

CENTRO DIRECT PROPERTY FUND

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 (DPF) 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 DPF produced a total negative return of 33.8% (net of fees and taxes). This represents a 3.8% distribution return and a 37.6% capital decline.

The negative capital return was caused by declines in the value of the DPF's underlying investment portfolio with the main contributors being the Centro Australia Wholesale Fund (CAWF), Direct Property Fund International (DPFI) and to a lesser extent, Centro Retail Investment Trust (CRIT). Relative to the amount invested, the DPFI investment declined the most, falling by 58% over the year (see the DPFI commentary further in this report and separate DPFI Investor Update for more detail). As a consequence, the proportion of the DPF's assets exposed to the US market has fallen to 11% at June 2009 from 19% at June 2008. In aggregate, the domestic syndicates accounted for around 9% of the total capital decline.

FINANCIAL PERFORMANCE SUMMARY

FINANCIAL ITEM	30 JUNE 2009	30 JUNE 2008
Total Return (after fees, before tax)	-33.8%	-9.6%
• Distribution Return	3.8%	2.9%
• Growth Return	-37.6%	-12.5%
Closing Unit Price (ex-distribution)	\$0.8096	\$1.2968
Distribution (Cents per Unit)	6.23	4.64
Tax Advantaged Distribution	TBA	89%
Management Expense Ratio (MER)*	0.62%	0.74%
Cash & Liquid Assets (\$m)	\$10.7	\$31.7
Total Assets (\$m)	\$1,338.2	\$2,139.0
Net Assets (\$m)	\$1,332.3	\$2,120.8
Total Revenue (\$m)	\$90.7	\$87.7
Total Expenses (\$m)	\$10.7	\$17.0
Net Operating Income (\$m)	\$80.0	\$70.7

*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 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%
30 Jun 2008	4.64	2.9%	-12.5%	-9.6%	1.2968	89%
30 Jun 2009	6.23*	3.8%	-37.6%	-33.8%	0.8096	TBA

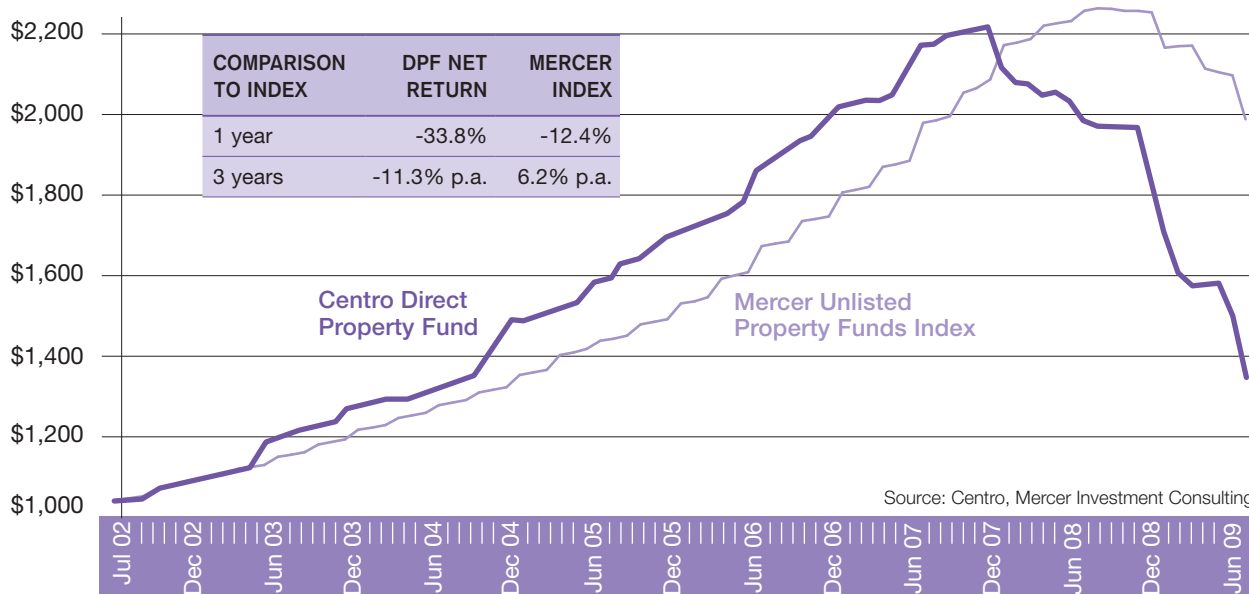
#Distribution (cents per unit) ^Ex Distribution *Includes 1.25 cent capital distribution

The DPF's performance has delivered returns of 3.4% 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 and more significantly over FY09, resulting in a disappointing negative return of 33.8% for the year. Over FY09, the Mercer Index lost over 12%, most of which occurred in the second six month period. In June 2009 alone, the Mercer Index declined by 5.4%.

