

CENTRO DIRECT PROPERTY FUND INTERNATIONAL

INVESTOR UPDATE

AUGUST 2009

THE YEAR IN REVIEW

Fund Suspension

Applications and withdrawals from the Fund remained suspended by the Responsible Entity (Centro MCS Manager Limited or RE) for the 2009 Financial Year (FY09), and the RE anticipates that the suspension will continue for the foreseeable future. As the Direct Property Fund International (DPFI) continues to have very low levels of liquid assets, a key focus and priority is to pursue liquidity options and solutions which would allow investors to access some of their capital.

Total Fund Returns

In the 12 months to 30 June 2009 the DPFI produced a negative total return of 56.3% (net of fees and taxes). This represents a 1.5% distribution return and a 57.8% capital decline. The negative capital return was caused by declines in the value of the DPFI's underlying investment portfolio with the main contributors being the following:

- Centro Retail Investment Trust (CRIT) which declined in value by 78% over the year and accounted for 27% of the DPFI's total negative return;
- Centro MCS 38, which declined by 72% over the year accounting for 8% of the DPFI's negative return; and
- Other unlisted investments (Centro America Fund and various other Centro MCS syndicates) all declined over the year by amounts ranging from 30% to 63%.

These declines were generally caused by declines in the value of the underlying properties within these funds. Values declined in December 2008, but more significant declines were then recorded in June 2009. Gearing within these funds then magnified the extent of the decline on the equity value of each fund. For example, a 15% decline in the value of the properties in a fund with 60% gearing, would lead to a decline in the unit price of that fund of 37.5%.

FINANCIAL PERFORMANCE SUMMARY

FINANCIAL ITEM	30 JUNE 2009	30 JUNE 2008
Total Return (after fees, before tax)	-56.3%	-18.8%
• Distribution Return	1.5%	3.6%
• Growth Return	-57.8%	-22.4%
Closing Unit Price (ex-distribution)	\$0.3509	\$0.8304
Distribution (Cents per Unit)	1.96 cents	4.35 cents
Tax Advantaged Distribution	TBA	94%
Management Expense Ratio (MER)*	0.45%	0.45%
Cash & Liquid Assets (\$m)	\$3.9	\$10.5
Total Assets (\$m)	\$633.3	\$1,496.8
Net Assets (\$m)	\$632.0	\$1,493.4
Total Revenue (\$m)	\$38.1	\$75.8
Total Expenses (\$m)	\$5.5	\$7.8
Net Operating Income (\$m)	\$32.6	\$68.0

*Also referred to as an Indirect Cost Ratio.

The above table has been prepared for unit-pricing purposes and may differ from the statutory financial statements.

Fund Performance Table

Period Ended	Dist.#	RETURNS (1 YEAR ROLLING)			Unit Price [^]	Tax Adv.
		Distribution	Growth	Total		
30 Jun 2006	7.67	8.7%	4.0%	12.7%	1.0364	98%
30 Jun 2007	7.76	7.8%	3.2%	11.0%	1.0701	87%
30 Jun 2008	4.35	3.6%	-22.4%	-18.8%	0.8304	94%
30 Jun 2009	1.96	1.5%	-57.8%	-56.3%	0.3509	TBA

