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26 August 2010

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 2010

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 2010.

Summary of results

AEZ recorded underlying profit from operations after tax of $10.6 million for the 2010 financial year, a 55.4% decrease on the prior corresponding period. The Group has property investments in seven European countries and continues to experience the significant effects of the financial markets crisis. The statutory loss attributable to unitholders (after fair value adjustments of investment properties and derivative contracts, foreign exchange losses and other items) was $66.5 million.

The reduction in operating profit reflects the following significant factors:

- A substantial decline in value of the Euro against the Australian Dollar which is largely responsible for a 26.8% fall in reported net operating income from properties, compared to the prior year. Excluding the effect of currency movement, net operating income fell by 9.2%;
- A 90% decline in net operating income (in Euro terms) from City Mall, Romania due to rent reductions, a loss of tenants and the expiry of a vendor income guarantee towards the end of the previous financial year which represents 38.9% of the net operating income decline;
- Declines in income from the Spanish properties, Cuadernillos (15.7%) and La Vega (18.6%) where local market conditions continue to be difficult;
- Traisenpark shopping centre in Austria which reported an increase in net operating income of 11%; and
- The remaining properties were relatively stable in their performance compared to the prior year.

All properties were independently valued as at 30 June 2010 reflecting a decline of 10.2% (excluding exchange rate movements) over the financial year and resulting in write downs in the carrying values of investment properties of $91.1 million.

Net tangible asset (NTA) backing per security is 15.6 cents (19.6 cents excluding deferred tax liabilities) and look-through gearing at 30 June 2010 is 74.3%. Deferred tax liabilities are provided for under AIFRS to reflect taxes which may be paid if properties were sold directly instead of selling relevant holding companies.

Group interest cover (the ratio of income to interest expense) for the year to 30 June 2010 was 1.22 times.

Going concern

The financial statements of the Group for the year ended 30 June 2010 are being prepared on a going concern basis, however, there is significant uncertainty about the ability of the Group to continue on this basis.

The economic recession across Europe continues to place significant pressure on the Group's operating results and cash flows and its balance sheet. The Group is forecast to have sufficient cash to fund forecast operating payments, existing scheduled debt repayments (excluding the repayment of facilities that are due to expire within the next twelve months) and essential capital expenditure for the twelve month period from the date of these financial statements. Any further deterioration in economic conditions may adversely impact forecast operating results and cash flows and may therefore further compromise the Group's ability to pay its debts as and when they fall due.

The Group continues to be in breach of loan and derivative covenants in respect of the majority of its finance facilities. At balance date, loans and derivatives of $526 million (€369 million) from a total of $597 million (€419 million) loans and $57 million (€40 million) derivatives are in breach of their facility covenants or have a facility expiring in less than one year from 30 June 2010.

The key financier of the Group (The Royal Bank of Scotland plc or "RBS") has publicly stated its strategy to run out or otherwise exit loans it allocates to its non-core division before 2013. It is understood that the Group's German and Italian debt facilities totalling $172 million are allocated to this division. It is also understood that the Group's working capital facility which expires in November 2010 and has a pervasive impact on the Group, foreign currency hedging facilities of $24 million and Spanish senior debt facilities of $173 million are allocated to RBS's global restructuring group. RBS has expressed to management its strong preference to secure a reduction or improvement in its exposure to the Group on terms acceptable to RBS.

Management is engaged in ongoing discussions with all of the Group's financiers to re-negotiate terms and/or agree strategies which secure those financiers' ongoing support or enable refinancing of the Group's finance facilities. At the time of this report, there are no formal documented waivers or re-negotiated terms for any of the facilities in breach of covenants or agreements to extend facilities that expire within twelve months and there is no assurance that such commitments will be forthcoming.

In the absence of a broader recapitalisation or refinancing transaction, the ability of the Group to continue as a going concern is dependent on:

- the continued forbearance of the Group's financiers not to require immediate repayment of facilities as a result of existing covenant breaches;

- its ability to extend or restructure the working capital facility in a way which allows the Group to continue to operate without the requirement to immediately repay this facility; and
- its ability to extend or restructure the other finance facilities currently in breach of covenants or due to expire within the next twelve months.

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

Market review

As the core European markets climbed out of recession, the spectre of sovereign debt became the focus of attention in FY10. The so-called 'Club Med' states (including Greece, Spain and Portugal) struggled to raise funds on bond markets and interest premiums demanded by investors increased significantly due to concerns regarding the possibility of sovereign debt default. Coupled with the response of swinging austerity measures, higher national debt costs have caused further negative impact to already challenged real estate markets in countries such as Greece, Spain and to some degree the UK, in particular because of the limited supply of debt finance for real estate transactions.

However, investor appetite in 'core' Western European markets such as the UK, France and major German cities rebounded with the volume of transactions increasing and values recouping around 50% of their losses since the peak in 2007. Investors who had been waiting for signs of stability and had accumulated war-chests sought out prime assets, and given limited supplies of stock, values rose considerably through Q4 in CY2009 and Q1 in CY2010 but values have since stabilised while the impact of austerity measures and future economic growth prospects are digested.

The ripple effect of this investment momentum helped stabilise valuation movements across most European markets, but secondary properties in non-core territories have remained volatile. Finance for secondary assets in particular remains scarce and expensive, undermining investor appetite. As a consequence, despite a thorough and wide-ranging sales programme conducted in conjunction with CBRE and Cushman & Wakefield it has been difficult to secure acceptable terms for asset disposals across AEZ's portfolio.

The retailing market continues to face significant headwinds. International cross-border transactions have reduced as some markets, particularly through central Europe and the Balkans, have suffered at a macro level with lower consumer spending as a result of increases in unemployment levels. Exchange rate volatility, for those importing stock from outside the Eurozone, has impacted on retailers' profitability. However, across AEZ's portfolio, it was evident retailers had planned and factored in likely demand across the key trading periods of Christmas and Easter ensuring stock was not overly discounted. Trade debtors have remained broadly static, reflecting management's close co-operation with retailers and focus on collection rates.

Debt structure and capital management

As at 30 June 2010, the Group's total assets of $818 million were financed with external debt of $597 million. With the exception of the working capital facility (and certain derivatives), all external debt sits directly at the level of individual properties. Various mortgages and other types of security arrangements have been put in place to secure the Group's external debt. As a result of 31 December 2008 property valuations and those since, the Group is in breach of a number of Loan to Value (LVR) or similar balance sheet ratio covenants as well as a number of interest cover ratio covenants.

