2011 ANNUAL REPORT

APN | European Retail Property Group

APN European Retail Property Group

Consolidated financial report for the year ended 30 June 2011

(Prepared under a wind up basis of accounting)

APN European Retail Property Group
and its Controlled Entities

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Contents

Letter from the Group Managing Director

Dear Investor

APN Funds Management Limited ("APN"), as the responsible entity, presents the 2011 annual report of the APN European Retail Property Group ("AEZ" or "Group").

Over financial year 2011 European capital markets have continued to experience significant stress. In the last twelve months we have witnessed the bail-out of Ireland, Portugal and Greece and despite these measures the risk of contagion to Italy and Spain is yet to abate.

The sovereign debt crisis has impacted the performance of the European real estate sector over the last twelve months. Despite strong growth in some core markets and cities in the last six months of 2010, principally in the UK, France and Germany, this has not been maintained into calendar year 2011. Rising inflation and Eurozone interest rates have dampened investor demand, as well as undermining consumer spending and confidence in the retail sector. Bank lending remains moribund for all but prime assets in countries with strong balance sheets.

Against this distressed backdrop and in spite of management's endeavours, our options to secure a favourable strategic outcome for AEZ have been limited, particularly as the Group's principal lender, the Royal Bank of Scotland plc ("RBS"), has determined to withdraw from Continental European real estate lending activities.

As a result, in March this year, the Group entered an agreement to restructure the Group's loans with RBS and to dispose of its investments over a twenty month period to 30 November 2012 ("Sale Programme"). This timeline is expected to provide an opportunity to undertake any value enhancing initiatives across the property portfolio and ready the assets for sale on a progressive, controlled basis. The arrangement with RBS preserves the solvency of the Group by providing that various payments and liabilities may be deferred if necessary or repaid only to the extent the Group receives sufficient proceeds from asset sales. For these reasons, the APN board of directors formed the view, which it continues to hold, that the Sale Programme which has been initiated is in the best interests of investors.

At 30 June 2011 the Group reported a net asset deficiency position of $92.6 million (and a net tangible asset deficiency of 17 cents per security) under International Financial Reporting Standards. However, investors should note that this figure does not reflect the limited recourse nature of some of the Group's debt facilities. Consequently, adjusting this calculation to reflect those of the Group's liabilities which have limited recourse would result in a pro-forma net asset position of $6.3 million, and net tangible assets per security of 1.0 cent.

However, investors should also be aware that given the current challenging state of European commercial property markets, the uncertain nature of the outcome of the sale programme outlined above and a number of other relevant uncertainties including the potential impact of currency movements, it is not possible to provide accurate guidance on the final outcome for the Group's security holders.

AEZ recorded the following results for the year to 30 June 2011:

- Loss from operations after tax of $129.9 million comprising a loss from continuing operations of $77.4 million and a loss from discontinued operations of $52.5 million;
- Loss per security for continuing operations (14.61c) and for discontinued operations (9.64c); and
- Net liability position of $92.6 million.

The board and management of APN remain focussed on efforts to realise value for investors.

Yours sincerely

David Blight
Group Managing Director

Review of business and basis of preparation

The AEZ Group reported a loss of $129.9 million for the 2011 financial year (2010: loss of $67.2m).

As reported in the half year to 31 December 2010 financial statements, these results reflect, in part, the continued difficult economic and operating conditions in Europe which have affected the value of the Group's portfolio and its underlying performance. More significantly, these financial statements also reflect the change in accounting treatment required now that the Group is no longer considered a Going Concern and is therefore required to record its assets on the basis of net realisable value. This follows the decision by the Group and its principal lender, The Royal Bank of Scotland plc ("RBS") to enter into an asset sale/debt repayment programme. The Omnibus Deed which sets out this agreement was signed on 14 March 2011.

In addition, a continued decline in the value of the Euro against the Australian Dollar has further altered the relativity of results this year compared with the 2010 financial year.

All 33 properties in the portfolio were independently valued or were valued based on the offers received reflecting a decline of 28.7% (excluding exchange rate movements) over the financial year. This decline also reflects the properties no longer being valued at their fair market value but at their net realisable value, representing the expected selling price less the estimated costs to sell. This reduction, together with other comparatively smaller items, resulted in a loss for the year after minority interest adjustments of $132.1 million.

At balance date, the Group recorded a net assets deficiency of $92.6 million (and net tangible assets deficiency of 17 cents per security). However, after adjusting for liabilities which are subject to limited recourse arrangements, the Group has net assets of $6.3 million (and net tangible assets per security of 1.0 cent).

Market commentary

Whilst the majority of Eurozone member countries have moved out of technical recessions, Europe's economic outlook remains uncertain, with consensus forecasts of below trend growth through 2011 and 2012 for the region. Relatively high levels of unemployment and weak consumer spending continue to be reported which reflect the ongoing effects of the global financial crisis.

Serious sovereign debt concerns for a number of the peripheral economies of the Eurozone – Portugal, Ireland, Italy, Greece and Spain have emerged through the 2011 financial year, contributing to significant volatility across financial markets. Unprecedented, coordinated action between the European Central Bank and the governments of Germany and France in particular has been employed to avert sovereign debt defaults and support the banking system. However, notwithstanding these measures, the economic outlook and the future of the European Union in its current form remains unclear at this point. This uncertainty continues to weigh on financial markets with investors generally adopting risk averse positions.

As a consequence of growing concerns regarding national debt levels, governments across Europe responded by implementing significant cuts to government spending. While these measures are expected to have a positive overall impact over time by enhancing the sustainability of public finances across the region, these cuts have contributed to depress retail sales across the region, negatively impacting the performance of retailers.

In commercial real estate markets across continental Europe, investors continue to adopt a cautious approach for these reasons. Europe has seen a flight to prime assets with the majority of investors demonstrating a strong preference for investments in the UK, Germany and France due to the relative economic strength, transparency and size of these markets. Investor appetite for secondary assets remains particularly subdued in line with investor risk tolerance in the current environment.

The limited number of active lenders has also hindered growth in investment activity. The European real estate debt market continues to be restricted through regulation, liquidity and capacity. European banks are still working through the extensive legacy of pre-financial crisis problem loans. Until these institutions are able to successfully dispose of, or refinance, their wide-ranging exposures, debt finance for real estate transactions, particularly in relation to secondary assets, will remain relatively difficult and expensive to source. This is expected to translate into relatively weak commercial property investment markets across the markets in which the Group's assets are located for some time.

Property portfolio performance

The performance of the Group's property portfolio through the 2011 financial year reflects the difficult economic environment across continental Europe. On a constant currency basis, the Group's net operating income declined to €32.8 million which representing a 10.1% decrease over the 2010 financial year. Excluding the contribution of City Mall, Romania, which was removed from the Group during the 2011 financial year, the decrease is 8.3% over 2010.

The portfolio's tenants have generally experienced more difficult operating conditions as consumer spending has decreased with higher unemployment levels. Lower tenant sales has impacted the profitability of tenants across the Group which has required rent concessions, tenant failures and difficulties recovering receivables in some cases, all contributing factors to lower net operating income.

Despite lowering net operating income results for 2011, the portfolio's other key metrics remain robust, with occupancy by income of 90.4% at balance date (88.0% at 30 June 2010). The portfolio's weighted average lease expiry (by income) at 30 June 2011 is 4.1 years (4.2 years at 30 June 2010).

These metrics evidence the relatively high level of leasing activity over the period, with 42 leasing transactions completed, representing 12,150 sqm of space which has been pre-let, leased or renewed over the year.

Strategic direction and outlook

Over the last eighteen months, management has explored, in detail, various strategic options to improve the Group's capital structure. This culminated in the Group entering in to a consensual wind-down and asset disposal programme with its principal lender, RBS.

The sale programme envisages that all of the Group's direct and indirect investments will be disposed of by 30 November 2012. This timetable is designed to provide sufficient time for the assets to be prepared for sale and thereby optimise exit values.

Financial position

Debt structure

As at 30 June 2011, the Group's total assets of $525.8 million were financed with external debt of $516.3 million. With the exception of the Working Capital Facility, all external debt sits directly at the individual property level. The external debt will be repaid to the extent possible following the sale of the properties. All debt has therefore been classified as current in the financial statements as it is expected that as a result of the asset disposal programme the debt will be repaid within twelve months of the year end. The Champion debt and associated interest rate swap are classified as non-current. These assets are not being sold as the portfolio is held within APN Champion Retail Fund, a separate fund from the AEZ Group.

The liability to repay the Working Capital Facility principal, interest and costs along with the Group's derivatives with RBS (to the extent they are closed out resulting in principal liabilities) is limited to the extent the AEZ Group has funds available from its operating cash flow and from the sale of assets (described as a "Pay If You Can" basis).

Capital management

As capital continues to be difficult to source and increasingly expensive for European commercial property, APN has focused on efficiently managing the Group's capital base and cash throughout the year. The Group's capital management policies were reviewed at regular intervals and amended according to changes in market conditions and the Group's financial position.

Distributions

No distributions were made during the year. No future distributions are anticipated due to the financial position of the Group.

Asset sales

Although a number of offers have been received in respect of the Spanish, Italian, Greek and Austrian assets, no completions had occurred by 30 June 2011 and these either remain in negotiation or due diligence.

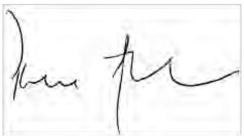
Derivatives management

The Group's interest rate hedging programme remains in place at 30 June 2011, with approximately 80% of borrowings subject to fixed interest rates.

The Group's currency hedging programme was terminated in financial year 2009 at the request of its financiers. The resultant liability of $20.8 million as at 30 June 2011 is scheduled to be paid in instalments in accordance with the original payment plan but will then become payable in full at the expiry of the Omnibus Deed on 30 November 2012. The termination of the hedging programme means that the Australian dollar value of the Group's cash flows and net assets will fluctuate depending on the prevailing Euro versus Australian dollar exchange rate.

Valuations

Investment property has declined from $767.9 million as at 30 June 2010 to $488.1 million as at 30 June 2011 in part due to market decline and in part due to the change in the basis of preparation of the financial statements from a going concern basis in 2010 to a wind up basis in 2011. See note 2(c), 3(m) and 18 for further details on the property valuations and the method of valuation as at 30 June 2011.



Paul Anderson

CEO Europe

The Directors of APN Funds Management Limited ('Responsible Entity'), the Responsible Entity for the APN European Retail Property Group and its controlled entities ('the Group'), present their report together with the financial report of the Group, for the year ended 30 June 2011 and the auditor's report thereon.

Responsible Entity

The registered office and principal place of business of the Responsible Entity and the consolidated entity is Level 30, 101 Collins Street, Melbourne.

The directors of APN Funds Management Limited during or since the end of the financial year are:

Name and qualifications	*Experience and special responsibilities*
John Harvey LLB, B JURIS, Grad Dip (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 and Australia Pacific Airports Corporation Limited.

David Blight
BAppSc PRM (Val)
Group Managing Director

- A Director since 2008.

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.

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.

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.

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.

Howard Brenchley
BEc
Executive Director and Chief Investment Officer

- A Director since 1998.

Howard has a long history in the Australian property investment industry with 25 years experience analysing and investing in the sector.

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.

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.

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.

Geoff Brunsdon
B.Com, CA, F Fin, FAICD
Independent Non-Executive Director

- Director since 2009
- Chairman of the Audit, Compliance & Risk Management Committee.

Geoff has had a 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. 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)
Independent Non-Executive Director

- 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.

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.

John Freemantle
B. Bus (Accounting), CPA
Company Secretary

- 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.

Principal Activities
The principal activity of the Group for the financial year ended 30 June 2011 was the ownership, development, and asset management activities undertaken with respect to its diversified portfolio of European retail properties.

Objectives
The Group's business strategy is to manage the consensual workout programme as set out in the Omnibus Deed with the intention that the assets of the Group will be sold by 30 November 2012. The companies that remain within the Group after the asset sales have been completed will be wound up.

Structure
On the 10 July 2007 the Group became a stapled entity with the establishment of APN/UKA European Retail Property Holding Trust (formerly APN/UKA European Retail Trust) and APN/UKA European Retail Property Management Trust.

Discontinued operations
The assets of the Group that have been actively marketed for sale have been classified as disposal groups held for sale in the statement of financial position. Those disposal groups which represent a geographical segment of the business as set out in note 4 segmental reporting are also classified as discontinued operations in the income statement. Prior year comparatives have also been restated to reflect these discontinued operations.

Discontinued operations also include the impact of placing the Romanian business into administration on 2 November 2010.

Review of operations

The loss for the year attributable to unitholders increased by 99% to $132.1 million compared with last year. This reflects the following significant factors:

- Net operating income from properties fell by 21.5% when compared to the prior year. This is largely due to the decline in value of the Euro against the Australian Dollar. Operationally there has been 10% decline in net operating income primarily due to the following:
  - City Gate, Greece, a decline of €1.5m due to an extremely high level of bad debt;
  - Cuadernillos, Spain a decline of €0.8m due to tenants leaving the centre and a high level of bad debt following the administration of the community of owners, the management company which operates the common areas of the retail park in which Cuadernillos is based; and
  - City Mall Romania, a decline of €0.7m, which was placed into administration on 2 November 2010.

- The Champion portfolio based in Greece, strengthened its performance by €0.4m principally due to the receipt of an inflationary increase in its rental income.

- Write downs in the carrying value of investment properties of $191.9 million, before tax (2010: $91.1 million, before tax). This largely reflects the change in the basis of preparation of the financial statements from a going concern basis to a wind up basis with assets now reflecting their net realisable value (being their fair value less costs to sell) rather than their fair value. Certain asset values have been based on offers received for the property rather than independent valuations. Significant declines in property values have been experienced in countries such as Greece and Spain where the economic uncertainty being experienced in these markets has dramatically impacted the selling price of these assets when selling within a restricted period of time.

These write downs are unrealised and do not affect the trading performance of the properties themselves.

- Revaluation of financial derivatives $19.6 million profit before tax (2010: $7.5 million profit before tax).

  The carrying value of all derivative contracts have been adjusted at balance date to reflect their payout value if they were terminated on that date. This includes all interest rate swap contracts used to fix the cost of borrowing, and forward exchange contracts that were terminated in the year ended 30 June 2009.

- In November 2010 the Group filed for voluntary bankruptcy of Victoria Holding, the ownership vehicle for City Mall in Bucharest, Romania. This followed extensive discussions with UniCredit Bank Austria, as the senior lender, to resolve the negative equity and trading solvency of Victoria Holding although a consensual agreement could not be secured. The AEZ Group therefore lost control of Victoria Holding on 2 November 2010 and ceased to consolidate its results from that date. The loss of control of Victoria Holdings has a positive impact on net assets of $6.4m.

Basis of preparation

On 14 March 2011 the Group signed the Omnibus Deed with RBS which sets out the terms and conditions of a work plan with the intention to sell the assets of the Group by 30 November 2012. As a result of this decision the end of the life of the Trust has now become a foreseeable event and it is therefore necessary for the financial statements of the Group to be prepared on a wind up basis of accounting.

The forecast operating cash flows of the Group are closely monitored by management. The forecast to 31 December 2012 indicates that these cash flows will continue to decline, but through support mechanisms included in the Omnibus Deed, such as the ability to defer FEC payments and using cash reserves, there will be sufficient funds available to continue in operation. The implementation of the work out plan may have a significant impact on the forecast cash flows and the early sale of a cash generating asset may jeopardise cash availability. Following each sale of an asset or company, the Group will assess the funding that it requires to maintain its solvency. With the agreement of RBS these funds will be retained within the Group, and the remainder will be used to repay debts to RBS.

The Group has also entered into a work out agreement with Eurohypo, the financier for City Gate. An agreement was signed that extended the facility to 30 June 2011 and was in effect a standstill arrangement. Eurohypo have confirmed via e-mail correspondence to extend the facility once again to 31 December 2011 to enable the sale of the asset to take place. The amended agreement is being drafted and is expected to be signed imminently. A cash sweep may be performed by the bank should there be any surplus cash not earmarked for the operation of the City Gate business although the timing of this is not specified in the agreement.

The City Mall operation based in Romania was placed in voluntary administration and subsequently into liquidation on 2 November 2010 as management were unable to reach an agreement with the financier, Bank Austria, which would allow the company to continue in operation. Bank Austria issued a default notice on 5 October 2010.

As the Directors have concluded that the Group and the Trust are no longer going concerns, the financial statements for the year ended 30 June 2011 have been prepared on the wind up basis of accounting. Under this basis of accounting, assets, and in particular Investment Property, are measured at their net realisable value and liabilities are measured at their contractual settlement amounts.

The accounting policies and method of computation adopted in the comparative financial report are on a going concern basis and are consistent with those adopted in the 30 June 2010 financial statements.

This matter is discussed further in note 2(c) to the financial statements.

Distributions

No distribution has been declared for the year ended 30 June 2011. For the year ended 30 June 2010, no distribution was declared.

Significant changes in the state of affairs

In the opinion of the Directors of the Responsible Entity, other than the circumstances that have already been disclosed within this report, there were no other significant changes in the state of affairs of the consolidated Group that occurred during the financial year.

