes in the credit quality.

The Fund has significant credit risk exposure to one single counterparty being Lend Lease Prime Life Limited (LLP), the manager and operator of all of the retirement villages held by the Fund. Thorough assessment of the credit quality of the customer has been undertaken and its operations are reviewed on a continuous basis. LLP is a market leader in the development and management of retirement accommodation and due to the consistent growth the counterparty has experienced in both revenue and occupancy the Responsible Entity does not believe a high level of credit risk exists.

Derivative counterparties and cash transactions are limited to financial institutions that meet the Responsible Entity's minimum credit rating criteria. Credit risk arising on loans and receivable balances is monitored on an ongoing basis with the result that the exposure to bad debts by the Trust is not significant. There are no significant financial assets that have had renegotiated terms that would otherwise have been past due nor impaired.

Receivables are non-interest bearing and are generally on 30 day terms. An impairment loss would be recognised when there is objective evidence that an individual receivable is impaired. As at 30 June 2010 no receivables were impaired nor past due (2009: Nil).

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value. The ageing analysis of receivables not impaired at 30 June 2010 is as follows: $69,000 at 30 days (2009: $30,000 at 30 days).

Credit risk associated with receivables is considered minimal. Other receivables balances are not significant to the Fund's operations.

(f) Liquidity risk

Liquidity risk includes the risk that the Fund, as a result of its operations:

- will not have sufficient funds to settle a transaction on the due date;
- will be forced to sell financial assets at a value which is less than what they are worth; or
- may be unable to settle or recover a financial asset at all.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Fund manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. To help reduce these risks the Fund:

- has a liquidity policy which targets a minimum and average level of cash and cash equivalents to be maintained; and
- has readily accessible standby facilities and other funding arrangements in place.

The Fund's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities. However, as unitholders are unable to withdraw their units at any time, the Fund is therefore not exposed to the liquidity risk of meeting unitholders' withdrawals at any time.

The Fund's main liquidity risk is its ability to refinance its current borrowings. Realised profits generated by the Fund are to be returned to unitholders as described in the Fund's Constitution and as such realised profits are not used to support the refinancing activities or the Fund. To assist in mitigating refinancing risk the Responsible Entity is in regular contact with the financial institutions.

The table below shows an analysis of the contractual maturities of key liabilities which forms part of the Fund's assessment of liquidity risk:

	Less than 3 months $'000	3 months to 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
2010					
Liabilities					
Accounts payable	(168)	-	-	-	(168)
Distribution payable	(220)	-	-	-	(220)
Interest bearing liabilities	(142)	(457)	(10,777)	-	(11,376)
	(530)	**(457)**	**(10,777)**	**-**	**(11,764)**
2009					
Liabilities					
Accounts payable	(168)	-	-	-	(168)
Distribution payable	(330)	-	-	-	(330)
Interest bearing liabilities	(110)	(347)	(11,622)	-	(12,079)
	(608)	**(347)**	**(11,622)**	**-**	**(12,577)**

The Fund is able to sufficiently meet its liquidity obligations through the receipt of rental income, via re-financing of debt or the realisation of the sale of investment properties where required.

(g) Market risk

Market risk is the risk that the fair value of future cash flows of the Fund's financial instruments will fluctuate because of changes in market conditions or factors. The Investment Manager manages the financial risks relating to the operations of the Fund in accordance with an investment mandate set out in accordance with the Fund's constitution and product disclosure statement.

The Fund's investment mandate is to provide investors with maximum unitholder value through investment in properties with strong lease covenants, secure income streams and potential for capital growth. There has been no change to the Fund's exposure to market risks or the manner in which it manages and measures the risk. The components of market risk to which the Fund is exposed is interest rate risk.

Interest rate risk

The Fund's interest bearing financial assets and liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The risk is measured using sensitivity analysis.

As at balance date, the Fund's exposure to interest rates is as follows:
Assets: Cash and cash equivalents at fair values of $572,000 (2009: $690,000) with a weighted average interest rate of 4.16% (2009: 4.16%).
Liabilities: Interest-bearing liabilities at amortised cost of $9,524,000 (2009: $9,524,000) with a weighted average interest rate of 5.28% (2009: 5.3487%).

Interest rate sensitivity

The sensitivity analyses below have been determined based on the Fund's exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period, in the case of instruments that have floating interest rates. A 250 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

The interest rate movements have been determined based on management's best estimate, having regard to historical levels of changes in interest rates and the current debt environment in which the Fund operates. Actual movements in the interest rate may be greater or less than anticipated due to a number of factors, including unusually large market shocks both in the global and domestic property markets. As a result, historic variations in interest rates are not a definitive indicator of future variations.

For the Fund, a 250 basis point increase in interest rates would have decreased net profit, and decreased total equity by $224,000 (2009: a 25 basis point increase resulting in a decrease of $22,000); an equal change in the opposite direction would have increased net profit, and increased total equity by $224,000 (2009: a 25 basis point decrease resulting in an increase of $22,000). The methods and assumptions used to prepare the sensitivity analysis have not changed and it is performed on the same basis for 2009.

(h) Fair value of financial instruments

The directors of the Responsible Entity consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values.

The fair values and net fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and
- the fair value of derivative instruments, included in hedging assets and liabilities, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments.

As the Fund does not hold any financial instruments designated or measured at fair value, the Fund has not presented a fair value hierarchy.

12. Contingent liabilities and contingent assets

There are no commitments and contingencies in effect at 30 June 2010 (2009: Nil).

13. Subsequent events

On 26 July 2010, the Responsible Entity entered into an option agreement with Lend Lease Prime Life Limited (LLP) to sell all five retirement villages for a total sale price of $36,000,000. A non-refundable option fee of $2,000,000 was paid by LLP upon execution of the agreement. If the option is exercised by LLP the option fee forms part of the deposit for the sale of the retirement villages. The option expires in January 2011 with settlement due to occur two months after the exercise of the option. The net proceeds, after all debts and costs are retired, will be distributed to unitholders as soon as practicable following the sale of the assets. The Fund will continue to operate and pay monthly distributions until the sale and settlement of all of its investment properties takes place.

14. Additional information

APN Funds Management Limited, a private company incorporated and operating in Australia, is the Responsible Entity of APN Retirement Properties 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

APN | Regional Property Fund

ARSN 110 488 821

and its Controlled Funds

Annual Report for the Financial Year

Ended 30 June 2010

APN Regional Property Fund

Manager's Report

Market overview 2010

In the context of a volatile global economic environment, the last 12 months have seen the Australian economy perform relatively strongly. Whilst the impact of the Global Financial Crisis (GFC) lingers in many countries, the Australian economy has been typified by ongoing resilience. Key indicators such as unemployment and Gross Domestic Product (GDP) growth have remained strong. The unemployment rate was 5.2% at 30 June 2010; GDP growth to March 2010 was 2.7%; and the Consumer Price Index (CPI) rose at a rate of 2.9%. These metrics compare favourably with many other developed economies. In the US for instance, the unemployment rate ended the year at 9.5% after peaking at 10.1% in October 2009.

As a result of the fundamental strength of the Australian economy, the Reserve Bank of Australia (RBA) has tightened monetary policy in an attempt to gradually slow demand. Accordingly, we have seen the target cash rate increase six times (by 25bps each time) since October 2009 to a rate of 4.5% in June 2010. It has been these increases, along with the significantly higher margins that banks charge (over and above the base rate), that has impacted borrowers. As total borrowing costs increased, the amount of free cash flow available from all forms of investment has reduced.

Investment markets have been volatile in the face of inconsistent news flow on broader economic data. In the US for instance the benchmark interest rate stands at 0.25% reflecting the weakness in consumer and business sentiment. However, these historically low interest rates have not been the panacea for economic recovery. US households continue to repair balance sheets while corporations remain cautious limiting capital investment and new employment as fears of a double dip recession in the US and European Union sovereign debt concerns play on decision makers minds.

Australian equity markets reflect this caution (as measured by the S&P/ASX 200 Accumulation Index) returning 13.1% for the 12 months to 30 June. In this environment of general uncertainty it has been the more defensive sectors that outperformed. The S&P/ASX 200 Property Accumulation Index ("the Index") reflected this sentiment, delivering a total return of 20.4%.

