



Global Asset Management

Colonial First State Property Retail Pty Limited
ABN 19 101 384 294

Manager of CFS Retail Property Trust

Responsible Entity:
Commonwealth Managed Investments Limited
ABN 33 084 098 180
AFSL 235384

Registered Address:
Ground Floor, Tower 1
201 Sussex Street
Sydney NSW 2000

Principal Office of the Manager:
Level 7 52 Martin Place
GPO Box 3892
Sydney NSW 2001 Australia

Telephone: 02 9303 3500
Facsimile: 02 9303 3622

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CFS RETAIL PROPERTY TRUST (CFX)

Annual results for the 12 months ended 30 June 2010

Overview

In a year in which global financial markets showed signs of recovery and the Australian economy exceeded expectations, CFS Retail Property Trust (CFX or the 'Trust') continued to provide a unique investment opportunity in the A-REIT sector, with its exclusive focus on investing in quality Australian shopping centres. This simple and transparent management approach, which has been in place since inception, has proven its strength and resilience throughout economic and property cycles.

Darren Steinberg, Head of Property for Colonial First State Global Asset Management (CFSGAM) said: "The improvement in the Australian economy during the 2010 financial year has seen investor support for the A-REIT sector strengthen and CFX maintain its consistent strong outperformance, outperforming the A-REIT¹ sector and Australian sharemarket² returns over the one, three, five and ten-year periods to 30 June 2010."

Michael Gorman, Fund Manager of CFX said: "CFX delivered a strong result, generating a profit of \$315.0 million for the 12 months to 30 June 2010, reflecting solid net property income growth, record development completions, strong total sales growth and full occupancy."

Key operating highlights for the year included:

- Distribution of 12.50 cents per unit
- The Trust generated a profit of \$315.0 million
- Net property income increased 10.1% and on a like-for-like³ basis increased 3.5%
- Distributable income was up 4.8%
- Net tangible asset backing (NTA) per unit remained at \$2.02 at 30 June 2010
- Total gross assets increased 5.2% to \$7.7 billion at 30 June 2010
- The Manager continued its focus on capital management, actively addressing debt expiries ahead of time, and the Trust's gearing⁴ was 29.5% at 30 June 2010.
- Approximately \$850 million (CFX's share \$525 million) of redevelopment projects were completed, and the Trust's development pipeline now stands at \$1.4 billion
- Northgate Shopping Centre in Tasmania was acquired for \$70.1 million and was accretive to earnings. Our intensive asset management approach was recognised in the June 2010 independent valuation of \$88.1 million, reflecting a 25% uplift in value
- The income stream related to the earnings of the CFSGAM Property asset management division provided the Trust with \$9.6 million in income
- The Trust's portfolio recorded total sales of \$6.6 billion (up 6.4%) and retail specialty store actual sales growth was 8.8%
- Chadstone Shopping Centre (Stage 33) was the first shopping centre in Australia to be certified 5-star Green Star – retail centre design v1

Looking forward, we remain focused on driving income growth and seeking opportunities where we can add value through the Trust's intensive asset management approach. Our expert knowledge of the Australian retail property market, combined with our ability to create retail destinations that meet the needs of both retailers and consumers are key to the Trust's success and will underpin unitholder returns over the longer term.

1. S&P/ASX 200 Property Accumulation Index.

2. ASX All Ordinaries Accumulation Index.

3. Including those assets owned for both 12-month periods and excluding the impact of developments.

4. Gearing equals borrowings to total assets. For this calculation, total assets exclude the fair value of derivatives and borrowings is the amount drawn down as per Note 12 of the Financial report, adjusted for the fair value of cross currency swaps.

Financial results

CFX's profit for the 12 months to 30 June 2010 was \$315.0 million, compared to a loss of \$366.9 million for the previous year. The difference in the net result was primarily due to the change in the property and derivatives revaluations. The profit included a net gain on investment properties and associate revaluations of \$49.2 million (compared to a \$548.6 million loss for the previous year) and a net loss on the fair value of derivatives of \$23.2 million (compared to an \$84.8 million loss for the previous year). Distributable income was \$312.2 million, compared to \$297.8 million for the previous year.