Events subsequent to reporting date

There have been no subsequent events that require reporting after the statement of financial position date.

Future developments

Any further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

Environmental regulation

To the best of their knowledge and belief, after making appropriate enquiries, the Directors of the Responsible Entity have determined that the Group has complied with all significant environmental regulations applicable to its operations in the jurisdictions in which it operates.

Options granted

No options were:

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

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

Indemnification and Insurance of Officers and Auditors

Under the Group's constitution the Responsible Entity, including its officers and employees, is indemnified out of the Group's assets for any loss, damage, expense or other liability incurred by it in properly performing or exercising any of its powers, duties or rights in relation to the Group. The Group has not indemnified any auditor of the Group.

Other than in relation to the Compliance Committee, no insurance premiums are paid out of the Group's assets in relation to insurance cover for the Responsible Entity, its officers and employees or the auditors of the Group.

Meetings of Directors

The Board of APN Funds Management Limited meets regularly to review and discuss the operations of the APN European Retail Property Group. 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
John Harvey	14	14	12	12
Geoff Brunsdon	14	13	12	10
Michael Johnstone	14	14	12	12
David Blight	14	14	n/a	n/a
Howard 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

The Directors of APN Funds Management Limited are employed by the ultimate parent company, APN Property Group Limited.

Directors' Shareholdings

The following table sets out each directors' relevant interest in securities, shares, debentures and rights or options in securities, shares or debentures in the Group or other related bodies corporate, as notified by the directors to the Australian Securities Exchange as at the date of this report.

Director	APN European Retail Property Group	APN Property Group Limited	
	Number of securities	Number of ordinary shares	Shares issued under limited or non recourse loans, disclosed as share options
John Harvey	50,000	25,000	-
Geoff Brunsdon	-	-	-
Michael Johnstone	-	-	-
David Blight	-	11,263,810	10,000,000
Howard Brenchley	243,693	7,083,315	-

No share options were granted in the year.

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, which comply with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Guidelines), unless otherwise stated.

Board of Directors

The Responsible Entity is a wholly owned subsidiary of APN Property Group Limited (APN PG), a company listed on the Australian Securities Exchange (ASX). Both companies have separate Board structures and each operates independently of the other. The Board of APN FM comprises five Directors, three of whom are independent of the business and of the board of APN PG.

Importantly, all directors of APN FM have a legal obligation to put the interests of investors in the fund 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 Responsibilities

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 security holders 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 7-9.

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.

Board Committees

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. 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 programme 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 7-9.

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.

Diversity

APN Property Group, including APN Funds Management Limited embraces a practice of Workplace Diversity as follows:

What is Workplace Diversity?
Workplace diversity recognises and leverages the different skills and perspectives people bring to our organisation through their gender, culture, physical and mental ability, sexual orientation, age, socio economic background, language, religion, education, and family/ marital status. It also refers to diverse ways of thinking and ways of working.

Statement of Commitment
As an organisation we recognise the benefits to be gained from a diverse workforce where the differing skills, perspectives and experiences of individuals from different backgrounds can lead to more innovative and efficient business practices.
We are committed to creating an environment in which the principles of diversity are embedded in the culture and systems of the organisation and where every individual has the opportunity to excel.

Diversity Principles
We apply the following diversity principles to achieve the desired experiences for our people:
- Facilitate equal employment and promotion opportunities based on relative ability, performance or potential;
- Create an inclusive culture where our people can reach their full potential;
- Create flexible work practices to meet the needs of our people at the various stages of their life;
- Treat all employees fairly and with respect;
- Contribute positively and proactively towards the quality of life of our communities and the environment.

Gender Diversity
At the date of this report, the proportion of females in APN Property Group was:
- Board: nil
- Senior Management: 29%
- Group: 35%

The Group aim is to encourage representation of females at senior levels to approximate the levels of 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.

Compliance with ASX Corporate Governance Guidelines

The Responsible Entity complies with the ASX Guidelines, except in relation to the following:

- Recommendation 2.4 – 'the board should establish a nomination committee'; and
- Recommendation 8.1 – 'the board should establish a remuneration committee'.

The Board of the parent entity, APN Property Group Limited, is responsible for all nomination and remuneration policies and appointments for the group. The Board believes this is an appropriate way of addressing the accountability and efficiencies sought to be achieved by the ASX Guidelines. This position is regularly reviewed to ensure the outcomes sought by the ASX Guidelines continue to be achieved.

Interests of the Responsible Entity

Responsible Entity's remuneration

The Trust did not have any employees during the year and accordingly there is no executive remuneration disclosure.

The Asset Manager / Responsible Entity are entitled to be paid a base management fee applied on a tiered basis as follows:

- 0.55% (2010: 0.55%) of the amount of the Gross Asset Value equal to or less than $1 billion; plus
- 0.50% (2010: 0.50%) of the amount of the Gross Asset Value between $1 billion and $1.5 billion; plus
- 0.45% (2010: 0.45%) of the amount of the Gross Asset Value that is above $1.5 billion.

The Asset Manager is also entitled to be paid:

- an acquisition fee of up to 1.00% (2010: 1.00%) of the purchase price of a property for the Group;
- a disposal fee of up to 1.00% (2010: 1.00%) of the sale price of a property for the Group; and
- a debt arrangement fee of up to 0.50% (2010: 0.50%) of the amount of any debt arranged by the Asset Manager in respect of the Group.

The Asset Manager may accept a lower fee than it is entitled or may defer the payment of fees at its discretion. Where the Asset Manager accepts a lower fee than it is entitled, it may in the future charge a correspondingly higher fee. During the year, the Asset Manager was party to an agreement between the fund and its principal lender, The Royal Bank of Scotland plc (RBS). The terms of the agreement limit the present entitlement of the Asset Manager to receive base management fees to its costs of providing the asset management services. Base management fees, to which the Asset Manager is entitled in excess of this amount, are deferred and cannot be paid until RBS has been paid in full.

Remuneration paid or payable to the Responsible Entity or Asset Manager is presented in note 31.

Audit and non-Audit Services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 14 to the financial statements.

The Directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in note 14 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit and Risk Management Committee, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that 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 company, acting as advocate for the company or jointly sharing economic risks and rewards.

Auditor's independence declaration

The Auditor's independence declaration is set out on page 21 and forms part of the Directors' report for the financial year ended 30 June 2011.

Rounding off of amounts

The Group is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Order, amounts in the Financial Report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made in accordance with a resolution of the directors:

David Blight
Group Managing Director

Dated at Melbourne 26 August 2011

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
APN Funds Management Limited
Level 30
101 Collins Street
MELBOURNE VIC 3000

26 August 2011

Dear Board Members

APN European Retail Property Group

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.

As lead audit partner for the audit of the financial statements of APN European Retail Property Group 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

DELOITTE TOUCHE TOHMATSU

Paul Radici
Partner
Chartered Accountant

Deloitte Touche Tohmatsu
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INDEPENDENT AUDITOR'S REPORT TO THE SECURITY HOLDERS OF APN EUROPEAN RETAIL PROPERTY GROUP

We have audited the accompanying financial report of the APN European Retail Property Group, which comprises the statement of financial position as at 30 June 2011, the income statement, 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 Trust, and (including the stapled entity APN European Retail Property Management Trust) (collectively "the Group") the entities it controlled at the year's end or from time to time during the financial year as set out on pages 24 to 96.

Directors' Responsibility for the Financial Report

The Directors of the Group are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards as they apply to a non-going concern basis as disclosed in note 2 to the financial statements, 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 2, 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. Those 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 entity's preparation of the financial report that gives a true and fair view, 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 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*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of the APN European Retail Property Group, 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 the APN European Retail Property Group is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity'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 and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

Material Uncertainty Regarding Solvency and Valuation of Assets and Liabilities

Without qualifying our opinion, we draw attention to Notes 2(c), 3(m), 18 and the Directors' Declaration in the financial report which indicates the following:

- the valuation of assets and liabilities requires many estimates and assumptions and therefore there are a number of uncertainties inherent in realising assets and settling liabilities in a wind up. The existence of these material uncertainties cast significant doubt about whether the Group and Trust will realise assets and extinguish liabilities at the amounts stated in the financial report; and

- the ability of the Group and Trust to pay their debts as and when they become due and payable is dependent on the Trust and the Group's continued compliance with the Omnibus Deed and a number of other assumptions.

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

Paul Radici
Partner
Chartered Accountants
Melbourne, 26 August 2011

Income statement

Continuing operations	Note	Consolidated 2011 $'000's	2010 $'000's Restated*
Revenue			
Rental income from investment properties		38,169	45,028
Interest income	8	40	583
Other income		377	-
Fair value gain on forward exchange contracts		3,159	7,111
Fair value gain on interest rate swaps	8	10,414	52
		52,159	52,774
Expenses			
Property expenses		(7,145)	(8,716)
Management expenses		(1,519)	(2,684)
Other operating expenses	7	(13,948)	(13,591)
Fair value losses on investments	6	(1,270)	(1,000)
Property devaluations	18	(91,964)	(53,680)
Finance expenses	8	(15,330)	(18,575)
Foreign exchange losses		(700)	(6,411)
		(131,876)	(104,657)
Loss before income tax benefit		(79,717)	(51,883)
Income tax benefit	10	2,315	10,102
Loss for the year from continuing operations after income tax benefit for the period		(77,402)	(41,781)
Loss from discontinued operations	5(b)	(52,513)	(25,437)
Loss for the year		(129,915)	(67,218)
Loss for the year attributable to:			
Security holders		(132,113)	(66,514)
Non-controlling interests:			
- External	24	2,091	(709)
- APN European Retail Property Management Trust security holders (AEZM)	24	107	5
Net loss attributable to security holders of APN European Retail Property Holding Trust (AEZH)		**(129,915)**	**(67,218)**
Basic and Diluted earnings per security (cents)	11		
Basic and diluted earnings per security – continuing operations		(14.61)	(7.54)
Basic and diluted earnings per security – discontinued operations		(9.64)	(4.67)

*The income statement has been restated to exclude the operations discontinued in 2011 from the comparative results.

The income statements are to be read in conjunction with the notes to the consolidated financial statements set out on pages 29 to 95.

Statement of comprehensive income

For the financial year ended 30 June 2011	Note	Consolidated 2011 $'000's	Consolidated 2010 $'000's
Loss for the period		(129,915)	(67,218)
Other comprehensive income			
Exchange difference on translation of foreign operations		(7,223)	2,371
Effects of net investment hedge		(3,396)	(27,624)
Reversal of FCTR following loss of control of SC Victoria Holding SA		(35,618)	-
Other comprehensive loss relating to foreign currency translation reserve		(46,237)	(25,253)
Amortisation of cash flow hedges recognised in the income statement		(1,205)	(3,196)
Income tax relating to components of other comprehensive income	10	322	717
Other comprehensive loss for the period (net of tax)		(47,120)	(27,732)
Total comprehensive loss for the period		**(177,035)**	**(94,950)**
Total comprehensive loss attributable to:			
AEZH security holders		(179,233)	(94,246)
Non-controlling interests			
- External	24	2,091	(709)
- AEZM security holders	24	107	5
		(177,035)	(94,950)

The income statements are to be read in conjunction with the notes to the consolidated financial statements set out on pages 29 to 95.

Statement of financial position

For the financial year ended 30 June 2011	Note	Consolidated 2011 $'000's	Consolidated 2010 $'000's
Assets			
Cash and cash equivalents	30(ii)	21,436	19,148
Trade and other receivables	15	4,284	9,910
Total current assets (excluding assets in disposal groups classified as held for sale)		25,720	29,058
Assets in disposal groups classified as held for sale	5(a)	208,079	-
Total current assets		233,799	29,058
Trade and other receivables	15	-	2,096
Other financial assets	16	6,186	7,565
Deferred tax assets	10(ii)	4,669	14,146
Investment properties	18	281,098	765,466
Total non-current assets		291,953	789,273
Total assets		**525,752**	**818,331**
Liabilities			
Trade and other payables	19	18,684	19,461
Provisions	21	3,887	4,575
Interest-bearing liabilities	22	463,512	527,263
Current tax liabilities	10(i)	5,940	2,670
Other financial liabilities	20	29,144	53,515
Total current liabilities (excluding liabilities directly associated with disposal groups classified as held for sale)		521,167	607,484
Liabilities directly associated with disposal groups classified as held for sale	5(a)	1,887	-
Total current liabilities		523,054	607,484
Trade and other payables	19	4,337	5,203
Provisions	21	-	74
Interest-bearing liabilities	22	51,961	70,004
Deferred tax liabilities	10(ii)	17,464	31,483
Other financial liabilities	20	2,943	-
Non-controlling interests	24	18,574	17,431
Total non-current liabilities		95,279	124,195
Total liabilities		**618,333**	**731,679**
Net (liabilities)/assets		**(92,581)**	**86,652**
Equity attributable to security holders of the Group comprises:			
Contributed equity		552,048	552,048
Foreign currency translation reserve		(19,327)	26,910
Cash flow hedge reserve		-	883
Other reserve		4,332	4,332
Accumulated losses		(629,634)	(497,521)
Total equity		**(92,581)**	**86,652**

The statements of financial position are to be read in conjunction with the notes to the consolidated financial statements set out on pages 29 to 95.

Statement of changes in equity

For the financial year ended 30 June 2011	Consolidated					
	Contributed equity $'000s	Foreign currency translation reserve $'000s	Cash flow hedging reserve $'000s	Other reserve $'000s	Accumulated losses $'000s	Total $'000s
Opening balance as at 1 July 2009	552,048	52,163	3,362	4,332	(431,007)	180,898
Loss for the period	-	-	-	-	(66,514)	(66,514)
Effect of movement in foreign exchange	-	2,371	-	-	-	2,371
Effect of net investment hedge	-	(27,624)	-	-	-	(27,624)
Amortisation of cash flow hedges	-	-	(3,196)	-	-	(3,196)
Deferred tax effect of cash flow hedge amortisation	-	-	717	-	-	717
Total comprehensive loss for the period	-	(25,253)	(2,479)	-	(66,514)	(94,246)
Total equity at 30 June 2010	**552,048**	**26,910**	**883**	**4,332**	**(497,521)**	**86,652**
Opening balance as at 1 July 2010	552,048	26,910	883	4,332	(497,521)	86,652
Loss for the period	-	-	-	-	(132,113)	(132,113)
Effect of movement in foreign exchange	-	(7,223)	-	-	-	(7,223)
Effect of net investment hedge	-	(3,396)	-	-	-	(3,396)
Reversal of FCTR following loss of control of SC Victoria Holding SA		(35,618)	-	-	-	(35,618)
Amortisation of cash flow hedges	-	-	(1,205)	-	-	(1,205)
Deferred tax effect of cash flow hedge amortisation	-	-	322	-	-	322
Total comprehensive loss for the period	-	(46,237)	(883)	-	(132,113)	(179,233)
Total equity at 30 June 2011	**552,048**	**(19,327)**	**-**	**4,332**	**(629,634)**	**(92,581)**

The consolidated statement of changes in equity is to be read in conjunction with the notes to the consolidated financial statements set out on pages 29 to 95.

Cash flow statement

For the financial year ended 30 June 2011	Note	Consolidated	
		2011 $'000's	2010 $'000's
Cash flows from/(used in) operating activities			
Cash receipts from customers		77,331	92,057
Cash paid to suppliers and employees		(39,110)	(55,878)
Income taxes paid		(1,826)	(1,384)
Net cash flows from operating activities	30 (i)	36,395	34,795
Cash flows from/(used in) investing activities			
Dividends received from investments		377	-
Loss of control of Romanian subsidiary		(391)	-
Payments associated with investment properties		(629)	(30)
Payment of finance lease liabilities		(92)	(110)
Net cash flows used in investing activities		(735)	(140)
Cash flows from/(used in) financing activities			
Repayment of borrowings		-	(5,839)
Finance costs paid		(27,142)	(34,764)
Interest received		106	740
Payments on closed out income hedges		(1,993)	-
Advances/loans to related parties		(2,828)	(77)
Distributions paid to non controlling interests		(618)	(318)
Net cash flows used in financing activities		(32,475)	(40,258)
Net increase /(decrease) in cash and cash equivalents		3,185	(5,603)
Cash and cash equivalents at opening		19,148	28,863
Effect of foreign exchange rate fluctuations on cash held		(897)	(4,112)
Cash and cash equivalents at 30 June	30(ii)	21,436	19,148
Cash and cash equivalents disclosed as:			
Cash and cash equivalents		21,436	19,148

The consolidated cash flow is to be read in conjunction with the notes to the consolidated financial statements set out on pages 29 to 95.

1. Reporting entity

APN European Retail Property Group (the 'Group'), comprising the APN European Retail Property Holding Trust and its controlled entities, is a registered managed investment scheme under the Corporations Act 2001 and was established on 17 May 2005. The address of the Group's registered office is Level 30, 101 Collins Street, Melbourne VIC 3000.

2. Basis of Preparation

(a) Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001 and the requirements of the Parent entity's (the "Trust") constitution.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards ('IFRS').

