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# Centro Direct Property Funds

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Centro Direct Property Fund &  
Centro Direct Property Fund International

Annual Review 2008

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## Chairman's Report

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The 2008 financial year has been difficult for Centro Properties Group and its managed funds. Centro announced in mid-December 2007 that it was unable to refinance maturing debt facilities on a long term basis. My colleagues and I are deeply aware of the current status of the Centro Direct Property Fund (DPF) and Centro Direct Property Fund International (DPFI) and the disadvantage and hardship the Fund's suspension has had on our unitholders.

As you may be aware, Australian and international property markets are experiencing the biggest cyclical downturn in decades. The characteristics of this new environment include high interest rates, low liquidity in debt markets and declining property values. Uncertainty is affecting all markets, not just property. Looking forward, we believe that these conditions will persist at least in the medium term. The implication of this is that there is no quick fix solution for our situation. The Board and management team remain focused on securing the best outcome for all stakeholders.

Although the underlying properties in the portfolios of the DPF and DPFI generally have continued to perform well, property values in many cases declined due to softening or weakening capitalisation rates, which is the benchmark used by valuers in setting a capital value for a property.

The Responsible Entity (RE) of the Funds deemed it to be in the best interests of Fund investors to suspend the Funds on 17 December 2007, following the announcements made by Centro Properties Group and Centro Retail Trust that day. The RE expects that the suspension will continue for the foreseeable future.

Both the DPF and DPFI are predominantly invested into Centro unlisted managed funds. These funds have been impacted to varying degrees by the broader market issues. Debt costs within the underlying funds have been affected by current market conditions. Tighter debt markets have made borrowings more expensive and difficult to source. In some cases this has impacted on their distribution capacity or the capital value of their assets. The details of these impacts are detailed in this Review.

The DPF and DPFI are separate managed investment schemes. Neither Fund has any direct borrowings or capital commitments.

The RE of the Funds is focussed on preserving the capital value of the Funds, and at the same time, seeking opportunities to realise a portion of the Fund's assets so that investors can have some capital returned to them over the coming year. The extent to which this can be achieved will be dependent to a large extent on the success or otherwise of Centro's group recapitalisation initiatives.



Paul Cooper  
Chairman

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# Centro Direct Property Fund

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## Financial Performance Summary

Financial Item	30 June 2008	30 June 2007
Total Return (after fees, before tax)	-9.6%	16.6%
Distribution Return	2.9%	7.2%
Growth Return	-12.5%	9.4%
Closing Unit Price (ex-distribution)	\$1.2968	\$1.4821
Distribution (Cents per Unit)	4.64	9.23
Tax Advantaged Distribution	89%	100%
Management Expense Ratio*	0.74%	0.76%
Cash & Liquid Assets (\$m)	\$32	\$200
Total Assets (\$m)	\$2,139	\$2,433
Net Assets (\$m)	\$2,121	\$2,334
Total Revenue (\$m)	\$88	\$103
Net Operating Income (\$m)	\$71	\$92

\* Excludes performance fee paid in FY07 year. Also referred to as an Indirect Cost Ratio. Note: The above table has been prepared for unit-pricing purposes and may differ from the statutory financial statements.

## Fund Overview

<b>Investments</b>	The DPF invests predominantly in Centro direct property funds, including Centro MCS Syndicates, which hold retail property investments. The DPF may also invest up to 30% in listed property securities and other liquid assets and up to 30% in international property.
<b>Underlying Property Exposure</b>	The Fund has exposure to over 760 retail properties in Australia, New Zealand and the United States. These assets consist of major regional, regional, sub-regional, neighbourhood shopping centres, CBD retail and bulky goods centres giving exposure to a broad range of retail property.
<b>Benchmark Return Objective</b>	To out-perform the Mercer Unlisted Property Funds Index on a rolling three year basis.
<b>Distributions</b>	On a quarterly basis, paid approximately five weeks after the respective period.
<b>Unit Pricing</b>	Calculated daily, with underlying property revaluations in Centro direct property syndicates and funds undertaken on a six monthly basis, or more frequently if required.
<b>Distribution Reinvestment Plan (DRP)</b>	Currently closed.

## The Year in Review

### Fund Suspension

As of 17 December 2007, applications and withdrawals from the Fund were suspended by the Responsible Entity (Centro MCS Manager Limited or RE). This followed the announcements made that day by Centro Properties Group and Centro Retail Trust relating to their inability to refinance some of their external borrowings.

Since that date the RE has continued to monitor the situation. The lifting of the suspension is closely linked to the Centro Group recapitalisation initiatives. The RE is of the view that the suspension will continue for the foreseeable future. While the DPF remains suspended, the focus and priority will be to:

- Preserve the capital value of the Fund;
- Continue to pay income distributions on a quarterly basis; and
- Return capital to investors to the extent that underlying investments can be realised.

### Total Fund Returns

In the 12 months to 30 June 2008 the DPF produced a total negative return (net of fees and taxes) of 9.6%, representing a 2.9% distribution return and a -12.5% capital decline. This is the first year that the DPF has generated a negative return and comes after three years of strong total returns.

