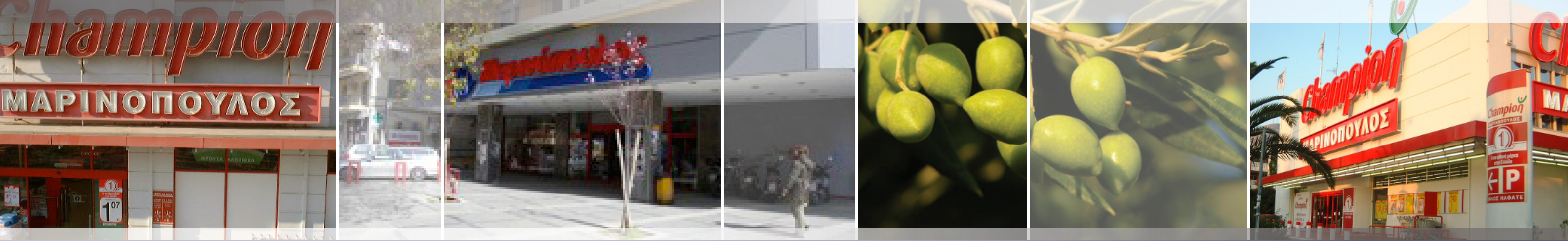

June 2010 update

APN | Champion Retail Fund

ARSN 127 948 127

Background

The APN Champion Retail Fund (the Fund) is a fixed-term unlisted property fund that was established in 2008 to invest in a portfolio of 16 supermarkets across Greece. The portfolio's single tenant is Carrefour Marinopoulos SA, a leading operator in the Greek market and part of the Carrefour Group, one of the world's largest retailers with sales of over €96 billion in 2009. The Fund is designed to provide investors with a regular income stream and capital growth from its investment in the Carrefour Marinopoulos supermarket portfolio. The Fund is scheduled to operate until October 2013.

Summary of financial year 2010 results

The Fund's results reflect the fragile market conditions that remain in Europe and in particular in Greece. The retail sector has been affected by Government-led austerity measures that have impacted directly on disposable incomes and consumer confidence. This has resulted in tenants seeking to reduce costs by negotiating rent discounts and cancelling lease agreements, and as reported in the Investor Update in January 2010, the Carrefour Portfolio has not been immune to this market development. Gross income from the portfolio remains on budget and subject to the minimum 2% indexation, but the net income position reflects increasing non-recoverable costs such as insurance reinstatement valuations incurred through 2010.

The Carrefour Portfolio has been independently valued by Cushman and Wakefield at €68.1m as at 30 June 2010. This compares with a €71.0m valuation 12 months earlier, representing a 4.1% decrease. The yield increased by 50 basis points over the period, reflecting the deterioration in sentiment towards the region as an investment market. Real estate investor appetite is expected to remain weak until the economy stabilises. Understandably, underlying market rental values have also deteriorated reflecting weaker occupier demand and lower retail sales nationally.

In addition to the interim distribution paid, the Fund declared a final distribution of 2.0294 cents per unit in respect of the second half of the year which was paid in August 2010.

- Net operating income for FY10 of €5,094,000 reflects a 0.6% decline over FY09
- Property value reduction of 4.1% to €68.1 million
- Revised 30 June 2010 Unit Price of $0.5982
- Occupancy remains at 100%

Fund update

Despite the challenging market backdrop, APN is pleased to have recommenced distributions and believes sentiment towards Greece will rebound in the medium term. The Fund is expected to continue to pay semi-annual distributions (subject to no material changes in market conditions).

As a result of the latest valuations, the Fund has limited head-room under its senior debt facility, however, the loan agreement will not require a test of this covenant for a further two years.

At a glance

Properties	16
Size (Gross Lettable Area)	51,615m²
Tenants	1
Weighted average lease expiry	7.4 years
Occupancy (by income)	100.0%
Net operating income (FY10)	€5.1 million
Property valuation	€68.1 million (as per independent valuation)
Average rent	€9.5/m²/month

Operational update

Carrefour Marinopolous S.A. occupies 100% of the Champion Portfolio. The material lease terms are the same for each property and include the following:

- Lease expiry date: December 2022 (with 50% of the leases having a break option in December 2017).
- Review mechanism: Annual adjustment for CPI with a minimum annual increase of 2% and a maximum of 5%.

