

Folkestone

ASX ANNOUNCEMENT

22 August 2012

FOLKESTONE DELIVERS SIGNIFICANTLY IMPROVED RESULT DURING TRANSITION PHASE

- **Significant improvement on prior year's result**
- **Strategy to recycle capital realised over \$19.0m in cash**
- **Share Sale Agreement executed to buy Austock's property funds management business**
- **Donnybrook Road, Mickleham net settlement proceeds total \$10.7m**
- **The Ranges, Karratha Stage 1a construction commenced**
- **Finance facility for construction of PottersGrove, Officer secured**

Folkestone (ASX: FLK) today announced an annual result for the year ending 30 June 2012 of a net loss of \$0.1 million which is a significant improvement from the previous year's net loss of \$12.2 million. This represents basic earnings per share of 0.0 cents, compared with negative 7.5 cents previously.

The previous year's result included \$10.5 million of non-cash expenses relating to the impairment of the carrying values of interests in development projects. Since July 2011, Folkestone has successfully realised in excess of \$19.0 million in cash from its projects.

FINANCE RESULTS

Folkestone's full year result includes \$1.4 million of development profits realised from the Noone Street Clifton Hill project and a \$0.8 million net profit on the disposal of Folkestone's 20.0 per cent interest in the Donnybrook Road, Mickleham project.

Folkestone's full year result is pleasing given it was delivered during a period of economic uncertainty and significant change for the business. The result is a consequence of Folkestone's strategy to recycle capital and apply it to further growth opportunities such as building its funds management platform.

Folkestone's balance sheet at 30 June 2012 is very strong with \$35.0 million in cash or cash equivalents which equates to 9.4 cents per share. Net tangible assets per share as at 30 June 2012 was \$44.1 million or 11.9 cents per share.

Since 30 June 2012, some \$4.9 million has been invested into the Officer project to settle the land. A further \$11.0 million has been set aside for the purchase of Austock's property funds management business. The sale is subject to approval by Austock Group Limited's ("Austock") (ASX:ACK) shareholders on 12 September 2012 and the successful completion of all Conditions Precedent.

The first tranche of 65.0 per cent (\$7.15 million) is to be settled at completion, expected to be 14 September 2012 and the second tranche of 35.0 per cent (\$3.85 million) is to be settled on 30 September 2013 unless accelerated.

Folkestone Limited's Chairman, Mr Garry Sladden said, "The Board is happy with this result given it occurred in extremely challenging markets and during a transitional period for Folkestone. The progress to date is satisfying as we have been working hard to implement our strategies for recycling capital and building a real estate funds management and development business."

REVIEW OF REAL ESTATE PORTFOLIO

Donnybrook Road, Mickleham

In line with its capital recycling program, Folkestone sold its 20.0 per cent interest in this project to its joint venture partner AMP. The sale transacted at book value with net proceeds of \$10.7 million received on 29 June 2012 contributing \$0.8 million net profit to the full year result.

Noone Street, Clifton Hill

Financial year 2012 saw the successful delivery and completion of this project with all but one apartment sold and settled, returning \$8.7 million in cash proceeds to both Folkestone and its joint venture partner AMP. Folkestone's fresh approach to this challenging legacy project saw delivery of 86 high quality townhouses and apartments. The remaining unsold one bedroom apartment is currently being marketed for sale and is attracting interest from a number of prospective purchasers.

Millers Road, Altona North

During the year, Folkestone and its joint venture partner AMP invested further equity creating an internal road, which significantly improved access to the site and created two smaller super-lots. Whilst approved for bulky goods usage, a rezoning application has also been made to improve flexibility of development opportunities. Negotiations are well underway with key anchor tenants to commence the staged development which stands to benefit from proposed changes to the Victorian Government's retail planning framework for bulky goods.

The Ranges, Karratha

Stage 1a of the joint venture has been sold out with 14 Stage 1b dwellings also sold off the plan reflecting 51.0 per cent of the project. Stage 1a construction is well progressed with all dwellings on site and being commissioned. Settlements are anticipated in early 2013 delivering much needed business accommodation in Karratha and the Pilbara region. A formal marketing campaign for the balance of 53 dwellings commenced in mid 2012 targeting retail and corporate investors. The joint venture has successfully negotiated an option to purchase an adjoining 7.1 hectares, with settlement subject to authority approval. Rezoning is now complete with the necessary development and stakeholder approvals well progressed.

PottersGrove, Officer

The residential site in Melbourne's south east was successfully rezoned with masterplanning and development permits granted prior to settlement of the land, which occurred 10 July 2012. Marketing of Stage 1 is well underway with 38.0 per cent of Stage 1 lots now under deposit. Folkestone has now invested \$6.1 million into the joint venture and has secured a financing facility from Bank of Melbourne for construction of Stage 1 with works scheduled to commence in late 2012. First lot settlements are anticipated in early 2013.

FOLKESTONE FUNDS MANAGEMENT

Folkestone Funds Management (FFM) has expanded its Australian Financial Services License to enable it to operate real estate funds for both sophisticated and retail investors. This provides FFM with flexibility to raise equity and establish funds under a range of structures as well as enabling FFM to launch product into the broader retail investor market.

Folkestone has entered into a Share Sale Agreement with Austock to buy Austock Property Funds Management Pty Ltd (“Austock Property”) for \$11.0 million in cash. The sale is subject to Austock shareholder approval at a meeting scheduled for 12 September 2012. Austock Property manages four funds specialising in childcare and other social infrastructure assets, with combined funds under management of approximately \$555.0 million.

The purchase of Austock Property forms part of Folkestone’s stated strategy to grow its real estate funds management business in addition to investing in real estate projects using its balance sheet. The Austock Property management team has an excellent reputation in managing social infrastructure real estate funds and provides Folkestone with a quality base from which to grow its real estate funds management platform.

SHARE BUYBACK

In December 2011, Folkestone announced a share buyback which commenced 30 January 2012. The buyback allowed the purchase of up to 9,969,923 shares or approximately 2.69 per cent of Folkestone’s total shares on issue. The buyback purchased 550,000 shares during the financial year at an average price of 8.2 cents per share. The buyback has been extended to 31 December 2012. The Board will continue to assess the merits of this capital management initiative and 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 has made strong progress over the year in transforming the business, selling assets to recycle capital into better performing opportunities including expanding its funds management business. The conditional acquisition of Austock Property forms part of Folkestone’s strategy to develop a real estate funds management platform.

Folkestone Limited’s Managing Director, Mr Greg Paramor said, “Folkestone has had a productive financial year. We have made significant progress in transforming the Company and have produced solid results from repositioning and recycling assets through active management and divestment. We have started to redeploy our cash reserves and are looking forward to the year ahead and the potential of working with the Austock Property team.”

Folkestone continues to examine prospects to redeploy its cash reserves and expects to see opportunities arise from continued volatility in local and international markets.

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About Folkestone

Folkestone (ASX: FLK) is an ASX listed real estate investment, development and funds management company. Folkestone's on balance sheet activities focus on value-add and opportunistic real estate investments and its funds management platform offers funds to private clients, high net worth individuals and select institutional investors.