Results for announcement to the market

# APN European Retail Property Group (“AEZ”)

## Appendix 4D
## Half-year report for the period ended 31 December 2010

| | Wind up basis of accounting | Going concern basis of accounting | | |
|---|---|---|---|---|
| | **Half-year ended 31 December 2010** | **Half-year ended 31 December 2009** | **Movement** | **Movement** |
| | **$’000** | **$’000** | **$’000** | **%** |
| | | | | |
| Revenue from ordinary activities | 36,171 | 47,668 | (11,497) | -24.12% |
| | | | | |
| Loss from ordinary activities after tax and discontinued operations | (33,582) | (25,505) | (8,077) | 31.67% |
| | | | | |
| Less: Profit/(loss) from ordinary activities after tax attributable to minority interest (External only) | 1,073 | 2,524 | (1,451) | -57.49% |
| | | | | |
| Profit/(Loss) from ordinary activities after tax attributable to stapled security holders of AEZ Group | (34,655) | (28,029) | (6,626) | 23.64% |
| | | | | |
| Net profit/(loss) attributable to stapled security holders of AEZ Group | (34,655) | (28,029) | (6,626) | 23.64% |
| | | | | |
| Basic and diluted earnings per stapled security (cents per stapled security) from continuing and discontinued operations | (6.36) | (5.14) | | |
| | | | | |
| Basic and diluted earnings per stapled security (cents per stapled security) from continuing operations | (14.08) | (5.14) | | |
| | | | | |
| Net tangible assets backing (cents per stapled security) | 0.46 | 24.08 | | |

| **Distributions** | **Amount per security** |
|---|---|
| **Ordinary securities** | |
| Interim Distribution | nil |
| Previous corresponding period | nil |
| | |
| **Payment of Interim Distribution** | |
| Record date for determining entitlement | n/a |
| Payment date | n/a |

The results detailed in this Appendix 4D represent the consolidated financial results for APN European Retail Property Group for the half-year ended 31 December 2010. The consolidated net loss after income tax for APN European Retail Property Group for the half-year ended 31 December 2010 was $34,655,000.

**Commentary on results**

Please refer to the attached Interim Financial Statements and Investor Presentation

# APN European Retail Property Group

Consolidated financial report for the
half-year ended 31 December 2010

(Prepared under a wind up basis of accounting)

# Directors' report

The directors of APN Funds Management Limited ('Responsible Entity'), the responsible entity of APN European Retail Property Group and its controlled entities ('the Group'), present their report together with the financial report of the Group, for the half-year ended 31 December 2010.

The names of the directors of the Responsible Entity who held office during or since the end of the half-year are:

### Executive directors
David Blight
Howard Brenchley

### Non-executive directors
John Harvey
Geoff Brunsdon
Michael Johnstone

## Review of operations

The Group reported a net loss under AIFRS for the half-year of $34.7m compared to a net loss of $25.5m for the half year ended 31 December 2009. The Group's underlying loss from operations after tax for the half-year was $0.3m (2009: profit of $8.6m).

These results reflect, in part, the continued difficult economic and operating conditions in Europe which have affected the value of the Group's portfolio and its underlying performance. More significantly, these accounts also reflect the change in accounting treatment required now that the Group is no longer considered as a Going Concern, which requires the Group to record its assets on the basis of net realisable value. This follows the decision by the Group's principal lender, The Royal Bank of Scotland (RBS) to enter into a consensual wind-down of the portfolio and asset sale/debt repayment programme.

As a result, Net Tangible Assets per security (NTA) as at 31 December 2010 has declined to 0.46 cents per security (cps). Excluding the full liability for tax which may be incurred if the properties were sold by way of their holding companies, NTA is 2.10 cps. Refer below for further details in the Management income statement.

As previously announced, no distribution has been declared for the period.

#### Fund strategy

Prior to entering into the consensual wind-down and as highlighted in the Group's last results, management tested the demand and parameters for an equity injection, either through a rights issue or privatisation of the Fund. In conjunction with Goldman Sachs, approximately 20 parties were targeted last November which ultimately led to 5 bids being secured. However, all bids required RBS to accept discounts to their debt, of varying levels, which could not be agreed.

In the absence of alternative solutions, and recognising RBS's rights and remedies stemming from the overarching Working Capital Facility (WCF) the Group is expected to enter into a consensual agreement with RBS to wind-down the portfolio over a period of up to 2 years, commencing in early 2011. This is considered the minimum time necessary to make all assets 'ready for sale' and optimise values, thereby maximising the return of debt to the bank as senior lender. Although the core European property markets have shown increasing signs of stability, demand continues to be very focused on prime assets with limited evidence of transactions in the secondary sector other than at heavily discounted pricing. As such, the timing of sales and the amount of equity, if any, that may be returned to investors remains very uncertain.

## Profit from operations

The underlying loss from operations after tax was $0.3m compared to the underlying profit in the previous corresponding period (pcp) of $8.6m. The following were significant contributing factors to this result:

- The continued decline of the Euro against the Australian Dollar has had a significant impact on the level of income earned when denominated in Australian Dollars. Income, when expressed in Euros, has fallen by 9.5%. This is largely due to the continuing problems that were being experienced at City Mall, Romania, its income falling by €0.8m as discounts were offered and tenants struggled to pay, a fall in the level of income earned at Cuadernillos, Spain of €0.6m as tenants left the centre and a fall in the level of income at City Gate, Greece of €0.7m reflecting discounts offered to tenants and a higher amount of amortisation of lease incentives than incurred in the pcp.
- There was a €1.2m increase in property expenses, largely due to the level of bad debt incurred at City Gate, Greece (€1.6m) in the period.
- Other expenses are higher by €0.5m largely due to a legal case credit that was received by Festival Park in the pcp for which no equivalent was received in the current period.
- Net interest expenses are broadly consistent with the prior year however the level of tax expense has increased largely due to a provision that has been made for potential trade tax liabilities incurred in Germany.

## Loss from Non-operating Activities

Non-operating activities contributed to a loss after tax of $75.4 million, compared to a loss of $34.2 million in the prior corresponding period. The loss reflects:

- Write downs in the carrying value of investment properties $90.6 million (December 2009: $50.6 million).

