APN Euro Property Fund

ARSN 123 172 930

Financial report for the year ended
30 June 2014

Contents

Directors' report

The Directors of APN Funds Management Limited (ARSN 080 674 479) ("the Responsible Entity") submit herewith the financial report of APN Euro Property Fund ("the Fund") for the year ended 30 June 2014. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

The names of the Directors of the Responsible Entity during or since the end of the year are:

Geoff Brunsdon
Jennifer Horrigan
Michael Johnstone
Howard Brenchley
Michael Groth (Alternate Director – appointed 20 March 2014)

Principal activities

The Fund is a registered managed investment fund domiciled in Australia. The principal activity of the Fund is to invest in a diversified portfolio of property funds that invest in European commercial property including retail, office and industrial sectors.

The Fund was registered with the Australian Securities and Investments Commission (ASIC) on 19 December 2006. The Fund was dormant until it commenced operations effective 29 June 2007.

Changes in state of affairs

There has been no significant change in the activities of the Fund during the year. The Fund did not have any employees during the year.

Currently this Fund has suspended its limited liquidity facility and is closed for new applications.

Future developments

Disclosure of information regarding likely developments in the operations of the Fund in future financial years and the expected result of those operations is likely to result in unreasonable prejudice to the Fund. Accordingly, this information has not been disclosed in this report.

Review of operations

The principal objective of the Fund is to provide investors with a consistent and relatively high income and some capital growth, through investments in well diversified portfolio of property funds that invest in European property.

Results

The Fund reported a profit for the financial year of $150,106, attributable primarily to the gain and distribution income from its investment in the APN Vienna Retail Fund (2013: loss of $2,681,672). In the prior year, the loss incurred was mainly due to the decline in the valuation of the Fund's investments in APN Vienna Retail Fund and APN Champion Retail Fund.

Financial performance of underlying investments

APN Euro Property Fund has been advised of the underlying financial position of the Funds that it invests in is as follows:

APN Poland Retail Fund

At 30 June 2014, the APN Poland Retail Fund has net liabilities of $24.0m (2013: $26.9m). As at 30 June 2014, the APN Euro Property Fund has an investment in this Fund valued at $nil (2013:$Nil).

The APN Poland Retail Fund's senior debt facility with FMS (formerly Deutsche Pfandbriefbank) matures on 4 October 2014. The maturity date of loan facility has been extended several times over the last three years however FMS has indicated that further extensions are unlikely to be granted. Refinancing the loan will not be possible without a significant additional equity contribution due to the high level of gearing. The APN Poland Retail Fund has been in a net liability position since June 2010 following the fall in value of the Fund's sole investment property asset, the Manhattan Shopping Centre, Gdansk, resulting from the global financial crisis along with fierce new competition entering the local market.

In the absence of other viable options the Manhattan Shopping Centre was marketed for sale in a wide reaching campaign led by CBRE launched in February 2014. As a result of the marketing campaign several investor parties submitted written offers to acquire the asset and negotiations are continuing between the investor parties and the bank to structure a transaction for the sale of the shares in the asset owning entity Sirius Investments SP Z.o.o. FMS confirmed that quarterly standstill arrangements will be made available from the date of the loan maturity until a transaction for the sale can be completed. The APN Poland Retail Fund will be wound up following the sale of the Manhattan Shopping Centre, however due to the net liability position it is highly unlikely that there will be any further distributions from this Fund.

Directors' Report (continued)

APN Champion Retail Fund

The APN Champion Retail Fund has net liabilities of €22.9m as at 30 June 2014 (2013: net liabilities of €22.8m). As at 30 June 2014, APN Euro Property Fund has an investment in this Fund valued at $Nil (2013:$Nil).

The APN Champion Retail Fund's CMBS debt facility has been in default since October 2013 when the loan matured. It was not possible to agree an extension to the facility or the sale of the asset before the maturity date. RBS, in its capacity of servicing agent for the CMBS noteholders, has been reserving its rights throughout the year to 30 June 2014. Negotiations with RBS have continued during the period in order to try and facilitate a managed solvent exit. RBS does not have the delegated authority to approve a discount to the full debt repayment. Consequently unless the portfolio can be sold at a level that allows for the full repayment of the debt the consent of the CMBS bondholders will be required via a structured voting process.

RBS have indicated that they will continue to reserve their rights until a transaction for the sale of the shares of the asset owning entity (Zenon SA) can take place.

The marketing campaign for the sale of the Zenon portfolio completed in September 2013. Four bids were received from potential investors for the acquisition of the shares in Zenon SA along with a partial settlement for the CMBS loan. Therefore, RBS are in the process of requesting the consent from the CMBS Bondholders to approve the sale of the portfolio at the best price, the voting process required to obtain the approval has been initiated and will take up to three months to complete.

