

AXA Property Trust Limited

# **Annual Report and Consolidated Financial Statements**

For the  
year ended  
30 June 2014



**INVESTMENT  
MANAGERS**

redefining / investment solutions

# [retail.axa-im.co.uk/axa-property-trust](http://retail.axa-im.co.uk/axa-property-trust)

AXA Property Trust Limited is an authorised closed-ended Guernsey registered investment company with a premium listing on the official list and trades on the main market of the London Stock Exchange.

The Company is in managed wind-down which will be effected with a view to the Company realising its investments by year end December 2015 in a manner that achieves a balance between maximising the value from the Company's investments and making timely returns of capital to Shareholders.

The Company will cease to make any new investments or undertake capital expenditure except where necessary in the reasonable opinion of the Manager and Board to protect or enhance the value of any existing investments or to facilitate orderly disposals.

Any cash received by the Company as part of the realisation process, following repayment of the allocated loan amounts and any additional payments required under the loan facilities but prior to its distribution to Shareholders, will be held by the Company as cash on deposit and/or as cash equivalents.

The Company will not undertake new borrowing other than for short-term working capital purposes.

Shareholders should expect that, under the terms of the managed wind-down, the Board and the Manager will be committed to distributing as much of the available cash as soon as reasonably practicable having regard to cost efficiency and working capital requirements. Accordingly, in order to minimise the administrative burden, Shareholders should expect that returns of cash will be made regularly but not necessarily as soon as cash becomes available.



The Association of  
Investment Companies

AXA Property Trust Limited is a member of  
the Association of Investment Companies

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Phönix Center, Fürth, Germany

## Key Financial Information

### For the year ended 30 June 2014

- Total return on Net Asset Value (“NAV”) was (7.92%) after the Sterling currency NAV decreased to £54.53 million on a pro-forma basis before deduction of share redemptions paid
- (Euro currency NAV decreased by 1.47% to €68.10 million)
- Losses were 2.44 pence per share
- No dividends were paid relating to the year
- Redemption of shares paid during the year were £4.1 million
- Ongoing Charge Figure of 4.30% (2013: 4.41%)

### As at 30 June 2014

- NAV was 54.5 pence per share (30 June 2013: 59.22 pence)
- Share price<sup>1</sup> was 41.50 pence per share (30 June 2013: 38.25 pence)
- Gearing<sup>2</sup> was 39.2% (gross) and 34.6% (net) (30 June 2013: 47.4% and 43.9%)

## Performance Summary

	Year ended 30 June 2014	Year ended 30 June 2013	% change
NAV (£000s)	50,428	59,220	(14.85%)
NAV per share	54.50p	59.22p	(7.97%)
Losses per share	(2.44p)	(3.37p)	27.60%
Share redemptions paid	£4.1m	nil	n/a
Share price <sup>2</sup>	41.50p	38.25p	8.5%
Share price discount to NAV	23.9%	35.4%	n/a
Gearing (gross) <sup>3</sup>	39.2%	47.4%	n/a
Total assets less current liabilities (£000s) <sup>4</sup>	82,185	98,905	(16.91%)

The 2014 NAV is presented after deduction of £4.1m of redemption payments. If these are added back, the movement compared to 2013 would be 7.92%.

	Year ended 30 June 2014	Year ended 30 June 2013
<b>Total return</b>		
NAV Total Return <sup>1</sup>	(7.92%)	(1.35%)
Share price Total Return		
- AXA Property Trust	14.3%	18.1%
- FTSE All Share Index	13.1%	17.9%
- FTSE Real Estate Investment Trust Index	23.9%	20.4%

### Past performance is not a guide to future performance.

<sup>1</sup> On a pro-forma basis which includes adjustments to add back any prior NAV deductions from share redemptions.

<sup>2</sup> Mid market share price (source: Datastream).

<sup>3</sup> Gearing is calculated as overall debt, either gross or net of cash held by the Group over property portfolio at fair value.

<sup>4</sup> Includes bank debt classified as a current liability.

Source: AXA Investment Managers UK Limited and Datastream

# Chairman's Statement



Charles Hunter, Chairman

Over the year AXA Property Trust Limited (the “Company”) has sold five holdings and returned to Shareholders proceeds of £4.1 million. Since the year end the asset at Würzburg, Germany has been sold and the sale of the Köthen asset (also Germany) has been agreed. The Investment Manager have continued to work to enhance the value of the remaining assets through new lettings, lease negotiations and physical improvements, and have also been setting the sales strategy to suit each individual holding. The Board believed the careful tailored approach to the disposal strategy will maximise proceeds. The Continental property investment market, as the Investment Manager’s Report relates, is now beginning to improve, although for anything less than “prime” it remains a “buyers’ market”. Since September 2013 quarterly valuations of the portfolio have been stable, and rental income continues to accumulate at over 7%.

## Results

The Company and its subsidiaries (together the “Group”) made a total net loss after tax of £2.39 million for the year to 30 June 2014. Excluding the £2.24m revaluation loss on investment properties (mainly incurred in Q3 2013), the Group made a loss of £0.15 million. The Net Asset Value (“NAV”) of the Company at 30 June 2014 was £50.43 million (30 June 2013: £59.22 million), a decrease of £8.79 million (14.85%) since 30 June 2013. £4.10 million of the decrease was the result of returning capital to shareholders. The Net Asset Value suffered from unfavourable movements in the €/£ exchange rate (£3.31 million).

The Company's net property yield on current market valuation (after acquisition and operating costs) as at 30 June 2014 was 7.53% (30 June 2013: 7.73%). A detailed yield analysis is included in the Investment Manager's Report.

The mid-market price of the Company's shares on the London Stock Exchange on 30 June 2014 was 41.50 pence (30 June 2013: 38.25 pence), representing a discount of 23.9% to the Company's NAV at 30 June 2014 (30 June 2013: 35.4%). At the date of the report, the mid-market price of the Company's shares on the London Stock Exchange had decreased by 2.41% to 40.50 pence.

## Return of Capital to Shareholders

Following Shareholders' agreement to the Board's proposal to the Compulsory Redemption mechanism at the EGM on 27 February 2014, amounts representing the unallocated cash of the Company were distributed to Shareholders in return for the redemption of shares on a pro-rata basis. No dividends were declared during the period and the dividend policy remains unchanged.

The Company returned £2.0m to Shareholders by means of a capital redemption on 19 March 2014 and a further £2.1m on 9 April 2014. An additional capital redemption of approximately £2.0 million was approved by the directors on 29 September 2014, with a redemption date of 30 October 2014 and payment date of 11 November 2014.

## Bank Finance and Deleveraging

The Group continues to comply with the 60% loan-to-value (“LTV”) covenant of the main loan facility with Crédit Agricole and Credit Foncier. Further repayments are made as assets are sold under the disposal programme. At 30 June 2014 the total bank



debt stood at £33.22 million (€41.49 million) (before capitalised debt issue costs) with an LTV of 45.10%. The loan is due to mature on 1 July 2016.

## Prospects

Property investment markets in Germany and the Netherlands are generally improving, but with the macro economic and geo-political background still uncertain the final outcome of the disposal strategy cannot be predicted with any certainty. With recent sales completed the Board expect to make further distributions in the fourth quarter of 2014, and with asset management initiatives coming to conclusions particularly at the larger holding at Fürth in Bavaria, we are hopeful of further progress in achieving sales in the coming months. The strong real estate network of the Manager is working well to achieve this.

The Company holds two good quality properties in Northern Italy; confidence in the national economy however remains low and investor demand even for strong contracted rental income flows scarcely improve buyers' perceptions and current sale prospects. The Board continues to monitor this closely but the liquidation of the Italian assets over the next year may well remain difficult.

**Charles Hunter**

Chairman

15 October 2013

“The Company has returned £4.1 million to Shareholders this year, with a further £2.0 million to be paid 11 November 2014.”

# Investment Manager's Report



Martin McGuire, Fund Manager

## Investment Manager

AXA Investment Managers UK Limited (the "Investment Manager", "AXA IM") is the UK subsidiary of AXA Investment Managers, a dedicated asset manager within the AXA Group. AXA Investment Managers is an innovative and fast-growing multi-expertise investment manager with €582 billion of assets under management and over 2,500 employees, operating in 21 countries as at 30 June 2014.

AXA Real Estate Investment Managers UK Limited (the "Real Estate Adviser") is part of the real estate management arm of AXA Investment Managers S.A. ("AXA Real Estate"). AXA Real Estate is a specialist in European real estate investment management with approximately €52 billion of real estate assets under management and over 500 staff, operating in 23 countries as at 30 June 2014.

Source: AXA Investment Managers UK Limited

## Fund Manager

**Martin McGuire** has headed the AXA Property Trust Fund Management team since December 2007. He is a Chartered Surveyor and Senior European Fund Manager at AXA Real Estate. He has over 30 years' experience in commercial property with a significant proportion of this in Continental European property. Mr McGuire lived for five years in Brussels where he worked for Jones Lang Wootton. In 1985 he joined Standard Life and led their expansion into the Continental European markets where he managed the investment and development programme over many years taking the exposure to in excess of €1.5 billion and was Fund Manager of the Standard Life Investments' €800 million European Property Growth Fund. Latterly he was Investment Director at Standard Life Investments and managed the £2 billion Unit Linked Life Fund. He holds a degree in Land Economy from the University of Aberdeen and also an Investment Management Certificate. He is resident in the United Kingdom.

## Market Outlook

### German retail

German consumers have gradually become more confident and increased their consumption levels over the last few years. Household confidence is close to levels last reached in 2011 and the savings rate has dropped to 9.9%. However, the impact on retail assets will be differentiated. While we expect prime high streets to continue to perform well and experience rental value growth, secondary locations will suffer from the competition of online shopping. International retailers such as Primark and Abercrombie & Fitch tend to aim for the best locations in cities and although this is pushing some retailers to nearby locations, this is not causing retailer demand to spread to secondary locations thus far.

Prime yields have fallen across Germany and are now below the levels of 2007 and 2008. Investment volumes for shopping centres touched a 3-year high in Q4 2013. Prime high street property and shopping centres (in top and second-tier cities) should continue to benefit from this trend. German retail parks have also seen strong interest from investors, with EUR 2.2bn being allocated to them in Q2 2014 – a 120% rise compared to the same period in 2013 and confirmation of the weight of money targeting property assets.





On the occupational side, retail parks are not profiting from the expansion of international retailers in Germany because they are focusing on the high streets in large and medium-sized cities. Also, the rise of online shopping poses a risk to the business model of retail parks that traditionally serve local demand.

#### **German industrial**

Demand for industrial space – especially close to urban areas – has outstripped existing supply and there is limited development coming to market in the next 12-18 months, most of which is pre-let anyway and being developed on a build-to-suit (BTS) basis.

Yields of prime logistics property in Germany are amongst the lowest in Europe, reflecting the greater economic and commercial activity in the country, compared to other European countries. Secondary logistics assets with shorter lease contracts (three to five years) carry a higher risk premium (to prime) in the form of higher yields.

Vacancy rates in the main German industrial markets remain one of the lowest in Europe, standing at below 5% in Q2 2014, triggering rental value growth. The lack of the right type of space has led to rising take-up of BTS assets (75% of total take-up in 2013) with a large increase in construction activity in Germany, with 1.9m sq m under construction as at Q2 2014.

#### **Netherlands logistics**

In the Netherlands, the industrial market is expected to benefit most from the economic recovery, due to its central location along the European logistics corridor. The Central and East Brabant and Limburg regions, focused on European distribution and high-tech sectors, are benefiting from cheaper rents and good accessibility to the rest of Europe and we expect them to record the strongest growth over the next few years. No speculative supply is anticipated in the Netherlands in the short-term, as the country still faces high vacancy rates. However, availability of Class A units is low, with vacancy rates for Grade A assets are also at low levels in the main logistics markets. This is expected to support a recovery in prime rental values in the most sought-after markets over the coming years (+7% year-to-date in Rotterdam in H1 2014).

As a result, the Dutch industrial market has seen an increase in investor interest since the end of 2013 (EUR 601m invested in H1 2014, up 30% compared to H1 2013), which does not limit itself to established markets anymore. We expect this trend to continue and yields across the country to compress further (-20 bps year-to-date in H1 2014), especially along the European distribution corridor.

#### **Italian logistics**

Logistics activity remains subdued in Italy, penalised by the industrial production slump and the weak demand from international players, but most active demand remains focused on Northern Italy. The key sectors driving occupier interest continue to be e-retailing, pharmaceuticals and third-party logistics uses.

While demand overall remains subdued, vacancy is shrinking at prime/established locations as speculative deliveries remain scarce and even new pre-let supply will be limited. The supply overhang elsewhere remains significant and some secondary locations and buildings will not see demand return in this cycle. Incentives have been growing, with the spread between headline and effective rents widening to close to 17% and we expect Italian prime rental values will continue to fall in 2014 with a slow recovery thereafter.

### **Asset Management Update**

Preparation for sale of the remaining assets in Germany is advancing. A lease extension has been agreed with Tegut the tenant at the property in Altenstadt-Lindheim, Germany to take the expiry of the lease from September 2018 to September 2028. There are no tenant lease break options and the only concession to the tenant was a period of five months' rent free. This will improve the potential sale price and the liquidity of the asset when it is brought to market which is expected to be later this year.

At Kraichtal, also in Germany, a significant upgrade to the unit together with an extension of floor space has been agreed with the principal tenant REWE, with an accompanying increase in rent and lease term, thereby improving the sale prospects of this asset which is expected to be brought to market by the end of 2014.

Three assets in Germany, Dasing, Würzburg and Köthen have been brought to market. The sale of Würzburg completed at the end of August for £4.3 million (€5.4 million), 0.9% above valuation at 30 June 2014.

# Investment Manager's Report **continued**

The sale of the asset at Köthen has been agreed for £1.7 million (€2.2 million), 10% below valuation at 30 June 2014.

A renewal of the entire roof covering for the Venray asset in the Netherlands has been completed and the unit is being actively marketed.

## Property portfolio at 30 June 2014

Investment name	Country	Sector	Net yield on valuation <sup>1,2</sup>	% of total Property portfolio
Phönix Center, Fürth	Germany	Retail	6.4%	24.5%
Rothenburg ob der Tauber	Germany	Retail	8.2%	18.8%
Curno, Bergamo	Italy	Leisure	7.6%	15.5%
Bergamina, Agnadello	Italy	Industrial	9.5%	10.9%
Smakterweg, Venray	The Netherlands	Industrial	9.3%	7.7%
Am Birkfeld, Dasing	Germany	Industrial	3.9%	8.3%
Frankfurter Strasse, Wuerzburg	Germany	Retail	6.8%	5.1%
Eppinger Strasse, Kraichtal	Germany	Retail	8.6%	3.9%
Die Weidenbach, Lindheim – Altenstadt	Germany	Retail	9.0%	3.0%
Elsdorfer Weg, Köthen	Germany	Retail	9.3%	2.3%
<b>Total property portfolio</b>			<b>7.5%</b>	<b>100.00%</b>

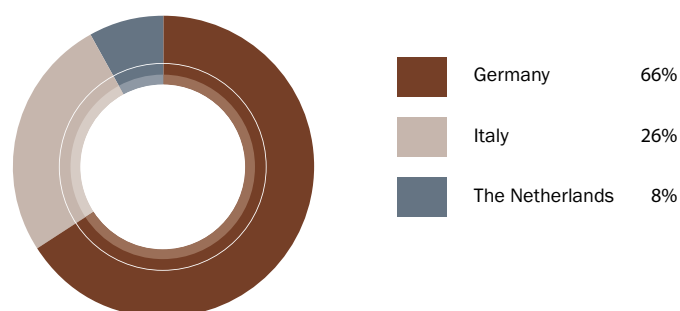
<sup>1</sup> Net yield on valuation is based on the current market valuation after deduction of property-specific acquisition costs and operating costs.

<sup>2</sup> Source - external independent valuers to the Company, Knight Frank LLP

Details of all properties in the portfolio are available on the Company's website [retail.axa-im.co.uk/axa-property-trust](http://retail.axa-im.co.uk/axa-property-trust) under, *Portfolio - Our Presence*.

