



Global Asset Management

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CFS RETAIL PROPERTY TRUST GROUP (CFX)

Interim results for the half-year ended 31 December 2012

CFS Retail Property Trust Group (CFX) has once again delivered a solid result for securityholders, providing a distribution of 6.8 cents per security for the six months ended 31 December 2012, representing growth of 4.6% over the prior corresponding period. The distribution will be paid on 28 February 2013.

Angus McNaughton, Managing Director, Property, Colonial First State Global Asset Management, said: "While there remain challenges within the Australian retail sector, positive signs continue to emerge.

"Debt costs are low, shopping centres are generally full across the country, and asset valuations are forecast to strengthen in the medium term," said Mr McNaughton.

Michael Gorman, CFX Fund Manager, said: "Despite challenging operating conditions, like-for-like¹ property income growth was positive and the distribution was boosted by lower debt costs. Comparable² retail specialty stores in our shopping centres reported moving annual turnover (MAT) growth of 2.1%, reflecting the quality of our portfolio."

Key operating highlights for the period included:

- net profit of \$126.4 million, compared to \$201.7 million in the prior corresponding period, with the decrease primarily due to differences in investment properties revaluations between the two periods
- a 4.2% increase in distributable income³ to \$192.3 million, reflecting like-for-like income growth and the benefit of lower debt costs
- distribution of 6.8 cents per security, up 4.6% on the prior corresponding period
- like-for-like net property income increasing 1.4%, reflecting rental uplifts, while total net property income decreased 3.2% to \$269.6 million due to the sale of a 50% interest in The Myer Centre Brisbane
- net tangible asset backing (NTA) per security decreasing to \$2.05 from \$2.07 at 30 June 2012, reflecting fair value adjustments to properties and derivatives
- total assets increasing to \$8.5 billion from \$8.4 billion at 30 June 2012
- issuing \$100 million of seven-year medium term notes at a competitive margin and negotiating a \$100 million five-year forward-start bank debt facility
- gearing⁴ remaining conservative at 27.9%
- a reduction of the weighted average cost of debt to 5.7% from 6.0% at 30 June 2012
- achieving 50% leasing of Emporium Melbourne, in line with target
- Stage 1 of the developments at Brimbank and Roxburgh Park opening on schedule and the commencement of the \$100 million expansion at DFO Homebush
- effectively full portfolio occupancy of 99.7%
- specialty store MAT growth of 2.1% from our comparable shopping centre portfolio

¹ Adjusted for changes in ownership of properties in either of the six-month periods, and excluding development impacted centres.

² Comparable centres refer to those centres that are not undergoing or have not undergone substantial redevelopment in either period of comparison.

³ Distributable income is a key earnings measure used by management to assess the performance of CFX. Distributable income equals net profit excluding: fair value adjustments from investment properties, associates and derivatives; straight-lining revenue; the movement in the fair value of unrealised performance fees; non-cash convertible notes interest expense; adjustments for convertible notes buy-back expense; and adjustments for project and other items.

⁴ Gearing equals borrowings to total assets. For this calculation, total assets exclude the fair value of derivatives and borrowings is the amount of debt drawn.

- maintaining rents on renewal, with fixed 5% annual increases for specialty stores that were re-leased, and
- being included in the Carbon Performance Leadership Index and the Carbon Disclosure Leadership Index for our 2012 submission to the Carbon Disclosure Project.

For more information on CFX's performance during the period, refer to the Appendix 4D which was released today and can be found on CFX's website, cfsgam.com.au/cfx.

Financial results

CFX's net profit for the six months to 31 December 2012 was \$126.4 million, compared to \$201.7 million for the prior corresponding period. The net profit includes a net loss on investment properties and associates valuations of \$48.4 million (compared to a \$112.7 million net gain for the prior corresponding period) and a net loss on derivatives valuations of \$9.7 million (compared to a \$68.3 million net loss for the prior corresponding period).

Distributable income was up 4.2% to \$192.3 million, compared to \$184.6 million for the prior corresponding period.

On a like-for-like basis, net property income was up 1.4%, supported by annual fixed rental increases and effectively full portfolio occupancy. Total net property income reduced by 3.2% largely reflecting the sale of a 50% interest in The Myer Centre Brisbane in March 2012.