With the continued support from RBS in terms of continuing to reserve its rights of enforcement, and providing the CMBS Noteholders approve the sale of the portfolio at the best price, a solvent exit can be managed. However, if the CMBS Noteholders do not approve the sale of the portfolio or if RBS does enforce its rights then Zenon SA will be placed into insolvency.

As a result distributions from the APN Champion Retail Fund remain suspended for the foreseeable future. The APN Champion Retail Fund will be wound up following the sale of the Champion portfolio.

APN Vienna Retail Fund

The result of the APN Vienna Retail Fund for the year ended 30 June 2014 was a gain of $15.0m (2013: loss $36.7m), The APN Vienna Retail Fund completed the sale of its sole investment property asset on 13 January 2014. The transaction was in the form of the sale of the shares in SCN Management GmbH, the parent company of the asset owning entity, based on sale price of €70.25m less €1m of costs to sell reflecting a net initial yield of approximately 8.25%. The initial consideration received on completion of the sale was €1 million, with the deferred balance paid on 22 July 2014.

The APN Vienna Retail Fund has net assets of $1.0m (2013: net liabilities of $13.9m). As at 30 June 2014, APN Euro Property Fund has an investment in this Fund valued at $118,300 (2013: $nil).

The APN Vienna Retail Fund paid a final distribution of 5 cents per unit on 10 September 2014, of which 50% (2.50 cents per unit) is in relation to the financial year ending 30 June 2014 and 50% (2.50 cents per unit) is in relation to the financial year ending 30 June 2015.

The APN Vienna Retail Fund will be wound up in the coming months.

Distributions

No distributions have been declared by the Fund during the year ending 30 June 2014. Given the poor financial position of the Fund's underlying investments it is unlikely that any future distributions will be declared.

APN Funds Management Limited, the primary service provider to the APN Euro Property Fund has advised that it will continue to support the Fund for the next 12 months.

Distributions receivable for the financial year are from the APN Vienna Retail Fund of $118,300 (2013: $Nil). A final distribution from the APN Vienna Retail Fund of $118,000 will be recorded in FY15. The APN Vienna Retail Fund will be wound up once the final distribution is paid.

Going forward distributions from the APN Champion Retail Fund are only expected to be made to the extent required so as the Fund does not incur a tax liability. No distributions are expected from the APN Poland Retail Fund in the future.

Auditor's Independence Declaration

The Auditor's Independence Declaration forms part of the Directors' report and is included on page 5.

Directors' Report (continued)

Fund information in the Directors' report

Fees paid to the Responsible Entity during the financial year are disclosed in note 7 to the financial statements.

The number of securities in the Fund issued during the year, withdrawals from the Fund during the year, and number of securities in the Fund at the end of the year is disclosed in note 5 to the financial statements.

The value of the Fund's assets as at the end of the year is disclosed in the statement of financial position as "Total assets", and the basis of valuation is included in note 2 to the financial statements.

Options granted

No options were:

(i) Granted over unissued securities in the Fund, during or since the end of the year; or

(ii) Granted to the Responsible Entity.

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

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

Indemnification of officers of the Responsible Entity and auditors

APN Funds Management Limited ('the Company') in its capacity as the Responsible Entity of the Fund has agreed to indemnify the Directors and officers of the Company and its controlled entities, both past and present, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors and officers of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The Company will meet the full amount of any such liabilities, including costs and expenses. In addition, the Company has paid a premium in respect of a contract insuring against a liability incurred by an officer of the Company. The Company has not indemnified or made a relevant agreement to indemnify the auditor of the Fund or of any related body (corporate) against a liability incurred by the auditor.

Rounding off of amounts

The Fund is a fund of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the Directors' report and the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Directors of the Responsible Entity made pursuant to s.298 (2) of the Corporations Act 2001.

On behalf of the Directors

Geoff Brunsdon
Chairman
MELBOURNE, 25 September 2014

Deloitte.

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

25 September 2014

Dear Board Members

APN Euro Property Fund

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 Limited.

As lead audit partner for the audit of the financial statements of APN Euro Property Fund for the financial year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely,

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Peter A Caldwell
Partner
Chartered Accountants

Deloitte.

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Independent Auditor's Report to the Security Holders of APN Euro Property Fund

We have audited the accompanying financial report of APN Euro Property Fund ("the Trust"), which comprises the statement of financial position as at 30 June 2014, 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 at the year's end or from time to time during the financial year as set out on pages 8 to 25.

