

21 January 2010

Investor update

APN Champion Retail Fund | ARSN 127 948 127

Dear Investor

Whilst the last twelve months will be remembered as an extraordinarily challenging period by the vast majority of real estate investors, it has also provided opportunities for positive asset management initiatives and the strengthening of landlord and tenant relationships.

Against this backdrop, APN Funds Management Limited ('APN') is pleased to update you on several events, including a significant transaction the Fund has undertaken with its tenant, Carrefour Marinopoulos S.A. (**Carrefour**), to enhance the security of the rental income stream and support the market value of the portfolio.

Distribution policy

As a result of management initiatives outlined below, the Fund is now in a position to make a distribution payment in relation to the half year ending 31 December 2009. The distribution is 1.0271 cents per unit and will be paid on 25 February 2010.

Further, commencing 30 June 2010, the Fund is forecast to pay half-yearly distributions at an annualised rate of 2.819 euro cents per unit (converted at payment date to the prevailing Australian Dollar equivalent). However, this remains subject to changes in market conditions.

Carrefour transaction – providing greater income certainty over the long term

The recession in Greece has significantly impacted the retail sector, with sales declining as a result of lower consumer spending and higher unemployment. Carrefour, the portfolio's single tenant, has not been immune to these events. Following a global directive by the Carrefour Group, local management has sought to reduce costs by negotiating price reductions on existing lease agreements and/or terminating leases of underperforming sites.

In order to limit the impact of this directive (which would adversely impact the capital and income of the Fund), APN has successfully negotiated an agreement whereby the Fund will pay Carrefour €1.5 million in return for the following undertakings from Carrefour:

- not to vary any of the terms of the lease agreements until 2017 (referred to as a 'good performance bond'); and
- to waive its pre-emptive right to purchase the portfolio in the event that the portfolio were to be sold to a third party.

In the event that Carrefour breaches these undertakings, Carrefour is required to repay the €1.5 million.

This transaction is a good result for the Fund, particularly in light of the difficult operating environment as it provides greater certainty over the Fund's rental income stream for the next seven years. The transaction also supports the market value of the portfolio whilst improving the saleability of the portfolio.

Currency hedging terminated

Following the recent appreciation of the Australian Dollar against the Euro, the Fund's hedging provider has exercised its right to terminate all currency hedging arrangements at nil cost to the Fund.

As a result, the Fund is now unhedged. Removal of the Fund's currency hedging means that the Australian dollar value of both the Fund's future distributions and return of capital will now be subject to currency risk which will fluctuate depending on the Australian Dollar – Euro exchange rate at the time of payment.

Preliminary December 2009 property valuation and loan covenant compliance

Preliminary independent valuations (which is subject to finalisation) indicates the value of the portfolio as at 31 December 2009 will be approximately in line with the value recorded at 30 June 2009 (€71.0 million).

Based on the indicative financial position of the Fund at 31 December 2009, the loan to value ratio would be 54.1% which is well within the loan covenant limit of 60.0%. The interest coverage ratio of 3.64 times also comfortably exceeds the covenant requirement of 2.00 times.

Sale process

As previously communicated in the June 2009 quarterly update, APN is continuing to respond to expressions of interest in respect of the sale of the portfolio. Appropriate investor approvals will be sought in the event that an opportunity to dispose of the portfolio on reasonable terms is secured.

APN thanks investors for their patience and support throughout during these challenging times.

If you have any questions on the above, please contact APN Investor Services on 1800 996 456 or email us on apnpg@apngroup.com.au.

Yours sincerely

APN Funds Management Limited



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