

APN | Regional Property Fund

ARSN 110 488 821

and its Controlled Funds

Annual Report for the Financial Year

Ended 30 June 2011

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 2011. 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 and qualifications	Experience and special responsibilities
<p>John Harvey LLB, B JURIS, GradDip (Acc), FCA Independent Chairman</p>	<ul style="list-style-type: none"> ▪ A Director since 2007. ▪ Appointed Chairman in 2008. ▪ A member of the Audit, Compliance & Risk Management Committee. <p>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.</p> <p>John is currently Chairman of Federation Square Pty Limited and Director of David Jones Limited, Australian Infrastructure Fund Limited, Templeton Global Growth Fund Limited and Australia Pacific Airports Corporation Limited.</p>
<p>David Blight BAppSc PRM (Val) Group Managing Director</p>	<ul style="list-style-type: none"> ▪ A Director since 2008. <p>As Group Managing Director of APN Property Group, David is responsible for setting the Group's vision and leading the strategic direction of the company.</p> <p>David joined APN Property Group in November 2008 as Group Managing Director following a long and distinguished career in real estate and funds management, both locally and globally. David has vast industry experience across all property sectors that spans over 28 years. He is widely recognised as a leading figure in the global real estate investment management industry.</p> <p>As Managing Director of ING Real Estate Investment Management Australia in Sydney between 1998 and 2004, David presided over the growth of the ING Real Estate business from \$800 million to \$5 billion in funds under management. In 2004, David was appointed Global Chairman and CEO, ING Real Estate Investment Management and Vice Chairman, ING Real Estate based in The Netherlands. In this role he oversaw the growth of the investment management business from \$50 billion to well over \$150 billion in funds under management across 22 countries and eight different businesses.</p> <p>David is a Board member of the Asian Public Real Estate Association (APREA), the leading body in Asia which represents and promotes real estate in the region.</p>
<p>Howard Brenchley BEc Executive Director and Chief Investment Officer</p>	<ul style="list-style-type: none"> ▪ A Director since 1998. <p>Howard has a long history in the Australian property investment industry with 25 years experience analysing and investing in the sector.</p> <p>Howard joined APN in 1998 and was responsible for establishing the APN Funds Management business. In this capacity he developed a suite of new property securities and direct property funds, including the flagship APN Property for Income Fund, one of the largest property securities funds in Australia.</p> <p>Prior to joining APN, Howard was co-founder and research director of Property Investment Research Pty Limited, one of Australia's leading independent research companies, specialising in the property trust sector.</p> <p>Howard is a highly sought after commentator and speaker on property investment management. He has lectured on property and property securities investment for Industry associations, Universities and leading financial planning dealer groups.</p>
<p>Geoff Brunson B.Com, CA, F Fin,</p>	<ul style="list-style-type: none"> ▪ A Director since 19th October 2009. ▪ Chairman of the Audit, Compliance & Risk Management Committee. <p>Geoff has had a career in investment banking spanning more than 25 years. Until June 2009</p>

FAICD
Independent Non-Executive Director

he was Managing Director and Head of Investment Banking of Merrill Lynch International (Australia) Limited. He is a member of the Australian Takeovers Panel. He is Chairman of ING Private Equity Access Limited, Chairman of MetLife Insurance Limited, a non-executive director of Sims Metal Management Limited and a non-executive director of Macquarie University Hospital.

Geoff is a director 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)

- A Director since 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.

Independent Non-Executive Director

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 periods 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.

Company Secretary

John Freemantle ▪ Company Secretary since 2007.

B. Bus (Accounting), CPA

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	14	14	8	8
G Brunson	14	13	8	6
M Johnstone	14	14	8	8
D Blight	14	14	N/A	N/A
H Brenchley	14	12	N/A	N/A

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 year the Consolidated Fund reduced its debt facility by \$1,000,000 using cash reserves, reducing the overall facility amount. One of the existing terms of the 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 \$1,000,000 during the year. The LVR as at 30 June 2011 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 profit attributable to unitholders for the year ended 30 June 2011 was \$144,000 (2010: loss of \$141,000).

Distributions

In respect of the financial year ended 30 June 2011 a final distribution of 0.75 cents per unit was paid to unitholders on 1 August 2011 (2010: 0.75 cents per unit). The total distribution paid to unitholders in respect to the year ended 30 June 2011 was 3.00 cents per unit (2010: 1.50 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.

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 Fund'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 1.0% 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 \$40,437 (2010: \$33,406) for the year ended 30 June 2011.

Auditor's independence declaration

The Auditor's Independence Declaration is included on page 9 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, 24 August 2011

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 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Peter A. Caldwell
Partner
Chartered Accountants
Melbourne, 24 August 2010

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 2011, 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 12 to 32.

