

Folkestone

2012

Folkestone | HALF YEAR REPORT | 2011/12

Result Overview



Dear Shareholder,

The first half of the 2012 reporting period has been very busy for Folkestone, with the team working hard to deliver results on our direct investments and source opportunities to deliver growth to shareholders. We are pleased to announce a profit of \$0.7 million for the six months ending 31 December 2011 compared to a net loss after tax of \$10.2 million in the previous corresponding period.

Result Highlights

- **Significant improvement in net profit to \$0.7 million for half**
- **NTA increased to 12.1 cents per share during the half year**
- **PottersGrove, Officer land rezoning gazetted**
- **All existing debt successfully refinanced**
- **New \$18.3 million construction finance facility executed for Karratha joint venture**
- **Share buyback launched**
- **Market uncertainty continues to create opportunities**

Financial Result

Folkestone's profit included \$1.1 million in development profits from its Noone Street, Clifton Hill project and a \$0.8 million reversal of part of the prior year impairment regarding Folkestone's 20.0 per cent interest in the Donnybrook Road, Mickleham project. The Donnybrook

Road, Mickleham reversal of impairment was made with reference to the most recent external valuation of the asset prepared for the re-financing of the senior debt facility in December 2011. This is in contrast to last year's half year result which included \$9.7 million of non-cash provisions against the carrying values of the Donnybrook Road, Mickleham and Millers Road, Altona North assets.

As at 31 December 2011 Folkestone had \$24.6 million in cash or cash equivalents on its balance sheet and continues to be proactive in sourcing and reviewing both real estate and corporate opportunities. Net tangible assets per share increased from 11.9 cents per share at 30 June 2011 to 12.1 cents per share at 31 December 2011.

Despite challenging markets Folkestone successfully renegotiated all of the following debt facilities during the half year:

- the finance facility for Noone Street, Clifton Hill project was extended to 29 February 2012 and fully repaid on 5 January 2012 out of the proceeds of sale of the Stage 5 townhouses and apartments;
- the finance facility for the Donnybrook Road, Mickleham project was successfully re-financed on 20 December 2011 and required the joint venture to inject \$15.3 million of further equity into the project – Folkestone's contribution for its 20.0 per cent interest was \$3.1 million bringing Folkestone's equity in the project to \$10.0 million. The new facility expires on 20 December 2014; and
- the finance facility for the Millers Road, Altona North project was extended until 30 November 2012.

Post 31 December 2011 The Ranges, Karratha joint venture executed a construction finance facility of \$18.3 million for Stage 1a of the project, with construction expected to commence in February 2012.

Review Of Real Estate Portfolio

PottersGrove, Officer

Folkestone's 50.0 per cent joint venture investment in the Princes Highway, Officer residential development now known as PottersGrove was rezoned to residential on 23 December 2011 and gazetted on 12 January 2012. Under the terms of the joint venture, the balance of Folkestone's equity investment (\$5.6 million) in this project is due for payment on 10 July 2012. PottersGrove, Officer is a 14.1 hectare site offering affordably priced residential land packages located in the Cardinia Urban Growth Area in

“ We are disciplined around our assessment of value and risk and we are well placed to capitalise on any opportunities due to our liquid balance sheet and access to off balance sheet capital. ”

Melbourne's south-east growth corridor. Forecast sales for the development are expected to commence settling in early 2013.

The Ranges, Karratha

Folkestone's 25.0 per cent interest in The Ranges, Karratha joint venture continues to make strong progress. Stage 1 comprises 2.2 hectares with a "Tourism" zoning and DA approval for 108 single level, one bedroom villas with shared guest facilities including a pool and BBQ area. As previously announced the joint venture has sold all 41 dwellings in Stage 1a and an additional 13 dwellings from the remainder of Stage 1. A formal marketing campaign for the balance of 54 dwellings in Stage 1 is due to commence in mid 2012.

Site preparation works have commenced and a construction contract has been executed with a WA based group whose principals have more than 25 years of experience in residential and commercial construction in the Pilbara and Kimberly Regions of Western Australia.