  All properties were independently valued at the balance sheet date and the carrying values were adjusted to reflect the fair values of the properties less the cost to sell those properties as the Group now values its assets at net realisable value rather than at fair value having adopted the wind up basis of accounting in the preparation of these financial statements. Taken as a portfolio, the valuation results demonstrate increasing stability in European investment markets (a 3.2% decline versus June 2010 based on fair values) albeit demand remains substantially focused at prime assets with very limited transaction evidence in the secondary sector. However, in light of the timetable imposed by the consensual work out plan with RBS, particular focus has been placed on determining realisable values over relatively short timeframes. This has led to the following adjustments;

- At City Gate (Greece) the Group entered into a loan extension agreement with Eurohypo in relation to their senior debt, the term of which expired in August 2010. This agreement was completed in lieu of the local holding company filing for administration, given its inability to repay or refinance the original loan at expiry. Amongst other conditions, the Group agreed to dispose of the asset by June 2011. This timeframe differs considerably from the advice received from the Group's independent valuers, who indicate a 24 month period would be required to fully market this asset given investor market conditions. The Group has therefore adopted a limited marketing period valuation of €21.5m, to reflect the timing imposed by Eurohypo, as opposed to the Royal Institute of Chartered Surveyors (RICS) value of €36.0m.

- In respect of Dortmund (part of the Roller portfolio in Germany) the Group made a provision of €7.1m last June to reflect the potential and partial exposure to the costs of rebuilding this asset which continues to suffer from subsidence and significant structural movement. This issue requires further investigation and monitoring over an estimated 18/24 months. However, the terms of the consensual work-out agreed with RBS envisage this unit (and the remainder of the portfolio) being sold within this timeframe. The Group has therefore concluded that an investor would apply a €2m value to the asset today, given the significant uncertainty around the cause and financial liability associated with repairing and rebuilding this unit.

- At Cuadernillos (Spain) the Group has adopted the limited marketing period valuation calculated by the external valuer of €21.7m. This asset has been ear-marked for early sale to stem cash leakage from the Group. This reflects a €7.7m discount to the RICS value

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

  These write downs are unrealised.

## Management Profit and Loss Statement

### Review of operations – Income Statement

| | 2010 Consolidated $'000 | 2010 Consolidated €'000 | 2009 Consolidated $'000 | 2009 Consolidated €'000 |
|---|---|---|---|---|
| **Profit from Operations** | | | | |
| Property Ownership Income | 36,119 | 25,939 | 47,633 | 28,657 |
| Property Expenses | 16,568 | 11,899 | 17,768 | 10,701 |
| **Net Property Income** | **19,551** | **14,040** | **29,865** | **17,956** |
| Other Income | 29 | 21 | 36 | 22 |
| Other Expenses | 4,718 | 3,388 | 4,243 | 2,554 |
| **Profit From Operations Before Interest and Tax** | **14,862** | **10,673** | **25,658** | **15,424** |
| Net Interest Expense | 13,761 | 9,882 | 17,135 | 10,315 |
| **Profit From Operations Before Tax** | **1,101** | **791** | **8,523** | **5,109** |
| Current Tax Benefit/(Expense) | (1,377) | (989) | 151 | 91 |
| **Profit/(loss) From Operations After Tax** | **(276)** | **(198)** | **8,674** | **5,200** |
| | | | | |
| **Profit/(loss) from Non-Operating Activities** | | | | |
| Net non-recurring items | 104 | 75 | (5,659) | (3,407) |
| Amortisation of borrowing costs | (250) | (179) | (417) | (251) |
| Net fair value adjustment of investment property | (90,641) | (69,510) | (50,646) | (31,557) |
| Net fair value adjustment of investments | (163) | (125) | 1,069 | 666 |
| Net fair value adjustment of derivative instruments | 10,884 | 7,816 | 6,471 | 3,895 |
| Foreign exchange gains | 1,786 | 1,282 | 2,578 | 1,574 |
| **Loss From Non-Operating Activities Before Tax** | **(78,280)** | **(60,641)** | **(46,604)** | **(29,080)** |
| Deferred Tax Credit | 2,893 | 2,078 | 12,425 | 7,479 |
| **Loss From Non-Operating Activities After Tax** | **(75,387)** | **(58,563)** | **(34,179)** | **(21,601)** |
| | | | | |
| Profit from discontinued operation | 42,081 | 30,220 | - | - |
| **Loss for the half-year (before Minority Interests)** | **(33,582)** | **(28,541)** | **(25,505)** | **(16,401)** |
| Less: Minority Interests | 1,073 | 770 | 2,524 | 1,520 |
| **Net loss Attributable to Security holders** | **(34,655)** | **(29,311)** | **(28,029)** | **(17,921)** |

## Basis of preparation

RBS's decision to enter into a consensual asset sale programme has a significant impact on the basis of preparation of the financial statements of AEZ. As the end of the life of AEZ is now foreseeable it is no longer appropriate to prepare the financial statements on a going concern basis. Instead the financial statements have been prepared on a wind up basis. This requires that assets are recorded at their net realisable value and liabilities are recorded at their contracted amounts.

As a result of the adoption of the wind up basis of accounting investment property is no longer carried at fair value in the financial statements but at its net realisable value which represents its fair value less costs to sell.

Management of AEZ and APN are currently liaising with RBS to finalise the terms and conditions of the work out. RBS have agreed to roll forward the working capital facility until 14 March 2011 while agreement is reached. See note 1 for further details.

## Distributions

As a result of the consensual wind-down it is expected that all cash generated in excess of the operating costs of the Fund will be returned to RBS. The Responsible Entity advises that future distributions will be suspended until further notice.

## Rounding of Amounts

The Group is of a kind referred to in ASIC Class Order 98/0100, 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 directors' report and the consolidated half-year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

## Auditor's Independence Declaration

The auditor's independence declaration is included on page 6 and forms part of the directors' report for the half-year ended 31 December 2010.

Signed in accordance with a resolution of the Board of Directors of the Responsible Entity.

David Blight
Managing Director
Melbourne, 28th day of February 2011

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

28 February 2011

Dear Board Members

**APN European Retail Property Group**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of APN European Retail Property Group.

As lead audit partner for the review of the financial statements of APN European Retail Property Group for the half-year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the audit review.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

Paul Radici
Partner
Chartered Accountants

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

We have reviewed the accompanying half-year financial report of APN European Retail Property Group ("the Group"), which comprises the condensed statement of financial position as at 31 December 2010, and the condensed income statement, the condensed statement of comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the Group and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 9 to 28.

