Issue 1, Oct 2012

INVESTING TOGETHER FOR A SECURE FUTURE

UPDATE

GOWING BROS **NEWSLETTER**

GOWINGS Est. 1868

Welcome to Gowing Bros update

Our investment objective is to maximise and protect shareholder wealth over the long term.

Shareholder Returns

	Before tax on unrealised gains	After tax on unrealised gains
Net assets per share 31 July 2011	$3.11	$3.07
Net assets per share 31 July 2012	**$3.11**	**$3.07**
+ Underlying increase in net assets	$0.00	$0.00
+ Ordinary fully franked dividends paid	$0.11	$0.11
Total Return*	**$0.11**	**$0.11**
Total Return %	**3.5%**	**3.6%**
S&P ASX Accumulation Index	1.3%	1.3%

** Shareholder returns are after all internal management expenses, operating expenses and tax paid.*

Dividends Paid and Payable

The board of directors have declared **a 5.5c fully franked final dividend** per share bringing total 2012 dividends to 11c (2011: 11c) maintaining the level of the prior year. The final dividend of 5.5c is payable on 24 October 2012 with a record date of 10 October 2012.

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Movement in Net Assets per Share

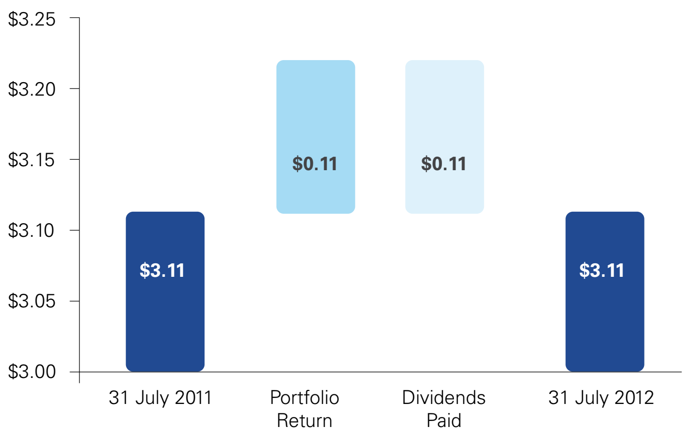
Net assets per share was $3.11 as at 31 July 2012 before allowing for tax on unrealised capital gains. If the company were to sell its entire long term investment portfolio, its net assets per share after tax paid would be $3.07 per share.

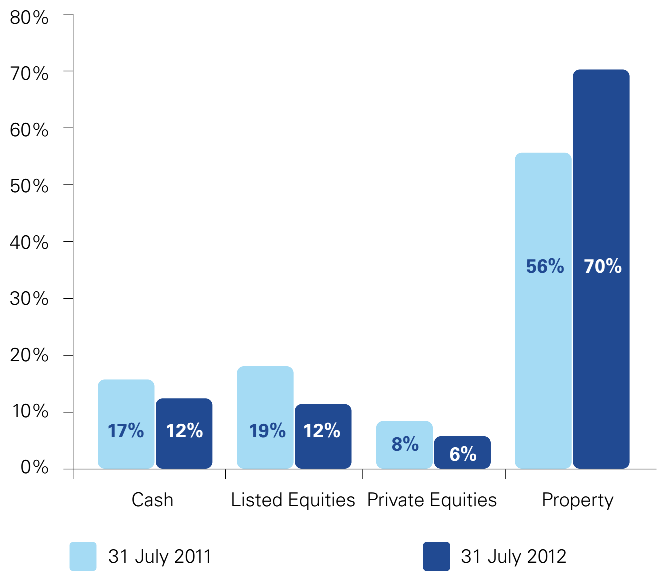
Gowings net assets per share, after allowing for payment of a dividend of 11c per share, were steady at $3.11, reflecting a 3.5% total shareholder return achieved during an ongoing uncertain environment – refer table below.

Investment Portfolio Mix

The reweighting of the investment portfolio towards higher yielding income producing assets continued during the financial year with the purchase of the Coffs Central Shopping Centre for $31 million in November 2011. The acquisition was funded by existing cash reserves and net borrowings of $14 million.