The financial report was authorised for issue by the directors of the Responsible Entity on 26 August 2011.

(b) New or revised Standards and Interpretations that are first effective in the current reporting period

The Group ha-s adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to their operations and effective for the current reporting period. New and revised Standards and Interpretations effective for the current period that are relevant to the Group include:

- AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* – adopted early by the Group in the 2010 financial report;
- AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions;*
- AASB 2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issues;*
- AASB Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* and AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19; and*
- AASB 2010-3 *Amendments to Australian Accounting Standards from the Annual Improvements Project.*

The adoption of these standards did not have any impact on the current period or any prior period and is not likely to affect future periods.

Early adoption of standards

The group has elected to apply the following pronouncement to the annual reporting period beginning 1 July 2010:

- AASB 2010-4 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Project*

This includes applying the revised pronouncement to the comparatives in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors.* None of the items in the financial statements had to be restated as the result of applying this standard.

Issued standards not early adopted

The initial application of the following standards and Interpretations is not expected to have a material impact on the Financial Report of the Group. At the date of authorisation of the financial report, the following standards were in issue but not yet effective:

Standard or Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)	1 January 2013	30 June 2014
Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards	1 January 2011	30 June 2012
AASB 2009-14 Amendment to Australian Interpretation – Prepayments of a Minimum Funding Requirement	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 2010-8 Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets	1 January 2012	30 June 2013
AASB 1054 Australian Additional Disclosures	1 July 2011	30 June 2012
AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project	1 July 2011	30 June 2012
AASB 2011 – 2 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – 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 or Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
IFRS 10 'Consolidated Financial Statements'	January 2013	June 2014
IFRS 11 'Joint Arrangements'	January 2013	June 2014
IFRS 12 'Disclosures of involvement with other entities'	January 2013	June 2014
IFRS 13 'Fair Value Measurements'	January 2013	June 2014
IAS 27 'Separate Financial statements' (2011)	January 2013	June 2014

(c) Going concern

On 14 March 2011 the Group signed the Omnibus Deed with RBS which sets out the terms and conditions of a work plan with the intention to sell the assets of the Group by 30 November 2012. As a result of this decision the end of the life of the Trust has now become a foreseeable event and it is therefore necessary for the financial statements of the Group to be prepared on a wind up basis of accounting.

The forecast operating cash flows of the Group are closely monitored by management. The forecast to 31 December 2012 indicates that these cash flows will continue to decline, but through support mechanisms included in the Omnibus Deed, such as the ability to defer forward exchange contract ("FEC") payments and using cash reserves, there will be sufficient funds available to continue in operation. The implementation of the work out plan may have a significant impact on the forecast cash flows and the early sale of a cash generating asset may jeopardise cash availability. Following each asset or company sale, the Group will assess the funding that it requires to maintain its solvency. With the agreement of RBS these funds will be retained within the Group, and the remainder will be used to repay debts to RBS. Further information on sale status is set out in note 18.

The Group has also entered into a work out agreement with Eurohypo, the financier for the City Gate shopping centre in Greece. An agreement was signed that extended the facility to 30 June 2011 and was in effect a standstill arrangement. Eurohypo have confirmed via e-mail correspondence to extend the facility once again to 31 December 2011 to enable the sale of the asset to take place. The amended agreement is being drafted and is expected to be signed imminently. A cash sweep may be performed by the bank should there be any surplus cash not earmarked for the operation of the City Gate business although the timing of this is not specified in the agreement.

The City Mall operation based in Romania was placed in voluntary administration and subsequently into liquidation on 2 November 2010 as management were unable to reach an agreement with the financier, Bank Austria, which would allow the company to continue in operation. Bank Austria issued a default notice on 5 October 2010. The parent entity of the AEZ Group had entered into a cross guarantee with its indirect subsidiary Victoria Holding SA to support interest and amortisation payments in accordance with the loan agreement. As Victoria Holding SA was in administration it was unable to meet its obligations as they fell due. The parent entity therefore reached agreement with Bank Austria to pay €800,000 ($1,120,000) to the bank in full and final settlement of this guarantee. This payment was made in July 2011.

As the Directors have concluded that the Group and the Trust are no longer going concerns, the financial statements for the year ended 30 June 2011 have been prepared on the wind up basis of accounting. Under this basis of accounting, assets, and in particular Investment Property, are measured at their net realisable value and liabilities are measured at their contractual settlement amounts. In the year to 30 June 2010 Investment property has been accounted for at fair value in accordance with AASB140 'Investment Property'. However as it is now the intention of the Directors to wind up the fund the properties are valued at net realisable value. The decision to wind up the fund was taken in the current financial year and therefore no adjustment has been made to the prior period financial statements. There are no further material changes in accounting policy as a result of the change in the basis of preparation. The accounting policies applied are consistent with Australian Accounting Standards and with International Financial Reporting Standards as they apply to an entity preparing financial statements on a wind up basis.

The valuation of assets and liabilities requires many estimates and assumptions and therefore there are uncertainties inherent in realising assets and liabilities in a wind up. In addition the market for assets such as those held by the Group is very difficult. While the Responsible Entity will look to safeguard the interests of the unitholders of the Group, it is possible this approach may differ to that of RBS who may wish to sell the assets as quickly as possible in order to realise their debt. The resolution for such disagreements is set out within the Omnibus Deed but may impact the values realised for the properties. Therefore the actual realisation of assets and settlement amounts of liabilities could be higher or lower than amounts indicated in this financial report. The assumptions, judgements and estimates used are based on the current market conditions and information available as at the balance sheet date, but the directors caution unitholders to be aware that:

- Real estate markets are illiquid and property valuations in particular are subject to a wide diversity of opinion within the valuation industry; and
- The valuation of assets and liabilities are exposed to movements in AUD/EUR exchange rates.

These assumptions, judgements and estimates will be evaluated and reviewed regularly and any changes will be made accordingly.

Under the wind up basis, assets and liabilities are usually reclassified from non-current to current. As the work out plan ends on 30 November 2012 and the order of asset sales may change, the classification of assets and liabilities has been applied as it would under normal circumstances with the exception of the senior debt which has been classified as current as the expectation is that the senior debt that would qualify as non-current will be repaid within twelve months of the balance sheet date following the sale of those assets. The Champion Portfolio debt is classified as non-current as the APN Champion Retail Fund is a separate Fund to the AEZ Group and is not in a work out position with the bank.

The accounting policies and method of computation adopted in the comparative financial report are on a going concern basis. The half year financial statements to 31 December 2010 were the first set of Group financial statements prepared on a wind up basis of accounting.

(d) Use of estimates and judgements

The preparation of a financial report in conformity with Australian Equivalents to International Financial Reporting Standards (AIFRS) requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied.

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

Judgements made by management in the application of AIFRS 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.

In particular, information about significant areas of estimation uncertainty and critical judgement in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following areas:

- Note 10 – income tax expense;
- Note 18 – valuation of investment property;
- Note 21 – provisions;
- Note 20 – foreign exchange contracts; and
- Note 20 – interest rate swaps.

(e) Basis of measurement

The financial report has been prepared on the historical cost basis except for the following, which are measured at net realisable value:

- derivative financial instruments;
- financial instruments at fair value through profit or loss; and
- investment property.

(The methods used to measure net realisable values are discussed further in note 3).

(f) Functional and presentation currency

The consolidated financial statements are presented in Australian dollars.

The Group is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that

Class Order, amounts in the Financial Report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

3. Significant accounting policies

Where applicable, certain comparative figures are restated in order to comply with the current period's presentation of the financial statements. The accounting policies and methods of computation adopted in the preparation of the comparative financial report are on a going concern basis and are consistent with those adopted and disclosed in the Group's annual financial statements for the financial year ended 30 June 2010.

(a) Accounting for the Stapling

The Group was established in July 2007 by the stapling of securities of the parent entity, being APN/UKA European Retail Property Holding Trust, and the APN/UKA European Retail Property Management Trust (AEZM). The securities trade as one security on The Australian Securities Exchange ('ASX') under the code AEZ. As a result of the stapling, the parent entity, for accounting purposes, was deemed the acquirer, and has consolidated AEZM from 10 July 2007.

Accordingly, this transaction is accounted for as a business combination by consolidating the fair value of the net assets of AEZM on acquisition and reflecting the net assets attributable to AEZM as a non-controlling interest. The holders of AEZM are also holders of AEZH by virtue of the stapling arrangement. This financial report has been prepared based upon a business combination by the Parent entity of AEZM and in recognition of the fact that the securities issued by the Parent entity, and AEZM have been stapled and cannot be traded separately.

(b) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of another entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intra-group balances and all gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(iii) Non controlling interest

Non-controlling interests are classified as equity in the statement of financial position except where there is a contractual obligation to deliver a cash or financial asset to another entity as a result of this relationship. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of changes in net assets since the date of the combination.

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. Any changes in ownership result in an adjustment between the controlling and non-controlling interests to reflect their relative interests. Any difference between the adjustment and the consideration paid is recognised in a separate reserve in equity.

(iv) Business combinations

The acquisition method is used to account for the purchase of subsidiaries. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree. Consideration will also include the fair value of any contingent consideration and the fair value of any pre-existing interest in the subsidiary.

On an acquisition by acquisition basis the fund recognises any non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The excess of consideration transferred over the Group's share of the net identifiable assets acquired (after taking into account the impact of the non-controlling interest) is recorded goodwill. Negative goodwill is recognised immediately in the income statement. Where settlement of any part of the cash consideration is deferred the amounts payable in the future are discounted to their present value at the date of exchange. Contingent consideration is classified either as equity or as a financial liability. Financial liabilities will be fair valued and recognised through the income statement. In subsequent periods goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

(c) Foreign currency translation

(i) Foreign currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of the Group, and the presentational currency for the consolidated financial statements.

(ii) Translation of foreign currency balances

Foreign currency exchange differences arising on translation, and realised gains and losses on disposals or settlements of monetary assets and liabilities are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Australian Dollars at the foreign currency closing exchange rates ruling at the dates that the values were determined. Foreign currency exchange differences relating to investments at fair value though profit or loss and derivative financial instruments are included in gains and losses on investments and net gain/(loss) on derivatives, respectively. All other foreign currency exchange differences relating to monetary items, including cash and cash equivalents are presented separately in the income statement.

(iii) Translation of accounts of foreign operations

The Group is predominately comprised of operations that are located in the European Union. The statement of financial positions of these foreign subsidiaries are translated at the exchange rates ruling as at balance date and the profit or loss statements of foreign subsidiaries are translated at average exchange rates for the year. Exchange differences arising on translation of foreign operations are taken directly to equity. On consolidation, exchange differences and the related tax effect on loans denominated in foreign currencies, which hedge net investments in foreign operations are accounted for in accordance with note 3(q).

(d) Revenue recognition

(i) Rental income

Rental income (including rental guarantee income) from investment properties is recognised on a straight-line basis over the lease term. Rental income not received at year end date is reflected in the statements of financial position as a receivable or, if paid in advance, as deferred rental income. Lease incentives granted by the Group to lessees are recognised over the lease term on a straight-line basis as a reduction of lease income. Contingent rents, based on the future amount of a factor that changes other than with the passage of time, including turnover rents and CPI linked rental increases are only recognised when contractually due.

(ii) Interest income

Interest income and expense is recognised in the income statement as it accrues, using the original effective interest rate of the instrument calculated at the acquisition or origination date. Interest income and expense includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

(iii) Management fees

Management fee income is recognised in the income statements as it accrues.

(iv) Distribution and dividend income

Revenue from distributions and dividends is recognised by the Group when the entitlement to receive the payment has been established.

(e) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each year during the lease term to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Finance expenses

Finance expenses comprise interest payable on borrowings calculated using the effective interest method. Financing costs exclude borrowing costs capitalised to qualifying assets. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Borrowing costs that are directly attributable to the acquisition, construction or development of a qualifying asset are capitalised as part of that asset.

Capitalisation of borrowing costs ceases during extended periods in which active development is interrupted. When a development is complete and ceases to be a qualifying asset, borrowing costs are expensed as incurred.

(f) Income and deferred tax

Under current legislation the Parent entity is not subject to income tax as its taxable income (including assessable realised capital gains) is distributed in full to the security holders.

Income tax on the profit or loss for the year for controlled entities comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

As at 30 June 2011, the Group's financial statements have been prepared on a wind up basis which has, combined with movement in the carrying amounts of assets and liabilities, resulted in the de-recognition of deferred tax assets, except where these can be recovered against deferred tax liabilities.

Additional income taxes that arise from the payment of distributions or dividends are recognised at the same time as the liability to pay the related dividend.

Distribution and taxation

The Parent entity fully distributes its taxable income, calculated in accordance with the Parent entities constitution and applicable taxation legislation, to the security holders who are presently entitled to the income under the constitution.

Assets held at fair value may include unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be distributed so that the Parent entity is not subject to capital gains tax.

Realised capital losses are not distributed to security holders but are retained in the Parent entity to be offset against any future realised capital gains. If realised capital gains exceed realised capital losses, the excess is distributed to security holders.

(g) Goods and services tax

Management fees, auditors' fees, legal fees and other expenses are recognised net of the amount of goods and services tax ('GST') recoverable from the Australian Taxation Office ('ATO') as a reduced input tax credit ('RITC').

Payables and receivables are stated with the amount of GST included. The net amount of GST recoverable from the ATO is included in trade and other receivables in the statement of financial position. Cash flows are included in the statement of cash flows on a gross basis.

(h) Distributions to security holders

Distributions to security holders are recognised as a liability in the period in which the security holders are presently entitled.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, short term bills and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(j) Trade and other receivables

Under the going concern basis of accounting trade and other receivables are stated at their amortised cost less impairment losses (see accounting policy 3(l)). Under the wind up basis of accounting, trade and other receivables are stated at their net realisable value.

(k) Property, plant and equipment

Property, plant and equipment not integral to earning rental income are stated at cost less accumulated depreciation and impairment losses (see accounting policy 3(l)). Cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. The expected useful life for the current and comparative periods is 2-3 years.

(l) Impairment

The carrying amounts of the Group's assets, other than investment properties (see accounting policy 3(m) and deferred tax assets (see accounting policy 3(f)), are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate. Receivables with a short duration are not discounted. Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of non-significant receivables is performed by collating receivables into portfolios of similar risk profiles and undertaking a collective assessment of impairment based on objective evidence from historical experience, adjusted for any effects of conditions existing at reporting date.

The carrying amount of impaired receivables is reduced by the impairment loss through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement. The Group derecognises a receivable only when the contractual rights to the cash flows from the asset expire.

Impairment losses are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Investment properties

As at 30 June 2011 the company prepared its financial statements on a wind basis of accounting. The investment properties are carried at their net realisable value representing their fair value less the estimated costs to sell.

As at 30 June 2010 the following policy was applicable:

Investment property is property which is held either to earn rental income or for capital appreciation or both.

Investment properties, comprising freehold land and buildings, are initially recognised at cost plus acquisition costs directly associated with the purchase, unless the properties are acquired as part of a business combination, in which case they are initially recognised at fair value on acquisition date. Subsequent to initial recognition, investment property is stated at fair value.

The consolidated entity has an internal valuation process for determining the fair value at each reporting date. An external, independent valuation expert, having an appropriate recognised qualification and recent experience in the location and category of property being valued, values the portfolio at intervals of not more than two years on a rotational basis, or on a more regular basis if considered appropriate and as determined by management in accordance with the Board approved valuation policy.

These external valuations are taken into consideration when determining the fair value of investment property. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The valuations are prepared by considering the aggregate of the net annual rents receivable (including any allowance for rental guarantee income receivable from third parties) from the properties and where relevant, associated costs. A yield which reflects the specific risks inherent in the net cash flows is then applied to the net annual rentals to arrive at the property valuation.

Valuations reflect, where appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accommodation and the market’s general perception of their credit-worthiness; the allocation of maintenance and insurance responsibilities between lessor and lessee; and the remaining economic life of the property. It has been assumed that whenever rent reviews or lease renewals are pending with anticipated reversionary increases, all notices and where appropriate counter notices have been served validly and within the appropriate time.

Investment property also includes properties that are under construction for future use as investment properties. These are also carried at fair value unless the fair value cannot yet be reliably determined. Where that is the case, the property will be accounted for at cost until either the fair value becomes reliably determinable or construction is complete.

Any gain or loss arising from a change in fair value is recognised in the income statement.

(n) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to its fair value or, if lower, at the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and, except for investment property, the leased assets are not recognised on the Group’s statement of financial position. Investment property held under an operating lease is recognised on the Group’s statement of financial position at its fair value.

(o) Investments and other financial assets

Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

A financial asset is classified at fair value through profit and loss if acquired principally for the purpose of selling in the short-term or if upon initial recognition is designated as at fair value through income statement. Derivatives are classified as held for trading unless they are designated as hedges.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classifies as non-current assets.

