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

Manager of CFS Retail Property Trust

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CFS RETAIL PROPERTY TRUST (CFX)

Half-year results for the six months ended 31 December 2008

Overview

In a period marked by heavy losses on global sharemarkets, CFS Retail Property Trust (CFX or the 'Trust') has performed creditably compared to its peers in the first half of the 2009 financial year.

Darren Steinberg, Head of Listed Property Funds and Colonial First State Property Management said: 'The volatility in global financial markets impacted heavily on the Australian Real Estate Investment Trust (A-REIT) sector, which recorded a fall of 54%[1] for the 12 months to 31 December 2008. Within this environment CFX significantly outperformed its peers in terms of investment performance over all time periods to 31 December 2008.'

Michael Gorman, Fund Manager of CFX said: 'The Trust's solid performance reflects the intensive asset management of our portfolio of quality Australian shopping centres and active capital management which maintained the Trust's low levels of debt and strong balance sheet.'

Key highlights for the period included:

- Net property income up 9.5% and on a like-for-like[2] basis up 6.0%
- Distributable income up 13.3%
- Distribution per unit up 3.3%
- Comparable retail specialty store moving annual turnover (MAT) growth up 4.2%
- Continued progress in the Trust's $1.5 billion development pipeline, and
- A continued focus on capital management was demonstrated through a $325 million institutional placement and the refinancing of an expiring debt facility. This resulted in the Trust's gearing[3] reducing to 25.6% at 31 December 2008.

Financial results

Total distributable income was $147.0 million, compared to $129.7 million for the previous corresponding period, an increase of 13.3%. Distributable income comprised a net loss of $225.7 million and a net transfer from reserves of $372.7 million. This transfer included a net loss on investment property revaluations of $139.1 million, a net loss on derivatives revaluations of $180.8 million, straight-lining rental revenue of $1.2 million, a net transfer from equity representing the movement in fair value of unrealised performance fees of $8.7 million, impairment losses on property, plant and equipment of $35.2 million and adjustments for capital items of $10.1 million.

Underlying the result was a 9.5% increase in net property income to $214.3 million. On a like-for-like basis net property income increased by 6.0%.

CFX's result for the six months to 31 December 2008 was a net loss of $225.7 million compared to a net profit of $389.9 million for the previous corresponding period. The difference is primarily due to the net loss in the property and derivatives revaluations.

1. 12 month return for the S&P/ASX 200 Property Accumulation Index.
2. Including those assets owned for both six-month comparison periods and excluding the impact of developments.
3. Gearing equals borrowings to total assets. For this calculation, total assets exclude the fair value of derivatives. Borrowings exclude fair value of cross currency swaps and deferred borrowing costs required to be recognised within borrowings in the financial statements under the Australian equivalents to International Financial Reporting Standards (AIFRS).

Distribution
The Trust will pay a distribution of $151.7 million compared to $135.4 million for the previous corresponding period. This equates to a distribution of 6.2 cents per unit, which is a 3.3% increase on the 6.0 cents per unit paid for the previous corresponding period.

The distribution paid to unitholders comprises distributable income of $147.0 million and a transfer from equity representing an amount equal to the performance fee paid for the current period of $4.7 million.

Effective from 1 July 2009, the Trust's distribution policy will be adjusted to provide greater alignment with underlying earnings, whilst preserving the tax efficiency of the pass-through nature of the Trust. The adjustment means CFX will cease the practice of adding back the performance fee (if payable for the period) to distributable income. The adjustment will achieve a capital saving by not having to fund performance fees (if payable) by debt.

Gross assets
Total gross assets increased 1.6% to $7.7 billion at 31 December 2008, driven by the progress on the Trust's development pipeline.

NTA per unit decreased by 18 cents to $2.14 at 31 December 2008 ($2.32 at 30 June 2008). The Trust's portfolio consists of 25 properties located across Australia, with 66.3% of the portfolio comprising super-regional or regional shopping centres.