Directors' Responsibility for the Financial Report

The directors of the Responsible Entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the consolidated financial statements comply 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.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of APN Regional Property Fund and its Controlled Funds, would be in the same terms if given to the directors as at the time of this auditor's report.

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 2011 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 consolidated financial report also complies with International Financial Reporting Standards as disclosed in Note 1.



DELOITTE TOUCHE TOHMATSU



Peter A. Caldwell
Partner
Chartered Accountants
Melbourne, 24 August 2011

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, 24 August 2011

Statement of comprehensive income
for the financial year ended 30 June 2011

	Note	Consolidated	
		2011 \$'000	2010 \$'000
Income			
Rental		7,128	6,657
Interest		58	65
Changes in the fair value of investment properties		(1,893)	(1,754)
Changes in the fair value of financial assets		(19)	(418)
Total income		5,274	4,550
Expenses			
Investment management fee		300	156
Custodian fee		24	24
Property management expenses		1,832	1,700
Other expenses		110	145
Auditor's remuneration	9	71	67
Finance costs		2,793	2,599
Total expenses		5,130	4,691
Net profit/(loss)		144	(141)
Other comprehensive income			
Other comprehensive income		-	-
Total comprehensive income		144	(141)
Earnings per unit			
Basic (cents per unit)	8	0.44	(0.43)
Diluted (cents per unit)	8	0.44	(0.43)

Notes to the financial statements are included on pages 17 to 32.

Statement of financial position
as at 30 June 2011

	Note	Consolidated	
		2011 \$'000	2010 \$'000
Assets			
Cash and cash equivalents		1,811	1,654
Receivables and other assets	2	198	290
Investment properties	3	55,320	56,965
Total assets		57,329	58,909
Liabilities			
Payables	4	757	565
Distribution payable	5	245	245
Interest bearing liabilities	6	33,667	34,605
Total liabilities		34,669	35,415
Net assets		22,660	23,494
Equity attributable to unitholders			
Contributed equity		27,470	27,470
Retained earnings		(4,810)	(3,976)
Total equity	7	22,660	23,494

Notes to the financial statements are included on pages 17 to 32.

Statement of changes in equity
for the financial year ended 30 June 2011

	Consolidated		
	Contributed equity \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 July 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
Net profit for the year	-	144	144
Other comprehensive income	-	-	-
Total comprehensive income for the period	-	144	144
Distributions paid to investors	-	(978)	(978)
Balance at 30 June 2011	27,470	(4,810)	22,660

Notes to the financial statements are included on pages 17 to 32.

Statement of cash flows
for the financial year ended 30 June 2011

	Note	Consolidated	
		2011 Inflows/ (Outflows) \$'000	2010 Inflows/ (Outflows) \$'000
Cash flows from operating activities			
Rental income received		5,467	5,017
Interest received		56	75
Other expenses paid		(424)	(523)
Net cash provided by operating activities	12(b)	5,099	4,569
Cash flows from investing activities			
Payments associated with investment properties		(248)	(369)
Proceeds from sale of investment properties		-	-
Net cash used in by investing activities		(248)	(369)
Cash flows from financing activities			
Distributions paid		(978)	(245)
Finance costs paid		(2,716)	(2,662)
Repayment of borrowings		(1,000)	(2,750)
Net cash used in financing activities		(4,694)	(5,657)
Net increase/(decrease) in cash and cash equivalents held		157	(1,457)
Cash and cash equivalents at beginning of the financial year		1,654	3,111
Cash and cash equivalents at end of the financial year	12(a)	1,811	1,654

Notes to the financial statements are included on pages 17 to 32.

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 24 August 2011.

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 2011 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:

Standards affecting presentation and disclosure

Amendments to AASB7 'Financial instruments: Disclosure' (adopted in advance of effective date of 1 January 2011)

The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans.

Amendments to AASB 101 'Presentation of Financial Statements' (adopted in advance of effective date of 1 January 2011)

The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

Amendments to AASB 107 'Statement of Cash Flows'

The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') specify that only expenditures that result in a recognized asset in the statement of financial position can be classified as investing activities in the statement of cash flows.

Standards and Interpretations affecting the reported results or financial position

There are no new and revised Standards and Interpretations adopted in these financial statements affecting the reporting results or financial position.

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 year end 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. The investments are designated at fair value through the profit or loss as they are managed and their performance is evaluated on a fair value basis in accordance with the investment strategy. 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 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 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, the Standards and Interpretations listed below were in issue but not yet effective.

