2010 ANNUAL REPORT

APN | European Retail Property Group

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).

A disciplined focus on real estate fundamentals, combined with rigorous research, underpins our investment approach. APN is committed to delivering the best possible outcomes for our investors that are consistent with our values of integrity, passion, respect, accountability and professionalism.

APN European Retail Property Group
and its Controlled Entities

ARSN 114 153 641
ARSN 125 377 424

Contents

2010 performance at a glance

- Full year net property income $52.4 million
- Full year underlying profit from operations after tax
  - $10.6 million
  - 1.95 cents per security[1]
- $5.8 million of Group debt repaid
- Look-through gearing 74.3%
- Net tangible assets per security 16 cents
- Over 5,700 sqm space leased or renewed

The Group today

- $0.8 billion assets
- 99% weighting to retail property
- 34 properties across six Continental European countries
- 375,000 sqm gross lettable area
- Occupancy 88% by income
- Weighted average anchor lease expiry is 4.8 years

1 $9.98 million (1.83 cents per security) excluding minority interests

Letter from the Chairman

John Harvey
Chairman

Dear Investor

APN Funds Management Limited (APN), the responsible entity, presents the 2010 annual report of the APN European Retail Property Group (AEZ or Group).

The twelve months to June 2010 have highlighted the diversity of economic performance, political agendas and public sentiment that exists across the European continent. We have witnessed a further unwinding of the global financial crisis, as attention switched to the affordability and sustainability of European sovereign debt in many of the 'Club Med' states and the austerity budgets introduced to combat growing deficits across most of the Continent. These measures have been received in some cases with quiet resignation; in others through violent protest.

At the same time, and by contrast, this year has seen a significant rebound of investor sentiment towards European commercial real estate, albeit focused in core markets and for core product. The business plans of the opportunity funds, created 18 months ago to take advantage of distressed situations, have been badly hit with lenders continuing to support borrowers with good income flows. Demand for secondary assets in non-core territories has remained weak.

As predicted last year, we have seen growing stabilisation in valuations (Greece aside) deriving in part from the growth seen in the UK and the relative easing of lending conditions. Although the Group continues to record loan to value breaches of its finance facilities, it has continued to have the support of its lenders throughout the year, with the extension of key facilities. We are in ongoing discussions with each financier to secure their support or enable a refinancing of the facilities. On a cautionary note however, the financial statements and accompanying Directors' report advise of a significant uncertainty in the status of the Group to continue as a going concern. Existing loan covenant breaches enable the lenders to demand repayment of loans at any time. If the principal lender were to make such a demand or there is further deterioration in the operating cash flows of the business, the Group would be unable to continue as a going concern.

At a local level, we have strengthened our operating platform through further internalisation of management and development of our finance capabilities. The Group's ability to negotiate and work directly with our retailers and progress asset management strategies, via our own team, continues to ensure value is maximised in exceptionally difficult trading conditions.

The Group's capital management strategies highlighted last year have been vigorously pursued, particularly around asset sales, although the discounts to valuation on the offers received could not be rationalised. Further stabilisation in valuations and growing transaction evidence may unlock opportunities for asset sales going forward. We continue to monitor all markets closely and in parallel are continuing negotiations with potential investors and lenders in respect of other options including debt restructuring, capital injections and/or mergers.

Against this challenging and at times turbulent backdrop, AEZ recorded the following results for the year to 30 June 2010:

- Underlying profit from operations after tax of $10.6 million (1.95 cents per security);
- Statutory loss attributable to unitholders of $66.5 million (after fair value adjustments of investment properties and derivative contracts, foreign exchange losses and other items);
- Look-through gearing of 74.3% (with most finance facilities in breach of loan covenants);
- Group interest cover ratio of 1.22 times; and
- Net assets of $86.7 million or $0.16 per security.

Looking forward, having weathered the initial shocks associated with the global financial crisis, the Group is intensely focused on managing the inevitable challenges arising from Government austerity measures introduced this year and in particular, the impact on consumer spending and the retail sector which underpins the Group's holdings.

We clearly recognise investors' concerns in relation to the current financial position of the Group and the disappointing price performance of AEZ securities. However, the APN Board and our team in Europe remain intensely focused on providing a suitable outcome for investors in the context of the current market.

On behalf of APN, I thank you for your patience and support of the AEZ Group.

Yours sincerely

John Harvey
Chairman

Manager's report

The year in review

As the core European markets climbed out of recession, the spectre of sovereign debt became the focus of attention in Financial Year 2010. 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 (official action taken by Governments to curb spending and/or increase taxes), 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.

However, investor appetite in 'core' Western European markets such as the UK, France and major German cities returned to a degree with the volume of transactions increasing and values recouping some 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. Given limited supplies of stock, values rose through Q4 in calendar year 2009 and Q1 in calendar year 2010. They have since stabilised as 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 valuations of secondary properties in non-core territories have been 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 retailers' profitability. However, across AEZ's portfolio, it was evident retailers had 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.

The AEZ Group reported 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 reduction in profit is attributable to a number of factors. A substantial decline in the value of the Euro against the Australian Dollar has significantly altered the relativity of results this year compared with 2009. Excluding exchange rate movements, a decline in net operating income of 9.2% and higher finance costs resulting from the extension of the working capital facility and higher interest rate margins across a number of the senior debt facilities were significant factors in this result.

All 34 properties in the portfolio were independently valued as at 30 June 2010 reflecting a decline of 10.3% (excluding exchange rate movements) over the financial year. This reduction, together with fair value adjustments of derivative contracts, foreign exchange losses and other items, resulted in a loss from non-operating activities of $77.8 million. Statutory loss after tax attributable to security holders (which combines operating profit, non-operating loss and an adjustment for minority interests) was $66.5 million.

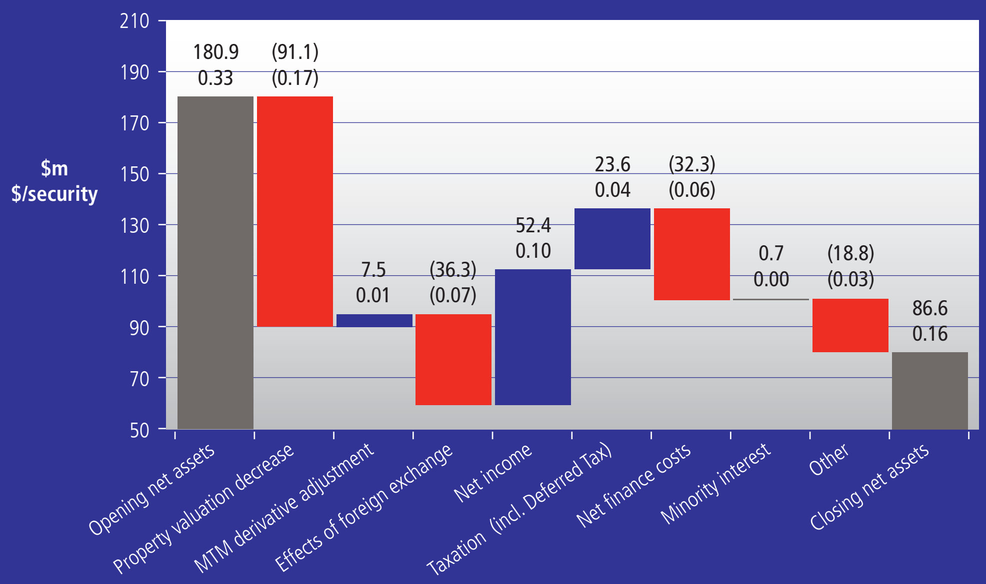
The Group's net tangible asset (NTA) backing per security is $0.16 ($0.20 excluding deferred tax liabilities[1]) and look-through gearing at 30 June 2010 is 74.3%. Group interest cover (the ratio of income to interest expense) for the year to 30 June 2010 was 1.22 times.

1 Deferred liabilities are provided for under AIFRS to reflect taxes which may be paid if properties were sold directly instead of selling relevant holding companies.

Key results summary

	Year ended 30 June 2010	Year ended 30 June 2009
Operational		
Number of properties	34	34
Average net initial yield	7.16%	7.52%
Occupancy	88.0%	90.2%
Net property income growth over previous corresponding period	(9.2%)	(8.4%)
Financial performance		
Underlying profit from operations after tax	$10.6 million	$23.8 million
Underlying profit from operations after tax per security	1.95 cents	4.37 cents
Distributions per security	Nil	Nil
Financial position		
Total assets (look-through)	$808 million	$1,097 million
Total debt (look-through)	$600 million	$742 million
Gearing (look-through)	74.3%	67.7%
Group interest cover ratio	1.22 times	1.44 times
Net tangible assets per security	16.0 cents	32.7 cents

Reconciliation in NTA movement 30 June 2009 to 30 June 2010



Manager's report

Strategic direction and outlook

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

Despite management's best endeavours, it has not yet been possible to deliver a suitable solution. Asset sales remain compromised by a lack of investor demand and availability of debt financing and offers received in Spain and Germany have been overly opportunistic. AEZ retains the support of its lenders, who recognise the market constraints and that the capital and asset management strategies being pursued will help to preserve and enhance value over time. As such, the Group is not a forced seller of assets.

The Group anticipates that the upturn in investment volumes witnessed through the first half of 2010 will continue through the remainder of the year but recognises this is likely to remain targeted at prime properties in core markets. Likewise, retailer demand will continue to focus on established, quality locations coupled with the closure of under-performing units. We anticipate some retailers will withdraw completely from some markets as part of this consolidation process.

These issues will further exaggerate and accelerate the development of a two-tier market in Europe, with daylight between those markets reporting positive Gross Domestic Product growth and operating within a stable economic environment (such as Germany & France) and those challenged by austerity programmes and high national debt levels.

Financial position

Debt structure

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, all external debt sits directly at the individual property level. Various mortgages and other types of security arrangements have been put in place to secure the Group's external debt. The table below provides details of the Group's finance facilities.

Financial covenants

The Group's loan agreements contain a number of financial covenants which are summarised below. As a result of 31 December 2008 property valuations and those since, the Group has breached a number of Loan to Value Ratio (LVR) covenants or similar balance sheet ratio covenants.

Bank finance facility summary as at 30 June 2010[1]

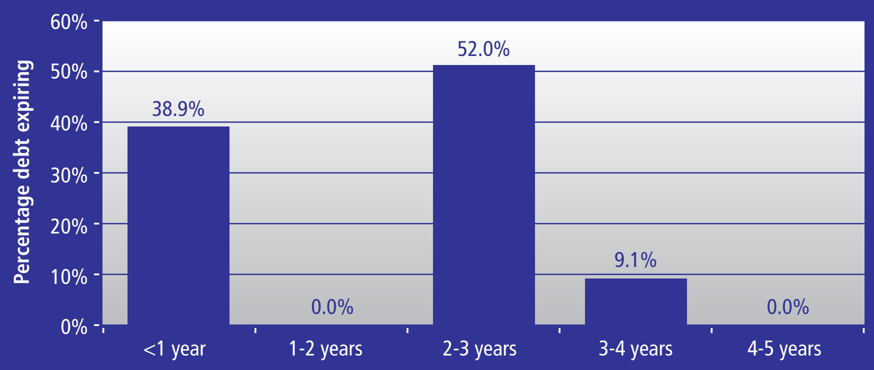
			LVR covenants			ICR covenants				
Facility Outstanding (senior debt)	€m		Covenant	Limit	Capacity	Covenant (x)	Limit (x)	Capacity (x)	Time to expiry (years)	Interest rate (inc. margin)
Spanish Portfolio[2]	121.5		91.6%	68.0%	Nil	1.58	1.80	Nil	2.1	4.7%
San Giuliano (Italy)	4.9		50.0%	54.4%	4.4%	4.15	1.90	2.25	2.1	3.9%
Gallarate (Italy)	3.4		53.2%	54.4%	1.2%	3.67	1.90	1.77	2.1	3.9%
Roller (Germany)[3]	48.8		62.8%	60.0%	Nil	3.82	1.90	1.92	2.5	3.9%
Halle (Germany)	29.4		59.3%	60.0%	0.7%	3.09	1.90	1.19	0.7	4.3%
Leipzig (Germany)	34.1		68.6%	67.5%	Nil	2.92	1.90	1.02	0.7	4.8%
City Gate (Greece)	35.7		89.3%	65.0%	Nil	1.39	1.25	0.14	0.1	4.6%
Champion (Greece)[4]	38.4		59.4%	60.0%	0.6%	3.47	2.00	1.47	3.2	3.9%
City Mall (Romania)[5]	40.3		116.0%	65.0%	Nil	0.62	1.00	Nil	0.4	5.6%
Traisenpark (Austria)	40.0		69.6%	70.0%	0.4%	1.43	1.00	0.43	2.5	5.6%
Working Capital Facility	22.5		89.4%	75.0%	Nil	1.78	1.75	0.03	0.4	7.4%
			60.6	225.0	Nil[6]					
	419.0								1.6	4.8%
	FEC	IRS								
Deutsche Bank Hedging Agreements				73.6%	55.0%	Nil				
	N/A	1.6		151.0	210.0	Nil[7]	N/A			
RBS Hedging Agreements	16.8	20.7					N/A			
Unicredit Hedging Agreements	N/A	0.5					N/A			
AEZ Total	458.7									

1 The table is a summary and deals with financial covenants only. Certain of the facilities have been classified as current liabilities due to potential covenant breach. Event of default limits are provided.
2 Spanish assets are tested on a 'country portfolio basis'.
3 Roller LVR test based on independent valuation, not Director's adjusted valuation per the financial statements.
4 Includes finance lease facility in relation to the Kos property.
5 City Mall facility also has a Debt Service Cover Ratio: Actual 0.6 versus limit of 1.0.
6 Fund Minimum Net Equity covenant in € millions.
7 Fund Minimum Tangible Net Worth covenant in € millions.
8 City Gate loan expired 4 August 2010 and an extension agreement remains under negotiation.

Debt expiry profile

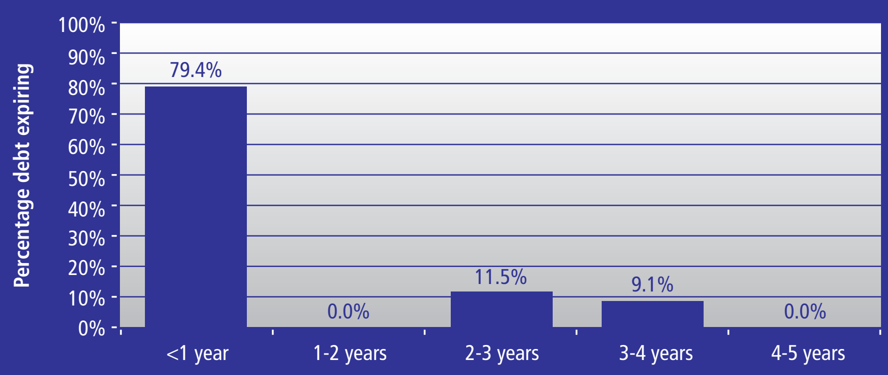
The charts below set out the Group's scheduled debt expiry profile (top graph) and the facility expiry profile on the basis of external debt classified as current in the Group's 30 June 2010 financial statements (bottom graph).

Scheduled debt expiry as at 30 June 2010



- The above table excludes hedges and includes A$1.8m related party loan with APN Property Group Limited.
- Figures exclude the APN Poland Retail Fund and the APN Vienna Retail Fund in which AEZ holds strategic investments but include 100% of Champion Retail Fund senior debt and finance lease in relation to the Kos property.
- Earliest potential expiry dates may differ due to early termination rights.

AEZ facility expiry profile based on earliest potential repayment date as at 30 June 2010



- The above table excludes hedges and includes $1.8m related party loan with APN Property Group Limited.
- Figures exclude the APN Poland Retail Fund and the APN Vienna Retail Fund in which AEZ holds strategic investments but include 100% of Champion Retail Fund senior debt and finance lease in relation to the Kos property.