Source: AXA Real Estate Investment Managers UK Limited

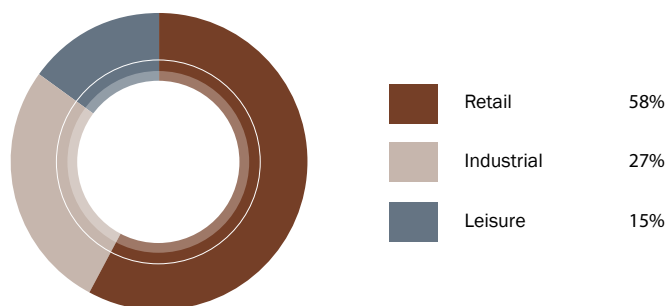
## Geographical analysis at 30 June 2014 by market value



Source: AXA Real Estate Investment Managers UK Limited



## Sector analysis at 30 June 2014 by market value



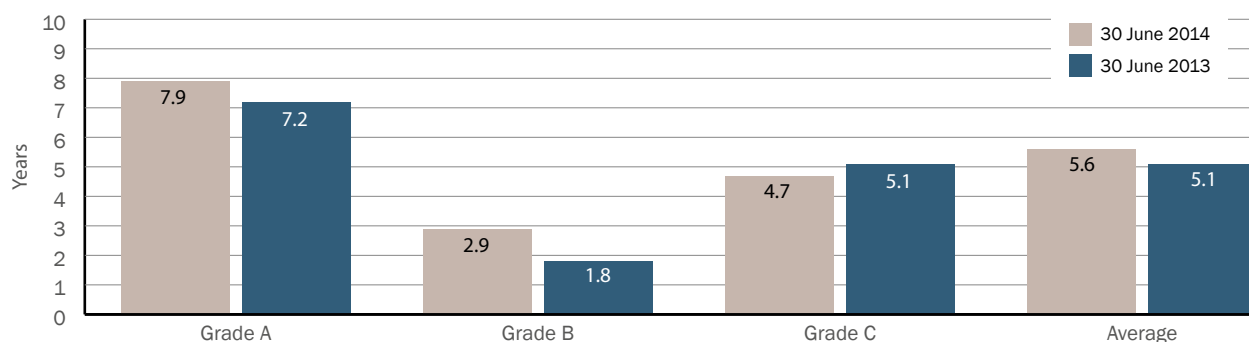
Source: AXA Real Estate Investment Managers UK Limited

## Covenant strength analysis at 30 June 2014

(based on rental income)

Grade A	38.9%	Creditreform:<199; D&B:A 1
Grade B	23.6%	Creditreform:200-249; D&B:B,C,D 1,2
Grade C	33.1%	Creditreform:>250; D&B: D + 3,4
Vacant	4.5%	

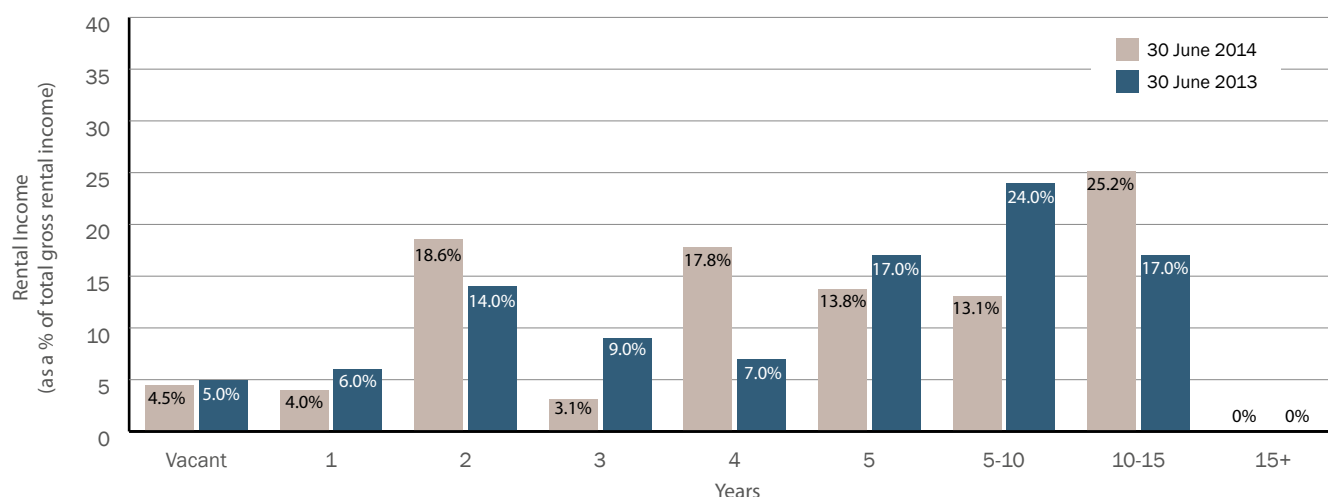
## Average unexpired lease length profile weighted by rental income



The Company's tenant covenant profile is strong, with 38.9% of tenants rated Grade A, indicating a high credit rating score. Rental income from Grade A covenants has a weighted unexpired lease length of 7.9 years. The average rent-weighted unexpired lease length for the investment portfolio as at 30 June 2014 was 5.6 years. Vacant space in the portfolio on 30 June 2014, measured using estimated market rent, represented 4.5% of the total gross rental income.

# Investment Manager's Report **continued**

## **Lease expiry profile** weighted by rental income (as a % of total gross rental income)



Source: AXA Real Estate Investment Managers UK Limited

<b>Fund Gearing<sup>1</sup></b>	<b>30 June 2014</b>	<b>30 June 2013</b>
Property portfolio (£ million)	82.64	113.11
Borrowings (£ million)	32.39	52.24
Total gross gearing	39.2%	47.4%
Total net gearing	34.6%	43.9%

<sup>1</sup> Fund gearing is included to provide an indication of the overall indebtedness of the Group and does not relate to any covenant terms in the Group's loan facilities. Gross gearing is calculated as debt over property portfolio at fair value including the JV asset at Agnadello. Net gearing is calculated as debt less cash over property portfolio at fair value including the JV asset at Agnadello.

<b>Gross LTV Covenants<sup>2</sup></b>	<b>30 June 2014</b>	<b>30 June 2013</b>	<b>Maximum</b>
Main loan facility	45.1%	47.4%	60.0%
Joint venture Property Trust Agnadello S.r.l.	n/a	47.0%	65.0%

<sup>2</sup> Gross LTV is calculated as debt over property portfolio at fair value.

The Group has remained in compliance with the loan covenants on both facilities. As assets are sold the related allocated loan amounts will be repaid, as required under the main loan facility agreement. There are no other scheduled repayments prior to maturity under the agreement.

The Group's share of the Agnadello loan facility was settled in full on 24 September 2013.

Of the £3.76 million cash held by the Group including the cash in the Agnadello JV at 30 June 2014, £0.5 million was held in bank accounts pledged to the financing banks.

<b>Interest Cover Ratio<sup>3</sup> at 30 June 2014</b>	<b>Historic</b>	<b>Minimum</b>	<b>Projected</b>	<b>Minimum</b>	<b>Net rental income headroom</b>
Main loan facility covenant	283.4%	200.0%	286.5%	185.0%	35.4%
Joint venture Property Trust Agnadello S.r.l.	n/a	n/a	n/a	n/a	n/a

<sup>3</sup> Interest Cover Ratio is calculated as net financing expense payable as a percentage of gross rental income less movement in arrears. Net rental income headroom is based on projected interest cover.

At 30 June 2014 the Group held £33.22 million (€41.49 million) of debt (before capitalised debt issue costs) relating to the main facility which was 97.6% hedged by interest rate swaps at 2.795% plus a margin of 2.4%.





## Portfolio outlook

The implementation of the orderly wind down of the portfolio agreed by Shareholders at the EGM in April 2013 is progressing.

The preparation for sale of the remaining assets continues, particularly in Germany, with lease re-gears and extensions being negotiated with existing tenants where possible and new lettings secured, all to improve the level of income and marketability of individual assets. Where no such initiatives are appropriate these assets are now being brought to market and contracts were exchanged on the sale of the asset at Köthen on 5 September 2014 and the sale of the asset at Würzburg completed on 29 August. Those assets undergoing preparation for sale will be brought to market by year end or early 2015 depending on progress.

The Manager continues to work closely with the Board on all aspects of the strategy for the portfolio in order to ensure a timely return of capital to Shareholders.

"Three assets in Germany were brought to market after the financial year end. Since then one sale has been completed and one other sale agreed, which together is 1% above valuation."

# Board of Directors



**Charles Hunter (Chairman)**

has over 30 years of experience in property investment, principally in UK commercial property. He was Head of Property Investment of Insight Investment (formerly Clerical Medical Investment Group) for some nine years and before that Property Director of the investment management subsidiaries of The National Mutual of Australasia group in the United Kingdom. He is currently a director of Care South and he was on the Supervisory Board of Schroder Exempt Property Unit Trust until its conversion to a PAIF in 2012. Mr Hunter is a Fellow of the Royal Institution of Chartered Surveyors and a member of the Investment Property Forum. He is resident in the United Kingdom.



**Stuart Lawson**

is a Fellow of the Association of Chartered Certified Accountants. He joined Northern Trust in 1988 working in Fund Administration and Trust client accounting before being appointed Head of Finance for the office in 1996 where he established a Risk Management Department. In 2005 he was appointed Chief Administration Officer for Guernsey with local responsibility for finance, risk, compliance, corporate services and communication, and in 2007 he assumed responsibility for Real Estate and Infrastructure Fund Administration services for the EMEA region. He is currently head of Regulatory and Market Change in Guernsey, is a Director of a number of client entities and Chairman of Northern Trust (Guernsey) Limited. He has 30 years of experience in the Financial Services Industry and is resident in Guernsey.



**Stephane Monier**

has over 20 years of investment experience (including asset allocation, fixed income and foreign exchange). Mr Monier is currently Chief Investment Officer at Lombard Odier Europe SA. He is responsible for the investment process and the performance for private clients' portfolios in Europe. Mr Monier joined the Lombard Odier group in 2009 on the institutional side (Lombard Odier Investment Managers or LOIM). He was initially Global Head of Fixed Income and Currencies for LOIM and then promoted to Deputy Global Chief Investment Officer. Prior to joining LOIM, Mr Monier was Global Head of Fixed Income and Currencies at Fortis Investments from 2006 to 2009 and he also occupied the very same position at the Abu Dhabi Investment Authority from 1998 to 2006. Prior to Abu Dhabi, Mr Monier spent seven years in JP Morgan Investment Management as a Fixed Income Manager both in London and Paris from 1991 to 1998. Mr Monier has a Masters Degree in Science from Agrotech (Paris) and a Masters Degree in International Finance from HEC Graduate School of Business (Jouy en Josas) (France). He is also a CFA charterholder. He is resident in the United Kingdom.



**Alphons Spaninks**

joined AXA Real Estate in 2005 as a Senior Asset and Transaction Manager. Since 2006, he has been responsible for managing the Dutch office which currently has a team of five. The Assets under Management in The Netherlands are currently circa €500m. Mr Spaninks was promoted to Regional Head Benelux and Scandinavia in 2008, responsible for Assets under Management of over €2bn and managing a team of professionals in Stockholm and Brussels. He has almost 20 years of experience in commercial functions within various real estate companies. Prior to joining AXA Real Estate, Mr Spaninks worked for AZL Vastgoed as Director of Asset Management. Prior to that, he was Regional Director at MOG, a Dutch Property Management company where he began his career as a Property Manager. Mr Spaninks holds a Masters of Science Degree in Building from the Technical University of Eindhoven and a Masters Degree in Real Estate from ASRE (Amsterdam) and is a member of Royal Institution of Chartered Surveyors. He is resident in the Netherlands.



**Gavin Farrell**

is qualified as a Solicitor of the Supreme Court of England and Wales, a French Avocat and an Advocate of the Royal Court of Guernsey. He is a Partner at Maurant Ozannes, Advocates & Notaries Public in Guernsey, having worked previously at Simmons and Simmons, both in Paris and London, and specialises in international and structured finance and collective investment schemes. Mr Farrell holds a number of directorships in investment and captive insurance companies. He is resident in Guernsey.



# Report of the Directors

The Directors of Company present their Annual Report together with the Group's Audited Consolidated Financial Statements (the "Financial Statements") for the year ended 30 June 2014. The Directors' Report together with the Financial Statements give a true and fair view of the financial position of the Group. They have been prepared properly, in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and are in accordance with any relevant enactment for the time being in force; and are in agreement with the accounting records.

## Principal activity and status

The Company is an Authorised Closed-ended investment company domiciled in Guernsey and is registered under the provision of The Companies (Guernsey) Law, 2008 and has a premium listing on the official list and trades on the main market of the London Stock Exchange. Trading in the Company's ordinary shares commenced on 18 April 2005. The Company and the entities listed in note 2(f) to the Financial Statements together comprise the "Group".

## Going concern

The discount control provisions established when the Company was launched required a continuation vote to be proposed to Shareholders at the Company's Annual General Meeting ("AGM") in 2015. As a result of the large discount to Net Asset Value at which shares were trading there was little chance of raising new capital. The costs of running the Group have become a disproportionate charge on distributable income.

After extensive shareholder consultation, the Board resolved not to seek continuation of the Company in 2015 and proposed to Shareholders that the Company enter into a managed wind-down. This proposal was approved at an Extraordinary General Meeting ("EGM") held on 26 April 2013.

In accordance with IFRS, the Financial Statements have been prepared on a non-going concern basis reflecting the orderly wind-down of the Group. Accordingly, the going concern basis of accounting is not considered appropriate. All assets and liabilities continue to be measured in accordance with IFRS. The Board recognises that the timely disposal of properties is uncertain and the Board will review the most appropriate course of action with regard to these assets over the coming months. The Directors estimate that the wind-down costs will be approximately £253,208 (€ 316,216) (30 June 2013: £239,935 (€279,956)). The Board believe that the Group has sufficient funds available to meet its wind-down costs, day-to-day running costs and amounts due in terms of its loan facilities.

## Investment objective and investment policy

The investment objective and investment policy of the Company are as described on page 30.

## Results and dividends

The results for the year are set out in the Consolidated Income Statement on page 34. Following Shareholder approval at the EGM held on 26 April 2013, the Company has commenced a Managed Wind-down with a view to realising its investments by December 2015. The Company has made timely returns of capital to Shareholders whilst balancing the need to maximise the value from the Company's investments and to provide for sufficient working capital. A resumption of dividend payments is not anticipated.

## Directors

The Directors who held office during the year and as at the date of this report were:

- C. J. Hunter (Chairman)
- G. J. Farrell
- S. C. Monier
- S. J. Lawson
- A. Spaninks

# Report of the Directors **continued**

**Mr Lawson** was a Director of the Administrator and Secretary, Northern Trust International Fund Administration Services (Guernsey) Limited until 13 December 2013, when Mr Lawson became a Director of Northern Trust (Guernsey) Limited, the Company's bankers and member of the same group as the Administrator and Secretary.

**Mr Farrell** is a Partner of the Company's Guernsey legal advisers, Mourant Ozannes, Advocates and Notaries Public.

**Mr Hunter** is also a Director of the three direct subsidiaries of AXA Property Trust Limited.

**Mr. Spaninks** is the AXA Real Estate Investment Regional Head of Benelux and Scandinavia.

## **Management**

The Investment Manager provides management services to the Company. A summary of the contract between the Company and the Investment Manager in respect of the management services provided is given in note 3 to the Financial Statements. During the year, the Board has reviewed the appropriateness of the Investment Manager's appointment.

## **Alternative Investment Fund Managers Directive**

The Company does not expect to be required to comply with the AIFM Directive. In the unlikely event that the Company does market its shares in an EEA member State, the relevant regime remains the national private placement arrangements in the relevant EEA Member State which may trigger requisite authorisation, possible changes to the governance structure of the Company including the appointment of a depositary, and additional disclosure in the financial statements. The AIFM Directive is likely to increase management costs, including regulatory and compliance costs, of impacted investment managers and investment funds. The Company will seek to avoid this impact where possible.

## **Foreign Account Tax Compliance Act**

For purposes of the US Foreign Accounts Tax Compliance Act, the Company registered with the US Internal Revenue Service ("IRS") as a Guernsey reporting Foreign Financial Institution ("FFI") in December 2013, received a Global Intermediary Identification Number (G0W47U.99999.SL.831), and can be found on the IRS FFI list under the link <http://apps.irs.gov/app/fatcaFfiList/flu.jsf>. The responsible officer is Arnaud Prudhomme of AXA Investment Managers UK Limited.

The Company is subject to Guernsey regulations and guidance based on reciprocal information sharing inter-governmental agreements which Guernsey has entered into with the United Kingdom and the United States of America. The Board will take the necessary actions to ensure that the Company is compliant with Guernsey regulations and guidance in this regard.

## **UK-Guernsey Intergovernmental Agreement**

The States of Guernsey signed an intergovernmental agreement with the UK ("UK-Guernsey IGA") on 22 October 2013, under which mandatory disclosure requirements will be required in respect of shareholders who have a UK connection. The UK-Guernsey IGA has been ratified by Guernsey's States of Deliberation and the relevant legislation introduced. The impacts of the UK-Guernsey IGA on the Company and the Company's reporting responsibilities pursuant to the UK-Guernsey IGA are not currently in final form. The Board is monitoring implementation of the UK-Guernsey IGA with the assistance of its professional advisers.

## **Directors' Authority to Buy Back Shares**

Any buy back of shares will be made subject to Guernsey law and within guidelines established from time to time by the Board (which will take into account the income and cash flow requirements of the Company) and the making and timing of any buy backs will be at the absolute discretion of the Board. Purchases of shares will only be made through the market for cash at prices below the prevailing Net Asset Value of the shares where the Directors believe such purchases will enhance shareholder value.

Such purchases will also only be made in accordance with the rules of the UK Listing Authority which sets a cap on the price that the Company can pay.





## Articles of Incorporation

At an EGM held on 26 April 2013, a special resolution was passed to amend the Articles of Incorporation. The Board considered that, in light of the Managed Wind-down, and in order to facilitate the realisation of the Portfolio by year end December 2015, in a manner that achieves a balance between maximising the value from the Company's investments and making timely returns of capital to Shareholders, it was in the best interests of Shareholders and the Company as a whole to remove the requirement in the current Articles for a Continuation Resolution to be put to Shareholders in 2015, and to make certain other administrative changes and updates to the current Articles.