Investment performance

CFX delivered a total return⁵ of 2.2% for the six-month period compared to the UBS Retail 200 Property Accumulation Index (the 'Index') return of 12.0%.

The recovery of some of the A-REITs hardest hit during the global financial crisis has resulted in CFX also underperforming over the one and three-year periods by 14.3 and 1.7 percentage points per annum respectively. CFX outperformed the Index on a five and 10-year basis by 6.0 and 5.2 percentage points per annum respectively, reflecting the consistency of CFX's longer-term performance.

For the six months to 31 December 2012, CFX underperformed the customised retail property accumulation index⁶ (the 'benchmark') by 12.0 percentage points. However, after including carry-over outperformance, the Responsible Entity was entitled to a performance fee of \$5.2 million for the period. At 31 December 2012, the carry-over balance was 32.4 percentage points of positive performance relative to the benchmark.

The fair value of the unrealised performance fee liability recognised at 31 December 2012 is \$30.8 million, a decrease of \$3.9 million from 30 June 2012. The total performance fee expense is \$1.3 million, representing both the capped performance fees paid for the period offset by the reduction in the fair value of future performance fees.

Full details of the performance fee are detailed in Note 8 of the Interim Report.

Capital management

Despite lingering concerns over European sovereign debt issues and the US 'fiscal cliff', credit market conditions continued to improve as interest rates reduced and demand from corporate bond holders put downward pressure on margins.

Mr Gorman said: "Over the past six months we have seen further liquidity in capital markets and strengthening demand for quality covenants, with margins continuing to compress."

CFX continued to focus on an active but disciplined approach to capital management. On 21 August 2012, \$198.5 million of convertible notes were redeemed by noteholders exercising their put option. This was repaid out of \$300 million of bank debt facilities put in place in the lead up to the put option date. The face value of the remaining notes is \$92.3 million which have a final maturity date of 21 August 2014.

Other capital management activities during the period included issuing \$100 million of seven-year medium term notes and negotiating a \$100 million five-year forward-start bank debt facility, available from June 2013.

⁵ Total return comprises stapled security price performance and distribution income yield.

⁶ For the purposes of calculating the performance fee, the benchmark, which is the S&P ASX 200 Retail Property Accumulation Index, is customised to remove the effect of CFX on the Index. A 20-day volume weighted average price (VWAP) is applied to both the CFX accumulation index and the customised index.

Mr Gorman said: "Our active approach to capital management during the period has reduced our short-term expiry risk and increased the duration and diversity of our funding sources, while lowering CFX's cost of debt for our securityholders."

At 31 December 2012, CFX had \$535 million of undrawn debt facilities⁷. Gearing was 27.9%, up from 26.6% at 30 June 2012, with borrowings of \$2.4 billion. CFX's debt was 82.8% hedged at 31 December 2012.

The change in other key debt metrics is detailed below:

	As at 31 Dec 2012 ⁷	As at 30 June 2012
Weighted average interest rate ^a (%)	5.7	6.0
Weighted average debt duration (years)	3.2	2.8
Weighted average interest rate on hedged debt ^b (%)	5.1	5.4
Weighted average hedged debt duration (years)	3.5	3.3
Undrawn debt facilities (\$m)	534.5	807.0

a. Including margins and line fees.

b. Including all fixed-rate debt and excluding margins and fees.

The on-market buy-back of CFX stapled securities remained activated and 465,958 securities were bought back and cancelled during the period. Since the commencement of the buy-back in March 2012, a total of 11.1 million CFX securities have been acquired at an average price of \$1.86 per security.

Portfolio update

CFX held total assets of \$8.5 billion at the end of the period, increasing marginally from \$8.4 billion at 30 June 2012, driven predominantly by capital expenditure on CFX's development pipeline.

CFX's portfolio consists of interests in 29 retail properties, located predominantly in the capital cities of six Australian states, with 77% of the retail portfolio⁸ comprising super-regional and regional shopping centres⁹.

Retail sales environment

Mr Gorman said: "Despite what has been a challenging year, the underlying fundamentals remain mildly accommodative for retail expenditure. Consumer spending was up 5.6%, unemployment remains relatively low, house prices are improving and interest rates are low. In addition, we have seen the growth in offshore travel and household savings both slow modestly. But while consumer spending has been increasing, customers remain cautious."

