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**FOLKESTONE HALF YEAR RESULTS – 31 DECEMBER 2017**

- Statutory net profit after tax of \$9.9 million, up 209.8% on HY17
- Statutory earnings per share of 6.7 cps, up 204.5% on HY17
- Net asset value (NAV) per share of \$1.12, up 4.5% from 30 June 2017
- Gearing of 5.4%, up from 5.2% at 30 June 2017
- Funds under management of \$1.5 billion, up 14.1% from June 2017
- FLK maintains dividend guidance of a fully franked dividend of 3.0 cps in respect of FY18 assuming no material change in market conditions

**FINANCIAL RESULTS**

Folkestone (ASX:FLK) today announced a statutory net profit after tax for the six months ended 31 December 2017 of \$9.9 million, an increase of 209.8 per cent over HY17. Statutory earnings per share are 6.7 cents compared to 2.2 cents for HY17.

Folkestone's Managing Director, Mr Greg Paramor, said "Folkestone's results reflect a very active first half, with positive contributions from both our funds management platform and our development activities."

**ASSET BACKING**

Folkestone's net asset value (NAV) was \$1.12 per share at 31 December 2017, up from \$1.08 per share at 30 June 2017. Net tangible asset (NTA) backing was \$1.09 per share at 31 December 2017 compared with \$1.04 per share at 30 June 2017.

**BALANCE SHEET**

Folkestone's balance sheet is in excellent shape with more than \$30.0 million in available cash and undrawn debt facilities, providing the Company with financial flexibility to take advantage of new investment opportunities when they arise. Gearing remains low despite increasing from 5.2 per cent at 30 June 2017 to 5.4 per cent<sup>1</sup> at 31 December 2017.

**FUNDS MANAGEMENT DIVISION**

Folkestone's funds management division is a specialist real estate funds manager for private clients and select institutional investors. During HY18, Folkestone increased its funds under management from \$1.3 billion to \$1.5 billion, an increase of 14.1 per cent compared to 30 June 2017 and 23.0 per cent compared to HY17.

Total funds management revenue was \$17.8 million, an increase of 139.3 per cent on HY17.

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<sup>1</sup> All debt, with the exception of a \$25.0 million facility (drawn to \$8.5 million at 31 December 2017) is held at the project level in special purpose vehicles. On a look through basis, the gearing is 13.3 per cent.

Key features of the HY18 result are:

- launched three new funds raising \$97.9 million;
- 19.1 per cent increase in recurring fee income and cost recoveries to \$4.4 million;
- \$3.3 million in acquisition fees in respect of the Folkestone Sydney Airport Hotel Fund, Folkestone Green Square Hotel Fund and Folkestone SOP Opportunity Fund;
- \$5.1 million in performance fees in respect of the Wollongong and Sydney Olympic Park Income Funds;
- \$1.5 million leasing fee in respect of the Folkestone CIB Fund; and
- 6.4 per cent increase in distributions to \$2.3 million from FLK's co-investment in the ASX listed Folkestone Education Trust.

### Three New Funds Launched

During HY18, Folkestone generated \$3.3 million in acquisition fees from the launch of three new funds:

- *Folkestone SOP Opportunity Fund*

In July 2017, Folkestone launched the Folkestone SOP Opportunity Fund to acquire 11 Murray Rose Avenue, Sydney Olympic Park. The six level commercial building, which is currently under construction, comprises 5,811 square metres across five levels of office and ground floor retail with basement car parking. Practical completion is forecast to occur in March 2018.

Folkestone received commitments of \$24.7 million from a range of high net worth investors and family offices. Folkestone received an acquisition fee of \$0.7 million on the successful completion of the equity raising in July 2017.

- *Folkestone Sydney Airport Hotel Fund*

In October 2017, Folkestone launched the Folkestone Sydney Airport Hotel Fund to acquire the Mercure Sydney International Airport Hotel. The 271 room hotel, operated by the Accor Group under their Mercure brand, is located approximately 1.0 kilometre from the Sydney Airport International Terminal, 3.0 kilometres from the Sydney Airport Domestic Terminal and 9.0 kilometres from the Sydney CBD. Folkestone plans to undertake an extensive refurbishment and repositioning of the Hotel to drive revenue, increase occupancy and enhance its capital value. The Fund has a target equity IRR of 14.4 per cent per annum (post-fees, pre-tax) over the life of the Fund.

Folkestone successfully completed a \$50.0 million equity raising for the Fund which closed significantly oversubscribed. Folkestone received an acquisition fee of \$1.7 million on the successful completion of the equity raising in November 2017.

- *Folkestone Green Square Hotel Fund*

In November 2017, Folkestone launched the Folkestone Green Square Hotel Fund which will own a 144 room hotel to be constructed at 18 O'Riordan Street, Alexandria, New South Wales. The project was initially secured by Folkestone in November 2016, when it announced that it had entered a 50/50 joint venture with Furnished Property to develop the Hotel. Folkestone and Furnished Property will develop the hotel on behalf of the Fund, with the Fund not taking any development risk.