Cash reserves were partly replenished during the year following the sale of $12.7 million of listed equities together with private equity distributions of $2.0 million. A prudent level of cash reserves has been maintained to fund the partly completed $15.0 million upgrade and expansion of Coffs Central.





Outlook

Whilst global share markets have staged a recent recovery on hopes on further stimulus measures and quantitative easing, the economic reality continues to deteriorate both at home and abroad.

As governments globally try to stimulate economic growth they are also having to deal with their own fiscal imbalances creating an uncertain investment environment.

Economic growth in China has slowed and its property market is seeing lower prices and subdued development activity. China remains well funded and able to stimulate its economy, however it faces the difficult task of stimulating domestic demand rather than relying on its historical growth levers of exports and capital expenditure. The situation in the USA has not yet improved with the lack of jobs, low housing activity and an increasing manufacturing downturn. The Federal Reserve has announced new stimulus measures to create jobs that may also sow the seeds for an inflationary environment. The European Union continues its united front to keep the Euro but has failed to reach agreement on its future financial path.

Australia's terms of trade and profits are turning down largely due to lower resource prices and the high Australian dollar. The once immune mining companies are now laying off staff and cancelling investment projects and new developments. The retail and building sectors remain under pressure and confidence levels indicate that this will remain the case in the near future. Our own government finances are deteriorating and recently imposed higher taxes are hurting economic growth and confidence levels.

Gowings is cautious about the investment outlook for capital growth and remains focused on generating income as its principal source of investment return. Our core investments in shopping centres now account for 70% of the portfolio and provide a stable source of income to pay dividends to shareholders over the long term. Operational improvements and capital initiatives undertaken during the current year to our shopping centres have improved the quality of these assets and will see financial benefits flow through to future years.

Gowings remains well positioned to protect and grow shareholder wealth over the long term with our diversified mix of quality investments across different asset classes.

About Gowings

Gowings investment objective is to maximise and protect shareholder wealth over the long term.

INVESTMENT PHILOSOPHY

Investments are made across different asset classes to take advantage of changing cycles. This greatly assists Gowings to outperform the equity market during periods of cyclic downturn or volatility.

Investments are made in assets which have the potential to deliver superior growth over the long term when that growth is not reflected in today's asset prices. Investments are made on a risk return basis with higher returns required for more risky assets. An investment is sold when its outlook becomes uncertain or it becomes significantly overvalued.

As a long term investor, we seek to maximise our returns over time through the power of compound interest and by minimising tax and transaction costs.

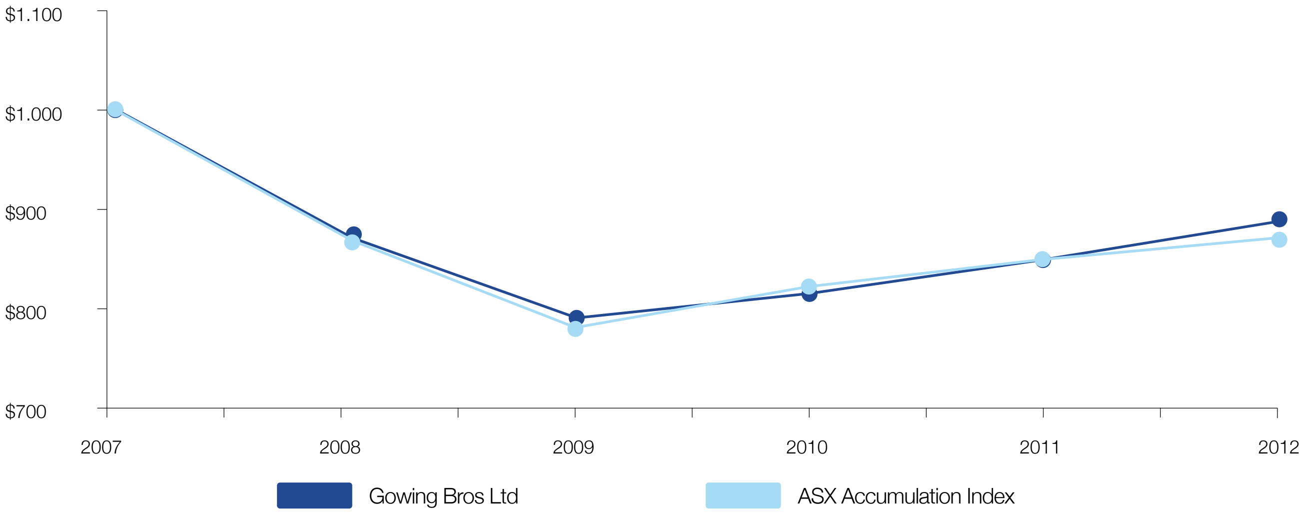
At Gowings, all the board of directors and management are shareholders giving rise to our commitment to "investing together for a secure future."