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
▪ AASB 124 Related Party Disclosures (revised December 2009), AASB 2009-12 Amendments to Australian Accounting Standards	1 January 2011	30 June 2012
▪ 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 2012
▪ AASB 2010-5 Amendments to Australian Accounting Standards	1 January 2011	30 June 2012
▪ AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets	1 July 2011	30 June 2012
▪ AASB 9 Financial Instruments (December 2009), AASB 2009-11 Amendments to Australian Accounting Financial arising from AASB 9	1 January 2013	30 June 2014
▪ AASB 9 Financial Instruments (December 2010), AASB 2010-7 Amendments to Australian Accounting Financial arising from AASB 9 (December 2010)	1 January 2013	30 June 2014
▪ AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements	1 July 2013	30 June 2014

The following IASB Standards and IFRIC Interpretations are also in issue but not yet effective, although Australian equivalent Standards/Interpretations have not yet been issued.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
▪ IAS 1 (Revised) Amendments to IAS 1 Presentation to Financial Statements	1 January 2012	30 June 2013
▪ IFRS 10 Consolidated Financial Statements	1 January 2013	30 June 2014
▪ IFRS 11 Joint Arrangements	1 January 2013	30 June 2014
▪ IFRS 12 Disclosure of Involvement with Other Entities	1 January 2013	30 June 2014
▪ IFRS 13 Fair Value Measurement	1 January 2013	30 June 2014

2. Receivables and other assets

	2011 \$'000	2010 \$'000
Accounts receivable	115	61
Derivative financial assets	1	19
Prepaid expenses	76	141
Accrued property income	-	65
Other	6	4
	198	290

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 2011, no receivables were impaired (2010: Nil).

The ageing analysis of accounts receivable as at 30 June 2011 is as follows:

	2011 \$'000	2010 \$'000
Ageing analysis of receivables not impaired		
0-30 days	71	43
31-90 days	7	-
91+ days	37	18
	115	61

3. Investment properties

	2011 \$'000	2010 \$'000
Investment properties at fair value		
Carrying amount at the beginning of the period	56,965	58,350
Additions	-	-
Disposals	-	-
Costs associated with investment properties	248	369
Realised loss on sale of investment properties	-	-
Changes in fair value of investment properties	(1,893)	(1,754)
Carrying amount at the end of the period	55,320	56,965

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 2011.

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:

	2011 \$'000	2010 \$'000
Less than one year	5,753	5,572
Between one and five years	15,299	22,085
More than five years	5,206	5,173
	26,258	32,830

4. Payables

	2011	2010
	\$'000	\$'000
Accounts payable	229	184
Accrued expenses	489	341
Other	39	40
	757	565

5. Distributions paid and payable

	2011		2010	
	Cents per unit	\$'000	Cents per unit	\$'000
Distribution paid during the year	2.25	733	0.75	244
Distribution payable	0.75	245	0.75	245
	3.00	978	1.50	489

6. Interest bearing liabilities

	2011	2010
	\$'000	\$'000
Cash advance facility - floating	33,667	34,605
	33,667	34,605

	2011	2010
	\$'000	\$'000
Financing arrangements The Fund has access to the following lines of credit: Total facilities available: Cash advance facility	35,000	35,000
Facilities utilised at balance date: Cash advance facility	33,750	34,750
Facilities not utilised at balance date: Cash advance facility	1,250	250

During the year the Consolidated Fund reduced its debt facility by \$1,000,000 using cash reserves, reducing the overall facility amount. One of the existing terms of the 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 \$1,000,000 during the year. The LVR as at 30 June 2011 was 61%.

The cash advance facility is secured by registered first mortgage over the Consolidated Fund's investment properties. The facility includes an amount of \$83,000 of deferred borrowing costs that have been allocated against the total amount of the facility utilised at balance date (2010: \$145,000). 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.

7. Equity

	2011 Units	2010 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 year end	32,616,337	32,616,337

	2011 \$'000	2010 \$'000
Movements in equity		
At beginning of the year	23,494	24,124
Unit applications	-	-
Unit redemptions	-	-
Units issued upon reinvestment of distributions	-	-
Net profit/(loss) for the period	144	(141)
Distributions paid to unitholders	(978)	(489)
Total equity	22,660	23,494

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

	2011 Cents per unit	2010 Cents per unit
Basic	0.44	(0.43)
Diluted	0.44	(0.43)

9. Remuneration of auditors

	2011 \$	2010 \$
Auditor of the Fund		
Auditing or reviewing the Financial Report	30,436	34,087
Other non-audit services*	40,437	33,406
	70,873	67,493

*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 in the Fund's product disclosure statement. The property assets are all located in regional New South Wales and therefore all investment income is derived from this geographic location.