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

A number of key transactions were undertaken during the year to strengthen the Group's balance sheet, including:

- All free operational cash flow was redirected to reduce Group debt; and
- In May 2010, the Group secured a six month extension of its Working Capital Facility with an option for a further six months (to be determined at the discretion of the bank).

As a result of these activities, Group debt was reduced by $5.8 million since 30 June 2009.

In line with the above capital management initiatives, no distributions were made during the year. As previously announced, distributions will not be paid for the foreseeable future, pending the outcome of various options being progressed to address the Group's level of leverage.

Asset sales

The Group has continued to aggressively pursue asset sales through selected agents. Despite significant value growth in the UK and other core markets through Q4 in CY2009 and Q1 in CY2010, investor appetite has not improved for secondary markets and assets. The market is characterised by core, equity based funds and the opportunistic funds at the other extreme with return profiles that make sales difficult to rationalise for AEZ investors. Conditional non-binding offers were received in respect of assets in Spain and Germany but were not accepted given the terms offered. The Group's asset sale programme continues to be actively pursued, with asset sales on sensible terms remaining a high priority in the 2011 Financial Year.

Derivatives management

The Group's interest rate hedging programme remains in place at 30 June 2010, with approximately 95% of borrowings subject to fixed interest rates.

The Group's currency hedging program was terminated in FY2009 at the request of its financiers. The resultant liability of $24 million as at 30 June 2010, is scheduled to be paid as a series of semi-annual cashflows through until end FY2016. The termination of the hedging programme means that the Australian dollar value of the Group's cashflows and net assets will fluctuate depending on the prevailing Euro versus Australian dollar exchange rate.

Real estate management

The AEZ portfolio comprises a geographically diversified group of properties located across Continental Europe. The portfolio is made up of approximately 99% retail property by rental income; a traditionally defensive property asset allocation. Over 30% of the Group's rental income is generated from discount retailers or non-discretionary, convenience-based tenants.

The key focus over the last year as in 2009 has been on protecting value, with a view to:

- maximising occupancy levels by working proactively with tenants;
- securing balanced and appropriate lease payment restructuring transactions (retaining maximum exposure to pre-crisis income levels as future circumstances permit);

- stabilising income and non recoverable costs;
- maximising income collection (but not at the expense of occupancy);
- driving footfall and consumer spending through focussed marketing;
- maintaining best practice and appropriate standards; and
- identifying and implementing value-adding initiatives via deployment of free cash.

Opportunities

Whilst the main focus has been on maintaining income and supporting our tenants, work has continued on a series of asset management initiatives that will enhance income and asset values as the markets recover. These incude:

- completion of the re-zoning of land at Traisenpark to facilitate an extension of 7,000sqm;
- progressing the research, feasibility and anchor store discussions in respect of a 34,000sqm extension at Festival Park, following outline planning approval reported last year; and
- continued assessment of the viability of other asset management opportunities for extensions and refurbishments at La Vega, Cuadernillos and the Lowen Centre (Leipzig) which have the potential to add significant income to the portfolio over the next five years.

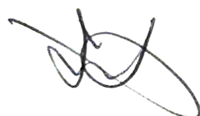
Strategic direction and outlook

The options to address and improve the Group's capital structure continue to be aggressively pursued. These include asset sales, a renegotiation or refinancing of debt, privatisation, equity raising, a merger, acquisition or a combination of these. The strategic options are inevitably wide-ranging, reflecting the fact that no single option in isolation is likely to deliver a complete solution given the challenges in the marketplace.

Despite management's best endeavours, it has not yet been possible to deliver to investors a solution that benefits all stakeholders and in particular which provides an acceptable outcome for equity investors. Asset sales remain compromised by a lack of investor demand and availability of debt financing, and conditional offers received in Spain and Germany have been considered overly opportunistic. AEZ retains the support of its lenders which recognise the market constraints and that the real estate and capital management strategies being pursued will continue to preserve and enhance value over time. As such, the Group is not a forced seller of assets. APN values the ongoing excellent working relationships which exist between its Management team and the Group's lenders and remains committed to finding the best possible outcome for investors in a continually challenging set of circumstances.

Identifying and securing a solution which will address the Group's leverage position and deliver maximum value for AEZ's equity investors compared to other options has been and will remain the utmost priority for APN Property Group.

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 34 retail properties located in six 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 2010

Details of the reporting period and the previous corresponding period

Reporting period:	Year ended 30 June 2010
Previous corresponding period:	Year ended 30 June 2009

Results for announcement to the market

	Financial year ended 30 June 2010 $’000	Financial year ended 30 June 2009 $’000	Movement $’000	Movement %
Revenue from continuing operations	96,053	120,337	(24,284)	(20.18)
Revenue from discontinued operations	-	-		
Revenue from ordinary activities	96,053	120,337	(24,284)	(20.18)
Loss from continuing operations after tax attributable to members	(66,514)	(309,430)	242,916	78.50
Profit/(loss) from discontinued operations after tax attributable to members	-	-		
Profit from ordinary activities after tax attributable to members	(66,514)	(309,430)	242,916	78.50
Net profit attributable to members	(66,514)	(309,430)	242,916	78.50
Basic loss per share	(12.21) cents	(56.84) cents		
Diluted loss per share	(12.21) cents	(56.84) cents		
Net tangible assets backing	15.63 cents	32.68 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 2010. The consolidated net loss attributable to members after income tax for the year ended 30 June 2010 was $66,514,000.