Recurring Income

	31 July 2012 12 months	31 July 2011 12 months	Year on Year Movement
	($'000)	($'000)	%
Recurring Revenue			
Interest received	778	1,181	(34%)
Dividends received	1,850	2,758	(33%)
Private equity distributions	55	183	(70%)
Rent received	15,957	12,377	29%
Total Recurring Revenue	**18,640**	**16,499**	**13%**
Expenses			
Investment property expenses	5,625	3,825	47%
Borrowing cost expenses	3,480	2,757	26%
Administration & public company expenses	2,753	2,126	29%
Total Expenses	**11,858**	**8,708**	**36%**
Net Recurring Income	**6,782**	**7,791**	**(13%)**
Non Recurring Income			
Listed equities	1,364	473	188%
Private equities	(163)	819	(120%)
Investment properties	(148)	1,338	(111%)
Development properties	58	133	(56%)
FX gains / (losses)	668	(1,129)	(159%)
Other income	(448)	70	(740%)
Unrealised impairment listed equities	(236)	(1,622)	(85%)
Net Profit Before Tax	**7,877**	**7,873**	**0%**
Income tax (expense) / benefit	(1,910)	(1,332)	43%
Net Profit After Tax	**5,967**	**6,541**	**(9%)**

Shareholder Returns

5 Years Comparative Growth of $1,000 Invested

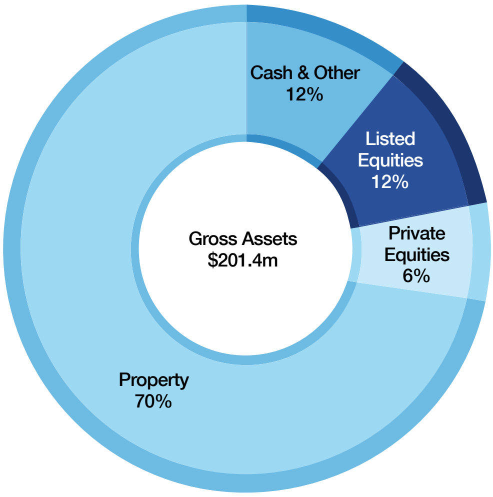


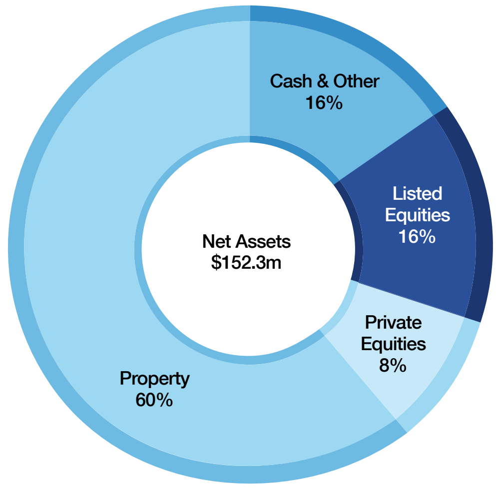
10 Years Comparative Growth of $1,000 Invested

	31July 2012	31 July 2011	31 July 2010	31 July 2009	31 July 2008
Per Share	(12 months)	(12 months)	(12 months)	(12 months)	(12 months)
Opening net assets [1]	$3.11	$3.09	$3.05 [2]	$3.82	$4.71
Closing net assets	**$3.11**	**$3.11**	**$3.09**	**$3.23**	**$3.82**
(Decrease) / increase	$0.00	$0.02	$0.04	($0.59)	($0.89)
+ Ordinary dividends paid	$0.11	$0.105	$0.10	$0.10	$0.10
+ Special dividends paid	-	-	$0.05	$0.15	$0.10
Total return	$0.11	$0.125	$0.19	($0.34)	($0.69)
Total return %	**3.5%**	**4.0%**	**6.2%**	**(8.9%)**	**(14.6%)**
S&P ASX 200 Accum. Index	1.3%	2.7%	10.1%	(10.2%)	(15.6%)