It is now apparent that Australian direct property markets most likely hit the bottom in late 2009. Whilst many expect that some markets will remain under pressure in the future we may find this downturn was in fact one of the mildest on record. Metrics that support this contention include the fact that key office markets peak vacancy rates were well below those peaks in the last serious downturn. Melbourne and Sydney recorded peak vacancies of 6.8% and 9.1% respectively in this downturn while in the early 1990s the peaks were 25.8% and 22.4% respectively. However, despite the fact that retail sales were supported by stimulus spending during much of the financial year, the reality of higher interest rates had taken its toll with consumers moderating spending in line with a drop in confidence (Westpac-Melbourne Institute Consumer Confidence Index down in May and June).

Direct property values steadied during the year. Capitalisation rates that had been rising for all markets and sectors since 2007 were seen to stabilise over the last financial year as valuers became confident that sales evidence was proving that slightly more positive prospects existed for commercial property markets. Indeed, with leading property researcher Jones Lang Lasalle predicting rental growth and yield compression over the next few years for most sectors, the scene is set for a steady increase in domestic property values in the medium term.

The outlook for the unlisted real estate funds has improved over the last 12 months. The recovery theme is illustrated by the Mercer/IPD Australian Pooled Property Index for the 12 months to the end of June 2010 which showed that Australian unlisted property trusts delivered a total return of 4.0%. The Index indicated that the second quarter of 2010 had been the first period since November 2008 that reflected a positive annual return. This is consistent with a direct property market where values have generally stabilised.

Whilst the property outlook is positive, the challenge for many unlisted real estate managers is to access funding to recapitalise over-geared balance sheets. Where debt funding is available, it remains expensive with banks charging margins of 200 basis points to 300 basis points for refinancing of existing debts by unlisted trusts with elevated gearing.

Investment strategy

The APN Regional Property Fund's (Fund) strategy has been to manage and expand a property portfolio that predominantly consists of regional based commercial properties. As at the end of the 2009 financial year, the Fund comprises two retail assets and two A-grade office buildings located in regional New South Wales.

In October 2009, the Fund's debt facility with the Commonwealth Bank of Australia (CBA) was renewed for a term of three years. In order to secure the facility, the Fund repaid debt using cash accrued from the suspension of unitholder distributions. Amongst other changes to the conditions of the facility, CBA also required 50% of cash earnings be used to amortise debt until the loan to valuation ratio (LVR) is below 55%. At the drawdown of the facility, the LVR was 60% and as at 30 June 2010 it stands at 60.6%.

To meet the LVR target of 55% imposed by CBA (and potentially allow greater distribution payments), we are planning to sell some assets in the Fund. We will notify investors once we have made further progress in this regard.

Critically, the new debt facility enabled unitholder distributions to be returned, albeit at a level approximately half that which would normally be able to be paid due to the amortisation requirements under the new debt facility. The recommencement of distributions occurred in the quarter ended 31 March 2010 and is a significant achievement for the year.

The Fund's portfolio continues to perform well. As at 30 June 2010:

- Arrears were minimal at 0.50% of passing annual gross income;
- The weighted average lease expiry was 5.83 years; and
- Occupancy was a healthy 99.27%.

Looking ahead to next year, we expect to continue to pay distributions at a similar level to those paid in the 2010 year on an annualised basis. We also expect that the value of the Fund's assets will stabilise throughout the course of the next financial year.

Performance

The value of the Fund's properties declined 2.4% to be $56.965 million as at 30 June 2010. This was driven largely by the decline in value of the Fund's properties (which was reflected in increased capitalisation rates).

During the year the Fund's net asset value (NAV) decreased by 2.61% and was $0.7203 as at 30 June 2010. This was driven largely by the decline in value of the Fund's properties (which was reflected in higher capitalisation rates).

The Fund distributed a total of 1.50 cents per unit for the 12 months to 30 June 2010. This represents an annualised yield of 2.08% on the Fund's $0.7203 NAV price at the end of the period. The tax advantaged portion of the distribution was 100% which generally enhances the after tax return for investors.

Yours sincerely

Steven Lawford
Fund Manager, APN Regional Property Fund

Directors' report

The directors of APN Funds Management Limited (ACN 080 674 479) ("the Responsible Entity") submit herewith the annual financial report of APN Regional Property Fund and of its controlled funds ("the Fund) for the year ended 30 June 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 at the date of this report are:

Name	Particulars
David Blight BAppSc PRM (Val) Group Managing Director	▪ A Director since 2008. David joined APN Property Group as Managing Director in November 2008. From 2005, David was Chairman and Chief Executive Officer of ING Real Estate Investment Management and Vice Chairman, ING Real Estate based in The Hague, overseeing a portfolio of over $200billion in 22 countries around the world. Prior to this, David was Managing Director, ING Real Estate Investment Management in Australia. He has also held senior positions with Armstrong Jones Management Ltd (ING Real Estate's predecessor in Australia) and the Mirvac Group.
Howard Brenchley BEc Executive Director Chief Investment Officer	▪ A Director since 1998. Howard has had a high profile as a property trust industry investor, researcher and commentator for over 20 years. Prior to joining APN in 1997, Howard was research director of Property Investment Research Pty Limited, an independent Australian research company specialising in the property trust sector. Howard has been primarily responsible for the development of APN's retail funds management business and the suite of funds. Howard continues to oversee all investment strategy, product management and product development for APN's retail funds.
John Harvey LLB, B JURIS, GradDip (Acc), FCA Independent Chairman	▪ A Director since 2007. ▪ Appointed Chairman in 2008. ▪ A member of the Audit, Compliance & Risk Management Committee. John's early career was in tax law and accounting, including senior management roles with Price Waterhouse from 1989 to 1996 and Chief Executive Officer of PricewaterhouseCoopers from 1996 to 2000. From 2001 to 2004 he was Chief Executive of the Mt Eliza Business School. John is currently Chairman of Federation Square Pty Limited and Director of David Jones Limited, Australian Infrastructure Fund Limited, Templeton Global Growth Fund Limited.
Geoff Brunsdon B.Com, CA, FINSIA Fellow, AICD Fellow Independent Director	▪ A Director since 19 October 2009. ▪ Chairman of the Audit, Compliance & Risk Management Committee. Geoff has had a long and distinguished career in investment banking spanning more than 25 years. Until June 2009 he was Managing Director and Head of Investment Banking of Merrill Lynch International (Australia) Limited. His is a member of the Australian Takeovers Panel and Chairman of ING Private Equity Access Limited and a non executive director of Sims Metal Management Limited. Geoff is also involved in several non-profit organizations including as Chairman of Redkite (supporting families who have children with cancer), the Wentworth Group of Concerned Scientists and Purves Environmental Custodians.
Michael Johnstone BTRP, LS, AMP (Harvard) Independent Director	▪ A Director 25 November 2009. ▪ A member of the Audit, Compliance & Risk Management Committee. ▪ A member of the Investment Committee for APN's Development Fund No.1 and Development Fund No.2 Michael has almost 40 years of global business experience in chief executive and general management roles and more recently in non executive directorships. He has lived and worked in overseas locations including the USA, has been involved in a range of industries and has specialised in corporate and property finance and investment, property development and funds management. His career has included lengthy period in corporate roles including 10 years as one of the Global General Managers of the National Australia Bank Group. He has extensive experience in mergers and acquisitions, capital raising and corporate structuring. Michael is a non executive director of the Responsible entity of the listed Australian Education Trust. He is also a non executive director of a number of companies in private environments including the not for profit sector.

Directors who resigned during the financial year are:

Name	Particulars
Christopher Aylward Executive Director	▪ Resigned 19 October 2009. Chris has been involved in the Australian property and construction industry for over 30 years. Prior to jointly establishing APN in 1996, Chris was a Founding Director of Grocon Pty Limited and was responsible for the construction of commercial and retail properties in Sydney and Melbourne with a total value of over $2 billion, including Governor Phillip and Governor Macquarie Towers in Sydney and 120 Collins Street and the World Congress Centre in Melbourne.
Clive Appleton BEc, MBA, GradDip (Mktg), FAICD Executive Director	▪ Resigned 19 October 2009. Clive joined APN Property Group Limited in April 2004 after a long career in property and funds management. He is now responsible for APN's real estate private equity group. Prior to joining the Group, Clive was the Managing Director of the Gandel Group, one of Australia's foremost shopping centre developers and managers. Prior to joining the Gandel Group in 1996, Clive was Managing Director of Centro Properties Limited (formerly Jennings Properties Limited), a listed property developer, manager and owner.
Michael Butler MBA, B Sc, FAICD Independent Non-Executive Director	▪ Resigned 19 October 2009. ▪ Chairman of the Audit & Risk Management Committee until 19 October 2009. Michael has over 20 years experience in the financial services sector, having enjoyed a long career at Bankers Trust Australia, following positions held at AMP Society and Hill Samuel Australia (the predecessor of Macquarie Bank). Since 1999, Michael has been a professional director. He is currently a Director of AXA Asia Pacific Holdings Limited (since 2003) and Metcash Limited (since 2007).
Andrew Cruickshank Non-Executive Director	▪ Resigned 19 October 2010. ▪ A member of the Audit & Risk Management Committee until 19 October 2009. Andrew has 30 years experience in the Australian, British and Hong Kong property markets. Prior to jointly establishing APN in 1996, Andrew was general manager of Grocon Pty Limited. Andrew's Australian property development, management and finance experience includes extensive involvement in the funding and development management of the Grocon projects at 120 and 161 Collins Street, the SECV headquarters in Melbourne and the Penrith Taxation Office in Sydney.