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 2010

	Note	Consolidated 2010 $'000's	2009 $'000's
Revenue			
Rental income from investment properties		87,788	115,168
Interest income	*9*	740	1,921
Other income	*7*	-	3,248
Fair value gain on forward exchange contracts		7,111	-
Fair value gain on interest rate swaps	*9*	414	-
		96,053	**120,337**
Expenses			
Property expenses		(25,519)	(31,691)
Management expenses		(5,212)	(8,260)
Other operating expenses	*8*	(18,717)	(26,489)
Fair value losses on investments	*6*	(1,000)	(11,067)
Property devaluations	*11*	(91,130)	(240,894)
Finance expenses	*9*	(34,115)	(49,864)
Foreign exchange losses		(11,222)	(22,137)
Fair value losses on interest rate swaps	*9*	-	(60,792)
Fair value losses on forward exchange contracts		-	(32,120)
		(186,915)	**(483,314)**
Loss before income tax benefit		**(90,862)**	**(362,977)**
Income tax benefit		23,644	40,871
Loss for the year		**(67,218)**	**(322,106)**
Loss for the year attributable to:			
Security holders		(66,514)	(309,430)
Non-controlling interests:			
- External		(709)	(13,257)
- APN European Retail Property Management Trust security holders (AEZM)		5	581
Net profit/(loss) attributable to security holders of APN European Retail Property Holding Trust (AEZH)		**(67,218)**	**(322,106)**

APN European Retail Property Group and its controlled entities
Statement of comprehensive income
for the financial year ended 30 June 2010

	Consolidated	
	2010 $'000's	**2009 $'000's**
Loss for the period	(67,218)	(322,106)
Other comprehensive income		
Exchange difference on translation of foreign operations	2,371	29,888
Effects of net investment hedge	(27,624)	12,409
Other comprehensive (loss)/ income relating to foreign currency translation reserve	**(25,253)**	**42,297**
Amortisation of cash flow hedges recognised in the income statement	(3,196)	(3,072)
Profit on partial disposal of subsidiary taken to equity	-	4,332
Income tax relating to components of other comprehensive income	717	818
Other comprehensive (loss)/income for the period (net of tax)	**(27,732)**	**44,375**
Total comprehensive income for the period	**(94,950)**	**(277,731)**
Total comprehensive loss attributable to:		
AEZH security holders	(94,246)	(265,055)
Non-controlling interests		
- External	(709)	(13,257)
- AEZM security holders	5	581
	(94,950)	**(277,731)**

APN European Retail Property Group and its controlled entities
Balance sheets
As at 30 June 2010

	Note	Consolidated 2010 $'000's	Restated 2009 $'000's	Restated 1 July 2008* $'000's
Assets				
Cash and cash equivalents		19,148	28,932	43,804
Trade and other receivables		9,910	16,286	25,975
Other financial assets		-	175	4,001
Total current assets		29,058	45,393	73,780
Trade and other receivables		2,096	2,334	5,132
Other financial assets		7,565	8,556	53,255
Deferred tax assets		14,146	10,080	6,672
Property, plant and equipment		-	1,173	441
Investment properties	*11*	765,466	1,044,449	1,203,141
Total non-current assets		789,273	1,066,592	1,268,641
Total assets		818,331	1,111,985	1,342,421
Liabilities				
Bank overdraft		-	69	70
Trade and other payables		19,461	24,646	38,549
Provisions		4,575	8,102	4,640
Interest-bearing liabilities	*12*	527,263	651,252	159,962
Current tax liabilities		2,670	4,313	2,410
Other financial liabilities	*13*	53,515	64,409	363
Total current liabilities		607,484	752,791	205,994
Trade and other payables		5,203	7,638	9,523
Provisions		74	152	1,007
Other financial liabilities		-	-	12,559
Interest-bearing liabilities	*12*	70,004	85,290	576,543
Deferred tax liabilities		31,483	58,408	87,671
Non-controlling interests		17,431	26,808	3,819
Total non-current liabilities		124,195	178,296	691,122
Total liabilities		731,679	931,087	897,116
Net assets		**86,652**	**180,898**	**445,305**
Equity attributable to security holders of the Group comprises:				
Contributed equity		552,048	552,048	551,400
Foreign currency translation reserve		26,910	52,163	9,866
Cash flow hedge reserve		883	3,362	5,616
Other reserve		4,332	4,332	-
Retained losses		(497,521)	(431,007)	(121,577)
Total equity		**86,652**	**180,898**	**445,305**

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

	Consolidated					
	Contributed equity $'000	Foreign currency translation reserve $'000	Cash flow hedging reserve $'000	Other reserve $'000	Retained losses $'000	Total $'000
Opening balance as at 1 July 2008	**-**	**9,866**	**5,616**	**-**	**(15,482)**	**-**
Adoption of revised standards	551,400	-	-	-	(106,095)	445,305
Revised opening balance	**551,400**	**9,866**	**5,616**	**-**	**(121,577)**	**445,305**
Loss for the period	-	-	-	-	(309,430)	(309,430)
Effect of movement in foreign exchange	-	29,888	-	-	-	29,888
Effect of net investment	-	12,409	-	-	-	12,409
Amortisation of cash flow hedges	-	-	(3,072)	-	-	(3,072)
Deferred tax effect of cash flow hedge amortisation	-	-	818	-	-	818
Profit on partial disposal of a controlled entity	-	-	-	4,332	-	4,332
Total comprehensive income/(loss) for the period	-	42,297	(2,254)	4,332	(309,430)	(265,055)
Securities issued via distribution reinvestment plan	648	-	-	-	-	648
Total equity at 30 June 2009	552,048	52,163	3,362	4,332	(431,007)	180,898
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	-	(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**

APN European Retail Property Group and its controlled entities
Statements of cash flows
For the year ended 30 June 2010

	Consolidated	
	2010 $'000's	2009 $'000's
Cash flows from/ (used in) operating activities		
Cash receipts from customers	92,057	119,632
Cash paid to suppliers and employees	(55,878)	(58,370)
Income taxes paid	(1,384)	(742)
Net cash flows from/ (used in) operating activities	34,795	60,520
Cash flows from/ (used in) investing activities		
Payments associated with investment properties	(30)	(2,846)
Payments associated with plant and equipment	-	(284)
Payments of finance lease liabilities	(110)	(64)
Net cash flows from/(used in) investing activities	(140)	(3,194)
Cash flows from/(used in) financing activities		
Payments associated with capital raising	-	(138)
Repayment of borrowings	(5,839)	(31,656)
Finance costs paid	(34,764)	(35,779)
Interest received	740	1,321
(Payments)/proceeds from income hedges	-	(8,030)
Advances/loans (to)/from related parties	(77)	1,785
Distributions paid to non controlling interests	(318)	(4,632)
Net cash flows from/(used in) financing activities	(40,258)	(77,129)
Net (decrease)/ increase in cash and cash equivalents	(5,603)	(19,803)
Cash and cash equivalents at opening	28,863	43,734
Effect of foreign exchange rate fluctuations on cash held	(4,112)	4,932
Cash and cash equivalents at 30 June	**19,148**	**28,863**
Cash and cash equivalents disclosed as:		
Cash and cash equivalents	19,148	28,932
Bank overdraft	-	(69)
	19,148	**28,863**

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

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 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').