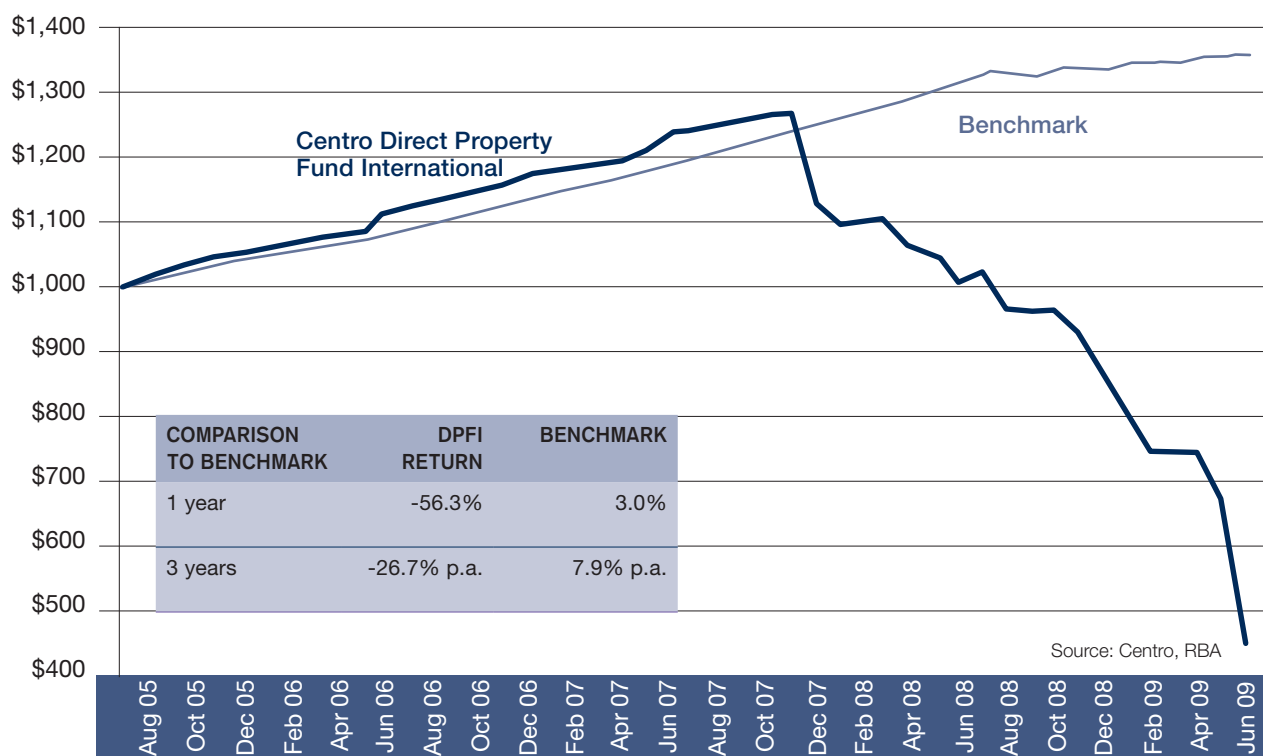
Distribution (cents per unit) ^ Ex Distribution

The DPFI's benchmark is the RBA 10 Year Bond Rate plus 4%. The DPFI performance was tracking ahead of this benchmark until late into 2007. Since then, the DPFI experienced significant declines in the value of its investment portfolio over the next eighteen months to June 2009, resulting in a very disappointing negative return of 56.3% for the year. This is illustrated in the graph below.

Over this period, most of the investment funds have written down the value of their US assets considerably. This has generally been caused by the global financial crisis which led to increasing levels of retailer bankruptcies in the US portfolio, reduced retail spending and declining consumer confidence.

Total Funds Returns

(Since Inception August 2005 – June 2009)



Note: Benchmark is the RBA 10 year Bond Rate plus 4%.

Distributions

The DPFI paid a total income distribution of 1.96 cents per unit in FY09 compared with 4.35 cents per unit in the prior year.

Net operating income decreased 52% from \$68 million in FY08 to \$32.6 million in FY09. The main reasons for this decrease were:

- Significantly lower distributions from Centro America Fund (CAF);
- Significantly lower distributions from Centro MCS Syndicates 32, 38 and 40; and
- Little or no income received from Centro Retail Trust (CER) and CRIT. CRIT now represents around 19% of total assets.

The syndicates generally reduced their distribution rates to enable them to have sufficient cash reserves to meet operational capital expenditure, which had been debt funded in the past. Centro MCS 40 paid no distributions during the year as all of its net income was allocated to debt repayment. The US syndicates also experienced declining vacancy rates and the loss of some key tenants due to bankruptcies which impacted their ability to pay distributions at the prior year's rates.

DPFI total expenses for the year reduced by 29% to \$5.5 million from \$7.8 million in FY08. The reduction was mainly due to the large decline in average fund assets.