As illustrated in the graph below, there is 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 2009)



Note: The Mercer benchmark is comprised of a number of wholesale property funds covering the retail, office and industrial sectors.

Distributions

The DPF paid a total income distribution of 4.98 cents per unit for the year (inclusive of the special 1.0 cent distribution) compared to 4.64 cents per unit in the prior year. Over the year, DPF also distributed 1.25 cents per unit to investors as a capital distribution, resulting in an aggregate distribution of 6.23 cents per unit.

Net operating income increased to \$80 million in FY09 from \$70.7 million in FY08 primarily as a result of the following:

- Significantly higher distributions received from CAWF including an August 2008 distribution of \$17.5 million (relating to FY08), resulting in a special 1 cent income distribution to investors in September 2008; and
- A reduction of 37% in the DPF's expenses for the year (in line with the drop in net assets).

This was partially offset by:

- A 46% decline in distributions received from Centro MCS Syndicates;

- Significantly lower distributions from DPFI; and
- Little or no income received from investments in Centro Retail Trust (CER), Centro Properties Group (CNP) or CRIT, as CER in particular applied most of its net income towards repayment of debt.

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 9, 16 and 24 paid no distributions during the year as they allocated their net income towards repayment of debt.

The negligible distribution declared by CER also impacted on the DPF's investment in CRIT.

The capital distribution of \$20.3 million (1.25 cents per unit) was primarily from two sources:

- \$7.8 million received from Centro MCS 2 following the successful sale of its sole asset; and
- \$10.2 million from the sale of a portfolio of the listed property stocks in October and November 2008.

PORTFOLIO ANALYSIS

Current Investments (June 2009)

INVESTMENT	\$ MILLION	% PORTFOLIO
Centro Australia Wholesale Fund	597.2	44.6%
Centro Retail Investment Trust – Domestic Pools	162.1	12.1%
Centro DPF International	151.0	11.3%
Centro MCS 28	46.4	3.5%
Centro MCS 21	35.6	2.7%
Centro MCS 33	35.0	2.6%
Centro MCS 3	28.7	2.1%
Centro MCS 25	26.1	1.9%
Centro MCS 37	21.6	1.6%
Non-Centro Direct Property Funds	19.0	1.4%
Other Centro MCS Property Funds	186.4	14.0%
Total Unlisted Property Investments	1,309.1	97.8%
Centro Retail Trust (Listed)	4.2	0.3%
Centro Properties Group (Listed)	0.5	0.0%
Outsourced LPT Portfolio	1.0	0.1%
Cash & Other Assets	23.4	1.8%
TOTAL ASSETS	1,338.2	100%

Portfolio Commentary

Centro Australia Wholesale Fund (CAWF) – DPF owns 49.9% of this fund and it is the largest investment of the DPF, representing around 45% of total assets. CAWF is comprised of 50% interests in 27 shopping centres across Australia with an aggregate gross value in excess of \$2 billion. The shopping centres continue to perform well with a strong occupancy rate of around 99% and stable property income growth. Some of the larger assets include Centro Galleria (Perth), Centro Bankstown (Sydney), Centro The Glen (Melbourne) and Centro Colonnades (Adelaide).

During the year, Centro Southport was sold by CAWF and CER (the owner of the other 50% of this property). The proceeds were used to repay debt and were not distributed to CAWF unitholders.

Centro Retail Investment Trust (CRIT) – Represents around 12% of total assets and provides the Fund with a “look through” exposure to the underlying direct property interests of CER in Australasia 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.

CRIT 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. The investment value has been adjusted on a quarterly basis to the net asset value of the underlying domestic CER properties. If Centro were not able to honour the NAB guarantee it has provided, the value of the CRIT investment may need to be written down to the market value (around 10 cents per unit on 6 August 2009), and the DPF unit price would drop from around \$0.81 to \$0.71 taking into account also the impact on DPFI. Further write downs may need to be considered if there is further uncertainty regarding this investment.

