

Folkestone

ASX ANNOUNCEMENT

20 February 2014

FOLKESTONE HALF YEAR RESULT – STRONG FUNDS MANAGEMENT AND BALANCE SHEET GROWTH

- **Net profit after tax of \$1.6 million¹**
- **Successfully raised \$25 million from a Placement and Entitlement Offer**
- **Strong growth in funds under management to \$700 million**
- **Two new unlisted funds closed oversubscribed**
- **Australian Education Trust successfully raised \$45 million and acquired 31 early learning centres**
- **Secured first exposure to Sydney residential development market**
- **Continued strong sales at the Officer residential land subdivision**
- **Pre-sold the Stage 1 retail development at Altona North to a new Folkestone fund**

Folkestone (ASX:FLK) today announced a net profit after tax for the six months ending 31 December 2013 of \$1.6 million¹ compared to a net profit after tax of \$0.03 million in the corresponding period in 2012.

Folkestone's Managing Director, Mr Greg Paramor said "The strong result in the first half of FY14 reflects the continued focus on growing our funds management platform with \$3.5 million or 75.0 per cent of the Group's revenue generated from funds management. Folkestone has approximately \$700 million in funds under management across real estate income, development and social infrastructure funds."

"During the past six months, we have continued to deliver on our strategy of growing our suite of listed and unlisted funds with the successful capital raising in the ASX listed Australian Education Trust (ASX:AEU) and the launch of two new unlisted funds – the Folkestone Real Estate Income Fund at Altona North and the Folkestone West Ryde Development Fund – together with selectively increasing our exposure to quality development opportunities with our balance sheet co-investment in the Folkestone West Ryde Development Fund" said Mr Paramor.

¹ The net profit after tax for the Consolidated Group was \$1.2 million. The Consolidated Group includes the Folkestone West Ryde Development Fund ("Fund") even though Folkestone only owns 50.0 per cent of the units in the Fund. The Consolidated Group's net profit after tax includes a net loss of \$0.7 million from the Fund relating to acquisition and Fund establishment costs. 50.0% of the loss from the Fund (\$0.35m) is attributable to the other unitholders in the Fund. Therefore, Folkestone's net profit after tax after adjusting for 50 per cent of the Fund loss is \$1.6 million.

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FINANCAL RESULT

Folkestone's profit included the following material items:

- \$2.4 million in recurring fee income and cost recoveries generated from the funds management platform;
- \$0.8 million in acquisition fees generated from the successful launch of the Folkestone Real Estate Income Fund at Altona North;
- \$0.3 million in one-off disposal fees in relation to the sale of 100% of the units in the Folkestone Childcare Fund to the Folkestone managed Australian Education Trust;
- \$0.6 million in preferred equity interest income and project fees associated with Folkestone's direct real estate investments; and
- \$0.2 million in development profits from Folkestone's 50 per cent share of the balance of settlements from Stage 1 of the Officer project.

Folkestone's balance sheet is in excellent shape with \$28.9 million in cash or cash equivalents and low gearing giving it 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 look through gearing is 11 per cent.

Net tangible asset (NTA) backing was 11.3 cents per share at 31 December 2013 compared with 9.2 cents per share at 30 June 2013. During the reporting period, Folkestone successfully completed a \$25.0 million capital raising which contributed to the 2.1 cents increase in NTA per share from 30 June 2013.

As at 31 December 2013, Folkestone and its associated entities are in full compliance with all their debt facilities and have sufficient liquidity to fulfill all of their commitments.

EQUITY RAISING

On 15 November 2013, Folkestone announced a \$25 million equity raising at 16.5 cents per share comprising:

- a \$9.2 million placement to existing and new institutional investors; and
- a 1.0 for 3.86 non-renounceable entitlement offer to existing eligible shareholders to raise \$15.8 million (Equity Raising).

On 18 November 2013 Folkestone announced the successful completion of the \$9.2 million placement and \$6.0 million of the accelerated institutional component of the entitlement offer. The \$9.8 million retail component of the entitlement offer was successfully completed on 12 December 2013. Both components of the Equity Raising were significantly oversubscribed having received strong support from both existing shareholders and new institutional investors.