At an EGM held on 27 February 2014, a special resolution was passed to amend the Articles of Incorporation. The Board introduced a mechanism for the Redemption of Shares at the discretion of the Board prior to the eventual liquidation of the Company. The purpose of such Redemption Mechanism being to facilitate the return to Shareholders of cash proceeds in a cost-efficient manner in accordance with the Investment Policy and Objective.

On 19 March 2014 and 9 April 2014, the Company under the mechanism for the Redemption of Shares purchased and cancelled 3,641,580 and 3,823,572 Shares at a value of £1,999,957 and £2,099,903 respectively. A further capital redemption of £2.0 million was approved by the directors on 29 September 2014, with a redemption date of 30 October 2014 and payment date of 11 November 2014.

## Independent auditor

KPMG Channel Islands Limited has expressed their willingness to continue in office as auditor and a resolution proposing their re-appointment will be submitted at the forthcoming AGM.

## Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under the law they have elected to prepare the Financial Statements in accordance with IFRS and applicable law.

The Financial Statements are required by law to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates which are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business. As explained in note 2, the Directors do not believe it is appropriate to prepare these Financial Statements on a going concern basis.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Disclosure of information to auditors

So far as each Director is aware, all relevant information has been disclosed to the Company's auditor.

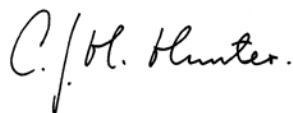
## Report of the Directors **continued**

### Directors' Responsibility Statement

We confirm that to the best of our knowledge and in accordance with DTR 4.1.12R of the Disclosure and Transparency Rules:

- (a) These Financial Statements have been prepared in accordance with IFRS and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole as at and for the year ended 30 June 2014;
- (b) These Financial Statements, which include information detailed in the Chairman's Statement, Investment Manager's and Directors' Reports, provides a fair review of the development and performance of the Group during the year; and includes a description of the principal risks and uncertainties that the Group faced as at and for the year ended 30 June 2014, and
- (c) These Financial Statements taken as a whole are fair, balanced and understandable and provide the information necessary for the shareholders to assess the Company's performance, business model and strategy.

Signed on behalf of the Board by:



**Charles Hunter**  
Chairman  
15 October 2014



**Stuart Lawson**  
Director  
15 October 2014



# Corporate Governance Report

To comply with the UK Listing Regime, the Company must comply with the requirements of the UK Corporate Governance Code. The Company is also required to comply with the Code of Corporate Governance issued by the Guernsey Financial Services Commission.

The Company is a member of the Association of Investment Companies (the "AIC") and by complying with the AIC Code of Corporate Governance ("AIC Code") is deemed to comply with both the UK and Guernsey Codes of Corporate Governance.

The Board has considered the principles and recommendations of the AIC Code, by reference to the guidance notes provided by the AIC ("AIC Guide"), and consider that reporting against these will provide better information to shareholders. To ensure ongoing compliance with these principles the Board receives and reviews a report from the Company Secretary, at each quarterly meeting, identifying how the Company is in compliance and identifying any changes that might be necessary.

The AIC Code and the AIC Guide are available on the AIC's website, [www.theaic.co.uk](http://www.theaic.co.uk). The UK Code is available in the Financial Reporting Council's website, [www.frc.org.uk](http://www.frc.org.uk).

Throughout the accounting period the Company has complied with the recommendations of the AIC Code and thus the relevant provisions of the UK Corporate Governance Code, except as set out below.

The UK Corporate Governance Code includes provisions relating to:

- the role of the Chief Executive;
- Executive Directors' remuneration;
- the need for an internal audit function; and
- the whistle blowing policy

For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers these provisions are not relevant to the position of the Company as it is an externally managed investment company. The Company has therefore not reported further in respect of these provisions.

The Directors are non-executive and the Company does not have employees, hence no Chief Executive or whistle-blowing policy is required. The Board is satisfied that any relevant issues can be properly considered by the Board. There have been no instances of non-compliance, other than those noted above. However the Directors have satisfied themselves that the Company's service providers have appropriate whistle-blowing policies and procedures and have received confirmation from the service providers that nothing has arisen under those policies and procedures which should be brought to the attention of the Board.

Details of compliance are noted in the following pages. The absence of an Internal Audit function is discussed in the Audit Committee Report on pages 25 to 28.

## Composition and Independence of the Board

The Board currently comprises of five non-executive Directors. With the exception of Mr Spaninks, all Directors are considered by the Board to be independent of the Company's Investment Manager.

The Chairman is Mr Hunter. The Chairman of the Board must be independent for the purposes of Chapter 15 of the Listing Rules. Mr Hunter is considered independent because he:

- has no current or historical employment with the Investment Manager; and
- has no current directorships in any other investment funds managed by the Investment Manager except for the three direct subsidiaries of AXA Property Trust Limited.

The Board has overall responsibility for maximising the Company's success by directing and supervising the affairs of the business and meeting the appropriate interests of shareholders and relevant stakeholders, while enhancing the value of the Company and also ensuring protection of investors. A summary of the Board's responsibilities is as follows:

- statutory obligations and public disclosure;
- strategic direction and financial reporting;
- risk assessment and management including reporting compliance, governance, monitoring and control; and
- other matters having a material effect on the Company.

# Corporate Governance Report **continued**

The Board is responsible to Shareholders for the overall management of the Company.

The Board's responsibilities for the Annual Report are set out in the Directors' Responsibility Statement on page 18.

The Board is also responsible for issuing half yearly reports, interim management statements and other price sensitive public reports.

The Board does not consider it appropriate to appoint a Senior Independent Director because the Directors' are all deemed to be independent by the Company except Mr Spaninks. The Board believes it has a good balance of skills and experience to ensure it operates effectively. The Chairman is responsible for leadership of the Board and ensuring its effectiveness.

The Board has engaged external companies to undertake the investment management and administrative activities of the Company. Documented contractual arrangements are in place with these companies which define the areas where the Board has delegated responsibility to them.

The Company holds a minimum of four Board meetings per year to discuss general management, structure, finance, corporate governance, marketing, risk management, compliance, asset allocation and gearing, contracts and performance. The quarterly Board meetings are the principal source of regular information for the Board enabling it to determine policy and to monitor performance, compliance and controls which are supplemented by communication and discussions throughout the year.

A representative of the Investment Manager and Administrator attends each Board meeting either in person or by telephone thus enabling the Board to fully discuss and review the Company's operation and performance. Each Director has direct access to the Investment Manager and Company Secretary and may at the expense of the Company seek independent professional advice on any matter.

Individual Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties. The Company maintains appropriate Directors' and Officers' liability insurance.

## **Re-election**

There are provisions in the Company's Articles of Incorporation which requires Directors to seek re-election on a periodic basis. There is no limit on length of service, nor is there any upper age restriction on Directors.

The Board considers that there is significant benefit to the Company arising from continuity and experience among directors, and accordingly does not intend to introduce restrictions based on age or tenure. It does however believe that shareholders should be given the opportunity to review membership of the Board on a regular basis.

In accordance with the Company's Articles of Association, at each AGM all independent Directors who held office at the two previous AGM's and did not retire shall retire from office and shall be available for re-election.

Mr. Spaninks is the AXA Real Estate Investment Regional Head of Benelux and Scandinavia. As a non-independent Director, Mr. Spaninks is available for re-election at each AGM. At the Company's upcoming AGM, Mr Hunter, Mr Farrell, Mr Monier and Mr Spaninks will retire from office and shall be available for re-election.

The Board are of the opinion that the Board members standing for re-election should be re-elected as they have the right skills and experience to continue to manage the Company.

## **Board diversity**

The Board has also given careful consideration to the recommendation of the Davies Report on "Women on Boards". As recommended in the Davies Report, the Board has reviewed its composition. However, in view of the Company's managed wind-down position it believes that the current appointments provide an appropriate range of skills, experience and diversity.





## Board evaluation and succession planning

The Directors consider how the Board functions as a whole taking balance of skills, experience and length of service into consideration and also reviews the individual performance of its members on an annual basis.

To enable this evaluation to take place, the Company Secretary will circulate a detailed questionnaire plus a separate questionnaire for the evaluation of the Chairman. The questionnaires, once completed, are returned to the Company Secretary who collates responses, prepares a summary and discusses the Board evaluation with the Chairman prior to circulation to the remaining Board members. The performance of the Chairman is evaluated by the other Directors. On occasions, the Board may seek to employ an independent third party to conduct a review of the Board.

The Board considers it has a breadth of experience relevant to the Company, and the Directors believe that any changes to the Board's composition can be managed without undue disruption. An induction programme has been prepared for any future Director appointments and all Directors receive other relevant training as necessary.

## Board and committee meetings

The table below sets out the number of Board, Audit Committee and Management Engagement Committee meetings held during the year ended 30 June 2014 and, where appropriate, the number of such meetings attended by each Director.

	Board of Directors		Audit Committee		Management Engagement Committee	
	Held	Attended	Held	Attended	Held	Attended
C. J. Hunter	6	5	2	2	1	1
G. J. Farrell	6	5	2	1	1	1
S. C. Monier	6	2	2	1	1	1
S. Lawson	6	6	2	2	1	1
A. Spaninks	6	5	n/a	n/a	n/a	n/a

The Directors who held office during the year and their interest in the shares of the Company (all of which are beneficial) were:

	30 June 2014		30 June 2013	
C. J. Hunter*	29,043	0.03%	31,387	0.03%
G. J. Farrell	-	-	-	-
S. C. Monier	78,653	0.09%	85,000	0.09%
S. Lawson	-	-	-	-
A. Spaninks	-	-	-	-

\*Charles Hunter holds 29,043 (2013: 31,387) shares whilst his family holds 9,287 (2013: 10,037).

In addition to the scheduled quarterly Board meetings the Board, or committees thereof, held 5 ad hoc meetings to deal with matters of an administrative nature. These meetings were attended by those Directors who were available at the time.

## Committees of the Board

The Board has established Audit and Management Engagement Committees and approved their terms of reference.

# Corporate Governance Report **continued**

## **Audit Committee**

The Company has established an Audit Committee with formal duties and responsibilities. The Audit Committee meets formally at least twice a year and each meeting is attended by the independent external auditor and Administrator. The Company's Audit Committee is comprised of the entire Board except Mr. Spaninks. The Audit Committee is chaired by Mr. Lawson.

A report of the Audit Committee detailing its responsibilities and its key activities is presented on pages 25 to 28.

## **Management Engagement Committee**

The Management Engagement Committee is comprised of the entire Board except Mr. Spaninks. Mr. Hunter is Chairman of the Management Engagement Committee. The Management Engagement Committee meets formally at least once a year.

The Management Engagement Committee has formal duties and responsibilities. The function of the Management Engagement Committee is to ensure that the Company's Management Agreement is competitive and reasonable for the shareholders, along with the Company's agreements with all other third party service providers (other than the external auditors).

During the year the Management Engagement Committee has reviewed the services provided by the Investment Manager as well as the other service providers and have recommended to the Board that their continuing appointments is in the best interest of the Shareholders. The last meeting was held on 3 July 2014.

## **Nomination Committee**

The Board does not have a separate Nomination Committee. The Board as a whole fulfils the function of a Nomination Committee. Any proposal for a new Director will be discussed and approved by the Board. The Board will determine whether in future an external search consultancy or open advertising is used in the appointments of non-executive Directors.

## **Remuneration Committee**

In view of its non-executive and independent nature, the Board considers that it is not appropriate for there to be a separate Remuneration Committee as anticipated by the AIC Code because this function is carried out as part of the regular Board business. A Remuneration Report prepared by the Board is contained in the Financial Statements on page 29.

## **Terms of Reference**

All Terms of Reference for Committees are available from the Administrator upon request.

## **Internal Controls**

The Board is ultimately responsible for establishing and maintaining the Company's system of internal controls and for maintaining and reviewing its effectiveness. The system of internal controls is designed to manage rather than to eliminate the risk of failure to achieve business objectives and by their nature can only provide reasonable and not absolute assurance against misstatement and loss. These controls aim to ensure that assets of the Company are safeguarded, proper accounting records are maintained and the financial information for publication is reliable. The Board uses a formal risk assessment matrix to identify and monitor risks.

The Board has delegated the management of the Company's investment portfolio and the administration, registrar and corporate secretarial functions including the independent calculation of the Company's NAV and the production of the Annual Report and Financial Statements which are independently audited. Whilst the Board delegates responsibility, it retains accountability for the functions it delegates and is responsible for the systems of internal control.

Formal contractual agreements have been put in place between the Company and providers of these services. On an ongoing basis board reports are provided at each quarterly board meeting from the Investment Manager, Administrator, Registrar and Company Secretary; and a representative from the Investment Manager is asked to attend these meetings.



In common with most investment companies, the Company does not have an internal audit function. All of the Company's management functions are delegated to the Investment Manager and Administrator which have their own internal audit and risk assessment functions. As such, an internal audit function specific to the Company is therefore considered unnecessary.

## **Principal Risks and Uncertainties**

### *Investment Risks*

The Company is exposed to the risk that its portfolio fails to perform in line with its investment objective and policy if markets move adversely or if the Investment Manager fails to comply with the investment policy. The Board reviews reports from the Investment Manager at the quarterly Board meetings, with a focus on the performance of the portfolio in line with its investment policy.

### *Operational Risks*

The Company is exposed to the risk arising from any failures of systems and controls in the operations of the Investment Manager, Administrator and the Sponsor. The Board and its Committees regularly review reports from the Investment Manager and the Administrator on their internal controls.

### *Accounting, Legal and Regulatory Risks*

The Company is exposed to the risk that it may fail to maintain accurate accounting records or fail to comply with requirements of its Prospectus. The accounting records prepared by the relevant service providers are reviewed by the Investment Manager. The Administrator, Sponsor and Investment Manager provide regular updates to the Board on compliance with the Prospectus and changes in regulation.

### *Financial Risks*

The financial risks, including market, credit, liquidity and interest rate risk faced by the Company are set out in Note 21 of the Financial Statements on pages 56 to 62. These risks and the controls in place to reduce the risks are reviewed at the quarterly Board meetings.

## **Relations with Shareholders**

The Board welcomes shareholders' views and places great importance on communication with its shareholders. The Board receives regular reports on the views of shareholders and the Chairman and other Directors are available to meet shareholders if required. The Investment Manager meets with major shareholders on a regular basis and reports to the Board on these meetings. Issues of concern can be addressed by any shareholder in writing to the Company at its registered address. The AGM of the Company provides a forum for shareholders to meet and discuss issues with the Directors and Investment Manager of the Company.

In addition the Company maintains a website which contains comprehensive information, including regulatory announcements, share price information, financial reports, investment objectives and strategy and investor contacts.

## **Significant Shareholdings**

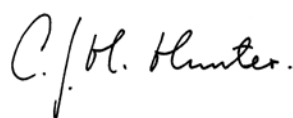
Disclosure and Transparency Rules are now included in the Financial Conduct Authority handbook. These rules require substantial Shareholders to make relevant holding notifications to the Company and the UK Financial Conduct Authority. The Company must then disseminate this information to the wider market.

# Corporate Governance Report **continued**

Shareholders with holdings of more than 3% of the issued ordinary shares of the Company as at 26 September 2014 were as follows:

	Number of shares	Percentage
State Street Nominees Limited	30,906,561	33.40%
Transact Nominees Limited	14,548,543	15.72%
Chase Nominees Limited	5,381,180	5.82%
Credit Suisse Client Nominees (UK) Limited	3,000,000	3.24%

Signed on behalf of the Board by:



**Charles Hunter**  
Chairman  
15 October 2014



**Stuart Lawson**  
Director  
15 October 2014



# Audit Committee Report

Dear Shareholders,

I am pleased to present the Audit Committee's Report for the year ended 30 June 2014, which covers the following topics:

- Responsibilities of the Audit Committee and its key activities during the year,
- Financial reporting and significant areas of judgement and estimation,
- Independence and effectiveness of the external auditor, and
- Internal control and risk management systems.

As advised previously, the Company has implemented a strategy to wind down the portfolio and return capital to investors. The Audit Committee's activities during the year have therefore concentrated on maintaining an appropriate risk and control environment, providing suitable disclosure of progress and residual risks in the Financial Statements, ensuring ongoing engagement from service providers and keeping sufficient liquid funds to meet expenditure for essential or justified items.

## Responsibilities

The Audit Committee reviews and recommends to the Board for approval or otherwise, the Financial Statements of the Company and is the forum through which the independent external auditor reports to the Board of Directors. The independent external auditor and the Audit Committee will meet together without representatives of either the Administrator or Investment Manager being present if either considers this to be necessary.

The role of the Audit Committee includes:

- Monitoring the integrity of the Financial Statements of the Company covering:
  - formal announcements relating to the Company's financial performance,
  - significant financial reporting issues and judgements,
  - matters raised by the external auditors, and
  - appropriateness of accounting policies and practices.
- Reviewing and considering the UK Code, AIC Code and FRC Guidance on Audit Committees
- Monitoring the quality and effectiveness of the independent external auditors which includes:
  - meeting regularly to discuss the audit plan, the subsequent audit report,
  - considering the level of fees for both audit and non-audit work,
  - reviewing independence, objectivity, expertise, resources and qualification, and
  - making recommendations to the Board on the appointment, reappointment, replacement and remuneration.
- Reviewing the Company's procedures for prevention, detection and reporting of fraud, bribery and corruption, and
- Monitoring and reviewing the internal control and risk management systems of the service providers together with the need for an Internal Audit function.