*Directors' Responsibility for the Half-Year Financial Report*

The directors of the Group are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards as they apply to a non-going concern basis as disclosed in note 1 to the financial statements, and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Auditor's Independence Declaration*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's report.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the APN European Retail Property Group is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*Material Uncertainty Regarding Solvency and Valuation of Assets and Liabilities*

Without qualifying our conclusion, we draw attention to Notes 1(b), 6 and the Directors' Declaration in the financial report which indicates the following:

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

- the ability of the Group to pay its debts as and when they become due and payable is dependent upon the continuing support of its financiers and a number of other assumptions.

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DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

Paul Radici
Partner
Chartered Accountants
Melbourne, 28 February 2011

## Condensed consolidated income statement
## For the half-year ended 31 December 2010

| | Note | Wind up basis<br>Half-year ended<br>31 December 2010<br>$'000 | Going concern basis<br>Half-year ended<br>31 December 2009<br>$'000 |
|---|---|---|---|
| **Revenue from continuing operations** | | | |
| Rental income from investment properties | | 36,171 | 47,668 |
| Fair value gains on investments | | - | 1,069 |
| Foreign exchange gains | | 2,563 | 2,578 |
| Fair value gains on interest rate swaps | 5 | 8,120 | 2,135 |
| Fair value gains on forward exchange contracts | | 1,956 | 4,336 |
| Interest income | 5 | 499 | 292 |
| | | 49,309 | 58,078 |
| **Expenses** | | | |
| Fair value losses on investments | | (163) | - |
| Property expenses | | (10,498) | (13,410) |
| Management expenses | | (1,254) | (2,501) |
| Other operating expenses | 4 | (9,423) | (11,746) |
| Property revaluations | | (90,641) | (50,646) |
| Finance expenses | 5 | (14,509) | (17,855) |
| | | (126,488) | (96,158) |
| Loss before income tax benefit | | (77,179) | (38,080) |
| Income tax benefit | | 1,516 | 12,575 |
| Loss after income tax benefit for the period | | (75,663) | (25,505) |
| Profit from discontinued operation | 11 | 42,081 | - |
| **Loss for the half-year** | | (33,582) | (25,505) |
| **Loss for the year attributable to:** | | | |
| Security holders | | (34,655) | (28,029) |
| Non controlling interests: | | | |
| - External | | 1,012 | 2,286 |
| - APN European Retail Property Management Trust security holders (AEZM) | | 61 | 238 |
| **Net loss attributable to security holders of APN European Retail Property Holding Trust (AEZH)** | | **(33,582)** | **(25,505)** |
| | | **Cents** | **Cents** |
| **Earnings per security for loss from continuing and discontinued operations attributable to the ordinary security holders of the company:** | | | |
| Basic and diluted loss per security | | (6.36) | (5.14) |
| **Earnings per security for loss from continuing operations attributable to the ordinary security holders of the company:** | | | |
| Basic and diluted loss per security | | (14.08) | (5.14) |

*The above condensed consolidated income statement should be read in conjunction with the accompanying notes.*

# Condensed consolidated statement of comprehensive income
# For the half-year ended 31 December 2010

| | Wind up basis<br>Half-year ended<br>31 December 2010<br>$'000 | Going concern basis<br>Half-year ended<br>31 December 2009<br>$'000 |
|---|---|---|
| Loss for the period | (33,582) | (25,505) |
| | | |
| **Other comprehensive loss** | | |
| Exchange difference on translation of foreign operations | (6,402) | (1,658) |
| Effects of net investment hedge | (6,144) | (16,660) |
| Reversal of FCTR following loss of control of SC Victoria Holdings SA | (35,618) | - |
| Other comprehensive loss relating to foreign currency translation reserve | (48,164) | (18,318) |
| Amortisation of cash flow hedges recognised in the income statement | (499) | (1,543) |
| Income tax relating to components of other comprehensive income | 100 | 387 |
| Other comprehensive loss for the period (net of tax) | (48,563) | (19,474) |
| | | |
| **Total comprehensive loss for the period** | **(82,145)** | **(44,979)** |
| | | |
| **Total comprehensive loss attributable to:** | | |
| AEZH security holders | (83,218) | (47,503) |
| Non-controlling interests | | |
| - External | 1,012 | 2,286 |
| - AEZM security holders | 61 | 238 |
| | **(82,145)** | **(44,979)** |

*The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.*

# Condensed consolidated statement of financial position
# As at 31 December 2010

| | Note | Wind up basis 31 December 2010 | Going concern basis 30 June 2010 |
|---|---|---|---|
| | | **$'000** | **$'000** |
| **Assets** | | | |
| Cash and cash equivalents | | 18,877 | 19,148 |
| Trade and other receivables | | 4,313 | 9,910 |
| Total current assets | | 23,190 | 29,058 |
| Trade and other receivables | | 1,627 | 2,096 |
| Other financial assets | | 7,201 | 7,565 |
| Deferred tax assets | | 9,985 | 14,146 |
| Investment properties | 6 | 563,862 | 765,466 |
| Total non-current assets | | 582,675 | 789,273 |
| Total assets | | 605,865 | 818,331 |
| **Liabilities** | | | |
| Trade and other payables | | 15,548 | 19,461 |
| Provisions | | 4,833 | 4,575 |
| Interest bearing liabilities | 7 | 430,638 | 527,263 |
| Current tax liabilities | | 2,925 | 2,670 |
| Other financial liabilities | 8 | 40,411 | 53,515 |
| Total current liabilities | | 494,355 | 607,484 |
| Trade and other payables | | 4,256 | 5,203 |
| Provisions | | 67 | 74 |
| Interest bearing liabilities | 7 | 64,128 | 70,004 |
| Deferred tax liabilities | | 22,663 | 31,483 |
| Non-controlling interests | 9 | 16,911 | 17,431 |
| Total non-current liabilities | | 108,025 | 124,195 |
| Total liabilities | | 602,380 | 731,679 |
| Net assets | | 3,485 | 86,652 |
| Contributed equity | | 552,099 | 552,048 |
| Foreign currency translation reserve | | (21,254) | 26,910 |
| Cash flow hedge reserve | | 484 | 883 |
| Other reserves | | 4,332 | 4,332 |
| Retained losses | | (532,176) | (497,521) |
| Total equity | | 3,485 | 86,652 |