Capital and derivatives management

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

Debt Management

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 essential capital expenditure and the reduction of debt. As a result of these activities, Group debt has reduced by $5.8 million since 30 June 2009; and
- In May 2010 the Group secured a six month extension of its Working Capital Facility with an option for a further six months (subject to the lender's discretion).

In addition, APN's management team is engaged in continuing discussions with all of the Group's financiers regarding options available to stabilise the Group's capital structure.

Distributions

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 capital restructuring options.

Asset sales

The Group has continued to aggressively pursue asset sales through selected advisers. Despite significant capital value growth in the UK and other core markets through Q4 in 2009 to Q1 in 2010, investor appetite has not trickled down to secondary markets and secondary assets. The market is characterised by core, equity based funds at one level and the opportunistic funds at the other extreme, with return profiles that make sales difficult to rationalise for AEZ investors. Conditional offers were received in respect of assets in Spain and Germany but it was determined that accepting these offers were not in the best interests of the Group. Actively pursuing asset sales on sensible terms remains 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 programme was terminated in financial year 2009 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 until the end of financial year 2016. 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.

Interest rate hedging profile

Period[1]	Fixed Rate[2]	Proportion of borrowings hedged
FY11	3.9%	95.1%
FY12	3.9%	81.4%
FY13	4.5%	100.4%
FY14+	Nil	Nil

1 Based on position as at 30 June each year.
2 Excludes borrowing margins.

Manager's report

Real estate management

Overview

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. Over 30% of the Group's rental income is generated from discount retailers or non-discretionary, convenience-based tenants.

APN is responsible for the property and asset management of the portfolio via a dedicated, highly skilled and experienced team based in London and throughout the local regions.

The team looks after all aspects of asset and property management with a key focus on:

- delivery of net operating income;
- adding value through asset management initiatives;
- improving performance through property management initiatives;
- proactively managing property risk and compliance;
- training and development of teams;
- cost management and enhancing service initiatives; and
- implementing best practice and operational standards.

The key focus over the last two years 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 (returning 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; and
- implementing value-adding initiatives via deployment of free cash.

Operational performance

Over the last year, the introduction of austerity measures in some European countries and general consumer uncertainty has impacted on retailers' trading performance. Retail sales in Greece for instance, have reduced by 20% year-on-year. The reduction in sales has placed increased pressure on retailer occupancy costs as retailers cut margins in an attempt to maintain sales volumes. In some countries, the pressure has been further compounded by devaluations in the local currency which has increased the price of stock and lease payments.

APN has continued to actively manage tenant financial issues; balancing the need to maintain income and occupancy against valuation impact and capital management. We have implemented a robust management process that enables us to conduct detailed reviews of tenants' sales and occupancy costs and execute tailored solutions. Despite the challenging operating environment, these policies are producing results, as tenant arrears have remained broadly static in financial year 2010 after significant increases since financial year 2008.

We have also maintained a strong focus on expenditure and have a continuous improvement programme in place across the portfolio that focuses on:

- driving operational improvements and cost efficiencies;
- developing skills and competencies through training and development programmes for local management teams; and
- supplier re-tendering and contract re-negotiation.

Net property income

Property		Net property income (€ '000s)			Commentary
		FY 2010	FY 2009	Change (%)	
Spain	Festival Park	5,071	5,209	(2.7)	Continued positive trading from the leisure component has offset increasing vacancy in the restaurant sector.
	Cuademillos	1,943	2,305	(15.7)	Excluding vendor guarantee income in FY09 of €693k, FY10 underlying income growth was positive but included a number of one-off lease termination receipts.
	La Vega	1,290	1,585	(18.6)	Deterioration in occupancy has contributed to lower net income, partially offset by a land tax rebate in FY10.
	Pamplona	736	732	0.5	Stable income, including the renewal of the PC City lease during the year.
Italy	San Giuliano	788	798	(1.2)	100% occupancy provides a stable income although trade debtors have increased marginally.
	Gallarate	451	473	(4.7)	Temporary rent concessions.
Germany	Roller	7,412	7,656	(3.2)	Gross income on budget, but offset by increasing non-recoverable repair and maintenance costs.
	Halle	3,793	4,099	(7.5)	Lease renewals at reduced contract rates have contributed to the reduction in income, partially offset by new rental income derived from the cinema.
	Leipzig	4,831	4,775	1.2	Stable income with no significant movement to the prior year.
Greece	Champion	5,094	5,123	(0.6)	Gross income on budget, but offset by increasing non-recoverable repair and maintenance costs.
	City Gate	434	389	11.7	Enhanced recovery of doubtful debts.
Romania	City Mall	308	3,137	(90.2)	The fall is predominantly due to a €1.6m decrease in base rent resulting from a loss of tenants (28%) and rent reductions to the remainder (72%). €1.1m vendor guarantee income was recognised in FY09. This income was not received in FY10.
Austria	Traisenpark	4,350	3,930	10.7	Stable income and includes positive settlement of a €0.3m provision for a legal case.
Net operating income		36,500	40,211	(9.2)	
Less management fees		(3,101)	(3,546)	(12.6)	
Net operating income (after management fees)		33,399	36,665	(8.9)	

Manager's report

Valuations

AEZ undertakes independent property valuations every six months for all properties in the portfolio.

The portfolio was valued by independent professional property valuers as at 30 June 2010 at €539 million ($765 million), an overall reduction of 10.3% compared with 30 June 2009. The decrease in valuations primarily resulted from continued softening of capitalisation rates due to deteriorating market conditions and reductions in sustainable rental levels. However, the rate of decline has reduced and the overall result masks reductions in Greece and Romania in excess of 30%, stemming from the difficult macroeconomic conditions in those regions. Net operating income increases across the majority of the portfolio cushioned the impact of a softening in capitalisation rates. The portfolio's average capitalisation rate increased from 7.82% to 8.06% in the year to June 2010. The accompanying table provides a detailed break-down of the change in valuation for each property within the portfolio.

Property valuation summary

	30 June 2010	30 June 2009	Variance		Terminal yield			Discount rate			Net initial yield		
Property	€m	€m	€m	%	30 June 2010	30 June 2009	Variance	30 June 2010	30 June 2009	Variance	30 June 2010	30 June 2009	Variance
Festival Park	73.6	75.1	(1.6)	(2.1%)	8.15%	8.15%	0.00%	11.90%	11.80%	0.10%	6.51%	7.71%	(1.20%)
Cuadernillos	33.2	40.1	(6.8)	(17.1%)	8.50%	8.50%	0.00%	12.50%	12.25%	0.25%	3.02%	6.94%	(3.92%)
La Vega	20.9	22.2	(1.3)	(5.9%)	8.00%	7.75%	0.25%	11.75%	11.75%	0.00%	4.81%	5.85%	(1.04%)
Pamplona	8.8	9.0	(0.2)	(2.4%)	7.80%	7.80%	0.00%	10.50%	10.50%	0.00%	8.32%	8.17%	0.15%
San Giuliano	10.5	10.8	(0.3)	(2.9%)	7.25%	7.15%	0.10%	8.50%	8.50%	0.00%	7.66%	7.28%	0.38%
Gallarate	6.8	7.3	(0.5)	(6.8%)	7.35%	7.20%	0.15%	8.25%	8.25%	0.00%	7.16%	6.62%	0.54%
Roller Portfolio[1]	74.5	85.0	(10.5)	(12.4%)	7.94%	7.93%	0.01%	8.20%	7.58%	0.62%	9.10%	8.80%	0.30%
Halle	52.5	53.6	(1.1)	(2.1%)	7.50%	7.50%	0.00%	7.20%	7.20%	0.00%	7.26%	7.51%	(0.25%)
Leipzig	52.1	53.8	(1.8)	(3.3%)	7.30%	7.30%	0.00%	8.25%	7.70%	0.55%	8.93%	8.77%	0.24%
Champion Portfolio[2]	68.1	72.8	(4.7)	(6.4%)	8.62%	8.05%	0.57%	N/A	N/A	N/A	8.34%	7.84%	0.50%
City Gate	42.1	61.5	(19.4)	(31.5%)	9.50%	7.00%	2.50%	12.00%	10.90%	1.10%	6.84%	6.67%	0.17%
City Mall	35.4	51.6	(16.2)	(31.4%)	9.00%	8.75%	0.25%	11.25%	11.00%	0.25%	4.34%	6.48%	(2.14%)
Traisenpark	60.7	58.3	2.4	4.1%	7.75%	7.75%	0.00%	9.25%	8.75%	0.50%	7.20%	6.82%	0.38%
Total[3]	539.0	601.0	(62.0)	(10.3%)	8.06%	7.82%	0.24%	9.88%	9.63%	0.25%	7.16%	7.52%	(0.36%)

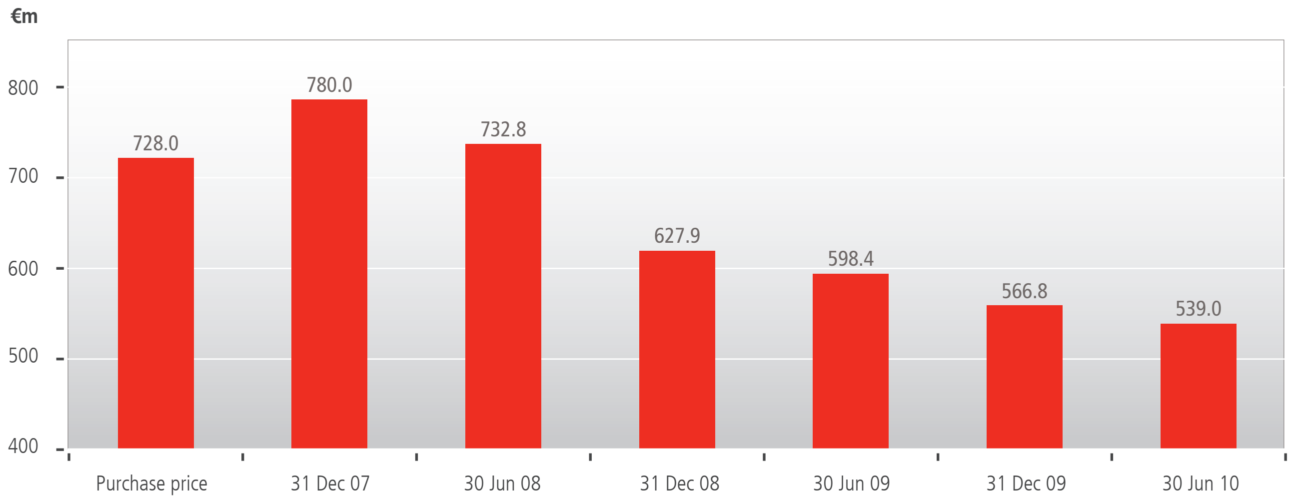
1 Roller portfolio yields and rates shown as weighted averages. Directors valuation for Roller Dortmund included in analysis

2 AEZ holds a 55.8% stake in the Champion Portfolio. Champion Portfolio yields and rates shown as weighted averages. Weighted average equivalent yield shown as opposed to terminal yield.

3 Weighted average initial yield for AEZ assumes 100% ownership of the Champion portfolio. Weighted averages for terminal yield and discount rate exclude the Champion portfolio.

The change in the value of the portfolio over the past three years and compared with the original acquisition price is shown in the table below. The value of the portfolio has decreased since December 2009 by 4.9% which reflects a cumulative fall in value of 33.7% from the market high in December 2007.

AEZ portfolio valuation to 30 June 2010



Entire portfolio independently valued at €539.0m ($767.9m) at 30 June 2010:

- €27.8m ($39.6m) or 4.9%[1] decline in value since 31 December 2009
- €62.0m ($88.4m) or 10.3%[1] decline in value since 30 June 2009
- €189.0m ($269.3m) or 26.0%[1] decline in value versus purchase price
- €273.9m ($390.2m) or 33.7%[1] decline in value versus peak values (December 2007)

1 Comparing the same properties (including 100% interest in the Champion portfolio) on a like for like basis. Does not include acquisition costs and subsequent minor capital expenditure.
Directors valuation for Roller Dortmund included in analysis.

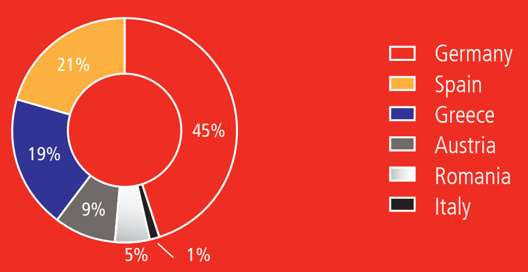
Portfolio statistics / metrics

The accompanying charts demonstrate the geographical diversification of AEZ's portfolio across six European markets by Gross Lettable Area (GLA), rental income and asset value.

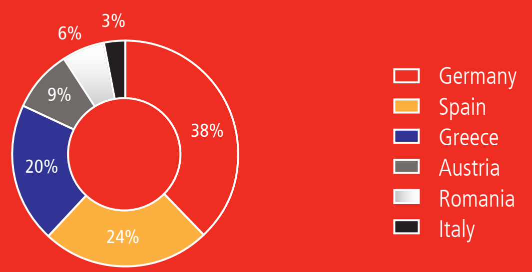
The bottom chart provides a break-down of the rent review structures in the portfolio's leases, with over 89% subject to fixed or CPI-linked rent increases.

Notes
- Directors valuation for Roller Dortmund included in analysis.
- On the basis of 100% of the Champion Portfolio. AEZ has a 55.8% interest in the Champion portfolio
- Excludes AEZ's stakes in APN Poland Retail Fund and APN Vienna Retail Fund

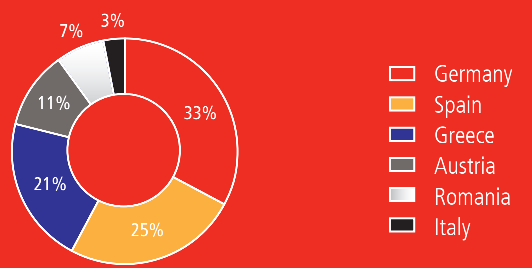
AEZ geographical spread by GLA



AEZ geographical spread by rental income



AEZ geographical spread by value



AEZ base rent increase by type

Key leasing transactions

The APN management team focussed on improving the leasing profile and covenant strength across the portfolio during the 2010 financial year which resulted in the completion of 26 new lease deals covering almost 6,000m² of space (refer to table below for details). Despite a slight reduction in occupancy to 88.0% (by income, down from 90.2% as at 30 June 2009), tenant diversity was maintained, mitigating exposure to individual tenant risk.

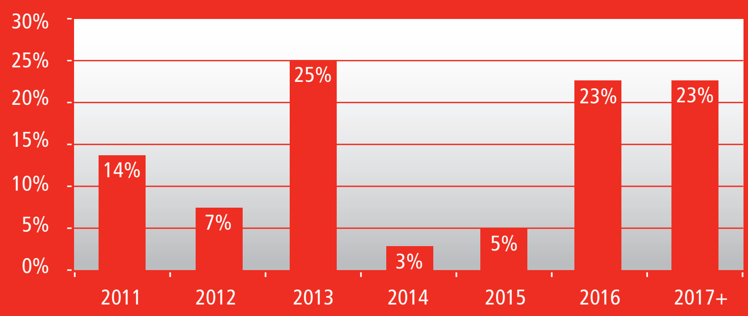
Summary of key leasing transactions

Property	Tenant	Type	Size (sqm)	Term (years)	First break
Festival Park	Ararat	Catering	128	15	November 2014
	Amuletti	Fashion	94	5	December 2010
	El Greco	Catering	291	10	December 2019
Cuadernillos	SDA SuperDescuento Alcala	Household Goods	1,300	5	December 2014
	Aurus Centre	Electrical Goods	126	5	December 2010
La Vega	Aurus Centre	Electrical Goods	118	5	November 2010
	Dehesa Valdencina	Catering	42	10	December 2014
	Opticalia	Health & Beauty	129	13	October 2012
Halle	O2	Electrical Goods	65	5	June 2014
	FHM Haus Management	Office	356	3	January 2013
City Gate	H&M	Fashion	1,307	12	November 2012
	Attrativo	Fashion	230	11	March 2012
	Nine Streets	Fashion	139	11	April 2012
	Swarovski	Jewellery & Accessories	33	12	February 2011
City Mall	House of Art	Fashion	252	5	June 2015
	King Kebab	Catering	62	5	April 2013
Traisenpark	Bruckner	Jewellery & Accessories	56	5	October 2014
	Inventive Trading	Gift Shop	30	5	November 2014

Despite the difficult operating environment, some retailers are still expanding and looking for new opportunities. International operators that are well capitalised are particularly active and see an opportunity to enter new markets at historically low prices. However, retailers are equally focussed on under-performing units and territories and will negotiate exits where appropriate to deploy resources into core markets.