Directors' Responsibility for the Financial Report

The Directors of the Responsible Entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the Directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

Auditor's Independence Declaration

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

Opinion

In our opinion:

(a) the financial report of APN Euro Property Fund is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Peter A Caldwell
Partner
Chartered Accountants
Melbourne, 25 September 2014

Income statement
For the financial year ended 30 June 2014

	Note	2014 $	2013 $
Income			
Distribution income	9(e)	118,300	-
Interest income		101	434
Unrealised gain on the fair value of investments	9(h)	118,300	-
Total income		236,701	434
Expenses			
Auditor's remuneration	6	11,830	29,261
Registry fee		28,846	-
Interest expense		38,908	31,079
Unrealised losses on the fair value of investments	9(h)	-	2,591,716
Other expenses		7,011	30,050
Total expenses		86,595	2,682,106
Profit/ (loss) for the financial year attributable to security holders		**150,106**	**(2,681,672)**
Decrease in liability attributable to subscriber security holders		-	962,000
Profit/ (loss) for the financial year attributable to ordinary security holders		**150,106**	**(1,719,672)**

Notes to the financial statements are included on pages 13 – 24.

Statement of comprehensive income
For the financial year ended 30 June 2014

	2014 $	2013 $
Profit/ (loss) for the year	150,106	(1,719,672)
Total comprehensive income/ (loss) income for the year	**150,106**	**(1,719,672)**

Notes to the financial statements are included on pages 13 – 24.

Statement of financial position
As at 30 June 2014

	Note	2014 $	2013 $
Current assets			
Cash and cash equivalents	8	3,643	11,534
Trade and other receivables	9 (e)	119,888	553
		123,531	**12,087**
Non-current assets			
Unlisted managed investment schemes	3	118,300	-
		118,300	**-**
Total assets		**241,831**	**12,087**
Current liabilities			
Trade and other payables	4	4,355	15,260
		4,355	**15,260**
Non-current liabilities			
Trade and other payables	4	390,912	300,369
		390,912	**300,369**
Total liabilities		**395,267**	**315,629**
Net liabilities		**(153,436)**	**(303,542)**
Equity attributable to ordinary security holders			
Contributed equity	5	12,481,000	12,481,000
Accumulated losses		(12,634,436)	(12,784,542)
Total Deficiency		**(153,436)**	**(303,542)**

Notes to the financial statements are included on pages 13 – 24.

Statement of changes in equity
For the financial year ended 30 June 2014

	Ordinary contributed equity $	Accumulated losses $	Total $
Balance as at 1 July 2012	12,481,000	(11,064,870)	1,416,130
Loss for the year	-	(1,719,672)	(1,719,672)
Total comprehensive income for the year	-	(1,719,672)	(1,719,672)
Total equity as at 30 June 2013	12,481,000	(12,784,542)	(303,542)
Balance as at 1 July 2013	12,481,000	(12,784,542)	(303,542)
Profit for the year	-	150,106	150,106
Total comprehensive loss for the year	-	150,106	150,106
Total equity as at 30 June 2014	12,481,000	(12,634,436)	(153,436)

Notes to the financial statements are included on pages 13 – 24.

Statement of cash flows
For the financial year ended 30 June 2014

	Note	2014 $	2013 $
Cash flows from operating activities			
Distributions received		-	24,234
Net interest received		126	466
Payments to suppliers		(8,017)	(32,662)
Net cash used in by operating activities	8(b)	**(7,891)**	**(7,962)**
Net decrease in cash and cash equivalents held		(7,891)	(7,962)
Cash and cash equivalents at beginning of the financial year		11,534	19,496
Cash and cash equivalents at end of the financial year	8(a)	**3,643**	**11,534**

Notes to the financial statements are included on pages 13 – 24.

Notes to the financial statements

1. Basis of preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with the A-IFRS ensures that the financial report complies with International Financial Reporting Standards ('IFRS'). For the purposes of preparing these financial statements, the Fund is a for-profit entity.

The financial statements were authorised for issue by the Directors on 25 September 2014.

(b) New accounting standards and interpretations

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

The Fund 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 Fund include:

- AASB13 Fair Value Measurement and related AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB13.

  AASB 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of AASB 13 is broad; the fair value measurement requirements of AASB 13 apply to both financial instrument items and non-financial instrument items for which other AASBs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of AASB 2 'Share-based Payment', leasing transactions that are within the scope of AASB 117 'Leases', and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

  AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under AASB 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, AASB 13 includes extensive disclosure requirements.

  AASB 13 requires prospective application from 1 July 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Fund has not made any new disclosures required by AASB 13 for the 2013 comparative period.

  Other than the additional disclosures included in note 9, the application of AASB 13 does not have any material impact on the amounts recognised in the financial statements.