Company Secretary	
John Freemantle B. Bus (Acctg), CPA	▪ Company Secretary since 2007 John has been involved in the property industry since 1977. Before joining APN in 2006, he worked with Dillingham Constructions, Jennings Property Group and Centro Property Group, where he held the roles of Chief Financial Officer and Company Secretary for 17 years. John is also Chief Financial Officer of the APN Group.

Director's interests in the Fund

Directors of the Responsible Entity are not entitled to any interests in the Fund, or any rights or options over interests in the Fund. No director has entered into contracts to which the director is a party or under which the director is entitled to a benefit that confers a right to call for or deliver an interest in the Fund.

Meetings of directors

The Board of APN Funds Management Limited meets regularly to review and discuss the operations of the Fund. The following table set out the number of directors' meetings attended by each director.

Director	Board meetings		Audit, Compliance and Risk Management Committee meetings	
	A	B	A	B
J Harvey	13	11	9	9
G Brunsdon[2]	9	9	6	6
M Johnstone[3]	7	7	6	6
D Blight	13	13	N/A	N/A
H Brenchley	13	12	N/A	N/A
C Aylward[1]	5	3	N/A	N/A
C Appleton[1]	5	4	N/A	N/A
M Butler[1]	5	4	3	3
A Cruickshank[1]	5	5	3	3

[1]Resigned 19 October 2009
[2]Appointed 19 October 2009
[3]Appointed 25 November 2009
A – Number of meetings held during the time the director held office during the year
B – Number of meetings attended

Principal activities

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

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

The Fund did not have any employees during the year.

Changes in state of affairs

During the financial year there was no significant change in the state of affairs of the Fund.

Future developments

The Fund will continue to pursue its policy of increasing returns through active investment selection.

Disclosure of information regarding likely developments in the operations of the Fund in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Fund. Accordingly, this information has not been disclosed in this report.

Review of operations

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

The primary assets of the Fund are investments in five wholly owned and controlled funds which own Honeysuckle House, Honeysuckle House 2, Grafton Mall and Parkes Shopping Centre properties.

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. One of the terms of the new facility states that the loan valuation ratio (LVR) must be less than 65% at all times. Where the LVR is greater than 55%, an amount equal to or greater than 50% of distributions paid to unitholders is to be applied as a permanent debt reduction prior to any distributions being paid. The application of this term resulted in the reduction of the debt facility by $250,000 during the period. The LVR as at 30 June 2010 was 61%.

Results

The results of the operations of the Fund are disclosed in the statement of comprehensive income of these financial statements. The consolidated loss attributable to unitholders for the year ended 30 June 2010 was $141,000 (2009: loss of $9,382,000).

Distributions

In respect of the financial year ended 30 June 2010 a final distribution of 0.75 cents per unit was paid to unitholders on 2 August 2010 (2009: nil). The total distribution paid to unitholders in respect to the year ended 30 June 2010 was 1.50 cents per unit (2009: 4.25 cents per unit).

For full details of distributions paid and payable during the year, refer to note 5 to the financial statements.

Corporate governance statement

As the Responsible Entity, APN Funds Management Limited (APN FM) must comply with all relevant sections of the Corporations Act, the Constitution and the compliance plan in the course of managing the Fund. This statement outlines the main corporate governance practices in place throughout the financial year.

Board restructure

The Responsible Entity is a subsidiary of APN Property Group Limited (APN PG), a company listed on the Australian Securities Exchange (ASX). During the year a restructure of the board of APN FM and APN PG was completed. Whereas previously, both companies an identical board structure, the board of APN FM (Board) now comprises five Directors, three of whom are independent of the business and of the board of APN PG.

The Board considers that the separation of the boards ensures that the responsibility for managing the interests of each Fund and its investors is completely independent of managing the interests of APN PG, the holding company of the Responsible Entity. The separation has also assisted, and will continue to assist, in enhancing the identification and management of conflicts of interest and related party transactions within the APN Group.

Importantly, all directors of APN FM have a legal obligation to put the interests of investors in the respective managed funds ahead of their own and those of APN FM's sole shareholder, APN PG.

The Board of APN Funds Management Limited has adopted the following Corporate Governance policies and procedures:

Role and responsibility of the board

Without limitation to the duties and responsibilities of directors under the Corporations Act, the Constitution and all applicable laws, in order to ensure that APN FM complies with its responsibilities, the Board has adopted a board charter setting out its roles and responsibilities (including the roles and responsibilities of the Chairman). In accordance with the board charter, the Board is responsible for:

- the oversight of APN FM, including its control and accountability systems;
- subject to its overriding duties to unitholders in the respective Funds, setting the aims, strategies and policies of APN FM;
- where appropriate, ratifying the appointment and the removal of senior executives including, but not limited to the fund managers of the respective Funds;
- providing input into and final approval of management's development of strategy and performance objectives in respect of the Funds;
- reviewing, ratifying and monitoring systems of risk management and internal compliance and control, codes of conduct and legal compliance, particularly in respect of the Funds;
- identifying conflict of interest situations within APN FM's business and the business of the Funds and:
- determining whether the conflict of interest situation is to be avoided or whether it can be appropriately controlled; and
- if the conflict of interest situation can be appropriately controlled, determining and implementing the procedure necessary to control the conflict;
- monitoring senior management's performance and implementation of strategy and ensuring appropriate resources are available;
- approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures in respect of the Funds;
- approving the issue of disclosure documents in respect of the respective Funds; and
- approving and monitoring financial and other reporting obligations of the respective Funds, in particular ensuring compliance with the continuous disclosure obligations of the respective Funds under the Corporations Act and the Listing Rules.

Composition, structure and processes

The Board currently comprises five Directors, three of whom (including the Chairman) are independent as defined by the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. The names and biographical details of the Directors are set out on pages 2 to 3 of the Directors' report.

Terms of appointment

The Board has adopted a letter of appointment that contains the terms on which non-executive directors are to be appointed, including individual directors' roles and responsibilities and the basis upon which they will be indemnified by the Responsible Entity. Non-executive directors are entitled to take independent advice at the cost of the Responsible Entity in relation to their role as members of the Board.

Review of board performance

The performance of the Board is reviewed at least annually by the Board. The evaluation includes a review of:

- the Board's membership and the charters of the Board and its committees;
- Board processes and its committee's effectiveness in supporting the Board; and
- the performance of the Board and its committees.

An annual review of each Director's performance is undertaken by the Chairman, after consultation with the other directors.

Audit, Compliance and Risk Management Committee

The Board has appointed an Audit, Compliance and Risk Management Committee to oversee certain responsibilities of the Responsible Entity. During the year, responsibility for overseeing the Company's compliance responsibilities was added to the committee's charter. This role was previously undertaken by a separately appointed committee. The committee's primary responsibility is to ensure a sound system of risk oversight and internal control. During the year, the Committee has received reports detailing the effectiveness of APN FM's current risk management program from management and advised the Board accordingly. The specific responsibilities of the committee include:

Audit

External audit

- to recommend to the Board the final accounts in respect of each of the Funds and APN FM (in its own capacity);
- to recommend to the Board the appointment and removal of the Fund's external auditors (including providing the Board with fee proposals in relation to the external auditors);
- to monitor compliance with the Corporations Act 2001 (Cth) in relation to auditor rotation;
- to undertake periodic reviews in order to monitor the effectiveness, objectivity and independence of the external auditors;
- to review, consider and advise the Board on the adequacy of the audit plan proposed by the external auditors;
- to review all of the external auditors' reports;
- to commission such enquiry by the external auditors as the Committee deems appropriate;
- to consider management's responses to matters that arise from external audits;
- to conduct regular reviews of management's activity pertaining to audit findings to ensure any issues are being dealt with in a timely manner; and
- to perform annual assessments of the auditors' compliance with any applicable laws, regulations and any other relevant requirements.

