

Folkestone

ASX ANNOUNCEMENT

22 August, 2013

FOLKESTONE RETURNS TO PROFIT IN FY13

- 1st full year net profit in 5 years
- Significant increase in funds under management to more than \$630 million
- Acquisition of Austock property funds management business
- Two new unlisted real estate income funds closed oversubscribed
- Strong sales at the Officer residential land sub-division
- Stage 1a at The Ranges, Karratha opened and 38 lots of the 41 settled in Stage 1a
- Share price increase of 84 per cent in FY13

Folkestone (ASX: FLK) today announced its full year result for the year ending 30 June 2013. Folkestone generated a net operating profit after tax of \$1.2 million which is a significant turnaround on the net loss after tax of \$0.1 million in FY12 and a loss of \$12.2 million in FY11. This is the first net profit recorded by Folkestone in five years.

The past year was also a major milestone for the company with the completion of the transformation of Folkestone from a real estate developer to a real estate funds manager, investor and developer providing real estate wealth solutions to private clients and select institutions.

Folkestone's share price increased 84 per cent in FY13 from 8.7 cents to 16.0 cents per share.

Folkestone's Chairman, Mr Garry Sladden said "Since the new board and management took over Folkestone in April 2011, we have focused on delivering the transformation of Folkestone and improving shareholder returns. During that time, we have sold legacy assets, recycled capital and established a funds management platform that now has more than \$630 million in funds under management".

FINANCIAL RESULT

Folkestone's net profit included the following material items.

- \$3.8 million of fee income and cost recoveries generated from the Austock property funds management business acquired during the period¹;
- \$1.2 million in fee income generated from two new real estate income funds established during the year;
- \$1.4 million in preferred equity interest income and project fees associated with Folkestone's direct real estate investments;

¹ For the period 1 October 2012 to 30 June 2013.

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- \$0.6 million of development profits from Folkestone's 50 per cent share of the first stage of the Officer project and \$0.3 million of development profits representing Folkestone's 25 per cent share of the first stage of the Karratha project which were completed during the reporting period; and
- (\$0.3) million in one off transaction costs incurred during the year relating to the acquisition of the Austock property funds management business.

Mr Sladden said, "Folkestone's full year result is pleasing given the ongoing economic uncertainty impacting both global and domestic markets. The result reflects the strong contribution from our new funds management platform which contributed \$5.0 million or 50.6 per cent of the Group's revenue".

Folkestone's balance sheet remains in excellent shape with low gearing and has significant capacity to grow its business. On a look through basis, as all debt is held at the project level in special purpose vehicles, the gearing level is 22 per cent.

Folkestone's net asset value (NAV) was 12.8 cents per share at 30 June 2013, up from 12.2 cents per share at 30 June 2012.

Folkestone's net tangible asset (NTA) backing was 9.2 cents per share at 30 June 2013 compared with 11.9 cents per share at 30 June 2012. During the reporting period, Folkestone acquired the Austock property funds management platform which resulted in intangible assets of \$11.2 million and goodwill of \$0.2 million being recognised on acquisition, contributing to a 3.0 cents reduction in NTA per share.

REVIEW OF FUNDS MANAGEMENT DIVISION

Folkestone's Funds Management division (FFM) is a specialist real estate funds manager for private clients and select institutional investors. As at 30 June, Folkestone had more than \$630 million in funds under management.

During the year, Folkestone acquired the Austock property funds management business. The total price paid for the acquisition was \$11.5 million plus an amount of \$3.0 million for regulatory and working capital settlement adjustments in accordance with the terms of the share sale agreement.

The acquisition provided \$555 million in funds under management across four listed and unlisted funds specialising in real estate related social infrastructure – childcare centres, a medical centre, police stations and courthouses together with a team of ten staff. The social infrastructure funds under management have grown to \$570 million at 30 June 2013.

Mr Paramor said "the acquisition of the Austock property platform has provided an excellent base for Folkestone to further expand into the growing social infrastructure space. Given the demographic and social changes underway across Australia, together with government's increasingly looking to the private sector to provide accommodation in the social infrastructure sector, we believe we are well placed to be grow our funds management platform in this sector".

