
FOLKESTONE DELIVERS STRONG GROWTH IN PROFIT IN FY14

- Net profit after tax of \$3.2 million, up 168% on FY13
- Strong growth in funds under management of 29% to \$813 million
- Launched three unlisted real estate funds
- Folkestone Education Trust raised \$45 million and acquired 27 centres and 5 sites
- Secured first exposure to the Sydney residential development market
- Continued strong sales at the Officer residential land sub-division
- Pre-sold Stage 1 retail development at Altona North into a new Folkestone fund
- FLK equity raising of \$25 million significantly oversubscribed
- Total Shareholder Return of 37.5% in FY14

Folkestone (ASX:FLK) today announced a strong result, delivering a net profit after tax for the year ended 30 June 2014 of \$3.15 million¹ compared to a net profit after tax of \$1.18m in FY13 - a 168.0 per cent increase over the period.

Folkestone's Managing Director, Mr Greg Paramor said "the strong result in FY14 reflects the continued focus on delivering on our strategy to provide real estate wealth solutions. Funds under management increased by 29.0 per cent from \$630 million to \$813 million during the year and generated 68.5 per cent of the Group's revenue."

Folkestone's share price increased 37.5 per cent from 16.0 cents to 22.0 cents per share in FY14, significantly outperforming the S&P/ASX 300 Accumulation Index which was up 17.3 per cent. Since the current board and management team took over Folkestone in April 2011 the share price has increased 83.3 per cent from 12.0 cents to 22.0 cents per share at 30 June 2014.

FINANCIAL RESULT

Folkestone's full year result includes the following material items:

- \$5.1 million of recurring fee income and cost recoveries generated from the Company's funds management platform;

¹ The net profit after tax for the Consolidated Group was \$2.8 million. The Consolidated Group includes Folkestone West Ryde Development Fund ("Fund") even though Folkestone only owns 50 per cent of the units in the Fund. The consolidated group's net profit after tax includes a net loss of \$0.8 million from the Fund relating to acquisition and fund establishment costs. 50 per cent of the loss from the Fund (\$0.4 million) 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 \$3.2 million.

- \$1.2 million in acquisition fees generated from the successful completion of the Altona North and Oxley real estate income funds;
- \$0.3 million one off disposal fee in relation to the sale of 100 per cent of the units in the unlisted Folkestone Childcare Fund to the Folkestone Education Trust (previously known as the Australian Education Trust);
- \$0.3 million in leasing fees generated from the successful negotiation of new leases for the Folkestone Education Trust;
- \$1.1 million in preferred equity interest income associated with Folkestone's direct real estate investments; and
- \$0.9 million share of development profits from Folkestone's 50 per cent interest in the Officer project joint venture.

At 30 June 2014, Folkestone had low gearing² and cash reserves of \$27.2 million providing significant capacity to continue to execute on its business strategy.

Folkestone's net asset value (NAV) was 14.4 cents per share at 30 June 2014, up from 12.8 cents per share at 30 June 2013 and the net tangible asset (NTA) backing was 11.7 cents per share at 30 June 2014 compared with 9.2 cents per share at 30 June 2013.

EQUITY RAISING

On 15 November 2013, Folkestone announced a \$25 million equity raising at 16.5 cents per share to take advantage of a number of opportunities to accelerate the growth of its funds management platform and provide Folkestone with exposure to the Sydney residential development market.

Mr Paramor said "we were delighted with the support for the capital raising from both our existing shareholders and a number of new institutions who decided to invest in Folkestone for the first time. The equity raising was significantly oversubscribed and investors who participated have been well rewarded, with the share price increasing 33.3 per cent as at 30 June 2014."

The proceeds of the equity raising have been applied as follows:

- \$8.7 million for a 50 per cent interest in the Folkestone West Ryde Development Fund which is undertaking a joint venture with Toga for an apartment and mixed use development in West Ryde, Sydney;
- \$4.1 million investment in the ASX listed Folkestone Education Trust (ASX code: FET), which is the largest of Folkestone's managed funds;
- \$1.1 million to pay for the transaction costs relating to the Equity Raising; and
- the balance of \$11.1 million as additional working capital which is being used to accelerate the growth of the funds management platform and the pipeline of on-balance sheet development activities.

² All debt is held at the project level in special purpose vehicles. On a look through basis, the gearing is at 28 per cent.

FUNDS MANAGEMENT

Folkestone's funds management division (FFM) is a specialist real estate funds manager for private clients and select institutional investors. During FY14, Folkestone's funds under management increased by 29.0 per cent from \$630 million to \$813 million with the funds management business contributing \$7.0 million or 68.5 per cent of the Group's revenue.