[1] Before allowing for tax on unrealised capital gains [2] Adjusted for the impact of the rights issue and underwritten DRP

Gowings At A Glance





	31 July 2012 $	31 July 2011 $
1. CASH & OTHER		
Cash and term deposits	20,650,000	27,736,000
Working capital	3,800,000	4,594,000
Total Cash & Other	**24,450,000**	**32,330,000**
2. EQUITIES		
ANZ Banking Group	4,873,000	7,436,000
Woolworths Ltd	3,769,000	3,554,000
Westpac Banking Corporation	3,480,000	3,063,000
Blackmores Ltd	2,973,000	5,852,000
National Australia Bank	2,873,000	4,680,000
Carlton Investments	2,790,000	2,827,000
QBE Insurance Group	1,404,000	4,067,000
Wotif.com Holdings	709,000	966,000
Other holdings	1,251,000	3,750,000
Total Equities	**24,122,000**	**36,195,000**
3. PRIVATE EQUITIES		
Macquarie Whole Sale Co-Investment Fund	2,054,000	2,740,000
TPI Group	2,000,000	2,000,000
Boundary Bend	2,000,000	2,000,000
Macquarie European Infrastructure	1,962,000	2,056,000
Hexima Limited	1,148,000	875,000
ANZ Business Equity Fund	866,000	2,100,000
Crescent Capital Partnership Ltd	835,000	917,000
AMP Capital Private Fund III	562,000	590,000
Other Investments	530,000	1,008,000
Total Private Equities	**11,957,000**	**14,286,000**

	31 July 2012 $	31 July 2011 $
4. PROPERTY		
Retail	132,696,000	95,684,000
Commercial	3,459,000	4,087,000
Industrial	1,500,000	1,500,000
Residential	982,000	982,000
Property Development	2,278,000	2,354,000
Borrowings	(49,100,000)	(35,125,000)
Total Property	**91,815,000**	**69,482,000**
Net assets before tax on unrealised gains	152,344,000	152,293,000
Provision for tax on unrealised gains	(1,831,000)	(1,989,000)
Net assets after tax on unrealised gains	150,513,000	150,304,000
Number of Shares Outstanding	49,003,325	49,003,325
Net assets per share before estimated tax on unrealised gains	**$3.11**	**$3.11**
Net assets per share after allowing for estimated tax on unrealised gains	**$3.07**	**$3.07**

Property Portfolio Update

	Valuation Method	Acquisition Date	Cost Including All Additions $'000	Cap Rate (%)	2012 $'000	2011 $'000
Port Central SC Port Macquarie, NSW	(a)	Dec 2009	62,115	9.0	64,414	63,000
Coffs Central SC* Coffs Harbour, NSW	(a)	Nov 2011	33,743	n/a	33,743	-
Kempsey Central SC Kempsey, NSW	(a)	Mar 2010	15,531	9.5	15,531	14,258
Moonee Beach SC Moonee Beach, NSW	(a)	May 2010	13,341	9.5	13,341	13,209
35-39 Wharf St Forster, NSW	(b)	Feb 2005	1,566	n/a	1,478	1,478
Other Properties	(b)	1997 – 2012	3,823	n/a	4,080	3,772
Total			**130,119**		**132,587**	**95,717**

*Coffs Central previously known as Palms Shopping Centre

a. Fair value is based on capitalisation rates which reflect vacancy rates, tenant profile, lease expiry, development potential and the underlying physical condition of the centre. Further information used to support capitalisation rates has been provided in the table below.

b. Current prices in an active market for properties of similar nature or recent prices of different nature in less active markets.