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

1. **Basis of preparation (continued)**

(b) New accounting standards and interpretations (continued)

Issued standards not early adopted

At the date of authorisation of the financial report, the following standards were in issue but not yet effective:

Standard or Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards[1]	1 January 2018	30 June 2019
AASB 1031 'Materiality' (2013)	1 January 2014	30 June 2015
AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'	1 January 2014	30 June 2015
AASB 2013-3 'Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets'	1 January 2014	30 June 2015
AASB 2013-4 'Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting'	1 January 2014	30 June 2015
AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities'	1 January 2014	30 June 2015
AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'	1 January 2014	30 June 2015
INT 21 'Levies'	1 January 2014	30 June 2015
AASB 2013-9 'Amendments to Australian Accounting Standards' - Part A: 'Annual improvements 2010-2012 and 2011-2013 Cycles' - Part B: 'Defined Benefit Plans: Employee Contributions (Amendments to AASB 119)' - Part C: 'Materiality'	1 July 2014	30 June 2015
AASB 2014-1 'Amendments to Australian Accounting Standards' – Part D: 'Consequential Amendments arising from AASB 14'	1 January 2016	30 June 2017
AASB 2014-1 'Amendments to Australian Accounting Standards' – Part E: 'Financial Instruments'	1 January 2015	30 June 2016

[1] The AASB has issued the following versions of AASB 9 and the relevant amending standards;

- AASB 9 'Financial Instruments' (December 2009), AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9', AASB 2012-6 'Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures.

- AASB 9 'Financial Instruments' (December 2010), AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)', AASB 2012-6 'Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosure'.

- In December 2013 the AASB issued AASB 2013-9 'Amendment to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments', Part C – Financial Instruments. This amending standard has amended the mandatory effective date of AASB 9 to 1 January 2017. For annual reporting periods beginning before 1 January 2017, an entity may early adopt either AASB 9 (December 2009) or AASB 9 (December 2010) and the relevant amending standards.

- In June 2014 the AASB issued AASB 2014-1 'Amendment to Australian Accounting Standards', Part E – Financial Instruments. This amending standard has amended the mandatory effective date of AASB 9 to 1 January 2018. For annual reporting periods beginning before 1 January 2018, an entity may early adopt either AASB 9 (December 2009) or AASB 9 (December 2010) and the relevant amending standards.

1. **Basis of preparation (continued)**

(b) New accounting standards and interpretations (continued)

Issued standards not early adopted

Standard or Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2014-3 'Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations	1 January 2016	30 June 2017
AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'	1 January 2016	30 June 2017

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

Standard or Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
IFRS 15 'Revenue from Contracts with Customers'	1 January 2017	30 June 2018
IFRS 9 Financial Instruments	1 January 2018	30 June 2019
Equity Method in Separate Financial Statements (Amendments to IAS 27)	1 January 2016	30 June 2017

(c) Going concern

For the year ended 30 June 2014, the fund has generated a net profit of $150,106 (2013: net loss of $2,681,672). Cash flows from operations reflect a net cash outflow of $7,891 for the year (2013: $7,962). The fund's net liability position of $153,436 at the year-end (30 June 2013: $303,542) is supported through its investments in property funds, which are unlisted fixed term property funds that do not allow for redemptions and withdrawals. It is unlikely that all of these investments will be realised in the next 12 months.

Notwithstanding the above, the Directors believe it appropriate to prepare the financial statements on a going concern basis due to the provision of a letter of support from APN Funds Management Limited (as Responsible Entity of APN Euro Property Fund). The ongoing support of APN Funds Management Limited includes both a commitment to fund any operating shortfall and to not call for the repayment of amounts owing to APN Funds Management Limited and other entities within the APN Property Group Limited. This support is for a period of 18 months from the date these financial statements are signed.

Based on the provision of the letter of support by APN Funds Management, the Directors believe that there are reasonable grounds for the Fund to continue as a going concern and be able to pay its debts as and when they fall due.

(d) Basis of measurement

The financial report has been prepared on the basis of historical cost, except for the revaluation of investment assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

1. Basis of preparation (continued)

(e) 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.

(f) Functional and presentation currency

These financial statements are presented in Australian dollars (AUD), which is the Fund's functional and presentational currency.

The Fund 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 06/57 effective 31 January 2006.

2. Significant accounting policies

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2013.

(a) Revenue

Distribution and dividend income

Distribution and dividend income is recognised when the entitlement to receive the payment has been established.

Interest income

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

(b) Income tax

Under current income tax legislation the Fund is not liable to pay income tax as the net income of the Fund is assessable in the hands of the beneficiaries (the security holders) who are 'presently entitled' to the income of the Fund. There is no income of the Fund to which the security holders are not presently entitled and additionally, the Fund Constitution requires the distribution of the full amount of the net income of the Fund to the security holders each year.

As a result, the Fund does not recognise deferred taxes in the financial statements arising from differences between the carrying amounts of assets and liabilities and their respective tax bases, including taxes on capital gains which could arise in the event of a sale of investments for the amount at which they are stated in the financial statements. In the event that taxable gains are realised by the Fund, these gains would be included in the taxable income that is assessable in the hands of the security holders as noted above.