Recognition and de-recognition

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transactions costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Subsequent measurement

Loans and receivables are carried at amortised cost using the effective interest method. Financial assets and ‘financial assets at fair value through profit or loss’ are carried at fair value. Gains or losses arising from changes in the fair value of the ‘financial assets at fair value through income statement’ are presented in profit or loss in the period in which they arise.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

(p) Derivative financial instruments

The Group uses derivative financial instruments to manage its exposure to foreign exchange and interest rate risks arising from operating, financing and investing activities. The Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives which do not qualify for hedge accounting, or are not in a designated hedge accounting relationship, are classified and accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value and are remeasured to fair value at each reporting date. The derivatives are marked to market by discounting the contractual cash flows using a market rate for a similar instrument as at balance date. The valuations are provided by the financial instrument provider. The resultant gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date. The fair value of forward exchange contracts is their quoted market price at the reporting date, being the present value of the quoted forward price. However, where derivatives qualify for hedge accounting and are in a designated hedge relationship, recognition of any resulting gain or loss depends on the nature of the item being hedged.

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 income statement.

(q) Hedging

On entering into a hedging relationship, the Group formally designates and documents the hedge relationship and the risk management objectives and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged items fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cashflows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting years for which they are designated. If the hedging instrument no longer meets the criteria for hedge accounting, it expires, is sold, terminated, exercised or the hedging relationship is revoked, then hedge accounting is discontinued prospectively. Where cashflow hedge accounting is revoked prospectively, the cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Hedge of monetary assets and liabilities
Where a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the income statement.

Hedge of net investment in foreign operations
The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in equity. The ineffective portion is recognised immediately in the income statement.

(r) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the life of the borrowings on an effective interest basis.

(s) Provisions

Provisions are recognised when the Group 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 Group 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.

(t) Financial instruments issued by the Group

(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.

(ii) Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of the amount recognised as a provision and the amount initially recognised less cumulative amortisation in accordance with the revenue recognition policies described in accounting policy note 3(d).

(u) Financial liabilities

Financial liabilities are classified as either financial liabilities ‘at fair value through profit or loss’ or other financial liabilities.

Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

(v) Trade payables

Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services. Trade and other payables are stated at their amortised cost. Trade and other payables are non-interest bearing and are normally settled on 60 day terms.

(w) Equity issuance costs

Transaction costs incurred in issuing securities are accounted for as a deduction from equity.

(x) Earnings per security

(i) Basic earnings per security

Basic earnings per security is calculated as net profit attributable to security holders of AEZH for the year divided by the weighted average number of ordinary securities outstanding during the year, adjusted for bonus elements in ordinary securities issued during the year.

(ii) Diluted earnings per security

Diluted earnings per security adjusts the figures used in the determination of basic earnings per security to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary securities and the weighted average number of securities assumed to have been issued for no consideration in relation to dilutive potential ordinary securities.

(y) Employee entitlements

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

(z) Discontinued operations and disposal groups

Where assets of the Group are actively being marketed for sale, and are expected to be sold within twelve months of the reporting date, they are classified in the Statement of Financial Position as disposal groups held for sale. Where a group of assets are to be sold these are classified as a disposal group. On initial transfer this classification assets are valued at their net realisable value.

Where a disposal group also qualifies as an operational segment of the business (as defined in the segmental reporting note) the operation results of the segment will be classified as a discontinued operation and will be reported within a single line in the income statement. Non-current assets and disposal groups classified as held for sale are measured at their net realisable value.

4. Segment reporting

The information reported to the Group's European Management Committee (EMC) for the purposes of resource allocation and assessment of performance is at the level of the entity that owns the individual investment property to earn rental revenue. Management has chosen to organise the Group in this way given the different regulatory and geographical operating environments in which the investment properties are held. Management primarily makes strategic and operational decisions at an individual property level and separate asset management teams are responsible for the management of the properties. As a result, each entity that owns the individual property is considered an individual operating segment. Management has considered it appropriate to aggregate segments on a geographical basis given the individual properties show similar economic characteristics, for the purpose of identifying reportable segments. The segments have been separately identified as continuing and discontinuing as applicable.

The Group's reportable segments under AASB 8 are therefore as follows:

- Spain
- Italy*
- Germany
- Greece
- Romania
- Austria

*Although this segment does not meet the quantitative thresholds required by AASB 8, management has concluded that this segment should be reported as it is monitored by the EMC.

Information regarding these segments is presented below. Operating segment revenue, profit, finance expense and property revaluations are presented in Euros as this is the currency in which the EMC reviews the information it receives in order to manage the business.

The following is an analysis of the Group's revenue and results by reportable operating segment for the Periods under review:

Operating Segments	Year ended 30 June 2011			
	Segment Revenue €'000s	Segment Profit €'000s	Segment Finance Expense €'000s	Segment Property Devaluation €'000s
Germany	18,586	15,810	(4,393)	(36,353)
Greece	9,175	4,387	(2,678)	(29,740)
Segment total from external customers – continuing operations	**27,761**	**20,197**	**(7,071)**	**(66,093)**
Spain	14,119	7,571	(6,170)	(70,234)
Italy	1,339	944	(321)	(4,027)
Romania	1,030	(375)	(953)	-
Austria	6,809	4,477	(1,478)	(2,540)
Segment total from external customers discontinued operations	**23,297**	**12,617**	**(8,922)**	**(76,801)**
Segment total from external customers Total	**51,058**	**32,814**	**(15,993)**	**(142,894)**

	$'000s	$'000s	$'000s	$'000s
Segment total from external customers – continuing operations	38,169	27,710	(9,770)	(91,964)
Segment total from external customers – discontinued operations	32,085	17,387	(12,305)	(99,946)
Segment total from external customers	**70,254**	**45,097**	**(22,075)**	**(191,910)**

	$'000s Continued	$'000s Discontinued	$'000s Total
Segment result after interest expense and property devaluations	**(74,024)**	**(94,864)**	**(168,888)**
Interest income	40	66	106
Other income	377		377
Finance expenses	(5,560)	-	(5,560)
Foreign exchange (losses)/gains	(700)	2,607	1,907
Fair value gains on foreign exchange contracts	3,159	-	3,159
Fair value gains on interest rate swaps	10,414	5,982	16,396
Fair value loss on investment	(1,270)	-	(1,270)
Management expenses	(1,422)	(1,500)	(2,922)
Profit on loss of control of the Romanian business	-	42,081	42,081
Other Operating expenses – central administration expenses	(10,731)	(1,471)	(12,202)
Loss before tax	(79,717)	(47,099)	(126,816)
Income tax benefit/(charge)	2,315	(5,414)	(3,099)
Consolidated loss after income tax for the period	**(77,402)**	**(52,513)**	**(129,915)**

The revenue reported above represents rental revenue earned from tenants. There are no intersegment sales during the period.

One (2010: one) customer represents more than 10% of revenue earned in the year which is Roller Furniture based in Germany.

Segment profit represents the net operating income of an investment property (being the net of direct property income and expenses) which is not a measure defined by Australian Accounting Standards. This is the measure reported to the EMC for the purposes of resource allocation and assessment of segment performance. The profit earned by each segment excludes the allocation of central administration costs, interest income, foreign exchange losses, fair value losses on financial instruments, income tax expense, management expenses and investment property devaluations. Investment property devaluations and interest have been separately disclosed due to their material nature, however are not included in the measure of profit reported to chief operating decision maker.

Segment revenue

Segment revenue reconciles to total revenue as follows:

	30 June 2011		
	Continuing $'000s	Discontinued $'000s	Consolidated $'000s
Total segment revenue			
Rental revenue from investment properties	38,169	32,085	70,254
Interest income	40	66	106
Other income	377	-	377
Foreign exchange gains	-	2,607	2,607
Fair value gain on forward exchange contracts	3,159	-	3,159
Fair value gain on interest rate swaps	10,414	5,982	16,396
Profit on loss of control of the Romanian business	-	42,081	42,081
Total revenue per the income statement	52,159	82,821	134,980
Segment finance expense			
Segment finance expense reconciles to interest expense per Note 8 as follows:			
Total segment finance expense	9,770	12,305	22,075
Unallocated	5,560	-	5,560
Total finance expense per note 8	15,330	12,305	27,635

Segment assets

The amounts provided to the EMC with respect to total assets are cash, trade receivables and fair value of investment property for each operating segment. These assets are allocated based on the individual entity that owns the assets. Investments in managed funds (classified as fair value through profit or loss) held by the Group are not considered to be segment assets but rather managed centrally. The following is an analysis of the Group's assets by reportable operating segment:

	30 June 2011		
	Continuing $'000s	**Discontinued $'000s**	**Consolidated $'000s**
Spain	-	101,503	101,503
Italy	-	18,818	18,818
Germany	197,779	-	197,779
Greece	111,754	-	111,754
Austria	-	84,087	84,087
Total segment assets	309,533	204,408	513,941
Unallocated:			
Cash and cash equivalents – head office function	2,362	-	2,362
Deferred tax assets	1,904	2,765	4,669
Other financial assets	1,722	-	1,722
Other receivables	3,058	-	3,058
Total assets	318,579	207,173	525,752

	Year ended 30 June 2010			
Operating Segments	**Segment Revenue €'000s**	**Segment Profit €'000s**	**Segment Finance Expense €'000s**	**Segment Property Devaluation €'000s**
Germany	18,763	16,036	(4,746)	(13,407)
Greece	9,951	5,528	(3,136)	(24,013)
Segment total from external customers – continuing operations	28,714	21,564	(7,882)	(37,420)
Spain	14,891	9,039	(5,740)	(9,972)
Italy	1,379	1,239	(324)	40
Romania	4,048	308	(2,545)	(15,010)
Austria	6,800	4,350	(1,244)	2,389
Segment total from external customers – discontinued operations	27,118	14,936	(9,853)	(22,553)
Segment total from external customers – total	55,832	36,500	(17,735)	(59,973)

	$'000s	$'000s	$'000s	$'000s
Segment total from external customers – continuing operations	45,028	33,896	(12,373)	(53,680)
Segment total from external customers – discontinued operations	42,760	23,572	(15,540)	(37,450)
Segment total from external customers	87,788	57,468	(27,913)	(91,130)

	$'000s Continuing	$'000s Discontinued	$'000s Total
Segment result after interest expense and property devaluations	(32,157)	(29,418)	(61,575)
Interest income	583	157	740
Finance expenses	(6,202)	-	(6,202)
Foreign exchange losses	(6,411)	(4,811)	(11,222)
Fair value gains on foreign exchange contracts	7,111	-	7,111
Fair value gains on interest rate swaps	52	362	414
Fair value loss on investment	(1,000)	-	(1,000)
Management expenses	(2,622)	(2,240)	(4,862)
Other Operating expenses – central administration expenses	(11,237)	(3,029)	(14,266)
Loss before tax	(51,883)	(38,979)	(90,862)
Income tax benefit	10,102	13,542	23,644
Consolidated loss after income tax for the period	**(41,781)**	**(25,437)**	**(67,218)**

The measures of segment revenue and segment profit at 30 June 2010 are consistent with those disclosed in the current period.

Segment revenue

Segment revenue reconciles to total revenue as follows:

	30 June 2010		
	Continuing $'000s	Discontinued $'000s	Consolidated $'000s
Total segment revenue			
Rental revenue from investment properties	45,028	42,760	87,788
Interest income	583	157	740
Fair value gain on forward exchange contracts	7,111	-	7,111
Fair value gain on interest rate swaps	52	362	414
Total revenue per the income statement	52,774	43,279	96,053
Segment finance expense			
Segment finance expense reconciles to interest expense per Note 8 as follows:			
Total segment finance expense	12,373	15,540	27,913
Unallocated	6,202	-	6,202
Total finance expense per note 8	**18,575**	**15,540**	**34,115**

Segment assets

The amounts provided to the EMC with respect to total assets are cash, trade receivables and fair value of investment property for each operating segment. These assets are allocated based on the individual entity that owns the assets. Investments in managed funds (classified as fair value through profit or loss) held by the Group are not considered to be segment assets but rather managed centrally.

The following is an analysis of the Group's assets by:

Reportable operating segment:	30 June 2010		
	Continuing $'000s	Discontinued $'000s	Consolidated $'000s
Spain	-	202,531	202,531
Italy	-	25,540	25,540
Germany	257,483	-	257,483
Greece	158,411	-	158,411
Romania	-	52,373	52,373
Austria	-	88,251	88,251
Total segment assets	415,894	368,695	784,589
Unallocated:			
Cash and cash equivalents – head office function	6,766	-	6,766
Deferred tax assets	5,505	8,641	14,146
Other financial assets	5,246	-	5,246
Other receivables	7,584	-	7,584
Total assets	440,995	377,336	818,331

5. Assets and liabilities classified as disposal groups and discontinued operations

(a) (i) Assets in disposal groups classified as held for sale

	2011					2010
	$'000s Italy	$'000s Austria	$'000s Spain	$'000s City Gate	$'000s' Total	$'000s Total
Disposal group held for sale:						
Investment property	17,925	78,897	93,564	15,346	205,732	-
Trade receivables	36	66	310	714	1,126	-
Lease incentives	-	-	-	1,221	1,221	
	17,961	78,963	93,874	17,281	208,079	-

(ii) Liabilities directly associated with disposal groups classified as held for sale

	2011					2010
	$'000s Italy	$'000s Austria	$'000s Spain	$'000s City Gate	$'000s Total	$'000s Total
Disposal group held for sale:						
Trade and other payables	166	1075	-	-	1,241	-
Provisions	-	646	-	-	646	-
	166	1,721	-	-	1,887	-

(iii) Description of disposal groups

Italy
The sale of the Italian companies is at an advanced stage with completion expected in the European Autumn of this calendar year. The investment properties values are based on the offer price less the estimated costs to sell.

Austria
The sale of the Austrian business is in progress. It is expected to be a share sale, although the exact structure of the sale is currently under discussion. The investment property is valued based on the offer price less the estimated costs of sale.

Spain
Final offers have been submitted for the Spanish properties and the business is soon to enter a second phase of due diligence. The sale is expected to take the form of an asset sale and the investment properties have been valued based on the offer price less the estimated costs to sell.

City Gate
The sale of the City Gate investment property is in the final stage of due diligence and is expected to be completed by the end of September 2011. The investment property is valued at its offer price less its estimated costs to sell.

(b) Discontinued operations

Of the above disposal groups, Italy, Spain and Austria are also considered discontinued operations as the AEZ Group is in the process of selling the whole geographical segment. City Gate forms only part of the Greek operating segment and therefore the Greek business has not been classified as a discontinued operation. The Romanian business entered into voluntary administration on 2 November 2010 and therefore its operating results to that date have also been classified as discontinued operations. Further details on the Romanian business and the calculation of the profit recognised on the loss of control of the business are set out in note 5 (c).

Financial information relating to discontinued operations is set out below:

The financial performance and cash flow information of the discontinued operations for 30 June 2011 and 30 June 2010 are set out below:

(i) Discontinued operations		2011 $'000's	2010 $'000's
Revenue			
Rental income from investment properties		32,085	42,760
Interest income	8	66	157
Foreign exchange gains		2,607	-
Fair value gain on interest rate swaps	8	5,982	362
Profit on loss of control of the Romanian business		42,081	-
		82,821	**43,279**
Expenses			
Property expenses		(12,004)	(16,803)
Management expenses		(1,878)	(2,528)
Other operating expenses	7	(3,787)	(5,126)
Property devaluations	18	(99,946)	(37,450)
Finance expenses	8	(12,305)	(15,540)
Foreign exchange losses		-	(4,811)
		(129,920)	(82,258)
Loss before income tax benefit		**(47,099)**	**(38,979)**
Income tax (charge)/ benefit	10	(5,414)	13,542
Loss for the year		**(52,513)**	**(25,437)**

(i) Discontinued operations continued	2011 $'000's	2010 $'000's
Loss attributable to AEZH security holders relates to:		
Loss from continuing operations	(79,600)	(41,077)
Loss from discontinued operations	(52,513)	(25,437)
	(132,113)	**(66,514)**
Net cash inflow from operating activities	14,775	18,803
Net cash outflow from investing activities	(980)	(30)
Net cash outflow from financing activities	(12,028)	(21,433)
Net increase/(decrease) in cash generated by discontinued	**1,767**	**(2,660)**

(C) Details of the loss of control of the Romanian business

SC Victoria Holdings SA owns the City Mall shopping centre in Romania. A loan facility to purchase this centre was provided by Unicredit Bank Austria. At 30 June 2010, the loan amount and the value of the property were €40.1 million and €35.4 million respectively. The loan facility has been breach of its covenants since 30 September 2009. Management had been in negotiations to agree a restructuring of the terms of the loan.

On 15 October 2010, Unicredit Bank Austria notified SC Victoria holdings SA that the loan was due in full for immediate repayment. As a result SC Victoria Holdings SA was no longer in a position to meet its liabilities and filed for voluntary administration and subsequently entered into administration on 2 November 2010. From this date APN European Retail Property Holding Trust lost control of SC Victoria Holdings SA.