Investment performance
For the six months to 31 December 2008, CFX recorded a total return[4] of 4.1%, which was significantly above the UBS Retail 200 Accumulation Index (the 'Index') return of -19.3%. Over the 12 months to 31 December 2008, the Trust delivered a total return of -15.1%, again outperforming the Index return which was -39.1% over the same period. Over the three and five-year periods, CFX outperformed the Index by 15.5% and 11.2% respectively.

CFX relative performance comparison to 31 December 2008

	6 months %	1 year %	3 years* %	5 years* %
CFS Retail Property Trust (CFX)	4.1	-15.1	3.6	13.5
UBS Retail 200 Accumulation Index	-19.3	-39.1	-11.9	2.3
S&P/ASX 200 Property Accumulation Index	-33.7	-54.0	-17.3	-3.5

*Annual compound returns. Source: UBS Australia 2009.

Performance fee
The performance fee, calculated every six months, is capped at 0.15% of the Trust's gross asset value up to $3.5 billion and capped at 0.1% of the Trust's gross asset value above $3.5 billion.

For the six months to 31 December 2008, CFX outperformed the customised retail property accumulation index[5] (the 'benchmark') by 22.5%. As a result, the Responsible Entity was entitled to a performance fee of $4.7 million for the six months ended 31 December 2008. Following 31 December 2008, the carry-forward balance is 58.9% of positive performance over the benchmark.

As a consequence, the provision for likely future performance fee payments (the movement in fair value of unrealised performance fees) increased by $8.7 million and accordingly a total of $13.4 million is reflected in the Income Statement.

Capital management
The extent of the global financial crisis has led to a credit constrained market, causing margins for credit to increase in Australia, despite the Reserve Bank of Australia making significant cuts in the official cash rate.

In this environment, we have continued to intensively focus on capital management to ensure the Trust's balance sheet is actively managed and a competitive cost of capital is maintained. The initiatives undertaken during the six months to 31 December 2008 will provide longer-term opportunities to increase returns for unitholders.

4. Total return comprised unit price performance and distribution income yield.
5. For the purposes of calculating the performance fee, the 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.

The most significant capital management initiative took place in October 2008 when we announced our plan to raise approximately $200 million through an institutional placement at a price of $2.00 per new unit (reflecting a 10% discount to the 30-day volume weighted average price at the time). Our offer was well received by the market and, given the strong demand, the equity raising was increased to $325 million. This initiative has significantly enhanced the Trust's capital structure and financial flexibility. At the same time, we also offered eligible unitholders the opportunity to participate in a Unit Purchase Plan (UPP) at the same price as units purchased under the institutional placement, raising a further $4 million.

The Trust maintains its diversified sources of debt funding with a staggered maturity profile. In January 2009, we announced that we had finalised the refinancing of a $125 million bank debt facility that was due to expire in June 2009, extending the expiration date to 31 December 2011. The extension of this debt facility resulted in the Trust having no further refinancing exposure for the remainder of the 2009 financial year.

The Trust's refinancing requirements for the 2010 financial year include $200 million in medium term notes and $275 million in bank debt facilities.

The decision to defer the commencement of approximately $260 million in redevelopment projects, principally at sub-regional shopping centres in the Trust's $1.5 billion development pipeline, will reduce the Trust's reliance on debt in what we anticipate will continue to be a volatile and constrained credit environment.

As at 31 December 2008, the Trust's gearing level was 25.6%, with borrowings[6] of $1,938.6 million. The Trust's weighted average debt maturity was 4.0 years and weighted average interest rate (including margins and fees) was 6.1%. The Trust had undrawn debt facilities of $560 million.

At 31 December 2008, the Trust's total borrowings were 95.7% hedged with a weighted average maturity on hedged debt of 6.9 years and a weighted average interest rate on hedged debt of 5.5% including convertible notes (excluding margins and fees).

All debt facilities are senior and unsecured and the key covenants applying across the facilities are shown below:

Key covenant	**Threshold**	**As at 31 December 2008**
Total liabilities divided by total assets	not to exceed 50%	31.9%
Interest cover ratio*	not to fall below 1.8 times	3.0 times

*Calculated as earnings before interest and tax divided by net interest expense.

The proceeds from the $100 million sale of Golden Grove Village Shopping Centre in South Australia will be used in the short term to retire debt, again reinforcing the Trust's balance sheet and financial flexibility.