With occupancy levels and rents coming under increasing pressure, the expiry profile remains both an opportunity and a risk for AEZ. The downside risk of increasing vacancies on expiry and negative rental growth is mitigated through selective discussions with key retailers in advance of expiry dates, to "lock in" anchor tenants, increase lease lengths and set new rental levels across the shopping centres. APN's management team seeks to maximise occupancy and ensure the functionality and vitality of the main centres, which in this market has required a more flexible approach on rents.

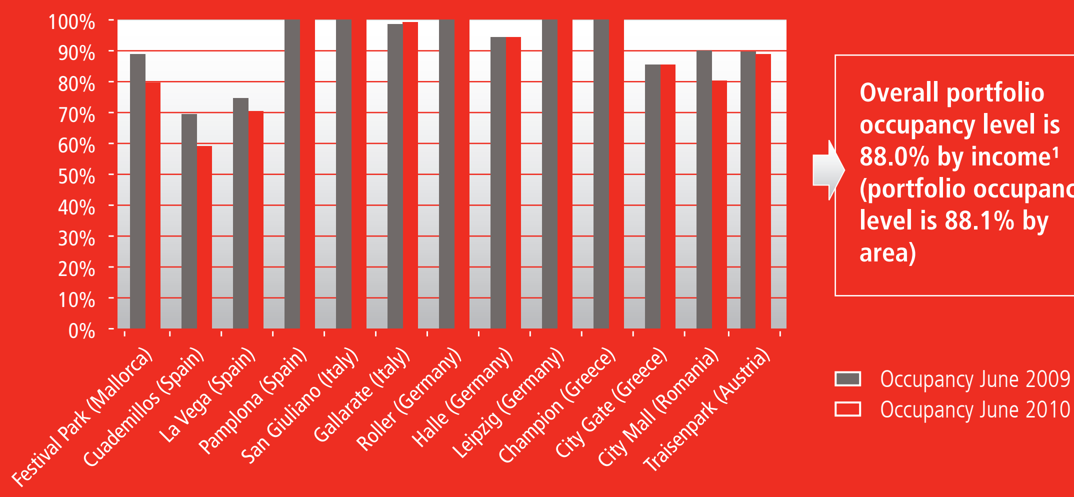
Weighted Average Lease Expiry (WALE) profile[1]



- AEZ WALE is 4.2 years
- Anchor tenant WALE is 4.8 years

1 Based on earliest possible tenant break date. Years are financial years (30 June each year). Includes Champion portfolio.
2 Anchor tenants defined as: Tenants with rent in excess of €100,000 per annum

Occupancy levels



Overall portfolio occupancy level is 88.0% by income[1] (portfolio occupancy level is 88.1% by area)

1 On the basis of 100% of the Champion portfolio. AEZ has a 55.8% interest in the Champion portfolio

Major tenants

APN management's commitment to building long term relationships with its major tenants is evidenced by the continuity and quality of the Group's tenancy schedules and stable WALE profile. Performance of our major tenants has varied by country, with the supermarket groups (Metro, Aldi, Alcampo) and discount furniture operators (Roller) continuing to deliver strong results in Germany and Spain as consumers seek out "value" offers. The discretionary fashion sector continues to be hardest hit by the recession while leisure spending has remained robust, with consumers foregoing larger capital expenses such as cars and holidays.

Top 10 tenants by income

Rank	Asset	Tenant Name	Categories	Rent (€m pa)	% Portfolio Base rent
1	Roller	Roller	Furniture	7.78	17.3
2	Champion Portfolio[1]	Carrefour Marinopoulos	Supermarket	5.81	12.9
3	Leipzig	Metro	Supermarket	5.10	11.3
4	Festival Park	Cinema Cinesa	Leisure	1.83	4.1
5	Halle	Real	Supermarket	1.19	2.6
6	Cuadernillos	Brico Store	DIY	0.85	1.9
7	City Gate	Ster Cinemas	Leisure	0.74	1.7
8	Pamplona	PC City	Electrical Goods	0.38	0.8
9	Festival Park	New Park Bowling	Leisure	0.29	0.6
10	Traisenpark	Spar	Supermarket	0.29	0.6
Total				24.26	53.8

1 On the basis of 100% interest held in the APN Champion Retail Fund. AEZ has a 55.8% interest in the Champion portfolio.

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 include:

- Completion of the re-zoning of land at Traisenpark to facilitate a potential extension of 7,000m^2.
- Progressing the research, feasibility and anchor store discussions in respect of a 34,000m^2 extension at Festival Park, following outline planning approval reported last year.
- 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.

Manager's report

Management team

AEZ is managed by experienced real estate investment professionals.The management team possess vast property expertise having worked for many of the largest and most successful real estate companies locally and across Europe. A dedicated team of more than 60 people located in Melbourne, London and across Continental Europe, help execute the portfolio strategies and provide the necessary support services including: finance, tax, accounting, legal, marketing and compliance. The team was enhanced during 2010 with the appointment of a new European Chief Financial Officer, Mr David Simmonds.

David Blight
Group Managing Director and Chief Executive Officer

As Group Managing Director and CEO of APN Property Group, David is responsible for setting the Group's vision and leading the strategic direction of the company.

David joined APN Property Group in November 2008 following a long and distinguished career in real estate and funds management, both locally and globally. David has broad industry experience across all property sectors that spans over three decades. He is widely recognised as a leading figure in the global real estate investment management industry.

As Managing Director of ING Real Estate Investment Management Australia in Sydney between 1998 and 2004, David presided over the growth of the ING Real Estate business from $800 million to $5 billion in funds under management. In 2004, David was appointed Global Chairman and CEO, ING Real Estate Investment Management and Vice Chairman, ING Real Estate based in The Netherlands. In this role he oversaw the growth of the business from $50 billion to well over $200 billion in funds under management across 22 countries and eight different businesses.

David is a board member and Chairman of the Australian Chapter of the Asia Pacific Real Estate Association (APREA), the leading body in Asia which represents and promotes real estate in the region.

Christopher Aylward
Executive Chairman

As well as being the Executive Chairman of the APN Property Group Board, Chris is involved in the Private Funds business and provides specialist advice in rolling out key development projects.

Chris is one of Australia's pre-eminent industry figures and has been involved in the Australian property and construction industry for more than 30 years.

Prior to jointly establishing APN in 1996, Chris was the founding Director of Grocon Pty Limited and had overall responsibility for the construction of commercial and retail properties in Sydney and Melbourne with a total value of over $2 billion.

Chris has led the construction and development of the following high profile properties:

- Governor Phillip Tower in Sydney
- Governor Macquarie Tower in Sydney
- 120 Collins Street in Melbourne
- World Congress Centre in Melbourne

Tim Slattery
Chief Operating Officer

Tim joined APN Property Group in April 2006 to lead the management team in Europe. As Chief Operating Officer, Tim is closely involved in a broad number of activities across the Group including: new business initiatives, product development, corporate strategy and transactions, capital management and major projects.

Tim has extensive expertise in the legal and commercial aspects of Australian and international asset acquisitions, divestments, restructures and the arrangement of related structure finance.

Tim is a qualified lawyer and before joining APN Property Group he spent several years at Freehills, a top tier law firm based in Australia, working on takeovers, equity and debt capital markets, corporate finance, banking, infrastructure and mergers and acquisitions transactions.

Manager's report

Paul Anderson
Chief Executive Officer - Europe

Paul joined APN Property Group in 2006 to establish and lead the portfolio and asset management team for APN's property funds in Europe and was appointed Chief Executive Officer for the European business in 2010. Paul is an experienced real estate professional and director, with over 20 years direct involvement across various property sectors and markets, focussing on retail. Prior to joining APN, Paul was Director of Retail Asset Management with CB Richard Ellis and was also responsible for establishing Cushman and Wakefield's management services across the Middle East and Central Europe. Paul's international experience has provided a rare understanding of real estate trends, patterns of retail evolution and retailer requirements.

Simon Mesquita
Chief Operating Officer - Europe

Simon joined APN Property Group in 2006 to develop the property management platform for Europe. Appointed to the role of Chief Operating Officer and Head of Real Estate Europe in 2010, Simon is responsible for the European real estate portfolio and a team of asset and property professionals based in London and across Europe.

An experienced property professional with over 25 years experience in senior management, Board and operational roles with blue chip companies in both the UK and Europe, Simon has a successful track record in establishing, opening and managing prestigious stores and regional shopping centres. Prior to joining APN, Simon was Managing Director of Hammerson Management Services Ltd and also founded an independent property management consultancy. Simon is a lecturer and examiner for the College of Estate Management at Reading University.

David Simmonds
Chief Financial Officer - Europe

David joined APN Property Group in June 2010 and is responsible for the accounting, finance and tax issues connected with APN's European business activities. He leads the APN accounting and finance teams in London and Continental Europe. Formerly Finance Director with the European Business Parks division of Goodman property group, David has over 15 years experience in senior finance positions within the real estate industry including the Security Capital Group. David is a fellow member of the Association of Chartered Certified Accountants.

Catherine Lane
Finance Manager

Catherine is a qualified chartered accountant, who joined APN Property Group in June 2010 following 14 years at Pricewaterhouse Coopers based in the London audit practice, specialising in the real estate and construction sectors. During this time Catherine also worked on transactions in the UK and overseas and also with the Client Accounting Services team. She is experienced in working with a wide range of businesses including listed, private equity and entrepreneurial companies. As Finance Manager at APN Catherine is responsible for monthly management and statutory reporting, financial internal control processes and managing the day to day operations of the finance team.

Kayte McLean
Corporate Finance & Investment Manager

Kayte is a qualified Chartered Accountant, having trained at Deloitte in their audit practice. Kayte joined the APN Property Group in 2008 from Deloitte Corporate Finance in London, where she worked within the Private Equity transaction services team. In her former role, Kayte worked on a number of buy and sell side transactions in the areas of IT, retail and real estate and completed a secondment at a London based private equity house.

Kayte assists the Fund Manager across a range of areas including corporate and real estate financing projects across the Group in Europe.

Property portfolio summary

Property name	Location	Gross lettable area (sqm)	Major tenants
Spain			
Festival Park Factory Outlet Centre	Mallorca	32,428	Cinesa, New Park Bowling Center, Nike
Cuadernillos Retail & Leisure Park	Madrid	31,183	Brico Stock
La Vega Shopping Centre	Madrid	9,322	Silk
Galaria Shopping Centre & Retail Park	Pamplona	4,108	Aldi, PC City
Sub-total		77,041	
Italy			
San Giuliano Shopping Centre	Milan	2,191	Conpibel
Gallarate Shopping Centre	Milan	2,584	Conpibel
Sub-total		4,775	
Germany			
Neustadt Centrum Shopping Centre	Halle	92,483	Real Hypermarket, Mode Fischer, Medimax
Löwen Centre	Leipzig	30,831	Metro AM
Roller portfolio	Various	45,551	Roller GmbH
Sub-total		168,865	
Greece			
City Gate	Thessaloniki	20,223	H&M, Sprider, Zara Kids
Champion portfolio	Various	51,615	Carrefour Marinopoulos
Sub-total		71,838	
Romania			
City Mall	Bucharest	18,886	Sprider, Hondos, Billa Supermarkets
Austria			
Traisenpark	St Pölten	33,653	Spar, H&M
Total		375,058	

Geographic asset allocation by value

Directors' report

The directors of APN Funds Management Limited ('Responsible Entity'), the responsible entity for the APN European Retail Property Group and its controlled entities ('the Group'), present their report together with the financial report of the Group, for the year ended 30 June 2010 and the auditor's report thereon.

Directors

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

John Harvey

LLB B.Juris GradDip (Acc), FCA

Independent Non-Executive Chairman

- A Director since 2007.
- Appointed Chairman in 2008.
- A member of the Audit, Compliance & Risk Management Committee.

John's early career was in tax law and accounting, including senior management roles with Price Waterhouse from 1989 to 1996 and Chief Executive Officer of PricewaterhouseCoopers from 1996 to 2000. From 2001 to 2004 he was Chief Executive of the Mt Eliza Business School.

John is currently Chairman of Federation Square Pty Limited and Director of David Jones Limited, Australian Infrastructure Fund Limited and Templeton Global Growth Fund Limited.

David Blight

BAppSc PRM (Val)

Group Managing Director and CEO

- A Director since 2008.

David joined APN Property Group as Group Managing Director in November 2008. From 2005, he was Chairman and Chief Executive Officer of ING Real Estate Investment Management and Vice Chairman, ING Real Estate based in The Hague, overseeing a portfolio of over $200 billion in 22 countries around the world.

Prior to this, David was Managing Director, ING Real Estate Investment Management in Australia. He has also held senior positions with Armstrong Jones Management Ltd (ING Real Estate's predecessor in Australia) and the Mirvac Group.

Howard Brenchley

B.Ec

Executive Director and Chief Investment Officer

- A Director since 1998.

Howard has had a high profile as a property trust industry investor, researcher and commentator for over 20 years. Prior to joining APN in 1997, Howard was research director of Property Investment Research Pty Limited, an independent Australian research company specialising in the property trust sector.

Howard has been primarily responsible for the development of APN's retail funds management business and its suite of funds. Howard continues to oversee all investment strategy, product management and product development for APN's retail funds.

Geoff Brunsdon

B.Com, CA, FINSIA Fellow, AICD Fellow

Independent Non-Executive Director

- A Director since 19th October 2009.
- Chairman of the Audit, Compliance & Risk Management Committee.

Geoff has had a career in investment banking spanning more than 25 years. Until June 2009 he was Managing Director and Head of Investment Banking of Merrill Lynch International (Australia) Limited. His is a member of the Australian Takeovers Panel, Chairman of ING Private Equity Access Limited and a non executive director of Sims Metal Management Limited.

Geoff is also involved in several non-profit organisations including as Chairman of Redkite (supporting families who have children with cancer), the Wentworth Group of Concerned Scientists and Purves Environmental Custodians.

Michael Johnstone

BTRP, LS, AMP (Harvard)

Independent Non-Executive Director

- A Director since 25th November 2009.
- A member of the Audit, Compliance & Risk Management Committee.
- A member of the Investment Committee for APN's Development Fund No.1 and Development Fund No.2.

Michael has almost 40 years of global business experience in chief executive and general management roles and more recently in non executive directorships. He has lived and worked in overseas locations including the USA, has been involved in a range of industries and has specialised in corporate and property finance and investment, property development and funds management. His career has included lengthy periods in corporate roles including 10 years as one of the Global General Managers of the National Australia Bank Group. He has extensive experience in mergers and acquisitions, capital raising and corporate structuring.

Michael is a non executive director of the Responsible entity of the listed Australian Education Trust. He is also a non executive director of a number of companies in private environments including the not for profit sector.

Directors who resigned during the financial year

Clive Appleton

BEc, MBA, AMP (Harvard), GradDip (Mktg), FAICD

Executive Director

- Resigned 19th October 2009.

Clive joined APN Property Group Limited in April 2004 after a long career in property and funds management. He is now responsible for APN's real estate private equity group.

Prior to joining the Group, Clive was the Managing Director of the Gandel Group, one of Australia's foremost shopping centre developers and managers. Prior to joining the Gandel Group in 1996, Clive was Managing Director of Centro Properties Limited (formerly Jennings Properties Limited), a listed property developer, manager and owner.

Christopher Aylward

Executive Director

- Resigned 19th October 2009.