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The proceeds of the Equity Raising have been applied to the following:

- \$8.7 million for a 50.0 per cent interest in the Folkestone West Ryde Development Fund which is undertaking a joint venture with Toga for a 205 apartment and mixed use development in West Ryde, Sydney. As at 31 December 2013, \$4.4 million of the \$8.7 million investment had been called by the Fund and paid by Folkestone;
- \$4.1 million investment in the ASX listed Australian Education Trust, which is the largest of Folkestone's managed funds;
- \$1.1 million to pay for the transaction costs relating to the Equity Raising; and
- \$11.1 million has been retained by Folkestone as additional working capital which will be used to accelerate the growth of its funds management platform and its pipeline of on-balance sheet development activities.

Mr Paramor said "We were delighted with the support we received for the Equity Raising which will allow Folkestone to accelerate the execution of its strategy to take advantage of opportunities that become available across the residential, non-residential and real estate related social infrastructure sectors".

FUNDS MANAGEMENT

Folkestone's funds management division is a specialist real estate funds manager for private clients and select institutional investors. During the six months to December 2013, Folkestone increased its funds under management from \$630 million to \$700 million with the successful launch of two unlisted real estate funds - the Folkestone Real Estate Income Fund at Altona North and the Folkestone West Ryde Development Fund - and the acquisition of 31 early learning centres by the Australian Education Trust including all 22 early learning centres owned by the unlisted Folkestone Childcare Fund.

Folkestone Real Estate Income Fund at Altona North

The Folkestone Real Estate Income Fund at Altona North was established in December 2013 and is the third in Folkestone's real estate income funds series. The Fund has entered into an agreement to acquire a 21,553 square metre large format retail centre (Centre) which will be anchored by Bunnings and includes Officeworks, together with JB Hi-Fi Home, Repco, PETstock and petVET. The Centre is being developed by Folkestone on behalf of the Fund and is scheduled to be completed in October 2014.

Mr Paramor said "This transaction demonstrates Folkestone's ability to manufacture investment grade product on balance sheet for its funds management platform".

Applications for the Fund closed oversubscribed and as a result Folkestone increased the equity raising from \$16.3 million to \$16.6 million to accommodate some of the oversubscription. The gross asset value of the Fund as at 31 December 2013 was \$16.6 million² and the FY14 forecast annualised distribution yield is 8.5%.

² The gross assets of the Fund at completion of the Centre in October 2014 is forecast to be \$31.7 million.

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Folkestone West Ryde Development Fund

The Folkestone West Ryde Development Fund is undertaking, in joint venture with the Toga Group a residential development project located at 7-19 Chatham Road, West Ryde known as Central Square. The project comprises the construction of 205 residential apartments, 22 commercial suites and 259 car parking spaces over 7 levels on a rooftop stratum above a Coles supermarket. The joint venture has entered into a development agreement with the landowner, Coles, to complete the development. The project was launched in November 2013 and as at 31 December 2013, the joint venture had secured pre-sales of 122 apartments, which represents 60 per cent of the total residential apartments and 76 per cent of the 161 apartments released to date. A further 7 apartments have been pre-sold post 31 December 2013. Early works commenced in February 2014.

Applications for the Fund closed oversubscribed and as a result Folkestone had to scale back the applications received. The total equity raising for the Fund is \$17.4 million, 50.0 per cent of which (\$8.7 million) was called in December 2013 with the balance due to be called around March 2014. Folkestone holds a 50 per cent interest in the Fund. The Fund has a forecast equity IRR of 18 per cent per annum (pre-tax, net of fees) on drawn equity and a forecast return on equity of 32 per cent (pre-tax, net of fees).

Australian Education Trust

The ASX listed Australian Education Trust (ASX: AEU) successfully completed a \$45 million capital raising in December 2013 to fund the acquisition of:

- all the units in the Folkestone Childcare Fund, an unlisted fund also managed by Folkestone comprising 22 early learning centres;
- a portfolio of five early learning centres in premium Sydney metro locations, operated by Only About Children;
- a new purpose built early learning centre in Gungahlin ACT; and
- three development sites for new early learning centres to be constructed on a fund-through basis and owned long-term by Australian Education Trust.

Mr Paramor said, "the success of these capital raisings demonstrates investors' appetite for quality real estate investments and Folkestone's growing reputation for delivering real estate wealth solutions to private client and institutional investors".