Realised capital losses are not distributed to security holders but are retained within the Fund to be offset against any realised capital gains. The benefit of any carried forward capital losses are also not recognised in the financial statements. If in any year realised capital gains exceed realised capital losses, including those carried forward from earlier years and eligible for offset, the excess is included in taxable income that is assessable in the hands of security holders in that year and is distributed to security holders in accordance with the requirements of the Fund's Constitution.

(c) 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 Tax 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.

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

2. Significant accounting policies (continued)

(d) Distributions to security holders

In accordance with the Fund's constitution, the Fund fully distributes its distributable income to security holders by way of cash or reinvestment into the Fund.

Distributions to security holders comprise the income of the Fund to which the security holders are presently entitled. The distributions are payable at the end of December and June each year.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments or other short term highly liquid investments, net of outstanding bank overdrafts.

(f) Trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment losses (refer accounting policy 2(g)).

(g) Impairment

The carrying amount of the entity's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. An asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. If any such indication exists, the assets 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. Impairment losses are recognised in the income statement.

The recoverable amount of the entity'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.

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.

(h) Financial assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms requires delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value. Financial assets classified as at fair value through profit or loss are subsequently remeasured to fair value at each reporting date, with any resultant gain or loss being recognised in the income statement.

(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.

(j) Trade and other payables

Trade payables and other accounts payable are recognised when the Fund 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 generally non-interest bearing and are normally settled on 60-day terms except as noted for related party payables.

(k) Applications and redemptions

Applications received for securities in the Fund are recorded net of any entry fees payable prior to the issue of securities in the Fund. Redemptions from the Fund are recorded gross of any exit fees payable after the cancellation of securities redeemed.

3. Investments

	2014 $'000	2013 $'000
Managed investment schemes at fair value		
Unlisted managed investment schemes	118,300	-

Unlisted managed investment schemes refer to the interest in the net assets of APN Vienna Retail Fund, $1.0m (2013: net liabilities of $13.9m). As at 30 June 2013, APN Euro Property Fund had valued units held in APN Vienna Retail Fund at $Nil.

Information related to the fair value of the unlisted managed investment scheme is disclosed in Note 9 (h).

Units in APN Champion Retail Fund and APN Poland Retail Fund are held at $Nil value (2013: $Nil).

4. Trade and other payables

	2014 $	2013 $
Current		
Accrued expenses	4,355	15,260
Non-Current		
Related party payables	390,912	300,369
	395,267	315,629

Trade payables are non interest bearing with the exception of those due to the Responsible Entity where a rate of 12% (2013: 12%) per annum is charged in accordance with the agreement not to call the amounts for at least 18 months from the date the financial statements are signed. Refer to note 7 for further information on amounts payable to the Responsible Entity.

5. Securities on issue

	2014			2013		
	Ordinary Securities	Subscriber Securities	Total	Ordinary Securities	Subscriber Securities	Total
Securities on issue						
On issue at beginning of the year	12,478,624	7,763,873	20,242,497	12,478,624	7,763,873	20,242,497
On issue at year end	**12,478,624**	**7,763,873**	**20,242,497**	**12,478,624**	**7,763,873**	**20,242,497**

Subscriber Securities are of a different class to Ordinary Securities that have been issued to other investors under the Fund's Product Disclosure Statement. Subscriber securities may be redeemed pursuant to a Subscriber Security Withdrawal Offer made by the Responsible Entity whilst the Fund is illiquid. This withdrawal offer only relates to Subscriber Securities. Whilst the Fund is liquid, Subscriber Securities must be redeemed upon request. It is proposed that cash subscribed for Ordinary Securities will be used to fund the redemption of Subscriber Securities pursuant to the withdrawal offer referred to above. In the current year, no subscriber securities were redeemed.

Each security represents a right to an individual security in the Fund per the Constitution. There are two separate classes of securities on issue being Subscriber Securities and Ordinary Securities. Only Subscriber Securities have the right to participate in a Subscriber Security Withdrawal Offer referred to above. All other rights attaching to both Subscriber and Ordinary Securities are the same.

6. Remuneration of auditors

The auditor of APN Euro Property Fund during the year was Deloitte Touche Tohmatsu. Audit fees amounting to $11,830 (2013: $12,539) and other non-audit service fees of $Nil (2013: $16,722) were incurred in the current year.

7. Related party disclosures

The Responsible Entity of APN Euro Property Fund is APN Funds Management Limited (ACN 080 674 479) whose immediate and ultimate parent entity is APN Property Group Limited (ACN 109 846 068). Accordingly transactions with entities related to the APN Property Group are disclosed below.