(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 8 *Operating Segments*
- AASB 101 *Presentation of Financial Statements*
- AASB 2008-2 *Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation*
- AASB 2009-2 *AASB Amendments to financial instrument disclosures*
- AASB 2008-5 *Amendments to Australian Accounting Standards – Investment properties, Financial instrument disclosures*
- Interpretation 16 *Hedge of a net investment in a foreign operation*

In addition to the above, the adoption of these new and revised Standards and Interpretations have resulted in changes to the Group's presentation of, or disclosure in, its financial statements in the following areas:

- *Information about the Group's segments*. The adoption of AASB 8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8* has resulted in both a re-designation of the Group's reportable segments and amended segment disclosures.
- *Presentation of the financial statements*. Previously, in addition to the statement of financial position (formerly termed the 'balance sheet'), the income statement and the cash flow statement, the Group presented a statement of recognised income and expense. As a consequence of the adoption of AASB 101 *Presentation of Financial Statements (2007)* and its associated amending standards, the Group no longer presents a statement of recognised income and expense but presents in addition to the statements listed above, a statement of comprehensive income and a statement of changes in equity.
- *Puttable Financial Instruments and Obligations arising on Liquidation* - The Fund has adopted AASB 2008-2 Amendments to Australian Accounting Standards. Under the amendment the units issued by the fund are considered to be equity. Previously these units have been considered a financial liability. As a consequence of adopting the standard, the fund no longer presents the units as a liability ('net assets attributable to unit holders') but presents the units as equity. In accordance with the amendment, non-controlling interests continue to be classified as a liability in the financial statements. Refer to note 5 for disclosure regarding the impact of this change.
- *Amendments to financial instrument disclosures* – The fund had adopted the amendment and is required to disclose information on the fair value measurement of its financial instruments.

- *Annual improvements project: Investment property* – The fund has adopted the amendment to include property under construction or development at fair value within investment property rather than at cost within property, plant and equipment. As a consequence of this amendment the Group has reclassified its property under development to investment property.

- *Annual improvements project*: Financial instrument disclosures – The amendment confirms that interest income and expense must not be disclosed as a net amount on the face of the income statement. The fund had already adopted this practice in its financial statements.

- *Hedge of a net investment in a foreign operation* – The fund has adopted the interpretation which clarifies the accounting for net investment hedges. This interpretation does not impact upon the current accounting applied by the fund.

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 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 January 2010	30 June 2011
AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions	1 January 2010	30 June 2011
AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues	1 February 2010	30 June 2011
AASB 124 Related Party Disclosures (revised December 2009), AASB 2009-12 Amendments to Australian Accounting Standards	1 January 2011	30 June 2012
AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9	1 January 2013	30 June 2014
AASB 2010 -3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 July 2010	30 June 2011
AASB 2010 -4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 January 2011	30 June 2012
Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010	30 June 2011

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
None at time of publication		

(c) Going concern

The financial statements have been prepared on the going concern basis, which assumes the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Group has reported losses after tax of $67.2 million (2009: $322.1 million) and the Parent, losses after tax of $57.3 million (2009: $282.5 million) and as at 30 June 2010 the Group's current liabilities exceeded current assets by $578.4 million (Parent: $38.1 million). The Group's losses for the year are largely attributable to decreasing property valuations and the Parent's losses are largely attributable to fair value decrements on investments in subsidiaries. Loan and derivative covenants continue to be in breach with $525.8 million (€369.1 million) of loans totalling $597.1 million and all derivatives totalling $56.5 million (€39.7 million) in breach or with facility's expiring in less than one year from 30 June 2010. A description of the loans and derivative instruments that have exceeded their covenants or are classified as current liabilities because the facilities expire within twelve months are set out in Notes 23 and 21 respectively. Management is engaged in ongoing discussions with the Group's financiers to re-negotiate terms and/or agree strategies which secure those financiers' ongoing support or enable refinancing of the Group's facilities. At the time of this report, there are no formal documented waivers or re-negotiated terms for any of the facilities in breach of covenants or agreements to extend facilities that expire within twelve months and there is no assurance that such commitments will be forthcoming.

Finance facilities for four properties totalling $198.8 million are due to expire within twelve months of the reporting date ($50.9 million in August 2010, $57.4 million in November 2010 and $90.5 million in March 2011). In addition, the working capital facility of $32.1 million, which has a pervasive impact on the Group, also expires in November 2010. The key financier of the Group (The Royal Bank of Scotland or "RBS") has publicly stated its strategy to run out or otherwise exit loans it allocates to its non-core division before 2013. It is understood that the Group's German and Italian debt facilities totalling $171.8 million are allocated to this division. It is also understood that the Group's working capital facility, foreign currency hedging facilities of $24.0 million and Spanish senior debt facilities of $173.1 million are allocated to RBS's global restructuring group. RBS has expressed to management its strong preference to secure a reduction or improvement in its exposure to the Group on terms acceptable to it.

The economic recession across Europe continues to place significant pressure on the Group's operating results and cash flows. The Group is forecast to have sufficient cash to fund forecast operating payments, existing scheduled debt repayments (excluding the repayment of facilities that are due to expire within the next twelve months) and essential capital expenditure for the twelve month period from the date of these financial statements. Any further deterioration in economic conditions will adversely impact forecast operating results and cash flows and may therefore further compromise the Group's and the Parent's ability to pay their debts as and when they fall due in the absence of agreeing other arrangements with RBS, other financiers and creditors.

The ability of the Parent and the Group to continue as going concerns, in the absence of a broader recapitalisation or refinancing transaction, is dependent on:

- the continued forbearance of the Group's and Parent's financiers not to require immediate repayment of facilities as a result of existing covenant breaches;
- their ability to extend or restructure the working capital facility in a way which allows the Parent and the Group to continue to operate without the requirement to immediately repay this facility; and
- their ability to extend or restructure the other finance facilities currently in breach or due to expire within the next twelve months.