In response, retailers have been reviewing their supply chain and business models, focusing on reducing costs. This has enabled them to offer lower prices and drive higher volumes of turnover, explaining in part why headline sales growth has been muted.

"Retailers in our portfolio that have improved their product offering or found efficiency gains appear to be the most rewarded," added Mr Gorman.

Total MAT across CFX's portfolio was \$7.6 billion for the 2012 calendar year, up 1.9% on the prior corresponding period. Comparable retail specialty MAT growth from the shopping centre portfolio was 2.1%, underpinned by strength in food and services categories, together with mobile phones and tablet devices.

The DFO retail outlet centres reported 5.1% MAT growth to 31 December 2012, showing the benefit of an extensive remixing program being undertaken across those centres.

Mr Gorman said: "The quality of CFX's portfolio, coupled with moderate sales growth, has enabled us to maintain a healthy leasing deal rate, with effectively full occupancy of 99.7%. We have also continued to provide stability of income through our standard 5% fixed annual increases on specialty re-leasing.

"For tenants renewing, which was around 80% of expiries, we have maintained rents at current levels. Including replacements our overall leasing spread for the period was -2.1% for the shopping centre portfolio.

⁷ Excluding a \$100 million five-year forward-start bank debt facility, available from June 2013.

⁸ Excluding Myer Melbourne.

⁹ As defined by the Property Council of Australia.

“Comparable shopping centre specialty store occupancy costs rose modestly to 17.3% from 17.1% at 30 June 2012, supported by an increase in the productivity of our retailers, with specialty sales rising to \$9,728 per sqm from \$9,576 per sqm in June.

“We continue to forecast 3% sales growth for the CFX portfolio over the remainder of calendar year 2013,” concluded Mr Gorman.

See **Appendix 1** for further details on CFX’s retail sales.

Digital in-mall advertising screens

During the period, digital in-mall advertising screens were rolled out on program across three of CFX’s major shopping centres and were operational in time for the Christmas period.

“We have already had positive feedback from our customers on the enhanced experience provided by the screens, while take-up of advertising has also been in line with expectations despite the constrained marketing budgets of many retailers,” said Mr Gorman.

Asset valuations

As announced in December, 17 of CFX’s assets were independently valued during the period, resulting in an unrealised \$48.4 million net loss compared to book value.

The shopping centre portfolio¹⁰ weighted average capitalisation rate tightened marginally to 6.44% from 6.45% at 30 June 2012.

Mr Gorman said: “During the period, there were a number of asset-specific valuation write-downs but the majority of underlying property values improved marginally. As expected, the valuation of Emporium Melbourne was impacted by our revised strategy for the project which came at additional cost and lower year-one income but should ultimately provide a stronger asset.

“The valuation of Altona Gate Shopping Centre was impacted by the proposed replacement of a supermarket on lease expiry, while Corio Shopping Centre and Post Office Square have been impacted by nearby competition. These three assets comprise just 3% of our total assets.

“On the other hand, our shopping centre valuations typically increased in line with income growth, with the valuations of Chadstone and Rockingham particularly reflecting the strength of the retail offer at these centres,” added Mr Gorman.

Development

CFX’s development pipeline is currently \$1.3 billion, with developments typically targeting an average yield on year-one income of 7.0% to 8.0% (excluding Emporium Melbourne).

Mr Gorman said: “On CFX’s flagship development, Emporium Melbourne construction is progressing well with concrete now laid for four of the development’s eight levels, with services, finishes and facade restoration well underway, while 50% of the income has been secured.

“We also commenced the \$100 million expansion of DFO Homebush and made further progress on our key developments at Roxburgh Park and Brimbank shopping centres in Victoria, with stage one of both developments successfully opening on schedule during the period.”

Projects currently under construction have a development cost of approximately \$805 million (CFX share), with \$293 million remaining to be spent.

Key developments under construction

Emporium Melbourne, Melbourne, VIC

Progress on the development of Emporium Melbourne remains focused on opening prior to Christmas 2013. Following strong demand for luxury and international flagship stores, the scope of the project was amended to accommodate more of these high profile tenants, as announced in October 2012.