PORTFOLIO ANALYSIS

Current Investments (June 2009)

INVESTMENT	\$ MILLION	% PORTFOLIO
Centro America Fund	170.5	26.9%
Centro Retail Investment Trust – International Pools	119.0	18.8%
Centro MCS 39	99.0	15.6%
Centro MCS 40	93.3	14.7%
Centro MCS 32	53.6	8.5%
Centro MCS 38	41.8	6.6%
Centro MCS 36	31.1	4.9%
Centro MCS 35	10.1	1.6%
Total Unlisted Property Investments	618.4	97.6%
Centro Retail Trust (Listed)	2.6	0.5%
Outsourced LPT Portfolio	0.1	0.0%
Cash & Other Assets	12.2	1.9%
TOTAL ASSETS	633.3	100%

Portfolio Commentary

Centro America Fund (CAF) – DPFI owns 49.9% of this fund, and it is the largest investment of the DPFI representing around 27% of total assets. CAF is a wholesale fund comprised of 31 shopping centres, with gross assets in excess of AUD \$850 million. The value of the property portfolio declined by 15% over the year to 30 June 2009. Whilst the portfolio has been impacted by the current US economic climate and continued retailer bankruptcies, it has an above average occupancy rate of 94.3% and a stable income stream secured by leases to retailers with an average lease expiry of five years.

The value of this investment declined by 31% over the year, as gearing within CAF magnified the extent of the fall.

Centro Retail Investment Trust (CRIT) – Represents around 19% of total assets compared with 35% at June 2008. CRIT provides the Fund with a “look through” exposure to the underlying direct property interests of CER in the US on a long term investment basis. The assets are priced in a similar way to that for Centro MCS syndicates, using a net asset backing (NAB) methodology. The extent of the fall has been exacerbated by the high gearing within the CER international asset pools. The NAB value has fallen by 78% over the year due to decline in the US property assets as well as movements in currency and interest rates.

This investment is being valued as a long term direct property investment, and accordingly, the current market value of CER has not been used for valuation purposes. If Centro were not able to honour the NAB guarantee it has provided, the value of the CRIT investment at market value would be around 10 cents on 6 August 2009, and the DPFI unit price would drop from around \$0.35 to \$0.30. Further write downs may need to be considered if there is further uncertainty regarding this investment.

Centro MCS Syndicates – The DPFI has 52% of total assets invested in six Centro MCS syndicates, the largest two of which are Centro MCS 39 and Centro MCS 40. The unit price or net asset backing of all of the syndicates declined over FY09 reflecting weaker US property values. The most significant decline was in respect of Centro MCS 38 which declined by 72% over the year.

These syndicates are all invested in US retail property and are closed end funds with no liquidity offered. However, in each financial year, a number of these syndicates reach the end of their terms, and investors can then elect to exit or vote to extend the term. No syndicates in the DPFI portfolio are scheduled to reach the end of their term in FY10.

Listed Property Trusts (LPTs) – At financial year end, the LPTs represented 0.5% of total assets, compared to 0.6% at the start of the year. This was mainly due to the decline in the value of CER which was the core LPT holding. In addition, the DPFI disposed of the majority of the outsourced portfolio of LPTs.

Look Through Debt

The DPFI does not have any direct borrowings. However the underlying investments have borrowings or gearing. The look through gearing at 30 June 2009 was 76% compared with 58% at June 2008. This represents the weighted average level of borrowings within the DPFI's underlying investment funds. The increase is due largely to the decline in the value of the properties over this period, resulting in the borrowings representing a higher proportion of asset values.

FUND OVERVIEW

Investments	The DPFI's investments predominantly comprise Centro international direct property syndicates and funds. The Fund may also invest up to 30% in listed property securities.
Underlying Property Exposure	The Fund has exposure to over 480 retail properties in the United States, including community, power and neighbourhood centres and shopping malls.
Benchmark Return Objective	To out-perform the Reserve Bank of Australia 10 Year Bond rate plus a risk premium of 4%, on a rolling three year basis.
Distributions	On a quarterly basis, paid approximately five weeks after the respective period.
Unit Pricing	Calculated daily, with underlying property revaluations in Centro syndicates and funds undertaken on a six monthly basis or more frequently if required.
Distribution Reinvestment Plan (DRP)	Currently closed.

FUND OUTLOOK

The issues which may impact the DPFI over the next 12 months are detailed below.

Retail Market Outlook

The performance of the DPFI investments is ultimately driven by the performance of the underlying retail properties in the US. The properties in the portfolio are food-based and non-discretionary in nature, which should provide some resilience in challenging economic times. Occupancy rates in the US properties, to which the DPFI is exposed, have declined to around 90% compared with 93% at June 2008 as the US economy has weakened.