APN Funds Management Limited also acts as manager of the Fund.

Key management personnel (KMP)

The Fund does not employ personnel in its own right. However, it is required to have an incorporated Responsible Entity to manage the activities of the Fund and personnel of this entity are considered the KMP of the Fund.

7. Related party disclosures (continued)

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

Holdings of securities by related parties

	Number of Securities Held			
	2014		2013	
Responsible Entity and its associates	Ordinary	Subscriber	Ordinary	Subscriber
APN Property Group Limited	6,355,500	7,763,873	-	7,763,873
APN International Property for Income Fund	-	-	3,055,500	-
APN Diversified Property Fund	-	-	3,300,000	-

Related party investments held by the Fund

The Fund may purchase securities in other approved funds managed by APN Funds Management Limited or its associates in the ordinary course of business at application and redemption prices calculated in accordance with the constitution of these funds. Details of the Fund's investments in other funds operated by APN Fund Management Limited are set out below:

	Number of Securities Held	
	2014	2013
APN Poland Retail Fund	12,437,900	12,437,900
APN Vienna Retail Fund	4,732,000	4,732,000
APN Champion Retail Fund	750,000	750,000

During or since the end of the year, none of the KMP held securities in the Fund, either directly, indirectly or beneficially.

Directors' loans

No loans were made by the Fund to the KMP and / or their related parties. (2013: $Nil).

Other related party transactions

Transactions with related parties have taken place at arm's length and in the ordinary course of business.

During the year ended 30 June 2014, the following transactions occurred between the Fund and its other related parties:

- Registry and accounting fees of $28,846 (2013: $27,472) were paid/payable to the Responsible Entity.
- A distribution from APN Vienna Retail Fund of $118,300 has been recognised in the income statement (2013: $nil).
- Reimbursable expenses and other costs of $Nil to APN Property Group (2013: $514).
- Interest of $38,908 was payable to APN Funds Management Limited (2013: $31,079).

As at 30 June 2014, the following balances are receivable from / payable to the Fund and its other related parties:

- The Fund has recorded interest bearing payables of $390,912 (2013: $299,828) to APN Funds Management Limited and $Nil to APN Property Group Limited (2013: $541).
- Distributions totalling $118,300 (2013: $Nil) are receivable from APN Vienna Retail Fund.

8. Notes to the statement of cash flows

(a) Reconciliation of cash and cash equivalents

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

	2014 $	2013 $
Total cash and cash equivalents	3,643	11,534

8. Notes to the statement of cash flow (continued)

(b) Reconciliation of profit/(loss) for the year to net cash used in operating activities

	2014 $	2013 $
Net profit/ (loss) attributable to security holders	**150,106**	**(2,681,672)**
Net (gain)/ loss on revaluation of investments	(118,300)	2,591,716
Changes in net assets and liabilities:		
(Increase)/ decrease in trade and other receivables	(119,335)	24,811
Increase in trade and other payables	79,638	57,183
Net cash used in operating activities	**(7,891)**	**(7,962)**

9. Financial risk management

The Fund undertakes transactions in a range of financial instruments including:

- cash and cash equivalents;
- investments in unlisted managed investment schemes;
- payables.

These activities expose the Fund to a variety of financial risks including liquidity risk, credit risk and market risk which includes interest rate risk and other price risk.

The overall risk management program seeks to mitigate these risks and reduce volatility on the Fund's financial performance. Financial risk management is carried out centrally by the Responsible Entity under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign currency risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and the investment of excess liquidity.

(a) Financial risk management objectives

The Fund outsources the investment management to APN Funds Management Limited, who provides services to the Fund, co-ordinate access to financial markets, and manages the financial risks relating to the operations of the Fund in accordance with an investment mandate set out in accordance with the Fund's Constitution and Product Disclosure Statement ('PDS').

The Fund's overall risk management programme focuses on ensuring compliance with the Fund's PDS and seeks to maximise the returns derived for the level of risk to which the Fund is exposed.

The Fund was established to invest in a diversified portfolio of property funds that invest in European commercial property. An allocation may also be made to listed property securities. The investment objective of the Fund is to provide consistent, relatively high income distributions and some capital growth, through investment in a diversified portfolio of property funds that invest in European commercial property in the retail, office and industrial property sectors.

The Fund does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the Fund's investment policies, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the Responsible Entity on a continuous basis.

It is the Responsible Entity's aim to invest in such a way that any risks the Fund is exposed to are minimised, while at the same time endeavouring to achieve the investment objectives of the Fund.

Trust Company Limited acts as master custodian on behalf of the Responsible Entity and, as such, provides services including physical custody and safekeeping of assets, settlement of trades, collection of dividends and accounting for investment transactions.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in notes 1 and 2 to the financial statements.

