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27 January 2012

## Investor update

APN Champion Retail Fund │ARSN: 127 948 127
Investor number:

Dear Investor

As you will be aware, market conditions in Europe remain extremely challenging, as a direct result of the ongoing banking and sovereign debt crisis. Greece continues to be at the forefront of the crisis.

Against this backdrop, commercial property investments (particularly retail property), have faced obvious challenges maintaining income streams and occupancy levels. In addition, the recent introduction of tenant-friendly Greek legislation has further undermined property values.

**Background: New legislative changes impacts all Greek commercial leases**

New Greek legislation was passed on 15 June 2010 which gives tenants the right to terminate leases on three months notice plus one month's rent as compensation until December 2012. This law covers all commercial leases, including those with a termination waiver (i.e. fixed term). The Fund's leases therefore fall within this law.

**Carrefour's position**

Greece's economic and political situation has deteriorated since December 2009. The implementation of tough austerity measures has significantly impacted the retail sector with occupier demand, consumer confidence and retail sales all suffering as a result of substantially lower consumer spending and higher unemployment.

As a result, Carrefour, the portfolio's single tenant, has responded by deeply discounting its products. At the same time it has also faced higher taxes and increased operating costs. Carrefour has sought to reduce costs, taking full advantage of the new Greek leasing laws, by negotiating price reductions on existing lease agreements and/or terminating the leases of underperforming sites.

Carrefour has identified six leases within the Fund that they would terminate, with a combined rental income of over €2m per annum. They would also contemplate filing for rent reductions on the remaining stores.

*Please turn over*

**Negotiation of new lease terms to preserve investors' capital**

Given the limited prospects for re-letting the identified sites and recognising that Carrefour's legal position is enforceable, APN has sought to limit the risks by negotiating lease amendments that seek to preserve investors' capital over the medium term. These amendments include:

- Overall annual rent to be reduced by €1.5m to €4,652,074 with effect from 1 December 2011;
- Annual indexation to be amended from current formula (minimum 2% and maximum 5%) to an annual Consumer Price Index (CPI) increase with effect from 1 December 2012 with a minimum increase of 2% annually and no cap; and
- Removal of the 2017 break options which means the lease agreement end date remains as per the current agreement (December 2022). All leases now run for an effective 10 year term.

Additionally, the existing performance bond will remain in place as part of an overall security package that includes the right of the Fund to demand full payment from Carrefour of any residual rent (to the expiry of the leases in December 2022) in the event Carrefour seeks to terminate any of the leases from this point forward.

**Impact on the Fund's income and capital value**

The reduction in rent will inevitably lead to an immediate reduction in Fund income and capital value. As at 31 December 2011, the portfolio has been valued by an independent valuer (Royal Institution of Chartered Surveyors) at €53.2m. This compares with €64.6m recorded at 30 June 2011. This revised valuation results in a breach of the Loan to Value (LTV) ratio under the Fund's loan facility (72.6% versus 60.0% limit).

APN has held discussions with the Fund's lender and subject to final credit approval, the following terms and conditions were agreed:

- Increase of LTV threshold to 80.0%;
- Reduction in minimum interest cover required to 1.75 times (currently 2.0 times);
- Quarterly fixed amortisation of €150,000, payable on each interest payment date until maturity;
- Additional amortisation to be agreed on a quarterly basis, based on the latest Fund cash flow; and
- Any proceeds claimed and paid via the performance bond will be held in favour of the Lender, in the event the loan is unable to be repaid.

**Distributions suspended**

As a consequence of these new conditions, distributions have been suspended.

APN acknowledges this is an undesirable situation for investors and we regret having to make this difficult decision. However, the suspension of distributions supports the overriding objective to preserve investors' equity and avoids a forced-sale scenario.

APN will continue to closely monitor the Greek market and evaluate the prospects for a managed exit and wind-down of the Fund over the next 18 months.

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

Yours sincerely

**APN Funds Management Limited**
Paul Anderson
Chief Executive Officer, Europe