Folkestone successfully raised \$23.2 million to assist in funding the acquisition of the Hotel. The Fund has a target equity IRR of 12.0 per cent per annum (post-fees, pre-tax) over the life of the

Fund. Folkestone received an acquisition fee of \$0.9 million on the successful completion of the equity raising in December 2017.

Mr Paramor said “we are delighted with the positive response to our new funds, with all three closing oversubscribed. We raised \$97.9 million from high net worth and family office clients, which reflects the strong distribution network we have created over the past few years. We continue to focus on identifying suitable investment opportunities that we can package up into funds to allow our investors access to a range of high quality real estate investments and developments.”

### Performance and Leasing Fees

During HY18, Folkestone generated \$6.6 million in performance and leasing fees from the following funds:

- *Folkestone Real Estate Income Fund at Wollongong*

In October 2017, Unitholders in the Folkestone Real Estate Income Fund at Wollongong voted in favour of the sale the Fund’s sole asset, 43 Burelli Street Wollongong and the windup of the Fund. The property was sold for \$46.1 million, a 67.5 per cent premium to the April 2013 acquisition price (inclusive of capitalised expenditure since acquiring the property). Investors in the Fund received \$1.80 for each \$1.00 invested which represents an internal rate of return of 23.6 per cent per annum (post fees, pre-tax) since inception of the Fund four and a half years ago, compared to the performance hurdle benchmark of 12.0 per cent per annum. As a result of the sale of the asset and the windup of the Fund, Folkestone received a performance fee of \$2.9 million.

- *Folkestone Real Estate Income Fund at Sydney Olympic Park*

In November 2017, Unitholders in the Folkestone Real Estate Income Fund at Sydney Olympic Park voted in favour to extend the Fund term for a further three years to December 2020. The Fund owns 7 Murray Rose Ave, Sydney Olympic Park, a 5,931sqm A-Grade commercial building with 100 per cent of the office space leased to Thales, a leading international electronics and systems group for another five years. Investors in the Fund received a total return since inception of circa 17.2 per cent per annum (post-fees, pre-tax) compared to the performance hurdle benchmark of 10.0 per cent per annum. As a result of the Fund’s extension and outperformance, Folkestone received a performance fee of \$2.2 million.

- *Folkestone CIB Fund*

Folkestone’s CIB Fund owns a portfolio of 9 police stations and 2 courthouses leased to the Victorian Government. As a result of renewing the leases from a common expiry date of 2020 to varying dates between August 2023 and August 2028, Folkestone received a leasing fee of \$1.5 million.

### Folkestone Education Trust

The largest fund managed by Folkestone, the ASX listed Folkestone Education Trust (ASX: FET) increased its gross assets by 5.6 per cent to \$954 million in the six months to 31 December 2017. During HY18, Folkestone generated the following from FET:

- \$3.9 million in fees and cost recoveries charged in accordance with FET’s constitution;
- \$2.3 million in trust distributions received from its 12.1 per cent investment in FET; and
- an unrealised gain of \$2.8 million on its investment in FET as at 31 December 2017.

## DIRECT INVESTMENTS - DEVELOPMENTS

Folkestone's development division generated a net development profit<sup>2</sup> of \$3.1 million, up 9.3 per cent on HY17.

Key features of the HY18 results are:

- \$3.3 million in net development profits from Millers Junction Business at Altona North, Industria at Knoxfield, Northside at Officer and Elements at Truganina (via Folkestone's 18.8 per cent interest in the Folkestone Truganina Development Fund);
- \$0.5 million in preferred equity interest in HY18 from four projects (South Dural, Hornsby, Wollert and Green Square);
- \$0.8 million share of development costs expensed in respect of the South Dural project in New South Wales; and
- continued strong sales and settlements in respect of our residential land projects and enterprise park projects in Melbourne.

Mr Paramor said "we continue to secure strong pre-sales across our active residential and enterprise park (office/warehouse units) developments in Melbourne. Folkestone's strategy to invest in these sectors in Melbourne, continues to be rewarded. Melbourne's strong population, employment and economic growth continues to drive demand for both residential land lots and enterprise park units. We continue to look for opportunities to expand our exposure to these sectors in both Melbourne and in selected areas in Sydney."

The following is a brief update on key achievements for Folkestone's direct investments in HY18.

### Enterprise Parks

Folkestone's three enterprise parks, located in Melbourne at Altona North (Stages 1 and 2), Knoxfield and Nunawading, are all in joint venture with Wilmac Properties.

Settlements and pre-sales continued across all three projects with a total of 28 pre-sales and 29 settlements recorded in HY18. During HY18, Folkestone recognised \$1.1 million in development profits in respect of Millers Junction Business (Stage 1) at Altona North and \$1.4 million from Industria in Knoxfield.

### Residential Land

Folkestone's residential land projects (Potters Northside in Officer, in south-east Melbourne, Elements in Truganina<sup>3</sup>, in western Melbourne and Amber, Wollert<sup>4</sup> in northern Melbourne) are all in joint venture with ID\_Land.

The Melbourne residential land market continues to experience favourable demand and limited supply. During HY18, 160 lots were pre-sold and 124 lots were settled across Folkestone's three projects.