9. Financial risk management (continued)

(c) Capital risk management

The Responsible Entity's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for security holders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Fund consists of cash and cash equivalents and the proceeds from the issue of the securities of the Fund, including both ordinary and subscriber securities.

The Fund is an unlisted open ended fund and because it invests in illiquid assets, redemption of units is only available if the Responsible Entity makes a withdrawal offer. However as indicated in the Product Disclosure Document, a limited liquidity facility is offered to ordinary security holders. The limited liquidity facility has been suspended since October 2008. A subscriber security withdrawal offer also exists for subscriber security holders and this too has been suspended since October 2008. The Fund's overall strategy remains unchanged from the prior year.

(d) Categories of financial instruments
The Fund has investments in the following categories of financial assets and liabilities:

	2014 $	2013 $
Cash and cash equivalents	3,643	11,534
Loans and receivables	119,888	553
Financial assets designated as at fair value through profit or loss	118,300	-
Financial liabilities measured at amortised cost	(395,267)	(315,629)

(e) Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Fund.

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Credit risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The Fund has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the financial risk of financial loss from default. The Fund's investment objective is to find high quality customers predominately with a stable credit history. The Fund measures credit risk on a fair value basis.

The maximum exposure to credit risk as at 30 June 2014 and at 30 June 2013 is the carrying amounts of financial assets recognised in the balance sheet of the Fund. The Fund holds no collateral as security and the credit quality of all financial assets that are neither past due or impaired is consistently monitored in order to identify any potential adverse changes in the credit quality.

As at 30 June 2014, APN Euro Property Fund has valued its investment in APN Vienna Retail Fund at $118,300, resulting from the profit generated by APN Vienna Retail Fund mainly from the sale of the Austrian equities in January 2014 of APN Vienna Retail Fund (2013: $Nil, on the basis that the Fund had a net liability position as at 30 June 2013).

As at 30 June 2014, APN Poland Retail Fund has net liabilities and therefore the investment has been written down to $Nil (2013: $Nil). During the year the senior bank loan matured and the bank have agreed that quarterly standstill agreements will be available until a transaction for the sale of the shares in Sirius Investments SP Z.o.o (the asset owning entity) can be concluded.

As at 30 June 2014, APN Champion Retail Fund has net liabilities and therefore the investment has been written down to $Nil (2013: $Nil). This is due to the Investment property being valued at less than the secured debt, a direct consequence of the tumultuous Greek markets. Management are currently in negotiation with the Royal Bank of Scotland ("RBS") in its capacity as service agent to the bond loan as to whether the properties can be sold at a value lower than their secured debt.

All three funds have come to the end of their fund life and the properties within them will be sold as soon as it is feasible to do so. As a result all three funds have prepared their financial statements on the wind-up basis of accounting.

Cash transactions are limited to financial institutions that meet the treasury risk management policy's minimum credit rating criteria. Credit risk arising on loans and receivable balances is monitored on an ongoing basis with the result that the exposure to bad debts by the Fund is not significant. There are no significant financial assets that have had renegotiated terms that would otherwise have been past due nor impaired.

Distribution receivables are non-interest bearing and are generally on 0-30 day terms. An impairment loss would be recognised when there is objective evidence than an individual receivable is impaired. As at 30 June 2014 no receivables were impaired nor past due (2013: $Nil).

9. Financial risk management (continued)

(e) Credit risk (continued)

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

As at 30 June 2014, the carrying amount of the receivables related to APN Vienna Retail Fund for $118,300, has been determined based on the interim dividend declared of 0.25 cents for 4,732,000 units.

For the Fund, the ageing analysis of receivables at 30 June 2014 is as follows:

Ageing analysis of receivables not impaired	2014 $	2013 $
0-30 days	119,888	553
31-90 days	-	-
91+ days	-	-
	119,888	**553**

Credit risk associated with receivables is considered minimal as 99% of the balance related to a distribution receivable from APN Vienna Retail Fund received after 30 June 2014 and before issuing this financial report. Other receivables balances are not significant to the Fund's operations.

(f) Liquidity risk

Liquidity risk includes the risk that the Fund, as a result of its operations:

- will not have sufficient funds to settle a transaction on the due date;
- will be forced to sell financial assets at a value which is less than what they are worth; or
- may be unable to settle or recover a financial asset at all.

Prudent liquidity risk management in the context of the Fund implies maintaining sufficient cash. The Fund manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. To help reduce these risks the Fund:

- has a liquidity policy which targets a minimum and average level of cash and cash equivalents to be maintained;
- the Fund is not "liquid" for the purposes of the Corporations Act, and accordingly, security holders do not have the right to have their securities redeemed, except under certain circumstances;

The Fund's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities. Security holders are not able to withdraw their securities at any time whilst the Fund remains illiquid and therefore it is not exposed to the liquidity risk of meeting security holders' withdrawals at any time.