The Trust's strong balance sheet, coupled with its credit rating (A by Standard & Poor's) being the highest in the A-REIT sector, provides the Trust with a distinct advantage compared to other A-REITs.

Changes to the Board of Directors

During the period, changes relating to the composition of the Board of Directors of the Responsible Entity, Commonwealth Managed Investments Limited were announced.

Mr Sean Wareing advised that the close of the 2008 calendar year would mark the end of his tenure on the CMIL Board and his appointment as an independent non-executive Chairman ceased on 31 December 2008. In addition, Mr Joseph Rooney ceased his appointment as an independent non-executive Director on the same date. We thank Sean and Joseph for their support, guidance and valuable contribution to the Trust since December 2003.

Mr James Kropp's term of appointment was extended for a further two years until 31 December 2010.

Mr Richard Haddock was appointed as an independent non-executive Chairman effective 1 January 2009. Ms Nancy Milne OAM commenced as an independent non-executive Director effective on the same date. We welcome the new members to the Board.

6. Borrowings exclude the fair value of cross currency swaps and deferred borrowing costs.

Colonial First State Property Management
Colonial First State Property Management ('CFSPM') is one of Australia's leading property management, leasing and development experts and continues to add value across CFX's portfolio of shopping centre assets, providing the Trust with a share of CFSPM's distributable income (flowback or alignment fee).

CFSPM contributed $6.2 million of distributable income to the Trust. CFSPM's retail assets under management totalled $11.6 billion (CFX share $7.5 billion) as at 31 December 2008, representing an increase of 5.7% on $11.0 billion (CFX share $7.1 billion) from the previous corresponding period.

Additionally, the development pipeline managed by CFSPM is $2.9 billion (CFX share $1.5 billion). The development pipeline is regularly reviewed to identify new opportunities to add value and improve the performance of the Trust's assets.

Development
Developments enhance the value of the CFX portfolio, as they are aimed at improving the shopping centres' retail offerings and in turn increase retail trade and net property income. Since the end of 2005, we have completed over $930 million in development projects, achieving an average year one yield of 8.3% and a strong average total return of 14.6%.

During the six months ended 31 December 2008, work continued on CFX's $1.5 billion development pipeline. Projects currently under construction or approved have a development cost of approximately $628 million and a target average yield[7] of 7.5-8.0% on first year income.

Mr Gorman said: 'The solid interest from tenants in the key developments underway reflects the quality of the regional or super-regional shopping centres under redevelopment.'

Completed developments
Chadstone Shopping Centre (Stage 30), Chadstone, VIC
Stage 30 of the redevelopment, known as Chadstone Place, opened in late October and features a mixed use, retail and gourmet food offering and includes 1,015 additional parking spaces. This stage also features an open air plaza area with gymnasium and a 7,000 sqm commercial office building, strengthening the existing adjacent tenancies by repositioning the existing mall. The retail component opened 100% leased with the office component currently being marketed for lease. The redevelopment was completed at a development cost of approximately $146 million (CFX share $73 million), and is expected to return a year one yield of 8.2% and an internal rate of return of 15%.

Developments under construction
Myer Melbourne, Melbourne, VIC
The $1.2 billion total development (CFX share $540 million) of the iconic Myer Melbourne store continues with construction works progressing on the partial demolition, rebuilding, and refurbishment of the Bourke Street building, which will be wholly occupied by a Myer department store. Work is also underway on the detailed design of the Lonsdale Street specialty precinct, to be known as Emporium Melbourne, which will house retail specialty and larger format stores. The total project is expected to be completed prior to Christmas trading in 2012.

Chatswood Chase, Chatswood, NSW
The $170 million redevelopment of Chatswood Chase is progressing well with the development of the new Coles supermarket and associated retail offer taking shape. The redevelopment will deliver an expanded retail specialty offer including food and fashion. The car park has been expanded and completely reworked as part of the development. The gross lettable area of the centre will increase by approximately 11,000 sqm. The redevelopment is scheduled to be completed prior to Christmas 2009. The first stage opened in December 2008 while the next major stage, which includes the new Coles supermarket, is expected to be completed in April 2009.

