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26 August 2011

The Manager
Company Announcements Office
ASX Limited
Exchange Centre
20 Bridge Street
Sydney NSW 2000

Dear Sir/Madam

APN European Retail Property Group (AEZ)
Financial results for the year ended 30 June 2011

APN Funds Management Limited (APN), the Responsible Entity of the APN European Retail Property Group (AEZ or Group) provides this report on AEZ's financial results for the year ended 30 June 2011.

Summary of results

The AEZ Group reported a loss under International Financial Reporting Standards (IFRS) of $129.9 million for the 2011 financial year (2010: loss of $67.2m).

At balance date, the Group recorded a net assets deficiency under IFRS of $92.6 million (and a net tangible assets deficiency of 17 cents per security).

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 reflects the decision by the Group and its principal lender, The Royal Bank of Scotland plc (RBS) to enter into a debt restructure and asset sale 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.

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 loans sit 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

The value of 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.

Net tangible assets position

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 IFRS. However, 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.

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 securityholders.

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 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 retail 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.

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, nowithstanding 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. Accordingly, relatively weak commercial property investment markets across the regions in which the Group’s assets are located, are likely to continue for some time.

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 into a consensual wind-down and asset sale programme with its principal lender.

The sale programme envisages that all of the Group’s investments will be sold 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. As outlined above, the results of this sale programme and the outcome for unitholders remains subject to significant uncertainty.

The APN board and management team remain focused on efforts to realise value for investors.

Yours sincerely

John Freemantle
Company Secretary

About the APN European Retail Property Group
APN European Retail Property Group (the Group) is a listed property trust (ASX code: AEZ) which operates under a stapled security structure. The Group is invested in a diversified portfolio of 33 retail properties located in five countries across Europe. The Group is managed by APN Funds Management Limited.

APN European Retail Property Group and its controlled entities ("AEZ")
Appendix 4E - Preliminary final report for the year ended 30 June 2011

Details of the reporting period and the previous corresponding period

Reporting period:	Year ended 30 June 2011
Previous corresponding period:	Year ended 30 June 2010

Results for announcement to the market

	Financial year ended 30 June 2011 $'000	Financial year ended 30 June 2010 $'000	Movement $'000	Movement %
Revenue from continuing operations	52,159	52,774	(615)	(1.17%)
Revenue from discontinued operations	82,821	43,279	39,542	91.37%
Revenue from ordinary activities	134,980	96,053	38,927	40.53%
Loss from continuing operations after tax attributable to members	(79,600)	(41,007)		
Profit/(loss) from discontinued operations after tax attributable to members	(52,513)	(25,437)		
Profit from ordinary activities after tax attributable to members	(132,113)	(66,514)		
Net profit attributable to members	(132,113)	(66,514)		
Basic loss per security	(24.25) cents	(12.21) cents		
Diluted loss per security	(24.25) cents	(12.21) cents		
Net asset backing per security	(17.14) cents	15.63 cents		

Distribution - Ordinary Securities	**Amount per security**	**Franked amount**
Current year		
Final Distribution	-	N/A
Interim Distribution	-	N/A
	-	
Previous corresponding period		
Final Distribution	-	N/A
Interim Distribution	-	N/A
	-	

APN European Retail Property Group and its controlled entities

The results detailed in this Appendix 4E represent the consolidated financial results for APN European Retail Property Group and its controlled entities for the year ended 30 June 2011. The consolidated net loss attributable to members after income tax for the year ended 30 June 2011 was $132,113,000.

Trends in Performance

Please refer to the media release and investor presentation

Commentary on results

Please refer to the media release and investor presentation

APN European Retail Property Group and its controlled entities
Income statement
for the financial year ended 30 June 2011

Continuing Operations	Note	Consolidated 2011 $'000's	Consolidated 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	*10*	(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		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		2,091	(709)
- APN European Retail Property Management Trust security holders (AEZM)		107	5
Net loss attributable to security holders of APN European Retail Property Holding Trust (AEZH)		**(129,915)**	**(67,218)**

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

APN European Retail Property Group and its controlled entities
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)/ income 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		322	717
Other comprehensive (loss)/income 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		2,091	(709)
- AEZM security holders		107	5
		(177,035)	**(94,950)**

APN European Retail Property Group and its controlled entities
Statement of Financial Position
As at 30 June 2011

	Note	Consolidated 2011 $'000's	2010 $'000's
Assets			
Cash and cash equivalents		21,436	19,148
Trade and other receivables		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		-	2,096
Other financial assets		6,186	7,565
Deferred tax assets		4,669	14,146
Investment properties	*10*	281,098	765,466
Total non-current assets		291,953	789,273
Total assets		525,752	818,331
Liabilities			
Trade and other payables		18,684	19,461
Provisions		3,887	4,575
Interest-bearing liabilities	*11*	463,512	527,263
Current tax liabilities		5,940	2,670
Other financial liabilities	*12*	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		4,337	5,203
Provisions		-	74
Interest-bearing liabilities	*11*	51,961	70,004
Deferred tax liabilities		17,464	31,483
Other financial liabilities	*12*	2,943	-
Non-controlling interests		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**

APN European Retail Property Group and its controlled entities
Statements of changes in equity

	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)**

APN European Retail Property Group and its controlled entities
Statements of cash flows
For the year ended 30 June 2011

	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/ (used in) operating activities	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)
Payments of finance lease liabilities	(92)	(110)
Net cash flows from/(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)/proceeds from income hedges	(1,993)	-
Advances/loans (to)/from related parties	(2,828)	(77)
Distributions paid to non controlling interests	(618)	(318)
Net cash flows from/(used in) financing activities	(32,475)	(40,258)
Net (decrease)/ increase 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	**21,436**	**19,148**
Cash and cash equivalents disclosed as:		
Cash and cash equivalents	**21,436**	**19,148**

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 25 August 2011.