(i) Calculation of gain on loss of control of Romanian business

	2011 $'000's
Net liabilities of SC Victoria Holdings SA at date of deemed disposal	32,062
Recycling of foreign currency translation reserve	33,711
Recycling of net investment hedge	1,907
Provision for bad debts on loans to SC Victoria Holdings SA	(25,599)
	42,081

(ii) Carrying amounts of assets and liabilities

The carrying amounts of assets and liabilities as at 2 November 2010 were:

	2 November 2010 $'000
Cash	391
Investment property	48,505
Trade and other receivables	892
Total assets	**49,788**
Trade and other payables	(26,132)
Provisions	(507)
Interest bearing liabilities	(54,904)
Other financial liabilities	(307)
Total liabilities	(81,850)
Net liabilities	**(32,062)**

6. Investment expense

	2011 $'000's	Restated 2010 $'000's
Investment devaluations		
Financial assets at fair value through profit or loss:		
Fair value loss on revaluation of investments	(1,270)	(1,000)

7. Other Operating Expenses

	Consolidated 2011 $'000's	Restated 2010 $'000's
The following amounts have been charged/(credited) to the income statement		
Loans and receivables:		
Bad debt expense	-	84
Write-off of other receivables - related parties	(1,495)	(1,076)
Impairment of trade receivables - external	3,165	2,253
Impairment of loans receivable – related parties	1,625	2,047
Financial asset/liabilities classified at fair value through income statement:		
Fair value loss on other financial instruments	527	206
Other expenses:		
Cost of services (includes Carrefour settlement of $2.4m)	10,126	10,073
Other operating expenses – continuing operations	**13,948**	**13,591**
Other operating expenses – discontinued operations	**3,787**	**5,126**
Total other operating expenses	**17,735**	**18,717**

8. Financing income/(expense)

	Consolidated 2011 $'000's	Restated 2010 $'000's
Interest income – external	40	31
Interest income – related parties	-	552
Interest income – continuing operations	**40**	**583**
Interest income – discontinued operations	66	157
Total financing income	**106**	**740**
Financial assets held for trading:		
Net fair value gain on interest rate swaps – continuing operations	**10,414**	**52**
Net fair value gain on interest rate swaps – discontinued operations	5,982	362
Total net fair value gain on interest rate swaps	**16,396**	**414**
Interest expense – external	(14,462)	(17,406)
Interest expense – related parties	(537)	(302)
Amortisation of banking costs	(292)	(805)
Banking and facility fees	(39)	(62)
Finance expenses – continuing operations	**(15,330)**	**(18,575)**
Finance expenses - discontinued operations	**(12,305)**	**(15,540)**
Total finance expenses	**(27,635)**	**(34,115)**
Net Financing costs	**(11,133)**	**(32,961)**

9. Personnel costs

	Consolidated 2011 $'000's	Restated 2010 $'000's
Wages and salaries	537	496
Personnel costs – continuing operations	**537**	**496**
Personnel costs – discontinued operations	635	961
Total personnel costs	**1,172**	**1,457**

10. Income tax expense

	Consolidated	
	2011 $'000's	**2010** $'000's
Current tax expense		
Current year	(1,084)	(1,407)
Prior year current tax adjustment	(720)	875
Other tax	(3,415)	-
Overseas tax	(1,255)	-
Deferred tax benefit	3,375	24,176
	(3,099)	**23,644**
Income tax (expense)/benefit is attributable to:		
Income tax benefit on loss from continuing operations	2,315	10,102
Income tax (charge)/benefit on loss from discontinued operations	(5,414)	13,542
Aggregate income (expense)/benefit	**(3,099)**	**23,644**
Numerical reconciliation between tax expense and pre-tax net		
Loss from continuing operations before income tax expense	(79,717)	(51,883)
Loss from discontinued operations before income tax expense	(47,099)	(38,979)
Aggregate income tax expense	**(126,816)**	**(90,862)**
Income tax using the domestic tax rate of 30% (2010: 30%)	38,045	27,259
Decrease in income tax expense due to:		
Trust (expenses)/income not subject to tax	(3,064)	3,525
Other non-assessable income	4,038	(2,723)
Tax deductible items not recognised in the income statement	745	410
Impact of changes in tax rates	22	3,875
Effect of tax losses not recognised/deferred tax assets derecognised	(41,230)	(4,704)
Effect of tax rate in foreign jurisdictions	3,104	(4,873)
Other items	(4,039)	-
Prior year current tax adjustment	(720)	875
Income tax benefit on pre-tax net profit	**(3,099)**	**23,644**

(i) Current tax assets and liabilities

The current tax liability, representing the amount of income taxes payable in respect of the current year, for the Group is $5,940,000 (2010: $2,670,000).

(ii) Recognised deferred tax assets and liabilities

	Consolidated	
	2011 $'000's	2010 $'000's
Recognised deferred tax liabilities arise from the following:		
Cash and cash equivalents	-	-
Trade and other receivables	319	464
Other financial assets	-	-
Investment property	(17,464)	(31,483)
Property, plant and equipment	-	-
Intangible assets	-	5,227
Trade and other payables	-	-
Other financial liabilities	950	3,750
Interest bearing liabilities	343	-
Provisions	-	90
Unused tax losses and credits	3,057	4,615
	(12,795)	**(17,337)**
Presented in the statement of financial position as follows:		
Deferred tax asset	4,669	14,146
Deferred tax liability	(17,464)	(31,483)
	(12,795)	**(17,337)**

	Consolidated	
	2011 $'000's	2010 $'000's
Movement in temporary differences during the year		
Opening balance	(17,337)	(48,328)
Recognised in income	3,377	24,176
Recognised in reserves	322	717
Effects of movements in foreign currency exchange	843	6,098
	(12,795)	**(17,337)**

Unrecognised deferred tax assets

At 30 June 2011, the Group had $65,011,000 (2010: $38,889,000) of unrecognised deferred tax assets arising from tax losses.

Deferred tax assets have not been recognised in respect of these losses because it is not probable that future taxable profits will be available against which the Group can utilise the benefits from.

(iii) Tax expense relating to items of other comprehensive income:

	Consolidated	
	2011 $'000's	2010 $'000's
Tax expense on cash flow hedge reserve	322	717
	322	**717**

11. Earnings per security

The following reflects the income and unit information used in the calculation of basic and diluted earnings per unit.

	Consolidated	
	2011	2010
In cents		
Basic and diluted earnings per security - continuing	(14.61)	(7.54)
Basic and diluted earnings per security - discontinued	(9.64)	(4.67)
In thousands of AUD		
Basic and diluted earnings		
Net loss attributable to AEZH security holders	(132,113)	(66,514)
Weighted average number of ordinary units (basic and diluted)'000		
Opening balance	544,911	544,911
Closing balance	**544,911**	**544,911**

12. Distributions paid/payable

No distributions were paid in the year (2010: $nil).

13. Net tangible asset backing

	Consolidated	
	2011 Cents per unit	2010 Cents per unit
Net tangible asset backing per security	(17.14)	15.63
Net tangible asset backing per security excluding deferred tax associated with Investment Property	(11.19)	19.60

Net tangible asset backing per security is calculated by the dividing net assets (adjusted to exclude the intangible assets and capitalised borrowing transaction costs of the Group) by the number of securities on issue.

Net tangible asset backing per security excluding deferred tax associated with Investment Property is calculated by dividing net assets attributable to security holders (adjusted to exclude intangible assets, capitalised borrowing transaction costs and deferred tax arising from Investment Property of the Group) by the number of securities on issue.

The number of securities used in the calculation of the Group net tangible asset backing is 544,910,660 (2010: 544,910,660).

14. Auditors' remuneration

Details of the amounts paid to the auditor, Deloitte Touche Tohmatsu and its respective related practices for audit and non-audit services are set out below:

	Consolidated	
	2011 $	2010 $
Audit services:		
Auditor of the parent entity		
Audit and review of financial reports	303,005	282,303
Other regulatory audit services	9,900	-
	312,905	**282,303**
Affiliated firms		
Audit and review of financial reports	388,550	661,666
	388,550	**661,666**
Total audit services	**701,455**	**943,969**
Other services:		
Auditor of the parent entity		
Advisory services	41,000	22,338
Taxation services	244,289	228,562
	285,289	**250,900**
Affiliated firms		
Advisory services	-	17,963
Taxation services	216,346	642,904
	216,346	**660,867**
Total other services	**501,635**	**911,767**
	1,203,090	**1,855,736**

15. Trade and other receivables

	Consolidated	
	2011 $'000's	**2010 $'000's**
Current		
Trade receivables	219	15,862
Less: Provision for impairment	(80)	(11,441)
	139	**4,421**
Other receivables	1,677	4,152
Prepayments	1,238	1,269
Receivables from related parties	1,230	68
Interest bearing loans to related parties	7,110	5,071
Less: Provision for impairment	(7,110)	(5,071)
	4,284	**9,910**
Non-Current		
Other receivables		

The net loss recognised in the income statement in respect to Trade and Other Receivables was $5,728,000 (201: $5,683,000) for the Group.

Interest income amounting to $nil (2010: $515,000) has been recognised in the income statement in respect to Trade and Other Receivables that are impaired for the Group.

(a) Allowance for impairment loss

Trade receivables are non-interest bearing receivables and are generally on 15-30 day terms. Trade receivables are predominantly tenant rent receivables. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired and by reference to past default experience. Refer to accounting policy 3(l) for details of the Group's impairment policy. A net impairment loss of $4,774,000 (2010: $6,422,000) has been recognised by the Group in the current year.

	Consolidated	
	2011 $'000's	**2010 $'000's**
Movements in the provision for impairment were:		
Opening balance	(16,512)	(15,117)
Charge for the year	(4,774)	(6,422)
Accounts written off as uncollectable	5,044	1,663
Transferred to disposal groups	7,830	-
Amounts recovered	449	458
Effect of movements in foreign exchange	773	2,906
	(7,190)	**(16,512)**

(b) The ageing analysis of trade receivable is as follows:

	Consolidated	
	2011 $'000's	**2010 $'000's**
Unimpaired		
Current	79	976
	79	**976**
Past due but not impaired		
Less than 30 days overdue	37	711
More than 30 but less than 60 days overdue	13	602
More than 60 but less than 90 days overdue	4	350
More than 90 days overdue	6	322
	60	**1,985**
Impaired		
Current	-	58
Less than 30 days overdue	-	54
More than 30 but less than 60 days overdue	-	58
More than 60 but less than 90 days overdue	80	291
More than 90 days overdue	-	12,440
	80	**12,901**
	219	**15,862**

As at 30 June 2011, the Group had $60,000 (2010: $1,985,000) of trade receivables past due but not considered impaired. The Group has not provided for these as they are still considered recoverable.

(c) The collateral and other credit enhancements held in relation to the trade receivables is as follows:

Description of collateral held		
Cash deposits	332	2,439
Letters of guarantee from bank	-	3,025
Cheques held on tenants accounts	-	442
Tenant deposits held in cash	-	369
	332	**6,275**

(d) The collateral and other credit enhancements held in relation to past due and impaired trade receivables is as follows:

	Consolidated	
	2011 $'000's	2010 $'000's
Security deposits		
Overdue	-	38
Impaired	-	1,404
	-	**1,442**
Letters of guarantee from bank		
Overdue	-	430
Impaired	-	1,111
	-	**1,541**

Other balances within current trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be recovered when due. The loan within current receivables to a related party is repayable on demand but has been impaired as the counterparty is not able to repay its debt at this time. The debt can be classified as being more than 90 days overdue.

(e) Related party receivables

For terms and conditions of related party receivables refer to note 31.

(f) Fair value

Due to the short term nature of current Trade and Other Receivables, the carrying value is assumed to approximate fair value. The approximate fair value of non-current Trade and Other Receivables, adjusted for estimated credit margin and current market interest rates is $nil (2010: $2,096,000). This fair value has been based on a reasonable estimate of changes in market conditions including credit spreads, but cannot be validated against specific market transactions due to the nature of the balances. It is not the Group's policy to transfer (sell) receivables to special purpose entities.

(g) Foreign exchange and interest rate risk

Detail regarding foreign exchange and interest rate risk exposure is disclosed in note 26.

(h) Credit risk

Detail regarding credit risk exposure is disclosed in note 26.

16. Other financial assets

	Consolidated	
	2011 $'000's	**2010 $'000's**
Non-current at fair value:		
Financial assets classified as held for trading:		
Interest rate swaps – related parties	268	1,893
Less: Provision for impairment	(268)	(1,893)
Financial assets designated at fair value through income statement:		
Municipal bonds[1]	2,210	2,319
Unlisted unit trusts	3,976	5,246
	6,186	**7,565**

[1] Relates to certain tenant security deposits that are required, by law, to be held as municipal bonds

17. Property, plant and equipment

	Consolidated	
	2011 $'000's	**2010 $'000's**
Gross carrying amount		
Plant and equipment at cost		
Opening balance	-	780
Disposals	-	(715)
Effects of movements in foreign exchange	-	(65)
	-	**-**
Accumulated depreciation/amortisation and impairment		
Plant and equipment at cost		
Opening balance	-	(198)
Disposals	-	237
Depreciation expense	-	(55)
Effects of movements in foreign exchange	-	16
Net book value	**-**	**-**

Depreciation
The following useful lives are used in the calculation of depreciation:
Plant and equipment: 2-3 years

	Consolidated	
	2011 $'000's	2010 $'000's
Aggregate depreciation recognised as an expense in cost of services during the year is:		
Plant and equipment	-	55

18. Investment property

	Consolidated	
	2011 $'000's	2010 $'000's
Opening balance	765,466	1,045,040
Additions from subsequent expenditure	629	(130)
Net realisable value/fair value adjustments - continuing	(91,964)	(53,680)
Net realisable value/fair value adjustments - discontinued	(99,946)	(37,450)
Loss of control of Romanian business	(48,505)	-
Effects of movements in foreign exchange	(38,850)	(188,314)
	486,830	**765,466**
Lease incentives within disposal groups/ non-current receivables	1,221	2,465
	488,051	**767,931**
Investment properties are classified within:		
Investment properties	281,098	765,466
Lease incentives within current and non-current receivables	-	2,465
Disposal groups – investment properties	205,732	-
Disposal groups - Lease incentives within disposal groups/ non-current receivables	1,221	-
	488,051	**767,931**

Investment property comprises a portfolio 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.

Valuation Basis

As set out in note 2(c) the Group is required to sell its assets by 30 November 2012 and the financial statements have been prepared using the wind up basis of accounting. The Group is therefore required to value its assets at their net realisable value which is represented by their fair value less their estimated costs to sell. Where an offer has been received for a property that is considered by the Directors to be of sufficient substance, the offer price has been used to represent the fair value of the property when assessing its net realisable value as the offer is considered to be the most recent and reliable information available.

For the German properties, the 2011 Directors valuations are based on independent assessments 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 using the discounted cash flow or direct capitalisation methods, except for one property in the Roller portfolio which has received an offer of $14.9m from a ‘special purchaser’ which has been used to reflect its net realisable value. An independent valuation was also obtained for the Champion Portfolio in Greece. Offers have been received for all other properties.

While the properties have been valued based on the most recent information available, the sales process is ongoing and therefore the carrying value of these properties may be subject to change. All the offers received are currently non-binding.

In the prior year, the carrying amount of investment properties was their fair value, being the amount that the properties could be exchanged between willing parties in an arm’s length transaction, based on current prices in an active market for similar properties in the same location and condition, and subject to similar leases. This was with the exception of one property within the German portfolio which had experienced some structural defects. While investigation into the extent of the defects was ongoing, a provision of $10,125,000, representing the net present value of the estimated reinstatement required to rebuild approximately 50% of the building, had been deducted from the valuation of the property.

Leases as lessor

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

	Consolidated	
	2011 $’000’s	**2010 $’000’s**
Less than one year	52,368	56,872
Between one and five years	141,385	157,511
More than five years	47,457	57,217
	241,210	**271,600**

During the year ended 30 June 2011, rental income (including continuing and discontinued operations) amounting to $70,254,000 (2010: $87,788,000) and operating expenses totalling $22,546,000 (2010: $30,731,000) were recognised in respect to investment property.