*The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.*

# Condensed consolidated statement of changes in equity
# For the half-year ended 31 December 2010

| | Contributed Equity $'000 | Foreign currency translation reserve $'000 | Cash flow hedging reserve $'000 | Other reserve $'000 | Retained losses $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Balance at 1 July 2009** | **552,048** | **52,163** | **3,362** | **4,332** | **(431,007)** | **180,898** |
| Loss for the period | - | - | - | - | (28,029) | (28,029) |
| Effect of movement in foreign exchange | - | (1,658) | - | - | - | (1,658) |
| Effect of net investment | - | (16,660) | - | - | - | (16,660) |
| Amortisation of cash flow hedges | - | - | (1,543) | - | - | (1,543) |
| Deferred tax effect of cash flow | - | - | 387 | - | - | 387 |
| **Total comprehensive loss for the period** | **-** | **(18,318)** | **(1,156)** | **-** | **(28,029)** | **(47,503)** |
| **Total equity at 31 December 2009** | **552,048** | **33,845** | **2,206** | **4,332** | **(459,036)** | **133,395** |
| **Balance at 1 January 2010** | **552,048** | **33,845** | **2,206** | **4,332** | **(459,036)** | **133,395** |
| Loss for the period | - | - | - | - | (38,485) | (38,485) |
| Effect of movement in foreign | - | 4,029 | - | - | - | 4,029 |
| Effect of net investment | - | (10,964) | - | - | - | (10,964) |
| Amortisation of cash flow hedges | - | - | (1,653) | - | - | (1,653) |
| Deferred tax effect of cash flow | - | - | 330 | - | - | 330 |
| **Total comprehensive income for the period** | **-** | **(6,935)** | **(1,323)** | **-** | **(38,485)** | **(46,743)** |
| **Total equity at 30 June 2010** | **552,048** | **26,910** | **883** | **4,332** | **(497,521)** | **86,652** |
| **Balance at 1 July 2010** | **552,048** | **26,910** | **883** | **4,332** | **(497,521)** | **86,652** |
| Profit/(loss) for the period | - | - | - | - | (34,655) | (34,655) |
| Effect of movement in foreign exchange | - | (6,402) | - | - | - | (6,402) |
| Effect of net investment | - | (6,144) | - | - | - | (6,144) |
| Loss of control of SC Victoria Holdings SA | - | (35,618) | - | - | - | (35,618) |
| Amortisation of cash flow hedges | - | - | (499) | - | - | (499) |
| Deferred tax effect of cash flow hedge amortisation | - | - | 100 | - | - | 100 |
| **Total comprehensive income for the period** | **-** | **(48,164)** | **(399)** | **-** | **(34,655)** | **(83,218)** |
| Deferred tax on capital raising costs | 51 | - | - | - | - | 51 |
| **Total equity at 31 December 2010** | **552,099** | **(21,254)** | **484** | **4,332** | **(532,176)** | **3,485** |

*The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.*

# Condensed consolidated cash flow statement
# For the half-year ended 31 December 2010

| | Note | Wind up basis<br>Half-year ended<br>31 December 2010<br>$'000 | Going concern basis<br>Half-year ended<br>31 December 2009<br>$'000 |
|---|---|---|---|
| **Cash flows from/(used in) operating activities** | | | |
| Cash receipts from customers | | 37,768 | 48,191 |
| Cash paid to suppliers and employees | | (18,306) | (28,145) |
| Income taxes paid | | (150) | (633) |
| Net cash flows from operating activities | | 19,312 | 19,413 |
| **Cash flows used in investing activities** | | | |
| Payments associated with investment properties | | (71) | (166) |
| Payment of finance lease liabilities | | (43) | - |
| Net cash flows from used in investing activities | | (114) | (166) |
| **Cash flows from/(used in) financing activities** | | | |
| Repayment of borrowings | | (185) | (5,320) |
| Finance costs paid | | (16,331) | (20,563) |
| Interest received | | 499 | 241 |
| Advances/loans (to)/from related parties | | - | 2,569 |
| Distributions paid to non-controlling interests | | (618) | - |
| Proceeds from termination of financial instruments | | (821) | - |
| Cash outflow due to loss of control | | (391) | - |
| Net cash flows used in financing activities | | (17,847) | (23,073) |
| Net increase/(decrease) in cash and cash equivalents | | 1,351 | (3,826) |
| Cash and cash equivalents at opening | | 19,148 | 28,863 |
| Effect of foreign exchange rate fluctuations on cash held | | (1,622) | (2,323) |
| Cash and cash equivalents at 31 December | | 18,877 | 22,714 |
| **Cash and cash equivalents disclosed as:** | | | |
| Cash and cash equivalents | | 18,877 | 22,724 |
| Bank overdraft | | - | (10) |
| | | 18,877 | 22,714 |

*The above condensed consolidated cash flow statement should be read in conjunction with the accompanying notes.*

## 1. Significant accounting policies

### (a) Statement of compliance

The consolidated half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 '*Interim Financial Reporting'*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 '*Interim Financial Reporting'*.

The consolidated half-year financial report does not include notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2010 and any public announcements made by APN European Retail Property Group during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporation Act 2001*.

**(b) (i) Basis of preparation and the going concern basis of accounting for the half year ended 31 December 2009 and for the year ended 30 June 2010**

The financial statements for the above periods were prepared on the going concern basis.

**(ii) Basis of preparation and wind up basis of accounting for the half year ended 31 December 2010**

As a result of the significant fall in property values, the Group is currently in breach of the majority of its loan and swap covenants. The Group is due to repay its working capital facility, and is also in breach of its covenants, which is held with RBS. The last extension was agreed on 25 February 2011 which extends the working capital facility until 14 March 2011. RBS as the key lender of the Group has taken the decision that it is no longer its intention to support the Group for the long term and has therefore requested that the assets of the Group be sold in order to realise the value of its loans, swaps and working capital loan. The Group is currently working with RBS to agree a work out plan which could span a period of up to two years. An Omnibus Agreement which is expected to set out the terms and conditions of the work out plan is expected to be signed with RBS imminently. As the Group currently anticipates entering into a consensual work out the Board has now determined that the end of the life of the Fund has become a foreseeable event and it is therefore appropriate for the financial statements of the Fund to be prepared on a wind up basis of accounting. Despite the current intention of RBS and the Group to participate in a consensual work out plan, this agreement will not be a waiver of RBS's rights, and it is possible that RBS may decide that it no longer wishes to participate in this agreement. Should this situation arise and RBS calls in the loans, the Group would no longer be able to pays its debts as and when they fall due and the Directors would need to place the Group into liquidation.