Northland Shopping Centre, Preston, VIC
The $172 million (CFX share $86 million) redevelopment of Northland will create new retail offerings, including an expanded fresh food and convenience precinct and 600 additional parking spaces. The aim is to create a 'racetrack' by duplicating the existing north-south mall to the eastern side of the centre, adding approximately 75 new specialties, a new Target store as the anchor and a relocated and enlarged Coles supermarket anchoring an enlarged fresh food offer. The redevelopment is expected to be completed prior to Christmas 2009. The first stage, including the relocated Coles supermarket and associated fresh food tenants, successfully opened in December 2008.

7. Excluding Myer Melbourne, where the target yield is 6.0-6.5%.

Rockingham City Shopping Centre, Rockingham, WA
The $180 million (CFX share $90 million) Rockingham redevelopment will create a main street anchored by a cinema complex and a parallel mall extending to a new transit centre that will be developed.
The redevelopment will add 16,000 sqm of additional retail space and include approximately 75 new specialties along with a 600 seat food court and full rejuvenation of the existing centre. With interim stages including new fashion specialties and the food court substantially completed, the remainder of the redevelopment is scheduled to be completed by June 2009.

Chadstone Shopping Centre (Stage 33), Chadstone, VIC
The $270 million (CFX share $135 million) final stage of the three stage redevelopment at Chadstone Shopping Centre commenced during the period. The redevelopment will comprise a new mall and feature a focus on international luxury brand retailers cementing Chadstone's market position as Melbourne's 'Fashion Capital'. It will also include an extended children's fashion precinct, mainstream fashion, and an enhanced sport/leisurewear offering. The redevelopment is expected to provide an additional 10,600 sqm to the centre, and is to be completed by Christmas 2009.

Future developments
The Trust is in advanced planning stages for the future development of Roxburgh Park Shopping Centre, which will include a new supermarket and discount department store. Other projects in the pipeline will be progressed to advanced planning and anchor tenant negotiation stages but commencements will be subject to credit market conditions.

Portfolio update
As at 31 December 2008, the Trust's property portfolio comprised 25 retail assets. The Trust's value of investment properties was $7.5 billion, an increase of 0.9% since 30 June 2008. The value added by redevelopment works exceeded the decrease in underlying property valuations.

The CFX portfolio was 99.7% occupied at 31 December 2008. Specialty occupancy costs were 14.8% (including GST and marketing levies), reflecting the underlying strength of the Trust's assets.

Retail sales update
Across the portfolio, retail sales have shown steady growth, with the help of interest rate cuts, lower petrol prices, heavy discounting by retailers, tax cuts and the Federal Government's financial stimulus package. In the 12 months ended 31 December 2008, the CFX portfolio recorded total sales growth of 2.0%. On a comparable basis (total portfolio excluding development centres), sales growth was 4.1%.

The Trust's property portfolio of retail assets recorded total sales of $6.2 billion, up from $6.1 billion in the previous corresponding period. In particular, the category showing the best comparable sales growth was mini majors, up 7.4%, while supermarkets and discount department stores reported 4.6% growth.
Retail specialty store sales growth remains solid, up 4.2%.

Sales growth by category, on a comparable and an actual basis in comparison to the previous corresponding period, is shown in the table below:

	Comparable (total portfolio excluding redevelopment centres*)			Actual (total portfolio)		
Category	**MAT 31-Dec 2008 $m**	**MAT 31-Dec 2007 $m**	**MAT Growth %**	**MAT 31-Dec 2008 $m**	**MAT 31-Dec 2007 $m**	**MAT growth %**
Department stores	179.9	192.1	(6.4)	716.6	729.0	(1.7)
Discount department stores	597.8	571.4	4.6	818.9	796.9	2.8
Supermarkets	1,043.2	997.1	4.6	1,363.3	1,320.1	3.3
Other majors	7.6	7.5	1.3	54.7	57.6	(5.0)
Mini majors	366.1	341.0	7.4	558.1	520.1	7.3
Retail specialty	1,202.6	1,154.1	4.2	2,239.7	2,216.8	1.0
Non-retail specialty**	322.4	310.9	3.7	471.4	459.7	2.5
Total	**3,719.6**	**3,574.1**	**4.1**	**6,222.7**	**6,100.2**	**2.0**

*In line with the Shopping Centre Council of Australia definition 'redevelopment centres' are those centres that are undergoing or have undergone substantial redevelopment in the last 24 months.
**Non-retail specialty are sales reporting tenancies under 400 sqm including travel agents, auto accessories, Lotto, other entertainment and other non-retail stores.