Despite the challenges the retail market is facing currently, the portfolio is well positioned to weather deterioration in economic conditions with 100% exposure to the non-discretionary retail sector and with the rent review structure outlined above. The December 2009 rent review generated an increase in base rent of 2.6%.

Following a global directive from the Carrefour Group in late 2009, local management has sought to reduce costs and in order to limit the impact on the Fund, APN successfully negotiated an agreement with Carrefour Marinopolous whereby in return for paying them €1.5m they entered into a series of undertakings to not vary any of their lease terms until 2017 and to waive their pre-emptive right to purchase the portfolio in the event of a sale. Should they breach these undertakings they are liable to repay the €1.5m.

Greek market commentary

2010 has been an extremely turbulent and volatile year for Greece and as a result it has been the centre of major economic concern for Europe, due to its ballooning government budget deficit and escalating sovereign debt. In mid-May the Euro zone finance ministers approved a €110bn package of emergency loans aimed at averting a sovereign default by Greece and in return they agreed to a package of enhanced austerity measures for the country to reduce the budget deficit from 13.6% of GDP to 3% by 2014 and to stabilise the public debt at about 140% of GDP.

The agreed austerity package includes tough measures to reduce the size of Greece's public sector, cuts in public sector salaries and pensions, a clamp down on personal and business tax avoidance, a rise in value added tax and property tax, and an increase in fuel, alcohol and tobacco taxes. These austerity measures have hit the economy hard and resulted in much public unrest, demonstrations and public worker strikes. However, the government is committed to making the changes and has been introducing a raft of new legislation to assist. As a result, investor demand for Greek real estate remains weak. Debt financing is very difficult and expensive to source resulting in few significant commercial real estate transactions being completed over the period.

At an operational level, retail sales across Greece have been negatively impacted by the new austerity measures. In addition, the new austerity laws include provisions for tenants to terminate leases on more favourable terms. Specifically, until December 2012, tenants will have an option to terminate leases on four months' notice (reduced from the previous 6 months) but crucially this now includes leases that had previously been subject to a termination waiver (i.e. fixed term). As a result, the Carrefour Marinopolous leases now fall within this new legislation, as mentioned above

Sector allocation

Retail 100%

Asset allocation

European real estate 100%

Management team

David Blight – Group Managing Director and CEO
Tim Slattery – Chief Operating Officer
Paul Anderson – Chief Executive Officer, Europe
Simon Mesquita – Chief Operating Officer, Europe
David Simmonds – Chief Financial Officer, Europe
Nikos Ypsilantis – Asset Manager, Greece

Key points

- Distributions reinstated with 1.0271 cpu paid 25 February 2010.
- Tenant relationship strengthened with the purchase of an additional good performance bond.
- Currency hedging arrangements terminated removing a restrictive covenant, but now the Fund is unhedged.
- Unsatisfactory expressions of interest to acquire the portfolio. Discussions now terminated.
- Fund's performance is expected to be resilient due to the defensive nature of the property portfolio despite the challenges facing the Greek economy.

Key financial information - 30 June 2010

Fund gross assets	€71.3 million
Unit price	$0.5982
Senior debt ratios	
Loan to valuation ratio	59.4% (versus limit of 60.0%)[1]
Interest cover ratio	3.5x (versus limit of 2.0x)
Hedging ratio	
N/A[2]	

1 Not required to be tested for a further two years.
2 Hedges closed out September 2009.

Greek economy

Currency	Euro
Exchange rate	1A$ = €0.6943 (as at 30 June 2010)
GDP annual growth (to Q2 2010)	(3.5%)
Unemployment (as at June 2010)	12.2% (9.2% as at June 2009)
Annual inflation (to June 2010)	2.6%
Retail trade volume (annual growth to June 2010)	(4.5%)
Industrial production (annual growth to June 2010)	(5.5%)

Source: Eurostat

Contact details for investors

Please contact your financial adviser or alternatively, the **APN Investor Services Hotline** on 1800 996 456.

Contact details for advisers

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