The forecast operating cash flows of the Group are closely monitored by management. The implementation of any work out plan may have a significant impact on the forecast cash flows and the early sale of a cash generating asset may jeopardise cash availability. However the Omnibus Agreement is expected to include terms to enable the Group to meets its debts as and when they become due and payable.

The Group has also signed a term sheet with Eurohypo, the financier for the City Gate shopping centre in Greece. The term sheet extends the facility to 30 June 2011 and is in effect a standstill arrangement as no further interest is being accrued. Any surplus cash generated by the entity will be used for the benefit of the bank in reducing the outstanding principal. The amended agreement which expands on and formalises the term sheet is being drafted and is expected to be signed imminently.

The City Mall operation based in Romania was placed in voluntary administration and subsequently into liquidation on 2 November 2010 as management were unable to reach an agreement with the financier, Bank Austria, which would allow the company to continue in operation. Bank Austria issued a default notice on 5 October 2010. The loan was non-recourse. When the Group lost control of SC Victoria Holdings SA the company was deconsolidated generating a profit on disposal of $42.1m (largely from the recycling of the foreign currency translation reserve as required by accounting standards). Further to the above, as explained in note 13, the parent entity had entered into a cross guarantee with its indirect subsidiary SC Victoria Holdings SA to support interest payments in accordance with its loan agreement with Bank Austria. The guarantee supported non-payments up to a value of €10.3m. The Group considers they have met their obligations under the guarantee however there is a possibility that the Bank Austria may pursue the parent entity for further payment under the guarantee. Should this be the case the matter will need to be settled through the courts. No further amounts are expected to be recovered from SC Victoria Holdings SA and any Group balances that were held with that entity have been provided for in the financial statements as part of the loss of control calculation as set out in note 11.

## 1. Significant accounting policies (continued)

### (i) Going concern for the half year ended 31 December 2010 (continued)

As the Directors have concluded that the Group is no longer a going concern, the financial statements for the half year ended 31 December 2010 have been prepared on the wind up basis of accounting. Under this basis of accounting, assets, and in particular Investment Property, are measured at their net realisable value, which represents fair value less costs to sell, and liabilities are measured at their contractual settlement amounts.

Previously, Investment Property has been accounted for at fair value in accordance with AASB140 'Investment Property'. However, as it is now the intention of the directors to wind up the fund the properties will be valued at net realisable value. The decision to wind up the fund was taken in the current period and therefore no adjustment has been made to the prior period financial statements. There are no further material changes in accounting policy as a result of the change in the basis of preparation. The accounting policies applied are consistent with Australian Accounting Standards and with International Financial Reporting Standards as they apply to an entity preparing financial statements on a wind up basis.

The ability to realise the assets of the Group at their net realisable value and settle the liabilities at their contractual amounts is dependent on the factors above and the financiers agreement to partnering together through the Omnibus Agreement to realise the maximum value of the properties. The signature of the Omnibus Agreement is considered by management to be imminent.

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

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

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

Under the wind up basis, assets and liabilities are usually reclassified from non-current to current. As the work out plan could last for up to a two year period and the order of asset sales may change, the classification of assets and liabilities has been applied as it would under normal circumstances.

The accounting policies and method of computation adopted in the comparative financial report are on a going concern basis and are consistent with those adopted in the 31 December 2009 half year financial statements and those adopted and disclosed in the 30 June 2010 financial statements.

All amounts are presented in Australian dollars, unless otherwise noted.

## 1. Significant accounting policies (continued)

### (c) 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 are:

- AASB 1048 *Interpretation of Standards (June 2010)*
- AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the annual Improvements Process*
- AASB 2009-8 *Amendments to Australlian Accounting Standards - Group Cash-Settled Share-based Payment Transactions*
- AASB 2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issues*
- AASB 2010-3 *Amendments to Australian Accounting Standards arising from the Annual Improvement Project*

The Adoption of these standards did not have any material impact on the Group.

## 2. Segment Reporting

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.

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 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.

## 2. Segment Reporting (continued)

**For the half year ended 31 December 2010**
The following is an analysis of the Group's revenue and results by reportable operating segment for the periods under review

| | Half-year ended 31 December 2010 | | | |
|---|---|---|---|---|
| **Operating Segments (€)** | **Segment Revenue ’000** | **Segment Profit ’000** | **Segment Finance Expense ’000** | **Segment Property Devaluation ’000** |
| Spain | 6,954 | 3,593 | (3,094) | (17,340) |
| Italy | 694 | 488 | (163) | (1,647) |
| Germany | 9,319 | 8,004 | (2,386) | (28,053) |
| Greece | 4,524 | 1,646 | (1,280) | (21,236) |
| Romania | 1,030 | (374) | (953) | - |
| Austria | 3,422 | 2,116 | (1,034) | (1,233) |
| **Segment total (€)** | **25,943** | **15,473** | **(8,910)** | **(69,509)** |
| | | | | |
| **Segment total ($)** | **36,171** | **21,579** | **(12,470)** | **(90,641)** |

| | |
|---|---|
| **Segment result after interest expense and property devaluations ($)** | **(81,532)** |
| Interest income | 499 |
| Finance expenses | (2,039) |
| Foreign exchange gains | 2,563 |
| Fair value loss on investment | (163) |
| Fair value gain on foreign exchange contracts | 1,956 |
| Fair value gain on interest rate swaps | 8,120 |
| Management expenses | (1,254) |
| Other operating expenses – central administration expenses | (5,329) |
| **Loss before tax ($)** | **(77,179)** |
| Income tax benefit | 1,516 |
| **Consolidated loss after income tax for the period ($)** | **(75,663)** |
| Profit from discontinued operation | 42,081 |
| **Consolidated loss for the half year ($)** | **(33,582)** |

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

Segment profit (reported in Euro - €) 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.