Financial statements

- to review the financial statements and related notes, and ensure they are consistent with information known to the Committee and that they reflect appropriate accounting principles, standards and regulations;
- to review external auditors' reviews or audits of the Funds' financial statements and corresponding reports;
- to make recommendations to the Board regarding any significant changes required in external auditors' audit plans;
- to review accounting and reporting issues as they arise;
- to review, and advise the Board on, any disputes or issues that may arise during the course of an audit; and
- to advise the Board on any material matters that arise during an audit that the Committee becomes aware of.

Risk management

- to monitor the management of risks relevant to APN FM and the Funds;
- to review and make recommendations to the Board regarding APN FM's current risk management program (including all internal policies developed and implemented to manage and identify all of the identified risks) and whether it identifies all areas of potential risk;
- to review and make recommendations to the Board on the strategic direction, objectives and effectiveness of APN FM's financial and risk management policies; and
- to oversee investigations of allegations of fraud or malfeasance and, where required, report details to relevant authorities.

Compliance

- to monitor the compliance of APN FM with:
- the Corporations Act;
- the compliance plan of each Fund;
- the constitution of each Fund;
- the Australian Financial Services Licence (AFSL) of APN FM; and
- where a Fund is a Listed Scheme, the Listing Rules;
- to report to the Board any breach of the obligations listed above;
- to report to the Australian Securities and Investments Commission (ASIC) if the Committee is of the view that APN FM has not taken, or does not propose to take, appropriate action to deal with a matter reported;
- to assess at regular intervals whether each Fund's compliance plan is adequate;
- to report to the Board on its assessment of each Fund's compliance plan; and
- to make recommendations to the Board about any changes that it considers should be made to the Funds' compliance plans.

Related party transactions and conflicts of interest

The Committee must monitor compliance with the Conflicts Policy adopted by APN PG and APN FM in respect of the APN Group and comply with the obligations under the Conflicts Policy.

Without limiting its obligations under the Conflicts Policy, the Committee will ensure that:

- any breach of the Conflicts Policy is noted on the compliance breach register;
- the activity which caused the breach is reviewed and any steps necessary to ensure compliance with the Conflicts Policy in the future are taken; and
- in cases of significant breaches or likely breaches, ASIC is notified in accordance with section 912D(1) of the Corporations Act.

The Committee currently comprises three Directors, all of whom are independent as defined by the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. The names and biographical details of the Committee members are set out on pages 2 to 3 of the Directors' report.

Nomination and remuneration
The Board of the parent entity, APN Property Group Limited, is responsible for all nomination and remuneration policies and appointments for the group.

Other corporate governance policies and charters
A copy of the Board Charter and the Audit, Compliance and Risk Management Committee Charter is available at the Company's website (www.apngroup.com.au).

Also available are the following corporate governance policies, which have been adopted by all entities (including the Responsible Entity) within the APN Group in accordance with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations:

- Securities Trading Policy;
- Continuous Disclosure Policy;
- Code of Conduct;
- Related Party Transactions and Conflicts of Interest Policy;
- Privacy Policy; and
- Communications Policy.

Interests of the Responsible Entity

Responsible Entity's Remuneration

In accordance with the trust constitution the Responsible Entity is entitled to receive:

- a management fee of up to 0.20% of the gross asset value of the Fund and the consolidated entities, payable quarterly in arrears; and
- reimbursement of fund expenses incurred by the Responsible Entity on behalf of the Fund.

Fees paid to the Responsible Entity out of Fund property during the financial year are disclosed in note 11 to the financial statements.

The number of units in the Fund held by the Responsible Entity as at the end of the financial year is disclosed in note 11 to the financial statements.

The number of interests in the Fund issued during the financial year, withdrawals from the Fund during the financial year, and the number of interests in the Fund at the end of the financial year is disclosed in note 7 to the financial statements.

The value of the Fund's assets as at the end of the financial year is disclosed in the Statement of Financial Position as "Total Assets" and the basis of valuation is included in note 1 to the financial statements.

Subsequent events

There has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Fund, the results of the Fund, or the state of affairs of the Fund in future financial years.

Options granted

No options were:

- Granted over unissued units in the Fund during or since the end of the financial year; or
- Granted to the Responsible Entity.

No unissued units in the Fund were under option as at the date on which this Report is made.
No units were issued in the Fund during or since the end of the financial year as a result of the exercise of an option over unissued units in the Fund.

Indemnification of officers of the responsible entity and auditors

During or since the end of the financial year, the Responsible Entity has not indemnified or made a relevant agreement to indemnify an officer of the Responsible Entity or auditor of the Fund or of any related body (corporate) against a liability incurred as such an officer or auditor. In addition, the Responsible Entity has not paid, or agreed to pay, a premium in respect of a contract insuring against a liability incurred by an officer of the Responsible Entity or auditor of the Fund.

Non-audit services

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

The board of the Responsible Entity has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the audit committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Responsible Entity and have been reviewed by the Board to ensure they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Fund, acting as advocate for the Fund or jointly sharing economic risks and rewards.

Non-audit services relate to tax compliance, audit of compliance plan and other approved advisory services, which amounted to $33,406 (2009: $43,192) for the year ended 30 June 2010.

Auditor's independence declaration

The Auditor's Independence Declaration is included on page 92 of the annual report.

Rounding off of amounts

The 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.298(2) of the Corporations Act 2001.

On behalf of the Directors

David Blight
Director
MELBOURNE, 25 August 2010

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

DX: 111
Tel: +61 (0) 3 9671 7000
Fax: +61 (0) 3 9671 7001
www.deloitte.com.au

The Board of Directors
APN Funds Management Limited
Level 30
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 the Responsible Entity, APN Funds Management Limited, regarding the annual financial report for APN Regional Property Fund and its Controlled Funds.

As lead audit partner for the audit of the financial statements of APN Regional Property Fund and its Controlled Funds for the financial year ended 30 June 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 audit; and
(ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

DELOITTE TOUCHE TOHMATSU

Peter A. Caldwell
Partner
Chartered Accountants
Melbourne, 25 August 2010

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

DX: 111
Tel: +61 (0) 3 9671 7000
Fax: +61 (0) 3 9671 7001
www.deloitte.com.au

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

We have audited the accompanying financial report of APN Regional Property Fund ("the Fund") and its Controlled Funds (together "the Consolidated Fund"), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Consolidated Fund comprising the Fund and the Funds it controlled at the year's end or from time to time during the financial year as set out on pages 95 to 115.

Directors' Responsibility for the Financial Report

The directors of the Responsible Entity are responsible for the preparation and fair presentation of the 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 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. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the consolidated financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Consolidated Fund's preparation and fair presentation of the financial report 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 Consolidated Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Deloitte.

Auditor's Independence Declaration

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

Auditor's Opinion

In our opinion:

(a) the financial report of APN Regional Property Fund and its Controlled Funds is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the Consolidated Fund's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

DELOITTE TOUCHE TOHMATSU

Peter A. Caldwell
Partner
Chartered Accountants
Melbourne, 25 August 2010

Directors' declaration

The directors of the Responsible Entity declare that:

a) in the directors' opinion, there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable;

b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Fund;

c) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards as referred to in Note 1 of the financial statements;

d) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

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

On behalf of the Directors

David Blight
Director
MELBOURNE, 25 August 2010

Statement of comprehensive income
for the financial year ended 30 June 2010

		Consolidated	
	Note	**2010 $'000**	**2009 $'000**
Income			
Rental		6,657	7,949
Interest		65	159
Changes in the fair value of investment properties		(1,754)	(10,893)
Changes in the fair value of financial assets		(418)	-
Realised loss on disposal of investment properties		-	(839)
Total income		**4,550**	**(3,624)**
Expenses			
Investment management fee		156	202
Custodian fee		24	23
Property management expenses		1,700	1,928
Other expenses		145	182
Auditor's remuneration	9	67	76
Finance costs		2,599	3,347
Total expenses		**4,691**	**5,758**
Net loss		**(141)**	**(9,382)**
Other comprehensive income			
Other comprehensive income		-	-
Total comprehensive income		**(141)**	**(9,382)**
Earnings per unit			
Basic (cents per unit)	8	(0.43)	(28.77)
Diluted (cents per unit)	8	(0.43)	(28.77)

Notes to the financial statements are included on pages 100 to 115.