The negative capital return was caused by declines in the value of the DPF's underlying investment portfolio. The main contributors to this were DPFI, Centro Australia Wholesale Fund (CAWF), Centro Retail Investment Trust (CRIT) as well as significant declines in the Fund's listed property trust portfolio.

The distribution return was impacted by reduced or no distributions from some of the Fund's investments as those funds re-assessed their capacity to pay distributions in the current climate.

## Fund Performance Table

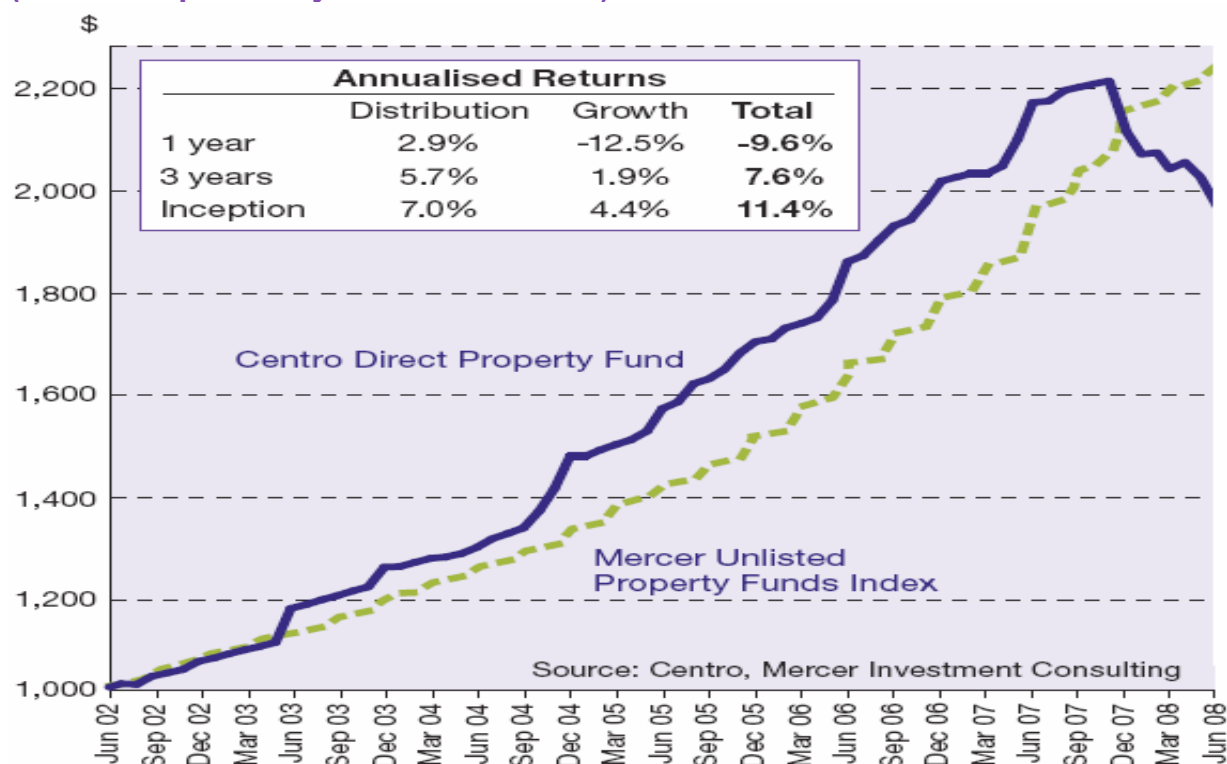
		Returns (1 Year Rolling)				
Period Ended	Dist. #	Distribution	Growth	Total	Unit Price <sup>^</sup>	Tax Adv.
30 Jun 2003	8.16	8.7%	6.5%	15.2%	1.0650	68%
30 Jun 2004	8.23	8.0%	2.0%	10.0%	1.0867	73%
30 Jun 2005	8.54	8.4%	12.8%	21.2%	1.2256	70%
30 Jun 2006	8.78	7.7%	10.5%	18.2%	1.3553	58%
30 Jun 2007	9.23	7.2%	9.4%	16.6%	1.4821	100%
<b>30 Jun 2008</b>	<b>4.64</b>	<b>2.9%</b>	<b>-12.5%</b>	<b>-9.6%</b>	<b>1.2968</b>	<b>89%</b>

# Distribution (cents per unit) <sup>^</sup>Ex Distribution

Over the long term the DPF's performance has delivered returns of 11.4% per annum since the Fund's inception in July 2002. Until late 2007, the DPF performance exceeded its benchmark return (Mercer Unlisted Property Funds Index). The performance then declined over the second six months of FY08. It should be noted that the Mercer benchmark is comprised of a number of wholesale property funds covering the retail, office and industrial sectors. There is sometimes a lagged effect in the movement or performance of the Mercer benchmark as the properties in some of the funds within that benchmark are only valued periodically.