Annual distribution

The Trust paid an annual distribution of \$312.2 million, compared to \$307.0 million for the previous year. This equated to a distribution of 12.50 cents per unit, which is in line with the distribution paid in the previous year.

This was a solid result despite a change in the distribution policy which came into effect on 1 July 2009, whereby the Trust's distribution was adjusted to provide greater alignment with underlying earnings. The adjustment means that CFX no longer adds back the performance fee (if payable for the period) to distributable income. The adjustment achieves an interest expense saving by not having to fund the performance fee (if payable) through debt.

On a like-for-like basis distribution increased 3.1%. Net property income increased 10.1% to \$465.7 million and on a like-for-like basis, increased by 3.5%.

Gross assets

Total gross assets increased 5.2%, from \$7.3 billion at 30 June 2009 to \$7.7 billion at 30 June 2010, driven predominantly by the acquisition of Northgate Shopping Centre and the completion of major developments in the development pipeline.

NTA per unit was \$2.02 at 30 June 2010, which is unchanged from 30 June 2009 but an increase on the \$1.99 reported at 31 December 2009.

The Trust's portfolio consists of 25 retail properties, located predominantly in the capital cities of six Australian states, with 86.6% of the portfolio comprising super-regional and regional shopping centres⁵.

Investment performance

Over the 12 months to 30 June 2010, the Trust delivered a total return⁶ of 22.2%, which was above the UBS Retail 200 Accumulation Index (the 'Index') return of 16.2%. Over the three, five and 10-year periods, the Trust outperformed the Index by 17.9%, 13.3% and 6.8% respectively.

As reported in the six months to 31 December 2009, CFX outperformed the customised retail property accumulation index⁷ (the 'performance fee benchmark') by 6.6%. As a result, the Responsible Entity was entitled to a performance fee of \$4.6 million for the six months ended 31 December 2009.

For the six months to 30 June 2010, CFX underperformed⁸ the performance fee benchmark by 1.6%. After including the carry-over outperformance from 31 December 2009, the Responsible Entity was entitled to a performance fee of \$4.7 million for the six months ended 30 June 2010.

At 30 June 2010, the carry-forward balance is 55.1% of positive performance over the performance fee benchmark. The fair value of unrealised performance fees liability recognised in the balance sheet decreased by \$2.2 million at 30 June 2010 to \$31.2 million. Total performance fees expense recognised in the statement of comprehensive income is \$7.1 million, representing both the capped performance fee paid for the year and the movement in the fair value of unrealised performance fees.

Capital management

Over the year, domestic debt markets improved markedly, with increased liquidity, reductions in margins on bank debt and an increase in demand from domestic corporate bond holders for the issuance of medium term notes. However, the effects of the European sovereign debt crisis towards the end of the financial year have caused some concern regarding a potential flow-on effect to the cost of debt in the Australian market.

5. As defined by the Property Council of Australia.

6. Total return comprised unit price performance and distribution income yield.

7. For the purposes of calculating the performance fee, the performance fee benchmark, which is the UBS Retail 200 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.

8. While CFX achieved relative outperformance as at 30 June 2010, the performance fee benchmark index is based on the 20-day VWAP and on that basis CFX underperformed.

Mr Gorman said: “We continued to focus on our active approach to capital management to ensure that CFX’s balance sheet remains strong and a competitive cost of capital is maintained.”

During the year, we:

- repaid, with existing debt facilities, \$200 million in medium term notes that expired on 31 July 2009
- renegotiated a \$100 million bank debt facility, extending the expiry from January 2010 to June 2012
- negotiated a new \$150 million bank debt facility to expire in July 2012
- replaced two \$100 million bank debt facilities due to expire in June 2011 and June 2012 with one \$300 million bank debt facility expiring in January 2015
- replaced a \$75 million bank debt facility expiring in February 2010 with two \$50 million bank debt facilities expiring in February 2013 and February 2015 respectively, and
- terminated a \$100 million bank debt facility expiring in June 2012, saving associated holding costs.