Statement of financial position
as at 30 June 2010

		Consolidated		
	Note	2010 $'000	2009 $'000	1 July 2008 $'000
Assets				
Cash and cash equivalents		1,654	3,111	4,025
Receivables and other assets	2	290	612	530
Investment properties	3	56,965	58,350	78,150
Total assets		**58,909**	**62,073**	**82,705**
Liabilities				
Payables	4	565	485	293
Distribution payable	5	245	-	722
Interest bearing liabilities	6	34,605	37,464	46,798
Total liabilities		**35,415**	**37,949**	**47,813**
Net assets		**23,494**	**24,124**	**34,892**
Equity attributable to unitholders				
Contributed equity		27,470	27,470	27,470
Retained earnings		(3,976)	(3,346)	7,422
Total equity	7	**23,494**	**24,124**	**34,892**

Notes to the financial statements are included on pages 100 to 115.

Statement of changes in equity
for the financial year ended 30 June 2010

	Consolidated		
	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**
Net loss for the year	-	(9,382)	(9,382)
Other comprehensive income	-	-	-
Total comprehensive income for the period	**-**	**(9,382)**	**(9,382)**
Distributions paid to investors	-	(1,386)	(1,386)
Balance at 30 June 2009	**27,470**	**(3,346)**	**24,124**
Net loss for the year	-	(141)	(141)
Other comprehensive income	-	-	-
Total comprehensive income for the period	**-**	**(141)**	**(141)**
Distributions paid to investors	-	(489)	(489)
Balance at 30 June 2010	**27,470**	**(3,976)**	**23,494**

Notes to the financial statements are included on pages 100 to 115.

Statement of cash flows
for the financial year ended 30 June 2010

		Consolidated	
	Note	**2010 Inflows/ (Outflows) $'000**	**2009 Inflows/ (Outflows) $'000**
Cash flows from operating activities			
Rental income received		5,017	5,896
Interest received		75	200
Other expenses paid		(523)	(353)
Net cash provided by operating activities	12(b)	**4,569**	**5,743**
Cash flows from investing activities			
Payments associated with investment properties		(369)	(366)
Proceeds from sale of investment properties		-	8,435
Net cash (used in)/provided by investing activities		**(369)**	**8,069**
Cash flows from financing activities			
Distributions paid		(245)	(2,108)
Finance costs paid		(2,662)	(3,118)
Repayment of borrowings		(2,750)	(9,500)
Net cash used in financing activities		**(5,657)**	**(14,726)**
Net decrease in cash and cash equivalents held		(1,457)	(914)
Cash and cash equivalents at beginning of the financial year		3,111	4,025
Cash and cash equivalents at end of the financial year	12(a)	**1,654**	**3,111**

Notes to the financial statements are included on pages 100 to 115.

Notes to the financial statements

1. Summary of significant accounting policies

Statement of compliance & basis of preparation

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

The financial statements were authorised for issue by the directors on 25 August 2010.

The financial report has been prepared on the basis of historical cost, except for the revaluation of investment properties and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

In the application of A-IFRS management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2010 and the comparative information presented in these financial statements. Effective for this current financial year end, parent entity columns are no longer presented in consolidated financial report. Instead, financial information of the parent entity is disclosed by way of note. This requirement as a result of the Corporations Amendment (Corporate Reporting Reform) Bill 2010 was passed by the House of Representatives on 21 June 2010, and passed by the Senate on 24 June 2010.

Adoption of new and revised accounting Standards and Interpretations

In the current year, the Fund has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. 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 2009-2 Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments.
AASB 2009-2 is applicable for annual reporting periods beginning on or after 1 January 2009. The adoption of AASB 2009-2 has resulted in expanded AASB 7 disclosures in respect of fair value measurements and liquidity risk. This has not affected the amounts recognised in the financial statements. The Fund has elected to not provide comparative information for these expanded disclosures in the current year in accordance with the transitional relief offered by these amendments.

(iv) AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project.
AASB 2008-5 is applicable for annual reporting periods beginning on or after 1 January 2009. The adoption of AASB 2008-5 has resulted in accounting changes for presentation, recognition and measurement purposes, while some other amendments that relate to terminology and editorial changes. This has none or minimal impact on the amounts recognised in the financial statements.

(v) AASB 2007-10 Further Amendments to Australian Accounting Standards arising from AASB 101
AASB 2007-10 is applicable for annual reporting periods beginning on or after 1 January 2009. This Amending Standard changes the term 'general purpose financial report' to 'general purpose financial statements' and the term 'financial report' to 'financial statements', where relevant, in Australian Accounting Standards (including Interpretations) to better align with IFRS terminology. The adoption of this standard has not affected any of the amounts recognised in the financial statements.

(vi) 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
30 June 2010	Decreased by $23,494,000	Increased by $27,470,000	Decreased by $3,976,000	Nil
30 June 2009	Decreased by $24,124,000	Increased by $27,470,000	Decreased by $3,346,000	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.

The adoption of AASB 2008-2 has impacted the *Statement of Comprehensive Income* in relation to distributions is as follows:

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	
30 June 2010	Increased by $489,000	Increased by $630,000	Increased by $141,000	Decreased by $141,000
30 June 2009	Increased by $1,386,000	Increased by $10,768,000	Increased by $9,382,000	Decreased by $9,382,000

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

As at	Net Profit for the period	Other comprehensive income	Distributions paid to unitholders	Contributed Equity	Retained Earnings
30 June 2010	Increased by $141,000	Nil	Increased by $489,000	Nil	Decreased by $630,000
30 June 2009	Increased by $9,382,000	Nil	Increased by $1,386,000	Nil	Decreased by $10,768,000

Rounding off of amounts

The 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.

Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the yearend financial report:

(a) Investment income

Distribution income is recognised on a receivable basis as of the date the unit value is quoted ex-distribution or is recognised on an entitlement basis.

Rental income arising in the ordinary course of activities is recognised at the fair value of the consideration received or receivable net of the amount of goods and services tax levied and is recognised on a straight-line basis over the lease term. Rental income not received at reporting date, is reflected in the balance sheet as a receivable or if paid in advance, as rent in advance.

Interest revenue is recognised as it accrues on a time proportionate basis taking into account the effective yield on the financial assets.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments or other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

(c) Investments in managed investment schemes

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value. Gains or losses arising from changes in the fair value of investments are included in profit or loss in the period in which they arise. Fair value of the scheme is determined by reference to the scheme's change in fair value of its underlying investment properties.

(d) Loans and receivables

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment. Receivables may include amounts for dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment in accordance with the policy set out in note (a) above.

(e) Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured at its fair value at the reporting date. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

(f) Expenses

All expenses, including responsible entity fees and custodian fees, are recognised in the statement of comprehensive income on an accruals basis.

(g) Distributions

In accordance with the Fund's constitution, the Fund fully distributes its distributable (taxable) income, and any other amounts determined by the responsible entity, to unitholders by way of cash or reinvestment into the Fund.

Distributions to unitholders comprise the income of the Fund to which the unitholders are presently entitled. The distributions are payable quarterly and at the end of June each year.

(h) Applications and redemptions

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund are recorded gross of any exit fees payable after the cancellation of units redeemed.

The application and redemption prices are determined as the net asset value of the Fund adjusted for the estimated transaction costs, divided by the number of units on issue on the date of the application or redemption.

(i) Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

(j) Income tax

Under current income tax legislation the Fund is not liable to pay income tax as the net income of the Fund is assessable in the hands of the beneficiaries (the unitholders) who are 'presently entitled' to the income of the Fund. There is no income of the Fund to which the unitholders are not presently entitled and additionally, the Fund Constitution requires the distribution of the full amount of the net income of the Fund to the unitholders each period. As a result, deferred taxes have not been recognised in the financial statements in relation to differences between the carrying amounts of assets and liabilities and their respective tax bases, including taxes on capital gains which could arise in the event of a sale of investments for the amount at which they are stated in the financial statements. In the event that taxable gains are realised by the Fund, these gains would be included in the taxable income that is assessable in the hands of the unitholders as noted above.

Realised capital losses are not distributed to unitholders but are retained within the Fund to be offset against any realised capital gains. The benefit of any carried forward capital losses are also not recognised in the financial statements. If in any period realised capital gains exceed realised capital losses, including those carried forward from earlier periods and eligible for offset, the excess is included in taxable income that is assessable in the hands of unitholders in that period and is distributed to unitholders in accordance with the requirements of the Fund Constitution.