## Total Funds Returns

(Since Inception July 2002 – June 2008)



## Distributions

As mentioned above, distributions were negatively impacted by no or reduced distributions from some of the DPF's underlying investments. In particular the three largest investments of the Fund being CAWF, DPFI and CRIT all paid lower distributions. In addition no distribution was received in respect of the Fund's holding of the listed Centro Properties Group and a significantly reduced distribution was received from the listed Centro Retail Trust (CER).

The Centro MCS syndicates, which account for around 25% of total assets, generally paid distributions in line with forecast, although there were some exceptions where the syndicate concerned paid lower than forecast distributions.

## Capital Structure Simplified

During the year all of the equity notes on issue were converted to ordinary units. Equity notes have historically been part of the capital structure of the Fund. The structure of an equity note, which is detailed further in the Product Disclosure Statement, comprised a partly paid unit (PPU) 'attached' to a debt obligation (DO). Whilst the equity notes were technically considered as a debt instrument, for unit pricing and distribution purposes, equity notes were treated the same as ordinary units in the Fund, and therefore were considered to be "quasi equity". Nevertheless, the equity notes added to the complexity of the capital structure of the Fund.

We believe this is a good outcome for investors as it removes a potential debt obligation of the Fund, and helps simplify the Fund's capital structure.

## Portfolio Analysis

### Current Investments

Investment	\$ Million	% Portfolio
Centro Australia Wholesale Fund	845.4	39.7%
Centro DPF International	405.8	19.1%
Centro Retail Investment Trust – Domestic Pools	249.2	11.7%
Centro MCS 28	82.4	3.9%
Centro MCS 33	49.8	2.3%
Centro MCS 21	47.2	2.2%
Centro MCS 37	36.2	1.7%
Centro MCS 3	36.0	1.7%
Centro MCS 25	35.6	1.7%
Non-Centro Direct Property Funds	23.5	1.1%
Other Centro MCS Property Funds	278.7	13.1%
<b>Total Unlisted Property Investments</b>	<b>2,089.8</b>	<b>98.2%</b>
Centro Retail Trust (Listed)	13.1	0.6%
Centro Properties Group (Listed)	1.3	0.1%
Outsourced LPT Portfolio	12.0	0.6%
Cash & Other Assets	11.8	0.5%
<b>TOTAL ASSETS</b>	<b>2,128.0</b>	<b>100%</b>

## Portfolio Commentary

**Centro Australia Wholesale Fund (CAWF)** – this is the largest investment of the DPF, representing around 40% of total assets. The CAWF portfolio comprises 28 shopping centres with an aggregate gross value in excess of \$2 billion. CAWF holds a 50% interest in all of these centres. Some of the larger holdings in the CAWF portfolio include Centro Bankstown (Sydney), Centro Galleria (Perth), Tuggeranong Hyperdome (Canberra) and Centro The Glen (Melbourne).

DPF owns 49.9% of CAWF. Since year end, CAWF has sold one its centres – Centro Southport and remains in negotiations with a number of other interested parties. It should be noted that proceeds from these sales are likely in the first instance to be applied towards repayment of debt within CAWF, as opposed to being distributed to the CAWF unitholders. Over FY09, the DPF may be a beneficiary of some capital proceeds from CAWF, however this will depend on the extent of the assets sold.

**Centro Direct Property Fund International (DPFI)** – this investment represents 19% of total assets and provides the DPF with its international property exposure. Further detailed commentary in relation to the DPFI can be found in the DPFI section of this Annual Review.

**Centro Retail Investment Trust (CRIT)** – this investment represents around 12% of total assets. In June 2007, the Fund invested in CRIT. This investment occurred following the acquisition by Centro and CER of the US based New Plan real estate investment trust. CRIT provides the Fund with a “look through” exposure to the underlying direct property interests of CER in Australasia on a long term investment basis, with the assets priced in a similar way to that for Centro MCS syndicates, using a net asset backing (NAB) methodology. A guarantee was provided by Centro to the Fund that the CRIT investment could be disposed after a seven year period, with any shortfall to NAB guaranteed.

We are valuing this investment as a long term direct property investment, and accordingly have not adopted the current market value of CER for valuation purposes. The investment value has been adjusted on a quarterly basis to the net asset value of the underlying domestic CER properties. Given the issues facing Centro, there is a risk that Centro may not be able to honour the NAB guarantee. If both DPF and DPFI were to adjust the carrying value of the CRIT investment to market value (around 12 cents on 24 September 2008), the DPF unit price would drop from around \$1.27 to \$1.06. We are examining ways in which this investment can be disposed. Until a definitive outcome is determined, we will continue to carry the investment at net asset value. Future uncertainty may lead to the need for further writedowns to be considered.