A number of large national tenants in the US portfolio went into bankruptcy during FY09, including Circuit City, Linens 'n Things and Steve & Barry's. Traditionally, this space would have been taken up by other groups seeking to expand their presence. However, re-letting of this space has proved to be more challenging in the current economic climate. Consumer sentiment is still low and the US housing market generally remains depressed.

Property Revaluations

Property values declined quite significantly from December 2008 to June 2009.

Potential purchasers are still finding it difficult to raise capital from banks and other financial institutions although liquidity has improved somewhat over the past six months. There have been a number of sales transacted recently which are providing firmer evidence of the true level of market values. Property yields have increased since December 2007 and many properties are now valued on yields around 9%. Relative to minimal rates of return on cash deposits and fixed interest investments, this is enticing some investors back into the market.

The properties in the DPFI portfolio are next scheduled to be valued in December 2009. It is difficult to determine at this stage if those valuations will reflect further declines, or whether June 2009 was the "low point". Equity markets in the US and elsewhere have staged a rebound from their lows in March 2009. Increasing levels of consumer confidence and stability in the US banking sector should underpin property values going forward.

Asset Realisations

While the DPFI remains suspended, the RE is constantly looking for opportunities to return some of investors' capital through the realisation of some of the underlying investment portfolio. This in turn will partially depend on the success or otherwise of efforts within those funds to sell assets.

Most of the underlying funds hold portfolios comprising multiple properties. Relatively few of those assets are expected to be sold over FY10. This is generally due to the recognition that now is not an opportune time to sell assets. With the high gearing levels within many of the funds, the sale of all or most of their portfolio is likely to further depress their unit price and result in little net capital to the equity investors. Proceeds of those selective assets that do sell within those funds are likely to be used to retire or reduce debt. The DPFI will however consider making a special distribution over the coming year if any capital distributions are received from any of its investments.

Income Distributions

The Centro MCS syndicates will shortly announce their forecast distribution rates for FY10. Most of the syndicates that the DPFI invests in have ceased paying distributions on their ordinary units but have continued to pay interest on the loan notes. Given the high gearing levels of most of the syndicates, this is not expected to change materially in FY10. It is expected that CAF will adopt a similar position.

CER has given no distribution guidance for FY10. The DPFI has a significant exposure to CER, both through the CRIT investment and through its direct listed holding. The lack of any distributions from CER will continue to impact on the DPFI's own distribution capacity in FY10.

No distributions are expected for the foreseeable future from the DPFI's investment in Centro MCS 40. This syndicate, together with Centro Properties Group (CNP) and CER, is party to a joint venture known as Super LLC which is currently prohibited from making a distribution under the terms of its financing.

In FY10, DPFI anticipates maintaining the quarterly distribution payment rates at around 0.45 cents per unit per quarter.

While the DPFI remains suspended, the RE is attempting to return the maximum amount of net income to investors. The DPFI has no borrowings and hence no interest funding costs. Likewise it has no capital expenditure commitments. Accordingly, the strategy is to pay all net income derived from the underlying investments to its investors.

INVESTOR SERVICES

Key Dates

Quarterly Fund Updates	On or around distribution dates
Statutory Accounts	September 2009
Distributions (estimates only)	
Quarter ended 30 September 2009	6 November 2009
Quarter ended 31 December 2009	5 February 2010
Quarter Ended 31 March 2010	7 May 2010
Quarter ended 30 June 2010	6 August 2010

Website

The Fund has its own website (<http://www.centro.com.au/dpf>) which provides up to date Fund information including the daily unit price, annual reports, Fund updates, and other important information.

Dispute Resolution

If you have a complaint about the administration or management of your investment, please contact the Responsible Entity on 1800 802 400 during business hours. If your complaint is not resolved to your satisfaction within ten business days you can refer the matter in writing to:

The Complaints Officer
 Centro MCS Manager Limited
 Corporate Offices, Centro The Glen
 3rd Floor, 235 Springvale Road
 Glen Waverley Victoria 3150

Availability of Financial Statements

Investors seeking a copy of the full set of financial statements for the Fund can request a copy from Investor Services.

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 Past performance is not a reliable indicator of future performance.