(k) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:
- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

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

(l) Impairment of financial assets

Financial assets, other than those at fair value through the profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. Objective evidence of impairment can exist for example where there has been a significant or prolonged decline in the fair value below cost.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(m) Payables

Trade payables and other accounts payable are recognised when the Fund becomes obliged to make future payments resulting from the purchase of goods and services. Payables include liabilities and accrued expenses owing by the Fund which are unpaid as at balance date.

(n) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

(o) Derivative financial instruments

The Fund enters into derivative financial instruments such as interest rate swaps, to manage its exposure to interest rates. Derivatives are categorised as held for trading and are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit and loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit and loss depends on the nature of the hedge relationship.

(p) Provisions

Provisions are recognised when the Fund has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

An onerous contract is considered to exist where the Fund has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

(q) Earnings per unit

(i) Basic earnings per unit

Basic earnings per unit is calculated as net profit attributable to unitholders of the Fund for the year divided by the weighted average number of ordinary units outstanding during the year, adjusted for bonus elements in ordinary units issued during the year.

(ii) Diluted earnings per unit

Diluted earnings per unit adjust the figures used in the determination of basic earnings per unit to take into account the effect of interest and other financing costs associated with dilutive potential ordinary units and the weighted average number of units assumed to have been issued for no consideration in relation to dilutive potential ordinary units.

(r) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Fund and entities controlled by the Fund. Control is achieved where the Fund has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

(s) AASB Accounting Standards not yet effective

At the date of authorisation of the financial report, a number of standards and Interpretations were in issue but not yet effective. Initial application of the following Standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the Fund and the Fund's financial report:

	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Standard		
▪ AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 January 2010	30 June 2011
▪ AASB 124 Related Party Disclosures (revised December 2009), AASB 2009-12 Amendments to Australian Accounting Standards	1 January 2011	30 June 2012
▪ AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Financial arising from AASB 9	1 January 2013	30 June 2014

Initial application of the following Standards is not expected to have any material impact on the financial report of the Fund:

	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Standard/Interpretation		
▪ AASB 2010-1 Amendments to Australian Accounting Standards – Limited Exemption from Comparative AASB 7 Disclosures for First-time Adopters (ASSB 1 & AASB 7)	1 July 2010	30 June 2011
▪ AASB 2010-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project (AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13)	1 January 2011	30 June 2011

2. Receivables

	2010 $'000	2009 $'000
Accounts receivable	61	167
Derivative financial assets	19	-
Prepaid expenses	141	99
Prepaid interest	-	207
Accrued property income	65	124
Other	4	15
	290	**612**

Accounts receivable are non-interest bearing and are generally on 0-30 day terms. An impairment loss would be recognised when there is objective evidence than an individual receivable is impaired. As at 30 June 2010, no receivables were impaired nor past due (2009: Nil).

The ageing analysis of accounts receivable as at 30 June 2010 is as follows:

	2010 $'000	2009 $'000
Ageing analysis of receivables not impaired		
0-30 days	43	145
31-90 days	-	13
91+ days	18	9
	61	**167**

3. Investment properties

	2010 $'000	2009 $'000
Investment properties at fair value		
Carrying amount at the beginning of the period	58,350	78,150
Additions	-	-
Disposals	-	(8,435)
Costs associated with investment properties	369	367
Realised loss on sale of investment properties	-	(839)
Changes in fair value of investment properties	(1,754)	(10,893)
Carrying amount at the end of the period	**56,965**	**58,350**

The carrying amount of investment property is the fair value of the property as determined by a registered independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. The valuation used in determining fair value for the current period was performed by Colliers International and dated 30 June 2010.

Fair values were determined using the capitalisation of net passing income and the discounted cash flow methods and also having regard to recent market transactions for similar properties in the same location as the Fund's investment property. Investment property comprises a number of office and retail properties that are leased to third parties. Each of the leases contains an initial non-cancellable period. Subsequent renewals are negotiated with the lessee.

Leases as lessor

The Fund leases out its investment property under operating leases. The future minimum lease payments receivable under non-cancellable leases are as follows:

	2010 $'000	2009 $'000
Less than one year	5,572	6,894
Between one and five years	22,085	25,561
More than five years	5,173	17,018
	32,830	**49,473**

4. Payables

	2010 $'000	2009 $'000
Accounts payable	184	296
Accrued expenses	341	149
Other	40	40
	565	**485**

5. Distributions paid and payable

	2010		2009	
	Cents per unit	$'000	Cents per unit	$'000
Distribution paid during the period	0.75	244	4.25	1,386
Distribution payable	0.75	245	-	-
	1.50	**489**	**4.25**	**1,386**

6. Interest bearing liabilities

	2010 $'000	2009 $'000
Cash advance facility - fixed	34,605	37,464
	34,605	**37,464**

	2010 $'000	2009 $'000
Financing arrangements		
The Fund has access to the following lines of credit:		
Total facilities available:		
Cash advance facility	35,000	38,000
Facilities utilised at balance date:		
Cash advance facility	34,750	38,000
Facilities not utilised at balance date:		
Cash advance facility	250	-

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.

The cash advance facility is secured by registered first mortgage over the Consolidated Fund's investment properties. The cash advance facility includes an amount of $145,000 of deferred borrowing costs that have been allocated against the total amount of the facility utilised at balance date (2009: $36,000). The cash advance facility is payable in October 2012 and bears interest payable quarterly at a floating interest rate. The facility is fully hedged via an interest rate cap agreement.

One of the terms of the new facility states that the loan valuation ratio (LVR) must be less than 65% at all times. Where the LVR is greater than 55%, an amount equal to or greater than 50% of distributions paid to unitholders is to be applied as a permanent debt reduction prior to any distributions being paid. The application of this term resulted in the reduction of the debt facility by $250,000 during the period. The LVR as at 30 June 2010 was 61%.

7. Equity

	2010 Units	2009 Units
Units on issue		
On issue at beginning of the year	32,616,337	32,616,337
Applications	-	-
Redemptions	-	-
Units issued upon reinvestment of distributions	-	-
On issue at yearend	**32,616,337**	**32,616,337**

	2010 $'000	2009 $'000
Movements in equity		
At beginning of the year	24,124	34,892
Unit applications	-	-
Unit redemptions	-	-
Units issued upon reinvestment of distributions	-	-
Net profit/(loss) for the period	(141)	(9,382)
Distributions paid to unitholders	(489)	(1,386)
Total equity	**23,494**	**24,124**

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

8. Earnings per unit

	2010 Cents per unit	2009 Cents per unit
Basic	(0.43)	(28.77)
Diluted	(0.43)	(28.77)

9. Remuneration of auditors

	2010 $	2009 $
Auditor of the Fund		
Auditing or reviewing the Financial Report	34,087	32,490
Other non-audit services*	33,406	43,192
	67,493	**75,682**

*Other non-audit services include tax, audit of compliance plan and other approved advisory services.
The auditor of the Fund is Deloitte Touche Tohmatsu.

10. Segment information

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

Major customers

The Fund is domiciled in Australia and receives its total revenue from external customers in Australia. The Fund has a number of customers from whom it receives rental revenue. The amounts received from major customers of the Fund are set out below:

	2010		2009	
	% of total rental revenue	**$'000**	**% of total rental revenue**	**$'000**
Customer 1	22.17	1,476	28.26	1,947
Customer 2	12.54	835	12.68	874
Customer 3	11.22	747	11.40	785
Customer 4	10.54	701	10.92	752

11. Related party disclosures

The Responsible Entity of APN Regional Property Fund is APN Funds Management Limited (ACN 080 674 479) whose immediate and ultimate parent entity is APN Property Group Limited (ACN 109 846 068). Accordingly transactions with entities related to the APN Property Group are disclosed below.

APN Funds Management Limited also acts as the manager of the Fund.

Transactions with related parties have taken place at arm's length and in the ordinary course of business.

- Investment management fees of $156,000 were paid to the Responsible Entity (2009: $202,000).
- Registry and accounting fees of $42,500 were paid to the Responsible Entity (2009: $42,500)

Key management personnel

The Fund does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the Fund and personnel of this entity are considered the Key Management Personnel of the Fund.