## 2. Segment Reporting (continued)

**Segment revenue**

Segment revenue reconciles to total revenue as follows:

| | Consolidated 31 December 2010 $'000 |
|---|---|
| **Total segment revenue** | 36,171 |
| Interest income | 499 |
| Foreign exchange gains | 2,563 |
| Fair value gain on interest rate swap | 8,120 |
| Fair value gain on foreign exchange contracts | 1,956 |
| **Total revenue per the income statement** | **49,309** |

**Segment finance expense**

Segment finance expense reconciles to interest expense per Note 5 as follows:

| | |
|---|---|
| **Total segment finance expense** | 12,470 |
| Unallocated | 2,039 |
| **Total finance expense per note 5** | **14,509** |

**Segment assets**

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

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

| | |
|---|---|
| Spain | 162,161 |
| Italy | 21,170 |
| Germany | 199,831 |
| Greece | 116,614 |
| Romania | - |
| Austria | 80,578 |
| **Total segment assets** | **580,354** |
| Unallocated: | |
| Cash and cash equivalents – head office function | 6,324 |
| Deferred tax assets | 9,985 |
| Other financial assets | 7,201 |
| Other receivables | 2,001 |
| **Total assets** | **605,865** |

## 2. Segment Reporting (continued)

**For the half year ended 31 December 2009**
The following is an analysis of the Group's revenue and results by reportable operating segment for the periods under review:

| | | Half-year ended 31 December 2009 | | |
|---|---|---|---|---|
| | Segment Revenue | Segment Profit | Segment Finance Expense | Segment Property Devaluation |
| **Operating Segments (€)** | **'000** | **'000** | **'000** | **'000** |
| Spain | 7,824 | 4,778 | (2,881) | (9,054) |
| Italy | 690 | 613 | (163) | 220 |
| Germany | 9,336 | 8,050 | (2,404) | (1,252) |
| Greece | 5,049 | 3,080 | (1,652) | (787) |
| Romania | 2,235 | 659 | (1,415) | (18,560) |
| Austria | 3,544 | 2,282 | (949) | (2,124) |
| **Segment total (€)** | **28,678** | **19,462** | **(9,464)** | **(31,557)** |
| **Segment total ($)** | **47,668** | **32,351** | **(15,719)** | **(50,646)** |

| | |
|---|---|
| **Segment result after interest expense and property devaluations ($)** | **(34,014)** |
| Interest income | 292 |
| Finance expenses | (2,136) |
| Foreign exchange losses | 2,578 |
| Fair value gain on foreign exchange contracts | 4,336 |
| Fair value gain on interest rate swaps | 2,135 |
| Fair value gain on investment | 1,069 |
| Management expenses | (2,501) |
| Other operating expenses – central administration expenses | (9,839) |
| **Loss before tax ($)** | **(38,080)** |
| Income tax benefit | 12,575 |
| **Consolidated loss after income tax for the period ($)** | **(25,505)** |

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

## 2. Segment Reporting (continued)

**Segment revenue**

Segment revenue reconciles to total revenue as follows:

| | Consolidated 31 December 2009 $'000 |
|---|---|
| **Total segment revenue** | 47,668 |
| Interest income | 292 |
| **Total revenue per the income statement** | **47,960** |

**Segment finance expense**

Segment finance expense reconciles to interest expense per Note 5 as follows:

| | |
|---|---|
| **Total segment finance expense** | 15,719 |
| Unallocated | 2,136 |
| **Total finance expense per note 5** | **17,855** |

**Segment assets**

At 30 June 2010 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:

| | |
|---|---|
| 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** |

## 4. Other operating expenses

| | Wind up basis Half-year ended 31 December 2010 $'000 | Going concern basis Half-year ended 31 December 2009 $'000 |
|---|---|---|
| Impairment of related party receivables | 242 | 1,318 |
| Dispute settlement | - | 2,400 |
| Other operating expenses | 9,181 | 8,028 |
| | **9,423** | **11,746** |

## 5. Finance expenses

| | Wind up basis<br>Half-year ended<br>31 December 2010<br>$'000 | Going concern basis<br>Half-year ended<br>31 December 2009<br>$'000 |
|---|---|---|
| Interest income – external | 65 | 96 |
| Interest income – related parties | 434 | 196 |
| | 499 | 292 |
| **Financial assets classified at fair value through profit and loss:** | | |
| Net fair value gain on interest rate swaps | 8,120 | 2,135 |
| | 8,120 | 2,135 |
| Interest expense – external | (13,961) | (17,241) |
| Interest expense – related parties | (252) | (107) |
| Amortisation of borrowing costs | (251) | (417) |
| Banking and facility fees | (45) | (90) |
| **Finance expenses** | **(14,509)** | **(17,855)** |
| **Net financing costs** | **(5,890)** | **(15,428)** |

## 6. Investment properties

| | Wind up basis<br>31 December 2010<br>$'000 | Going concern basis<br>30 June 2010<br>$'000 |
|---|---|---|
| Opening balance | 765,466 | 1,045,040 |
| Additions | 71 | (130) |
| Loss of control of SC Victoria Holdings SA | (48,505) | - |
| Fair value adjustments | - | (91,130) |
| Net realisable value adjustments | (90,641) | - |
| Effects of movements in foreign exchange | (62,529) | (188,314) |
| | **563,862** | **765,466** |
| Lease incentives within current and non-current receivables | 1,415 | 2,465 |
| **Balance at end of period** | **565,277** | **767,931** |

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

**Valuation Basis**

At 30 June 2010 the basis of the valuation of investment properties is fair value being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. The Directors valuations are based on independent assessments made by members of the Royal Institute of Chartered Surveyors (RICS) using discounted cash flow models or the direct capitalisation approach. At 31 December 2010 as the financial statements are being prepared under a wind-up basis of accounting rather than the going concern basis previously adopted and therefore the Investment Properties are valued at net realisable value, being fair value less costs to sell. The timescale implemented by the consensual work out plan imposes limitations on achieving these values for certain properties. Where this circumstance arises a short term marketing period valuation has been applied as recommended by the independent valuer.

One property in the Roller portfolio has been reduced for the Directors' best estimate of the impact of the capital expenditure that may be required to rectify certain structural defects in the property. The Directors' have prepared a discounted cash flow for the property, offsetting the expected future income from the property against the estimated costs of the capital expenditure and other costs that may be required. This calculation reduces the value of the property by $21,777,000 (€16,700,000) to $2,608,000 (€2,000,000), representing the Directors' current best estimate of the net realisable value of the estimated property. Investigations as to the cause of the structural defects, the attribution of responsibility between the landlord and the tenant and confirmation as to whether this event is covered under an existing insurance policy are ongoing. Should the results of these investigations differ from current expectations, or should the extent of rebuild required to rectify the structural defects change, the property's valuation may be materially different in the year ending 30 June 2011.