**Centro MCS Syndicates** – the DPF has around 25% of total assets invested in 29 Centro MCS syndicates. These syndicates are all invested in Australian retail property. The syndicates are closed end funds with no liquidity offered. However, in each financial year, a number of these syndicates reach the end of their syndicate term, and investors can then elect to exit or vote to extend the syndicate term. Centro MCS has already announced that some syndicate assets have been sold. Where the sale represents the entire portfolio of a syndicate, as in the case of CMCS 2, the syndicate will then be wound up with the proceeds distributed to unitholders. DPF expects to receive some capital proceeds over FY09 from its various syndicate holdings, however the extent of this cannot be determined with certainty at this stage.

**Listed Property Trusts (LPTs)** – at financial year end, the LPTs represented 1.3% of total assets, compared to 5.6% at the start of the year. The value of this portfolio has fallen substantially over the year, mainly due to the decline in the value of CNP and CER which were the two core LPT holdings. In addition the DPF has an outsourced portfolio of LPTs administered by Goldman Sachs JB Were. The value of this portfolio also fell over the year as negative sentiment resulted in large falls in many LPTs particularly from December 2007 to June 2008.

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## Look Through Debt

The DPF does not have any direct borrowings. However the underlying investments have borrowing or gearing. The level of look through gearing at 30 June 2008 amounted to 45%. This compares to 44 % at December 2007. This represents the weighted average level of borrowings within the DPF's underlying investment funds.

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## Fund Outlook

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

### Centro Group Recapitalisation

The short and long term outlook for the DPF will be influenced to a large extent by developments across the Centro Group, particularly its ability to refinance its debt obligations for the longer term to enable it to operate in a more stable environment. This would also facilitate its ability to find and negotiate an appropriate equity transaction or injection as market conditions improve.

### Retail Market Outlook

The performance of the DPF investments is ultimately driven by the performance of the underlying retail properties. The properties in the portfolio have a food based non-discretionary shopping bias, which should provide some resilience in challenging economic times. The Australian properties are generally performing very well with minimal vacancies. Occupancy rates in the US properties have slipped over the past 12 months as the US economy has weakened.

World financial markets have been extremely volatile in recent weeks. This is negatively impacting on consumer sentiment. The declines in world equity markets may have a flow on effect of reduced retail sales turnover figures, which may then flow through to lower rental income.

### Property Revaluations

Property values have declined from December 2007 to June 2008. Generally the declines have been lower in Australia than the US. However, very low levels of transactions in the market have made it difficult to assess the true extent of the decline.

There is currently a significant amount of retail property on the market in Australia. Potential purchasers are finding it difficult to raise capital from banks and other financial institutions. This may further negatively impact on property values. Most of the properties in the DPF portfolio are re-valued every six months. It is likely that the December 2008 values will generally be lower than June 2008. This may then be reflected in lower unit prices for the underlying syndicates and funds, which will then be reflected in a lower unit price for the DPF.

### Asset Realisations

While the DPF remains suspended, the RE is attempting to return some of investors' capital through the realisation of some of the underlying investment portfolio. This in turn will be impacted by the success or otherwise of efforts within those funds to sell assets. Some portion of the proceeds may be used in the first instance to retire or reduce debt within those funds. However in other cases, it is expected that the proceeds would be distributed to unitholders, including the DPF.

The DPF RE will consider making one or more special distributions over the coming year where capital distributions are received from its investments.

### Income Distributions

The Centro MCS syndicates have recently announced reduced distributions for FY09. This is generally due to the retention of some earnings to meet operational capital expenditure commitments and higher debt funding costs. In addition, they may retain some portion of net income as reserves in order to bolster their cash position. It is expected that CAWF would be adopting a similar position.

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

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# Centro Direct Property Fund International

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## Financial Performance Summary

Financial Item	30 June 2008	30 June 2007
Total Return (after fees, before tax)	-18.8%	11.0%
Distribution Return	3.6%	7.8%
Growth Return	-22.4%	3.2%
Closing Unit Price (ex-distribution)	\$0.8304	\$1.0701
Distribution (Cents per Unit)	4.35 cents	7.76 cents
Tax Advantaged Distribution	94%	87%
Management Expense Ratio*	0.45%	0.45%
Cash & Liquid Assets (\$m)	\$11	\$65
Total Assets (\$m)	\$1,497	\$1,956
Net Assets (\$m)	\$1,493	\$1,892
Total Revenue (\$m)	\$76	\$85
Net Operating Income (\$m)	\$68	\$80

\* Excludes performance fee paid in FY07. Also referred to as Indirect Cost Ratio. Note: The above table has been prepared for unit-pricing purposes and may differ from the statutory financial statements.

## Fund Overview

<b>Investments</b>	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.
<b>Underlying Property Exposure</b>	The underlying investments of the DPFI are shopping centres located in the US, including community, power and neighbourhood centres and shopping malls.
<b>Benchmark Return Objective</b>	To out-perform the Reserve Bank of Australia 10 Year Bond rate plus a risk premium of 4%, on a rolling three year basis.
<b>Distributions</b>	On a quarterly basis, paid approximately five weeks after the respective period.
<b>Unit Pricing</b>	Calculated daily, with underlying property revaluations in Centro syndicates and funds undertaken on a six monthly basis or more frequently if required.
<b>Distribution Reinvestment Plan (DRP)</b>	Currently closed.