"Our distribution network continues to grow as demonstrated by the strong support from both financial planners and private client investors for our most recent unlisted fund offerings" Mr Paramor said.

DIRECT INVESTMENTS

During the six months to December 2013, Folkestone continued to execute on the development strategies for its existing on-balance sheet investments and also acquired an interest in the Folkestone West Ryde Development Fund, providing it with its first exposure to the buoyant Sydney residential market.

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Millers Road, Altona North

Millers Road, Altona North was acquired in December 2007 and 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 November 2013, Folkestone announced the commencement of Stage 1 of the Millers Road, Altona North development and the pre-sale of the development to a new unlisted fund – the Folkestone Real Estate Income Fund at Altona North.

The Stage 1 development comprises a 21,553 square metre large format retail centre which is 99.6% pre-committed and is anchored by Bunnings and includes Officeworks, together with JB Hi-Fi Home, Repco, PETstock and petVET. Stage 1 is being developed by Folkestone on behalf of the Fund with practical completion expected to occur in October 2014.

Folkestone has also entered into a contract of sale of 8,063 square metres of land to Aldi Stores for a 1,600 square metre supermarket which adjoins the Stage 1 development. A further seven hectares of land remains to be developed after completion of the Stage 1 development and Folkestone is continuing to assess potential retail and commercial development opportunities for the residual land.

Potters Grove, Officer

Potters Grove, Officer is a 14.1 hectare site located in the Cardinia Shire, in south-east Melbourne. Potters Grove is a 50/50 joint venture between Folkestone and ID Land, a Melbourne based property development company specialising in land subdivision and mixed-use.

Stage 1 works were completed in April 2013. As at 31 December 2013, all 56 lots in Stage 1 had been contracted for sale and 55 had settled with 12 of these lots settling in the six months to 31 December 2013. The last remaining lot in Stage 1 settled in January 2014.

Construction works for Stage 2 (43 lots) commenced in July 2013 and was completed in February 2014. A total of 37 lots representing 86 per cent of the total lots in this stage are now contracted for sale with settlements expected to commence in March 2014.

Marketing of Stage 3a lots (31 lots) has also commenced and currently 10 lots representing 32 per cent of the total lots in this stage have been contracted for sale. Discussions have commenced with the Bank of Melbourne with regard to a construction facility for Stage 3a. Construction works are expected to commence in the June 2014 quarter.

The Ranges, Karratha

The Ranges, Karratha is conveniently located 1.5 kilometres from Karratha's CBD. Folkestone's 25% interest in The Ranges is a joint venture with a consortium including 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.

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.

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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. As at 31 December 2013, a further 3 dwellings in Stage1a had settled, bringing total settlements to 40 out of the 41 dwellings. The final dwelling in Stage1a has been contracted for sale and has yet to settle.

The marketing campaign for Stage 1b is ongoing with 16 of the 32 villas in this stage contracted for sale. Construction is anticipated to commence in mid 2014 subject to further pre-sales.

In October 2013, the joint venture partners agreed to reduce the rate of interest on preferred equity loans from 25.0 per cent to 15.0 per cent with effect from 1 October 2013. Folkestone has a \$3.2 million preferred equity loan which it has provided to the joint venture in addition to its \$1.9 million equity investment.

OUTLOOK

The Australian economy is showing signs of improving although it is still growing below long term averages. Consumer spending is improving and both residential construction and sale prices are rising. Business confidence is patchy, particularly around the resource sector and as a result business investment remains subdued.

Mr Paramor said, “investors are increasingly looking to reallocate from cash and term deposits into real estate which should see continued demand for both residential and non-residential assets. Competition for both income and development assets will remain high. Folkestone will continue to look for investments primarily through ‘off-market’ transactions that offer attractive risk-adjusted returns for its investors.”

Folkestone's strong balance sheet and access to third party capital is well placed to grow its funds under management across its listed and unlisted funds management platform.

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 and developer. Folkestone's funds management platform, with \$700 million under management, offers listed and unlisted funds to private clients, high net worth individuals and institutional investors whilst its on balance sheet activities focus on value-add and opportunistic developments. For further information on Folkestone visit, www.folkestone.com.au.