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

- Christopher Aylward (resigned as Director 19 October 2009 but remains as key management personnel)
- Howard Brenchley (Director)
- Clive Appleton (resigned as Director 19 October 2009 but remains as key management personnel)
- David Blight (Director)
- Andrew Cruickshank (resigned as Non Executive Director 19 October 2009)
- Michael Butler (resigned as Independent Non Executive Director 19 October 2009)
- John Harvey (Independent Non Executive Director)
- Geoff Brunsdon (appointed Independent Non- Executive Director 19 October 2009)
- Michael Johnstone (appointed Independent Non-Executive Director 25 November 2009)
- John Freemantle (Chief Financial Officer)

The positions noted above for the Fund's key management personnel are the positions held within the Responsible Entity and not the Fund itself.

Key management personnel compensation

Key management personnel are paid by the parent of the Responsible Entity for their services to APN Property Group Limited. Payments made from the Fund to the Responsible Entity do not include any amounts attributable to the compensation of key management personnel in respect of services rendered to the Fund itself.

Holdings of units by related parties

Related parties may purchase and sell units in the Fund in accordance with their respective constitutions and product disclosure statements.

Details of units held in the Fund by related parties are set out below:

	Number of units held	
	2010	**2009**
Responsible entity and its associates		
APN Property For Income Fund	12,420,000	12,420,000
APN Direct Property Fund	60,000	60,000

Related party investments held by the Fund

The fund may purchase and sell units in other approved funds managed by APN Funds Management Limited or its associates in the ordinary course of business at application and redemption prices calculated in accordance with the constitutions of those funds.

The Fund has no investment in APN Funds Management Limited, its associates or in other approved funds managed by APN Funds Management Limited (2009: Nil).

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

Directors' loans

No loans were made by the Fund to the key management personnel and / or their related parties.

12. Notes to the cash flow statement

(a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash includes cash on hand and in banks and investments in money market instruments net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the cash flow statement is reconciled to the balance sheet as follows:

	2010 $'000	2009 $'000
Cash	1,654	3,111
Total cash and cash equivalents	**1,654**	**3,111**

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

	2010 $'000	2009 $'000
Net loss	**(141)**	**(9,382)**
Adjustments for:		
Change in fair value of investment properties	1,754	10,893
Change in fair value of derivative assets	418	-
Realised loss on sale of investment properties	-	839
Amortisation of borrowing costs	78	166
Interest paid classified as financing activity	2,521	3,118
Changes in net assets:		
(Increase)/decrease in income and other receivables	135	(82)
Increase/(decrease) in creditors and accruals	(196)	191
Net cash provided by operating activities	**4,569**	**5,743**

(c) Non-cash financing and investing activities

During the period there were no non-cash financing and investing activities in the Fund (2009: Nil).

13. Financial risk management

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

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

These activities expose the Fund to a variety of financial risks including credit risk, liquidity risk and market risk which includes interest rate risk and other price risk.

The overall risk management program seeks to mitigate these risks and reduce volatility on the Fund's financial performance. Financial risk management is carried out centrally by the Responsible Entity under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign currency risk, interest rate risk, credit risk, use of derivative financial instruments and non derivative financial instruments, and the investment of excess liquidity.

(a) Financial risk management objectives

The Fund outsources the investment management to APN Funds Management Limited, who provide services to the Fund, co-ordinate access to domestic financial markets, and manages the financial risks relating to the operations of the Fund in accordance with an investment mandate set out in accordance with the Fund's constitution and product disclosure statement. The Responsible Entity has determined that the appointment of these managers is appropriate for the Fund and is in accordance with the Fund's investment strategy.

The Fund's overall risk management programme focuses on ensuring compliance with the Fund's product disclosure statement and seeks to maximise the returns derived for the level of risk to which the Fund is exposed.

The Fund's investment objective is to provide investors with maximum unitholder value through investment in properties with strong lease covenants, secure income streams and potential for capital growth.

The Fund does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the Funds investment policies, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the Responsible Entity on a continuous basis.

It is the Responsible Entity's aim to invest in such a way that any risks the Fund is exposed to are minimised, while at the same time endeavouring to achieve the investment objectives of the Fund.

Trust Company Limited acts as master custodian on behalf of the Responsible Entity and, as such, provides services including physical custody and safekeeping of assets, settlement of trades, collection of dividends and accounting for investment transactions.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 1 to the financial statements.

(c) Capital risk management

The Responsible Entity's objective when managing capital is to safeguard the Fund's ability to continue as a going concern, so that it can continue to provide returns for unitholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Fund consists of cash and cash equivalents and the proceeds from the issue of the units of the Fund. An investment made by unitholders into the Fund is considered medium to long term and illiquid. As the Fund is listed on the Bendigo Stock Exchange, there is a market on which units may be traded. The Responsible Entity has a focused strategy to grow unitholder value and future acquisitions by the Fund may be considered. This will require future additional capital raisings. Strict investment criteria have been developed to ensure that any future acquisitions are not value dilutive, for the Fund, on either a yield or net asset basis. The overall investment strategy remains unchanged from the prior year.

(d) Categories of financial instruments

The Fund has investments in the following categories of financial assets and liabilities:

	2010 $'000	2009 $'000
Financial assets designated as at fair value through profit and loss	19	-
Loans and receivables	290	612
Financial liabilities measured at amortised cost	(34,605)	(37,464)

The carrying amount of interest-bearing liabilities as at 30 June 2010 is $34,605,000 (2009: $37,464,000).

(e) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Fund. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Credit risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The Fund has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the financial risk of financial loss from default.

The Fund's investment objective is to find high quality customers predominately with a stable credit history. The Fund measures credit risk on a fair value basis.

The maximum exposure to credit risk as at 30 June 2010 and at 30 June 2009 is the carrying amount of financial assets recognised in the balance sheet of the Fund. The Fund holds no collateral as security and the credit quality of all financial assets that are neither past due or impaired is consistently monitored in order to identify any potential adverse changes in the credit quality.

The Fund does not have any significant credit risk exposure to any single counterparty or counterparties having similar characteristics.

Cash transactions are limited to financial institutions that meet the Responsible Entity's minimum credit rating criteria. Credit risk arising on loans and receivable balances is monitored on an ongoing basis with the result that the exposure to bad debts by the Fund is not significant. There are no significant financial assets that have had renegotiated terms that would otherwise have been past due or impaired.

Credit risk associated with receivables is considered minimal. Other receivables balances are not significant to the Fund's operations.

(f) Liquidity risk

Liquidity risk includes the risk that the Fund, as a result of its operations:

- will not have sufficient funds to settle a transaction on the due date;
- will be forced to sell financial assets at a value which is less than what they are worth; or
- may be unable to settle or recover a financial asset at all.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Fund manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. To help reduce these risks the Fund:

- has a liquidity policy which targets a minimum and average level of cash and cash equivalents to be maintained;
- has a liquidity portfolio structure that requires surplus funds to be invested in various types of liquid instruments ranging from highly liquid to liquid instruments.

The Fund's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities. As the Fund is listed on the Bendigo Stock Exchange, there is a market on which units may be traded and the Fund is therefore not exposed to the liquidity risk of meeting unitholders' withdrawals at any time.

The Fund's main liquidity risk is its ability to refinance its borrowings. To assist in mitigating refinancing risk the Responsible Entity is in regular contact with the financial institutions. During the period, the Fund successfully renegotiated its debt facility with the Commonwealth Bank of Australia. The new facility expires in October 2012.

The table below shows an analysis of the contractual maturities of key liabilities which forms part of the Fund's assessment of liquidity risk:

2010	Less than 3 months $'000	3 months to 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Liabilities					
Accounts payable	(565)	-	-	-	(565)
Distribution payable	(245)	-	-	-	(245)
Interest bearing liabilities	(782)	(1,629)	(38,213)	-	(40,624)
	(1,592)	**(1,629)**	**(38,213)**	**-**	**(41,434)**

2009	Less than 3 months $'000	3 months to 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Liabilities					
Accounts payable	(485)	-	-	-	(485)
Distribution payable	-	-	-	-	-
Interest bearing liabilities	(609)	(38,074)	-	-	(38,683)
	(1,094)	**(38,074)**	**-**	**-**	**(39,168)**

The Fund is able to sufficiently meet its liquidity obligations through the receipt of rental income, via re-financing of debt or the realisation of the sale of investment properties where required.

(g) Market risk

Market risk is the risk that the fair value of future cash flows of the Fund's financial instruments will fluctuate because of changes in market conditions or factors. The Investment Manager manages the financial risks relating to the operations of the Fund in accordance with an investment mandate set out in accordance with the Fund's constitution and product disclosure statement. The Fund's investment mandate is to provide investors with maximum unitholder value through investment in properties with strong lease covenants, secure income streams and potential for capital growth. There has been no change to the Fund's exposure to market risks or the manner in which it manages and measures the risk. The components of market risk to which the Fund is exposed is interest rate risk.