Chris has been involved in the Australian property and construction industry for over 30 years. Prior to jointly establishing APN in 1996, Chris was a Founding Director of Grocon Pty Limited and was responsible for the construction of commercial and retail properties in Sydney and Melbourne with a total value of over $2 billion, including Governor Phillip and Governor Macquarie Towers in Sydney and 120 Collins Street and the World Congress Centre in Melbourne.

Michael Butler

MBA, B Sc, FAICD

Independent Non Executive Director

- Resigned 19th October 2009.
- Chairman of the Audit & Risk Management Committee until 19th October 2009

Michael has over 20 years experience in the financial services sector, having enjoyed a long career at Bankers Trust Australia, following positions held at AMP Society and Hill Samuel Australia (the predecessor of Macquarie Bank).

Since 1999, Michael has been a professional director. He is currently a Director of AXA Asia Pacific Holdings Limited (since 2003) and Metcash Limited (since 2007).

Andrew Cruickshank

B.A., GradDip (Prop), GradDip (Acc), MUP, RBP, ASA, MPIA, MREIV, MAPI, SA Fin

Non-Executive Director

- Resigned 19th October 2009.
- A member of the Audit & Risk Management Committee until 19th October 2009

Andrew has more than 30 years experience in the Australian, British and Hong Kong property markets. Prior to jointly establishing APN in 1996, Andrew was general manager of Grocon Pty Limited. Andrew's Australian property development, management and finance experience includes extensive involvement in the funding and development management of the Grocon projects at 120 and 161 Collins Street, the SECV headquarters in Melbourne and the Penrith Taxation Office in Sydney.

Company Secretary

John Freemantle

B. Bus (Acctg), CPA

- Company Secretary since 2007.

John has been involved in the property industry since 1977. Before joining APN in 2006, he worked with Dillingham Constructions, Jennings Property Group and Centro Property Group, where he held the roles of Chief Financial Officer and Company Secretary for 17 years.

John is also Chief Financial Officer of the APN Group.

Directors' report

Registered office

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

Principal activities

The principal activity of the Group for the financial year ended 30 June 2010 was the ownership, development, and asset management activities undertaken with respect to its diversified portfolio of European retail properties.

Objectives

The Group's business strategy is to invest in and actively manage a diversified portfolio of retail properties located in Europe. All current and future acquisitions are assessed by the Responsible Entity in accordance with established investment criteria, which includes the following:

- properties are located in the European Union, including the United Kingdom;
- properties are retail related, including stand-alone supermarkets / retail units through to leisure and regional shopping centres;
- properties are generally situated in trade areas with strong demographics and which demonstrate high occupancy levels; and
- properties are expected to add value to the Group's long term earnings, asset allocation or a combination of both.

Importantly, the Responsible Entity has a well developed internal investment assessment process. It combines a long term strategic investment approach, active management and a disciplined approach to risk management.

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

APN European Retail Property Holding Trust (the 'Holding Trust') will continue to acquire and hold retail property assets for the purpose of capital growth and rental income.

APN European Retail Property Management Trust (the 'Management Trust') was created to:

- Undertake active property and asset management services in relation to European fixed term property funds operated by APN Funds Management Limited and other European properties and property management services in relation to properties owned by the Holding Trust;
- Take advantage of opportunities that, due to taxation considerations, the Holding Trust is not currently able to participate in without altering its current tax status, such as acquisition or development of new property and asset management businesses;
- Provide greater flexibility to secure returns from property refurbishment, upgrades and developments; and
- Retain earnings to enhance the potential for future profitability and sustainability, as well as financing flexibility for the AEZ Group.

Review of operations

Underlying profit from operations

Underlying profit from operations after tax decreased 55.4% to $10.6 million compared with last year. This reflects the following significant factors:

- Net operating income from properties fell by 26.8% when compared to the prior year. This is largely due to the decline in value of the Euro against the Australian Dollar. Operationally there has been a 91% decline in net operating income received from City Mall, Romania due to rent reductions, a loss of tenants and the end of a vendor income guarantee contract towards the end of the previous financial year.
- Traisenpark, Austria strengthened its performance increasing its net operating income by 11%. The remaining properties were relatively stable in their performance when compared to the prior year.

Loss from non-operating activities

Non-operating activities contributed a loss after tax of $77.8 million (2009: $345.9 million). This includes:

- Write downs in the carrying value of investment properties of $91.1 million, before tax (2009: $240.9 million, before tax)

  All properties were independently valued at balance date and carrying values were adjusted accordingly. The overall decline of 10.2% reflects (excluding the impact of the foreign currency movement between the Euro and the Australian Dollar) the trend for real estate values across Europe during this time. The average capitalisation rate increased 25 bps from 7.82% at 30 June 2009 to 8.07%[1].

  The current valuation of the portfolio represents a 32.8% decline in value from the peak in December 2007.

  In Euro terms, City Mall (Romania) has been written down by 31% due to a higher discount rate and higher non-recoverable costs from service charge shortfalls and property taxes as well as reductions in market rental levels. The value has increased since December following a significant decline in the first six months of the year. The value of City Gate (Greece), again in Euro terms, has also fallen by 31% as a result of yield movements stemming from the problems in the Greek macro economy. A further write-down of 17% (in Euros) has occurred to the value of Cuadernillos in Spain, as the underlying market rents have fallen and re-letting prospects have deteriorated.

  Income growth at a number of properties served to offset the impact of capitalisation rate increases. This has been driven by new lettings, extensive work to reduce void costs and the expiry or gradual reduction of concessionary terms in some markets.

  It is expected that substantial elements of the unrealised losses from property revaluations will be recovered over time as a result of gradually improving investment market conditions and the implementation of further asset management plans. These write downs are unrealised and do not affect the trading performance of the properties themselves.

- Revaluation of financial derivatives $7.5 million profit before tax (2009: $92.9 million loss before tax)

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

1 Due to terminology differences, and changes in valuation approach (capitalisation of earnings method to discounted cash flow) certain individual cap rates at 30 June 2010 refer to discounted cash flow exit yields.

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. 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 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) in 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 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 it.

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 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 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.

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

Portfolio management

Despite the difficult economic conditions prevailing, a number of important results have been achieved during the year.

Maximisation of net operating income and cash-flow management has been at the heart of all activity. Retailers continue to battle strong headwinds requiring additional effort to maintain collection rates and where necessary, agree concessionary terms. Management has judiciously deployed accumulated cash to fund essential capital expenditure and to provide incentives for a number of new leasing deals that have contributed to overall performance.

Key aspects of the property portfolio for the year ended 30 June 2010 are as follows:

- 26 leasing deals completed totalling 5,770 sq m
- Portfolio occupancy level has remained relatively stable at 88.04% by income (2009: 90.1%)
- Weighted average lease expiry (WALE) for anchor tenants remains at 4.8 years

Economic outlook

Sovereign debt has and will continue to be the focus at a macro level across Europe, with all major economies introducing austerity measures to reduce growing budget deficits. This is a structural de-leveraging that will impact at consumer and retail level.

Simultaneously, the commercial real estate debt market remains in its embryonic stages of rebirth, with a two tier market likely to form for prime transactions but secondary assets continuing to find re-financing a challenge through 2011, in-spite of a benign interest rate backdrop.

Gross Domestic Product (GDP) growth remains geographically patchy and inconsistent from quarter to quarter, given that most continental European markets are reliant on each other for export-led growth at the same time as domestic demand is faltering as a consequence of new austerity packages.

Future strategy: Capital Restructure Proposal

Following the extension to the RBS working capital facility in May 2010, management is intensely focused on a recapitalisation strategy with RBS as the Group's major lender.

Income statement

Consolidated	2010 $'000	2010 €'000	2009 $'000	2009 €'000
Profit from Operations				
Property Ownership Income	87,566	55,842	115,785	62,330
Property Expenses	35,192	22,442	44,229	23,810
Net Property Income	52,374	33,400	71,556	38,520
Other Income	100	64	492	265
Other Expenses	8,985	5,730	10,180	5,480
Profit From Operations Before Interest and Tax	43,489	27,734	61,868	33,305
Net Interest Expense	32,339	20,623	35,403	19,058
Profit From Operations Before Tax	11,150	7,111	26,465	14,247
Current Tax Expense	532	339	2,681	1,443
Profit From Operations After Tax	10,618	6,772	23,784	12,804
Loss from Non-Operating Activities				
Net non-recurring items	(5,313)	(3,388)	(9,891)	(5,325)
Amortisation of borrowing costs	(1,036)	(661)	(12,540)	(6,751)
Net fair value adjustment of investment property	(91,130)	(59,866)	(240,894)	(121,901)
Net fair value adjustment of investments	(1,000)	(702)	(11,067)	(6,340)
Net fair value adjustment of derivative instruments	7,525	4,799	(92,913)	(50,018)
Foreign Exchange losses – unrealised	(11,058)	(7,052)	(22,137)	(11,917)
Loss From Non-Operating Activities Before Tax	(102,012)	(66,870)	(389,442)	(202,252)
Deferred Tax (Credit)	(24,176)	(15,417)	(43,552)	(23,445)
Loss From Non-Operating Activities After Tax	(77,836)	(51,453)	(345,890)	(178,807)
Loss for the year	(67,218)	(44,681)	(322,106)	(166,003)
Loss for the year attributable to:				
	(66,514)	(44,232)	(309,430)	(159,179)
Non-controlling Interests	(704)	(449)	(12,676)	(6,824)
Net loss Attributable to Security holders	(67,218)	(44,681)	(322,106)	(166,003)

Statement of financial position

	2010		2009	
Consolidated	$'000	€'000	$'000	€'000
Assets				
Cash and cash equivalents	19,148	13,440	28,932	16,575
Trade and other receivables	9,910	6,956	16,286	9,330
Other financial assets	-	-	175	100
Total current assets	29,058	20,396	45,393	26,005
Trade and other receivables	2,096	1,471	2,334	1,337
Investment properties	765,466	537,282	1,044,449	598,367
Property, plant & equipment	-	-	1,173	672
Deferred tax assets	14,146	9,929	10,080	5,775
Other financial assets	7,565	5,310	8,556	4,902
Total non-current assets	789,273	553,992	1,066,592	611,053
Total assets	818,331	574,388	1,111,985	637,058
Liabilities				
Bank overdraft	-	-	(69)	(40)
Trade and other payables	(19,461)	(13,660)	(24,646)	(14,120)
Interest-bearing loans and borrowings	(527,263)	(370,087)	(651,252)	(373,103)
Provisions	(4,575)	(3,211)	(8,102)	(4,642)
Current tax liabilities	(2,670)	(1,874)	(4,313)	(2,471)
Other financial liabilities	(53,515)	(37,562)	(64,409)	(36,900)
Total current liabilities	(607,484)	(426,394)	(752,791)	(431,276)
Trade and other payables	(5,203)	(3,652)	(7,638)	(4,376)
Interest-bearing loans and borrowings	(70,004)	(49,136)	(85,290)	(48,863)
Deferred tax liabilities	(31,483)	(22,098)	(58,408)	(33,462)
Provisions	(74)	(52)	(152)	(87)
Non-controlling interests	(17,431)	(12,235)	(26,808)	(15,358)
Total non-current liabilities	(124,195)	(87,173)	(178,296)	(102,146)
Total liabilities	(731,679)	(513,567)	(931,087)	(533,422)
Net assets attributable to security holders	86,652	60,821	180,898	103,636

Directors' report

Distributions

No distribution has been declared for the year ended 30 June 2010. For the year ended 30 June 2009, no distribution was declared.

Significant changes in the state of affairs

In the opinion of the directors of the Responsible Entity, there were no other significant changes in the state of affairs of the consolidated Group that occurred during the financial year.

Events subsequent to reporting date

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

Future developments

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

Environmental regulation

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

Options granted

No options were:

(i) Granted over unissued securities in the Group during or since the end of the financial year; or
(ii) Granted to the Responsible Entity.

No unissued securities in the Group were under option as at the date on which this Report is made.

No securities were issued in the Group during or since the end of the financial year as a result of the exercise of an option over unissued securities in the Group.

Indemnification and insurance of officers and auditors

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

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

Meetings of Directors

The Board of APN Funds Management Limited meets regularly to review and discuss the operations of the APN European Retail Property Group. The following table set out the number of directors' meetings attended by each director.

Director	Board meetings		Audit and risk management committee meetings	
	A	B	A	B
J Harvey	13	11	9	9
D Blight	13	13	N/A	N/A
H Brenchley	13	12	N/A	N/A
G Brunsdon[2]	9	9	6	6
M Johnstone[3]	7	7	6	6
C Appleton[1]	5	4	N/A	N/A
C Aylward[1]	5	3	N/A	N/A
M Butler[1]	5	4	3	3
A Cruikshank[1]	5	5	3	3

A – Number of meetings held during the time the director held office during the year
B – Number of meetings attended

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

1 Resigned 19 October 2009
2 Appointed 19 October 2009
3 Appointed 25 November 2009

Directors’ shareholdings

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

	APN European Retail Property Group	APN Property Group Limited	
Director	Number of securities	Number of ordinary shares	Shares issued under limited or non recourse loans, disclosed as share options
John Harvey	50,000	25,000	-
David Blight	500,000	11,263,810	10,000,000
Howard Brenchley	243,693	7,083,315	-
Geoff Brunsdon	-	-	-
Michael Johnstone	-	-	-

No share options were granted in the year.

Corporate governance statement

As the Responsible Entity, APN Funds Management Limited (APN FM) must comply with all relevant sections of the Corporations Act, the Constitution and the compliance plan in the course of managing the Fund. This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations (ASX Guidelines), unless otherwise stated.

Board restructure

The Responsible Entity is a subsidiary of APN Property Group Limited (APN PG), a company listed on the Australian Securities Exchange (ASX). During the year a restructure of the board of APN FM and APN PG was completed. Whereas previously, both companies had an identical board structure, the board of APN FM (Board) now comprises five Directors, three of whom are independent of the business and of the board of APN PG.

The Board considers that the separation of the boards ensures that the responsibility for managing the interests of each Fund and its investors is completely independent of managing the interests of APN PG, the holding company of the Responsible Entity. The separation has also assisted, and will continue to assist, in enhancing the identification and management of conflicts of interest and related party transactions within the APN Group.

Importantly, all directors of APN FM have a legal obligation to put the interests of investors in the respective managed funds ahead of their own and those of APN FM’s sole shareholder, APN PG.

The Board of APN Funds Management Limited has adopted the following Corporate Governance policies and procedures:

Role and responsibilities

Without limitation to the duties and responsibilities of directors under the Corporations Act, the Constitution and all applicable laws, in order to ensure that APN FM complies with its responsibilities, the Board has adopted a board charter setting out its roles and responsibilities (including the roles and responsibilities of the Chairman). In accordance with the board charter, the Board is responsible for:

- the oversight of APN FM, including its control and accountability systems;
- subject to its overriding duties to security holders in the respective Funds, setting the aims, strategies and policies of APN FM;
- where appropriate, ratifying the appointment and the removal of senior executives including, but not limited to the fund managers of the respective Funds;
- providing input into and final approval of management's development of strategy and performance objectives in respect of the Funds;
- reviewing, ratifying and monitoring systems of risk management and internal compliance and control, codes of conduct and legal compliance, particularly in respect of the Funds;
- identifying conflict of interest situations within APN FM's business and the business of the Funds and:
  - determining whether the conflict of interest situation is to be avoided or whether it can be appropriately controlled; and
  - if the conflict of interest situation can be appropriately controlled, determining and implementing the procedure necessary to control the conflict;
- monitoring senior management's performance and implementation of strategy and ensuring appropriate resources are available;
- approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures in respect of the Funds;
- approving the issue of disclosure documents in respect of the respective Funds; and
- approving and monitoring financial and other reporting obligations of the respective Funds, in particular ensuring compliance with the continuous disclosure obligations of the respective Funds under the Corporations Act and the Listing Rules.

Composition, structure and processes

The Board currently comprises five Directors, three of whom (including the Chairman) are independent as defined by the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. The names and biographical details of the Directors are set out on pages 24 to 27.