Donnybrook Road, Mickleham

Folkestone, in conjunction with AMP Capital Investors, its joint venture partner, has been actively exploring ways to enhance the value of this site. The joint venture has determined a new masterplan for the site and a rezoning application has been submitted to Hume City Council detailing approximately 60.0 hectares of residential land. Should the joint venture be successful with this new masterplan it is expected to significantly enhance the value of Folkestone's 20.0 per cent share of the project.

Millers Road, Altona North

Following a strategic review the joint venture determined to commence construction of an internal road and progress the subdivision process to significantly improve access to the land and provide a catalyst to attract tenant commitments. Civil works have commenced to create up to three serviced super-lots and unlock the access to the site. As a result, tenant enquiry levels have increased with 88.0 per cent of Stage 1 space under negotiation with a range of leading bulky good businesses who wish to be located in Melbourne's western corridor.

Noone Street, Clifton Hill

The last remaining unsold townhouse was sold in November 2011. To date 66 or 76.0 per cent of the 87 dwellings have settled. The balance of dwellings are on track for completion and settlement in the first quarter of 2012. It is expected that cash proceeds to Folkestone from

the project will be approximately \$9.0 million over the current financial year.

Share Buyback

Folkestone's share buyback was launched on 30 January 2012 consistent with the announcement made on 22 December 2011. The Company can buyback up to 9,969,923 shares without obtaining shareholder approval. The Board is committed to actively managing Folkestone's capital and believes the buyback provides the opportunity to repurchase shares at attractive levels which will be value accretive to Folkestone shareholders.

The Board will continue to assess the merits of this capital management initiative given that the Company has in excess of \$20.0 million in cash on its balance sheet and no corporate debt. The Company reserves the right to suspend or terminate the share buyback program at any time and to buyback less than 9,969,923 shares.

Outlook

Folkestone is actively looking for, and analysing, real estate and corporate opportunities and the creation of new funds in 2012 under the Company's rebranded real estate funds management business, Folkestone Funds Management

Folkestone believes the significant upheaval in financial markets will create an increasing number of attractive opportunities in the residential and non-residential sectors during the next 12 months.

Folkestone expects to see continued volatility in local and international markets and continues to monitor the state of the domestic real estate markets closely.

On behalf of the Board, we would like to thank all of our shareholders for their ongoing support.



Garry Sladden
Chairman



Greg Paramor
Managing Director

Direct Investments

Folkestone's strategy for its direct investments is to focus on assets and projects which have the potential for capital growth over a two to three year investment horizon in the value-add and opportunistic space.

Folkestone aims to achieve attractive risk-adjusted returns through a disciplined and selective investment screening process. We seek to identify opportunities then conduct thorough due diligence whilst determining a clear strategy for each asset. We also form a view to adding value during the holding period and exiting the investment at an appropriate time.

Donnybrook Road, Mickleham

Donnybrook Road, Mickleham was acquired in December 2006 and is a 320.2 hectare site in Melbourne's northern corridor adjacent to the Hume Highway, 33.2 kilometres north of the Melbourne CBD.

The joint venture successfully secured a land rezoning in December 2008 from farmland to "Business 1 and 3" and the site is now suitable for industrial and employment uses and forms part of a designated future employment precinct within the Hume City Council Growth Area Plan.

Despite difficult market conditions, the joint venture successfully refinanced the senior debt facility for this property with Commonwealth Bank of Australia on 20 December 2011 for a three year term until 20 December 2014.

The joint venture has determined a new masterplan for the site which has appeared in the recently exhibited Corridor Plan. A rezoning application has been submitted to Hume City Council detailing approximately 60.0 hectares of residential land.

Key Information

Type	Industrial/Land
Size	320.2 hectares
Ownership	20%
Book Value	\$15.6m (represents FLK's 20% share)
Net Book Value	\$10.0m (represents FLK's 20% share)
Debt	\$5.6m (represents FLK's 20% share)

Noone Street, Clifton Hill

Noone Street, Clifton Hill was acquired in June 2007 and is a 1.1 hectare parcel of land with a residential development approval. The development, known as The Terraces, Clifton Hill, originally comprised 103 dwellings prior to the sale of part of Stage 6 as a superlot.