Interest rate risk

The Fund's interest bearing financial assets and liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The risk is measured using sensitivity analysis.

As at balance date, the Fund's exposure to interest rates is as follows:
Assets: Cash and cash equivalents at fair values of $1,654,000 (2009: $3,111,000) with a weighted average interest rate of 3.59% (2009: 4.58%).

Liabilities: Interest-bearing liabilities at amortised cost of $34,605,000 (2009: $37,464,000) with a weighted average interest rate of 4.8083% (2009: 5.92%).

Derivatives – interest rate cap contracts
During the period the Fund entered into a new debt facility with a floating interest rate being applied. An interest rate cap transaction has been entered into thereby mitigating the Fund's exposure to rising interest rates in the future. The interest rate being applied to the cap is as per the following schedule:

Date from	Date to	Cap rate
30 October 2009	30 July 2010	9.00%
30 July 2010	30 July 2011	6.25%
30 July 2011	30 October 2012	6.80%

The following table details the notional principal amounts and fair value of the interest rate cap contract outstanding:

Type of contract	Expiration	Underlying	Notional amount of contracts outstanding $	Fair value (assets) $'000	Fair value (liabilities) $'000
As at 30 June 2010					
Interest rate cap	October 2012	Interest rates	31,500,000	19	-
				19	**-**

The interest rate cap settles on a quarterly basis. The floating rate on the debt being applied is the Australian BBR-BBSY (BID). The counterparty settles the difference between the fixed and floating interest rate if the fixed rate is breached on a net basis.

All interest rate contracts are designated as cash flow hedges in order to reduce the Fund's cash flow exposure resulting from variable interest rates on borrowings. The interest rate caps and the interest payments on the loan occur quarterly.

Interest rate sensitivity

The sensitivity analysis below has been determined based on the Fund's exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period, in the case of instruments that have floating interest rates. A 250 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. The interest rate movements have been determined based on management's best estimate, having regard to historical levels of changes in interest rates and the current debt environment in which the Fund operates.

Actual movements in the interest rate may be greater or less than anticipated due to a number of factors, including unusually large market shocks both in the global and domestic property markets. As a result, historic variations in interest rates are not a definitive indicator of future variations.

The following illustrates the effect on operating profit before finance costs attributable to unitholders and liabilities attributable to unitholders from possible changes in market risk that were reasonably possible based on the risk the Fund was exposed to at reporting date:

For the Fund, a 250 basis point increase in interest rates would have decreased net profit, and decreased total equity by $844,000 (2009: a 25 basis point increase resulting in an increase of $8,000); an equal change in the opposite direction would have increased net profit, and increased total equity by $844,000 (2009: a 25 basis point decrease resulting in a decrease of $8,000). The methods and assumptions used to prepare the sensitivity analysis have not changed and it is performed on the same basis for 2009.

(e) Fair value of financial instruments

The directors of the Responsible Entity consider that the carrying amount of financial assets and financial liabilities, recorded in the financial statements approximates their fair values with the exception of secured bank loans which has a fair value of $34,605,000 (2009: $37,464,000).

The fair values and net fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.
- the fair value of derivative instruments, included in hedging assets and liabilities, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments.
- the fair value of the Parent's investment in managed investment schemes is determined by reference to the scheme's change in fair value of its underlying investment properties.

Fair value measurements recognised in the statement of financial position

- The following table provides an analysis of financial instruments that are measured at fair value at 30 June 2010, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:
- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Fair value measurement as at 30 June 2010			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets at FVTPL				
Derivative financial assets	-	19	-	**19**
Total	**-**	**19**	**-**	**19**
Financial liabilities at FVTPL				
Financial liabilities designated at fair value through profit of loss	-	-	-	**-**
Total	**-**	**-**	**-**	**-**

- Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1 include listed property securities traded on the Australian Stock Exchange (ASX).
- Financial instruments that trade in markets that are not considered active but values are based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include financial derivatives whose fair value have been determined using dealer quotations.
- Classified within level 3 are financial instruments whose values are derived from significantly unobservable inputs as there is no active market.

14. Consolidated entities

	Country of incorporation	Ownership interest	
		2010	**2009**
Parent entity			
APN Regional Property Fund	Australia		
Controlled entities			
Greenpoint Shopping Village Unit Fund	Australia	100%	100%
Honeysuckle House Unit Fund	Australia	100%	100%
Grafton Commercial Unit Fund	Australia	100%	100%
Parkes Commercial Unit Fund	Australia	100%	100%
Honeysuckle House Unit Fund No.2	Australia	100%	100%
Parkes Commercial Unit Fund No.2	Australia	100%	100%

15. Contingent liabilities and contingent assets

The Fund has received legal advice on a possible stamp duty liability with the New South Wales Office of State Revenue involving unit issues, unit redemptions and asset acquisitions in the 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 possible maximum liability directly and indirectly attributable to the 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 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.

16. Subsequent events

There has not arisen in the interval between the end of the financial year 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 Fund, the results of those operations, or the state of affairs of the Fund, in the future.

17. Parent entity disclosures

Financial position	2010 $'000	2009 $'000
Assets		
Current assets	6,502	9,349
Non-current assets	52,362	52,614
Total assets	**58,864**	**61,963**
Liabilities		
Current liabilities	765	375
Non-current liabilities	34,605	37,464
Total liabilities	**35,370**	**37,839**
Net assets	**23,494**	**24,124**
Equity attributable to unitholders		
Contributed equity	27,470	27,470
Retained earnings	(3,976)	(3,346)
Total equity	**23,494**	**24,124**

Financial performance	Year ended 30 June 2010 $'000	Year ended 30 June 2009 $'000
Net loss	(141)	(9,382)
Other comprehensive income	-	-
Total comprehensive income	**(141)**	**(9,382)**

During the financial year ended 30 June 2010, the parent entity did not enter into any guarantees in relation to debts of its subsidiaries (2009: Nil).

Other than as referred to in Note 15, there are no contingent liabilities or contractual commitments for acquisitions of property, plant or equipment as at 30 June 2010 in the parent entity (2009: Nil).

18. 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

BSX Additional Information

APN Regional Property Fund – Fully paid securities

Fully paid unitholders (314 in total) as at 20 July 2010

Unitholder		Units	%
1	RBC Dexia Investor Services Australia Nominees Pty Ltd A/c APNFM	12,420,000	38.08
2	Sandhurst Trustees Ltd A/c Macarthurcook PSF	3,190,477	9.78
3	ANZ Nominees Limited A/c Multiplex Acumen Property Fund	2,857,143	8.76
4	EQT Wholesale High Income Fund	2,000,000	6.13
5	JP Morgan Nominees ACF The Multiplex Income UPT Domestic Trust	714,286	2.19
6	Haltolla Pty Ltd A/c Midwood Superannuation Fund	322,000	0.99
7	Mr Geoffrey John Pedersen	282,358	0.87
8	Craig Brown Pty Ltd T/A CRB Holdings Pty Ltd A/c Superannuation Fund	220,000	0.67
9	Roger & Anne Pratt ATF Pratt Family Superannuation Fund	200,000	0.61
10	Mr & Mrs Lowe A/c Lowe Family PSF	200,000	0.61
Top 10 fully paid unitholders		**22,406,264**	**68.70**
Balance of units held		**10,210,073**	**31.30**
Total fully paid unitholders		**32,616,337**	**100.00**

Spread of unitholder

Size of unitholding	Units	Unitholders
1-1,000	-	-
1,001-5,000	-	-
5,001-10,000	677,208	69
10,001-100,000	8,203,076	224
100,001 and over	23,736,053	21
Total of all fully paid unitholders	**32,616,337**	**314**

Manager

APN Funds Management Limited
Level 30, 101 Collins Street,
Melbourne, Victoria 3000

Investor Services Hotline 1800 996 456
Adviser Services Hotline 1300 027 636

Email apnpg@apngroup.com.au
Website www.apngroup.com.au

Postal Address
PO Box 18011,
Melbourne Collins Street East VIC 8003

External Auditor to the Fund

Deloitte Touche Tohmatsu
550 Bourke Street,
Melbourne, Victoria 3000

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APN | Property Group
ABN 30 109 846 068

APN Property Group Limited
ABN 30 109 846 068
Level 30, 101 Collins Street,
Melbourne, Victoria 3000

Telephone (03) 8656 1000
Email apnpg@apngroup.com.au
Website www.apngroup.com.au