Terms of appointment

The Board has adopted a letter of appointment that contains the terms on which non-executive directors are to be appointed, including individual directors' roles and responsibilities and the basis upon which they will be indemnified by the Responsible Entity. Non-executive directors are entitled to take independent advice at the cost of the Responsible Entity in relation to their role as members of the Board.

Review of board performance

The performance of the Board is reviewed at least annually by the Board. The evaluation includes a review of:

- the Board's membership and the charters of the Board and its committees;
- Board processes and its committee's effectiveness in supporting the Board; and
- the performance of the Board and its committees.

An annual review of each Director's performance is undertaken by the Chairman, after consultation with the other directors.

Board committees

Audit, Compliance and Risk Management Committee

The Board has appointed an Audit, Compliance and Risk Management Committee to oversee certain responsibilities of the Responsible Entity. During the year, responsibility for overseeing the Company's compliance responsibilities was added to the Committee's charter. This role was previously undertaken by a separately appointed committee. The Committee's primary responsibility is to ensure a sound system of risk oversight and internal control. During the year, the Committee has received reports detailing the effectiveness of APN FM's current risk management programme from management and advised the Board accordingly. The specific responsibilities of the Committee include:

External audit

- to recommend to the Board the final accounts in respect of each of the Funds and APN FM (in its own capacity);
- to recommend to the Board the appointment and removal of the Fund's external auditors (including providing the Board with fee proposals in relation to the external auditors);
- to monitor compliance with the Corporations Act 2001 (Cth) in relation to auditor rotation;
- to undertake periodic reviews in order to monitor the effectiveness, objectivity and independence of the external auditors;
- to review, consider and advise the Board on the adequacy of the audit plan proposed by the external auditors;
- to review all of the external auditors' reports;
- to commission such enquiry by the external auditors as the Committee deems appropriate;
- to consider management's responses to matters that arise from external audits;
- to conduct regular reviews of management's activity pertaining to audit findings to ensure any issues are being dealt with in a timely manner; and
- to perform annual assessments of the auditors' compliance with any applicable laws, regulations and any other relevant requirements.

Financial statements

- to review the financial statements and related notes, and ensure they are consistent with information known to the Committee and that they reflect appropriate accounting principles, standards and regulations;
- to review external auditors' reviews or audits of the Funds' financial statements and corresponding reports;
- to make recommendations to the Board regarding any significant changes required in external auditors' audit plans;
- to review accounting and reporting issues as they arise;
- to review, and advise the Board on, any disputes or issues that may arise during the course of an audit; and
- to advise the Board on any material matters that arise during an audit that the Committee becomes aware of.

Risk management

- to monitor the management of risks relevant to APN FM and the Funds;
- to review and make recommendations to the Board regarding APN FM's current risk management program (including all internal policies developed and implemented to manage and identify all of the identified risks) and whether it identifies all areas of potential risk.
- to review and make recommendations to the Board on the strategic direction, objectives and effectiveness of APN FM's financial and risk management policies; and
- to oversee investigations of allegations of fraud or malfeasance and, where required, report details to relevant authorities.

Compliance

- to monitor the compliance of APN FM with:
  - the Corporations Act;
  - the compliance plan of each Fund;
  - the constitution of each Fund;
  - the Australian Financial Services Licence (AFSL) of APN FM; and
  - where a Fund is a Listed Scheme, the Listing Rules;
- to report to the Board any breach of the obligations listed above;
- to report to the Australian Securities and Investments Commission (ASIC) if the Committee is of the view that APN FM has not taken, or does not propose to take, appropriate action to deal with a matter reported;
- to assess at regular intervals whether each Fund's compliance plan is adequate;
- to report to the Board on its assessment of each Fund's compliance plan; and
- to make recommendations to the Board about any changes that it considers should be made to the Funds' compliance plans.

Related Party Transactions and Conflicts of Interest

- The Committee must monitor compliance with the Conflicts Policy adopted by APN PG and APN FM in respect of the APN Group and comply with the obligations under the Conflicts Policy.
- Without limiting its obligations under the Conflicts Policy, the Committee will ensure that:
  - any breach of the Conflicts Policy is noted on the compliance breach register;
  - the activity which caused the breach is reviewed and any steps necessary to ensure compliance with the Conflicts Policy in the future are taken; and
  - in cases of significant breaches or likely breaches, ASIC is notified in accordance with section 912D(1) of the Corporations Act.

The Committee currently comprises three Directors, all of whom are independent as defined by the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. The names and biographical details of the Committee members are set out on pages 24 to 27.

Nomination and remuneration

The Board of the parent entity, APN Property Group Limited, is responsible for all nomination and remuneration policies and appointments for the group.

Other corporate governance policies and charters

A copy of the Board Charter and the Audit, Compliance and Risk Management Committee Charter is available at the Company's website (www.apngroup.com.au).

Also available are the following corporate governance policies, which have been adopted by all entities (including the Responsible Entity) within the APN Group in accordance with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations:

- Securities Trading Policy;
- Continuous Disclosure Policy;
- Code of Conduct;
- Related Party Transactions and Conflicts of Interest Policy;
- Privacy Policy; and
- Communications Policy.

Compliance with ASX Corporate Governance Guidelines

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

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

The Board of the parent entity, APN Property Group Limited, is responsible for all nomination and remuneration policies and appointments for the group. Following the restructure of the board of APN PG and the Board during the year, it was considered that incorporating the nomination and remuneration policies and procedures into the function of the board of APN PG is an appropriate way of addressing the accountability and efficiencies sought to be achieved by the ASX Guidelines. This position is regularly reviewed to ensure the outcomes sought by the ASX Guidelines continue to be achieved.

Interests of the Responsible Entity

Responsible Entity's remuneration

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

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

- 0.55% (2009: 0.55%) of the amount of the Gross Asset Value equal to or less than $1 billion; plus
- 0.50% (2009: 0.50%) of the amount of the Gross Asset Value between $1 billion and $1.5 billion; plus
- 0.45% (2009: 0.45%) of the amount of the Gross Asset Value that is above $1.5 billion.

The Asset Manager is also entitled to be paid:

- an acquisition fee of up to 1.00% (2009: 1.00%) of the purchase price of a property for the Group;
- a disposal fee of up to 1.00% (2009: 1.00%) of the sale price of a property for the Group; and
- a debt arrangement fee of up to 0.50% (2009: 0.50%) of the amount of any debt arranged by the Asset Manager in respect of the Group.

Fees otherwise payable to the Asset Manager in respect of services which the Asset Manager has opted out of providing are payable to the provider of the services.

The Asset Manager may accept a lower fee than it is entitled or may defer the payment of fees at its discretion. Where the Asset Manager accepts a lower fee than it is entitled, it may in the future charge a correspondingly higher fee. Remuneration paid or payable to the Responsible Entity is presented in note 32.

Audit and non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 15 to the financial statements.

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

The directors are of the opinion that the services as disclosed in note 15 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit and Risk Management Committee, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Directors' report

Auditor's independence declaration

The Auditor's independence declaration is set out on page 43 and forms part of the directors' report for the financial year ended 30 June 2010.

Rounding off of amounts

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

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

David Blight
Managing Director

Dated at Melbourne this 3rd day of September 2010

Auditor's independence declaration

Deloitte.

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3 September 2010

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

Dear Board Members

APN European Retail Property Group

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of APN Funds Management.

As lead audit partner for the audit of the financial statements of APN European Retail Property Group for the financial year ended 30 June 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 audit; and

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

Yours faithfully

DELOITTE TOUCHE TOHMATSU

Peter A. Caldwell
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

We have audited the accompanying financial report of the APN European Retail Property Group, which comprises the statement of financial position as at 30 June 2010, and the income statement, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Trust and the entities it controlled (including the stapled entity APN European Retail Property Management Trust) (collectively "the Group") at the year's end or from time to time during the financial year as set out on pages 46 to 111.

Directors' Responsibility for the Financial Report

The directors of the Group are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion:

(a) the financial report of the APN European Retail Property Group is in accordance with the *Corporations Act 2001*, including:
- (i) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Notes 2(c) and 26 in the financial report which indicate that the Group and Trust incurred net losses attributable to security holders of $67.2 million and $57.3 million respectively during the year ended 30 June 2010 and, as of that date, the Group and Trust's current liabilities exceeded current assets by $578.4 million and $38.1 million respectively. These conditions, along with other matters as set forth in Note 2(c), indicate the existence of a material uncertainty which may cast significant doubt about the Group and Trust's ability to continue as going concerns and whether they will realise assets and extinguish liabilities in the normal course of business and at the amounts stated in the financial report.

DELOITTE TOUCHE TOHMATSU

Peter A. Caldwell
Partner
Chartered Accountants
Melbourne, 3 September 2010

Income statement

for the financial year ended 30 June 2010

		Consolidated	
	Note	2010 $'000	2009 $'000
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	19	(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	11	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	25	(709)	(13,257)
- APN European Retail Property Management Trust security holders (AEZM)	25	5	581
Net loss attributable to security holders of APN European Retail Property Holding Trust (AEZH)		(67,218)	(322,106)
Basic and Diluted earnings per security (cents)	12	(12.21)	(56.84)

The income statements are to be read in conjunction with the notes to the consolidated financial statements set out on pages 51 to 110.

Statement of comprehensive income

for the financial year ended 30 June 2010

		Consolidated	
	Note	2010 $'000	2009 $'000
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	11	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)

The income statements are to be read in conjunction with the notes to the consolidated financial statements set out on pages 51 to 110.

Statement of financial position

as at 30 June 2010

		Consolidated		
	Note	2010 €'000	Restated 2009 $'000	Restated 1 July 2008[1] €'000
Assets				
Cash and cash equivalents	31(ii)	19,148	28,932	43,804
Trade and other receivables	16	9,910	16,286	25,975
Other financial assets	17	-	175	4,001
Total current assets		29,058	45,393	73,780
Trade and other receivables	16	2,096	2,334	5,132
Other financial assets	17	7,565	8,556	53,255
Deferred tax assets	11(ii)	14,146	10,080	6,672
Property, plant and equipment	18	-	1,173	441
Investment properties	19	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	31(ii)	-	69	70
Trade and other payables	20	19,461	24,646	38,549
Provisions	22	4,575	8,102	4,640
Interest-bearing liabilities	23	527,263	651,252	159,962
Current tax liabilities	11(i)	2,670	4,313	2,410
Other financial liabilities	21	53,515	64,409	363
Total current liabilities		607,484	752,791	205,994
Trade and other payables	20	5,203	7,638	9,523
Provisions	22	74	152	1,007
Other financial liabilities	21	-	-	12,559
Interest-bearing liabilities	23	70,004	85,290	576,543
Deferred tax liabilities	11(ii)	31,483	58,408	87,671
Non-controlling interests	25	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

The statements of financial position are to be read in conjunction with the notes to the consolidated financial statements set out on pages 51 to 110.

1 For details of the adjustments arising from the adoption of revised accounting standards see note 5.

Statement of changes in equity

for the financial year ended 30 June 2010

	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

The consolidated statement of changes in equity is to be read in conjunction with the notes to the consolidated financial statements set out on pages 51 to 110.

Cash flow statement

for the financial year ended 30 June 2010

		Consolidated	
	Note	2010 $'000	2009 $'000
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	31 (i)	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)
Payment 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	31(ii)	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

The consolidated cash flow is to be read in conjunction with the notes to the consolidated financial statements set out on pages 51 to 110.

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').

The financial report was authorised for issue by the directors of the Responsible Entity on the 3rd September 2010.

(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 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 Financial Instruments	1 January 2013	30 June 2014
AASB 9 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:

- Note 11 – income tax expense
- Note 19 – valuation of investment property
- Note 22 – provisions
- Note 27 – foreign exchange contracts; and
- Note 27 – 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 Retail 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 holders of AEZM are also holders of AEZH by virtue of the stapling arrangement.

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

(b) Basis of consolidation

(i) Subsidiaries

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

(ii) Transactions eliminated on consolidation

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

(iii) Non controlling interest

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

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

(iv) Business combinations

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

On an acquisition by acquisition basis the fund recognises any non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of consideration transferred over the Group's share of the net identifiable assets acquired (after taking into account the impact of the non-controlling interest) is recorded in 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 statement of financial positions of these foreign subsidiaries are translated at the exchange rates ruling as at balance date and the income statements of foreign subsidiaries are translated at average exchange rates for the year. Exchange differences arising on translation of foreign operations are taken directly to equity. On consolidation, exchange differences and the related tax effect on loans denominated in foreign currencies, which hedge net investments in foreign operations are accounted for in accordance with note 3(q).

(d) Revenue recognition

(i) Rental income

Rental income (including rental guarantee income) from investment properties is recognised on a straight-line basis over the lease term. Rental income not received at year end date is reflected in the statements of financial position as a receivable or if paid in advance, as deferred rental income. Lease incentives granted by the Group to lessees are recognised over the lease term on a straight-line basis as a reduction of lease income.

Contingent rents, based on the future amount of a factor that changes other than with the passage of time, including turnover rents and CPI linked rental increases are only recognised when contractually due.

(ii) Interest income

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

(iii) Management fees

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

(iv) Distribution and dividend income

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

(e) Expenses

(i) Operating lease payments

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

(ii) Finance lease payments

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

(iii) Finance expenses

In accordance with the revised standard AASB123, finance expenses comprise interest payable on borrowings calculated using the effective interest method. Financing costs exclude borrowing costs capitalised to qualifying assets. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Borrowing costs that are directly attributable to the acquisition, construction or development of a qualifying asset are capitalised as part of that asset.

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

(f) Income and deferred tax

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

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

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

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

Distribution and taxation

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

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

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

(g) Goods and services tax

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

Payables and receivables are stated with the amount of GST included. The net amount of GST recoverable from the ATO is included in trade and other receivables in the statement of financial position.

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

(h) Distributions to security holders

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

(i) Cash and cash equivalents

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

(j) Trade and other receivables

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 are stated at cost less accumulated depreciation and impairment losses (see accounting policy 3(l)). Cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. The expected useful life for the current and comparative periods is 2-3 years.

(l) Impairment

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

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

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

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

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

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Investment properties

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 statement of financial position. Investment property held under an operating lease is recognised on the Group's statement of financial position at its fair value.

(o) Investments and other financial assets

Classification

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

Financial assets at fair value through profit or loss

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified 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 the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Subsequent measurement

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

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

(p) Derivative financial instruments

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

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

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

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in the income statement.

(q) Hedging

On entering into a hedging relationship, the Group formally designates and documents the hedge relationship and the risk management objectives and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will asses the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged items fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cashflows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting years for which they are designated.

If the hedging instrument no longer meets the criteria for hedge accounting, expires, is sold, terminated, exercised or the hedging relationship is revoked, then hedge accounting is discontinued prospectively. Where cashflow hedge accounting is revoked prospectively, the cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Hedge of monetary assets and liabilities

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

Hedge of net investment in foreign operations

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

(r) Interest-bearing borrowings

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

(s) Provisions

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

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

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

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

(t) Financial instruments issued by the Group

(i) Debt and equity instruments

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

(ii) Financial guarantee contract liabilities

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

(u) Financial liabilities

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

Other financial liabilities

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

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

(v) Trade payables

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

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

(w) Equity issuance costs

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

(x) Earnings per security

(i) Basic earnings per security

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

(ii) Diluted earnings per security

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

(y) Employee entitlements

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

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 114 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 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.

Notes to the consolidated financial statements

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	€'000	€'000	€'000	€'000
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)
	$'000	$'000	$'000	$'000
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.

Segment revenue

Segment revenue reconciles to total revenue as follows:

	Consolidated 30 June 2010 $'000
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 $'000
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

Operating Segments	Year ended 30 June 2009 Segment Revenue	Segment Profit	Segment Finance Expense	Segment Property Devaluation
	€'000	€'000	€'000	€'000
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	$'000	$'000	$'000
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
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
Spain	269,422
Italy	31,189
Germany	340,213
Greece	236,446
Romania	94,201
Austria	103,801
Total segment assets	1,075,272
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

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.