The revised design will incorporate more international flagship stores and double the amount of floor space devoted to luxury tenants than the original feasibility. Many of these retailers will be housed over two or three levels with multiple entry points.

¹⁰ Excluding Myer Melbourne, the DFO retail outlet centres and 15 Bowes Street, Woden.

The completion of this development will reinstate the connection between Melbourne Central railway station and Bourke Street mall, historically one of Melbourne's busiest pedestrian thoroughfares.

Key tenants secured recently include: Mulberry, Lacoste, Coach, Alannah Hill and MAX&Co. These are in addition to the quality tenants who have already committed to the project such as: Topshop, Salvatore Ferragamo, Scanlan & Theodore, sass & bide, Zimmerman, Orotan, Carla Zampatti, Georg Jensen and Lisa Ho, as well as a range of quality food retailers.

The \$575 million (CFX share) development is targeting a year-one yield on costs of greater than 5%.

Earlier this week our contract builder advised of a fatality that occurred on the Emporium Melbourne development site. Mr McNaughton said: "We were deeply saddened to hear of this event and our deepest condolences go out to his family, friends and colleagues."

Roxburgh Park Shopping Centre, Roxburgh Park, VIC

The \$65 million redevelopment and expansion of Roxburgh Park Shopping Centre reached a major milestone during the period, with the successful opening of the first stage of the project. Stage one of the development included the addition of a new large format Coles supermarket and an Aldi supermarket. The development will further add three mini-majors and over 40 specialty stores. Roxburgh Park will more than double in size to approximately 25,000 sqm, but will continue to focus on convenience-based retailing, with 700 car spaces added as part of the project. The project is on track to achieve the target initial year-one yield of greater than 8% and the target internal rate of return of greater than 10%. Completion is expected in May 2013.

DFO Homebush, Homebush, NSW

The \$100 million project received planning approval and commenced during the period. The development involves a remix of tenancies, the addition of a food court and bulky goods retailers, an expansion and reconfiguration of the car park, adding 500 new car spaces, as well as a substantial upgrade to the existing building. Luxury tenants Armani Outlet and Ermenegildo Zegna opened stores prior to Christmas under an early works package for the development. The project is targeting an initial year-one yield of greater than 7% and an internal rate of return of greater than 10%, with completion expected by Christmas 2014.

Future development

Chadstone Shopping Centre, Chadstone, VIC

During the period, the Planning Scheme Amendment for the project was approved and gazetted by the Minister for Planning. This amendment increases the retail floor space cap by 30,000 sqm, and provides an enlarged envelope along the Princes Highway for office and hotel development. The project is now in the design development phase. It is expected to involve redeveloping approximately 60,000 sqm of space and producing up to an additional 25,000 sqm of retail floor area, adding further international retailers and reinforcing Chadstone as Australia's premier shopping centre destination. The project has an indicative cost of \$520 million (CFX share \$260 million).

Responsible property investment

Mr Gorman said: "As a responsible property investor, we consider environmental, social and governance factors in everything we do. Our approach continues to achieve outstanding global recognition."

During the period, CFX received the following recognition:

Carbon Disclosure Project (CDP) – 2012 survey

For the third consecutive year, CFX was included in the Carbon Disclosure Leadership Index, and for the first time, it was also included in the Carbon Performance Leadership Index.

Global Real Estate Sustainability Benchmark (GRESB) – 2012 Survey

CFX was recognised as a 'Green Star' for the Manager's approach to sustainability by the GRESB Foundation. CFX's submission was ranked 20th out of 451 property companies and funds globally.

Asia Pacific Real Estate Association (APREA) – 2012 Best Practices Awards

CFX's approach to governance, transparency and disclosure was recognised by the APREA Best Practices Awards for the third consecutive year. CFX received awards for Valuation and Corporate Governance.

Dow Jones Sustainability Indices (DJSI) – 2012/2013

CFX retained its membership of the DJSI for 2012/2013. CFX is included in the DJSI World, DJSI Asia Pacific and the Australian Sustainable Asset Management Sustainability Index (AuSSI) indices, and has been a member of the DJSI since 2004.

Mr Gorman said: "These results are recognition not only of the seriousness with which we approach the potential impacts of climate change on our portfolio, but that we have made genuine progress on improving the efficiency of our portfolio."