In thousands of AUD	Title	Acquisition date	Original purchase price	Cost including all acquisition related costs	Most recent valuation date	Director valuation amount[1]	Book value 30 June 2011	Book value 30 June 2010
Festival Park, Marratxi, Mallorca, Spain[3]	Freehold	Jul 2005	125,885	133,303	Jun 2011	69,528	69,528	104,794
La Vega, Alcobendas, Madrid, Spain[3]	Freehold	Jul 2005	46,072	47,300	Jun 2011	2,580	2,580	29,729
Pamplona, Navarra, Spain[3]	Freehold	Jul 2005	15,601	16,165	Jun 2011	9,099	9,099	12,504
Cuadernillos, Alcalá de Henares, Spain[3]	Freehold	Jan 2007	140,476	140,476	Jun 2011	12,357	12,357	47,336
Gallarate, Milan, Italy[3]	Freehold	Jul 2005	9,883	10,326	Dec 2010	7,061	7,061	9,631
San Guiliano, Milan, Italy[3]	Freehold	Jul 2005	14,479	14,979	Dec 2010	10,864	10,864	15,002
Champion – Marinopoulos portfolio	Freehold	Dec 2005	109,861	112,350	Jun 2011	87,724	87,724	97,014
Roller Furniture Retail Outlet portfolio	Freehold	Dec 2005	140,625	147,561	Jun 2011	85,823	85,823	106,138
Lowen Center, Leipzig, Germany	Freehold	Mar 2006	99,076	103,029	Jun 2011	48,072	48,072	74,189
Centrum, Halle-Neustadt, Germany	Freehold	Mar 2006	80,721	85,495	Jun 2011	59,479	59,479	74,760
CityGate, Thessaloniki, Greece[3]	Freehold	Mar 2006	102,272	105,610	Dec 2010	16,567	16,567	59,951
City Mall, Bucharest, Romania[2]	Freehold	Nov 2006	150,775	150,775	Jun 2010	-	-	50,456
Traisenpark, St Pollen, Austria[3]	Freehold	Dec 2007	106,725	106,725	Jun 2011	78,897	78,897	86,427
							488,051	**767,931**

1. An external independent valuation has been prepared by a member of the Royal Institute of Charted Surveyors and used by the Directors as the basis for their valuation in respect of the German properties (with the exception of one property within the Roller portfolio) and the Champion Portfolio. The Directors have based their valuation of the remaining properties based on the offers received less the expected costs to sell. In the prior year all properties were independently valued by a member of the Royal Institute of Charted Surveyors.2. No longer consolidated following the loss of control of Victoria Holding SA. 3. Classified as held for sale

At the end of the period the key assumptions used by the directors in determining the net realisable values in 2011 and the fair values in 2010 were as follows:

	Discount rate 2011 %	Discount rate 2010 %	Terminal yield 2011 %	Terminal yield 2010 %	Expected vacancy rate 2011 %	Expected vacancy rate 2010 %	Rental growth rate 2011 %	Rental growth rate 2010 %
Retail Properties								
Festival Park, Marratxi, Mallorca, Spain	N/a	11.90	N/a	8.15	N/a	6.64	N/a	2.96
La Vega, Alcobendas, Madrid, Spain	N/a	11.75	N/a	8.00	N/a	9.30	N/a	2.51
Pamplona, Navarra, Spain	N/a	10.50	N/a	7.80	N/a	0.00	N/a	1.90
Cuadernillos, Alcalá de Henares, Spain	N/a	12.50	N/a	8.50	N/a	16.87	N/a	2.17
Gallarate, Milan, Italy	N/a	8.25	N/a	7.35	N/a	1.00	N/a	1.69
San Guiliano, Milan, Italy	N/a	8.50	N/a	7.25	N/a	1.00	N/a	1.00
Champion – Marinopoulos portfolio[1]	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
Roller Furniture Retail Outlet portfolio[2]	7.89	8.20	7.94	7.94	0.00	2.44	1.10	-0.40
Lowen Center, Leipzig, Germany	9.00	7.20	7.60	7.50	0.00	0.00	-1.39	-1.61
Centrum, Halle-Neustadt, Germany	7.70	8.25	7.50	7.30	6.50	3.68	0.87	0.43
CityGate, Thessaloniki, Greece	N/a	9.50	N/a	12.00	N/a	2.25	N/a	2.25
City Mall, Bucharest, Romania	N/a	9.00	N/a	11.25	N/a	7.50	N/a	2.00
Traisenpark, St Pollen, Austria	N/a	7.75	N/a	9.25	N/a	3.00	N/a	1.78

[1] The Champion portfolio is valued on a capitalisation basis. The weighted average capitalisation rate for the portfolio is 7.01% (2010:8.13%).
[2] Weighted average shown for portfolio.

19. Trade and other payables

	Consolidated	
	2011 $'000's	**2010** $'000's
Current		
Trade payables	2,633	3,306
Other payables and accrued expenses	11,477	11,161
Distributions payable to non controlling interests	122	618
Amounts payable to related parties	4,452	4,364
Deferred rental income	-	12
	18,684	**19,461**
Non-current		
Other payables and accrued expenses	4,337	5,203
	4,337	**5,203**

20. Other financial liabilities

Current – at fair value		
Financial liabilities held for trading:		
Forward exchange contracts	20,802	23,961
Interest rate swaps	8,342	29,554
	29,144	**53,515**
Non-current – at fair value		
Financial liabilities held for trading:		
Interest rate swaps	2,943	-
	2,943	**-**

At 30 June 2011, the Group was in breach of covenants on hedging facilities totalling $0.3 million (2010: $56.5 million) following the waiver of the breaches that had arisen by the RBS through the signing of the Omnibus Deed. However, the facilities have all been described as current as the expectation is that the senior debt that would qualify as non-current will be repaid within twelve months of the balance sheet date following the sale of the related property asset. The Champion debt and associated interest rate swap are classified as non-current as these assets are not being sold as the portfolio is held within APN Champion Retail Fund, a separate fund from the AEZ Group.

In the prior year the Group was in breach of covenants primarily as a result of falling property valuations for the year. Such facilities are required to be classified as current and be described in the financial report. A description of facilities in breach or default of the covenants at reporting date and in the prior year is provided over page:

Deutsche Bank hedging facilities $268,000 (2010: $2,252,000)

At 30 June 2011, this facility was in breach of its debt to asset and tangible net worth covenants. As a result, this facility has been classified as a current liability.

Royal Bank of Scotland hedging facilities $32,087,000 (2010: $53,505,000)

At 30 June 2011, the RBS hedging facilities are not in breach following the waiver of these breaches by the Royal Bank of Scotland in the Omnibus Deed. With the exception of the Champion interest rate swap the hedging facilities continue to be classified as current as it is anticipated that they will be discharged within the year. In the prior year these hedging facilities were in breach due to a cross default clause with the working capital facility. As a result, these facilities were classified as current liabilities. The foreign exchange contracts were closed out in 2009.

Bank of Austria, Unicredit Romania hedging facilities $nil (2010: $774,000)

The Unicredit hedging facilities expired during the year. At 30 June 2010, the Romanian hedging facilities were in breach due to a cross default clause with the City Mall term debt. As a result, these facilities were classified as current liabilities.

21. Provisions

	Consolidated	
	2011 $'000's	2010 $'000's
Current		
Employee entitlements	-	40
Other	3,887	4,535
	3,887	**4,575**
Non-Current		
Employee entitlements	-	74
	-	**74**

Reconciliation

Reconciliations of the carrying amounts of each class of provisions, are set out below:

Employee entitlements	Consolidated 2011 $'000's	Consolidated 2010 $'000's
Opening balance	114	125
Amounts transferred to disposal groups	(80)	
Provisions reversed	-	11
Provision used	(28)	-
Effects of movements in foreign exchange	(6)	(22)
	-	**114**
Other		
Opening balance	4,536	8,129
Provisions made	1,712	1,183
Provision used	(1,583)	(3,524)
Amounts transferred to disposal groups	(566)	-
Unused amounts reversed	-	(415)
Effects of movements in foreign exchange	(212)	(837)
	3,887	**4,536**

Included in Other provisions is an amount of $2,878,000 (2010: $3,020,000) relating to potential transfer tax payable. The residual balance relates to amounts provided for in the course of normal operations.

22. Interest bearing liabilities

	Consolidated	
	2011 $'000's	**2010** $'000's
Current – at amortised cost		
Finance lease liabilities	100	107
Other loans from related parties, unsecured	2,069	1,784
Bank loans, secured	461,343	525,372
Bank loans, unsecured		-
	463,512	**527,263**
Non-current – at amortised cost		
Finance lease liabilities	2,020	2,230
Bank loans, secured	49,941	67,774
	51,961	**70,004**
Reconciliation of Interest bearing liabilities:		
Amounts borrowed	516,268	598,763
Less: Capitalised transaction costs	(795)	(1,496)
	515,473	**597,267**

At 30 June 2011, the Group was no longer in breach of certain loan covenants on debt (2010: breach of €525.8 million) as the breaches were waived when the Omnibus Deed was signed with the Royal Bank of Scotland plc on 14 March 2011. However, due to the proposed sale of the properties, those loans that would qualify to be disclosed as non-current have been disclosed as current as it is expected they will be discharged in the next twelve months. The loan relating to the Champion Portfolio is disclosed as non-current as it sits within a separate fund and is not impacted by the Omnibus Deed.

In the prior year the Group was in breach of certain loan covenants largely as a result of falling property valuations for the period. AASB 101 'Presentation of Financial Statements' requires that where an entity does not have an unconditional right to defer its settlement for at least twelve months, a loan must be classified as a current liability. The Group has therefore classified as current a loan where, although the loan is not at call or has a rescheduled repayment date within twelve months, it was determined that this right to defer may not be unconditional. While the Directors did not believe that the loan would necessarily be called in the next twelve months they decided that classification as a current liability was required by AASB 101. A description of loans in breach or default of their covenants at the prior year reporting date is provided over page:

Spain portfolio $164,995,000 (2010: $173,105,000), Royal Bank of Scotland

At 30 June 2011 the loan has been classified as current as it is likely to be settled within the next twelve months. At 30 June 2010 the loan to valuation ratio covenant on this Spanish portfolio loan was over the required 68% mainly as a result of the significant reduction in the value of the Cuadernillos property in Madrid. As a result, this loan was classified as a current liability.

Champion Retail Fund ('CRF'), Greece $49,942,000 (2010: $52,397,000), Bond Loan

At 30 June 2011 this loan was no longer in cross default with other Royal Bank of Scotland banking facilities, as the breaches on those facilities have been waived. As at 30 June 2010 the loan was in cross default with its interest rate swap which was in turn in cross default with the working capital facility. As a result, this loan was classified as a current liability.

Working Capital Facility $30,554,000 (2010: $32,056,000), Royal Bank of Scotland

At 30 June 2011 the covenant breaches pertaining to this loan had been waived by the Royal Bank of Scotland. In the prior year several of the covenants on this loan had been breached due to revaluation losses on the property portfolio as a whole. As a result, this loan was in default and was classified as a current liability.

City Mall, Romania $nil (2010: $57,396,000), Bank Austria

The Group no longer holds this loan on its statement of financial position as the company holding the debt, Victoria Holdings SA, entered into administration on 2 November 2010. At 30 June 2010, certain of the covenants on this loan were in breach. As a result the loan was in default and was classified as a current liability.

At 30 June 2011, other loans amounting to $nil (2010: $160,001,000) were in cross default breach with the Working Capital Facility.

(i) Banking facilities

	Consolidated	
	2011 $'000's	2010 $'000's
Available at reporting date		
Bank loans, secured	514,214	596,882
Utilised at reporting date		
Bank loans, secured	512,079	594,642
Not utilised at reporting date		
Bank loans, secured	2,135	2,240

Fair values
The approximate fair value of the interest bearing liabilities before taking into account capitalised transaction costs is $509,690,000 (2010: $586,379,000) for the Group. The fair value has been calculated by discounting the expected future cash flows at prevailing market interest rates implicit under the contractual terms of the interest bearing liabilities.

Interest rate, foreign exchange and liquidity risk
Details regarding interest rate, foreign exchange and liquidity risk is disclosed in note 26.

(ii) Financing arrangements

Bank loans
Bank loans are denominated in Euro and are interest only loans with principal repayable on maturity. In the prior year there was one exception being the loan with Bank Austria Creditanstalt AG ('Bank Austria'), which required quarterly principal repayments representing an annual payment of 1.67% of the loans original principal value. As the company holding this loan, Victoria Holding SA, entered into administration on 2 November 2010 this loan is no longer recorded in the statement of financial position.

For the year ended 30 June 2011, current secured bank loans are secured by registered first mortgages over the investment properties to which each loan relates (2010: secured by registered first mortgages over investment properties to which the loan relates). Interest is payable in arrears in accordance with the drawdown terms (generally 30 to 90 days). In addition, the Working Capital Facility is secured by a fixed and floating charge over the APN European Retail Property Holding Trust. The Working Capital Facility also has a second mortgage over the following investment properties:

Festival Park, Pamplona, La Vega, Centrum, Halle-Neustadt and the Roller Furniture retail outlet portfolio.

Non-current bank loans are secured by registered first mortgages over the investment properties to which they relate.

As at 30 June 2011, investment property with a carrying value of $488,051,000 / €359,400,000 (2010: $767,931,000 / €539,012,000) has been pledged as security for banking facilities totalling $516,268,000 / €380,179,000 (2010: $598,762,000 / €420,272,000).

The weighted average terms of the bank loans outstanding at 30 June 2011, subject to the non-enforcement of covenant breaches and cross default events, is 1.2 years (2010: 1.6 years). 81% (2010: 95.0%) of the bank loans have been fixed with interest rate swaps at a rate of 5.06% (2010: 4.80%), with the remaining balance subject to a floating rate of 2.0% (2010: 0.5%) (re-set quarterly / semi-annually).

Finance lease facility
The Group's lease liabilities are secured by investment properties valued at $3,598,000 (2010: $3,925,000). In the event of default, the leased assets revert to the lessor.

	Consolidated 2011		
	Minimum lease payments $'000's	Interest $'000's	Principal $'000's
Finance Lease Liability			
Less than one year	222	122	100
Between one and five years	891	424	467
More than five years	1,959	406	1,553
	3,072	**952**	**2,120**
	2010		
Less than one year	241	134	107
Between one and five years	954	481	473
More than five years	2,274	517	1,757
	3,469	**1,132**	**2,337**

The principal amount represents the present value of minimum lease payments.

The Group has an investment property under a finance lease expiring in December 2022. At the end of the lease term, the Group has the option to purchase the investment property at an agreed price of $553,000 / €407,000 (2010: $580,000 / €407,000) plus transaction costs, a price deemed to be a bargain purchase option.

If the finance lease is terminated between December 2005 and December 2017, the Group may acquire the leased properties for the amount of the outstanding principal without penalty. If the finance lease is terminated after December 2017 pursuant to a sale of the properties by the Group, the Group must pay the lessor the amount of the outstanding principal plus 20% of any gain made from the sale of the property.

Under the terms of the lease agreements, no contingent rents are payable.

23. Contributed equity and reserves

(i) Securities on issue

	Consolidated	
	2011 Securities ’000	**2010 Securities** ’000
On issue at the beginning and end of the period	**544,911**	**544,911**

The security holders of the Group are entitled to receive distributions from the Fund as declared from time to time with the extent to which each security is paid up. Under the Group’s constitution each security, to the extent paid up, represents a right to the underlying assets of the Group.

(ii) Foreign currency translation reserve

Exchange differences relating to the translation from the functional currencies of the Group’s foreign operations into Australian dollars, together with the currency translation of long term payables and receivables that are considered part of the Group’s net investment in foreign operations, are brought to account directly in the foreign currency translation reserve.

(ii) Cash flow hedging reserve

Hedging gains and losses on the effective portion of interest rate hedging relationships are recognised in the cash flow hedging reserve while a designated effective hedging relationship exists. Hedging relationships were de-designated in 2007, and the cumulative balance is being systematically recognised in the income statement over the period of the forecast transaction.

(iii) Other reserve

The uneliminated profit on the partial disposal of the Champion – Marinopoulos property portfolio is recognised in the other reserve. This balance will be recognised in retained earnings when control of the controlled entity is lost.

24. Non-controlling interests

	Consolidated	
	2011 $'000's	**2010 $'000's**
External		
Opening balance	17,152	26,503
Entitlement to profit/(loss)	2,091	(709)
Other changes in net assets	(1,085)	(8,642)
	18,158	**17,152**
AEZM		
Opening balance	279	305
Entitlement to profit	107	5
Other changes in net assets	30	(31)
	416	**279**
	18,574	**17,431**

25. Parent entity disclosures

Financial position as at 30 June 2011	2011 $'000's	2010 $'000's
Assets		
Current assets	22,913	86,391
Non-current assets	118,994	197,508
Total assets	**141,907**	**283,899**
Liabilities		
Current liabilities	78,444	124,450
Non-current liabilities	108,740	57,224
Total liabilities	**187,184**	**181,674**
Equity		
Contributed equity	552,048	552,048
Retained earnings	(597,325)	(449,82
Total equity	**(45,277)**	**102,225**

Financial performance for the year ended 30 June 2011	2011 $'000's	2010 $'000's
Loss for the year	(147,502)	(57,350)
Other comprehensive income	-	-
Total comprehensive income	**(147,502)**	**(57,350)**

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

	2011 $'000's	2010 $'000's
Guarantee provided under the deed of cross guarantee[1]	**1,120**	**1,602**

The parent entity has entered into a cross guarantee with its indirect subsidiary Victoria Holding SA to support interest and amortisation payments in accordance with the loan agreement. Victoria Holding SA entered into administration on 2 November 2010 as it was unable to continue to meet its obligations as they fell due. The parent entity therefore reached agreement with Bank Austria to pay €800,000 ($1,120,000) to the bank in full and final settlement of this guarantee. This payment was made in July 2011.

Contingent liabilities of the parent entity

The Parent entity has entered into corporate guarantees and collateralisation arrangements with related parties under which it has provided financial support to secure 50.1% of their financing obligations (finance facilities totalling $102.9 million/€75.8 million (2010: $107.9 million/€75.8 million)). In return, the Parent entity has received a deed of charge over the securities of the related party. At the date of this report, the Responsible Entity is of the opinion that a default event, which would trigger the corporate guarantees and collateralisation arrangements being recognised as a liability by the Parent entity, is not likely to occur.