The Audit Committee's full terms of reference can be obtained by contacting the Company's Administrator.

## Financial Reporting

The Audit Committee's review of the Half Yearly Financial Report and Audited Annual Report and Financial Statements focused on the following significant risks;

- investment property portfolio valuation, and
- going concern given the wind-down strategy.

## Valuation of investments

The Company's investment property portfolio had a fair value of £73.7 million as at 30 June 2014 and represented the majority of the total assets of the Company. The Company invests in European commercial real estate owned via intermediate holding vehicles. They are valued in accordance with the requirements of IFRS. The audit committee has reviewed valuations produced by alternative firms who have been approached to assist with the disposal program and compared valuations to sales proceeds where applicable. Variations are challenged and discussed with the Investment Manager and suitable explanations received. All prices are also subject to a review process and oversight by the Investment Manager.



# Audit Committee Report **continued**

The Audit Committee considered the fair value of the investments held by the Group as at 30 June 2014 to be reasonable based on information provided by the Investment Manager, Administrator and the independent external property valuers.

## **Going concern**

In accordance with IFRS, the Consolidated Financial Statements have been prepared on a non-going concern basis reflecting the orderly wind-down of the Group. Accordingly, the going concern basis of accounting is no longer considered appropriate. Investment properties continue to be carried at fair value. All other assets and liabilities continue to be measured in accordance with IFRS.

The Audit Committee have taken into consideration the following factors when making the assessment of the non-going concern basis:

- the timely disposal of properties which is uncertain,
- the loan covenant position and associated risk of non-compliance in advance of key reporting dates, and
- regular reviews of the cash flows of the Company with appropriate cash surplus to meet current and future costs.

## **Audit Report**

The independent external auditor reported to the Audit Committee that no material misstatements were found in the course of their work. Furthermore, the Manager and Administrator confirmed to the Audit Committee that they were not aware of any material misstatements including matters relating to the Financial Statements presentation. The Audit Committee is satisfied that the independent external auditor has fulfilled its audit of the financial statements with diligence and professional scepticism.

## **Accounting Policies & Practices**

The Audit Committee has assessed the appropriateness of the accounting policies and practices adopted by the Company together with the clarity of disclosures included in the Financial Statements. Following a review of the presentations and reports from the Administrator and consulting where necessary with the independent external auditor, the Audit Committee is satisfied that the Financial Statements appropriately address the critical judgements and key estimates (both in respect to the amounts reported and the disclosures). It is also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised, challenged and are sufficiently robust.

The Audit Committee advised the Board that this Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable.

## **Risk Management**

The Audit Committee continued to consider the process for managing the risk of the Company and its service providers. Risk management procedures for the Company are detailed in the Company's risk assessment matrix, and is reviewed and approved by the Audit Committee on a regular basis. Regular reports are received from the Investment Manager and Administrator on the Company's risk evaluation process and reviews.

In the context of the managed wind down, the key risks which the Audit Committee has closely monitored are:

- Asset disposal program
- Ongoing liquidity
- Levels of expenditure
- Engagement from service providers

Through regular briefing sessions and formal committee meetings, the Audit committee has received the necessary information and confirmation that activities have been managed and executed in accordance with plans approved by the Board and established policies and procedures.

## **Fraud, Bribery and Corruption**

The Audit Committee continues to monitor the fraud, bribery and corruption policies of the Company. The Board receives a confirmation from all service providers that there have been no instances of fraud or bribery.



## The Independent External Auditor

KPMG Channel Islands Limited has been the independent external auditor from the date of the initial listing on the London Stock Exchange. Given the anticipated short life of the Company, the Audit Committee will focus on deriving best value at a competitive cost from the existing audit firm.

The independence and objectivity of the external auditor is reviewed by the Audit Committee which also reviews the terms under which the independent external auditor is appointed to perform non-audit services. The Audit Committee has established preapproval policies and procedures for the engagement of the auditor to provide audit, assurance and tax services. The principles on which these are based are that the external auditors may not provide a service which:

- places them in a position to audit their own work
- creates a mutuality of interest
- results in the external auditor developing close relationships with service providers of the Company
- results in the external auditor functioning as a manager or employee of the Company
- puts the external auditor in the role of advocate of the Company

As a general rule, the Company does not utilise external auditors for internal audit work, secondments or valuation advice. Services which are in the nature of audit, such as tax compliance, tax structuring, accounting advice, quarterly reviews and disclosure advice are normally permitted but are subject to prior approval by the Audit Committee.

The Audit Committee has examined the scope and results of the audit, its cost effectiveness and the independence and objectivity with particular regard to non-audit fees, and considers KPMG Channel Islands Limited to be independent of the Company. The following table summarises the remuneration paid to KPMG Channel Islands Limited and to other KPMG member firms for audit and non-audit services provided to the Company during the years ended 30 June 2014 and 30 June 2013.

	30 June 2014	30 June 2013
Statutory audit	£216,842	£197,970
Non-audit services	£49,426	£36,887
<b>Total fees incurred</b>	<b>£266,268</b>	<b>£234,857</b>

### Performance and effectiveness

During the year, when considering the effectiveness of the independent external auditor, the Audit Committee has taken into account the following factors:

- the audit plan presented to them before the audit;
- the post audit report including variations from the original plan;
- changes in audit personnel;
- the independent external auditor's own internal procedures to identify threats to independence; and
- Feedback received from both the Investment Manager and Administrator.

The Audit Committee reviewed and, where appropriate, challenged the audit plan and the audit findings report of the independent external auditor and concluded that the audit plan sufficiently identified audit risks and that the audit findings report indicated that the audit risks were sufficiently addressed with no significant variations from the audit plan. The Audit Committee considered reports from the independent external auditors on their procedures to identify threats to independence and concluded that the procedures were sufficient.

During the year, the audit principal responsible for signing the audit report changed from Robert Hutchinson to Lee Clark. This change was carefully managed with appropriate dialogue with me as Chairman of the Audit Committee and the Board, together with a structured handover process. The committee is pleased to conclude that the handover process was effectively managed over an appropriate timeframe and that the desired level of continuity and service was maintained.

# Audit Committee Report **continued**

## *Reappointment of external auditors*

Consequent to this review process, the Audit Committee has recommended to the Board that a resolution be put to the 2014 AGM for the reappointment of KPMG Channel Islands Limited as independent external auditor. The Board has accepted this recommendation.

## **Internal control and risk management systems**

The Company outsources the subsidiary company accounting and financial statements production to the Investment Manager, and company accounting, document execution and expense payment to the Administrator. The Audit Committee consider the following matters in this regard:

- regular operations meetings with service providers,
- reporting to the Audit Committee and Board,
- independent opinion of the external auditor, and
- on-going evaluation of performance.

In addition, the Audit Committee reviews and examines externally prepared assessments of the control environment in place at the Investment Manager and the Administrator and their ongoing stability and reputation. No significant failings or weaknesses were identified.

The Audit Committee has reviewed the need for an internal audit function and has decided that the systems and procedures employed by the Investment Manager and the Administrator's internal audit function provide sufficient assurance that a sound system of internal control, which safeguards the Company's assets, is maintained. An internal audit function specific to the Company is therefore considered unnecessary.

In finalising the Financial Statements for recommendation to the Board for approval, the Audit Committee has satisfied itself that the Financial Statements taken as a whole are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

A member of the Audit Committee will continue to be available at each AGM to respond to any shareholder questions on the activities of the Audit Committee.



**Stuart Lawson,**  
Chairman, Audit Committee  
15 October 2014



# Directors' Remuneration Report

## Introduction

An ordinary resolution for the approval of the Director's Remuneration Report will be put to the shareholders at the AGM to be held on 4 December 2014.

## Remuneration policy

All Directors are non-executive and a Remuneration Committee has not been established. The Board as a whole considers matters relating to the Directors' remuneration. No advice or services were provided by any external person in respect of its consideration of the Directors' remuneration.

The Company's policy is that the fees payable to the Directors should reflect the time spent by the Directors on the Company's affairs and the responsibilities borne by the Directors and be sufficient to attract, retain and motivate directors of a quality required to run the Company successfully. The Chairman of the Board is paid a higher fee in recognition of his additional responsibilities. The policy is to review fee rates periodically, although such a review will not necessarily result in any changes to the rates, and account is taken of fees paid to directors of comparable companies. The Directors of the Company are remunerated for their services at such a rate as the Directors determine provided that the aggregate amount of such fees does not exceed £120,000 per annum.

There are no long term incentive schemes provided by the Company and no performance fees are paid to Directors.

None of the Directors has a service contract with the Company but each of the Directors is appointed by a letter of appointment which sets out the main terms of their appointment. Directors hold office until they retire by rotation or cease to be a director in accordance with the Articles of Incorporation, by operation of law or until they resign.

## Remuneration

Directors are remunerated in the form of fees, payable quarterly in arrears, to the Director personally. No Directors have been paid additional remuneration outside their normal Directors' fees and expenses.

At a Board meeting of the Company held on 22 February 2012, the Board resolved to reduce their Directors' fees by 10% for 12 months with effect from 1 April 2012. At a Board meeting of the Company held on 13 June 2013, the Board resolved to continue to maintain the 10% reduction in fees.

The current annual Directors' fees comprise £18,000 per annum payable to the Chairman and £13,500 per annum payable to the other Directors.

For the year ended 30 June 2014 and 30 June 2013 Directors' fees paid were as follows:

	30 June 2014 12 months	30 June 2013 12 months
C. J. Hunter	£18,000	£18,000
G. J. Farrell	£13,500	£13,500
S. C. Monier	£13,500	£13,500
J. M. Marren	-	£11,207
R. G. Ray	-	£13,389
S. Lawson	£13,500	£2,293
A. Spaninks	£13,500	£111
	£72,000	£72,000

The Directors of the subsidiaries of the Group received emoluments amounting to £21,039 (2013: £23,485). Total fees paid to Directors of the Group were £93,039 (2013: £95,485).

Signed on behalf of the Board by:

**Charles Hunter**  
Chairman  
15 October 2014

**Stuart Lawson**  
Director  
15 October 2014

# Investment Objective and Investment Policy

At an EGM of the Company held on 26 April 2013, the Shareholders resolved to amend the Company's investment policy. The amended investment objective and policy is set out below:

## **Investment objective**

The Company is managed with the intention of realising all remaining assets in the Portfolio, in a manner consistent with the principles of prudent investment management and spread of investment risk, with a view to returning capital invested to the Shareholders in an orderly manner.

## **Investment policy**

The Managed Wind-down will be effected with a view to the Company realising its investments by year end December 2015 in a manner that achieves a balance between maximising the value from the Company's investments and making timely returns of capital to Shareholders.

The Company will cease to make any new investments or undertake capital expenditure except where necessary in the reasonable opinion of the Manager and Board to protect or enhance the value of any existing investments or to facilitate orderly disposals.

Any cash received by the Company as part of the realisation process, following repayment of the allocated loan amounts and any additional payments required under the loan facilities but prior to its distribution to Shareholders, will be held by the Company as cash on deposit and/or as cash equivalents.

The Company will not undertake new borrowing other than for short-term working capital purposes.

Shareholders should expect that, under the terms of the Managed Wind-down, the Board and the Manager will be committed to distributing as much of the available cash as soon as reasonably practicable having regard to cost efficiency and working capital requirements. Accordingly, in order to minimise the administrative burden, Shareholders should expect that returns of cash will be made regularly but not necessarily as soon as cash becomes available.



# Independent Auditor's Report to the Members of AXA Property Trust Limited

## Opinions and conclusions arising from our audit

### Opinion on financial statements

We have audited the consolidated financial statements (the "financial statements") of AXA Property Trust Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 30 June 2014 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as issued by the International Accounting Standards Board (the "IASB"). As described in Note 2, the financial statements have been prepared on a non-going concern basis. In our opinion, the financial statements:

- give a true and fair view of the state of the Group's affairs as at 30 June 2014 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as issued by the IASB; and
- comply with the Companies (Guernsey) Law, 2008.

### Our assessment of risks of material misstatement

The risks of material misstatement detailed in this section of this report are those risks that we have deemed, in our professional judgement, to have had the greatest effect on: the overall audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team. Our audit procedures relating to these risks were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of these risks, and we do not express an opinion on these individual risks.

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit were as follows:

### Going concern

Refer to pages 25-26 of the Audit Committee Report and Note 2 Significant accounting policies.

- **The risk** – On the 26 April 2013 an Extraordinary General Meeting was held at which the shareholders approved proposals for a managed wind-down of the Group by year end December 2015. Accordingly, the Board of Directors have prepared the financial statements on a non-going concern basis reflecting an orderly managed wind-down of the Group and the continuing measurement of the investment property portfolio at fair value. There is a risk that the Board of Directors may not be able to achieve the wind-down in an orderly manner and if this was the case then it would impact their ability to continue measuring the investment property portfolio at fair value.
- **Our response** – Our audit procedures with respect to going concern included, but were not limited to, holding discussions with the Board of Directors and Investment Manager to understand the ongoing wind-down programme; and obtaining and evaluating the Group's going concern assessment, post year-end cash flow forecasts and loan covenant certificates. We also considered the going concern disclosure in Note 2 for compliance with International Financial Reporting Standards as issued by the IASB and other appropriate technical guidance.

### Valuation of investments properties (£67,351,000) and investment properties held for sale (£6,326,000)

Refer to pages 25-26 of the Audit Committee Report, Note 2 Significant accounting policies, Note 9 Investment properties and Note 10 Investments properties held for sale disclosures.

- **The risk** – The Group's investment property portfolio accounted for 84% of the Group's total assets as at 30 June 2014. The fair value of the investment property portfolio as at 30 June 2014 was assessed by the Board of Directors based on independent valuations prepared by the Group's external property valuer. As highlighted in the Audit Committee Report, the valuation of the Group's investment property portfolio, given it represents the majority of the total assets of the Group and requires the use of significant judgement, is a significant area of our audit.
- **Our response** – Our audit procedures with respect to the Group's investment property portfolio included, but were not limited to, testing the design and implementation of certain relevant controls; evaluating the competence, objectivity and independence of the external property valuer; we assessed the appropriateness of the valuation methodologies and assumptions used based on market knowledge and market data, which included undertaking discussions on key findings with the external property valuer and challenging the assumptions used. We compared key inputs to the valuations such as current and estimated rental income, yield rates, estimated capital value, occupancy and tenancy contracts for consistency with other audit findings. We also considered the Group's investment property valuation policies and their application as described in



# Independent Auditor's Report to the Members of AXA Property Trust Limited **continued**

Note 2 for compliance with International Financial Reporting Standards as issued by the IASB in addition to the adequacy of disclosures in Notes 9 and 10 in relation to the fair value of the investment properties and investment properties held for sale.

## **Our application of materiality and an overview of the scope of our audit**

Materiality is a term used to describe the acceptable level of precision in financial statements. Auditing standards describe a misstatement or an omission as "material" if it could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The auditor has to apply judgement in identifying whether a misstatement or omission is material and to do so the auditor identifies a monetary amount as "materiality for the financial statements as a whole".

The materiality for the financial statements as a whole was set at £1,512,000. This has been calculated using a percentage of the Group's net assets (of which it represents approximately 3%), which we believe is the most appropriate benchmark as net assets is considered as the prime indicator of potential returns to members in a managed wind-down situation.

We agreed with the audit committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £75,000, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Whilst AXA Property Trust Limited is a Guernsey company, the Group's operations are located in Luxembourg, Germany, Italy and The Netherlands. The Company owns three Luxembourg holding entities through which the Group's operations are owned.

The group audit team performed the audit of AXA Property Trust Limited as a standalone entity. Audits for group reporting purposes were performed by the component auditors in Luxembourg (the "sub-group audit team") on the sub-consolidations of each the three Luxembourg holding entities with the assistance of sub-group component auditors in Germany, Italy and The Netherlands (the "sub-group component auditors"). The combined effect of this approach covered 100% of group net rental and related income; 100% of group loss before tax; and 100% of group total assets.

The audits undertaken for group reporting purposes were all performed to materiality levels set by, or agreed with, the group audit team. These materiality levels were set individually for each component/ sub-group component and ranged from £650,000 to £1,300,000.

The group audit team sent detailed instructions to the sub-group audit team; and the sub-group audit team sent detailed instructions to the sub-group component auditors. Both sets of instructions covered the significant areas that should be covered by the audit (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the group audit team/ sub-group audit team. The group audit team exercised oversight of the work of the sub-group audit team and its oversight of the work of the sub-group component auditors through a combination of visiting Luxembourg to review the work performed by the sub-group audit team and holding telephone meetings with the sub-group audit team in order to challenge the work they performed.

Our assessment of materiality has informed our identification of significant risks of material misstatement and the associated audit procedures performed in those areas as detailed above.

Whilst the audit process is designed to provide reasonable assurance of identifying material misstatements or omissions it is not guaranteed to do so. Rather we plan the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the financial statements as a whole. This testing requires us to conduct significant depth of work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the Responsible Individual, to subjective areas of the accounting and reporting process.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially



incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Matters on which we are required to report by exception**

Under International Standards on Auditing (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for members to assess the Company's performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the audit committee.