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

Finance costs attributable to security holders				
	Previous presentation		Current presentation	
	Net loss	Change in net assets attributable to security holders	Net profit/(loss)	Net loss
Year ended	$'000	$'000	$'000	$'000
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			Current presentation		
	Net profit/(loss)	Other comprehensive income/(loss)	Total comprehensive income	Net loss	Other comprehensive income/(loss)	Total comprehensive income/(loss)
Year ended	$'000	$'000	$'000	$'000	$'000	$'000
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	Current presentation			
	Net assets attributable to security holders	Contributed equity	Retained earnings	Reserves	Overall impact on net assets
Year ended	$'000	$'000	$'000	$'000	$'000
30 June 2010	86,652	552,048	(497,521)	32,125	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			Current presentation			
	Contributed equity	Total comprehensive income/(loss)	Total equity	Contributed equity	Reserves	Retained earnings	Total equity
Year ended	$'000	$'000	$'000	$'000	$'000	$'000	$'000
30 June 2010	-	-	-	552,048	32,125	(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

	2010 $'000	2009 $'000
Investment devaluations		
Financial assets designated at fair value through income statement:		
Fair value loss on revaluation of investments	(1,000)	(11,067)
	(1,000)	(11,067)

7. Other income

	2010 $'000	2009 $'000
Other:		
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 Operating Expenses

The following amounts have been charged/(credited) to the income statement:

	Consolidated	
	2010 $'000	2009 $'000
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 asset/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/(expense)

	Consolidated	
	2010 $'000	2009 $'000
Interest income – external	188	567
Interest income – related parties	552	1,354
	740	1,921
Financial assets classified at fair value through income statement:		
Net fair value gain /(loss) 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 23 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 they were first classified as current.

10. Personnel costs

	Consolidated	
	2010 $'000	2009 $'000
Wages and salaries	1,445	1,796
Increase/(decrease) in liability for employee entitlements	12	(54)
	1,457	1,742

11. Income tax expense

	Consolidated	
	2010 $'000	2009 $'000
Current tax expense		
Current year	(1,407)	(2,640)
Prior year adjustment	875	(41)
	(532)	(2,681)
Deferred tax benefit		
Origination and reversal of temporary differences	41,299	54,063
Benefit of tax losses de-recognised	(17,123)	(10,511)
	24,176	43,552
Total income tax benefit	23,644	40,871
Numerical reconciliation between tax expense and pre-tax net profit		
Loss before tax	(90,862)	(362,977)
Income tax using the domestic tax rate of 30% (2009: 30%)	27,259	108,893
Decrease in income tax expense due to:		
Trust income/(expenses) not subject to tax	3,525	(18,521)
Other non-assessable income	(2,723)	(157)
Tax deductible items not recognised in the income statement	410	(1,893)
Impact of changes in tax rates	3,875	-
Effect of tax losses not recognised/deferred tax assets derecognised	(4,704)	(35,347)
Effect of tax rate in foreign jurisdictions	(4,873)	(8,207)
Other items	-	(3,856)
Prior year adjustment	875	(41)
Income tax benefit on pre-tax net profit	23,644	40,871

(i) Current tax assets and liabilities

The current tax liability, representing the amount of income taxes payable in respect of the current year, for the Group is $2,670,000 (2009: $4,313,000).

(ii) Recognised deferred tax assets and liabilities

	Consolidated		
	2010 $'000	2009 $'000	1 July 2008 $'000
Recognised deferred tax liabilities arise from the following:			
Cash and cash equivalents	-	-	(7)
Trade and other receivables	464	(22)	(330)
Other financial assets	-	-	(5,603)
Investment property	(31,483)	(59,638)	(93,485)
Property, plant and equipment	-	-	(302)
Intangible assets	5,227	7,975	9,005
Trade and other payables	-	(26)	299
Other financial liabilities	3,750	2,844	-
Interest bearing liabilities	-	159	65
Provisions	90	-	(528)
Unused tax losses and credits	4,615	380	9,887
	(17,337)	(48,328)	(80,999)
Presented in the statement of financial position as follows:			
Deferred tax asset	14,146	10,080	6,672
Deferred tax liability	(31,483)	(58,408)	(87,671)
	(17,337)	(48,328)	(80,999)
Movement in temporary differences during the year			
Opening balance	(48,328)	(80,999)	
Additions through business combinations	-	-	
Recognised in income	24,176	43,552	
Recognised in reserves	717	818	
Effects of movements in foreign currency exchange	6,098	(11,699)	
	(17,337)	(48,328)	

Unrecognised deferred tax assets

At 30 June 2010, the Group had $38,889,000 (2009: $47,184,256) of unrecognised deferred tax assets arising from tax losses.

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

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

	Consolidated	
	2010 $'000	2009 $'000
Tax expense on cash flow hedge reserve	717	818
	717	818

12. Earnings per security

The following reflects the income and security information used in the calculation of basic and diluted earnings 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 loss attributable to AEZH security holders	(66,514)	(309,430)
Weighted average number of ordinary securities (basic and diluted) '000		
Opening balance	544,911	541,911
Effect of securities issued on 29 August 2008	-	2,506
Closing balance	544,911	544,417

13. Distributions paid/payable

No distributions were paid in the year (2009: $nil).

14. Net tangible asset backing

	Consolidated	
	2010 Cents per unit	2009 Cents per unit
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 (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).

15. Auditors' remuneration

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

	Consolidated	
	2010 $	2009 $
Audit services:		
Auditor of the parent entity		
- Audit and review of financial reports	282,303	393,517
- Other regulatory audit services	-	6,615
	282,303	400,132
Affiliated firms:		
Audit and review of financial reports	661,666	594,486
	661,666	594,486
Total audit services	943,969	994,618
Other services:		
Auditor of the parent entity		
- Advisory services	22,338	-
- Taxation services	228,562	390,269
	250,900	390,269
Affiliated firms:		
Advisory services	17,963	-
Taxation services	642,904	420,161
	660,867	420,161
Total other services	911,767	810,430
	1,855,736	1,805,048

16. Trade and other receivables

	Consolidated		
	2010 $'000	2009 $'000	1 July 2008 $'000
Current			
Trade receivables	15,862	18,481	17,118
Less: Provision for impairment	(11,441)	(12,093)	(8,991)
	4,421	6,388	8,127
Other receivables	4,152	5,593	11,809
Prepayments	1,269	1,287	869
Receivables from related parties	68	449	737
Interest bearing loans to related parties	5,071	5,593	4,433
Less: Provision for impairment	(5,071)	(3,024)	-
	9,910	16,286	25,975
Non-Current			
Other receivables	2,096	2,334	4,781
Interest bearing loans to related parties	-	-	351
	2,096	2,334	5,132

The net loss recognised in the income statement in respect to Trade and Other Receivables was $5,683,000 (2009: $8,455,000) for the Group.

Interest income amounting to $515,000 (2009: $511,000) has been recognised in the income statement in respect to Trade and Other Receivables that are impaired for the Group.

(a) Allowance for impairment loss

Trade receivables are non-interest bearing receivables and are generally on 15-30 day terms. Trade receivables are predominantly tenant rent receivables. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired and by reference to past default experience. Refer to accounting policy 3(l) for details of the Group's impairment policy. A net impairment loss of $6,422,000 (2009: $10,376,000) has been recognised by the Group in the current year.

	Consolidated	
	2010 $	2009 $
Movements in the provision for impairment were:		
Opening balance	(15,117)	(8,991)
Charge for the year	(6,422)	(10,376)
Accounts written off as uncollectable	1,663	4,051
Amounts recovered	458	-
Effect of movements in foreign exchange	2,906	199
	(16,512)	(15,117)

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

	Consolidated		
	2010 $'000	2009 $'000	1 July 2008 $'000
Unimpaired			
Current	976	943	2,689
Past due but not impaired			
Less than 30 days overdue	711	1,021	1,505
More than 30 but less than 60 days overdue	602	777	859
More than 60 but less than 90 days overdue	350	336	825
More than 90 days overdue	322	2,960	2,075
	1,985	5,094	5,264
Impaired			
Current	58	273	189
Less than 30 days overdue	54	288	228
More than 30 but less than 60 days overdue	58	272	243
More than 60 but less than 90 days overdue	291	511	219
More than 90 days overdue	12,440	11,100	8,286
	12,901	12,444	9,165
	15,862	18,481	17,118

As at 30 June 2010, the Group had $1,985,000 (2009: $5,904,000) of trade receivables past due but not considered impaired. The Group has not provided for these as they are still considered recoverable.

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

	Consolidated		
	2010 $'000	2009 $'000	1 July 2008 $'000
Description of collateral held			
Cash deposits	2,439	6,293	5,653
Letters of guarantee from bank	3,025	4,308	3,283
Cheques held on tenants accounts	442	1,443	136
Tenant deposits held in cash	369	180	169
	6,275	12,224	9,241

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

	Consolidated		
	2010 $'000	2009 $'000	1 July 2008 $'000
Security deposits			
Overdue	38	2,976	2,505
Impaired	1,404	495	526
	1,442	3,471	3,031
Letters of guarantee from bank			
Overdue	430	503	1,589
Impaired	1,111	39	502
	1,541	542	2,091

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

(e) Related party receivables

For terms and conditions of related party receivables refer to note 32.

(f) Fair value

Due to the short term nature of current Trade and Other Receivables, the carrying value is assumed to approximate fair value. The approximate fair value of non-current Trade and Other Receivables, adjusted for estimated credit margin and current market interest rates is $2,096,000 (2009: $2,334,000). This fair value has been based on a reasonable estimate of changes in market conditions including credit spreads, but cannot be validated against specific market transactions due to the nature of the balances. It is not the Group's policy to transfer (sell) receivables to special purpose entities.

(g) Foreign exchange and interest rate risk

Detail regarding foreign exchange and interest rate risk exposure is disclosed in note 27.

(h) Credit risk

Detail regarding credit risk exposure is disclosed in note 27.

17. Other financial assets

	Consolidated		
	2010 $'000	2009 $'000	1 July 2008 $'000
Current – at fair value:			
Financial assets classified as held for trading:			
Forward exchange contracts	-	175	3,432
Financial assets designated at fair value through income statement:			
Unlisted debt	-	-	569
	-	175	4,001
Non-current – at fair value:			
Financial assets classified as held for trading:			
Forward exchange contracts	-	-	3,418
Interest rate swaps	-	-	29,435
Interest rate swaps – related parties	1,893	2,969	-
Less: Provision for impairment	(1,893)	(2,969)	-
Financial assets designated at fair value through income statement:			
Municipal bonds[1]	2,319	2,310	3,089
Unlisted unit trusts	5,246	6,246	17,313
	7,565	8,556	53,255

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

18. Property, plant and equipment

	Consolidated	
	2010 $'000	2009 $'000
Gross carrying amount Plant and equipment at cost		
Opening balance	780	512
Additions	-	284
Disposals	(715)	(1)
Effects of movements in foreign exchange	(65)	(15)
	-	780
Accumulated depreciation/amortisation and impairment Plant and equipment at cost		
Opening balance	(198)	(71)
Disposals	237	1
Depreciation expense	(55)	(132)
Effects of movements in foreign exchange	16	4
	-	(198)
Property under development		
Opening balance*	591	-
Application of revised accounting standard effective 1 July 2009:		
Transfer of property under development to investment property	(591)	-
Revised opening balance	-	-
Additions	-	650
Effects of movements in foreign exchange	-	(59)
	-	591
Net book value	-	1,173

Refer to note 3(m) for explanations of a change in accounting policy and prospective adjustments recognised on 1 July 2009.

Depreciation

The following useful lives are used in the calculation of depreciation:

Plant and equipment 2-3 years

	Consolidated	
	2010 $'000	2009 $'000
Aggregate depreciation recognised as an expense in cost of services during the year is:		
Plant and equipment	55	132

19. Investment property

	Consolidated	
	2010 $'000	2009 $'000
Opening balance[1]	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
Transfers from property under development	-	-
Acquisitions through business combinations	-	-
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

1 Refer to note 3(m) for explanations of a change in accounting policy and prospective adjustments recognised on 1 July 2009. There is no construction in progress as at 30 June 2010.

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

The carrying amount of investment properties is their fair value, being the amount that the properties could be exchanged for 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 2010 Directors valuations are based on independent assessments as determined by a registered independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued using the discounted cash flow or direct capitalisation methods, except for one property in the Roller portfolio which has been reduced for the Directors' best estimate of the capital expenditure that may be required to rectify certain structural defects in the property.

The Directors' best estimate of the capital expenditure that may be required is $10,125,000 (€7,107,000), representing the net present value of the estimated reinstatement required to rebuild approximately 50% of the building. 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 has not yet been determined.

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.

Leases as lessor

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

	Consolidated	
	2010 $'000	Restated[1] 2009 $'000
Less than one year	56,872	80,506
Between one and five years	157,511	213,467
More than five years	57,217	75,871
	271,600	369,844

1 The 2009 disclosure note has been restated in order to represent minimum lease payments receivable to the earliest cancellation date rather than the end of the lease.

During the year ended 30 June 2010, the income statement included rental income amounting to $87,788,000 (2009: $115,168,000) and operating expenses totalling $30,731,000 (2009: $39,951,000) in respect to investment property.

Notes to the consolidated financial statements

In thousands of AUD	Title	Acquisition date	Original purchase price	Cost including all acquisition related costs	Most recent valuation date	Director valuation amount	Book value 30 June 2010	Book value 30 June 2009	Book value 1 July 2008
Retail Properties									
Gallarate, Milan, Italy	Freehold	Jul 2005	9,883	10,326	Jun 2010	9,631[1]	9,631	12,061	12,790
San Guiliano, Milan, Italy	Freehold	Jul 2005	14,479	14,979	Jun 2010	15,002[1]	15,002	18,048	19,176
Festival Park, Marratxi, Mallorca, Spain	Freehold	Jul 2005	125,885	133,303	Jun 2010	104,794[1]	104,794	131,142	155,930
La Vega, Alcobendas, Madrid, Spain	Freehold	Jul 2005	46,072	47,300	Jun 2010	29,729[1]	29,729	38,696	51,265
Pamplona, Navarra, Spain	Freehold	Jul 2005	15,601	16,165	Jun 2010	12,504[1]	12,504	15,701	19,538
Cuadernillos, Alcalá de Henares, Spain	Freehold	Jan 2007	140,476	140,476	Jun 2010	47,336[1]	47,336	69,935	114,466
Champion – Marinopoulos portfolio	Freehold	Dec 2005	109,861	112,350	Jun 2010	97,014[1]	97,014	123,931	125,764
Roller Furniture Retail Outlet portfolio	Freehold	Dec 2005	140,625	147,561	Jun 2010	106,138[2]	106,138	148,270	155,207
Lowen Center, Leipzig, Germany	Freehold	Mar 2006	99,076	103,029	Jun 2010	74,189[1]	74,189	93,980	93,665
Centrum, Halle-Neustadt, Germany	Freehold	Mar 2006	80,721	85,495	Jun 2010	74,760[1]	74,760	93,615	103,581
CityGate, Thessaloniki, Greece	Freehold	Mar 2006	102,272	105,610	Jun 2010	59,951[1]	59,951	107,273	103,655
City Mall, Bucharest, Romania	Freehold	Nov 2006	150,775	150,775	Jun 2010	50,456[1]	50,456	90,094	144,736
Traisenpark, St Pollen, Austria	Freehold	Dec 2007	106,725	106,725	Jun 2010	86,427[1]	86,427	101,703	103,368
							767,931	1,044,449	1,203,141

1 An external independent valuation has been prepared by a member of the Royal Institute of Chartered Surveyors in respect to each of the properties identified and has been adopted as the Directors valuation as at 30 June 2010.
2 An external independent valuation was performed as in 1 above, however see valuation basis for further details on the additional reduction made to the Roller portfolio.