## 7. Interest bearing liabilities

| | Wind up basis 31 December 2010 $'000 | Going concern basis 30 June 2010 $'000 |
|---|---|---|
| **Current – at amortised cost** | | |
| Finance lease liabilities | 86 | 107 |
| Other loans from related parties, unsecured | 1,951 | 1,784 |
| Bank loans, secured | 428,601 | 525,372 |
| | **430,638** | **527,263** |
| **Non-current – at amortised cost** | | |
| Finance lease liabilities | 1,997 | 2,230 |
| Bank loans, secured | 62,131 | 67,774 |
| | **64,128** | **70,004** |
| ***Reconciliation of interest bearing liabilities:*** | | |
| Amounts borrowed | 495,763 | 598,763 |
| Less: capitalised transaction costs | (997) | (1,496) |
| | **494,766** | **597,267** |

At 31 December 2010, the Group was in breach and cross default of certain loan covenants on debt totalling $427.7 million (30 June 2010: $525.8 million) (gross excluding capitalised borrowing costs) 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 $158,440,000 (€121,503,000), Royal Bank of Scotland**

At 31 December 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. There is also a potential breach of the Interest Cover Ratio depending on the interpretation of the underlying agreement. As a result, this loan has been classified as a current liability.

**Champion Retail Fund ('CRF'), Greece $47,957,000 (€36,777,000), Bond Loan**

At 31 December 2010 the loan remains in breach due to a continuing cross default event with the working capital facility and Interest Rate Swap. As a result this loan remains classified as a current liability.

**Working Capital Facility $29,340,000 (€22,500,000), Royal Bank of Scotland**

At 31 December 2010 several of the covenants on this loan remain in breach due to revaluation losses on the property portfolio as a whole, and accordingly the loan is in default. The facility is also due to expire on 28 February 2011. As a result of these factors the loan remains classified as a current liability.

## 8. Other financial liabilities

| | Wind up basis<br>31 December 2010<br>$'000 | Going concern basis<br>30 June 2010<br>$'000 |
|---|---|---|
| **Financial Instruments - current** | | |
| Forward exchange contracts | 21,197 | 23,961 |
| Interest rate swaps | 19,214 | 29,554 |
| | **40,411** | **53,515** |

At 31 December 2010, the Group remains in breach of covenants on hedging facilities totalling $42.9 million (including accrued interest) (30 June 2010: $56.5 million) primarily as a result of falling property valuations. Such facilities are required to be classified as current in the financial report. A description of facilities remaining in breach or in default of the covenants at reporting date is provided below:

**Deutsche Bank hedging facilities $1,023,000**
At 31 December 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 $41,921,000**
At 31 December 2010, the breach in hedging covenants due to the cross default clause with the working capital facility is subsisting. As a result, these facilities continue to be classified as current liabilities.

## 9. Non-controlling interests

| | Wind up basis<br>31 December 2010<br>$'000 | Going concern basis<br>30 June 2010<br>$'000 |
|---|---|---|
| **External** | | |
| Opening balance | 17,152 | 26,503 |
| Entitlement to profit/(loss) | 1,012 | (709) |
| Other changes in net assets | (1,558) | (8,642) |
| | **16,606** | **17,152** |
| **AEZM** | | |
| Opening balance | 279 | 305 |
| Entitlement to profit | 61 | 5 |
| Other changes in net assets | (35) | (31) |
| | **305** | **279** |
| | **16,911** | **17,431** |

## 10. Contributed equity attributable to security holders of the parent entity

| | Wind up basis<br>**Half-year ended 31 December 2010 Securities** | Going concern basis<br>**Year ended 30 June 2010 Securities** |
|---|---|---|
| **Securities on issue** | | |
| On issue at beginning of the period | 544,910,600 | 544,910,600 |
| **On issue at end of period** | **544,910,600** | **544,910,600** |

The security holders of the Group are entitled to receive distributions as declared from time to time in accordance 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 security holders are entitled to one vote per security at meetings 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.

There were no distributions paid/payable to security holders of the parent entity in the period (2009: nil).

## 11. Discontinued operation

**(a) Description**

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

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

**(b) Financial performance and cash flow information**

| | **Four months ended 2 November 2010 $'000** |
|---|---|
| Revenue | 1,450 |
| Expenses | (2,408) |
| Loss before income tax | (958) |
| | |
| Income tax expense | (3) |
| Profit after income tax of discontinued operations | (961) |
| | |
| Gain on loss of control of the division before income tax | 32,062 |
| Income tax expense | - |
| Gain loss of control of the division after income tax | 32,062 |
| | |
| **Profit from the loss of controlled operations** | |
| Net liabilities of SC Victoria Holdings SA | (32,062) |
| Recycling of foreign currency translation reserve | (33,711) |
| Recycling of net investment hedge | (1,907) |
| Provision for bad debts on loans to SC Victoria Holdings SA | 25,599 |
| | (42,081) |

## 11. Discontinued operation (continued)

### (c) Carrying amounts of assets and liabilities

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

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

### (d) Details of loss of control of the operation

| | Half-year ended 31 December 2010 $'000 |
|---|---|
| Total disposal consideration | - |
| Carrying amount of net liabilities | (32,062) |
| **Gain on loss of control before income tax** | 32,062 |
| | |
| Income tax expense | - |
| **Gain on loss of control after income tax** | 32,062 |

## 12. Net tangible asset backing

| | Wind up basis 31 December 2010 Cents per security | Going concern basis 30 June 2010 Cents per security |
|---|---|---|
| Net tangible asset backing per security | 0.46 | 15.63 |
| Net tangible asset backing per security excluding deferred tax associated with Investment Property | 2.10 | 19.60 |

Net tangible asset backing per security is calculated by the dividing net equity 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 equity 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 (June 2010: 544,910,660).

## 13. 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 ($2.0 million) have been levied under the tax assessments acts. Legal advice has been obtained that indicates that it should be possible to successfully challenge the audit findings in the courts. It is estimated that court proceedings will not commence until at least late 2011.

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 the half 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 $98.8 million/€75.8 million, 30 June 2010: $132.2 million/€75.8 million). In return, the Parent entity has received a deed of charge over the units 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 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.

The parent entity had entered into a cross guarantee with its indirect subsidiary SC Victoria Holding SA to support interest payments in accordance with its loan agreement with Bank Austria. The guarantee supported non-payments up to a value of €10.3m. Following the loss of control of SC Victoria Holding SA, the Group considers that it has fulfilled its obligations under the guarantee and legal advice obtained indicates that any obligation under the guarantee became void at the date the bank issued the default notice on the loan. Clarification has not been received from Bank Austria that they accept this position. There is a possibility that the Bank Austria may pursue the parent entity for payment under the guarantee. Should this be the case the matter will need to be settled through the courts.