The Trust has \$294 million of medium term notes (MTNs) and \$450 million of bank debt facilities maturing in the 2011 financial year, and the Manager has made good progress on its strategy to refinance this debt. The Manager is liaising with arranger banks in order to appraise various options to refinance the MTNs which mature in November 2010, including the issuance of new MTNs in the domestic and offshore markets. In addition, the Manager has commenced discussions with banks on the replacement of the expiring bank debt facilities. The shortest dated bank debt facility matures in February 2011, with other facilities expiring progressively over the remainder of the 2011 financial year. At 30 June 2010, the Trust had \$431 million of undrawn debt facilities, \$428 million of which mature post the 2011 financial year.

As at 30 June 2010, the Trust’s gearing level was 29.5% (up from 27.3% at 30 June 2009), with borrowings of \$2,261.6 million.

At 30 June 2010, the Trust’s weighted average debt maturity was 2.8 years and weighted average interest rate (including margins and fees) was 6.8%. The Trust’s total borrowings were 88% hedged. The weighted average maturity of hedged debt was 5.0 years and the weighted average interest rate on hedged debt was 5.7% (including convertible notes and excluding margins and fees).

Mr Gorman said: “While CFX’s strong financial position gives us a solid footing, we remain focused on prudently managing the balance sheet for the Trust’s capital commitments and maintaining its flexibility for acquisition opportunities that may arise.”

Flowback/alignment fee

The CFSGAM Property asset management division contributed \$9.6 million of distributable income to the Trust for the 12 months to 30 June 2010, a 23.7% decrease from the previous year. This decrease is largely attributable to lower development-related fees as development projects were completed during the year.

Acquisition

In August 2009, the Trust acquired Northgate Shopping Centre located in Glenorchy, Tasmania for \$70.1 million (excluding acquisition costs) at an initial yield of 9.6%. Northgate Shopping Centre is a two-level sub-regional shopping centre situated approximately eight kilometres north-west of the Hobart CBD. The acquisition was fully funded by utilising existing debt facilities and was accretive to earnings, providing opportunities to add value through intensive asset management. These opportunities were recognised in June 2010 in an independent valuation of \$88.1 million, reflecting a 25% uplift in value.

Development

Mr Gorman said: “Continual redevelopment of the Trust’s portfolio of assets is a key driver of returns for the Trust”.

As at 30 June 2010, CFX had a \$1.4 billion development pipeline. A record of approximately \$850 million (CFX’s share \$525 million) of development works were completed during the year, delivering an expected average year-one yield of 7.4%. These redevelopments have significantly improved the value proposition of each asset, generated additional customer traffic and achieved value uplift, reflected in independent valuations.

Projects currently under construction have a development cost of approximately \$249 million, with \$87 million remaining to be spent, targeting an average yield⁹ on first year income of approximately 7.5% to 8%.

9. Excluding Myer Melbourne.

Developments under construction

DHS Facility, Elizabeth Shopping Centre

The development of a purpose-built facility for the Department of Health Services (DHS) to a 5-star Green Star standard is nearing completion on a portion of land at Elizabeth Shopping Centre. The facility will be fully leased by the DHS for 20 years on completion of the project in September 2010. Post 30 June 2010, CFX entered into a contract to sell the DHS Facility on completion.

Total cost	\$22 million
Initial year-one yield	10.0%
Leased	100%

Bayside Shopping Centre

The first stage of the redevelopment of Bayside Shopping Centre commenced during the year with the construction of an Aldi supermarket. The existing centre will be enhanced as a major part of the project and will include an expanded specialty fashion retailer offering.

Total cost	\$36 million
Initial year-one yield	7.7%
Leased	14%

Forest Hill Chase Shopping Centre

The Trust has commenced work on an entire rework of level 3 of the centre, providing a more comprehensive and convenient retail and entertainment offer. The development will include a full refurbishment of the Hoyts cinemas, an additional 300 car spaces and the introduction of Best & Less, JB Hi-Fi and Rebel Sport to the centre. The project is expected to be completed by June 2011.