## The Year in Review

### Fund Suspension

As of 17 December 2007, applications and withdrawals from the Fund were suspended by the Responsible Entity (Centro MCS Manager Limited or RE). This followed the announcements made that day by Centro Properties Group and Centro Retail Trust relating to their inability to refinance some of their external borrowings.

Since that date the RE has continued to monitor the situation. The lifting of the suspension is closely linked to the Centro Group recapitalisation initiatives. The RE is of the view that the suspension will continue for the foreseeable future. While the DPFI remains suspended, the focus and priority will be to:

- Preserve the capital value of the Fund;
- Continue to pay income distributions on a quarterly basis; and
- Return capital to investors to the extent that underlying investments can be realised.

### Total Fund Returns

In the 12 months to 30 June 2008 the DPFI produced a negative total return (net of fees and taxes) of 18.8%, representing 3.6% distribution return and -22.4% capital decline.

The negative capital return was caused by declines in the value of the DPFI's underlying investment portfolio. The main contributors to this were Centro Retail Investment Trust (CRIT), Centro America Fund (CAF), selected syndicate investments as well as significant declines in the Fund's listed property trust portfolio.

The distribution return was similarly impacted by reduced or no distributions from some of the Fund's investments as those funds re-assessed their capacity to pay distributions in the current climate.

## Fund Performance Table

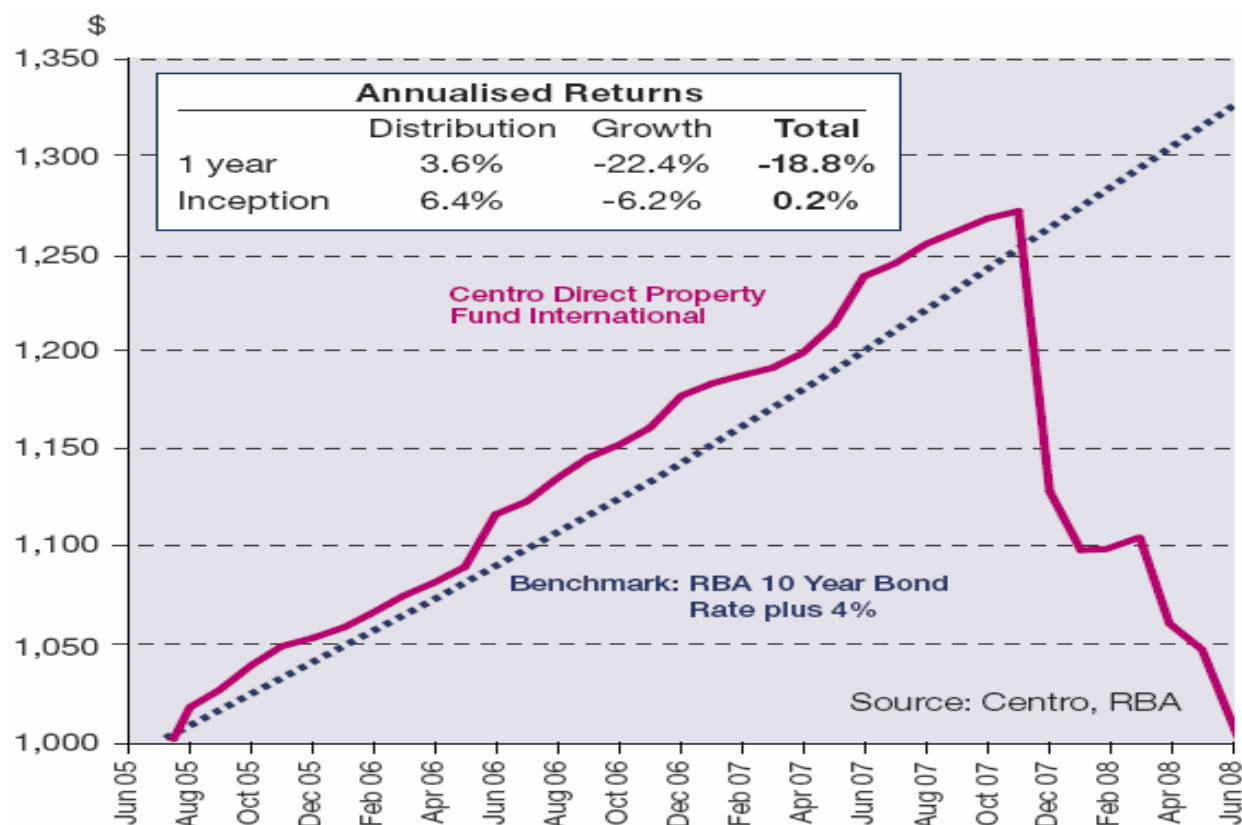
		Returns (1 Year Rolling)				
Period Ended	Dist. #	Distribution	Growth	Total	Unit Price <sup>^</sup>	Tax Adv.
30 Jun 2006	7.67	8.7%	4.0%	12.7%	1.0364	98%
30 Jun 2007	7.76	7.8%	3.2%	11.0%	1.0701	87%
<b>30 Jun 2008</b>	<b>4.35</b>	<b>3.6%</b>	<b>-22.4%</b>	<b>-18.8%</b>	<b>0.8304</b>	<b>94%</b>