At the end of the period the key assumptions used by the directors in determining the fair values were as follows:

	Discount rate 2010 %	Discount rate 2009 %	Terminal yield 2010 %	Terminal yield 2009 %	Expected vacancy rate 2010 %	Expected vacancy rate 2009 %	Rental growth rate 2010 %	Rental growth rate 2009 %
Retail Properties								
Gallarate, Milan, Italy	8.25	8.25	7.35	7.20	1.00	1.00	1.69	1.37
San Guiliano, Milan, Italy	8.50	8.50	7.25	7.15	1.00	1.00	1.00	0.55
Festival Park, Marratxi, Mallorca, Spain	11.90	11.80	8.15	8.15	6.64	6.06	2.96	3.00
La Vega, Alcobendas, Madrid, Spain	11.75	11.75	8.00	7.75	9.30	7.03	2.51	2.61
Pamplona, Navarra, Spain	10.50	10.50	7.80	7.80	0.00	0.00	1.90	1.44
Cuadernillos, Alcalá de Henares, Spain	12.50	12.50	8.50	8.50	16.87	12.88	2.17	2.17
Champion – Marinopoulos portfolio[1]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Roller Furniture Retail Outlet portfolio[2]	8.20	7.58	7.94	7.93	2.44	2.26	-0.40	-0.77
Lowen Center, Leipzig, Germany	7.20	7.20	7.50	7.50	0.00	2.14	-1.61	-1.63
Centrum, Halle-Neustadt, Germany	8.25	7.70	7.30	7.30	3.68	3.21	0.43	-0.09
CityGate, Thessaloniki, Greece	9.50	7.00	12.00	10.90	2.25	0.00	2.25	1.81
City Mall, Bucharest, Romania	9.00	8.75	11.25	11.00	7.50	5.35	2.00	2.43
Traisenpark, St Pollen, Austria	7.75	7.75	9.25	8.75	3.00	3.00	1.78	2.00

1 The Champion portfolio is valued on a capitalisation basis. The weighted average capitalisation rate for the portfolio is 7.91%.
2 Weighted average shown for portfolio.

20. Trade and other payables

	Consolidated		
	2010 $'000	2009 $'000	1 July 2008 $'000
Current			
Trade payables	3,306	3,823	3,746
Other payables and accrued expenses	11,161	16,390	19,502
Distributions payable to security holders (note 13)	-	-	5,419
Distributions payable to non controlling interests	618	-	-
Amounts payable to related parties	4,364	4,422	9,873
Deferred rental income	12	11	9
	19,461	24,646	38,549
Non-current			
Other payables and accrued expenses	5,203	7,638	9,523
	5,203	7,638	9,523

21. Other financial liabilities

	Consolidated		
	2010 $'000	2009 $'000	1 July 2008 $'000
Current – at fair value			
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.

22. Provisions

	Consolidated		
	2010 $'000	2009 $'000	1 July 2008 $'000
Current			
Employee entitlements	40	43	9
Other	4,535	8,059	4,631
	4,575	8,102	4,640
Non-Current			
Employee entitlements	74	82	62
Other	-	70	945
	74	152	1,007
Reconciliation			
Reconciliations of the carrying amounts of each class of provisions, are set out below:			
Employee entitlements			
Opening balance	125	71	
Provisions made	11	49	
Provision used	-	-	
Effects of movements in foreign exchange	(22)	5	
	114	125	
Other			
Opening balance	8,129	5,576	
Provisions made	1,183	5,048	
Additions through business combinations	-	-	
Provision used	(3,524)	(1,966)	
Unused amounts reversed	(415)	(556)	
Effects of movements in foreign exchange	(837)	27	
	4,536	8,129	

Included in Other provisions is an amount of $3,020,000 (2009: $3,702,000) relating to potential transfer tax payable, $nil (2009: $537,000) relating to compensation claims from tenants and $nil relating to a legal claim (2009: $2,470,000). The residual balance relates to amounts provided for in the course of normal operations.

23. Interest bearing liabilities

	Consolidated		
	2010 $'000	2009 $'000	1 July 2008 $'000
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: $650.3million) 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.

(i) Banking facilities

	Consolidated		
	2010 $'000	2009 $'000	1 July 2008 $'000
Available at reporting date			
Bank loans, secured	596,882	737,319	682,032
Bank loans, unsecured	-	-	49,254
	596,882	737,319	731,286
Utilised at reporting date			
Bank loans, secured	594,642	734,574	675,396
Bank loans, unsecured	-	-	40,215
	594,642	734,574	715,611
Not utilised at reporting date			
Bank loans, secured	2,240	2,745	6,636
Bank loans, unsecured	-	-	9,039
	2,240	2,745	15,675

Fair values

The approximate fair value of the interest bearing liabilities before taking into account capitalised transaction costs is $586,379,000 (2009: $723,880,000) for the Group. The fair value has been calculated by discounting the expected future cash flows at prevailing market interest rates implicit under the contractual terms of the interest bearing liabilities.

Interest rate, foreign exchange and liquidity risk

Details regarding interest rate, foreign exchange and liquidity risk is disclosed in note 27.

(ii) Financing arrangements

Bank loans

Bank loans are denominated in Euro and are interest only loans with principal repayable on maturity with the exception of the loan with Bank Austria Creditanstalt AG ('Bank Austria'), which requires quarterly principal repayments representing an annual payment of 1.67% of the loans original principal value.

For the year ended 30 June 2010, current secured bank loans are secured by registered first mortgages over the investment properties to which each loan relates (2009: secured by registered first mortgages over investment properties to which the loan relates). Interest is payable in arrears in accordance with the drawdown terms (generally 30 to 90 days). In addition, the Working Capital Facility is secured by a fixed and floating charge over the APN European Retail Property Holding Trust. The Working Capital Facility also has a second mortgage over the following investment properties: Festival Park, Pamplona, La Vega, Centrum, Halle-Neustadt and the Roller Furniture retail outlet portfolio.

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

As at 30 June 2010, investment property with a carrying value of $778,056,000 / €546,119,000 (2009: $1,044,449,000 / €606,834,086) has been pledged as security for banking facilities totalling $598,762,000 / €420,272,000 (2009: $737,560,000 / €422,549,000).

The weighted average terms of the bank loans outstanding at 30 June 2010, subject to the non-enforcement of covenant breaches and cross default events, is 1.6 years (2009: 2.5 years). 95.0% (2009: 93.7%) of the bank loans have been fixed with interest rate swaps at a rate of 4.80% (2009: 4.75%), with the remaining balance subject to a floating rate of 0.5% (2009: 2.20%) (re-set quarterly / semi-annually).

Finance lease facility

The Group's lease liabilities are secured by investment properties valued at $3,925,000 (2009: $5,005,000). In the event of default, the leased assets revert to the lessor.

	Consolidated 2010		
	Minimum lease payments $'000	Interest $'000	Principal $'000
Finance Lease Liability			
Less than one year	241	134	107
Between one and five years	954	481	473
More than five years	2,274	517	1,757
	3,469	1,132	2,337

	Consolidated 2009		
	Minimum lease payments $'000	Interest $'000	Principal $'000
Finance Lease Liability			
Less than one year	301	171	130
Between one and five years	1,468	757	711
More than five years	2,789	644	2,145
	4,558	1,572	2,986

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

The Group has an investment property under a finance lease expiring in December 2022. At the end of the lease term, the Group has the option to purchase the investment property at an agreed price of $580,000 / €407,000 (2009: $710,000 / €407,000) plus transaction costs, a price deemed to be a bargain purchase option.

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

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

24. Contributed equity and reserves

(i) Securities on issue

	Consolidated	
	2010 Securities $'000	2009 Securities $'000
On issue at the beginning of the period	544,911	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 from the Fund as declared from time to time with the extent to which each security is paid up. Under the Group's constitution each security, to the extent paid up, represents a right to the underlying assets of the Group.

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 reserve (see note 30). This balance will be recognised in retained earnings when control of the controlled entity is lost.

25. Non-controlling interests

	Consolidated	
	2010 $'000	2009 $'000
External		
Opening balance	26,503	4,025
Non-controlling interests arising on partial disposal (note 30)	-	35,472
Entitlement to profit/(loss)	(709)	(13,257)
Other changes in net assets	(8,642)	263
	17,152	26,503
AEZM		
Opening balance	305	(206)
Entitlement to profit/(loss)	5	581
Other changes in net assets	(31)	(70)
	279	305
	17,431	26,808

26. Parent entity disclosures

Financial position as at 30 June 2010

	2010 $'000	2009 $'000
Assets		
Current assets	86,391	82,861
Non-current assets	197,508	277,195
Total assets	283,899	360,056
Liabilities		
Current liabilities	124,450	143,758
Non-current liabilities	57,224	49,279
Total liabilities	181,674	193,037
Equity		
Contributed equity	552,048	552,048
Retained earnings	(449,823)	(385,029)
Total equity	102,225	167,019
Loss for the year	(57,350)	(282,475)
Other comprehensive income	-	-
Total comprehensive income	(57,350)	(282,475)
Guarantees entered into by the parent entity in relation to the debts of its subsidiaries		
Guarantee provided under the deed of cross guarantee[1]	1,602	7,367

1 The parent entity has entered into a cross guarantee with its indirect subsidiary Victoria Holdings SA to support interest and amortisation payments in accordance with the loan agreement.

Contingent liabilities of the parent entity

The Parent entity has entered into corporate guarantees and collateralisation arrangements with related parties under which it has provided financial support to secure 50.1% of their financing obligations (finance facilities totalling $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.

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

Commitments for the acquisition of property, plant and equipment by the parent entity

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

27. Financial risk management objectives and policies

(i) Capital risk management

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

- complies with capital and distribution requirements of its constituent documents and/or trust deeds; and
- continues to operate as a going concern.

The capital structure of the Group comprises the proceeds from the issue of securities to stapled security holders, undistributed changes in net assets attributable to stapled security holders and interest bearing liabilities. The Group assesses the adequacy of its capital requirements and cost of capital as part of its broader strategic plan, with the objective of maintaining a long term gearing ratio of between 50 – 55%. The Group continuously reviews its capital structure to ensure distributions to stapled security holders are made within the stated distribution policy.

Due to the current significant uncertainty about the Group's ability to continue as a going concern (refer Note 2(c)), the capacity to manage the Group's capital structure by accessing the debt and equity markets has been restricted. Since 31 December 2008, the capital risk management practices have therefore been conducted within these restricted circumstances and the information presented in this note should be viewed in this context.

The Group currently has no externally imposed capital requirements and the strategic capital management plan remains unchanged from the prior year, however it should be noted that due to the significant uncertainty about the Group's ability to continue as a going concern, the range of options available to modify the Group's capital structure is restricted.

(ii) Financial Instruments

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

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

The Group manages its exposure to key financial risks according with its financial risk management objectives. The objectives are to support the delivery of financial targets whilst protecting future financial security. While the overall strategy remains unchanged from 2009, the current financial position of the Group has restricted the ability to utilise financial instruments to manage this risk.

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

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

The Group only deals with creditworthy counterparties and these assessments are regularly reviewed along with ageing analyses for receivable counterparties. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

(iii) Market risks

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

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

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

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

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

(a) Currency risk

The Group's real estate assets are all located in Europe and, as a result, most of the income, expenses, assets and borrowings are denominated in Euro (EUR) or Romanian New Lei (RON). The income is ultimately distributed in Australian Dollars (AUD) and consequently the Group is exposed to the risks of fluctuations in the AUD against the EUR and the EUR against RON. However there is a natural hedge within the portfolio to the extent that the properties and their related loans are denominated in the same currency. Where this relationship does not exist these fluctuations may have an adverse effect on the Group's income statement.

For the year ended 30 June 2010, the Group recorded a net foreign exchange loss of $4,811,000 (2009: loss $11,137,000) arising from movements in the EUR/RON exchange rate. The unrealised net foreign exchange loss arose from the translation of the borrowings used to finance the property located in Romania. There is an offsetting entry arising from the revaluation of the property which is included in the net fair value adjustment to Investment Property.

The Group minimises its net exposure to AUD/EUR exchange fluctuations on income and expenses by entering into forward exchange contracts to fix the exchange rates on estimated future distributions (refer to discussion on distribution hedges below).

Distribution hedges

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

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

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

Of the notional face value of the contracts outstanding at 30 June 2010, €nil (2009: €13,519,000) are distribution hedges held by the APN Champion Retail Fund, hedging its estimated future distributions. The APN Champion Retail Fund is consolidated as part of the Group by virtue of the Group's 55.8% direct and indirect investment in this Fund.

At balance date, the notional face value of contracts are:

	Consolidated			
	2010		2009	
Buy AUD	Sells €'000	Average exchange rate	Sells €'000	Average exchange rate
Maturity				
Less than 1 year	-	-	5,576	1.9133
1 – 5 years	-	-	37,605	1.8593
More than 5 years	-	-	5,117	1.9904
	-		48,298	

The above distribution hedging arrangements are economic hedges and do not qualify for hedge accounting. The fair value of the distribution hedging arrangements recorded by the Group at 30 June 2010 was a net liability of $23,961,000 (2009: net liability $29,239,000) (refer note 17 and note 21).

The fair value of distribution hedging arrangements includes gross fair value gains of $6,000,000 (2009: loss of $30,270,000) for the Group that have been recognised in the income statement.

Capital hedges

The Group has an objective to enter into forward exchange contracts, converting EUR to AUD at a fixed point in time to support its strategy for the syndication of assets into separate unlisted fixed term unit trusts. These contracts are initially entered into by the Group in advance of syndication and are subsequently transferred to the syndicate on its successful creation. During 2009, the Group transferred a forward exchange contract to the APN Champion Retail Fund.

At balance date, the notional face value of contracts are:

	Consolidated			
	2010		2009	
Buy AUD	Sells €'000	Average exchange rate	Sells €'000	Average exchange rate
Maturity				
1 – 5 years	-	-	33,000	1.6829
More than 5 years	-	-	-	-
	-		33,000	

The above capital hedging arrangements are economic hedges and do not qualify for hedge accounting. The fair value of the capital hedging arrangements recorded by the Group at 30 June 2010 was a net liability of $nil (2009: $1,737,000) (refer notes 17 and 21).

The fair value of capital hedging arrangements includes gross fair value gain of $1,111,000 (2009: $1,850,000) for the Group that have been recognised in the income statement.

Net investment

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

Included in the Parent's trade and other receivables and interest bearing liabilities (refer note 26) are net loans to controlled entities that are considered part of the Group's net investment in its European subsidiaries. As at 30 June 2010, the carrying amount of these balances was $89,949,000 (2009: $113,170,000), which includes a current year foreign exchange gain of $27,624,000,000 (2009: gain of $12,409,000) that has been recognised in reserves on translation of these balances to AUD.

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% (2009: 5%) increase/decrease in the AUD against the EUR and a 10% (2009: 10%) increase/decrease of the EUR against the RON. The sensitivity represents management's assessment of the possible changes in foreign exchange rates based upon a review of the historical levels of changes in foreign exchange rates over the last 12 months. The sensitivity analysis includes only outstanding foreign currency denominated items and adjusts their translation at the period end for the identified change in foreign currency rates.

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

	Consolidated			
	EUR impact[1]		RON impact[2]	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Loss before income tax benefit[3]	8,395	8,779	8,587	19,768
Equity attributable to security holders[4]	(9,737)	(11,630)	-	-

1 The sensitivity has been calculated using a 5% (2009: 5%) appreciation of AUD against EUR. A depreciation of 5% will have an equal and opposite impact.
2 The sensitivity has been calculated using a 10% (2009: 10%) appreciation of RON against EUR and has been converted into AUD using the year end spot exchange rate. A depreciation of 10% will have an equal and opposite impact.
3 Includes the foreign exchange sensitivity arising from the retranslation of monetary financial instrument and the fair value exposure on financial instruments classified or designated as fair value through profit or loss. It does not include the potential sensitivity to foreign exchange from the retranslation of non-financial asset such as investment properties.
4 Represents the sensitivity of the long term loans and receivables to foreign operations.

(b) Interest rate risk

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

Euro denominated interest rate swaps have been entered into by the Group to achieve an exposure to fixed interest rates totalling approximately 95% (2009: 93%) of borrowings. The swaps mature over the next 0.5 - 3 years (2009: 1 - 4 years), matching the maturity profile and interest payment dates of the related borrowings. Under the terms of the interest rate swaps, the Group agrees, on either a quarterly or semi-annual basis, to exchange the difference between fixed and floating rate interest amounts based on the notional principal value of each interest rate swap.