The factors outlined above represent significant uncertainties surrounding the ability of the Parent and the Group to continue as

going concerns. After taking into account all the currently available information, the Directors believe that there are reasonable grounds to believe that the preparation of the financial report on a going concern basis is appropriate. The Directors have formed this view based on a number of factors including the following:

- Management remain engaged in discussions with RBS which has provided the following facilities with expiry dates within the next twelve months – the working capital facility (expires November 2010) and the Halle and Leipzig, Germany facilities of $90.5 million (expiring March 2011). RBS also has rights in respect of subsisting events of default on hedging facilities amounting to $53.5 million. As a matter of policy, the key financier continues to decline to confirm in writing its support for the Group and has reserved all of its rights resulting from covenant breaches. However, without prejudice to its rights, RBS has acknowledged that the most advantageous approach to date (and has not made any representation as to its future intentions in this regard) is to continue to support the Group while asset sales and/or restructuring transactions are pursued to its satisfaction. Based on the current status of discussions and an analysis of the range of likely outcomes, the Directors have formed the view that there is a reasonable expectation that an accommodation will be reached to extend or restructure these facilities on acceptable terms.

  However, security holders should be aware that if the working capital facility is not extended and was declared due and payable on its maturity date in November 2010, due to its pervasive impact the Group would not have sufficient cash resources available from its operating activities in the normal course of business to repay the facility.

- Management has maintained an on-going dialogue with the Parent's other hedging provider (Deutsche Bank AG) which has rights in respect of a subsisting event of default. The hedging provider has reserved its rights in writing and has indicated verbally to management that servicing its existing obligations is of utmost importance and that it continues to monitor very closely the actions of the Group's key financier. The Directors have formed the view that there is a reasonable expectation that the hedging provider will continue to support the Group while its existing obligations are serviced and its security position is maintained.

  However, security holders should be aware that if the Group's key financier seeks to enforce its rights, or the Parent is unable to meet its hedging obligations, the hedging provider may enforce its rights by terminating the hedging arrangements and declaring the resultant exposure of $2.3 million due and payable. If this were to occur, the Group may not be able to satisfy the payment demand.

- Management has continued to progress strategies to address the facilities that finance City Gate, Greece of $50.9m (expired in August 2010) and City Mall, Romania of $57.4 million (expires in November 2010).

  - In respect of the expired facility for City Gate, discussions with the financier Eurohypo AG are progressing which may result in a twelve month facility extension which would result in no additional requirement for the Group to support this property beyond the Group's existing hedging commitments (with RBS) and a one-off cash injection of $0.6 million. The financier has deferred the June 2010 and August 2010 interest payments that were due on this facility. The Group's exposure to the financier, should the facility extension not be granted, is limited to this property and is not expected to have a pervasive effect on the Group.

  - In respect of the Victoria Holdings SA debt facility (City Mall property), negotiations are continuing with the financier to agree satisfactory terms to extend the facility. These discussions remain incomplete as at the date of this report. The Parent has provided an interest and debt service coverage guarantee for a maximum amount of $14.7 million. In the event that mutually acceptable terms are not agreed, the facility is likely to incur default interest during the period from when the facility expires to the date the asset is sold. Based on management's interpretation of the terms of the guarantee, the resulting residual exposure is not expected to have a pervasive effect on the Group.

Management continues to minimise cash outflows from the Group by:

- deferring the payment of APN Property Group existing and future management fees on selected underperforming properties and other existing liabilities in accordance with an existing deferral agreement ; and
- deferring all uncommitted non-essential capital expenditure and cash leasing incentives required to complete asset re-positioning programs on selected underperforming assets.

Other options continue to be explored including transactions with parties to improve the key financiers' position and ultimately improve the financial position of the Group, combined with strategic assets sales to reduce debt.

Notwithstanding the above, there is significant uncertainty whether the Parent and the Group will continue as going concerns and, therefore, whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

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

(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 fair value:

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

The methods used to measure fair 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

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by all Group entities.

Where applicable, certain comparative figures are restated in order to comply with the current year's presentation of the financial statements.

(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 Property Management Trust (AEZM). The securities trade as one security on The Australian Stock 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 security holders of AEZM are also holders of AEZH by virtue of the stapling arrangement.

This financial report has been prepared based upon a business combination by the Parent entity of AEZM and in recognition of the fact that the securities issued by the Parent entity, and AEZM have been stapled and cannot be traded separately.

(b) Basis of consolidation

(i) Subsidiaries

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

(ii) Transactions eliminated on consolidation

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

(iii) Non controlling interest

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

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

(iv) Business combinations

The acquisition method is used to account for the purchase of subsidiaries. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the 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.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

(c) Foreign currency translation

(i) Foreign currency

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

(ii) Translation of foreign currency balances

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

(iii) Translation of accounts of foreign operations

The Group is predominately comprised of operations that are located in the European Union. The balance sheets 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 Net assets attributable to security holders. 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(p).

(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 a balance date is reflected in the balance sheets 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 includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

(iii) Management fees

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

(iv) Distribution and dividend income

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

established.

(e) Expenses

(i) Operating lease payments

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

(ii) Finance lease payments

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

(iii) Finance expenses

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

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

(f) Income and deferred tax

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

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 balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet 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 balance sheet 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.

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 unitholders 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 balance sheet.

Cash flows are included in the statement of cash flows on a gross basis.

(h) Distributions to security holders

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

(i) Cash and cash equivalents

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

(j) Trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment losses (see accounting policy 3(l)).

(k) Property, plant and equipment

Property, plant and equipment not integral to earning rental income is 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 balance sheet 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

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

Investment properties, comprising freehold land and buildings, are initially recognised at cost plus acquisition costs directly

associated with the purchase, unless the properties are acquired as part of a business combination, in which case they are initially recognised at fair value on acquisition date. Subsequent to initial recognition, investment property is stated at fair value. The consolidated entity has an internal valuation process for determining the fair value at each reporting date.

An external, independent valuation expert, having an appropriate recognised qualification and recent experience in the location and category of property being valued, values the portfolio at intervals of not more than two years on a rotational basis, or on a more regular basis if considered appropriate and as determined by management in accordance with the Board approved valuation policy.

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

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

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

Investment property now 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. This is different to previous years where properties under construction were accounted for at cost and presented under property, plant and equipment until construction was complete.

The change in policy was necessary following changes made to AASB 140 Investment Property as a result of the IASB's 2008 Improvements standard.

The Group has adopted the revised rules prospectively from 1 July 2009.

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 balance sheet. Investment property held under an operating lease is recognised on the Group's balance sheet 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 profit and loss. 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.

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 profit and loss. 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 profit and loss' 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 and this represents a quote in an active market. 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.

(i) 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.