During the year Folkestone's funds management platform undertook the following initiatives:

- launched two unlisted real estate income funds – the Folkestone Real Estate Income Fund at Altona North and the Folkestone Real Estate Income Fund at Oxley;
- launched a new unlisted residential development fund - the Folkestone West Ryde Development Fund;
- the Folkestone Education Trust settled the acquisition of 27 early learning centres including the 22 early learning centres formerly owned by the unlisted Folkestone Childcare Fund and 5 development sites and had also contracted but yet to settle on 1 early learning centre and a further three development sites for new centres; and
- acquired the Maxim Asset Management A-REIT securities and real estate debt funds management business.

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 the real estate income fund series. The Fund 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, with part of the Centre opening in August 2014 and the remainder of the Centre expected to be opened by 1 October 2014.

The applications for the Fund closed oversubscribed and as a result Folkestone increased the equity raising for the Fund from \$16.3 million to \$16.6 million to accommodate some of the oversubscription. The gross asset value of the Fund as at 30 June 2014 was \$16.8 million³ and the annualised distribution yield for FY14 was 8.5 per cent.

Folkestone Real Estate Income Fund at Oxley

The Folkestone Real Estate Income Fund at Oxley was established in April 2014 and is the fourth in the real estate income fund series. The Fund acquired a recently completed 7,094 square metre neighbourhood retail centre in the inner Brisbane suburb of Oxley. The Centre is anchored by a 3,200 square metre Woolworths supermarket and the Queensland Government's Department of Communities, Child Safety and Disability Services which occupies 2,400 square metres of office space on level 1 of the Centre.

As part of Folkestone's strategy to secure assets not subject to capital raising, Folkestone underwrote the acquisition of the Centre and Fund capital raising of \$20.55 million. At 30 June 2014, 84.3 per cent of the Fund had been sold down with the remainder to be sold down in the September quarter 2014. The gross asset value of the Fund at 30 June 2014 was \$36.1 million and the annualised distribution for FY14 was 8.0 per cent.

³ The Fund has a forecast gross asset value of \$35.1 million at 1 October 2014 when construction of the Centre is completed.

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 a residential apartment development 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. As at 30 June 2014, the joint venture had secured pre-sales of 215 apartments, which represents 93.9 per cent of the total residential apartments under the revised scheme. Construction has commenced and the programme is on track for completion in mid 2015.

The applications for the Fund closed oversubscribed and as a result Folkestone had to scale back the applications received. The total equity raising was \$17.4 million with Folkestone holding 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).

Folkestone Education Trust

The ASX listed Folkestone Education Trust (ASX: FET) successfully completed a \$45 million capital raising in December 2013, which together with debt, funded the acquisition of 27 early learning centres (including the unlisted Folkestone Childcare Fund which owned 22 centres) and five development sites to be developed as early learning properties and operated under long-term leases. A further four properties (one new centre and three development sites for new centres) were under contract at 30 June 2014 with settlement subject to subdivision and/or development approval.

In March 2014, FET reached a major milestone with its inclusion in the S&P/ASX300 Index and as a result, a number of new institutions have come onto the Trust's register.

The Fund performed strongly in FY14, with distributions increasing 12.1 per cent to 12 cents per unit and generating a total return of 27.8 per cent compared to the S&P/ASX300 A-REIT Accumulation Index of 11.1 per cent. FET was fourth best performing A-REIT in the Index during the year. Over both the 3 years and 5 years to 30 June 2014, FET was the second best performing of the A-REITs in the S&P/ASX300 A-REIT index at 30 June 2014 with a total return of 38.8 per cent p.a. and 55.7 per cent p.a. respectively.

Folkestone Social Infrastructure Fund

Folkestone Social Infrastructure Trust (ASX: FST) performed strongly during the year, with distributions up 13.6 per cent to 20.0 cents per unit. The Trust generated a total return of 29.7 per cent, significantly outperforming the S&P/ASX300 A-REIT Accumulation Index which was up 11.1 per cent.

Acquisition of Folkestone Maxim Asset Management Limited

In April 2014, Folkestone acquired 100 per cent of the share capital of Maxim Asset Management Limited (now known as Folkestone Maxim Asset Management Limited.) The acquisition provided \$30 million in funds under management across two unlisted funds specialising in listed real estate securities (the Folkestone Maxim A-REIT Securities Fund) and real estate debt (Folkestone Maxim Income Fund).

Mr Paramor said "Maxim Asset Management, with its real estate securities fund and high yield real estate debt fund, compliments Folkestone's existing real estate funds management platform. Folkestone is committed to providing real estate wealth solutions to private clients and select institutions and Maxim allows us to broaden our platform of real estate investment opportunities for our clients."

DIRECT INVESTMENTS

Folkestone's continues to successfully execute on its strategy for its on-balance investments to focus on assets and developments in the value-add and opportunistic space.