The Parent entity has entered into cross guarantee arrangements such that they guarantee the performance of obligations to third party financiers arising under derivatives and borrowing facilities held by the Group.

Commitments for the acquisition of property, plant and equipment by the parent entity
There were no commitments for the acquisition of property, plant and equipment by the parent entity.

26. Financial risk management objectives and policies

(i) Capital risk management

The Group seeks to maximise value to security holders while ensuring that the Group:

- complies with capital and distribution requirements of its constituent documents and/or trust deeds; and
- The capital structure of the Group comprises the proceeds from the issue of securities to stapled security holders, undistributed changes in net assets attributable to stapled security holders and interest bearing liabilities. The Group assesses the adequacy of its capital requirements and cost of capital as part of its broader strategic plan, with the objective of maintaining a long term gearing ratio of between 50 – 55%. The Group continuously reviews its capital structure to ensure distributions to stapled security holders are made within the stated distribution policy. The Omnibus Deed signed with RBS overrides this strategy (refer Note 2(c)), and as a result the capacity to manage the Group's capital structure by accessing the debt and equity markets has been restricted. The capital risk management practices are therefore being conducted within these restricted circumstances and the information presented in this note should be viewed in this context.

(ii) Financial Instruments

The Group's principal financial assets and liabilities comprise cash and cash equivalents, receivables, payables, interest bearing liabilities, finance leases, other investments and derivative financial instruments.

The Group's investment strategy exposes it to various types of risk that are associated with the financial instruments identified above and the markets in which it invests. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and other price risk.

The Group manages its exposure to key financial risks according with its financial risk management objectives. The objectives are to support the delivery of financial targets whilst protecting future financial security. While the overall strategy remains unchanged from 2010, the current financial position of the Group has restricted the ability to utilise financial instruments to manage this risk.

The Group utilises a variety of derivative and non-derivative financial instruments, as dictated by its investment strategy and risk management objectives, to minimise potential adverse effects on the financial performance of the Group.

Derivative transactions the Group enters into are principally interest rate swaps and forward exchange contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations, its cash flows and its sources of finance. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest and exchange rates.

The Group only deals with creditworthy counterparties and these assessments are regularly reviewed along with ageing analyses for receivable counterparties. However, the economic turmoil in Europe has meant that a number of these counterparties are no longer in a position to make payment. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

(iii) Market risks

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group is also exposed to other price risk. Market risk embodies the potential for both losses and gains.

The Group utilises derivative financial instruments to manage its exposure to interest rate and foreign currency risk as follows:

- foreign currency forward exchange contracts – to manage currency risk; and
- interest rate swaps – to manage interest rate risk.

These market risks are discussed in more detail under sections *(a) Currency risk*, *(b) Interest rate risk* and *(d) Other price risk*.

While there has been no material change to the Group's exposure to market risks or the manner in which it measures these risks from the previous period, the Group's current financial position has placed restrictions on its ability to use financial instruments to respond to changing market risks.

(a) Currency risk

The Group's real estate assets are all located in Europe and, as a result, most of the income, expenses, assets and borrowings are denominated in Euro (EUR) or Romanian New Lei (RON), although as of 2 November 2010 the Group's exposure to fluctuations in RON is minimal as the asset owning company entered into administration on that date and the Group no longer consolidated the result of that entity from that date. The income is ultimately distributed in Australian Dollars (AUD) and consequently the Group is exposed to the risks of fluctuations in the AUD against the EUR and the EUR against RON. However there is a natural hedge within the portfolio to the extent that the properties and their related loans are denominated in the same currency. Where this relationship does not exist these fluctuations may have an adverse effect on the Group's income statement.

For the year ended 30 June 2011, the Group recorded a net foreign exchange gain of $2,607,000 (2010: loss $4,811,000) arising from movements in the EUR/RON exchange rate. The unrealised net foreign exchange movement arose from the translation of the borrowings used to finance the property located in Romania. There is an offsetting entry arising from the revaluation of the property which is included in the net fair value adjustment to Investment Property. The Group minimises its net exposure to AUD/EUR exchange fluctuations on income and expenses by entering into forward exchange contracts to fix the exchange rates on estimated future distributions (refer to discussion on distribution hedges over page).

Distribution hedges

The Group has an objective to enter into forward exchange contracts, converting EUR to AUD on a rolling basis to fix the exchange rates on estimated future distributions as follows:

- 100% of estimated distributions for years 1 to 5;
- 75% of estimated distributions for year 6;
- 50% of estimated distributions for year 7; and
- 25% of estimated distributions for year 8.

While the above objective remains unchanged, the Group's current financial position means that all available cash will be directed to meeting its capital risk management objectives and accordingly the expectations regarding estimated future distributions have been revised to $nil for the foreseeable future.

The fair value of the distribution hedging arrangements recorded by the Group at 30 June 2011 was a net liability of $20,802,000 (2010: net liability $23,961,000) (refer note 16 and note 20), these relate to closed out Foreign Exchange Contracts.

The fair value of distribution hedging arrangements includes gross fair value gains of $3,159,000 (2010: gains of $6,000,000) for the Group that have been recognised in the income statement.

Capital hedges

The Group has an objective to enter into forward exchange contracts, converting EUR to AUD at a fixed point in time to support its strategy for the syndication of assets into separate unlisted fixed term unit trusts. These contracts are initially entered into by the Group in advance of syndication and are subsequently transferred to the syndicate on its successful creation.

The fair value of capital hedging arrangements includes gross fair value gain of $nil (2010: gain of $1,111,000) for the Group that have been recognised in the income statement.

Net investment

The Group does not hedge its currency risk exposure in respect of its net investment in European subsidiaries holding property assets.

Included in the Parent's trade and other receivables and loans (refer note 25) are net loans to controlled entities that are considered part of the Group's net investment in its European subsidiaries. As at 30 June 2011, the carrying amount of these balances was $71,450,000 (2010: 89,949,000), which includes a current year foreign exchange gain of $3,396,000 (2010: gain of $27,624,000) that has been recognised in reserves on translation of these balances to AUD.

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% (2010: 5%) increase/decrease in the AUD against the EUR and a 10% (2010: 10%) increase/decrease of the EUR against the RON. The sensitivity represents management's assessment of the possible changes in foreign exchange rates based upon a review of the historical levels of changes in foreign exchange rates over the last 12 months. The sensitivity analysis includes only outstanding foreign currency denominated items and adjusts their translation at the period end for the identified change in foreign currency rates.

A positive number indicates an increase in operating profit before finance costs and net assets where the AUD appreciates against the EUR and the EUR against RON.

	EUR impact[1] Consolidated		RON impact[2] Consolidated	
	2011 $'000's	2010 $'000's	2011 $'000's	2010 $'000's
Loss before income tax benefit[3]	10,150	8,395	15	8,587
Equity attributable to security holders[4]	(9,290)	(9,737)	-	-

1. The sensitivity has been calculated using a 5% (2010: 5%) appreciation of AUD against EUR. A depreciation of 5% will have an equal and opposite impact.
2. The sensitivity has been calculated using a 10% (2010: 10%) appreciation of RON against EUR and has been converted into AUD using the year end spot exchange rate. A depreciation of 10% will have an equal and opposite impact.
3. Includes the foreign exchange sensitivity arising from the retranslation of monetary financial instrument and the fair value exposure on financial instruments classified or designated as fair value through profit or loss. It does not include the potential sensitivity to foreign exchange from the retranslation of non-financial asset such as investment properties.
4. Represents the sensitivity of the long term loans and receivables to foreign operations.

(b) Interest rate risk

The Group is exposed to interest rate movements on floating rate debt obligations. The Group has an objective of ensuring that, at a minimum, 80% of its exposure to interest rates on borrowings is on a fixed rate basis in accordance with its maturity profile. Predominantly the Group's exposure is to European interest rates (EURIBOR). As noted above, the Group's current financial position has placed restrictions on its ability to amend interest rate swaps to respond to changes in borrowings and/or their maturity profiles. Accordingly interest rate risk management practices have been conducted within these restrictions and the information presented in this note should be viewed in this context.

Euro denominated interest rate swaps have been entered into by the Group to achieve an exposure to fixed interest rates totalling approximately 81% (2010: 95%) of borrowings. The swaps mature over the next 0.5 - 2 years (2010: 0.5 - 3 years), matching the maturity profile and interest payment dates of the related borrowings. Under the terms of the interest rate swaps, the Group agrees, on either a quarterly or semi-annual basis, to exchange the difference between fixed and floating rate interest amounts based on the notional principal value of each interest rate swap.

As at 30 June 2011 the Group has interest rate swaps with a notional principal amount of $416,169,000 (2010: $639,836,000) with fixed rates ranging from 3.00%-4.50% (2010: 3.05%-4.18%). The net fair value of these swaps is a liability of $11,285,000 (2010: liability $29,554,000) (refer notes 16 and 20). A gross fair value gain of $16,396,000 and a loss of $1,205,000 (2010: gain of $414,000 and a loss of $3,196,000) has been recognised in the income statement (note 9) and cash flow hedging reserve respectively.

Interest rate sensitivity analysis

The Group has an objective of constantly managing its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing, alternative hedging positions and the mix of variable and fixed interest rates.

The sensitivity analyses below have been determined based on the Group'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. A 1% increase and 0.5% decrease (2010: 1% increase and 0.5% decrease) movement in interest rates represents management's assessment of the possible changes in interest rates based upon a review of the historical levels of changes in 1 year Euribor.

The following table illustrates the effect on loss before income tax benefit and equity attributable to security holders if interest rates had been 1% higher/0.5% lower (2010: 1% higher/0.5% lower) higher/lower and all other variables were held constant.

	Consolidated		Consolidated	
	+1.00%	+1.00%	-0.50%	-0.50%
	2011 $'000's	2010 $'000's	2011 $'000's	2010 $'000's
Loss before income tax benefit	5,070	9,948	(2,535)	(4,969)
Equity attributable to security holders	-	-	-	-

The movement in equity is $nil (2010: $nil) as the Group does not have any designated cash flow hedges where the increase/decrease in the fair value would be reflected in equity.

As discussed above, the majority of the variable interest rate exposures have been fixed with derivative instruments. The sensitivity of the operating profit to changes in interest rates shown above predominantly relates to the changes in the unrealised gain or loss on derivative instruments.

(c) Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable units, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

Management seeks to manage and reduce these risks by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities ensuring that the Group has sufficient access to cash including maintaining working capital. Management also uses instruments that are tradeable in highly liquid markets, with the exception of certain tenant security deposits that are required by law to be held as municipal bonds, and unlisted unit trusts.

Due to the current significant uncertainty about the Group's ability to continue as a going concern (refer note 2(c)), the capacity to manage the Group's liquidity risk has been restricted. As identified in notes 20 and 22, the Group has breached several debt and hedging financial covenants that permit financiers to terminate these facilities and demand immediate repayment. While discussions are continuing with financiers to obtain waivers and/or renegotiate facilities, there is no assurance that such waivers and renegotiated facilities will be forthcoming. Notwithstanding the significant uncertainty that exists, the Directors believe that there are reasonable grounds to expect that the current discussions with financiers and the strategic review currently occurring will enable the Group to meet its financial obligations as they fall due.

The Group's debt maturity profile, subject to the non-enforcement of covenant breaches and cross default events, is 1.2 years (2010: 1.6 years) with 10% (2010: 77.0%) of the debt facilities scheduled to mature from 2013.

Liquidity and interest risk tables

The contractual maturities of financial liabilities of the Group are identified below. The tables have been drawn up using undiscounted cash flows based on the earliest date on which the entity can be required to pay. The tables include both interest and principal cash flows and represent the Group's exposure to liquidity risk.

	Timing of contractual cash flow						
	Weighted average interest rate	Carrying Amount $'000	Less than 3 months $'000	3 - 12 months $'000	1 - 5 years $'000	Over 5 years $'000	Total $'000
Consolidated – 2011							
Trade and other payables		**22,899**	18,562	-	4,337	-	**22,899**
Distributions payable		**122**	122	-	-	-	**122**
Interest bearing loans	1.28%	**514,148**	-	482,716	52,937	-	**535,653**
Finance lease liabilities	5.55%	**2,120**	56	167	891	1,958	**3,072**
Interest rate swaps	3.78%	**11,285**	-	8,342	2,943	-	**11,285**
Forward exchange contracts		**20,802**	1,411	1,884	18,450	-	**21,745**
		571,376	**20,151**	**473,109**	**79,558**	**1,958**	**594,776**

	Timing of contractual cash flow						
	Weighted average interest rate	Carrying Amount $'000	Less than 3 months $'000	3 - 12 months $'000	1 - 5 years $'000	Over 5 years $'000	Total $'000
Consolidated – 2010							
Trade and other payables		**22,615**	16,512	900	1,377	3,826	**22,615**
Distributions payable		**618**	618	-	-	-	**618**
Interest bearing loans	1.01%	**596,361**	529,349	-	68,508	-	**597,857**
Finance lease liabilities	5.36%	**2,337**	41	200	954	2,274	**3,469**
Interest rate swaps	3.14%	**29,554**	29,554	-	-	-	**29,554**
Forward exchange contracts		**23,961**	23,961	-	-	-	**23,961**
		675,446	**600,035**	**1,100**	**70,839**	**6,100**	**678,074**

(d) Other price risk

Other price risk is the risk that the total value of investments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. The Group has investments in unlisted unit property trusts which expose it to price risk. The Group's investments in unlisted unit property trusts and municipal bonds are carried at fair value based on the underlying Net Asset Values, with the investments revalued bi-annually at each reporting period. Changes in fair value are recognised in the income statement.

The following table illustrates the effect on the loss before income tax benefit and equity attributable to security holders if the Net Asset Value of unlisted unit property trusts had been 10.0% higher and all other variables were held constant. For a reduction in the Net Asset Value of the same magnitude there would be an equal and opposite impact on the loss before income tax benefit and equity attributable to security holders.

	+10.0% price increase Consolidated	
	2011 $'000's	2010 $'000's
Loss before income tax benefit	398	525
Equity attributable to security holders	398	525

(e) Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables, financial assets and derivative instruments. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these transactions. Exposure at balance date is addressed in each applicable note.

The Group does not hold any credit derivatives to offset its credit exposure.

The Group only trades with recognised, creditworthy third parties. It is not the Group's policy to securitise its trade and other receivables. Collateral is held in some cases depending on an assessment of the credit risk of the tenant. Refer to note 15 for details of the collateral held.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer in accordance with parameters set by the board. These risk limits are regularly monitored. The territories experiencing significant macro-economic pressures (e.g. Greece) the additional credit risk is taken into account in accessing the Group's credit exposure.

There are no significant concentrations of credit risk within the Group. The exposure to credit risk in respect to trade and other receivables is minimised by diverse number, range and location of tenants. Credit risk on derivative instruments is limited because the counterparties are international banks with long term credit ratings of A+ to A (S&P) (2010: A+ to A (S&P)). Credit risk on cash and cash equivalents is also limited due to the Group using creditworthy counterparties.

The Group holds a back-to-back derivative financial instrument with a related party. During the year, the credit rating of the counterparty deteriorated and as a result, the Group's exposure to credit risk has increased. The Group has provided in full against the receivable position from the related party (refer to note 7).

One (2010: One) single trade receivable contributed more than 10% of the overall trade receivable balances, with none (2010: three) trade receivables contributing between 5% and 10% of the overall receivable balance.

(f) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The Group discloses fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following tables present the Group's assets and liabilities measured and recognised at fair value at 30 June 2011 and 30 June 2010.

30 June 2011	Consolidated			
	Level 1 $'000's	Level 2 $'000's	Level 3 $'000's	Total $'000's
Assets				
Investments	-	-	3,976	3,976
Municipal bonds	2,210	-	-	2,210
	2,210	-	3,976	6,186
Liabilities				
Derivatives used for hedging	-	32,087	-	32,087

30 June 2010	Consolidated			
	Level 1 $'000's	Level 2 $'000's	Level 3 $'000's	Total $'000's
Assets				
Investments	-	-	5,246	5,246
Municipal bonds	2,319	-	-	2,319
	2,319	-	5,246	7,565
Liabilities				
Derivatives used for hedging	-	53,515	-	53,515

The following table presents the changes in the Group's level 3 instrument's at the year ended 30 June 2011:

	2011 $'000's	2010 $'000's
Opening balance	5,246	6,246
Losses recognised within fair value losses on investments	(1,270)	(1,000)
Closing balance	**3,976**	**5,246**

During 2010 the Group held investment within unlisted fixed term unit trusts. The valuation for this is based on the net asset value at the statement of financial position date adjusted to assign scheme liabilities and assets that have not been quantified at the time of the calculation. Due to the low volume of transactions within the property markets within which the unlisted funds are invested at the year-end it was not possible to corroborate the valuation with other similar observable market prices.

27. Capital and other commitments

The Group has $nil capital and other commitments at 30 June 2011 (2010: $nil).

28. Contingencies

The Responsible Entity is of the opinion that provisions are not required in respect of the following matters, as it is not probable that an outflow of resources will be required, or that the amount is not capable of reliable measurement.