	Port Central Shopping Centre	Coffs Central Shopping Centre	Kempsey Central Shopping Centre	Moonee Marketplace Shopping Centre
Acquisition date	18-Dec-09	4-Nov-11	12-Mar-10	13-May-10
Period of ownership	31 months	9 months	28 months	26 months
Age of centre	17 years	27 years	4 years	6 years
Location	Port Macquarie	Coffs Harbour	Kempsey	Coffs Harbour
Shopping centre type	Sub-regional	Sub-regional	Neighbourhood	Neighbourhood
Majors	Target, Super IGA	Big W, Best & Less	Coles, Country Target	Coles, Best & Less, Liquorland
Specialties	61	46	14	36
Specialty occupancy	95%	83%	71%	36%

Gowings are active owners.

1. Artist impression of Coffs Central in the heart of Coffs Harbour
2. Moonee Marketplace 76% increase in occupancy
3. Major re-cladding & modernising of Port Central north entrance.
4. Port Central re-furbished food court

PORT CENTRAL

Port Central underwent a significant leasing and re-furbishment program

Initiated following a strategic decision to begin remixing the tenancy profile in the Centre and the insolvencies of two of the major tenants, being RED Group and Colorado. As a result 30 leases, new and renewed, were transacted out of a total of 60 specialty tenancies. Nine new fit outs including five relocations were managed pre-Christmas with minimal capital contribution required from the Company.
The Company achieved a net 2% increase in rental as a result of the campaign at a time when the industry has generally reported rent decreases on renewals. The leasing activity also saw an increase in the weighted average lease expiry (WALE) profile from 1.9 years to 3.5 years.

During the past 12 months, we have also undertaken two major capital upgrade projects at Port Central including a $1.4 million refurbishment program and a 4.5 star green energy upgrade.

The refurbishment program was the first major upgrade of Port Central in its 17 year history and was undertaken to strengthen the positioning and presentation of the Centre and to enrich the underlying retail experience provided to our patrons. The strategic and financial benefits of the upgrade will continue to be provided over the coming years.

Before

After

CENTRAL ATRIUM

The works were undertaken cost efficiently using in-house project management and directly importing building materials and furniture from overseas. Key elements of the upgrade included:

- Façade upgrade to main entrance including large sheets of frameless glass and Corian wall cladding
- Rebranding of the Centre with the new group logo including external signage
- Doubling the size of the food court to 400 seats with a mix of contemporary seating areas
- Free WiFi

The second major project completed subsequent to year end was the green energy upgrade of the Centre. The project features a number of energy efficient measures including a 100kW solar system with 510 solar panels, state of the art Building Management System, LED lighting and a new efficient variable air volume air conditioning system.

We are aiming for a 45 per cent reduction in energy consumption compared to current consumption levels and a 4.5 Star rating in both Green Star and NABERS energy ratings. Gowings recognised the requirement to undertake the project for both financial and non-financial reasons. Financially, escalating energy prices are placing a significant burden on both tenants and landlords alike. The project was made commercially feasible at 2011 electricity prices with Gowings successfully being awarded a $500,000 green energy grant to be used towards the $1.8 million total project cost resulting in the payback period being reduced to less than 10 years. The non-financial benefit of being able to position the Centre as environmentally sustainable also provided a compelling reason to undertake the project.

Before

After

KEMPSEY CENTRAL

BEFORE

AFTER

Kempsey Central

Kempsey Riverside Plaza transformed into Kempsey Central

The Kempsey Riverside Plaza was acquired by Gowings in 2010 and rebranded Kempsey Central following the completion of a capital upgrade program in December 2011. The Centre was only 2 years old when acquired but had significant design issues that impacted patronage and the ability to lease the Centre. The attractive purchase price allowed us to allocate capital towards addressing the issues and achieve a +9% running yield post development.

We have achieved a + 9% running yield post development

Kempsey Central tenents

Kempsey Central upgrade increases traffic

The total cost of the upgrade program was $2.4 million including rebranding of the Centre, new food court, new lift and travelator, new ground floor amenities, repainting of entire building, cosmetic façade works and a flood protection system. We are pleased to report that post development there has been a significant and continuing rise in the total sales of our retailers in the Centre including Coles and Target.

Gowings, in conjunction with a local partner, established a Gloria Jeans coffee franchise which opened in July 2012. The Gloria Jeans café brings a key social element to the Centre and is expected to assist drive Centre patronage over the long term. A second new lease was recently signed for a surf operator leaving only 2 vacancies remaining. Following the upgrade and increased traffic in the Centre, we would anticipate leasing on more farmable terms.