(ii) 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 net assets attributable to security holders. The ineffective portion is recognised immediately in the income statement.

(r) Interest-bearing borrowings

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

(s) Provisions

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

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

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

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

(t) Financial instruments issued by the Group

(i) Debt and equity instruments

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

(ii) Financial guarantee contract liabilities

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

(u) Financial liabilities

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

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

(v) Trade payables

Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services.

Trade and other payables are stated at their amortised cost. Trade and other payables are non interest bearing and are normally settled on 60 day terms.

(w) Equity issuance costs

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

(x) Earnings per security

(i) Basic earnings per security

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

(ii) Diluted earnings per security

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

(y) Employee entitlements

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

4. Segment Reporting

The Group has adopted AASB 8 Operating Segments and AASB 2007-03 Amendments to Australian Accounting Standards arising from AASB 8 with effect from 1 July 2009. AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (AASB 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and rewards approach, with the entity's 'system of financial reporting to key management personnel' serving only as the starting point for the identification of such segments. As a result, following the adoption of AASB 8, the identification of the Group's reportable segments has changed.

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

	Year ended 30 June 2010			
	Segment Revenue	Segment Profit	Segment Finance Expense	Segment Property Devaluation
Operating Segments	**€'000s**	**€'000s**	**€'000s**	**€'000s**
Spain	14,891	9,039	(5,740)	(9,972)
Italy	1,379	1,239	(324)	40
Germany	18,763	16,036	(4,746)	(13,407)
Greece	9,951	5,528	(3,136)	(24,013)
Romania	4,048	308	(2,545)	(15,010)
Austria	6,800	4,350	(1,244)	2,389
Segment total from external customers	**55,832**	**36,500**	**(17,735)**	**(59,973)**
	$'000s	**$'000s**	**$'000s**	**$'000s**
Segment total from external customers	**87,788**	**57,468**	**(27,913)**	**(91,130)**
Segment result after interest expense and property devaluations				**(61,575)**
Interest income				740
Finance expenses				(6,202)
Foreign exchange losses				(11,222)
Fair value gains on foreign exchange contracts				7,111
Fair value gains on interest rate swaps				414
Fair value loss on investment				(1,000)
Management expenses				(4,862)
Other Operating expenses – central administration expenses				(14,266)
Loss before tax				**(90,862)**
Income tax benefit				23,644
Consolidated loss after income tax for the period				**(67,218)**

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

One (2009: 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.

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. Amounts reported for the prior period have been restated to conform to the requirements of AASB 8. The accounting policies of the new reportable segments are the same as the Group's accounting policies.

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

Segment revenue

Segment revenue reconciles to total revenue as follows:

	Consolidated 30 June 2010 $'000s
Total segment revenue	
Rental revenue from investment properties	87,788
Interest income	740
Fair value gain on forward exchange contracts	7,111
Fair value gain on interest rate swaps	414
Total revenue per the income statement	**96,053**

Segment finance expense

Segment finance expense reconciles to interest expense per Note 9 as follows:

Total segment finance expense	27,913
Unallocated	4,708
Total finance expense per note 9	**32,621**

Segment assets

The amounts provided to the EMC committee 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:

Consolidated

	30 June 2010
	$'000s
Spain	202,531
Italy	25,540
Germany	257,483
Greece	158,411
Romania	52,373
Austria	88,251
Total segment assets	**784,589**
Unallocated:	
Cash and cash equivalents – head office function	6,766
Deferred tax assets	14,146
Other financial assets	5,246
Other receivables	7,584
Total assets	**818,331**

For the year ended 30 June 2009

		Year ended 30 June 2009		
	Segment Revenue	**Segment Profit**	**Segment Finance Expense**	**Segment Property Devaluation**
Operating Segments	**€'000's**	**€'000's**	**€'000's**	**€'000's**
Spain	18,293	9,831	(5,272)	(71,100)
Italy	1,365	1,271	(328)	(2,361)
Germany	18,667	16,530	(4,782)	(25,443)
Greece	10,116	5,512	(3,025)	(7,628)
Romania	7,086	3,137	(2,624)	(26,398)
Austria	6,326	3,930	(1,749)	(5,077)
Segment total from external customers	**61,853**	**40,211**	**(17,780)**	**(138,007)**
	$'000's	**$'000's**	**$'000's**	**$'000's**
Segment total from external customers	**115,168**	**74,895**	**(32,829)**	**(240,894)**
Segment result after interest expense and property devaluations				**(198,828)**
Interest income				1,921
Other income				3,248
Finance expenses				(17,035)
Foreign exchange losses				(22,137)
Fair value losses on foreign exchange contracts				(32,120)
Fair value losses on interest rate swaps				(60,792)
Fair value losses on investments				(11,067)
Management expenses				(7,766)
Other Operating expenses – central administration expenses				(18,401)
Loss before tax				**(362,977)**
Income tax benefit				40,871
Consolidated loss after income tax for the period				**(322,106)**

The measures of segment revenue and segment profit at 30 June 2009 are consistent with those disclosed in the current period.

Segment revenue

Segment revenue reconciles to total revenue as follows:

	Consolidated 30 June 2009 $'000's
Total segment revenue	
Rental revenue from investment properties	115,168
Interest income	1,921
Other income	3,248
Total revenue per the income statement	**120,337**

Segment finance expense

Segment finance expense reconciles to finance expense per note 9 as follows:

Total segment finance expense	32,829
Unallocated	4,178
Total finance expense per note 9	**37,007**

Segment assets

At 30 June 2009 segment assets are measured as described in the current period section of this note.

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

	Consolidated 30 June 2009 $'000's
Spain	269,422
Italy	31,189
Germany	340,213
Greece	236,446
Romania	94,201
Austria	103,801
Total segment assets	**1,075,472**
Unallocated:	
Cash and cash equivalents – head office function	5,095
Deferred tax assets	10,080
Other financial assets	8,731
Other receivables	12,225
Property, plant and equipment	582
Total assets	**1,111,985**

5. Adoption of revised accounting standards

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

AASB 132 Financial Instruments: *Presentation and AASB 2008-2 Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations Arising on Liquidation* (Revised AASB 132) is applicable for annual reporting periods beginning on or after 1 January 2009. Previously, security holders funds were classified as a financial liability and presented as Net Assets Attributable to Security holders, they are now treated as equity and presented as Contributed Equity, Reserves and Retained Earnings in the Statement of Financial Position and the Statement of Changes in Equity. Non-controlling interests continue to be classified as a liability in the financial statements.