Under the Companies (Guernsey) Law, 2008, we are required to report to you if, in our opinion:

- the Company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement on pages 19 to 24 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

### **Scope of report and responsibilities**

#### **The purpose of this report and restrictions on its use by persons other than the Company's members as a body**

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008 and, in respect of any further matters on which we have agreed to report, on terms we have agreed with the Company. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 18, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and ISAs (UK and Ireland). Those standards require us to comply with the UK Ethical Standards for Auditors.

Lee C Clark

**For and on behalf of KPMG Channel Islands Limited**

*Chartered Accountants and Recognised Auditors*

Glategny Court, Glategny Esplanade

St Peter Port

Guernsey GY1 1WR

15 October 2014

The maintenance and integrity of the AXA Property Trust Limited website is the responsibility of the Board of Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements or audit report since they were initially presented on the website.

Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Consolidated Income Statement

## For the year ended 30 June 2014

		Year ended 30 June 2014 £000s	As restated* Year ended 30 June 2013 £000s
	Notes		
Gross rental income	4	7,714	8,983
Service charge income		659	780
Property operating expenses		(2,271)	(1,750)
<b>Net rental and related income</b>		<b>6,102</b>	<b>8,013</b>
Valuation loss on investment properties	9	(2,242)	(3,312)
Loss on disposals of a subsidiary and investment properties		(474)	(336)
General and administrative expenses	5	(2,738)	(3,368)
<b>Operating profit</b>		<b>648</b>	<b>997</b>
Net foreign exchange loss		(148)	(936)
Net (loss)/gain on financial instruments	21	(308)	2,130
Share in profit/(losses) of a joint venture	11	176	(1,619)
Net finance cost	6	(2,568)	(3,884)
Other expense		-	(25)
<b>Loss before tax</b>		<b>(2,200)</b>	<b>(3,337)</b>
<b>Income tax expense</b>	18	<b>(190)</b>	<b>(33)</b>
<b>Loss for the year</b>		<b>(2,390)</b>	<b>(3,370)</b>
Basic and diluted loss per ordinary share (pence)	7	(2.44)	(3.37)

\*Refer to Note 11

The accompanying notes on pages 38 – 64 form an integral part of these Consolidated Financial Statements.



# Consolidated Statement of Comprehensive Income

## For the year ended 30 June 2014

	Notes	Year ended 30 June 2014 £000s	As restated* Year ended 30 June 2013 £000s
Loss for the year		(2,390)	(3,370)
<b>Other comprehensive income</b>			
Hedging reserve recycled to profit or loss	22	1,005	(1,870)
Foreign exchange translation (loss)/gain		(3,307)	4,438
<b>Total other comprehensive (loss)/income</b>		<b>(2,302)</b>	<b>2,568</b>
<b>Total comprehensive loss for the year</b>		<b>(4,692)</b>	<b>(802)</b>

# Consolidated Statement of Changes in Equity

## For the year ended 30 June 2014

	Notes	Revaluation reserve £000s	Hedging reserve £000s	Revenue reserve £000s	Distributable reserve £000s	Foreign currency reserve £000s	Total £000s
<b>Balance at 1 July 2013</b>		<b>(48,267)</b>	<b>(5,623)</b>	<b>4,592</b>	<b>92,948</b>	<b>15,570</b>	<b>59,220</b>
Share redemption	19			-	(4,100)	-	(4,100)
Net loss for the year		(2,374)	-	(16)	-	-	(2,390)
Other comprehensive income/(loss)	22	-	1,005	-	-	(3,307)	(2,302)
Total comprehensive (loss)/income for the year		(2,374)	1,005	(16)	(4,100)	(3,307)	(8,792)
<b>Balance at 30 June 2014</b>		<b>(50,641)</b>	<b>(4,618)</b>	<b>4,576</b>	<b>88,848</b>	<b>12,263</b>	<b>50,428</b>

## For the year ended 30 June 2013 (as restated)\*

	Notes	Revaluation reserve £000s	Hedging reserve £000s	Revenue reserve £000s	Distributable reserve £000s	Foreign currency reserve £000s	Total £000s
<b>Balance at 1 July 2012</b>		<b>(47,085)</b>	<b>(3,753)</b>	<b>6,780</b>	<b>92,948</b>	<b>11,132</b>	<b>60,022</b>
Net loss for the year	19	(1,182)	-	(2,188)	-	-	(3,370)
Other comprehensive (loss)/income			(1,870)	-	-	4,438	2,568
Total comprehensive loss for the year	22	(1,182)	(1,870)	(2,188)	-	4,438	(802)
<b>Balance at 30 June 2013</b>		<b>(48,267)</b>	<b>(5,623)</b>	<b>4,592</b>	<b>92,948</b>	<b>15,570</b>	<b>59,220</b>

\*Refer to Note 11

The accompanying notes on pages 38 – 64 form an integral part of these Consolidated Financial Statements.

# Consolidated Statement of Financial Position

## As at 30 June 2014

	Notes	30 June 2014 £000s	As restated* 30 June 2013 £000s	As restated* 30 June 2012 £000s
<b>Non-current assets</b>				
Investment properties	9	67,351	78,130	100,610
Investment in joint venture	11	9,543	5,069	4,757
Deferred tax assets	18	26	37	58
<b>Current assets</b>				
Cash and cash equivalents		3,008	3,694	4,657
Trade and other receivables	13	1,870	1,841	1,468
Investment properties held for sale	9	6,326	25,297	9,952
<b>Total assets</b>		<b>88,124</b>	<b>114,068</b>	<b>121,502</b>
<b>Current liabilities</b>				
Trade and other payables	14	2,100	2,502	2,529
Current portion of long-term loans	15	3,586	12,422	10,004
Derivative financial instruments	21	-	-	54
<b>Non-current liabilities</b>				
Deferred tax liability	18	269	390	703
Provisions	17	1,156	720	-
Long-term loans	16	28,802	35,260	44,337
Derivative financial instruments	21	1,783	3,554	3,853
<b>Total liabilities</b>		<b>37,696</b>	<b>54,848</b>	<b>61,480</b>
<b>Net assets</b>		<b>50,428</b>	<b>59,220</b>	<b>60,022</b>
Share capital		-	-	-
Reserves		50,428	59,220	60,022
<b>Total equity</b>		<b>50,428</b>	<b>59,220</b>	<b>60,022</b>
Number of ordinary shares	19	92,534,848	100,000,000	100,000,000
<b>Net asset value per ordinary share (pence)</b>	<b>20</b>	<b>54.50</b>	<b>59.22</b>	<b>60.02</b>

\*Refer to Note 11

The accompanying notes on pages 38 – 64 form an integral part of these Consolidated Financial Statements

By order of the Board



**Charles Hunter**  
Chairman  
15 October 2014



**Stuart Lawson**  
Director  
15 October 2014



# Consolidated Statement of Cash Flows

**For the year ended 30 June 2014**

		<b>Year ended 30 June 2014 £000s</b>	<b>As restated* Year ended 30 June 2013 £000s</b>
	<b>Notes</b>		
<b>Operating activities</b>			
Loss before tax		(2,200)	(3,337)
Adjustments for:			
Loss on valuation and disposals of a subsidiary and investment properties		2,716	3,648
Shares in profit/(losses) of joint venture	11	(176)	1,619
Loss/(gain) on financial instruments	21	308	(2,130)
Increase in trade and other receivables		(260)	(273)
(Decrease)/increase in provisions		436	720
Decrease in trade and other payables		54	141
Net finance cost	6	2,568	3,884
Net foreign exchange loss		148	936
<b>Net cash generated from operations</b>		<b>3,594</b>	<b>5,208</b>
Interest income received		349	3
Interest paid		(2,597)	(2,763)
Tax paid		(270)	(284)
<b>Net cash inflow from operating activities</b>		<b>1,076</b>	<b>2,164</b>
<b>Investing activities</b>			
Capital expenditure on completed investment properties	9	(611)	(576)
Proceeds from disposals of a subsidiary and investment properties		21,521	10,716
<b>Net cash inflow from investing activities</b>		<b>20,910</b>	<b>10,140</b>
<b>Financing activities</b>			
Redemption of shares	19	(4,100)	-
Finance costs		54	-
Crédit Agricole loan facility repaid	16	(16,893)	(12,908)
<b>Net cash outflow from financing activities</b>		<b>(20,939)</b>	<b>(12,908)</b>
Effect of exchange rate fluctuations		(1,733)	(359)
<b>Decrease in cash and cash equivalents</b>		<b>(686)</b>	<b>(963)</b>
Cash and cash equivalents at start of the year		3,694	4,657
<b>Cash and cash equivalents at the year end</b>		<b>3,008</b>	<b>3,694</b>

\* Refer to Note 11

The accompanying notes on pages 38 – 64 form an integral part of these Consolidated Financial Statements.



# Notes to the Consolidated Financial Statements

**For the year ended 30 June 2014**

## 1. Operations

AXA Property Trust Limited (the "Company") is a limited liability, closed-ended investment company incorporated in Guernsey. The Company invests in commercial properties in Europe which are held through its subsidiaries. The Consolidated Financial Statements of the Company for the year ended 30 June 2014 comprise the financial statements of the Company and its subsidiaries (together referred to as the "Group").

## 2. Significant accounting policies

### (a) Basis of preparation

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and are in compliance with The Companies (Guernsey) Law, 2008. The Financial Statements have been prepared on a non-going concern basis, and the accounting policies, presentation and methods of computation are consistent with this basis, as disclosed in the going concern paragraph below.

### (b) Going concern

The discount control provisions established when the Company was launched required a continuation vote to be proposed to Shareholders at the Company's Annual General Meeting in 2015. As a result of the large discount to Net Asset Value at which shares were trading there was little chance of raising new capital. The costs of running the Group have become a disproportionate charge on distributable income.

After extensive shareholder consultation, the Board resolved not to seek continuation of the Company in 2015 and proposed to Shareholders that the Company enter into a managed wind-down. This proposal was approved at an EGM held on 26 April 2013.

The Consolidated Financial Statements have been prepared on a non-going concern basis reflecting the orderly wind-down of the Group. Accordingly, the going concern basis of accounting is not considered appropriate. All assets and liabilities continue to be measured in accordance with IFRS. The Board recognises that the timely disposal of properties is uncertain and continues to keep under review the most appropriate course of action with regard to these assets over the coming months with the aim of maximising shareholder return whilst taking account of the target exit date of December 2015. The Directors estimate that the wind-down costs will be approximately £253,208 (€316,216). The Board believes that the Group has sufficient funds available to meet its wind-down costs, day-to-day running costs and amounts due in terms of its loan facilities.

### (c) Adoption of new and revised standards

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new and amended IFRS as of 1 July 2013 which did not have any impact on the financial position or performance of the Group:

- *IFRS 10, 'Consolidated Financial Statements' effective for annual periods beginning on or after 1 January 2013, is to establish principles for the presentation and preparation of consolidated financial statements. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements. The amendment to IFRS 10, which was effective from 1 January 2014, defines an investment entity and introduces an exemption from the consolidation requirements for investment entities. The new standard and its consequential amendments had no material impact on the Group's financial statements as the Company has determined that it meets the definition of a parent as defined by IFRS 10 and will continue to present and prepare consolidated financial statements.*
- *IFRS 11, 'Joint Arrangements' effective for annual periods beginning on or after 1 January 2013, provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as was previously the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities, which is equity accounting. The jointly controlled entity of the Company will be defined as a joint venture under the new standard. The adoption of the new standard has resulted in the equity accounting method being used to account for the Agnadello joint venture which was previously accounted for using the proportionate consolidation method. This change resulted in the comparative figures being restated, however there was no impact on the Group's net assets value. Refer to note 11 for further details.*

- IFRS 12, 'Disclosures of interests in other entities' is effective for annual periods beginning on or after 1 January 2013. The standard mandates disclosures such that users of financial statements can evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 had no material impact on the Group's financial statements.
- IFRS 13, 'Fair Value Measurement' effective for annual periods beginning on or after 1 January 2013, IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that was previously dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. IFRS 13 has no material impact on the Group's financial statements as the valuation of the investment properties and derivatives at fair value did not change, however additional disclosures have been provided in note 21 as required by this new standard.

#### **Standards, interpretations and amendments to published statements not yet effective**

At the reporting date of these Consolidated Financial Statements, the following standard, which was in issue but not yet effective has not been applied in the Group's Consolidated Financial Statements:

- IFRS 9 Financial Instruments (Effective 1 January 2018) – as the Group will not be in existence, it does not intend to early adopt the standard.

#### **(d) Significant estimates and judgements**

The preparation of the Group's Consolidated Financial Statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

##### **(i) Judgements**

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the Consolidated Financial Statements:

##### *Functional currency*

As disclosed in note 2(e), the Group's functional currency is Sterling and the subsidiaries' functional currency is the Euro. The Board of Directors considers that the Parent Company's functional currency is Sterling, as the capital raised, return on capital and dividends paid by the Parent Company are in Sterling. The Euro most faithfully represents the economic effect of the underlying transactions, events and conditions of the subsidiaries. The Euro is the currency in which the subsidiaries measure their performance and reports their results.

##### *Going concern*

The Consolidated Financial Statements have been prepared on a non-going concern basis reflecting the orderly wind-down of the Group. Further discussions of the Board's decision to wind-down the Group, can be found in note 2(b).

##### *Classification of investment properties as held for sale*

The Group has classified certain investment properties as held for sale. In establishing whether an investment property maybe transferred to held for sale, the investment property must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such property and its sale must be highly probable, as discussed in note 2(o).

##### *Lease classification*

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

##### **(ii) Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters

# Notes to the Consolidated Financial Statements **continued**

available when the Consolidated Financial Statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising which are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

## *Revaluation of investment properties*

The Group carries its investment properties at fair value, with changes in fair value being recognised in the Consolidated Income Statement.

Properties are valued quarterly by external independent valuers as at the end of each calendar quarter. Their valuations are reviewed quarterly by the Board.

Quarterly valuations of investment properties are carried out by Knight Frank LLP, external independent valuers to the Group, in accordance with the Royal Institution of Chartered Surveyors' ("RICS") Appraisal and Valuation Standards. The properties have been valued in accordance with the definition of the RICS Valuation which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The valuation is based on the highest and best use of the investment properties.

In view of market instability, the valuers refer to the RICS Valuation Standards Guidance Note 1 (Valuation Uncertainty). The key assumptions used to determine the market value of the investment properties are explained further in note 2(l).

## *Taxes*

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the timing and amount of future taxable income. The Group estimates its tax receivables and liabilities after taking into account the impact of tax laws and regulation and the timing and amount of future taxable income.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of the deferred tax asset that can be recognised, based upon timing and the level of future taxable profits. Details of tax losses recognised as a deferred tax asset and the amount of unused tax losses held by the Group, refer to note 18.

## *Provisions*

In determining the provision for wind-down costs, estimates of costs have been obtained from the Broker, Administrator and other parties involved in the managed wind-down of the Company. The carrying amount of the provision as at 30 June 2014 was £253,208 (€316,216).

In determining a provision for performance fees due to the Investment Manager of the Group, this provision has been made on the basis of the Investment Manager's estimates of cash to be returned to Shareholders and the fee has been calculated with reference to the terms of the performance fee discussed in note 3(i) and 24. The carrying amount of the provision as at 30 June 2014 was £903,041 (2013: £479,964).

## *Value of financial instruments*

The Group hold financial instruments that are not quoted in active markets, such as interest rate swaps and cross currency swaps. The determination of the fair value of the swaps is discussed in note 2(n).

## **(e) Foreign currency translation**

### *(i) Foreign currency transactions*

Transactions in foreign currencies are translated to presentation currency at the spot foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Consolidated Statement of Financial Position date are translated to presentation currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Consolidated Income Statement. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to presentation currency at foreign exchange rates ruling at the dates the fair value was determined.

(ii) *Financial statements of foreign operations*

The assets and liabilities of foreign operations, arising on consolidation, are translated to presentation currency at the foreign exchange rates ruling at the Consolidated Statement of Financial Position date. The income and expenses of foreign operations are translated to presentation currency at an average rate. Foreign exchange differences arising on retranslation are recognised in other comprehensive income and as a separate component of equity.

**(f) Basis of consolidation**

(i) *Subsidiaries*

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 30 June each year. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

(ii) *Transactions eliminated on consolidation*

All intra-group balances, transactions and unrealised gains and losses resulting from intra-group transactions are eliminated in preparing the consolidated financial statements.

(iii) *Joint ventures*

Following the adoption of IFRS 11, the Group's interest in jointly controlled entities are accounted for using the equity method. The Group's consolidated financial statements have been restated to reflect the changes in accounting policy in accordance with IAS 8. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other ventures ("Downstream transaction"). The Group recognises its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party ("Upstream transaction"). When downstream transactions provide evidence of a reduction in the net fair value of the assets sold, or of an impairment loss of those assets, those losses shall be recognised in full by the investor. When upstream transactions provide evidence of a reduction in the net fair value of the assets to be purchased or of an impairment loss of those assets, the investor shall recognise its share in those losses.

AXA Property Trust Limited, the Company, is the parent of the Group. It was incorporated in Guernsey on 5 April 2005. The Company owned the following subsidiaries as at the reporting date:

Subsidiaries	Investment in subsidiaries	Country of incorporation	Date of incorporation	Ownership interest	Principal activities
	£000s			%	
Property Trust Luxembourg 1 S.à r.l.	1,292	Luxembourg	20 July 2005	100	Holding Company
Property Trust Luxembourg 2 S.à r.l.	1,251	Luxembourg	24 November 2005	100	Holding Company
Property Trust Luxembourg 3 S.à r.l.	152	Luxembourg	2 June 2006	100	Holding Company
<b>Total</b>	<b>2,695</b>				

The Manager will seek to merge or wind up redundant holding companies from planned disposals within a short time frame to avoid ongoing administrative expenses.