Comprehensive detail in relation to the Manager's approach to responsible property investment can be found on CFX's website, cfsgam.com.au/cfx.

Outlook

CFX comprises a portfolio of quality Australian retail properties which will continue to drive performance despite the challenging environment.

Mr Gorman said: "CFX remains well placed to provide quality returns for our securityholders. While the retail sector continues to face a number of challenges, we are encouraged by improvements in some underlying drivers of retail expenditure.

"We remain focused on enhancing securityholder returns through the intensive asset management of what remains one of the highest quality individual portfolios of shopping centres in this country. We are also focused on the successful completion of our key development projects underway at Emporium Melbourne and DFO Homebush. Over the longer-term we will continue to refine the quality of our portfolio through transactions.

"We reaffirm our guidance on distribution of 13.6 to 13.7 cents per security for the year ending 30 June 2013¹¹, an increase of approximately 4% on the prior year," Mr Gorman concluded.

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About CFS Retail Property Trust Group (CFX)

CFX is a retail sector-specific Australian Real Estate Investment Trust (A-REIT) which invests in high quality retail assets including super-regional, regional and sub-regional shopping centres and DFO retail outlet centres across Australia. CFX is managed by entities within CFSGAM Property on behalf of more than 16,000 investors from 21 countries. At 31 December 2012, CFX comprised 29 retail assets with a total asset value of \$8.5 billion.

About CFSGAM Property

CFSGAM Property is the specialist property division of Colonial First State Global Asset Management, and is one of the largest real estate fund managers in Australia with \$17 billion in funds under management. CFSGAM Property offers a fully integrated real estate investment platform including investment management, asset management, development management, origination and execution. CFSGAM Property manages a suite of wholesale investment products, as well as three listed real estate investment trusts in Australia and New Zealand.

¹¹ Assuming performance fees are payable for the full financial year and there is no unforeseen material deterioration to existing economic conditions.

Appendix 1

12-month comparison tables

Retail sales by category for the 12-month rolling period to 31 December 2012 are detailed below:

Category	Comparable ¹²		Actual	
	MAT 31 Dec 2012 \$m	MAT growth (%)	MAT 31 Dec 2012 \$m	MAT growth (%)
Department stores	626.3	1.2	658.5	0.8
Discount department stores	706.3	(0.2)	767.5	(1.9)
Supermarkets	1,390.6	2.6	1,597.1	2.2
Mini majors	683.3	(0.7)	759.4	(0.2)
Retail specialty	2,569.3	2.1	2,771.4	2.0
Other retail ¹³	462.9	7.1	503.8	7.2
Shopping centre portfolio¹⁴	6,438.7	1.9	7,057.7	1.6
DFO retail outlet centres	564.9	5.1	564.9	5.1
Total portfolio	7,003.6	2.2	7,622.6	1.9

Retail specialty store sales by category for the 12-month rolling period to 31 December 2012 are detailed below:

Shopping centre portfolio ¹⁴	Comparable		Actual	
	MAT 31 Dec 2012 \$m	MAT growth (%)	MAT 31 Dec 2012 \$m	MAT growth (%)
Retail specialty category				
Food retail	176.3	5.3	196.5	3.6
Food catering	379.6	4.1	413.2	4.3
Apparel	885.4	(1.7)	945.6	(1.2)
Jewellery	205.2	(0.7)	219.5	(0.9)
Leisure	172.7	(4.8)	187.7	(4.8)
General retail ¹⁵	213.4	(1.2)	238.9	(0.4)
Homewares	241.1	21.1	250.2	20.1
Mobile phones	105.5	4.1	114.2	2.6
Retail services	190.1	6.2	205.6	5.2
Total retail specialty	2,569.3	2.1	2,771.4	2.0

¹² Comparable centres refer to those centres that are not undergoing or have not undergone substantial redevelopment in either period of comparison.

¹³ Other retail includes cinemas and sales reporting tenancies under 400 sqm including travel agents, auto accessories, Lotto and other entertainment and non-retail stores.

¹⁴ Excluding Myer Melbourne, the DFO retail outlet centres and 15 Bowes Street, Woden.

¹⁵ General retail comprises giftware, pharmacy and cosmetics, pets, discount variety, florists and toys.