Total cost	\$25 million
Initial year-one yield	8.0%
Leased	39%

Myer Melbourne

The first stage of the project, the iconic Myer department store on Bourke Street Mall, is approaching completion and the staged handover of floors to Myer for its fit-out has commenced. The development involved a combination of the demolition, reconstruction and refurbishment of a number of buildings that made up the original Myer department store on Bourke Street. The Myer department store is on track for trading prior to Christmas 2010.

Demolition works have commenced on the second stage of the project, Emporium Melbourne on Lonsdale Street. This stage will house retail specialty and larger format stores and leasing will commence in the first half of 2011. The total project is expected to be completed by mid 2013.

As each stage has different ownership structures, they are treated separately in the Trust's Financial report. Income and interest expense from the Myer department store will be included in distributable income post completion in early 2011.

Total cost	\$1.49 billion
CFX share of total cost	\$685 million
Initial year-one yield	6.0%
Leased	22%^

^ 100% of income secured at Bourke Street (Myer department store).

Future development

Roxburgh Park Shopping Centre

The redevelopment of Roxburgh Park Shopping Centre will include two new supermarkets and a discount department store and is targeting a 4-star Green Star rating. Construction is expected to commence in 2011.

Other projects

The Trust is in advanced planning stages for development projects at Broadmeadows Shopping Centre in Broadmeadows, VIC, Grand Plaza Shopping Centre in Browns Plains, QLD, Eastlands Shopping Centre in Rosny Park, TAS and Castle Plaza Shopping Centre in Edwardstown, SA.

Portfolio update

As at 30 June 2010, the Trust's property portfolio comprised 25 retail assets. The value of the Trust's investment properties was \$7.6 billion, which has increased by 5.3% since 30 June 2009, with the acquisition of Northgate Shopping Centre and the value added by redevelopment works.

The CFX portfolio achieved 99.8% occupancy, with specialty occupancy costs at 15.6%, reflecting the underlying strength of the Trust's assets.

The Shopping Centre News 'Big Guns 2010' survey results were released in March 2010, with Chadstone Shopping Centre once again achieving the highest total MAT for the ninth consecutive year. Chadstone Shopping Centre achieved MAT in excess of \$1 billion for the 12 months to 31 December 2009, up 11.9% from the \$957 million achieved in the previous year. This was a significant achievement considering the centre was under redevelopment for almost the entire 12-month period.

During the year, international specialty retailer GAP was secured at Chadstone Shopping Centre. The GAP store occupies 740 sqm and has joined other high profile tenants in the centre's fashion precinct.

Retail sales update

In the 12 months ended 30 June 2010, the CFX portfolio recorded total actual sales of \$6.6 billion, up 6.4% from the previous year, reflecting the increase in sales generated by the major redevelopment projects as they were completed during the year.

The categories that recorded strong actual sales growth included retail specialty stores (up 8.8%) and supermarkets (up 6.1%). On a comparable basis (total portfolio excluding development centres), sales growth was 0.3%. Of the major categories, supermarkets reported the best comparable sales growth, up 3.2%.

Retail specialty store sales softened on a comparable basis, down 1.3%. The result reflected the significant distortion in sales from December 2008 to July 2009, caused by the delivery of \$20.9 billion in cash payments from the Federal Government's fiscal stimulus packages.

Asset revaluations

The entire property portfolio was independently revalued twice over the 12 months to 30 June 2010, which resulted in a \$56.1 million revaluation gain. After accounting for straight-lining of fixed rental increases, a gain of \$49.2 million was recorded in the statement of comprehensive income. The reported revaluation gain comprised a \$67.6 million decline in the six months to 31 December 2009, followed by a \$116.8 million gain in the six months to 30 June 2010. The increase in the independent valuations generally reflected higher property income and the completion of a number of key redevelopments.

The return of confidence to the financial and debt markets translated into increased transactional activity and, in turn, provided independent valuers with greater evidence regarding asset values, and this has seen the stabilisation in capitalisation rates for quality regional shopping centres.