Owned by Property Trust Luxembourg 1 S.à r.l., Property Trust Luxembourg 2 S.à r.l. and Property Trust Luxembourg 3 S.à r.l. as at the reporting date:

# Notes to the Consolidated Financial Statements **continued**

	Country of incorporation	Ownership interest %
<b>Property Trust Luxembourg 1 S.à r.l.</b>		
Property Trust Altenstadt S.à r.l.	Luxembourg	100
Property Trust Wuerzburg S.à r.l.	Luxembourg	100
Property Trust Fürth S.à r.l.	Luxembourg	100
Property Trust Netherlands 1 B.V.	Netherlands	100
<b>Property Trust Luxembourg 2 S.à r.l.</b>		
Property Trust Köthen S.à r.l.	Luxembourg	100
Property Trust Rothenburg 1 S.à r.l.	Luxembourg	100
Property Trust Rothenburg 2 S.à r.l.	Luxembourg	100
Property Trust Kraichtal S.à r.l.	Luxembourg	100
Property Trust Dasing S.à r.l.	Luxembourg	100
Multiplex 1 S.r.l.	Italy	100
<b>Property Trust Luxembourg 3 S.à r.l.</b>		
Property Trust Agnadello S.r.l.	Italy	50
Property Trust Kali S.à r.l.	Luxembourg	100

**(g) Income recognition**

Interest income from banks is recognised on an effective yield basis.

Rental income from investment property leased out under operating leases is recognised in the Consolidated Income Statement on a straight-line basis over the term of the lease. Lease incentives are amortised over the whole lease term.

**(h) Expenses/Other Income**

Expenses are accounted for on an accruals basis.

Service costs for service contracts entered into by the Group acting as the principal are recorded when such services are rendered. The Group is entitled to recover such costs from the tenants of the investment properties. The recovery of costs is recognised as service charged income on an accrual basis.

**(i) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits carried at cost. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**(j) Dividends**

Dividends are recognised as a liability in the period in which they become obligations of the Company. All dividends are paid as interim dividends. Interim dividends are recognised when paid. Final dividends are recognised once they are approved by shareholders.

**(k) Provisions**

A provision is recognised in the Consolidated Statement of Financial Position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

**(l) Investment properties**

Investment properties are those which are held to earn rental income and capital appreciation and are recognised as such once all material conditions in the exchanged purchase contracts are satisfied. Investment properties are initially recognised at cost, being the fair value of consideration given, including associated transaction costs. Any subsequent capital expenditure incurred in improving investment properties is capitalised in the period during which the expenditure is incurred and included within the book cost of the properties.

After initial recognition, investment properties are measured at fair value using the fair value model with unrealised gains and losses recognised in the Consolidated Income Statement. Realised gains and losses upon disposal of properties are recognised in the Consolidated Income Statement. Quarterly valuations are carried out by Knight Frank LLP, external independent valuers, in accordance with the RICS Appraisal and Valuation Standards. The properties have been valued in accordance with the definition of the RICS Valuation which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The valuation is based on the highest and best use of the investment properties.

Valuations reflect, where appropriate, the types 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 creditworthiness, the allocation of maintenance and insurance responsibilities between lessor and lessees, 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.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the Consolidated Income Statement during the financial period in which they are incurred.

Investment properties are derecognised when they have been disposed. Where the Group disposes of a property at fair value in an arm's length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in the income statement within net gain from fair value adjustment on investment property.

#### **(m) Leases**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

#### **(n) Financial instruments**

##### *(i) Investments at fair value through profit or loss*

An instrument is classified as fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value and changes therein are recognised in profit or loss.

##### *(ii) Loans and receivables*

Loans advanced and other receivables are classified as loans and receivables. Loans and receivables are carried at amortised cost using the effective interest rate method, less impairment losses, if any. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired.

##### *(iii) Loans and borrowings*

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

##### *(iv) Derivative financial instruments*

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.



# Notes to the Consolidated Financial Statements **continued**

Derivative financial instruments are recognised initially at cost which is also deemed to be fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged, as explained in section (r).

The fair value of interest rate swaps and cross currency swaps is the estimated amount that the Group would receive or pay to terminate the swap at the Consolidated Statement of Financial Position date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

## **(v) Derecognition of financial instruments**

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through arrangement"; or
- the Company has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled.

## **(o) Assets held for sale**

Investment property is transferred to assets held for sale when it is expected that the carrying amount will be recovered principally through sale rather than from continuing use. For this to be the case, the property must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such property and its sale must be highly probable.

For the sale to be highly probable:

- The Board must be committed to a plan to sell the property and an active programme to locate a buyer and complete the plan must have been initiated;
- The property must be actively marketed for sale at a price that is reasonable in relation to its current fair value; and
- The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

As the Company's investment properties are expected to be realised through sale on uncertain dates in the future expected by the end of 2015, the Company has applied judgement in classifying investment properties as held for sale. On re-classification, an investment property that is measured at fair value continues to be so measured.

## **(p) Impairment**

The carrying amounts of the Group's assets, other than investment property, are reviewed at each Consolidated 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 exceeds its estimated recoverable amount. Impairment losses are recognised in the Consolidated Income Statement.

## **(q) Taxation**

The Company has obtained exempt company status in Guernsey under the terms of the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 and accordingly is subject to an annual fee of £600. The Directors intend to conduct the Group's affairs such that it continues to remain eligible for exemption.

The Company's subsidiaries are subject to income tax on any income arising on investment properties, after deduction of debt financing costs and other allowable expenses. However, when a subsidiary owns a property located in a country other than its country of residence the taxation of the income is defined in accordance with the double taxation treaty signed between the country where the property is located and the residence country of the subsidiary.

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year as determined under local tax law, using tax rates enacted or substantially enacted at the Consolidated Statement of Financial Position date, and any adjustment to tax payable in respect of previous periods.

Deferred income tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. 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 substantially enacted at the Consolidated Statement of Financial Position date, except in the case of investment properties, where deferred tax is provided for the effect of the sale of the properties. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset is utilised. Details of current tax and deferred tax assets and liabilities are disclosed in note 18.

**(r) Hedge accounting**

The Group designates certain hedging instruments, which include derivatives and non-derivatives in respect of foreign currency and interest rate risk, as cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

The fair value of derivatives that are not exchange-traded are estimated at the amount that the Group would receive or pay to terminate the contract at the Consolidated Statement of Financial Position date taking into account current market conditions (volatility, appropriate yield curve) and the current creditworthiness of the counterparties.

When a derivative is held as an economic hedge beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item. A derivative instrument that is a designated and effective hedging instrument is classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if: 1) a reliable allocation can be made; and 2) it is applied to all designated and effective hedging instruments.

Note 21 contains details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are also detailed in the Consolidated Statement of Changes in Equity.

**(s) Determination and presentation of operating segments**

The Board of Directors is charged with setting the Company's investment strategy in accordance with the Prospectus. They have delegated the day to day implementation of this strategy to its Investment Manager but retain responsibility to ensure that adequate resources of the Company are directed in accordance with their decisions. The investment decisions of the Investment Manager are reviewed on a regular basis to ensure compliance with the policies and legal responsibilities of the Board. The Investment Manager has been given full authority to act on behalf of the Company. Under the terms of the Investment Management Agreement dated 18 April 2005, subject to the overall supervision of the Board, the Investment Manager advised on the general allocation of the assets of the Company between different investments, advised the Company on its borrowing policy and geared investment position, managed the investment of the Company's subscription proceeds and short-term liquidity in fixed income instruments and advised on the use of (and management of) derivatives and hedging by the Company. Information presented to the Board by the Investment Manager is based on IFRS.

Whilst the Investment Manager may make the investment decisions on a day to day basis regarding the allocation of funds to different investments, any changes to the investment strategy or major allocation decisions have to be approved by the Board, even though they may be proposed by the Investment Manager. The Board therefore retains full responsibility as to the major allocations made on an ongoing basis. The Investment Manager will always act under the terms of the Prospectus and the Investment Management Agreement dated 18 April 2005 and to the changes to the investment objective and investment policy approved at an EGM held on 26 April 2013, which cannot be radically changed without the approval of the Board of Directors.

The Board has considered the requirements of IFRS 8, 'Operating Segments'. The Board is of the view that the Group is engaged in a single segment of business, being investment in properties in Europe. Geographic and Sector analyses of the segment are included in the Investment Manager's Report on page 8.

# Notes to the Consolidated Financial Statements **continued**

## **3. Material agreements**

- (i) AXA Investment Managers UK Limited has been appointed as the Investment Manager of the Group pursuant to an Investment Management Agreement dated 18 April 2005. The Investment Manager is responsible for advising the Group on the overall management of the Group's investments and for managing the Group's investments in fixed income instruments in accordance with the Group's investment objective and policy, subject to the overall supervision of the Directors. Under the terms of the Investment Management Agreement, the Investment Manager is entitled to a management fee of 90 basis points per annum of gross assets together with reasonable expenses payable quarterly in arrears. The management fee shall be reduced by an amount equal to the fees payable to the Real Estate Adviser by the property subsidiaries such that the total fees payable by the Group to the Investment Real Estate Adviser and Investment Manager will not exceed 90 basis points per annum. Either party may terminate the Investment Management Agreement with not less than 12 months' notice in writing.

In view of the change to the Investment Objective and Policy, the Manager agreed to amend the Management Fee arrangements with effect from 1 January 2013 in order to provide better alignment with the objective of the Managed Wind-down, such that the Manager and/or its Associates will receive in aggregate:

- a management fee of 1.10 per cent. of NAV (as opposed to 0.90 per cent. of gross assets) per annum to be paid quarterly in arrears based on the NAV at the end of the relevant quarter, refer to note 5:
- transaction fees of 0.35 per cent. of the gross sales price achieved on each asset sale; and
- a performance fee of 12.5 per cent. of cash returned to Shareholders in excess of 80 per cent. of NAV as at 31 December 2012, with the threshold percentage of NAV increasing by 5 per cent. per annum with effect from 1 January 2015 (such that, by way of example, the threshold percentage for the 12 months from and including 1 January 2015 shall be 85 per cent. of NAV as at 31 December 2012, the threshold percentage for the 12 months from and including 1 January 2016 shall be 90 per cent. of NAV as at 31 December 2012, and so on for each consecutive year) refer to note 5.

This amendment of the management fee was approved by a resolution of the Shareholders on 26 April 2013.

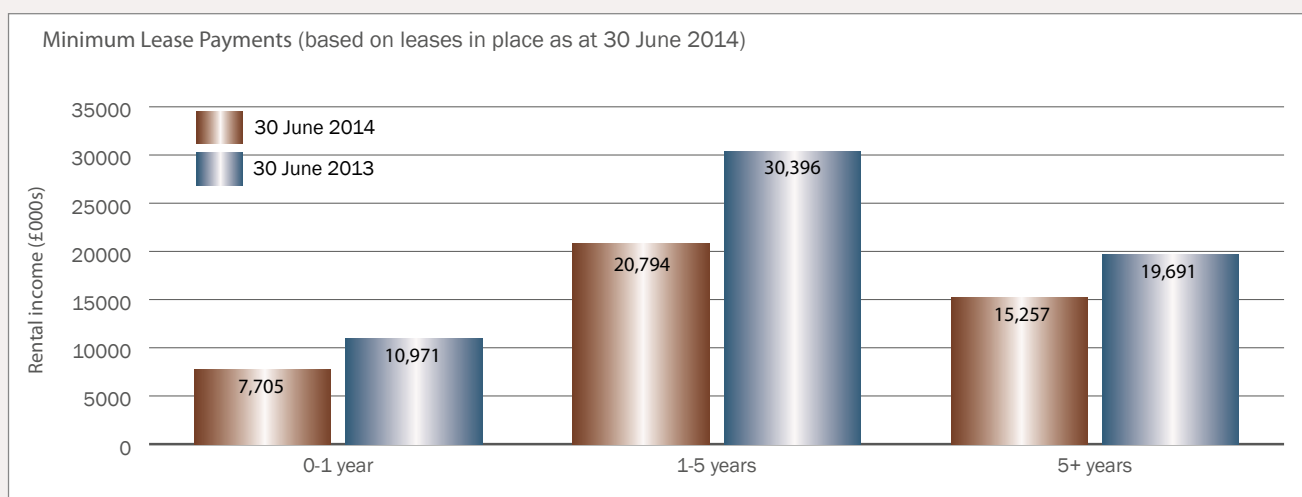
- (ii) Oriel Securities Limited is Sponsor and Broker to the Company.

Advisory fees payable to Oriel Securities Limited in connection the circular sent to Shareholders in April 2013 totalled £137,790. Fees paid in 2014 totalled £53,623.

- (iii) Northern Trust International Fund Administration Services (Guernsey) Limited is Administrator, Secretary and Registrar to the Company pursuant to the Administration Agreement dated 13 April 2005. Administration fees paid to the administrator in connection with the circular and EGM held on 26 April 2013 totalled £210,017. Fees paid in 2014 totalled £175,000.

## 4. Gross rental income

Gross rental income for the year ended 30 June 2014 amounted to £7.71 million (2013: £8.98 million (as restated)). The Group leases out all of its investment property under operating leases and are usually structured in accordance with local practices in Germany, Italy and The Netherlands. All leases benefit from indexation.



## 5. General and administrative expenses

	30 June 2014 £000s	As restated 30 June 2013 £000s
Administration fees	(398)	(515)
General expenses	(678)	(378)
Audit fees	(266)	(235)
Legal and professional fees	(314)	(366)
Directors' fees	(93)	(95)
Insurance fees	(38)	(40)
Liquidation costs	(13)	(240)
Sponsor's fees	(54)	(178)
Investment management fees	(461)	(841)
Performance fee	(423)	(480)
<b>Total</b>	<b>(2,738)</b>	<b>(3,368)</b>

At a Board meeting of the Company held on 22 February 2012, the Board resolved to reduce their Directors' fees by 10% for 12 months with effect from 1 April 2012. At a Board meeting of the Company held on 13 June 2013, the Board resolved to continue to maintain the 10% reduction in fees. As such, each of the Directors receives a fee of £13,500 (2013: £13,500) and the Chairman receives a fee of £18,000 (2013: £18,000).

The aggregate remuneration and benefits in kind of the Directors in respect of the Company's year ended 30 June 2014 amounted to £72,000 (2013: £72,000) in respect of the Company and £93,039 (2013: £95,485) in respect of the Group.

# Notes to the Consolidated Financial Statements **continued**

## 6. Net finance cost

	30 June 2014 £000s	30 June 2013 £000s
Interest income from bank deposits	3	3
Interest income from JV partners	345	-
Finance costs	(2,916)	(3,887)
<b>Total</b>	<b>(2,568)</b>	<b>(3,884)</b>

## 7. Basic and diluted loss per Share

The basic and diluted loss per share for the Group is based on the net loss for the year of £2.39 million (2013: £3.37 million) and the weighted average number of Ordinary Shares in issue during the year of 98,092,929 (2013: 100,000,000).

## 8. Dividends

The Company has suspended dividends from June 2012 for the short-term in order to prudently manage its cash and debt positions. No dividends were declared or paid during 2013 and 2014.

## 9. Investment properties

	30 June 2014 £000s	As restated 30 June 2013 £000s
<b>Fair value of investment properties at beginning of year</b>	<b>78,130</b>	<b>111,144</b>
Capital expenditure during the year	611	576
Disposals during the year	-	(10,462)
Fair value adjustments	(2,242)	(3,312)
Foreign exchange translation	(2,822)	5,481
Investment properties transferred to held for sale	(6,326)	(25,297)
<b>Fair value of investment properties at the end of the year</b>	<b>67,351</b>	<b>78,130</b>
Investment properties classified held for sale (note 10)	6,326	25,297
<b>Total investment properties</b>	<b>73,677</b>	<b>103,427</b>

All investment properties are carried at fair value.

Investment properties comprise a number of commercial properties that are leased to third parties. The portfolio on page 10 shows the properties acquired by the Group.

The sales of investment properties at Marie Curie Strasse (Dresden, Germany), Braunschweiger Strasse (Berlin, Germany), Industriestrasse (Montabaur-Heiligenroth, Germany) and Bahnhofstrasse (Karben, Germany), were completed in June and August 2013 and January, March 2014, respectively. Keyser Center (Antwerp, Belgium), was sold via a share deal in September 2013. The sale price achieved for Marie Curie Strasse was €2.1 million (£1.7 million), which was the value of the Company's independent valuation at 30 June 2013. The sale price achieved for Braunschweiger Strasse was €1.6 million (£1.3 million), which was the value of the Company's independent valuation at 30 June 2013. The sale price achieved for Keyser Center was €9.0 million (£7.2 million), which was 15.38% above the Company's independent valuation at 30 June 2013. The sale price achieved for Industriestrasse was €6.0 million (£4.8 million), which was 14.89% below the Company's independent valuation at 30 June 2013. The sale price achieved for Bahnhofstrasse was €8.2 million (£6.5 million), which was 1.2% below the Company's independent valuation at 30 June 2013.