# Distribution (cents per unit) <sup>^</sup>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. Following the Centro Group announcements on 17 December 2007 relating to its inability to refinance some of its debt obligations, the DPFI marked down the carrying value of its CRIT investment. The DPFI then experienced further significant declines in the value of its investment portfolio over the next six months to June 2008. This is illustrated in the graph on below.

## Total Funds Returns

(Since Inception August 2005 – June 2008)



## Distributions

As mentioned above, distributions were negatively impacted by no or reduced distributions from some of the DPFI's underlying investments. In particular the largest investment of the Fund being CRIT, which accounted for around 38% of total assets prior to December 2007 paid significantly reduced distributions. In addition reduced distributions were received from the Centro America Fund and syndicates Centro MCS 36, 39 and 40. A significantly reduced distribution was received from the DPFI's direct holding in the listed Centro Retail Trust.

## Capital Structure Simplified

During the year all of the equity notes on issue were converted to ordinary units. Equity notes have historically been part of the capital structure of the Fund. The structure of an equity note, which is detailed further in the Product Disclosure Statement, comprised a partly paid unit (PPU) 'attached' to a debt obligation (DO). Whilst the equity notes were technically considered as a debt instrument, for unit pricing and distribution purposes, equity notes were treated the same as ordinary units in the Fund, and therefore were considered to be "quasi equity". Nevertheless, the equity notes added to the complexity of the capital structure of the Fund.

We believe this is a good outcome for investors as it removes a potential debt obligation of the Fund, and helps simplify the Fund's capital structure.

## Portfolio Analysis

### Current Investments

Investment	\$ Million	% Portfolio
Centro Retail Investment Trust – International Pools	514.8	34.7%
Centro America Fund	224.4	15.1%
Centro MCS 39	177.0	11.9%
Centro MCS 38	171.3	11.5%
Centro MCS 40	162.4	10.9%
Centro MCS 32	112.6	7.6%
Centro MCS 36	75.4	5.1%
Centro MCS 35	30.4	2.1%
<b>Total Unlisted Property Investments</b>	<b>1,468.3</b>	<b>98.9%</b>
Centro Retail Trust (Listed)	8.3	0.6%
Outsourced LPT Portfolio	0.7	0%
Cash & Other Assets	7.9	0.5%
<b>TOTAL ASSETS</b>	<b>1,485.2</b>	<b>100%</b>

### Portfolio Commentary

**Centro Retail Investment Trust (CRIT)** – this investment represents around 35% of total assets. In June 2007, the Fund invested in Centro Retail Investment Trust (CRIT). This investment occurred following the acquisition by Centro CER of the US based New Plan real estate investment trust. 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, with the assets priced in a similar way to that for Centro MCS syndicates, using a net asset backing (NAB) methodology. A guarantee was provided by Centro to the Fund that the CRIT investment could be disposed after a seven year period, with any shortfall to NAB guaranteed.

We are valuing this investment as a long term direct property investment, and accordingly have not adopted the current market value of CER for valuation purposes. The investment value has been adjusted on a quarterly basis to the net asset value of the underlying international CER properties. Given the issues facing Centro, there is a risk that Centro may not be able to honour the NAB guarantee. If the DPFI were to adjust the carrying value of the CRIT investment to market value (around 12 cents on 24

September 2008), the DPFI unit price would drop from around \$0.79 to \$0.58. We are examining ways in which this investment can be disposed. Until a definitive outcome is determined, we will continue to carry the investment at net asset value. Future uncertainty may lead to the need for further writedowns to be considered.

**Centro America Fund (CAF)** – this investment represents around 15% of total assets. This is a wholesale fund comprising 31 shopping centres, all located in the US. DPFI owns 49.9% of CAF. CAF continues to negotiate the sale of 29 of 31 of its assets with various parties. However no assurance can be given that a transaction will occur.

**Centro MCS Syndicates** – the DPFI has 49% of total assets invested in six Centro MCS syndicates, the largest two of which are CMCS 39 and CMCS 38. These syndicates are all invested in US retail property. The syndicates are closed end funds with no liquidity offered. Over the next few years, some of these syndicates will reach the end of their syndicate term, and investors can then elect to exit or vote to extend the syndicate term. No syndicates are scheduled to reach the end of their term in FY09. The unit price or net asset backing of all of the syndicates declined over FY08 reflecting weaker US property values.

