

## ASX ANNOUNCEMENT

24 August 2011

### FOLKESTONE CONTINUES WITH ITS REPOSITIONING

- **New board and management team in place and agreed strategy underway**
- **Secured two new real estate development projects in key growth regions**
- **Investment strategies for pre-existing assets determined**
- **Well positioned to capitalise on attractive opportunities**
- **Reported a \$12.2m net loss after tax, substantially due to asset write downs**

Folkestone (ASX: FLK) the listed real estate investment, development and funds management company reported a \$12.2m net loss after tax for the financial year ended 30 June 2011 compared to a net loss after tax of \$3.5m in the previous year.

The result was impacted by the previously reported \$9.7m of asset impairment charges taken on Folkestone's Donnybrook Road, Mickleham (impairment charge \$7.4m) and Millers Road, Altona North, (impairment charge \$2.3m) assets at 31 December 2010. Further impairment charges of \$0.8m (Donnybrook Road, Mickleham \$0.6m, Millers Road, Altona North \$0.2m) were recorded in the six months to 30 June 2011 reflecting further development and holding costs incurred on these projects since 31 December 2010.

Folkestone has been rejuvenated after a successful placement and capital raising completed in May 2011 that raised \$31.5m in gross proceeds. Folkestone is now well capitalised with net assets of \$45.4m and \$27.3m in cash and cash equivalents. This represents 12.2 cents and 7.4 cents per share respectively, as at 30 June 2011. A new board has been constituted with Mr Garry Sladden and Mr Ross Strang joining as Chairman and Non-executive Director respectively, joining Mr Greg Paramor and Mr Hugh Gurner on 9 March 2011. Furthermore the purchase of Equity Real Estate Partners on 1 April 2011 facilitated the addition of new senior management.

The Company has now commenced the implementation of its stated strategy to become a value-add and opportunistic real estate investor, developer and funds manager.

In the four months since the appointment of the new board members and senior management team, the Company has:

- recapitalised the balance sheet by the raising of \$31.5m from the equity markets;

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- expanded the shareholder base with a number of new institutions joining the share register;
- completed on balance sheet real estate investments in two of Australia's fastest growing population regions - Officer in Melbourne and Karratha in the north-west of Western Australia;
- significantly improved processes and procedures; and
- instigated new investment strategies for its three existing assets – Clifton Hill, Altona North and Mickleham.

Mr Garry Sladden, Chairman of Folkestone, commented, "We have been very busy over the last few months establishing the foundations for Folkestone's future growth. Investment markets remain volatile and unpredictable but we are enthusiastic about the opportunities that are appearing in the markets, with some \$27m in cash on our balance sheet, we are well positioned to capitalise on such opportunities".

## **Real Estate Project Update**

Noone Street, Clifton Hill

The residential development at Noone Street, Clifton Hill is proceeding on schedule with 98% of dwellings presold and project completion scheduled for early 2012.

Millers Rd, Altona North

After a strategic review of the Millers Road, Altona North project, an agreement with our joint venture partner has been reached to commence the sub division of the 13.9 hectare parcel of land and the joint venture is pursuing agreements for lease from potential bulky goods retailers. This has the potential to add value to Folkestone's current investment.

Donnybrook Rd, Mickleham

The joint venture in the 320 hectare site at Donnybrook Road, Mickleham is currently implementing works on the site to secure industrial space users. In addition, the joint venture is exploring the potential to pursue rezoning of part of the site from Business 1 and 3 to residential.

The Ranges, Karratha

The Ranges residential accommodation joint venture development in Karratha, Western Australia has sold all of the Stage 1a villas off-the-plan and construction is expected to commence in late 2011. Two further tranches of villas in Stage 1 are forecast to be released later in 2011.

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Princes Highway, Officer

Folkestone's joint venture investment in the 14.1 hectare site in Officer, located in the Cardinia Urban Growth Area in Melbourne is progressing well. The Victorian State Minister for Planning has foreshadowed the imminent approval of the Officer Precinct Structure Plan in late 2011 which is ahead of schedule. First lot sales are now expected to be settled in early 2013.

## **Funds Management Update**

Folkestone's wholly owned real estate funds management business - Equity Real Estate Funds Management (EREFM) continues to work on a number of new initiatives for real estate investment products and services designed for private client investors. EREFM is currently building brand awareness through a series of real estate market seminars to private clients and their advisers and expects to launch product in late 2011 or early 2012 focusing on both an income and growth series of funds.

## **Outlook**

Global financial markets continue to be extremely volatile due to concerns around global economic growth and US and European debt markets. Current investor and consumer sentiment in Australia remains subdued and residential housing markets are relatively benign. Whilst these are uncertain times, opportunities continue to present themselves. Folkestone is well positioned to capitalise on these opportunities given its current cash balance and considerable access to off balance sheet capital, however we remain cautious over the short term and are prepared to be patient.

Folkestone continues to explore opportunistic real estate investments in the residential, commercial and retail markets that offer returns in excess of its target after tax return on equity of 15% per annum. Folkestone is unlikely to pay a dividend in the coming financial year.

Folkestone's Managing Director, Mr Greg Paramor stated, "We are positioning the business to improve shareholder returns by actively managing our existing real estate projects whilst continuing to explore attractive opportunities that are being presented by these challenging markets."

For further information regarding this announcement please contact:

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