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Australian Education Trust

The ASX listed Australian Education Trust (ASX Code: AEU) is the leading provider of early learning accommodation with 326 early learning centres across Australia and New Zealand. The Trust performed strongly during FY13, generating a total return of 46.8 per cent to unitholders.

The Australian Social Infrastructure Fund

The ASX listed Australian Social Infrastructure Fund (ASX Code: AZF) invests in real estate related social infrastructure. The Trust's portfolio comprises 48 early learning centres, a medical centre and self-storage facility and a portfolio of real estate related securities including units in the Australian Education Trust. ASIF generated a total return of 29.4 per cent for the year ending 30 June 2013.

CIB Fund

The CIB Fund, is an unlisted wholesale fund, which owns nine police stations and two law court complexes leased to the State Government of Victoria. During the year, the focus has been on capital works program to improve the amenity of the assets.

Folkestone Childcare Fund

The Folkestone Childcare Fund is an unlisted private client fund that owns 23 early learning centres. During the year, 13 leases were renewed for a further five years and the Fund's debt was refinanced at lower margins which will enhance the Fund's FY14 income distribution.

Folkestone Real Estate Income Fund at Sydney Olympic Park

The Folkestone Real Estate Income Fund at Sydney Olympic Park was established in September 2012 and was the first in a series of Folkestone real estate income funds. The Fund acquired a new 5,918 square metre commercial building at 7 Murray Rose Avenue, Sydney Olympic Park. Thales Australia, part of the Thales Group, a leading international electronics and systems group serving the defence, aerospace, space, security, and transport markets has leased 5,227 square metres (100 per cent) of the office space, 42 square metres of the retail space and 47 car spaces for their new Australian headquarters.

The quality of the asset, strong tenant covenant and commencing annualised yield of 8.1 per cent resulted in the Fund closing for applications oversubscribed. The Folkestone balance sheet was used to underwrite \$8.0 million of the Offer and the underwritten units were fully redeemed by 31 December 2012.

Folkestone Real Estate Income Fund at Wollongong

The Folkestone Real Estate Income Fund at Wollongong closed in June 2013 and is the second in the series of real estate income funds. The Fund acquired an A Grade commercial office building at 43 Burelli Street and 34 Stewart Street, Wollongong. The asset comprises a strong tenancy mix anchored by Commonwealth and State Government tenants who currently contribute 79 per cent of the Asset's income.

The Fund closed approximately 50 per cent oversubscribed, and as a result, Folkestone increased the equity raising from \$14.5 million to \$15.5 million to accommodate some of the oversubscription. The Folkestone balance sheet was used to underwrite \$8.0 million of the Offer and the underwritten units were fully redeemed by 30 June 2013.

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Folkestone Tivoli Development Fund

The Tivoli Development Fund is undertaking, in joint venture with Urban Inc, a 65 apartment residential development in Roden Street, West Melbourne. To date 63 of the 65 apartments have contracted to sell and construction is on track to be completed by early October 2013.

REVIEW OF REAL ESTATE PORTFOLIO

Mr Greg Paramor, Managing Director of Folkestone said “we have achieved significant progress with our on-balance sheet development assets with completion of the Noone Street development, the acquisition of our joint venture partner’s interest at Millers Rd in Altona North, strong sales in Stage 1 of our Officer land sub-division in south east Melbourne and the opening and settlement of Stage 1a at The Ranges, Karratha.”

Noone St, Clifton Hill

Noone Street, Clifton Hill, an 87 dwelling residential development in an inner suburb of Melbourne was acquired in June 2007. The development was a 50/50 joint venture between Folkestone and AMP Capital Investors. This project was completed in September 2012 following the settlement of the last remaining apartment. The project returned \$0.3 million in cash to Folkestone during FY13 in addition to the \$8.7 million returned in the prior year.