**Listed Property Trusts (LPTs)** – at financial year end, the LPTs represented 0.6% of total assets, compared to 2.5% at the start of the year. The value of this portfolio has fallen substantially over the year, mainly due to the decline in the value of CER which was the core LPT holding. In addition the DPFI has an outsourced portfolio of LPTs administered by Goldman Sachs JB Were. The value of this portfolio also fell over the year as negative sentiment resulted in large falls in many LPTs particularly from December 2007 to June 2008.

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## Look Through Debt

The DPFI does not have any direct borrowings. However the underlying investments have borrowings or gearing. The level of look through gearing at 30 June 2008 amounted to 58%. This compares to 54 % at December 2007. 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.

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## Fund Outlook

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

### Centro Recapitalisation

The short and long term outlook for the DPFI will be influenced to a large extent by developments across the Centro Group, particularly its ability to refinance its debt obligations for the longer term to enable it to operate in a more stable environment. This would also facilitate its ability to find and negotiate an appropriate equity transaction or injection as market conditions improve.

### Retail Market Outlook

The performance of the DPFI investments are ultimately driven by the performance of the underlying retail properties in the US. The properties in the portfolio have a food based non-discretionary shopping bias, which should provide some resilience in challenging economic times. Occupancy rates in the US properties have slipped over the past 12 months as the US economy has weakened.

World financial markets have been extremely volatile in recent weeks. This is negatively impacting on consumer sentiment. The declines in world equity markets may have a flow on effect of reduced retail sales turnover figures, which will then flow through to lower rental income in some cases.

### Property Revaluations

Property values have declined from December 2007 to June 2008. There have been very low levels of transactions in the market, making it difficult to assess the true extent of the decline.

There is currently a significant amount of retail property on the market in United States. Potential purchasers are finding it difficult to raise capital from banks and other financial institutions. This may further negatively impact on property values. Most of the properties in the DPFI portfolio are re-valued every six months. It is likely that the December 2008 values will generally be lower than June 2008. This

may then be reflected in lower unit prices for the underlying syndicates and funds, which will then be reflected in a lower unit price for the DPFI.

### **Asset Realisations**

While the DPFI remains suspended, the RE is attempting to return some of investors' capital through the realisation of some of the underlying investment portfolio. This in turn will be impacted by the success or otherwise of efforts within those funds to sell assets. Some portion of the proceeds within those funds may be used in the first instance to retire or reduce debt. However in other cases, it is expected that the proceeds would be distributed to unitholders, including the DPFI.

The DPFI will consider making one or more special distributions over the coming year where capital distributions are received from its investments.

### **Income Distributions**

CER has given no distribution guidance for FY08. 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 FY09.

The Centro MCS syndicates have recently announced reduced distributions for FY09. This is generally due to the retention of some earnings to meet operational capital expenditure commitments and higher debt funding costs. In addition, they may retain some portion of net income as reserves in order to bolster their cash position. It is expected that CAF would be adopting a similar position.

No distributions are expected for the foreseeable future from the DPFI's investment in CMCS 40. This syndicate is party to a debt facility called Super LLC, together with Centro and CER. Until further aspects of the Super LLC facility are resolved, CMCS 40 is not expected to pay income distributions.

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 will generally be to pay all net income derived from the underlying investments to its investors.

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## Board of Directors

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Centro MCS Manager Ltd (Centro MCS), a wholly owned subsidiary of Centro, is the Responsible Entity of the Funds. Centro MCS is managed by a board of Directors who are accountable to the members of the Funds. As the responsible entity, Centro MCS provides a comprehensive range of services relating to the Funds.

### Directors of the Responsible Entity

#### Paul Cooper (Chairman)

An independent, non-executive Director of Centro Properties Group and Centro Retail Limited since October 2006. Mr Cooper was appointed as Chairman of Centro Properties Group and Centro Retail Limited on 1 July 2008.

Mr Cooper has experience in finance and corporate law, strategic corporate finance advice, capital raising, acquisitions and divestments, funds management and negotiation and establishment of joint ventures gained during a career spanning Freehills, Chronworth Advisory Pty Ltd, Investec Wentworth Pty Ltd and most recently as founder and Managing Director of Gane Corp Pty Ltd, a specialist corporate advisory firm.

Mr Cooper has been a Director of AXA Asia Pacific Holdings Limited (formerly National Mutual Holdings Limited) since 1995, and chairs the AXA APH Board Investment Committee and the AXA Managed Investments Compliance Committee.

#### Graham Goldie

An independent non-executive Director of Centro Properties Group since 1994 and a Director of Centro Retail Limited since 2005, and the Chairman of the Group Compliance Committee.

Mr Goldie has a background in retail store management with over 15 years experience at a senior executive level for Target and Myer stores. Since 1991, Mr Goldie has operated his own consultancy service, consulting to a wide range of diverse interests. Until January 2008, Mr Goldie was Chairman of the Advisory Board at The Australian Centre for Retail Studies (ACRS), a specialist centre within the Department of Marketing at Monash University.

Within the past three years, Mr Goldie has not held any additional directorships of ASX listed entities.