Asset revaluations
Nineteen of the Trust's property assets were independently valued during the period, resulting in a $137.9 million[8] decrease on prior book value. After accounting for straight-lining of fixed rental increases, as required by AIFRS, a net decrease of $139.1 million in asset revaluations was recorded.

As expected, capitalisation rates have softened further in the CFX portfolio, particularly at the sub-regional centres. This has resulted in value loss, despite solid rental income growth and continuing development partially offsetting the impact of this capitalisation rate softening.

The weighted average capitalisation rate of the portfolio softened to 6.09% at 31 December 2008 (5.77% at 30 June 2008).

In addition to the revaluations of existing shopping centres, the Manager has also reviewed the forecast capitalisation rate of the Myer Melbourne project which is expected to be completed by Christmas 2012. The total project was originally anticipated to have a capitalisation rate on completion of 5.5%. The Lonsdale Street specialty precinct is now anticipated to have a capitalisation rate on completion of 6.0%. The Myer Bourke Street precinct is still forecast to have a capitalisation rate of 5.5%. This has resulted in a reduction in the CFX share of the anticipated final valuation which has consequently been recognised as an impairment charge of $35.2 million to property, plant and equipment in the Income Statement.

Sustainability
Furthering our focus on sustainability, the sustainability team in the Property and Alternative Investments division of Colonial First State Global Asset Management was strengthened during the period. The team will continue to lead the benchmarking and operational implementation of sustainability initiatives for CFX's property portfolio.

CFX continues to implement sustainability initiatives at an operational level in the shopping centres and in the investment analysis and decision making process. Consistent with the United Nations Principles of Responsible Investment, the Manager continues to identify ways of improving the environmental performance of each asset in the portfolio.

CFX is included in the Dow Jones Sustainability World Index and in the FTSE4Good Index and is committed to continually seeking ways to improve and report on its sustainability initiatives.

Retail sector and Trust outlook
Mr Steinberg said: 'Australian regional shopping malls are expected to remain relatively resilient to the current financial turbulence, with income supported by tightly controlled supply and a broad base of food and daily needs orientated tenants, as well as those of a more discretionary nature.'

The recent Federal Government stimulus package appears to have had a substantially positive impact on retail sales in the latter half of the period. The combination of that package with further announced Federal Government stimulus, large cuts to interest rates and falling petrol prices is expected to cushion a potential downturn in retail sales. On balance, we expect that retail sales growth will slow to 2% to 3% in the CFX portfolio over the next 12 months.

Property valuations remain a key focus of market participants. The prevailing adverse market conditions affected property valuations over the period. Over the remainder of the 2009 financial year, we expect independent valuers' assessments on capitalisation rates to remain soft, reflecting the sentiment in the broader domestic and global economies.

Mr Steinberg said: 'We anticipate that for the remainder of 2009, credit market conditions will remain tight with the availability of credit being a principal constraint facing the economy. This is despite interest rates easing, with the cash rate falling 300 basis points in the last four months of the 2008 calendar year and a further 100 basis points in February 2009.'

Mr Gorman said: 'Despite these tough market conditions, our active asset and capital management activities undertaken in this and prior periods have positioned the Trust well for solid performance. We will continue to extract value from the Trust's portfolio of retail assets through intensive asset management, and the Trust remains well capitalised to pursue potential opportunities that may arise.

'We remain confident, assuming there is no unforeseen material deterioration in economic conditions, of achieving the distribution projection of 12.5 cents per unit, in line with consensus, for the year ending 30 June 2009,' added Mr Gorman.

8. Represents CFX's share of the revalued assets.

ENDS

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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, and today its stock market trading code is CFX.