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

The Group has 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 pronouncements 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.

2. Basis of preparation (continued)

(b) 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 Agreement 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 Agreement, 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 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 agreed 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 will be 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 Agreement 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.

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(c) Going concern (continued)

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:

- Income tax expense
- Valuation of investment property
- Provisions
- Foreign exchange contracts; and
- 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
- 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 2010 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.

(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 acquire. 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.

3. Significant accounting policies

(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.

3. Significant accounting policies (continued)

(e) Expenses (continued)

(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.

3. Significant accounting policies (continued)

(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.

3. Significant accounting policies (continued)

(m) Investment properties (continued)

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.

Financial assets at fair value through profit or loss

A financial asset is classified in this category 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

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.

3. Significant accounting policies (continued)

(o) Investments and other financial assets (continued)

Recognition and derecognition

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 asses 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, 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.

3. Significant accounting policies (continued)

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.

3. Significant accounting policies (continued)

(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:

	Year ended 30 June 2011			
	Segment Revenue	**Segment Profit**	**Segment Finance Expense**	**Segment Property Devaluation**
Operating Segments	**€'000s**	**€'000s**	**€'000s**	**€'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)**

	$'000s	**$'000s**	**$'000s**
	Continuing	**Discontinued**	**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	**Discontinued**	**Consolidated**
	$'000s	**$'000s**	**$'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	**Discontinued**	**Consolidated**
	$'000s	**$'000s**	**$'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**

	Segment Revenue	Segment Profit	Segment Finance Expense	Segment Property Devaluation
	Year ended 30 June 2010			
Operating Segments	**€'000s**	**€'000s**	**€'000s**	**€'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)**

	$'000s	**$'000s**	**$'000s**
	Continuing	**Discontinued**	**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	**Discontinued**	**Consolidated**
	$'000s	**$'000s**	**$'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	**52,224**	**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		30 June 2010	
	Continuing	**Discontinued**	**Consolidated**
	$'000s	**$'000s**	**$'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	$'000s	$'000s	$'000s	$'000s	$'000s
	Italy	Austria	Spain	City Gate	Total	Total
Disposal group held for sale:						
Investment property	17,925	78,897	93,564	15,346	205,732	-
Trade receivables	36	66	310	713	1,125	-
Lease incentives	-	-	-	1,222	1,222	
	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	$'000s	$'000s	$'000s	$'000s	$'000s
	Italy	Austria	Spain	City Gate	Total	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:

			2011 $'000's	2010 $'000's
(i)	**Discontinued operations**			
	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	*10*	(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 benefit		5,414	13,542
	Loss for the year		**(52,513)**	**(25,437)**
	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 outflow 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 decrease in cash generated by discontinued operations		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 and loss:		
Fair value loss on revaluation of investments	(1,270)	(1,000)

	Consolidated 2011 $'000's	Restated 2010 $'000's
7. Other Operating Expenses		
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)		
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. Earnings per security

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

	Consolidated 2011	Consolidated 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**

10. Investment property

	Consolidated 2011 $'000's	Consolidated 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 current and 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**

11. Interest bearing liabilities

	Consolidated 2011 $'000's	Consolidated 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 in breach of certain loan covenants on debt totalling $nil million (2010: €525.8 million) as the breaches were waived when the Omnibus Deed was signed with the Royal Bank of Scotland on 14 March 2011. However, due to the required 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 will 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 below:

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.

12. Other financial liabilities

	Consolidated 2011 $'000's	Consolidated 2010 $'000's
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**	**-**

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 below:

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.

13. Distributions paid / payable to security holders

No distributions were payable or paid in the year.

14. Contributed equity and reserves

	Consolidated 2011 Securities ’000	2010 Securities ’000
(i) Securities on issue		
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.

(iii) 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.

(iv) Other reserve

The uneliminated profit on the partial disposal of the Champion – Marinopoulos property portfolio is recognised in the other reserve (see note 29). This balance will be recognised in retained earnings when control of the controlled entity is lost.

APN European Retail Property Group and its controlled entities
Notes to the consolidated financial statements

15. Subsidiaries

Consolidated entities

Name of Entity	Note	Country of Incorporation	Ownership interest and voting rights %	
Parent Entity			**2011**	**2010**
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

Consolidated entities (continued)

Name of Entity	Note	Country of Incorporation	Ownership interest and voting rights %	
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.

16. Reconciliation of cash flows from operating activities

Notes to the cashflow statement

(i) Reconciliation of cash flows from operating activities

	Consolidated 2011 $'000's	2010 $'000's
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 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 losses/(gains)	(1,907)	11,222
Net cash provided by operating activities before changes in assets and liabilities	**28,417**	**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)
Increase 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**

17. 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).

19. 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.

Compliance Statement

1. This report has been prepared in accordance with AASB Standards, the Corporations Act 2001 and Corporations Regulations 2001 and other standards acceptable to ASX.
2. This report and the accounts upon which the report is based use the same accounting policies.
3. This report does give a true and fair view of the matters disclosed.
4. The report is based on accounts that are in the process of being audited.

Sign here: Date: 26 August 2011

John Freemantle
Company Secretary

Commentary on results for the period and trends in performance

Refer to accompanying documents