The weighted average capitalisation rate of the portfolio reflected this trend, softening from 6.45% at 30 June 2009 to 6.59% at 31 December 2009 and then firming slightly to 6.57%¹⁰ at 30 June 2010.

Sustainability

As a responsible fund manager we see sustainability as the effective management of environmental, social and governance (ESG) issues to add value to the portfolio and reduce costs, so that the Trust remains attractive to all stakeholders.

Mr Gorman said: "We believe that understanding and proactively responding to changing priorities relating to ESG issues is essential to the future of the Trust."

CFX's track record and long-term commitment to sustainability was again recognised through its inclusion in the Dow Jones Sustainability World Index and in the FTSE4Good Index, and we continually seek ways to improve and report on our sustainability initiatives. On an annual basis, we disclose information to the Carbon Disclosure Project (CDP) on the Trust's approach to climate change risks and opportunities, and report on greenhouse gas emissions and strategies for managing climate change.

During the year, Chadstone Shopping Centre (Stage 33) was the first shopping centre in Australia to be certified 5-star Green Star – retail centre design v1.

Post year end, Grand Plaza Shopping Centre became the first Australian shopping centre to achieve NABERS Energy and Water certifications, reflecting our commitment to reducing energy and water use.

10. Excluding 15 Bowes Street, Woden and Myer Melbourne.

Retail property market and Trust outlook

Regional and quality sub-regional shopping centres continue to attract strong demand for existing retail space, maintaining high levels of occupancy. Australian retail property is well positioned in the medium to long term and will maintain high occupancy levels, due to the inherently favourable supply and demand fundamentals.

The strength of the Australian economy from a global perspective is attracting the interest of international retailers, and CFX is well positioned to support their plans.

Mr Steinberg said: "Our outlook for the Australian retail property market is that sales growth will remain below the long-term trend at around 3% over the next 12 months. Beyond this, a combination of high consumer confidence, a strong labour market, population growth and strength in the Australian economy is expected to return retail sales growth back to the long-term trend."

"Our outlook for the next 12 to 18 months is positive. The strength of the Australian economy in the medium to long-term augurs well for Australian property markets and for A-REITs with proven strategies to deliver solid long-term returns for investors."

Mr Gorman said: "CFX will continue to enhance unitholder returns through the intensive asset management of its shopping centres. In addition, we will continue to identify further growth opportunities through developments and acquisitions that will diversify and improve the quality of the portfolio and deliver long-term returns to unitholders, whilst maintaining a strong balance sheet."

"We expect to achieve a distribution¹¹ in the range of 12.60 to 12.70 cents per unit for the 12 months ending 30 June 2011."

Mr Steinberg said: "As we enter the 2011 financial year, the combination of CFX's experienced team, the quality of the shopping centres in the portfolio and the implementation of active capital and asset management strategies will provide a solid foundation for the Trust to pursue opportunities to further improve the quality and scale of the portfolio."

11. Assuming a full performance fee is payable and there is no unforeseen material deterioration to economic conditions.

ENDS

For further information please contact:

Michael Gorman
Fund Manager
CFS Retail Property Trust
Phone: +612 9303 3448 or +61 410 401 178
Email: mgorman@colonialfirststate.com.au

Darren Steinberg
Head of Property
Colonial First State Global Asset Management
Phone: +612 9303 2328 or +61 417 262 980
Email: dsteinberg@colonialfirststate.com.au

Investor contact:

David Yates
Head of Investor Relations
Colonial First State Global Asset Management
Phone: +612 9303 3516 or +61 418 861 047
Email: dyates@colonialfirststate.com.au

Media contact:

Malvina Zayats
Communications Manager
Colonial First State Global Asset Management
Phone: +612 9303 6746 or +61 416 229 056
Email: mzayats@colonialfirststate.com.au

About CFS Retail Property Trust

CFS Retail Property Trust (CFX or the 'Trust') is a retail sector-specific Australian Real Estate Investment Trust (A-REIT) which invests in high quality regional and sub-regional shopping centres across Australia. The Trust listed on the Australian Securities Exchange in April 1994, under the name Gandel Retail Trust. Its stock market trading code is CFX.