Contingent Liabilities
Litigation
For the fiscal years ending 31 December 2003 and 31 December 2004, Zenon Real Estate S.A ("Zenon"), a controlled entity, was subject to a Greek income tax audit. The outcome of this audit was that additional tax and penalties of €1.6 million ($2.2 million) have been levied under the tax assessments acts.

Legal advice has been obtained that indicates that is should be possible to successfully challenge the audit findings in the courts. It is estimated that court proceedings will not commence until at least 2012.

From time to time, in the course of normal operations, the Group is subject to disputes with tenants in regards to contract terms. As of year end, the Responsible Entity believes that the ultimate outcome of such claims will not materially affect the results of operations or the financial position of the Group.

Guarantees
The Parent entity has entered into corporate guarantees and collateralisation arrangements with related parties under which it has provided financial support to secure 50.1% of their financing obligations (finance facilities totalling $102.9 million/€75.8 million (2010: $107.9 million/€75.8 million)). In return, the Parent entity has received a deed of charge over the securities of the related party. At the date of this report, the Responsible Entity is of the opinion that a default event, which would trigger the corporate guarantees and collateralisation arrangements being recognised as a liability by the Parent entity is not likely to occur.

Certain entities within the Group have obtained bank guarantees to secure the obligations under forward purchase agreements relating to the acquisition / development of investment property and debt facilities.

Certain entities within the Group have entered into cross guarantee arrangements such that they guarantee the performance of obligations to third party financiers arising under derivative contracts and borrowing facilities held by the Group.

29. Consolidated entities

Name of Entity	Note	Country of Incorporation	Ownership interest and voting rights %	
			2011	2010
Parent Entity				
APN European Retail Property Holding Trust	(a)			
APN European Retail Property Management Trust				
Controlled Entities				
APN Champion Retail Fund		Australia	44.9	44.9
APN Champion Sub Trust		Australia	55.8	55.8
APN Traisenpark Sub Trust		Australia	100.0	100.0
AEZ Finance Company Pty Ltd		Australia	100.0	100.0
AEZ CB (No. 1) Pty Ltd		Australia	100.0	100.0
APN CF (No. 3) Pty Ltd		Australia	55.8	55.8
APN (UK) Limited		UK	100.0	100.0
APN Portfolio Management Limited		UK	100.0	100.0
Traisenpark 16 GmbH		Austria	100.0	100.0
Traisenpark 17 GmbH		Austria	100.0	100.0
Traisenpark 18 Vermeitungs GmbH		Austria	100.0	100.0
APN Property Holdings (No.3) BV		Netherlands	100.0	100.0
APN Property Holdings (No.6) BV		Netherlands	100.0	100.0
APN Property Holdings (No.7) BV		Netherlands	100.0	100.0
APN Property Holdings (No. 8) BV		Netherlands	100.0	100.0
APN Property Holdings (No. 9) BV		Netherlands	55.8	55.8
APN Property Holdings (No.14) BV		Netherlands	100.0	100.0
APN Property Holdings (No.15) BV		Netherlands	100.0	100.0
APN Dutch Finance Company BV		Netherlands	100.0	100.0
Desuco BV		Netherlands	100.0	100.0
Festival Park Es Mirall Holdings BV		Netherlands	100.0	100.0
APN Finance Company Sarl		Luxembourg	100.0	100.0
APN Property Holdings (No.1) Sarl		Luxembourg	100.0	100.0
APN Property Holdings (No.2) Sarl		Luxembourg	100.0	100.0
APN Property Holdings (No.5) Sarl		Luxembourg	100.0	100.0
Commercial Investment Alcobendas Sarl		Luxembourg	100.0	100.0
APN CF (No 1) Sicav		Luxembourg	55.8	55.8
APN CF (No 2) Sarl		Luxembourg	55.8	55.8
Zenon Real Estate SA		Greece	55.8	55.8
City Gate SA		Greece	100.0	100.0
San Giuliano Holdings Srl		Italy	100.0	100.0
Investmenti Commerciali San Giuliano Srl		Italy	100.0	100.0
Gallarate Holdings Srl		Italy	100.0	100.0
Investmenti Commerciali Gallarte Srl		Italy	100.0	100.0
Es Mirall Developments SA		Spain	100.0	100.0
Parque Comercial Luz de Castilla SL		Spain	100.0	100.0
Comercial Inversora Alcobendas SL		Spain	100.0	100.0
Parque Commercial Los Cuadernillos SL		Spain	100.0	100.0
APN Property Holdings (No. 4)		Germany	100.0	100.0
APN Property Holdings (No. 10)		Germany	94.8	94.8
APN Property Holdings (No. 11)		Germany	94.8	94.8
IFB Verwaltungs GmbH		Germany	99.7	99.7
Peppel GmbH and Co		Germany	94.9	94.9
Stadtteilzentrum Halle-Neustadt GmbH & Co KG		Germany	94.8	94.8

Name of Entity	Note	Country of Incorporation	Ownership interest and voting rights %	
			2011	2010
Leipzig Lowencenter GmbH & Co KG		Germany	94.9	94.9
Porolis Expert SA		Romania	100.0	100.0
SC Victoria Holding SA	(b)	Romania	-	100.0

(a) APN European Retail Property Holding Trust is the parent entity of the APN European Retail Property Group and for accounting purposes has been deemed the acquirer of APN European Retail Property Management Trust.

(b) The Group lost control of SC Victoria Holding SA on 2 November 2010 when the subsidiary entered administration. The Group has consolidated the 1 July 2010 to 2 November 2010 trading results of this subsidiary and disclosed these as discontinued operations.

30. Notes to the cashflow statement

	Consolidated	
	2011 $'000's	**2010 $'000's**
(i) Reconciliation of cash flows from operating activities		
Net loss	**(129,915)**	**(67,218)**
Adjustments for non cash items and items classified as investing or financing activities:		
Net finance costs	27,529	33,375
Change in fair value of investments	1,270	1,000
Change in fair value of investment properties	191,910	91,130
Change in fair value of derivative instruments	(19,555)	(7,525)
Income tax charge/(benefit)	1,273	(25,028)
Depreciation and amortisation expense	-	55
Gain on loss of control of the Romanian business	(42,081)	-
Dividends received	(377)	-
Net foreign exchange (gains)/losses	(1,907)	11,222
Net cash provided by operating activities before changes in assets and liabilities	**28,147**	**37,011**
Change in assets and liabilities during the financial year		
Decrease in trade and other receivables	7,077	4,269
Increase/(decrease) in trade and other payables	1,793	(3,738)
Decrease in provisions	(622)	(2,747)
Net cash flows provided by operating activities	**36,395**	**34,795**

(ii) Reconciliation of cash and cash equivalents

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

	Consolidated	
	2011 $'000's	2010 $'000's
Cash on hand	14,167	13,639
Deposits with banks	7,269	5,499
	21,436	**19,148**

(iii) Cash balances not available for use

Included in the balance of cash and cash equivalents is an amount of $19,720,000 (2010: $3,839,000) for the Group concerning amounts that have been provided to banks as security for bank guarantees, derivative financial instruments and other transactions and tenant security deposits.

31. Key management personnel disclosure

(i) Key management personnel

The Parent entity does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage its activities. The directors of the Responsible Entity are key management personnel of that entity and their names are John Harvey, David Blight, Howard Brenchley, Geoff Brunsdon, Michael Johnstone and John Freemantle (Company Secretary).

(ii) Responsible Entity

The Responsible Entity for the APN European Retail Property Group is APN Funds Management Limited (ABN 60 080 674 479). The ultimate parent entity of the Responsible Entity is APN Property Group Limited (ABN 30 109 846 068).

(iii) 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 Group to the Responsible Entity do not include any amounts attributable to the compensation of key management personnel in respect of services rendered to the Group itself.

(iv) Identity of related parties

The Group has a related party relationship with its controlled entities (refer note 29), APN Funds Management Limited (the 'Responsible Entity'), the directors of APN Funds Management Limited, APN European Management Limited (the 'Asset Manager') and APN Funds Management (UK) Limited and APN Funds Management (UK #2) Limited (formerly UKA Limited).

(v) Securities in the Group held by the Responsible Entity

From time to time the Responsible Entity and the funds managed by the Responsible Entity or its director-related entities may acquire or dispose of securities in the Group. The acquisition or disposal of securities in the Group is on the same terms and conditions as those entered into by other Group investors. The security holdings were as follows:

Entity holding the investment	Opening balance	Change	Closing balance
2011 - Fully paid stapled securities			
APN Funds Management Limited	660,000	-	660,000
APN Property Group Limited	3,976,605	-	3,976,605
APN Property for Income Fund No.2	34,000,463	-	34,000,463
APN Direct Property Fund	2,150,000	(2150,000)	-
APN Property for Income Fund	4,162,518	(4,162,518)	-
2010 - Fully paid stapled securities			
APN Funds Management Limited	660,000	-	660,000
APN Property Group Limited	3,976,605	-	3,976,605
APN Property for Income Fund No.2	34,000,463	-	34,000,463
APN Direct Property Fund	2,150,000	-	2,150,000
APN International PFIF	439,809	(439,809)	-
APN Property for Income Fund	4,162,518	-	4,162,518

(vi) Stapled securities in the Group held by other related parties

The number of stapled securities held by each director of APN Funds Management Limited, including their personally related parties, at the end of the reporting period is set out below.

No stapled securities were issued as compensation during the year.

	Fully paid stapled units		
Director	**Balance at the beginning of the year**	**Change during the year**	**Balance at the end of the year**
2011			
David Blight	500,000	(500,000)	**-**
Howard Brenchley	243,693	-	**243,693**
John Harvey	50,000	-	**50,000**
John Freemantle	-	-	**-**
Geoff Brunsdon	-	-	**-**
Michael Johnstone	-	-	**-**
2010			
David Blight	500,000	-	**500,000**
Howard Brenchley	243,693	-	**243,693**
John Harvey	50,000	-	**50,000**
John Freemantle	-	-	**-**
Geoff Brunsdon (appointed 19/10/2009)	-	-	**-**
Michael Johnstone (appointed 25/10/2009)	-	-	**-**

(vii) Key management personnel loan disclosure

The Group has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting year.

(viii) Other transactions with the Group

During 2011 no securities were issued to related parties. In 2010 no securities were issued to related parties.

(ix) Other related party transactions

All transactions with related parties are conducted on normal commercial terms and conditions. Except as otherwise disclosed in note 28, no guarantees have been given or received. Except as otherwise disclosed in note 7, no expense has been recorded in the current period for bad or doubtful debts in respect of amounts owed by related parties.

Asset Manager

The Asset Manager is APN European Management Limited, a company incorporated in the Isle of Man. In accordance with the asset management agreement, the Asset Manager is entitled to:

- a base management fee that is calculated on a tiered basis based on the Gross Asset Value of the Group;
- an acquisition fee, based on the purchase price of a property for the Group;
- a disposal fee, based on the sale price of a property for the Group;
- a debt arrangement fee, based on the amount of debt arranged for the Group; and
- expenses and other costs reasonably incurred in respect of the Group.

In addition, in accordance with the provisions of the Asset Management Agreement, the Asset Manager has opted out of providing certain asset management and debt arrangement services during the year. Such services have been jointly provided by the Responsible Entity, or its' appointed representative. The terms of the Omnibus Deed limit the present entitlement of the Asset Manager to receive base management fees to its costs of providing the asset management services. Base management fees, to which the Asset Manager is entitled in excess of this amount, are deferred and cannot be paid until RBS has been paid in full.

The transactions and balances outstanding are as follows:

	APN European Management Limited $'000	**APN Funds Management Limited $'000**	**APN Funds Management (UK) Limited $'000**	**APN Property Group Limited $'000**	**APN Funds Management (UK #2) Limited $'000**
2011					
Management fees	2,851	309	-	-	-
Reimbursable expenses and other costs	-	-	2,172	183	-
	2,851	**309**	**2,172**	**183**	**-**
2010					
Management fees	4,006	646	265	-	-
Reimbursable expenses and other costs	163	20	195	237	2
	4,169	**666**	**460**	**237**	**2**

	APN European Management Limited $'000	APN Funds Management Limited $'000	APN Funds Management (UK) Limited $'000	APN Property Group Limited $'000	APN Funds Management (UK #2) Limited $'000
2011					
Transactions					
Interest expense (note 8)	216	-	79	238	4
Balances					
Amounts receivable (note 15)	-	-	1,083	147	-
Amounts payable (note 19)	(2,863)	-	(1,444)	(108)	(37)
2010					
Amounts receivable (note 15)	-	-		-	-
Amounts payable (note 19)	(2,749)	(472)	(1,092)	(1,867)	(36)

Other Related Parties

The following table lists the transactions that occurred and the balances recorded in respect to transactions between the Group and its other related parties:

	APN Vienna Sub-Trust $'000	APN Manhattan Sub-Trust $'000
2011		
Balances		
Loans receivable (note 15)	-	7,110[1]
2010		
Transactions		
Interest income (note 8)	36	515
Balances		
Loans receivable (note 15)	-	5,071[1]

[1] The balance of this loan has been provided against in full (refer to note 15).

33. Subsequent events

There have been no reportable significant events following the year end.

DIRECTORS' DECLARATION

In the opinion of the Directors of APN Funds Management Limited, the Responsible Entity of APN European Retail Property Holding Trust:

(a) The financial statements and notes are in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the financial position of the Group as at 30 June 2011 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date and are prepared on a wind up basis of accounting as set out in note 2(c); and

   (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001 and International Financial Reporting Standards, as stated in note 2(a) to the financial statements; and

(b) there are reasonable grounds to believe that the Group and the Parent will be able to pay its debts as and when they become due and payable;

(c) The Directors' have been given the declarations required by s.295A of the Corporations Act 2001.

The Directors' note that the ability for the Parent and the Group to pay their debts as and when they become due and payable and the ability to realise the Parent's and the Group's assets at their net realisable value and settle their liabilities at their contractual settlement amounts, is dependent on the Parent and the Group's continued compliance with the Omnibus Deed, which amongst other things sets out provisions which restructure certain of the Group's liabilities to allow deferral or non-payment of those liabilities in certain circumstances.

Dated at Melbourne 26 August 2011

David Blight
Group Managing Director

Additional securities exchange information

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

Security holdings (as at 21 September 2011)

Substantial security holders
The number of securities held by substantial security holders and their associates, as disclosed in substantial security holding notices given to the Group, are set out below:

Security holder	Number
Orbis Investment Management (Australia) Pty Ltd as investment manager for various managed funds	102,845,039
Christopher and Gail Aylward (including holdings through Holus Nominees Pty Ltd, APN Property Group Ltd and APN Funds Management Ltd)	58,978,351
APN Property Group Limited and APN Funds Management Ltd as Responsible Entity for various managed investment schemes	38,637,068

Voting rights

Ordinary securities – fully paid

Security holders are entitled to one vote per security at meetings of the Group.

Distribution of security holders

	Number of Security holders	
	Ordinary Securities – Fully Paid	
Category	Number of Securities	Number of Holders
1 – 1,000	28,786	85
1,001 – 5,000	598,017	180
5,001 – 10,000	2,318,149	278
10,001 – 100,000	48,262,182	1,190
100,001 and over	493,703,526	458
Total	**544,910,660**	**2,191**

The number of security holders less than a marketable parcel is 1,641.

Stock Exchange

The Group is listed on the Australian Securities Exchange. The home exchange is Melbourne.

Other information

APN European Retail Property Group, incorporated and domiciled in Australia, is a publicly listed stapled Trust limited by securities.

On-market buy back

There is no current on-market buy-back.

Additional securities exchange information

Twenty largest holders of quoted equity securities as at 21 September 2011

Name	Fully paid ordinary shares	
	Number	Percentage
NATIONAL NOMINEES LIMITED	51,958,988	9.54%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	43,654,371	8.01%
J P MORGAN NOMINEES AUSTRALIA LIMITED	42,763,364	7.85%
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	34,000,463	6.24%
CITICORP NOMINEES PTY LIMITED	29,912,472	5.49%
MR CHRISTOPHER JOHN AYLWARD & MRS GAIL MONA AYLWARD	20,341,283	3.73%
MELBOURNE LIGHT PTY LTD	16,341,283	3.00%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 3	15,295,000	2.81%
ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD	7,862,503	1.44%
MR LESLIE WALTER RAMSAY	7,500,000	1.38%
JP MORGAN NOMINEES AUSTRALIA LIMITED	6,452,885	1.18%
JADE HSU PTY LTD	6,000,000	1.10%
MR COLIN HAROLD MCCORMACK	5,335,499	0.98%
MR JOHN CHARLES LOVE	5,157,998	0.95%
AVANTEOS INVESTMENTS LIMITED	4,126,447	0.76%
APN PROPERTY GROUP LIMITED	3,976,605	0.73%
JONES & JONES PTY LTD	3,460,832	0.64%
MR ANGELOS PAPPAS	3,037,000	0.56%
MR JOHN JOSEPH KAVANAGH	3,000,000	0.55%
MR BERNHARD VON ASPERN	2,531,346	0.46%

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APN | European Retail Property Group

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