The last remaining unsold townhouse was sold in November 2011. To date 66 of the 87 dwellings (76.0 per cent) have settled. The balance of 21 dwellings are on track for completion and settlement as forecast in the first quarter of the 2012 calendar year. The senior debt facility, having recently been extended to 29 February 2012, was repaid in full on 5 January 2012. It is expected that cash proceeds to Folkestone from the project will be approximately \$9.0 million over the current financial year.

Key Information

Type	Residential Development
Size	87 dwellings
Ownership	50%
Book Value	\$4.6m (represents FLK's 50% share)
Net Book Value	\$1.3m (represents FLK's 50% share)
Debt	\$3.3m (represents FLK's 50% share)

Millers Road, Altona North

Millers Road, Altona North was acquired in December 2007 and is a 13.9 hectare parcel of "Industrial 3" zoned land, located 13.2 kilometres from the Melbourne CBD and 2.5 kilometres from the Westgate Freeway and Western Ring Road.

After a strategic review of the site, agreement was reached with Folkestone's joint venture partner, AMP Capital Investors, to commence construction of an internal road and progress the subdivision process to significantly improve access to the land and provide a catalyst to attract tenant commitments. Civil works have commenced to create up to three super-lots and to provide significantly improved access to the site. As a result, tenant enquiry levels have increased with 88.0 per cent of Stage 1 space under negotiation with a range of leading bulky good businesses who wish to be located in Melbourne's western corridor.

Key Information

Type	Bulky Goods/Land
Size	13.9 hectares
Ownership	50%
Book Value	\$6.6m (represents FLK's 50% share)
Net Book Value	\$2.4m (represents FLK's 50% share)
Debt	\$4.2m (represents FLK's 50% share)



The Ranges, Karratha

The Ranges is conveniently located 1.5 kilometres from Karratha's CBD. Folkestone's 25.0 per cent interest in The Ranges is in a joint venture with a consortium including experienced real estate developers and investors who have extensive experience in developing and marketing real estate in Western Australia, including the North West of Western Australia. Karratha is the largest community in the Pilbara Region and is home to approximately 14,000 people. The Pilbara Region has a rapidly growing population due to a number of large scale natural resource projects in the region comprised mainly of mining and oil and gas operations. Continuing expansion of these operations, new projects and continued investment in infrastructure are expected to drive further economic and population growth in the Pilbara Region, which in turn will lead to increasing demand for permanent and short-term accommodation. Stage 1 of The Ranges comprises 2.2 hectares with a "Tourism" zoning and DA approval for 108 single level, one bedroom villas with shared guest facilities, including a pool and BBQ area. The development will provide much needed short and long-term accommodation for visitors to Karratha.

As announced in August 2011, the joint venture has sold 50.0 per cent (54 dwellings) of the total 2.1 hectare Stage 1 project. Stage 1a comprising 41 dwellings is completely sold out and a further 13 dwellings in the next stage have been sold. A marketing campaign for the remaining 54 dwellings in Stage 1 is due to commence by mid 2012. Site preparation works have commenced and a construction contract has been executed with a WA based group, whose principals have more than 25 years experience in residential and commercial construction in the Pilbara and Kimberley Regions of Western Australia. The joint venture has recently executed a facility offer with its lender for a construction facility for Stage 1a which runs to 28 February 2013.

Key Information

Type	Tourism/Residential Development
Size	108 apartments (Stage 1)
Ownership	25%
Equity Commitment	As at December 2011 – \$2.4m Forecast Total Equity Commitment – \$3.6m

PottersGrove, Officer

PottersGrove, Officer is a 14.1 hectare site located in the Cardinia Shire, ranked as the third fastest growing local government area in Australia in 2010. The Cardinia Urban Growth Area is in Melbourne's south east growth corridor and was created when the State Government extended Melbourne's urban growth boundary.

PottersGrove, Officer is a 50:50 joint venture between Folkestone and Integrated Development, a Melbourne based property development company specialising in land subdivision and mixed-use development. The joint venture received confirmation on 23 December 2011 of the ministerial approval for the rezoning of the site, and the rezoning was gazetted on 12 January 2012. Under the terms of the joint venture, the balance of Folkestone's equity investment in this project is due for payment on 10 July 2012.