Kempsey Central should also benefit from the Pacific Highway bypass which is well ahead of schedule and due for completion in 2013

The newly fitted out Gloria Jeans Coffee Shop overlooks the river and adds a contemporary social location for Kempsey Central customers.

MOONEE MARKETPLACE

Moonee Beach

Moonee Marketplace is ideally located in a growing population precinct

Situated in a desirable location near beaches and clearly visible by both the north and south bound Pacific Highway traffic. With ample parking and exceptional exposure Moonee Marketplace has enormous potential for growth.

Located to benefit from the Pacific Highway upgrade

Moonee Marketplace stands to benefit

During the year we leased 6 new specialties bringing the total occupancy rate up to 44% from 25%. New tenants include Subway, a women's fashion operator, Country Chicken, laundromat, newsagent and an Indian takeaway. The Centre is anchored by a Coles supermarket and two mini majors, Best and Less and Crazy Clarks.

The leasing success has been achieved through a combination of increased leasing resources and offering attractive lease terms in a difficult retail environment. The goal is to fully lease the Centre over a 5 year period. Whilst shareholders will receive additional financial returns in the short term, the greater investment returns are to be realised over the longer term as the Centre strengthens its sales and the surrounding population continues to grow.

During the year, minor capital upgrades were undertaken including a new food court, Centre management office and laundromat. We are in the process of rebranding the Centre to Moonee Marketplace with new signage. Council approval has also been granted for a development application to erect a highway pylon sign. We are also reviewing options to improve the Centre in order to provide weather protection to the open format mall areas and carpark.

Moonee Marketplace also stands to benefit from the significant Pacific Highway upgrade program including a new highway overpass to the Centre enabling more convenient and safer access to the carpark.

COFFS CENTRAL

Revitalising Coffs Harbour

A major project for long term returns with Coffs Central re-furbishment

The Palms Shopping Centre (now rebranded Coffs Central) was acquired in November 2011 as a 27 year old Centre located in a prime position in the CBD of Coffs Harbour, NSW. The Centre had been neglected and required upgrading to current building code standards as well as current shopping centre industry standards. We were also aware that the major supermarket anchor was intending to vacate the Centre in late 2013.

Gowings is a long term investor and is committed to its shopping centre investments in the mid north coast of NSW.

Prime location in central Coffs Harbour

Stage 1 of the works is well underway

Coffs Central Stage 1 (Photo: Oct 2012)

During our first 9 months of ownership, we negotiated with the supermarket for the early surrender of its lease, received a number of development approvals and have commenced Stage 1 construction. Stage 1 works include;

- Reconfiguration of the supermarket tenancy into a number of smaller tenancies
- Opening of the Centre to the high street creating attractive new high street tenancies
- Relocating the food court upstairs and increasing capacity to 400 seats with 9 food operators from the present 60 seats with 3 food operators. The food court is to be opened externally with large expansive sheets of frameless glass and a new mix of contemporary seating options and a balcony overlooking Harbour Drive
- New bathrooms with hotel quality finishes are to be built along with a doubling in capacity and a 5 star parents room
- New refurbishment works including polished concrete floors, glass shopfronts, new mall ceilings and lighting
- Rebranding the Centre to Coffs Central including new external signage and new tenant signage
- New 4 star green energy system including a Building Management System
- Upgrading the building to be compliant with the current building codes

Stage 1 works are on target to be 80% complete by Christmas and we are continuing with our pre-leasing campaign. Over 50% of new tenancies have been leased to date with the campaign ongoing. Upon completion there will be approximately 70 specialties, Big W and 3 mini majors being an increase from the current 46 specialties, Big W and 2 mini majors.

We have been working closely with Council who are supporting Gowings to undertake a Stage 2 development on an adjoining block of land owned by Gowings to create a retail masthead to Coffs Central.

Upgrading the building

The total capital commitment for Stage 1 is approximately $11 million and Stage 2 is approximately $4 million. These capital works can be funded from the company's current level of cash reserves. The fully leased target yield is approximately 8.5% post Stage 2 development. The completion of Stage 2 will be the icing on the cake for the repositioning of Coffs Central and the CBD as the premier destination in Coffs Harbour.