During HY18, Folkestone recognised a \$0.4 million share of development profits in respect of the Potters Northside project and a \$0.5 million share of development profits (net of fund costs) from its investment in the Folkestone Truganina Development Fund.

<sup>2</sup> Net of all project costs incurred during the period and includes development profit, fees, preferred equity income, impairments and rental expenses on operating leases.

<sup>3</sup> Folkestone holds a 18.8 per cent interest in the Folkestone Truganina Development Fund.

<sup>4</sup> Folkestone holds a 25.0 per cent interest in the Folkestone Wollert Development Fund.

In October 2015, Folkestone announced that it had entered into a second 50/50 joint venture with the Lyon Group, in relation to land currently zoned rural in South Dural, in north-west Sydney, to pursue a rezoning to residential. Since 2015, the joint venture has been actively seeking a rezoning of land. However, this process is expected to take significantly longer than originally anticipated and as a result, Folkestone has advised the Lyon Group it does not intend to proceed with the project. The joint venture has a sunset date of March 2019, and Folkestone expects its funds employed to be returned by June 2019. During HY18, Folkestone recognised a \$0.8 million expense relating to the development costs incurred in respect of its interest in the project.

### Residential Town Houses

In September 2017, Folkestone entered into a 50/50 joint venture with ID\_Land to develop 64 townhouses in Hadfield, known as The Walter, 14 kilometres north of the Melbourne CBD. The project has a forecast end value of approximately \$40 million. Settlement of the land occurred in October 2017 and a marketing campaign is currently underway. Construction commenced in November 2017. As at 31 December 2017, a total of 26 townhouses had been pre-sold, representing 40.7 per cent of total townhouses.

Mr Paramor said “in the face of affordability limitations, shifting lifestyle choices and a growing population, townhouse living is becoming more popular in the inner and middle ring suburbs and Folkestone is currently looking at opportunities to further expand its exposure to this sector in both Sydney and Melbourne.”

### Residential Apartments

In HY18, the Folkestone/Lyon Group joint venture settled the acquisition of a commercial building it had under option in Hornsby in Sydney’s north-west. The joint venture has now acquired four sites totalling in excess of 3,200 square metres, strategically located opposite the Hornsby Train Station on the western side and Westfield Hornsby on the southern side.

Master-planning for a mixed-use development, including residential apartments, retail and community uses is ongoing. In December 2017, Hornsby Council adopted the Hornsby Eastside Town Centre Planning Proposal that re-zones B3 Commercial Core to B4 Mixed Use and approved funding to allow for the necessary technical studies to be undertaken to address the matters outlined in the Gateway Determination issued by the NSW Department of Planning and Environment.

### Hotels

In November 2016, Folkestone announced that it had entered into a 50/50 joint venture with Furnished Property to develop a 144 room hotel at Green Square, Sydney. The site, at 18 O’Riordan Street, Alexandria, is located within the \$13.0 billion, 278 hectare Green Square Urban Regeneration Area and is strategically located approximately 120 metres from the Green Square Train Station.

During HY18, Folkestone successfully completed a \$23.2 million equity raising for the Folkestone Green Square Hotel Fund. The equity raised, together with construction finance, will fund the development of the hotel on a fund-through basis reducing Folkestone and Furnished Property’s funds employed to develop the hotel. Construction of the hotel is expected to commence in the June 2018 quarter and is forecast to be completed in the September 2019 quarter.

## OUTLOOK

Folkestone is well placed to continue to build sustainable growth across its funds management and development divisions.

Folkestone continues to assess a number of opportunities that will either be acquired on balance sheet and sold down at a later date to Folkestone funds, or acquired directly by new funds established by Folkestone.

Folkestone's balance sheet is conservatively geared. Combined with its existing cash reserves and undrawn corporate debt facility, Folkestone's ability to recycle capital from projects that are earmarked for new funds or are nearing completion and its extensive distribution network provides it with significant flexibility to continue to execute on its strategy.

Mr Paramor said "Given pricing in certain property sectors and sub-markets are at an all-time high, Folkestone will remain disciplined and patient as it continues to look for investment opportunities across the residential, non-residential and social infrastructure sectors. The focus is to source investments that offer the potential for attractive risk-adjusted returns, to be acquired and/or developed using efficient capital structures (i.e. staged land payments or deferred settlement terms) and where appropriate, can be held in Folkestone managed funds and/or undertaken in joint venture with quality partners."

Whilst as a policy Folkestone does not provide earnings guidance due to the variable nature of its earnings, given the timing of the recognition of \$5.1 million of performance fees in HY18, Folkestone, assuming no material change in market conditions, advises:

- that it expects its statutory net profit after tax to range between \$11.0 million and \$12.0 million for FY18; and
- its current intention to pay a fully franked dividend of 3.0 cents per share in respect of FY18, an increase of 9.1 per cent on the FY17 ordinary dividend.

### GARRY SLADDEN

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### GREG PARAMOR AO

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### 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 \$1.5 billion 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](http://www.folkestone.com.au)