The contract of sale is now unconditional and as such Folkestone's 50.0 per cent contribution to the acquisition of the land and associated liability is reflected in the Half Year Report.

Key Information

Type	Residential Land Subdivision
Size	14.1 hectares
Ownership	50%
Equity Commitment	As at December 2011 – \$0.5m Forecast Total Equity Commitment – \$6.1m

Statement of Comprehensive Income

Condensed Consolidated Statement for the half year ended 31 December 2011

	Note	Consolidated	
		Half-year ended 31 December 2011 \$'000	Half-year ended 31 December 2010 \$'000
Continuing operations			
Revenue		9,978	6,148
Development expenses		(8,802)	(5,946)
Other revenue		763	342
Employee benefits expense		(1,290)	(539)
Impairment of inventories		-	(2,282)
Consultants' expenses		(62)	(186)
Depreciation and amortisation expense		(59)	(3)
Rental expense on operating leases		(45)	(16)
Other expenses		(515)	(295)
Share of net loss of associated entities		(7,222)	-
Reversal of impairment/(impairment) of interest held in associated entities		8,015	(7,394)
Finance costs		(5)	(2)
Profit/(loss) before income tax		756	(10,173)
Income tax (expense)/credit		-	-
Profit/(loss) for the half-year from continuing operations		756	(10,173)
Discontinued operations			
Profit/(loss) from discontinued operations	2	(45)	14
Profit/(loss) for the year		711	(10,159)
Total comprehensive income/(expense) for the half year		711	(10,159)
Attributable to			
Non-controlling interests		-	1
Owners of parent		711	(10,160)
Total comprehensive income/(expense) for the half year		711	(10,159)
Earnings per share			
From continuing and discontinued operations:			
Basic earnings per share (cents per share)		0.19	(10.19)
Diluted earnings per share (cents per share)		0.14	(10.19)
From continuing operations:			
Basic earnings per share (cents per share)		0.20	(10.21)
Diluted earnings per share (cents per share)		0.15	(10.21)

The condensed consolidated statement of comprehensive income is to be read in conjunction with the notes of the financial statements set out in the half year financial report. For a full copy of the half year financial report please visit our website www.folkestone.com.au

Statement of Financial Position

Condensed Consolidated Statement for the half year ended 31 December 2011

	Note	Consolidated	
		31 December 2011 \$'000	30 June 2011 \$'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		24,531	27,276
Trade and other receivables		10,758	336
Inventories		11,338	16,597
Other current assets		494	663
TOTAL CURRENT ASSETS		47,121	44,872
NON-CURRENT ASSETS			
Shares in associated entities	6	11,553	6,998
Property, plant and equipment		424	434
Goodwill		1,225	1,225
TOTAL NON-CURRENT ASSETS		13,202	8,657
TOTAL ASSETS		60,323	53,529
CURRENT LIABILITIES			
Trade and other payables		6,623	1,445
Current tax liabilities		-	1
Short-term borrowings		7,425	6,568
Short-term provisions		47	54
TOTAL CURRENT LIABILITIES		14,095	8,068
NON-CURRENT LIABILITIES			
Long term provisions		59	40
TOTAL NON-CURRENT LIABILITIES		59	40
TOTAL LIABILITIES		14,154	8,108
NET ASSETS		46,169	45,421
EQUITY			
Issued capital	5	58,970	58,970
Reserves		406	369
Accumulated losses		(13,208)	(13,919)
Parent interest		46,168	45,420
Minority interest		1	1
TOTAL EQUITY		46,169	45,421

The condensed consolidated statement of financial position is to be read in conjunction with the notes of the financial statements set out in the half year financial report. For a full copy of the half year financial report please visit our website www.folkestone.com.au

Folkestone

Directory

Directors

Garry R Sladden (Chairman)
Gregory J Paramor (Managing Director)
A Hugh Gurner
K Ross Strang

Chief Financial Officer & Company Secretary

Scott N Martin

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Auditor

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Stock Exchange Listing

Folkestone Ltd shares are listed on the Australian Securities Exchange. The ASX code is FLK.

Website

www.folkestone.com.au