	Previous presentation $'000's			Current presentation $'000's
	Finance costs attributable to security holders			
Year ended	Net loss	Change in net assets attributable to security holders	Net profit/ (loss)	Net loss
30 June 2010	(66,514)	94,246	27,732	(66,514)
30 June 2009	(309,430)	265,055	(44,375)	(309,430)

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

	Previous presentation $'000's			Current presentation $'000's		
Year ended	Net profit/ (loss)	Other comprehensive income/(loss)	Total comprehensive income	Net loss	Other comprehensive income/(loss)	Total comprehensive income/(loss)
30 June 2010	27,732	(27,732)	-	(66,514)	(27,732)	(94,246)
30 June 2009	(44,375)	44,375	-	(309,430)	44,375	(265,055)

The adoption of AASB 2008-2 has impacted the *Statement of Financial Position* as follows:

	Previous presentation $'000's	Current presentation $'000's			$'000's
Year ended	Net assets attributable to security holders	Contributed Equity	Retained Earnings	Reserves	Overall impact on net assets
30 June 2010	86,652	552,048	(497,521)	32,215	86,652
30 June 2009	180,898	552,048	(431,007)	59,857	180,898
1 July 2008	445,305	551,400	(121,577)	15,482	445,305

Distributions to security holders that were previously classified as *Finance costs attributable to security holders* in the *Statement of Comprehensive Income* are now treated as *Distributions Paid* (from Retained Earnings) in the *Statement of Changes in Equity*. Previously, the net change in unitholder liabilities after distributions was reflected as a finance charge.

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

	Previous presentation $'000's			Current presentation $'000's			
Year ended	Contributed Equity	Total comprehensive income	Total Equity	Contributed Equity	Reserves	Retained Earnings	Total Equity
30 June 2010	-	-	-	552,048	32,215	(497,521)	86,652
30 June 2009	-	-	-	552,048	59,857	(431,007)	180,898
1 July 2008	-	-	-	551,400	15,482	(121,577)	445,305

6. Investment expense

	Consolidated 2010 $'000's	2009 $'000's
Investment income/(expense)		
Investment devaluations		
Financial assets designated at fair value through profit and loss:		
Fair value loss on revaluation of investments	(1,000)	(11,067)
	(1,000)	**(11,067)**
Investment income/(expenses)		
Distributions from investments	-	-
	-	**-**

7. Other Income

	Consolidated 2010 $'000's	2009 $'000's
Other income		
Net gain on disposal of plant and equipment	-	17
Fair value gain on other financial instruments	-	206
Sundry income	-	3,025
	-	**3,248**

8. Other expenses

	Consolidated 2010 $'000's	2009 $'000's
Other operating expenses		
The following amounts have been charged/(credited) to the income statement:		
Loans and receivables:		
Bad debt expense	43	494
Write-off of other receivables - related parties	(1,076)	2,969
Impairment of trade receivables - external	4,375	7,352
Impairment of loans receivable – related parties	2,047	3,024
Financial liabilities classified at fair value through income statement:		
Fair value loss on other financial instruments	192	-
Other expenses:		
Cost of services (includes Carrefour settlement of $2.4m)	13,136	12,650
	18,717	**26,489**

9. Financing Income and Expenses

	Consolidated 2010 $'000's	2009 $'000's
Financing income/(expense)		
Interest income – external	188	567
Interest income – related parties	552	1,354
	740	**1,921**
Financial assets classified at fair value through profit and loss:		
Net fair value (loss)/gain on interest rate swaps	414	(60,792)
	414	**(60,792)**
Interest expense – external	(32,621)	(37,007)
Interest expense – related parties	(314)	(65)
Amortisation of banking costs[1]	(1,036)	(12,540)
Banking and facility fees	(144)	(252)
Finance expenses	**(34,115)**	**(49,864)**
Net Financing costs	**(32,961)**	**(108,735)**

[1] At 30 June 2010 and 30 June 2009, the Group was in breach of certain loan covenants (refer to note 13 for further detail). As a result, certain loan balances have been classified as current at 30 June 2010 and 30 June 2009. The borrowing costs associated with these loans have been written-off in the year were first classified as current.

10. Earnings per security

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

	Consolidated 2010	2009
In cents		
Basic and diluted earnings per security	(12.21)	(56.84)
In thousands of AUD		
Basic and diluted earnings		
Net profit/(loss) attributable to AEZH security holders	(66,514)	(309,430)
Weighted average number of ordinary securities (basic and diluted)		
Opening balance	541,911,232	541,911,232
Effect of securities issued on 29 August 2008	-	2,506,371
Closing balance	**541,911,232**	**544,417,603**

11. Investment Property

	Consolidated 2010 $'000's	2009 $'000's
Investment property		
Opening balance	1,044,449	1,203,141
Application of revised accounting standard effective 1 July 2009: Transfer of property under development to investment property	591	-
Revised opening balance	**1,045,040**	**1,203,141**
Additions from subsequent expenditure	(130)	2,198
Fair value adjustments	(91,130)	(240,894)
Effects of movements in foreign exchange	(188,314)	80,004
	765,466	**1,044,449**
Lease incentives within current and non-current receivables	2,465	-
	767,931	**1,044,449**

12. Interest bearing liabilities

	Consolidated		
	2010	2009	1 July 2008
	$'000's	$'000's	$'000's
Interest bearing liabilities			
Current – at amortised cost			
Finance lease liabilities	107	130	106
Other loans from related parties, unsecured	1,784	1,784	29,244
Bank loans, secured	525,372	649,338	90,512
Bank loans, unsecured	-	-	40,100
	527,263	**651,252**	**159,962**
Non-current – at amortised cost			
Finance lease liabilities	2,230	2,856	2,809
Bank loans, secured	67,774	82,434	573,734
	70,004	**85,290**	**576,543**
Reconciliation of Interest bearing liabilities:			
Amounts borrowed	598,763	739,344	747,770
Less: Capitalised transaction costs	(1,496)	(2,802)	(11,265)
	597,267	**736,542**	**736,505**

At 30 June 2010, the Group was in breach of certain loan covenants on debt totalling $525.8 million (2009: $650.3 million) 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 has been determined that this right to defer may not be unconditional. While the Directors do not believe that the loan will necessarily be called in the next twelve months they have decided that classification as a current liability is required by AASB 101. A description of loans in breach or default of their covenants at reporting date is provided below:

Spain portfolio $173,105,000 (2009: $213,829,000), Royal Bank of Scotland

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 has been classified as a current liability.