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:

	2011		2010	
	% of total rental revenue	\$'000	% of total rental revenue	\$'000
Customer 1	22.55	1,619	22.17	1,476
Customer 2	12.35	887	12.54	835
Customer 3	11.41	819	11.22	747
Customer 4	11.76	745	10.54	701

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 arms length and in the ordinary course of business.

- Investment management fees of \$300,000 were paid to the Responsible Entity (2010: \$156,000).
- Registry and accounting fees of \$42,500 were paid to the Responsible Entity (2010: \$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:

- Howard Brenchley (Director)
- David Blight (Director)
- Christopher Aylward (key management personnel)
- Clive Appleton (key management personnel)
- John Harvey (Independent Non Executive Director)
- Geoff Brunson (Independent Non- Executive Director)
- Michael Johnstone (Independent Non-Executive Director)
- 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	
	2011	2010
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 (2010: 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 statement of financial position as follows:

	2011 \$'000	2010 \$'000
Cash	1,811	1,654
Total cash and cash equivalents	1,811	1,654

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

	2011 \$'000	2010 \$'000
Net profit/(loss)	144	(141)
Adjustments for:		
Change in fair value of investment properties	1,893	1,754
Change in fair value of derivative assets	19	418
Amortisation of borrowing costs	62	78
Interest paid classified as financing activity	2,731	2,521
Changes in net assets:		
(Increase)/decrease in income and other receivables	73	135
Increase/(decrease) in creditors and accruals	177	(196)
Net cash provided by operating activities	5,099	4,569

(c) Non-cash financing and investing activities

During the period there were no non-cash financing and investing activities in the Fund (2010: 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:

	2011 \$'000	2010 \$'000
Financial assets at fair value through profit and loss	1	19
Loans and receivables	198	290
Financial liabilities measured at amortised cost	(33,667)	(34,605)

The carrying amount of interest-bearing liabilities as at 30 June 2011 is \$33,667,000 (2010: \$34,605,000).

(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 2011 and at 30 June 2010 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:

2011	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	(757)	-	-	-	(757)
Distribution payable	(245)	-	-	-	(245)
Interest bearing liabilities	(759)	(1,582)	(34,851)	-	(37,192)
	(1,761)	(1,582)	(34,851)	-	(38,194)

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)

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 \$1,811,000 (2010: \$1,654,000) with a weighted average interest rate of 4.47% (2010: 3.59%).

Liabilities: Interest-bearing liabilities at amortised cost of \$33,667,000 (2010: \$34,605,000) with a weighted average interest rate of 4.8838% (2010: 4.8083%).

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 2011					
Interest rate cap	October 2012	Interest rates	31,500,000	1	-
				1	-

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.

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

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	-

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 \$822,000 (2010: a 250 basis point increase resulting in an increase of \$844,000); an equal change in the opposite direction would have increased net profit, and increased total equity by \$822,000 (2010: a 250 basis point decrease resulting in a decrease of \$844,000). The methods and assumptions used to prepare the sensitivity analysis have not changed and it is performed on the same basis for 2010.

(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 \$33,667,000 (2010: \$34,605,000).

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 2011, 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 2011			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets at FVTPL				
Derivative financial assets	-	1	-	1
Total	-	1	-	1
Financial liabilities at FVTPL				
Financial liabilities designated at fair value through profit of loss	-	-	-	-
Total	-	-	-	-

	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	
		2011	2010
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	2011 \$'000	2010 \$'000
Assets		
Current assets	7,128	6,502
Non-current assets	50,059	52,362
Total assets	57,187	58,864
Liabilities		
Current liabilities	860	765
Non-current liabilities	33,667	34,605
Total liabilities	34,527	35,370
Net assets	22,660	23,494
Equity attributable to unitholders		
Contributed equity	27,470	27,470
Retained earnings	(4,810)	(3,976)
Total equity	22,660	23,494
Financial performance	Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
Net loss	144	(141)
Other comprehensive income	-	-
Total comprehensive income	144	(141)

During the financial year ended 30 June 2011, the parent entity did not enter into any guarantees in relation to debts of its subsidiaries (2010: 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 2011 in the parent entity (2010: 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 (311 in total) as at 21 July 2011

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 JP Morgan Nominees ACF Brookfield Australian Opportunities 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	302,358	0.93
8 Craig Brown Pty Ltd T/A CRB Holdings Pty Ltd ATF Superannuation Fund	220,000	0.67
9 Roger & Anne Pratt ATF Pratt Family Superannuation Fund	200,000	0.61
10 Mr & Mrs Lowe ATF Lowe Family PSF	200,000	0.61
Top 10 fully paid unitholders	22,426,264	68.76
Balance of units held	10,190,073	31.24
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	7,963,076	220
100,001 and over	23,976,053	22
Total of all fully paid unitholders	32,616,337	311