Millers Road, Altona North

Millers Road, Altona North is a 13.9 hectare parcel of land, located approximately 13 kilometres from the Melbourne CBD and 2.5 kilometres from the Westgate Freeway and Western Ring Road. In May 2013, Folkestone acquired its joint venture partner’s (AMP Capital Investors) 50 per cent interest in the project.

The rezoning of the site from “Industrial 3” to “Business 3” was formally approved by the Minister for Planning and came into operation on 9 May, 2013. On 15 July 2013, the Victorian Government implemented reforms to the zoning system. Under these changes, “Business 3” becomes “Commercial 2” which is focused on light industry and some retailing including allowing supermarkets up to 1,800sqm and bulky goods, significantly enhancing the site’s development potential.

Potters Grove, Officer

Folkestone and its joint venture partner, ID Land, settled the acquisition of the land on 10 July 2012. Construction of the site works for Stage 1 (56 lots) commenced in October 2012 and was completed in April 2013. As at 30 June 2013, 53 of the 56 lots in Stage 1 and 12 of the 43 lots in Stage 2 had been contracted to sell. Of the Stage 1 lots under contract, 43 were settled by 30 June with a further 6 have now settled. Since July 1, a further 14 lots in Stage 2 are now under contract. Construction works for Stage 2 commenced in late July 2013 with settlements of this stage to commence in early 2014 when the construction works are completed.

The Ranges, Karratha

Stage 1 of The Ranges comprises 2.2 hectares with a "Tourism" zoning and DA approval for 108 single level, one bedroom villas with pool and BBQ facilities. Folkestone has a 25 per cent interest in the project.

The first 41 dwellings in Stage 1a opened for occupation in December 2012. The opening of The Ranges has provided much needed accommodation for business travellers to Karratha. Occupancy levels since opening have been strong with the stabilised occupancy rate from April 2013 to July 2013 averaging 75

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per cent. As at 30 June 2013, 36 of the 41 dwellings in Stage 1a had settled and a further 2 dwellings settled in July 2013. The Stage 1b marketing campaign is underway with 14 of the 35 villas in this stage under contract and construction anticipated to commence in late 2013.

In January 2013, the joint venture acquired an adjoining 7.1 hectare parcel of land for \$1.7 million from the WA Government. The site is zoned "Urban Development" allowing a mix of uses including long term residential, tavern, restaurant, gym and amenities. This flexible zoning has the capacity to yield a further 261 villas and a range of development options that can be released in stages as demand requires.

OUTLOOK

Folkestone remains focused on its strategy of growing its suite of listed and unlisted real estate funds and seeking value-add and opportunistic investments for its balance sheet activities.

Folkestone plans in the coming year to continue to roll-out funds in its income and developments series, seek accretive acquisitions for its ASX listed social infrastructure funds and progress the development of our existing balance sheet projects at Altona North, Officer and Karratha.

Mr Paramor said "We are particularly encouraged by the opportunities in the real estate social infrastructure sector, especially given the demographics and social changes that are driving the demand for social infrastructure assets such as early learning and medical centres, and governments increasing looking to the private sector to deliver their accommodation needs".

"Given the low interest rate environment, we continue to see growing investor interest in real estate, especially from self-managed super funds that are looking for reliable income. The strong support of our funds from investors is testament that capital is available for funds that offer quality assets, simple and transparent structures and fees and attractive risk-adjusted returns".

"We believe Folkestone, with its strong balance sheet and access to third party capital from its funds management platform, is well positioned to take advantage of opportunities that become available".

For further information regarding this announcement please contact:

Mr Greg Paramor
Managing Director
Folkestone Limited
02 8667 2800

Mr Garry Sladden
Chairman
Folkestone Limited
02 8667 2800

About Folkestone

Folkestone (ASX:FLK) is an ASX listed real estate funds manager, investor and developer providing real estate wealth solutions. Folkestone's on balance sheet activities focus on value-add and opportunistic real estate investments and its funds management platform, with approximately \$630 million under management, offers listed and unlisted real estate funds to private clients and institutional investors.