## 14. Consolidated entities

| Name of Entity | Note | Country of Incorporation | Ownership interest and voting rights % | |
|---|---|---|---|---|
| **Parent Entity** | | | **31 December 2010** | **30 June 2010** |
| APN European Retail Property Holding Trust | *(a)* | | | |
| APN European Retail Property Management Trust | | | | |
| **Controlled Entities** | | | | |
| APN Champion Retail Fund | | Australia | 44.9 | 44.9 |
| APN Champion Sub Trust | | Australia | 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 |

## 14. Consolidated entities (Continued)

| Name of Entity | Note | Country of Incorporation | Ownership interest and voting rights % | |
|---|---|---|---|---|
| | | | **31 December 2010** | **30 June 2010** |
| 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 Holdidngs BV | | Netherlands | 100.0 | 100.0 |
| APN Finance Company Sarl | | Luxembourg | 100.0 | 100.0 |
| APN Property Holdings (No.1) Sarl | | Luxembourg | 100.0 | 100.0 |
| APN Property Holdings (No.2) Sarl | | Luxembourg | 100.0 | 100.0 |
| APN Property Holdings (No.5) Sarl | | Luxembourg | 100.0 | 100.0 |
| Commercial Investment Alcobendas Sarl | | Luxembourg | 100.0 | 100.0 |
| APN CF (No 1) Sicav | | Luxembourg | 55.8 | 55.8 |
| APN CF (No 2) Sarl | | Luxembourg | 55.8 | 55.8 |
| Zenon Real Estate SA | | Greece | 55.8 | 55.8 |
| City Gate SA | | Greece | 100.0 | 100.0 |
| San Giuliano Holdings Srl | | Italy | 100.0 | 100.0 |
| Investmenti Commerciali San Giuliano Srl | | Italy | 100.0 | 100.0 |
| Gallarate Holdings Srl | | Italy | 100.0 | 100.0 |
| Investmenti Commerciali Gallarate Srl | | Italy | 100.0 | 100.0 |
| Es Mirall Developments SA | | Spain | 100.0 | 100.0 |
| Parque Comercial Luz de Castilla SL | | Spain | 100.0 | 100.0 |
| Comercial Inversora Alcobendas SL | | Spain | 100.0 | 100.0 |
| Parque Commercial Los Cuadernillos SL | | Spain | 100.0 | 100.0 |
| APN Property Holdings (No. 4) | | Germany | 100.0 | 100.0 |
| APN Property Holdings (No. 10) | | Germany | 94.8 | 94.8 |
| APN Property Holdings (No. 11) | | Germany | 94.8 | 94.8 |
| IFB Verwaltungs GmbH | | Germany | 99.7 | 99.7 |
| Peppel GmbH and Co | | Germany | 94.9 | 94.9 |
| Stadtteilzentrum Halle-Neustadt GmbH & Co KG | | Germany | 94.8 | 94.8 |
| Leipzig Lowencenter GmbH & Co KG | | Germany | 94.9 | 94.9 |
| Porolis Expert SA | | Romania | 100.0 | 100.0 |
| SC Victoria Holdings SA | *(b)* | Romania | - | 100.0 |

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

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

## 15. Subsequent events

The Group is due to repay its working capital facility which is held with Royal Bank of Scotland ("RBS"). The last extension was agreed on 25 February 2011 which extends the working capital facility until 14 March 2011.

Other than the above there have been no other transactions or events of a material and unusual nature in the interval between the end of the financial year and the date of this report which, in the opinion of the Responsible Entity, affects significantly the operations of the Group, the results of those operations of state of affairs of the Group, other than as disclosed elsewhere in the financial report.

## Directors' declaration

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

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

- the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with Australian Accounting Standards and the Corporations Regulations 2001 and giving a true and fair view of the financial position and performance of the Group and are prepared on a wind up basis of accounting as set out in Note 1.

The Directors note however, that the ability for the Group to pay its debts as and when they become due and payable is dependent upon the continued support of its financiers (particularly RBS being the main financier to the Group).

After taking into account all available information, the directors have concluded that there are reasonable grounds to believe (and the forecast to 30 June 2012 assumes) that:

- RBS will continue to extend the term of the Working Capital Facility due until a work out plan is agreed. The Working Capital Facility was extended on 25 February 2011 to 14 March 2011;
- a work out plan will be agreed with RBS in an Omnibus Agreement and other restructure documents;
- if the work out plan is agreed, the Working Capital Facility will be extended by RBS for a period of up to 2 years;
- the Omnibus Agreement or other restructure documents will include terms to enable AEZ to meet its debts as and when they become due and payable;
- the Group will meet the forecast cash flows to 30 June 2012; and
- the Group will be able to realise the assets of the Group at their net realisable value and settle the liabilities at their contractual settlement amounts during the term of the Omnibus Agreement.

The directors' conclusions in respect of the RBS Working Capital Facility, the Omnibus Agreement and other restructure documents are based on the progress and tenor of negotiations with RBS to the date of this declaration, which suggest that it is likely that APN FM will enter into a restructure agreement with RBS which will include terms to enable the Group to meet its debts as and when they become due and payable. However, it should be noted that there is the risk that RBS:

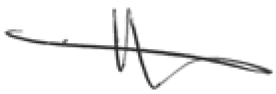
- could withdraw from negotiations at any time in which case the balance of the Working Capital Facility may become due and payable on 14 March 2011; or
- may not agree to include the provisions required by the Group to be included in the Omnibus Agreement and other restructure documents (set out above).

Either of these events will jeopardise the continued solvency of the Group.

It is also noted that the Group has also signed a term sheet with Eurohypo, the financier for the City Gate shopping centre in Greece. The term sheet extends the facility to 30 June 2011 and is in effect a standstill arrangement as no further interest is being accrued. Any surplus cash generated by the entity will be used for the benefit of the bank in reducing the outstanding principal. The amended agreement which expands on and formalises the term sheet is being drafted and is expected to be signed imminently. In the event that Eurohypo were to enforce its rights against the entity that holds the City Gate shopping centre, it is likely that that entity would be insolvent. The liabilities of that entity exceed the value of its assets and Eurohypo only has recourse to the assets of that entity.

Signed in accordance with a resolution of the Directors made pursuant to s303(5) of the Corporations Act 2001.

On behalf of the Directors of the Responsible Entity, APN Funds Management Limited.



David Blight
Managing Director of APN Funds Management Limited
Melbourne, 28th day of February 2011