As at 30 June 2010 the Group has interest rate swaps with a notional principal amount of $639,836,000 (2009: $787,385,000) have fixed rates ranging from 3.05%-4.18% (2009: 3.05%-4.18%). The net fair value of these swaps is a liability of $29,554,000 (2009: liability $33,258,000) (refer notes 17 and 21). A gross fair value gain of $414,000 and a loss of $3,196,000 (2009: loss of $60,792,000 and a loss of $3,072,000) has been recognised in the income statement (note 9) and cash flow hedging reserve respectively.

Interest rate sensitivity analysis

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

The sensitivity analyses below have been determined based on the Group's exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 1% increase and 0.5% decrease (2009: 0.75%) movement in interest rates represents management's assessment of the possible changes in interest rates based upon a review of the historical levels of changes in 1 year Euribor.

The following table illustrates the effect on loss before income tax benefit and equity attributable to security holders if interest rates had been 1% higher/0.5% lower (2009: 0.75% higher/lower) and all other variables were held constant.

	Consolidated			
	+1.00% 2010 $'000	+0.75% 2009 $'000	-0.50% 2010 $'000	-0.75% 2009 $'000
Loss before income tax benefit	9,948	12,875	(4,969)	(11,149)
Equity attributable to security holders	-	-	-	-

The movement in equity is $Nil (2009: $Nil) as the Group does not have any designated cash flow hedges where the increase/decrease in the fair value would be reflected in equity.

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

(c) Liquidity risk management

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

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

Due to the current significant uncertainty about the Group's ability to continue as a going concern (refer Note 2(c)), the capacity to manage the Group's liquidity risk has been restricted. As identified in notes 21 and 23, the Group has breached several debt and hedging financial covenants that permit financiers to terminate these facilities and demand immediate repayment. While discussions are continuing with financiers to obtain waivers and/or renegotiate facilities, there is no assurance that such waivers and renegotiated facilities will be forthcoming. Notwithstanding the significant uncertainty that exists, the directors believe that there are reasonable grounds to expect that the current discussions with financiers and the strategic review currently occurring will enable the Group to meet its financial obligations as they fall due.

The Group's debt maturity profile, subject to the non-enforcement of covenant breaches and cross default events, is 1.6 years (2009: 2.5 years) with 77.0% (2009: 75.0%) of the debt facilities scheduled to mature from 2011.

Liquidity and interest risk tables

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

	T iming of contractual cash flow						
	Consolidated						
	Weighted average interest rate	Carrying amount $'000	Less than 3 months $'000	3-12 months $'000	1-5 years $'000	Over 5 years $'000	Total $'000
2010							
Trade and other payables		22,615	16,512	900	1,377	3,826	22,615
Distributions payable		618	618	-	-	-	618
Interest bearing loans	1.01%	596,361	529,349	-	68,508	-	597,857
Finance lease liabilities	5.36%	2,337	41	200	954	2,274	3,469
Interest rate swaps	3.14%	29,554	29,554	-	-	-	29,554
Forward exchange contracts		23,961	23,961	-	-	-	23,961
		675,446	600,035	1,100	70,839	6,100	678,074
2009							
Trade and other payables		18,637	12,761	858	4,863	155	18,637
Distributions payable		-	-	-	-	-	-
Interest bearing loans	2.60%	733,556	733,556	-	-	-	733,556
Finance lease liabilities	5.36%	2,986	70	219	1,468	2,804	4,561
Interest rate swaps	3.53%	33,258	33,258	-	-	-	33,258
Forward exchange contracts		30,976	30,976	-	-	-	30,976
		819,413	810,621	1,077	6,331	2,959	820,988

(d) Other price risk

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

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

	+10% price increase	
	Consolidated	
	2010 $'000	2009 $'000
Loss before income tax benefit	525	625
Equity attributable to security holders	525	625

(e) Credit risk

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

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

The Group only trades with recognised, creditworthy third parties. It is not the Group's policy to securitise its trade and other receivables. Collateral is held in some cases depending on an assessment of the credit risk of the tenant. Refer to note 16 for details of the collateral held.

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

There are no significant concentrations of credit risk within the Group. The exposure to credit risk in respect to trade and other receivables is minimised by diverse number, range and location of tenants. Credit risk on derivative instruments is limited because the counterparties are international banks with long term credit ratings of A+ to A (S&P) (2009: A+ to A (S&P)). Credit risk on cash and cash equivalents is also limited due to the Group using creditworthy counterparties.

The Group holds a back-to-back derivative financial instrument with a related party. During the year, the credit rating of the counterparty deteriorated and as a result, the Group's exposure to credit risk has increased. The Group has provided in full against the receivable position from the related party (refer to note 8).

One (2009: nil) single trade receivable contributed more than 10% of the overall trade receivable balances, with three (2009: three) trade receivables contributing between 5% and 10% of the overall receivable balance.

(f) Fair value measurements

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

As of 1 July 2009, the Group has adopted the amendment to AASB 7 Financial Instruments: Disclosures which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

The following tables present the Group's assets and liabilities measured and recognised at fair value at 30 June 2010. Comparative information has not been provided as permitted by transitional provisions of the new rules.

	Consolidated			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Investments	-	-	5,246	5,246
Liabilities				
Derivatives used for hedging	-	53,515	-	53,515

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2.

The following table presents the changes in the Group's level 3 instrument's at the year ended 30 June 2010:

	2010 $'000
Opening balance	6,246
Losses recognised within fair value losses on investments	(1,000)
Closing balance	5,246

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

28. Capital and other commitments

The Group has $Nil capital and other commitments at 30 June 2010 (2009: $Nil).

29. 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 ($2.6 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.

30. Consolidated entities

Name of Entity	Note	Country of incorporation	Ownership interest and voting rights % Level 3 2010	Total 2009
Parent Entity				
APN European Retail Property Holding Trust	(a)			
APN European Retail Property Management Trust				
Controlled Entities				
APN Champion Retail Fund		Australia	44.9	44.9
APN Champion Sub Trust		Australia	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
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

Name of Entity	Note	Country of incorporation	Ownership interest and voting rights % Level 3 2010	Ownership interest and voting rights % Total 2009
Controlled Entities continued				
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		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 (refer note 24).

31. Notes to the cashflow statement

(i) Reconciliation of cash flows from operating activities

	Consolidated	
	2010 $'000	2009 $'000
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	(25,028)	(41,613)
Depreciation and amortisation expense	55	143
Loss/(gain) on distribution hedges	-	8,030
Net foreign exchange losses/(gains)	11,222	21,255
Net cash provided by operating activities before changes in assets and liabilities	37,011	57,625
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)	(7,760)
Increase in provisions	(2,747)	3,005
Net cash flows provided by operating activities	34,795	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	2009 $'000	1 July 2008 $'000
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

(iii) Cash balances not available for use

Included in the balance of cash and cash equivalents is an amount of $3,839,000 (2009: $10,907,000) for the Group concerning amounts that have been provided to banks as security for bank guarantees, derivative financial instruments and other transactions and tenant security deposits.

32. Key management personnel disclosure

(i) Key management personnel

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

(ii) Responsible Entity

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

(iii) Key management personnel compensation

Key management personnel are paid by the parent of the Responsible Entity for their services to APN Property Group Limited. Payments made from the Group to the Responsible Entity do not include any amounts attributable to the compensation of key management personnel in respect of services rendered to the Group itself.

(iv) Identity of related parties

The Group has a related party relationship with its controlled entities (refer note 30), APN Funds Management Limited (the 'Responsible Entity'), the directors of APN Funds Management Limited, APN European Management Limited (the 'Asset Manager') and APN Funds Management (UK) Limited and APN Funds Management (UK #2) Limited (formerly UKA Limited).

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

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

Entity holding the investment	Opening balance	Change	Closing balance
2010 - Fully paid stapled securities			
APN Funds Management Limited	660,000	-	660,000
APN Property Group Limited	3,976,605	-	3,976,605
APN Property for Income Fund No.2	34,000,463	-	34,000,463
APN Direct Property Fund	2,150,000	-	2,150,000
APN International PFIF	439,809	(439,809)	-
APN Property for Income Fund	4,162,518	-	4,162,518
2009 - Fully paid stapled securities			
APN Funds Management Limited	660,000	-	660,000
APN Property Group Limited	3,976,605	-	3,976,605
APN Property for Income Fund No.2	32,420,807	1,579,656	34,000,463
APN Direct Property Fund	2,150,000	-	2,150,000
APN International PFIF	414,809	25,000	439,809
APN Property for Income Fund	4,162,518	-	4,162,518

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

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

No stapled securities were issued as compensation during the year.

	Fully paid stapled units		
	Balance at the beginning of the year	Change during the year	Balance at the end of the year
2010			
David Blight	500,000	-	500,000
Howard Brenchley	243,693	-	243,693
John Harvey	50,000	-	50,000
John Freemantle	-	-	-
Geoff Brunsdon (appointed 19/10/2009)	-	-	-
Michael Johnstone (appointed 25/10/2009)	-	-	-
2009			
Christopher Aylward	20,341,283	-	20,341,283
David Blight	-	500,000	500,000
Clive Appleton	217,200	132,331	349,531
Howard Brenchley	243,693	-	243,693
Michael Butler	-	-	-
Andrew Cruickshank	60,099	664	60,763
John Harvey	50,000	-	50,000
John Freemantle	-	-	-

(vii) Key management personnel loan disclosure

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

(viii) Other transactions with the Group

During 2010 no securities were issued to related parties. In 2009 no securities were issued to related parties.

(ix) Other related party transactions

All transactions with related parties are conducted on normal commercial terms and conditions. Except as otherwise disclosed in note 29, no guarantees have been given or received. Except as otherwise disclosed in note 8, no expense has been recorded in the current period for bad or doubtful debts in respect of amounts owed by related parties.

Asset Manager

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

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

In addition, in accordance with the provisions of the Asset Management Agreement, the Asset Manager has opted out of providing certain asset management and debt arrangement services during the year. Such services have been jointly provided by the Responsible Entity, or its' appointed representative. The transactions and balances outstanding are as follows:

	APN European Management Limited $'000	APN Funds Management Limited $'000	APN Funds Management (UK) Limited $'000	APN Property Group Limited $'000	APN Funds Management (UK #2) Limited $'000
2010					
Management fees	4,006	646	265	-	-
Reimbursable expenses and other costs	163	20	195	237	2
	4,169	666	460	237	2
2009					
Management fees	6,491	-	-	-	-
Reimbursable expenses and other costs	1,431	-	1,091	-	-
	7,922	-	1,091	-	-

	APN European Management Limited $'000	APN Funds Management Limited $'000	APN Funds Management (UK) Limited $'000	APN Property Group Limited $'000	APN Funds Management (UK #2) Limited $'000
2010					
Transactions					
Interest expense (note 9)	48	-	37	216	2
Balances					
Amounts receivable (note 16)	-	-		-	-
Amounts payable (note 20)	(2,749)	(472)	(1,092)	(1,867)	(36)
2009					
Amounts receivable (note 16)	-	-	4	-	-
Amounts payable (note 20)	(2,203)	(1,101)	(873)	(154)	(41)

Other Related Parties
2009

During the financial year ended 30 June 2009, the Group entered into a Share Sale Agreement with APN Champion Retail Fund ('Champion') to divest the portfolio of 16 supermarkets known as the Champion – Marinopoulos portfolio for consideration of approximately $42.7 million (€26.0 million). As part of this Agreement, the Group undertook to subscribe to securities in Champion or its controlled entities has resulted in the Group retaining a 55.8% effective interest in the underlying property. The transaction was settled on 19 August 2008 (note 30).

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

	SCN Management GmbH $'000	APN Vienna Sub-Trust $'000	APN Manhattan Sub-Trust $'000	APN Champion Retail Fund $'000	APN Champion Sub-Trust $'000
2010					
Transactions					
Interest income (note 9)	-	36	515	-	-
Balances					
Amounts receivable (note 16)	-	-	2,064[1]	500	262
Amounts payable (note 20)					
Loans receivable (note 16)	-	-	5,071[1]	-	-
Loans payable (note 23)					
2009					
Transactions					
Distribution income	-	-	-	-	
Interest income	-	465	642	-	
Collaterisation and support income	-	-	-	-	
Interest expense	-	-	-	-	
Balances					
Amounts receivable (note 16)	14	226	817	-	
Amounts payable (note 20)	43	-	-	-	
Loans receivable (note 16)	-	2,569	3,024[1]	-	
Loans payable (note 23)	-	-	-	-	

1 The balance of this loan has been provided against in full (refer to note 16).

33. Subsequent events

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

Directors' declaration

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

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

(i) giving a true and fair view of the financial position of the Group as at 30 June 2010 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and

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

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

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

The directors note however, that there is significant uncertainty as to the Group and the Parent continuing as going concerns (refer note 2(c)). Specifically, the Group and the Parent remain reliant on the support of their lenders through their waiver and non-enforcement of covenant breaches and the restructuring and/or extension of loan facilities, to remain going concerns.

Dated at Melbourne 3rd September 2010

David Blight
Managing Director

Additional securities exchange information

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

Security Holdings (as at 14 September 2010)

Substantial security holders

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

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

Voting rights

Ordinary securities - fully paid

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

Distribution of security holders

Category	Number of Security holders Ordinary Securities - Fully Paid Number of Securities	Number of holders
1 – 1,000	32,388	87
1,001 – 5,000	654,996	194
5,001 – 10,000	2,768,472	332
10,001 – 100,000	62,390,464	1,541
100,001 and over	479,064,340	530
Total	544,910,660	2,684

The number of security holders holdings less than a marketable parcel is 968.

Stock Exchange

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

Other information

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

On-market buy back

There is no current on-market buy-back.

Additional securities exchange information

Twenty largest holders of quoted equity securities

Ordinary shareholders	Fully paid ordinary shares	
	Number	Percentage
HSBC Custody Nominees (Australia) Limited	52,725,304	9.68%
National Nominees Limited	45,307,334	8.31%
J P Morgan Nominees Australia Limited	42,751,424	7.85%
RBC Dexia Investor Services Australia Nominees Pty Limited	34,000,463	6.24%
Mr Christopher John Aylward & Mrs Gail Mona Aylward	20,341,283	3.73%
Melbourne Light Pty Ltd	16,341,283	3.00%
HSBC Custody Nominees (Australia) Limited - A/C 3	15,295,000	2.81%
Merrill Lynch (Australia) Nominees Pty Limited	8,366,625	1.54%
Brookfield Multiplex Funds Management Limited	7,759,604	1.42%
ANZ Nominees Limited	7,547,350	1.39%
Mr Leslie Walter Ramsay	6,719,153	1.23%
Citicorp Nominees Pty Limited	5,645,881	1.04%
Cogent Nominees Pty Limited	5,533,237	1.02%
APN Property Group Limited	3,976,605	0.73%
Mr John Charles Love	3,715,511	0.68%
Jones & Jones Pty Ltd	3,460,832	0.64%
Mr Bernhard Von Aspern	3,195,600	0.59%
Equity Trustees Limited	3,178,742	0.58%
Shamia Consulting and Investment Pty Limited	3,000,000	0.55%
Wavet Fund No 2 Pty Ltd	2,950,000	0.54%
Total	291,811,231	53.55%

Directors

John Harvey, Independent Non-Executive Chairman
David Blight, Group Managing Director
Howard Brenchley, Executive Director
Geoff Brunsdon, Independent Non-Executive Director
Michael Johnstone, Independent Non-Executive Director

Company Secretary

John Freemantle

Registered office

APN Funds Management Limited
Level 30
101 Collins Street
Melbourne, VIC, 3000
Telephone: (03) 8656 1000
www.apngroup.com.au

Share Registry

Link Market Services Limited
Level 1
333 Collins Street
Melbourne, VIC, 3000

Locked Bag A14
SYDNEY SOUTH NSW 1235
Telephone: 1300 554 474 or (02) 8280 7111

Auditor

Deloitte Touche Tohmatsu
550 Bourke Street,
Melbourne, VIC, 3000

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APN | European Retail Property Group

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