Folkestone's net profit included \$1.1 million in preferred equity interest income associated with its direct real estate investments at Officer and Karratha and \$0.9 million share of development profits from Folkestone's 50 per cent interest in the Officer project.

Mr Paramor said "During the year, significant progress was made with development of Millers Road, Altona North, continued strong sales at our Officer land sub-division in south-east Melbourne, further pre-sales at The Ranges, Karratha and we secured Folkestone's first exposure to the Sydney residential development market through a co-investment in the Folkestone West Ryde Development Fund."

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.

In November 2013, Folkestone announced the commencement of Stage 1 of the Millers Road, Altona North development and the pre-sale of the 21,553 square metre large format retail development to a new unlisted fund – the Folkestone Real Estate Income Fund at Altona North.

The Stage 1 development construction works are well advanced. In August, 2014 Officeworks, together with JB Hi-Fi Home, Repco, PETstock and petVET commenced trading and Bunnings is scheduled to open in late September 2014, after which time settlement with the Fund will occur.

Mr Paramor said "this transaction demonstrates Folkestone's ability to manufacture product for its funds management platform – a key competitive strength given the strong competition for assets in the open market."

Folkestone 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. Settlement with Aldi Stores is subject to the completion of the sub-division of the land which Folkestone expects to occur in the September quarter 2014.

There is a further 7.0 hectares of development land remaining after completion of the Stage 1 development, comprising 2.5 hectares in Stage 2 and 4.5 hectares in Stage 3. Folkestone is actively assessing potential development opportunities for the Stage 3 land including a traditional retail and mixed use scheme.



Potters Grove, Officer

Potters Grove, Officer is a 236 lot land sub-division 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 sub-division and mixed-use developments.

As at 30 June 2014, 98 lots had settled – 55 of these were settled during FY14. A further 55 lots were contracted for sale but yet to settle.

Development of Stage 3a (31 lots) also commenced during the reporting period and as at 30 June 2014, works had reached practical completion. In August 2014, the joint venture secured a construction facility to allow commencement of Stage 3b (28 lots).

As at 21 August, a further 31 lots had settled taking the total number of lots settled in the estate to 129 lots (54.7 per cent of total lots to be developed) and 45 lots (19.1 per cent of the total) had been contracted for sale but not yet settled. The joint venture expects the balance of the remaining lots in the project to be developed and sold by September 2015.

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.

During FY14, 5 of the remaining 41 villas in Stage 1a settled. Marketing continued of the Stage 1b villas and as at 30 June 2014, 18 of the 32 villas in this stage were under contract with construction expected to commence in the first half of FY15.

Folkestone has \$3.4 million in preferred equity loans to the joint venture in addition to its \$1.9 million equity investment. The rate of interest on preferred equity loans was reduced from 25 per cent to 15 per cent with effect from 1 October 2013 to reflect the change in development risk given the completion of Stage 1a.

OUTLOOK

With low interest rates globally, both global and domestic investors continue to search for attractive yield investments, and the Australian real estate market continues to be a key target. Despite the benign demand for space in most office, retail and industrial markets, competition for quality assets with secure income streams remains intense, and as a result, yields on assets continue to compress pushing prices higher. Residential development sites, particularly in Sydney and Melbourne, continue to be in demand.

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

Post 30 June, Folkestone has announced two Melbourne residential land sub-division developments in Truganina and Officer. The Truganina development, an 80/20 joint venture with ID_Land, is a circa 680 lot land sub-division in the fast growing western corridor of Melbourne. Folkestone has established a new Fund called the Folkestone Truganina Development Fund which Folkestone has underwritten and will sell down 80 per cent of the Fund to third party capital and maintain a 20 per cent co-investment in the Fund when the Precinct Structure Plan is approved by the Minister for Planning.



The Officer development is a circa 140 lot land sub-division, located diagonally opposite Folkestone's existing Officer development and therefore allows Folkestone to continue its exposure to Melbourne's south-eastern growth corridor. This development is being undertaken on Folkestone's balance sheet in joint venture with ID_Land.

Mr Paramor said "both recent residential land acquisitions are consistent with Folkestone's strategy to secure off-market development projects in joint venture with quality partners for both its funds management platform and balance sheet."

Mr Paramor said "Folkestone will continue to look for investments primarily through 'off-market' transactions that offer attractive risk-adjusted returns for its investors. Folkestone, with its 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, and invest in select development opportunities on its balance sheet."

GARRY SLADDEN

Non-Executive Chairman

GREG PARAMOR

Managing Director

About Folkestone

Folkestone (ASX:FLK) is an ASX listed real estate funds manager and developer providing real estate wealth solutions. Folkestone's funds management platform, with \$813 million under management, offers listed and unlisted real estate funds to private clients and select institutional investors, while its on balance sheet activities focus on value-add and opportunistic (development) real estate investments. www.folkestone.com.au