Centro Direct Property Fund International (DPFI) – Represents around 11% of total assets (compared with 19% at June 2008) and provides the DPF with international property exposure. The investment value

has declined by 58% over the year (see detailed commentary in relation to the DPFI in the separate DPFI Investor Update).

Centro MCS Syndicates – The DPF has around 28% of total assets invested in 28 Centro MCS syndicates invested in Australian retail property. The DPF’s syndicate portfolio declined by 33% over the year as the syndicate unit prices were reduced due to lower property valuations.

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 terms, and investors can then elect to exit or vote to extend the syndicate term.

In FY09, the sole asset of Centro MCS 2 (Charles Street Plaza and Adelaide Central Car Park) was sold and the DPF received \$7.8 million from the distribution of net proceeds to investors. Centro MCS 9 and 15 both reached the end of their syndicate terms during FY09, however investors voted overwhelmingly to extend the term for a further three years. Both of these syndicates sold some of their properties with the proceeds applied to debt repayment. No capital distributions were made to syndicate investors.

Listed Property Trusts (LPTs) – At financial year end, the LPTs represented only 0.4% of total assets, compared to 1.3% at the start of the year. The value of this portfolio has fallen substantially over the year, mainly due to the disposal of \$10.2 million of securities from the outsourced portfolio in late 2008 as well as a decline in the value of CER.

Look Through Debt

The DPF does not have any direct borrowings. However the underlying investments have borrowings or gearing. The look through gearing at 30 June 2009 was 57% compared with 45% at June 2008. This represents the weighted average level of borrowings within the DPF’s underlying investment funds.

FUND OUTLOOK

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

Retail Market

The performance of the DPF investments is ultimately driven by the performance of the underlying retail properties. The properties in the portfolio are food-based and non-discretionary in nature, which should provide some resilience in challenging economic times. The Australian properties are generally performing very well with minimal vacancies – the occupancy rate across the Australian portfolio at June 2009 was around 99%. The occupancy of the US properties to which the DPFI has exposure was around 90% at June 2009.

Property Revaluations

Instability in world financial markets over the past year has translated into lower property valuations, particularly in the US. There does seem to be some stability returning to financial markets, with liquidity and availability of capital showing some tentative signs of improvement. This, coupled with increasing consumer sentiment, should be positive for retail property going forward. However, rising unemployment may dampen any upswing in the short term.

Potential purchasers for assets greater than \$50 million are finding it difficult to raise funding from banks and other financial institutions. There has been an increase in sales volumes in the \$15 million to \$25 million range, mainly from wealthy private investors and syndicators.

Asset Realisations

While the DPF remains suspended, the RE continues to look for opportunities to return some of investors' capital through the realisation of part of its investment portfolio. This in turn will partially depend on the success or otherwise of efforts within those funds to sell assets. Some or all of the proceeds may be used to retire or reduce debt within those funds (as occurred in Centro MCS 9 and Centro MCS 15 over the past year). However in other cases, it is expected that the proceeds would be distributed to unitholders, including the DPF (as was the case with Centro MCS 2 in FY09).

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

Income Distributions

Over the course of FY09, many of the DPF's underlying investments reduced their distribution rates. This was generally driven by the need to retain some earnings to meet operational capital expenditure commitments and higher debt funding costs. In addition, many of the funds elected to retain some portion of net income as reserves to bolster their cash position.

As property values declined over FY09, some of the underlying funds came close to or exceeded their loan to valuation ratio (LVR) covenants with their financiers. This then resulted in some of those funds ceasing to pay any distributions at all, as they directed all surplus cash towards debt repayment.

In FY10, DPF anticipates maintaining the quarterly distribution payment rates at around 1 cent per unit per quarter.

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 is to pay all net income derived from the underlying investments to investors.

FUND OVERVIEW

Investments	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.
Underlying Property Exposure	The Fund has exposure to over 720 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.
Benchmark Return Objective	To out-perform the Mercer Unlisted Property Funds Index 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 direct property syndicates and funds undertaken on a six monthly basis, or more frequently if required.
Distribution Reinvestment Plan (DRP)	Currently closed.

INVESTOR SERVICES

Key Dates

Quarterly Fund Updates	On or around distribution dates
Statutory Accounts	September 2009
Distributions (estimates only)	
Quarter ended 30 September 2009	11 November 2009
Quarter ended 31 December 2009	10 February 2010
Quarter Ended 31 March 2010	11 May 2010
Quarter ended 30 June 2010	11 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, Investor 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.