The properties have been valued on the basis of fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Quarterly valuations are carried out at 31 March, 30 June, 30 September and 31 December by Knight Frank LLP, external independent valuers.

The fair value of investment properties and investment properties held for sale are analysed by valuation method, according to the levels of the fair value hierarchy. The different levels have been defined as follows:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All investment properties and investment properties held for sale are valued via a level 3 valuation.

The significant assumptions made relating to valuations are set out below:

<b>2014</b>	<b>Industrial</b>	<b>Retail</b>	<b>Leisure</b>	<b>Total</b>
<b>Gross Estimated rental value per sqm p.a.</b>	€ 31	€ 113	€ 180	€ 64.36
-range	€ 33-54	€ 26-300	€ 180	€ 26-300
-weighted average	€ 42.75	€ 112.72	€ 180	€ 72.04
<b>Net initial yield</b>				
-range	4.87%-10.75%	7.51%-10.68%	9.05%	4.87%-10.75%
-weighted average	8.78%	8.50%	9.05%	8.66%
<b>Reversionary yield</b>				
-range	9.19%-10.37%	7.83%-10.35%	8.03%	7.83%-10.37%
-weighted average	9.98%	8.66%	8.03%	8.91%
<b>True equivalent yield</b>				
-range	9.24%-10.60%	8.11%-11.25%	9.07%	8.11%-11.25%
-weighted average	10.28%	9.08%	9.07%	9.40%

An increase/decrease in ERV will increase/decrease valuations, while an increase/decrease to yield decreases/increases valuations. The table below sets out the sensitivity of the valuation to changes of 50 basis points in yield.

<b>Movement</b>	<b>Industrial</b>	<b>Retail</b>	<b>Leisure</b>
Increase of 50 basis points	Decrease of €1.35 million	Decrease of €3.25 million	Decrease of €0.8 million
Decrease of 50 basis points	Increase of €1.6 million	Increase of €3.78 million	Increase of €1.0 million

## 10. Investment properties held for sale

As at 30 June 2014, the Group held 1 investment property (2013: 6 investment properties) as held for sale. Of the 6 properties held for sale in 2013, only one, Köthen, remains in the portfolio. As the criteria for IFRS 5 are no longer met, this property is now reflected as part of Non-current assets on the Consolidated Statement of Financial Position.

The Company has signed a consulting contract with DTZ, to provide services and activities for the sale of the Venray asset. The asset is being actively marketed but no offers have been received as at financial reporting date.



# Notes to the Consolidated Financial Statements **continued**

## 11. Joint ventures

The Group holds a 50% joint venture interest in the equity of the Italian joint venture Property Trust Agnadello S.r.l. which holds a logistics warehouse in Agnadello, Italy. The remaining 50% equity interest is held by European Added Value Fund S.à r.l., a subsidiary of European Added Value Fund Limited.

The Group's interest in Property Trust Agnadello S.r.l. is accounted for using the equity method in the consolidated financial statements.

The following table summarises the financial information of Property Trust Agnadello S.r.l. which also reconciles the summarised financial information to the carrying amount of the Group's interest in the joint venture:

### Summarised Consolidated Statement of Financial Position

	30 June 2014 £000s	30 June 2013 £000s
Non-current assets	17,937	19,369
Current assets	1,635	694
Non-current liabilities	(8,473)	(10,820)
Current liabilities	(9,829)	(9,960)
<b>Net assets (100%)</b>	<b>1,270</b>	<b>(717)</b>
Group's share of net assets (50%)	50%	50%
<b>Group's share of net assets</b>	<b>635</b>	<b>(358)</b>
Loan balances due to joint venture partners	8,908	5,427
<b>Carrying amount of interest in joint venture</b>	<b>9,543</b>	<b>5,069</b>

### Summarised Consolidated Income Statement

	30 June 2014 £000s	30 June 2013 £000s
Net rental and related income	1,839	2,029
Valuation losses on investment property	(167)	(4,120)
Total administrative and other expenses	(239)	(323)
Other income	7	49
Financial expenses	(773)	(722)
Profit/(loss) before tax	667	(3,087)
Income tax expense	(315)	(152)
Profit/(loss) for the year	352	(3,239)
<b>Group's share of profit/(loss) for the year</b>	<b>176</b>	<b>(1,619)</b>

### Summarised Consolidated Statement of Comprehensive Income

	30 June 2014 £000s	30 June 2013 £000s
Loss for the year	352	(3,239)
Total comprehensive income for the year	352	(3,239)
<b>Group's share of comprehensive income for the year</b>	<b>176</b>	<b>(1,619)</b>

As a result of the adoption of IFRS 11 the prior period figures have been restated.

The effect of the restatement is shown below.

#### Impact on Consolidated Statement of Comprehensive Income

	30 June 2013 As previously stated £000s	30 June 2013 As restated £000s
Gross rental income	10,119	8,983
Service charge income	785	780
Property operating expenses	(1,877)	(1,750)
Valuation losses on investment property	(5,372)	(3,312)
Net loss on disposal of investment properties	(336)	(336)
Total administrative and other expenses	(3,528)	(3,368)
Other expenses	-	(25)
Net foreign exchange loss	(936)	(936)
Net loss on financial instruments	1,179	1,179
Ineffective portion in changes in fair value of hedges	951	951
Net finance cost	(4,246)	(3,884)
Share in losses of joint venture	-	(1,619)
Loss before tax	(3,261)	(3,337)
Income tax expense	(109)	(33)
<b>Loss for the year</b>	<b>(3,370)</b>	<b>(3,370)</b>

#### Impact on Consolidated Statement of Financial Position

	30 June 2013 As previously stated £000s	30 June 2013 As restated £000s	30 June 2012 As previously stated £000s	30 June 2012 As restated £000s
Investment property	87,815	78,130	111,777	100,610
Deferred tax assets	37	37	58	58
Investment in a joint venture	-	5,069	-	4,757
Trade and other receivables	1,877	1,841	1,511	1,468
Investment properties held for sale	25,297	25,297	9,952	9,952
Cash and cash equivalents	3,992	3,694	4,884	4,657
<b>Total assets</b>	<b>119,018</b>	<b>114,068</b>	<b>128,182</b>	<b>121,502</b>
Current portion of secured bank loans	16,982	12,422	16,499	10,004
Trade and other payables	2,892	2,502	2,714	2,529
Current provisions	240	240	-	-
Deferred tax liability	390	390	703	703
Non-current provisions	480	480	-	-
Long-term loans	35,260	35,260	44,337	44,337
Derivative financial instruments	3,554	3,554	3,907	3,907
Total liabilities	59,798	54,848	68,160	61,480
<b>Net assets</b>	<b>59,220</b>	<b>59,220</b>	<b>60,022</b>	<b>60,022</b>

# Notes to the Consolidated Financial Statements **continued**

## Impact on Consolidated Statement of Changes in Equity

	30 June 2013 As previously stated £000s	30 June 2013 As restated £000s
Revaluation reserve	(50,327)	(48,267)
Hedging reserve	(5,623)	(5,623)
Revenue reserve	6,652	4,592
Distributable reserve	92,948	92,948
Foreign currency reserve	15,570	15,570
<b>Total</b>	<b>59,220</b>	<b>59,220</b>

## Impact on Consolidated Statement of Cash Flows

	30 June 2013 As previously stated £000s	30 June 2013 As restated £000s
Net cash inflow from operating activities	3,024	2,160
Net cash inflow from investing activities	10,140	10,140
Net cash outflow from financing activities	(13,608)	(13,008)
Effect of exchange rate fluctuations	(448)	(255)
Cash and cash equivalents at the start of they year	4,884	4,657
<b>Cash and cash equivalents at the end of the year</b>	<b>3,992</b>	<b>3,694</b>

## 12. Other investments

Financial assets designated at fair value through profit or loss includes the 12% equity investment held in the holding company of the Dutch office portfolio Porto Kali. The investment was acquired for £1.02 million on 22 June 2007. At 30 June 2014, the fair value of the investment was nil (2013: nil) as the portfolio of underlying entities reported negative net assets. The investment Porto Kali Holdings B.V and its subsidiaries is under administration.

## 13. Trade and other receivables

	30 June 2014 £000s	As restated 30 June 2013 £000s
Tax receivable (withholding, corporate and income)	588	833
Investment property sold receivable	14	-
Other receivables	234	189
VAT receivable	330	225
Rent receivable	37	45
Accrued income	611	410
Prepayments	56	138
Interest on deposits	-	1
<b>Total</b>	<b>1,870</b>	<b>1,841</b>

The carrying values of trade and other receivables are considered to be approximately equal to their fair value. Rent receivable is non-interest bearing and typically due within 30 days.

## 14. Trade and other payables

	30 June 2014	As restated 30 June 2013
	£000s	£000s
Investment manager's fee	215	147
Property manager's fee	43	40
Other	633	30
Tax payable (income, transfer, capital and other)	416	741
Interest payable on loan facility	224	360
Legal and professional fees	108	118
VAT payable	-	194
Audit fee	156	165
Administration and Company Secretarial fees	123	158
Rent prepaid	166	383
Directors' fees	10	10
Sponsor's fees	6	156
<b>Total</b>	<b>2,100</b>	<b>2,502</b>

Trade and other payables are non-interest bearing and are normally settled on 30-day terms.  
The carrying values of trade and other payables are considered to be approximately equal to their fair value.

## 15. Current portion of long-term loans

	30 June 2014	As restated 30 June 2013
	£000s	£000s
Secured bank loan	3,586	12,442

The Group has a 50% interest in the joint venture Property Trust Agnadello S.r.l. which held short-term bank debt of £9.10 million (€10.62 million) of which the Group's share was £4.55 million (€5.31 million) as at 30 June 2013. The net proceeds from Group asset sales and Agnadello's surplus operating cash flow were used to settle the loan in full on 24 September 2013 in advance of the maturity date of 13 December 2013.

One asset was classified in current assets as held for sale as at 30 June 2014 (refer to note 10), and the related bank loan totalling £3.59 million (€4.48 million) has been classified as a current liability.

## 16. Long-term loans

	30 June 2014	As restated 30 June 2013
	£000s	£000s
<b>Non-current liabilities</b>		
Secured bank loan	28,705	35,162
Loan due to third party	97	98
<b>Total</b>	<b>28,802</b>	<b>35,260</b>

The main loan facility is with Crédit Agricole Corporate and Investment Bank ("Crédit Agricole") and Crédit Foncier de France ("Crédit Foncier").

The outstanding balance of the main loan (including current portion) as at 30 June 2014 was €41.49 million (£33.22 million) (2013: €57.27 million (£47.68 million)) (before capitalised debt issue costs) as a result of the partial loan repayments following the various asset disposals during the year.

# Notes to the Consolidated Financial Statements **continued**

The Group is in compliance with the loan covenants including the Loan to Value covenant of 60%.

Other terms of the main loan facility at 30 June 2014 are:

Expiry date	1 July 2016
LTV to expiry	60%
3-month Euribor (fixed 8 May 2013)	0.20%
Margin	2.40%
All-in rate, excluding loans	
- Swapped portion of loan, 97.6% of loan at 5.13%	5.01%
- Floating portion of loan, 2.4% of loan at 2.66%	0.06%
Arrangement fee	1.00%
Amortisation	None

The facility is secured through both mortgages and through share pledges on the property vehicles and their holding companies.

The carrying value of these loans approximates their fair value.

## 17. Provisions

	30 June 2014 £000s	As restated 30 June 2013 £000s
Provision for performance fees	903	480
Provision for wind-down costs	253	240
<b>Total</b>	<b>1,156</b>	<b>720</b>

## 18. Taxation

	30 June 2014 £000s	As restated 30 June 2013 £000s
Effect of:		
Current tax		
Luxembourg	(1)	4
Italy	178	182
The Netherlands	(65)	56
Germany	91	109
<b>Total current tax</b>	<b>203</b>	<b>351</b>
<b>Deferred tax</b>		
Investment property	(13)	(318)
<b>Total deferred tax</b>	<b>(13)</b>	<b>(318)</b>
<b>Tax charge during the year</b>	<b>190</b>	<b>33</b>

### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	<b>Assets £000s</b>	<b>30 June 2014 Liabilities £000s</b>	<b>Net £000s</b>
Investment property	-	(269)	(269)
Tax value of loss carry forwards recognised	26	-	26
<b>Tax assets/(liabilities)</b>	<b>26</b>	<b>(269)</b>	<b>(243)</b>

	<b>Assets £000s</b>	<b>30 June 2013 Liabilities £000s</b>	<b>Net £000s</b>
Investment property	-	(390)	(390)
Tax value of loss carry forwards recognised	37	-	37
<b>Tax assets/(liabilities)</b>	<b>37</b>	<b>(390)</b>	<b>(353)</b>

At 30 June 2014, the Group had unused tax losses amounting to £12.8 million (€16 million) (2013: £5.20 million (€6.07 million)) for which no deferred tax asset has been recognised as they are not expected to be utilised. These tax losses are not expected to expire.

At 30 June 2014, taxable temporary differences associated with investments in subsidiaries for which no deferred tax liability had been recognised totalled £nil (€nil) (2013: £nil (€nil)).

#### Movement in temporary differences

	<b>1 July 2013 £000s</b>	<b>Recognised in income statement £000s</b>	<b>Foreign exchange translation £000s</b>	<b>30 June 2014 £000s</b>
Investment property	(1,315)	(13)	195	(1,133)
Investment property - change in tax rate	925	-	(61)	864
Tax value of loss carry forwards recognised	207	-	(23)	184
Tax value of loss carry forwards recognised - change in tax rate	(170)	-	12	(158)
<b>Tax assets/(liabilities)</b>	<b>(353)</b>	<b>(13)</b>	<b>123</b>	<b>(243)</b>

	<b>1 July 2012 £000s</b>	<b>Recognised in income statement £000s</b>	<b>Foreign exchange translation £000s</b>	<b>30 June 2013 £000s</b>
Investment property	(1,575)	341	(81)	(1,315)
Investment property - change in tax rate	872	-	53	925
Tax value of loss carry forwards recognised	218	(23)	12	207
Tax value of loss carry forwards recognised - change in tax rate	(160)	-	(10)	(170)
<b>Tax assets/(liabilities)</b>	<b>(645)</b>	<b>318</b>	<b>(26)</b>	<b>(353)</b>

The Parent Company is exempt from Guernsey taxation.

# Notes to the Consolidated Financial Statements **continued**

## 19. Share capital

	30 June 2014		30 June 2013	
	Number of Shares	Share Premium £000s	Number of Shares	Share Premium £000s
Shares of no par value issued and fully paid	92,534,848	100,000	100,000,000	100,000

### Capital management

The Company's capital is represented by the Ordinary Shares, revaluation reserves, revenue reserves, hedging reserves, distributable reserves and foreign exchange reserves. The share premium is included in the distributable reserve presented in the Consolidated Statement of Changes in Equity. The capital of the Company is managed in accordance with its investment policy in pursuit of its investment objective, both of which are set out on page 30. It is not subject to externally imposed capital requirements. The Ordinary shares do not have any special rights attached to the shares.

The Company was authorised at the Annual General Meeting ("AGM") on 19 December 2012 to make market purchases of up to 14.99% of its Ordinary Shares until the conclusion of the next AGM or 31 December 2013, whichever is earlier. Purchases would only be made at prices below the prevailing Net Asset Value of the shares where the Directors believe such purchases would enhance shareholder value. In the Prospectus (issued by the Company on 18 April 2005), the Directors stated their intention to seek annual renewal of this authority. Share buy backs are at the discretion of the Board.

Additionally, pursuant to the AGM which took place on 19 December 2012 ("2012 AGM"), the Directors shall not apply and shall be excluded in relation to the issue of up to an aggregate number of Ordinary Shares as represents less than 10 per cent. of the number of Ordinary Shares admitted to trading on the London Stock Exchange.

On 19 March 2014, the Company redeemed 3,641,580 shares for £1,999,957 under the mechanism for the Redemption of Shares as approved at the EGM held on 27 February 2014. On 9 April 2014, the Company redeemed a further 3,823,572 shares for £2,099,903.

## 20. Net asset value per ordinary share

The Net Asset Value per Ordinary Share at 30 June 2014 is based on the net assets attributable to the ordinary shareholders of £50.43 million (2013: £59.22 million) and on 92,534,848 (2013: 100,000,000) ordinary shares in issue at the Consolidated Statement of Financial Position date.

## 21. Financial risk management

The table below summarises the amounts recognised in the Consolidated Income Statement in relation to derivative financial instruments.

	30 June 2014 £000s	30 June 2013 £000s
Hedging reserve recycled to consolidated income statement	(1,005)	1,870
Current year fair value movement of ineffective hedges	697	260
<b>Total (loss)/gain recognised in the Consolidated Income Statement</b>	<b>(308)</b>	<b>2,130</b>

The Group is exposed to various types of risk that are associated with financial instruments. The Group's financial instruments comprise bank deposits, cash, derivative financial instruments, receivables, loans and payables that arise directly from its operations. The carrying value of financial assets and liabilities approximate the fair value.



The main risks arising from the Group's financial instruments are market risk, credit risk, liquidity risk, interest risk and currency risk. The Board review and agree policies for managing its risk exposure. These policies are summarised below:

### **Market Price Risk**

Property and property related assets are inherently difficult to value due to the individual nature of each property. As a result, valuations are subject to uncertainty. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales price even where a sale occurs shortly after the valuation date. Rental income and the market value for properties are generally affected by overall conditions in the local economy, such as growth in Gross Domestic Product ("GDP"), employment trends, inflation and changes in interest rates. Changes in GDP may also impact employment levels, which in turn may impact the demand for premises. Furthermore, movements in interest rates may affect the cost of financing for real estate companies.