2014	Carrying value $'000	Less than 3 months $'000	3 months to 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Liabilities						
Accounts payable	395,267	4,355	-	390,912	-	395,267
2013						
Liabilities						
Accounts payable	315,629	15,260	-	356,598	-	371,858

As indicated in Note 1(c), the financial statements of the Fund have been prepared on a going concern basis given a letter of support that has been provided by APN Funds Management Limited, as Responsible Entity for APN Euro Property Fund. In addition to offering ongoing support to the Fund, APN Funds Management Limited, as Responsible Entity for APN Euro Property Fund has committed to not calling on the payables the Fund owes it and to other entities within the APN Property Group Limited. This support is for the 18 months from the date these financial statements are signed.

9. Financial risk management (continued)

(g) Market risk

Market risk is the risk that the fair value of future cash flows of the Fund's financial instruments will fluctuate because of changes in market conditions or factors. The Investment Manager manages the financial risks relating to the operations of the Fund in accordance with an investment mandate set out in accordance with the Fund's constitution and product disclosure statement.

The Fund's investment objective is to provide investors with a consistent, relatively high level of income combined with some capital growth, through investment in a diversified portfolio of property funds that invest in European commercial property. There has been no change to the Fund's exposure to market risks or the manner in which it manages and measures the risk. Components of market risk to which the Fund is exposed are interest rate risk and price risk.

Interest rate risk

The Fund's interest bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The risk is measured using sensitivity analysis.

The Fund's exposure to interest rates is only in relation to the interest income from cash and cash equivalents of $3,643 (2013: $11,534) with an interest rate of 2.45% (2013: 2.80%).

Interest rate sensitivity

The sensitivity analyses below have been determined based on the Fund'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 year, in the case of instruments that have floating interest rates. A 25 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. The interest rate movements have been determined based on management's best estimate, having regard to historical levels of changes in interest rates and the current debt environment in which the Fund operates. Actual movements in the interest rate may be greater or less than anticipated due to a number of factors, including unusually large market shocks both in the global and domestic property markets. As a result, historic variations in interest rates are not a definitive indicator of future variations.

For the Fund, a 25 basis point (2013: 25) increase in interest rates would have increased profit before tax by $19 (2013: an increase of $39); an equal change in the opposite direction would have decreased profit before tax by $19 (2013: a decrease of $39). The methods and assumptions used to prepare the sensitivity analysis have not changed and it is performed on the same basis as 2013.

Price risk

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 Fund has $118,300 exposure to price risk in relation to the investment in APN Vienna Retail Fund (2013: $Nil).

(h) Fair value of financial instruments

As at 30 June 2014 the Fund held $118,300 financial assets at fair value (30 June 2013: $Nil).

The Directors of the Responsible Entity consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values.

The following table presents the changes in the Fund's level 3 instrument's at the year ended 30 June 2014:

	2014 $'000's	2013 $'000's
Opening balance	-	2,591,716
Gain recognised on fair value of investments	118,300	-
Losses recognised within fair value losses on investments	-	(2,591,716)
Closing balance	**118,300**	-

During 2014 the Fund held investments 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.

As at 30 June 2014, the fair value of the unlisted managed investment scheme has been determined based on the approximate interest on the net assets of APN Vienna Retail Fund, from which, subsequent to 30 June 2014, a dividend for 0.25 cents per unit had been declared.

10. Contingent assets and liabilities

There are no commitments and contingencies in effect at 30 June 2014 (2013: Nil).

11. Subsequent events

Since 30 June 2014 there have been no matters or circumstances that have significantly affected or may significantly affect the Fund.

12. Additional information

APN Funds Management Limited, a private company incorporated and operating in Australia, is the Responsible Entity of APN Euro Property Fund.

Principal Registered Office
Level 30
101 Collins Street
MELBOURNE VIC 3000
Tel: (03) 8656 1000

Principal Place of Business
Level 30
101 Collins Street
MELBOURNE VIC 3000
Tel: (03) 8656 1000

Directors' Declaration

The Directors of the Responsible Entity declare that:

In the opinion of the directors of APN Funds Management Limited, the Responsible Entity of APN Euro Property Fund:

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

  i. giving a true and fair view of the financial position and performance of the fund; and

  ii. complying with Australian Accounting Standards and International Financial Reporting Standards, as stated in accounting policy Note 1(a) to the financial statements, and the Corporations Regulations 2001; and

(b) There are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors of the Responsible Entity made pursuant to s.295 (5) of the *Corporations Act 2001*.

On behalf of the Directors

Geoff Brunsdon
Chairman
Melbourne, 25 September 2014