#### Sam Kavourakis

An independent non-executive director of Centro Properties Group since November 2003, a Director of Centro Retail Limited since 2005. Mr Kavourakis was the Chairman of the Audit and Risk Management Committee until rotating from the position on 1 July 2008.

Mr Kavourakis has extensive investment and fund management experience in Australia, including within the property sector. He was the Managing Director of National Mutual Funds Management for eight years, during which time he was responsible for all asset management functions within the National Mutual Group, both in Australia and offshore, and managing an investment team of more than 400 people. Mr Kavourakis is currently a Director of a number of companies and associations including Lachlan Partners Advisory Board (formerly Collins House Financial Services) and Traffic Technologies Limited. Mr Kavourakis has been a director of Ticor Limited within the past three years.

#### Peter Wilkinson

An independent non-executive director of Centro Properties Group since March 2004 and a Director of Centro Retail Limited since 2005, and a member of the Group's Compliance Committee.

Mr Wilkinson has extensive retail management and property experience within Australia, including almost six years as Chief Executive and Managing Director of David Jones Limited, since 2005 and a member of the Group's Compliance Committee. During this time he was responsible for managing the strategic development and value generation of 35 stores, and clearly positioned David Jones as Australia's premier department store. He had previously spent 18 years with Myer and Coles Myer Ltd, including positions as

Managing Director of Target, Managing Director of Myer Grace Bros and Chief Operating Officer of the Coles Myer Group. Mr Wilkinson has held numerous positions within the retail sector, including President of the Australian Retailers Association. Mr Wilkinson is also Managing Director of Australian Discount Retail (Trading) Pty Ltd.

**Jim Hall**

An independent non-executive Director of Centro Properties Group since September 2005, and a Director of Centro Retail Limited since 2005.

Mr Hall is an experienced company director and is currently a director of Alesco Corporation Limited (since July 2005), the ConnectEast Group (since June 2005) and a member of JP Morgan Advisory Council (Australia) since May 2005. He was also a former executive director finance of Orica Limited (February 2002 to April 2005) and a former director of Symbion Health Limited (from June 2005 to February 2008). Since 1 July 2008, Mr Hall has chaired the Audit and Risk Committee and is also a member of the Compliance Committee.

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## Investor Services

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### Enquiries

Any enquiries including requests for changes to your holding details or distribution payment details, can be directed to our Investor Services area:

Phone: **1800 802 400**  
Fax: 03 8847 1868  
Website: [centro.com.au](http://centro.com.au)  
Email: [investor@centro.com.au](mailto:investor@centro.com.au)

### Investor Reporting

Centro aims to ensure that the investors are informed of all significant developments affecting the Funds on a continuous basis. Information is communicated by:

- Quarterly fact sheet updates;
- Web site publications;
- Correspondence including Fund updates;
- Annual reports and financial statements; and
- Unit holder meeting documentation when applicable.

### Key Dates

	Direct Property Fund	Direct property Fund International
<i>Annual Report published</i>	Early October 2008	Early October 2008
<i>Quarterly Fact Sheets</i>	On or before distribution dates	On or before distribution dates
<i>Statutory Accounts</i>	September 2008	September 2008
<b><i>Distributions (estimates only)</i></b>		
<i>Quarter ended 30 September 2008</i>	11 November 2008	7 November 2008
<i>Quarter ended 31 December 2008</i>	10 February 2009	6 February 2009
<i>Quarter Ended 31 March 2009</i>	11 May 2009	7 May 2009
<i>Quarter ended 30 June 2009</i>	11 August 2009	7 August 2009

### Website

The Funds have their 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 Funds can request a copy from Investor Services.

*This information has been prepared without taking into account any person's objectives, financial situations or needs and because of that, you should, before acting on this information, consider the appropriateness of the information having regard to your own objectives, financial situation and needs.*

*Past performance is not a reliable indicator of future performance.*

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# Directory

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## Responsible Entity

Centro MCS Manager Limited  
ACN 051 908 984  
AFSL No. 238775

## Directors

Paul Cooper (Chairman)  
Graham Goldie  
Sam Kavourakis  
Peter Wilkinson  
Jim Hall

## Company Secretary

Elizabeth Hourigan

## Fund Management

Alan Hayden – Manager, Direct Property Funds

## Registered Office

Corporate Offices, 3rd Floor  
Centro The Glen  
235 Springvale Road  
Glen Waverley Victoria 3150

Telephone: +61 3 8847 1802  
Facsimile: +61 3 8847 1868  
Investor Services: 1800 802 400  
Email: [investor@centro.com.au](mailto:investor@centro.com.au)  
Website: [centro.com.au](http://centro.com.au)

## Auditor

PriceWaterhouseCoopers  
333 Collins Street  
Melbourne Victoria 3000

## APIR Codes

MCS0011AU – Centro Direct Property Fund  
MCS0001AU – Centro Direct Property Fund International

## ARSN

099 728 971 – Centro Direct Property Fund  
114 635 657 – Centro Direct Property Fund International