Both rental income and property values may be affected by other factors specific to the real estate market, such as competition from other property owners, the perceptions of prospective tenants of the attractiveness, convenience and safety of properties, the inability to collect rents because of the bankruptcy or the insolvency of tenants, the periodic need to renovate, repair and release space and the costs thereof, the costs of maintenance and insurance, and increased operating costs. The Investment Manager addresses market risk through a selective investment process, credit evaluations of tenants, ongoing monitoring of tenants and through effective management of the properties.

### **Market price sensitivity analysis**

The sensitivity analysis has been determined based on the exposure to property valuation risks at the reporting date. Any changes in market conditions will directly affect the profit or loss reported through the Consolidated Income Statement. A 5% increase in the value of the direct properties (after deferred tax) at 30 June 2014 would have increased net assets and income for the year by £2.95 million (2013: £4.52 million). A decrease of 5% would have had an equal but opposite effect.

### **Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate as a means of mitigating the risk of financial loss from defaults. The Group's and Company's exposure and the credit-ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-ratings agencies. The Group banks with Barclays Bank plc which has a Fitch rating of F1, HSBC Bank plc with a Fitch rating of F1+ and BIL with a Fitch rating of A-.

Cash and cash equivalents and trade and other receivables presented in the Consolidated Statement of Financial Position are subject to credit risk with maturities within one year.

### **Liquidity risk**

Liquidity risk is the risk that the Company will encounter in realising assets or otherwise raising funds to meet financial commitments in a reasonable timeframe or at a reasonable price.

The Group invests the majority of its assets in investment properties which are relatively illiquid, however, the Group has mitigated this risk by investing in desirable properties in strong locations. The Group prepares forecasts in advance which enables the Group's operating cash flow requirements to be anticipated and ensures that sufficient liquidity is available to meet foreseeable needs and to invest any surplus cash assets safely and profitably. The Group also monitors the cash position in all subsidiaries to ensure that any working capital needs are addressed as early as possible.

# Notes to the Consolidated Financial Statements **continued**

The Company has continued to suspend the payment of dividends to prudently manage cash during the wind-down phase.

The table below summarises the maturity profile of the Group's liabilities.

<b>As at 30 June 2014</b>	<b>Less than 3 months £000s</b>	<b>3-12 months £000s</b>	<b>1-3 years £000s</b>	<b>Total £000s</b>
Interest bearing loans	-	-	28,802	28,802
Current portion of long-term loans	-	3,586	-	3,586
Trade and other payables	1,469	631	-	2,100
<b>Derivative financial instruments</b>	-	-	-	-
Interest rate swaps	-	-	1,783	1,783
Cross currency swaps	-	-	-	-
<b>Total</b>	<b>1,469</b>	<b>4,217</b>	<b>30,585</b>	<b>36,271</b>

<b>Restated as at 30 June 2013</b>	<b>Less than 3 months £000s</b>	<b>3-12 months £000s</b>	<b>1-5 years £000s</b>	<b>Total £000s</b>
Interest bearing loans	-	-	35,260	35,260
Current portion of long-term loans	5,025	7,397	-	12,422
Trade and other payables	1,249	1,253	-	2,502
<b>Derivative financial instruments</b>	-	-	-	-
Interest rate swaps	-	-	3,290	3,290
Cross currency swaps	-	264	-	264
Forwards	-	-	-	-
<b>Total</b>	<b>6,274</b>	<b>8,914</b>	<b>38,550</b>	<b>53,738</b>

## Interest rate risk

Floating rate financial assets comprise the cash balances which bear interest at rates based on bank base rates. The Group is exposed to cash flow risk as the Group borrows funds under the loan facility with Crédit Agricole and Crédit Foncier at floating interest rates. The Group manages this risk by using interest rate swaps and caps denominated in Euro. At 30 June 2014, the Group had interest rate swaps with a notional contract amount of £32.43 million (€40.50 million) (2013: £57.62 million (€67.24 million)).

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. Following the orderly and managed wind-down of the Group and as discussed in Note 22b, and the consequent repayment of external loans, hedging reserves of (£0.74 million) deferred in equity related to the interest rate swaps that were cancelled and settled during the year were recycled to profit or loss for the period ended 30 June 2014 (2013: £0.42 million). Current movement of fair value amounting to £0.70 million due to the ineffectiveness of hedge accounting of interest rate swaps is recognized in profit or loss for the period ended 30 June 2014 (2013: £0.26 million).

The Group has entered into interest rate swaps and caps for the period of the main loan facility, effective from 1 July 2011 to 1 July 2016, to eliminate floating interest rate risk. Details of the hedging contracts are below:

	<b>Counterparty</b>	<b>Contract Rate</b>	<b>Notional Amount</b>
Interest Rate Swaps	Crédit Agricole	2.795%	€40.50 million

### Interest rate and cross currency hedges

	30 June 2014		30 June 2013	
	Assets £000s	Liabilities £000s	Assets £000s	Liabilities £000s
<b>Current</b>				
Cross currency swaps	-	-	-	264
<b>Non-current</b>				
Interest rate swaps and caps	-	1,783	-	3,290
<b>Total</b>	<b>-</b>	<b>1,783</b>	<b>-</b>	<b>3,554</b>

The following table details the notional principal amounts, fair values and maturity profiles of the remaining items of interest rate swap and foreign exchange swap contracts outstanding as at the reporting date.

### Cash flow hedge

	Average contracted fixed interest rate		Notional principal amount		Fair value	
	30 June 2014 %	30 June 2013 %	30 June 2014 €000s	30 June 2013 €000s	30 June 2014 £000s	30 June 2013 £000s
<b>Interest rate swaps and caps</b>						
Less than 1 year	2.00%	2.00%	-	11,370	-	-
2 - 5 years	2.795% - 3.50%	2.795% - 3.50%	40,500	67,235	(1,783)	(3,290)
<b>Cross currency swaps</b>						
0 - 2 years	4.00% - 4.63%	4.00% - 4.63%	-	156,444	-	(264)

The interest rate swaps settle on a quarterly basis. The basis of floating rate is 3-month Euribor which at the year-end was 0.207% (2013: 0.53%). The Group will settle the difference between the fixed and floating rate on a net basis.

# Notes to the Consolidated Financial Statements **continued**

## Interest re-pricing

As at 30 June 2014				
	Effective interest rate %	Total as per statement of financial position £000s	Fixed rate £000s	Floating rate 3 months or less £000s
<b>Financial assets</b>				
Cash and cash equivalents		3,008	-	3,008
<b>Total</b>		<b>3,008</b>	<b>-</b>	<b>3,008</b>
<b>Financial liabilities</b>				
Current portion of long-term loans	3.14%	3,586	-	3,586
Long-term loans	3.09% - 5.0%	28,802	97	28,705
<b>Total</b>		<b>32,388</b>	<b>97</b>	<b>32,291</b>
As at 30 June 2013				
	Effective interest rate %	Total as per statement of financial position £000s	Fixed rate £000s	Floating rate 3 months or less £000s
<b>Financial assets</b>				
Cash and cash equivalents		3,694	-	3,694
<b>Total</b>		<b>3,694</b>	<b>-</b>	<b>3,694</b>
<b>Financial liabilities</b>				
Current portion of long-term loans	3.14%	12,422	-	12,422
Long-term loans	3.09% - 5.0%	35,260	98	35,162
<b>Total</b>		<b>47,682</b>	<b>98</b>	<b>47,584</b>

## Foreign currency risk

The European subsidiaries will invest in properties using currencies other than Sterling, the Company's functional and presentational currency, and the Consolidated Statement of Financial Position may be significantly affected by movements in the exchange rates of such currencies against Sterling. The Group will review and manage currency exposure in accordance with its hedging strategy.

Following the orderly and managed wind-down of the Company as discussed in Note 22b and the consequent repayment of external loans during the year, the Group has zero hedged foreign currency exposure in respect of quarterly interest receipts in Euro through the use of cross currency swaps as at 30 June 2014. All cross currency swap contracts designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from movement in exchange rates of the Euro against Sterling were cancelled and settled on 28 October 2013. Hedging reserve of (£0.26 million) related to cancellation and settlement of cross currency swaps deferred in equity were recycled to profit or loss for the period ended 30 June 2014 (2013: £1.43 million).

The following table sets out the total exposure to foreign currency risk and the net exposure to foreign currency of monetary assets and liabilities based on notional amounts:

	Monetary assets £000s	Monetary liabilities £000s	Net exposure £000s
At 30 June 2014	4,878	(34,488)	(29,610)
At 30 June 2013	5,535	(50,184)	(44,649)

### Foreign currency risk sensitivity

The following table demonstrates the sensitivity to potential fluctuations in the Euro exchange rate (ceteris paribus) of the Group's equity.

	Increase/decrease in Euro exchange rate	Effect on equity and income £000s
At 30 June 2014	+5%	1,481
	-5%	(1,481)
At 30 June 2013	+5%	2,232
	-5%	(2,232)

Derivative financial instruments are recognised initially at cost which is also deemed to be fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged, as explained in section (r).

The fair value of interest rate swaps and cross currency swaps is the estimated amount that the Group would receive or pay to terminate the swap at the Consolidated Statement of Financial Position date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

### Derecognition of financial instruments

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through arrangement"; or
- the Company has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

30 June 2014	Level 1 £000s	Level 2 £000s	Level 3 £000s
<b>Liabilities measured at fair value</b>			
Interest rate swaps and caps	-	1,783	-
<b>Total</b>	<b>-</b>	<b>1,783</b>	<b>-</b>

# Notes to the Consolidated Financial Statements **continued**

30 June 2013	Level 1 €000s	Level 2 €000s	Level 3 €000s
<b>Liabilities measured at fair value</b>			
Interest rate swaps and caps	-	3,290	-
Cross currency swaps	-	264	-
<b>Total</b>	-	<b>3,554</b>	-

The Group had the following derivative contracts outstanding as at the reporting dates:

30 June 2014				
Counterparty	Settlement date	Average exchange rate	Notional amount €000s	Fair value €000s
<b>Cross currency swaps</b>				
Crédit Agricole Corporate & Investment Bank	28/10/2013	-	-	-

30 June 2013				
Counterparty	Settlement date	Average exchange rate	Notional amount €000s	Fair value €000s
<b>Cross currency swaps</b>				
Crédit Agricole Corporate & Investment Bank	16/05/2014	1.21	112,000	(264)

30 June 2014				
Counterparty	Settlement date	Fixed interest rate	Notional amount €000s	Fair value €000s
<b>Interest rate swaps</b>				
Crédit Agricole Corporate & Investment Bank	01/07/2016	2.795%	40,500	(1,783)

30 June 2013				
Counterparty	Settlement date	Fixed interest rate	Notional amount €000s	Fair value €000s
<b>Interest rate swaps</b>				
Crédit Agricole Corporate & Investment Bank	01/07/2016	2.795%	55,871	(3,290)
<b>Interest rate caps</b>				
Crédit Agricole Corporate & Investment Bank	13/12/2016	2.000%	11,370	-

## 22. Reserves

### (a) Revaluation reserves

Revaluation reserves of the Group arose from the revaluation of investment properties, financial assets and derivatives. The amounts in these reserves have already been recognised through the Consolidated Income Statement and therefore are an allocation of the results for the year.

**(b) Hedging reserves**

Hedging reserves comprise the effective portion of the cumulative net change in the fair value of hedging instruments.

	30 June 2014 £000s	30 June 2013 £000s
Balance at beginning of financial year	(5,623)	(3,753)
<b>Movement on cash flow hedges:</b>		
Interest rate swaps	741	(418)
Cross currency swaps	264	(1,452)
Net change in fair value of hedges	1,005	(1,870)
<b>Balance at end of financial year</b>	<b>(4,618)</b>	<b>(5,623)</b>

Following the decision at the EGM on 26 April 2013, to enter into a managed wind down of the Company, the criteria for hedge accounting of the interest rate swaps are no longer met. The loan is expected to be fully settled by the end of 2015, whereas the interest rate swaps mature 1 July 2016. The critical terms of the hedge and the hedged item are no longer deemed to match and hedge accounting ceased to apply from 1 January 2013 onwards.

**(c) Distributable reserves**

Distributable reserves arose from the cancellation of the share premium account pursuant to the special resolution passed at the EGM on 13 April 2005 and approved by the Royal Court of Guernsey on 24 June 2005.

**(d) Foreign currency reserves**

Foreign currency reserves arose as a result of the translation of the financial statements of foreign operations, the functional and presentation currency of which is not Sterling.

## 23. NAV Reconciliation

The following is a reconciliation of the NAV per share attributable to ordinary shareholders as presented in these financial statements, using IFRS to the NAV per share reported to the LSE:

	NAV £000s	NAV per Ordinary Share £
Net Asset Value reported to London Stock Exchange	51,331	55.47
Adjustment to provisions for performance fee	(903)	(0.98)
<b>Net Assets Attributable to Shareholders per Financial Statements</b>	<b>50,428</b>	<b>54.50</b>

## 24. Related party transactions

The Directors are responsible for the determination of the Company's investment objective and policy and have overall responsibility for the Group's activities including the review of investment activity and performance.

**Mr Hunter**, Chairman of the Company and **Mr Spaninks**, a Director of the Company, formed the majority of the Directors of its subsidiaries, Property Trust Luxembourg 1 S.à r.l., Property Trust Luxembourg 2 S.à r.l. and Property Trust Luxembourg 3 S.à r.l. and were able to control the investment policy of the Luxembourg subsidiaries to ensure it conforms with the investment policy of the Company until **Mr Spaninks** resignation from the Boards of Property Trust Luxembourg 1 S.à r.l., Property Trust Luxembourg 2 S.à r.l. and Property Trust Luxembourg 3 S.à r.l. on 11 October 2013.



# Notes to the Consolidated Financial Statements **continued**

**Mr Farrell**, a Director of the Company, is also a Partner in Maurant Ozannes, the Guernsey legal advisers to the Company. The total charge to the Consolidated Income Statement during the period in respect of Maurant Ozannes legal fees was £2,145 (2013: £5,008), of which £nil (2013: £nil) remained payable at the year end.

**Mr Lawson** a Director of the Company, was a Director of the Administrator and Secretary, Northern Trust International Fund Administration Services (Guernsey) Limited until 13 December 2013, when Mr Lawson became a Director of Northern Trust (Guernsey) Limited, the Company's bankers and member of the same group as the Administrator and Secretary.

The total charge to the Consolidated Income Statement during the year in respect of Northern Trust administration fees was £175,000 (2013: £210,017) of which £36,250 (2013: £51,250) remained payable at the year end.

Under the Investment Management Agreement, fees are payable to the Investment Manager, Real Estate Adviser and other entities within the AXA Group. These entities are involved in the planning and direction of the Company and Group, as well as controlling aspects of their day to day activity, subject to the overall supervision of the Directors. During the year, fees of £0.46 million (2013: £0.84 million) were expensed to the Consolidated Income Statement of which £0.21 million (2013: £0.15 million) remained payable at the year end. Following the various asset disposals, transaction fees of 35 bps were paid on the gross sales price; totalling £0.08 million on all sales (2013: nil). During the year, an additional provision for the performance fee of £0.42 million was raised (2013: £0.48 million). The amount had been provided under the terms of the Investment Management Agreement.

All the above transactions were undertaken at arm's-length.

## **25. Commitments**

### **Guarantees**

The Company has provided mortgages over the properties in favour of the lenders, Crédit Agricole and Crédit Foncier, as security for the main loan facility.

Property Trust Luxembourg 1 S.à.r.l and Property Trust Luxembourg 2 S.à.r.l, the direct parent companies of Keyser Center N.V., have provided a guarantee in respect of the payment of rent by Chiquita Fruit Bar Belgium BVBA should this tenant become insolvent for with a maximum liability of €0.05 million per annum until 1 July 2015. The obligations of the two companies in respect of both the warranties and the guarantee are split in the proportions 0.05% and 99.95% respectively.

## **26. Subsequent events**

These financial statements were approved for issuance by the Board on 15 October 2014. Subsequent events have been evaluated until this date.

### **Asset sales**

On 29 August 2014, the Company sold its investment located in Würzburg, Germany for gross proceeds of £4.3m (€5.4m) and net proceeds after disposal costs and financing of £2.2m (€2.7m).

On 5 September 2014, the Company agreed the sale of its investment located in Köthen, Germany for gross proceeds of £1.7m (€2.2m) and net proceeds after disposal costs and financing of £0.8m (€1.0m).

### **Capital redemption**


A capital redemption of £2.0 million was approved by the directors on 29 September 2014, with a redemption date of 30 October 2014 and payment date of 11 November 2014.











# Corporate Information

## **Directors (All non-executive)**

C. J. Hunter (Chairman)  
G. J. Farrell  
S. C. Monier  
S. J. Lawson  
A Spaninks

## **Registered Office**

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## **Real Estate Adviser**

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United Kingdom

## **Sponsor and Broker**

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United Kingdom

## **Administrator, Secretary and Registrar**

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Administration Services (Guernsey) Limited  
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Guernsey GY1 3QL  
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## **Registrar**

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## **Independent Auditor**

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