Champion Retail Fund ('CRF'), Greece $52,397,000 (2009: $64,194,000), Bond Loan

At 30 June 2010 this loan is in cross default with its interest rate swap which is in turn in cross default with the working capital facility. As a result, this loan has been classified as a current liability.

Working Capital Facility $32,056,000 (2009: $39,274,000), Royal Bank of Scotland

At 30 June 2010 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 is in default and has been classified as a current liability.

City Mall, Romania $57,396,000 (2009: $74,051,520), Bank Austria

At 30 June 2010, certain of the covenants on this loan were in breach. As a result the loan is in default and has been classified as a current liability.

At 30 June 2010, other loans amounting to $160,001,000 (2009: $270,638,000) were in cross default breach with the Working Capital Facility.

13. Other financial liabilities

	Consolidated		
	2010	2009	1 July 2008
	$'000's	$'000's	$'000's
Financial liabilities held for trading:			
Forward exchange contracts	23,961	31,151	157
Interest rate swaps	29,554	33,258	-
Other financial instruments	-	-	206
	53,515	**64,409**	**363**
Non-current – at fair value			
Financial liabilities held for trading:			
Forward exchange contracts	-	-	10,386
Interest rate swaps	-	-	2,173
	-	**-**	**12,559**

At 30 June 2010, the Group was in breach of covenants on hedging facilities totalling $56.5 million (2009: $66.8 million) 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 is provided below:

Deutsche Bank hedging facilities $2,252,000 (2009: $6,486,194)
At 30 June 2010, 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. Certain of the hedging facilities with Deutsche Bank were closed in the year.

Royal Bank of Scotland hedging facilities $53,505,000 (2009: $57,579,180)
At 30 June 2010, the RBS hedging facilities are in breach due to a cross default clause with the working capital facility. As a result, these facilities have been classified as current liabilities.

Bank of Austria, Unicredit Romania hedging facilities $774,000 (2009: $2,736,152)
At 30 June 2010, the Romanian hedging facilities are in breach due to a cross default clause with the City Mall term debt. As a result, these facilities have been classified as current liabilities.

14. Distributions paid / payable to security holders

No distributions were payable or paid in the year.

15. Contributed equity and reserves

	Consolidated	
	2010 Securities 000's	2009 Securities 000's
(i) Securities on issue		
On issue at beginning of the period	**541,911**	**541,911**
Issue of fully paid securities in accordance with the Distribution Reinvestment Plan – 29 August 2009	-	3,000
On issue at 30 June	**544,911**	**544,911**

The security holders of the Group are entitled to receive distributions 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.

The Group is listed on the Australian Stock Exchange (ASX). Security holders have the ability to buy and sell securities through the ASX. No redemption option is available under the Group's constitution as the securities in the Group are traded on the ASX.

(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 reserves. This balance will be recognised in retained earnings when control of the controlled entity is lost.

17. Subsidiaries

Consolidated entities

Name of Entity	Note	Country of Incorporation	Ownership interest and voting rights %	
Parent Entity			**2010**	**2009**
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 Chamption Sub Trust		Australia	19.8	19.8
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

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

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	Germany	94.8	94.8
Leipzig Lowencenter GmbH & Co KG	Germany	94.9	94.9
Porolis Expert SA	Romania	100.0	100.0
SC Victoria Holdings SA	Romania	100.0	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.

Champion Retail Fund Syndication

On the 19 August 2008, the Group completed the disposal of its portfolio of 16 supermarkets located in Greece (Champion – Marinopoulos portfolio) to the APN Champion Retail Fund ('Champion'). The transaction has been settled by exchanging the unsecured loans from related parties amounting to $29,244,000 for an equity investment in Champion. On completion of this transaction the Group holds a 55.8% interest and therefore Champion continued to be a controlled entity. The uneliminated non-controlling interest profit on disposal of $4,332,000 from the settlement of this transaction has been recognised in equity in accordance with AASB 127.

17. Reconciliation of cash flows from operating activities

	Consolidated 2010 $'000's	2009 $'000's
Notes to the cash flow statement		
(i) Reconciliation of cash flows from operating activities		
Net loss	**(67,218)**	**(322,106)**
Adjustments for non cash items and items classified as investing or financing activities:		
Net finance costs	33,375	47,060
Change in fair value of investments	1,000	11,067
Change in fair value of investment properties	91,130	240,894
Change in fair value of derivative instruments	(7,525)	92,912
Gain on disposal of plant and equipment	-	(17)
Income tax benefit	(23,644)	(41,613)
Depreciation and amortisation expense	55	143
Loss / (gain) on income hedges	-	8,030
Net foreign exchange losses/(gains)	11,222	21,255
Net cash provided by/(used in) operating activities before changes in assets and liabilities	**38,395**	**59,625**
Change in assets and liabilities during the financial year		
Decrease in trade and other receivables	4,269	7,650
Increase/(decrease) in trade and other payables	(3,738)	(7,759)
Increase in provisions	(2,747)	3,003
Net cash flows provided by operating activities	**36,179**	**60,520**

(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 2010 $'000's	2009 $'000's	1 July 2008 $'000's
Cash on hand	13,639	19,391	34,605
Deposits with banks	5,499	9,541	9,199
Bank overdraft	-	(69)	(70)
	19,148	**28,863**	**43,734**

18. Net tangible asset backing

	Consolidated	
	2010	2009
	Cents per security	Cents per security
Net tangible asset backing per security	15.63	32.68
Net tangible asset backing per security excluding deferred tax associated with Investment Property	19.60	42.09

Net tangible asset backing per security is calculated by the dividing net assets attributable to security holders (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 (2009: 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 ($2.8 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 2010.

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 $107.9 million/€ 75.8 million (2009: $132.2 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.

Contingent assets

The Group has received a corporate guarantee amounting to $7.1 million/€5.0 million (2009: $8.8 million/€5.0 million) in relation to any losses that may arise out of, or relating to, land title claims on an Investment Property. The guarantee received is valid until December 2011.

At the date of this report, the Group is not aware of any title claims against the Investment Property.

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 2010

John Freemantle
Company Secretary

Commentary on results for the period and trends in performance

Refer to accompanying documents