
FOLKESTONE HALF YEAR RESULTS – STRONG GROWTH IN PLATFORM CONTINUES

- Net profit after tax of \$2.0 million¹, up 23.0 per cent on pcp
- Funds under management - \$870 million
- Secured a strategic holding in Folkestone Education Trust
- Folkestone Social Infrastructure Trust unitholders approved a merger with Folkestone Education Trust
- Launched one unlisted real estate development fund
- Completed development of Stage 1 of Millers Junction and entered into JV for Stage 2
- Expanded its residential land exposure in Melbourne
- Entered into JV to option a key development site in north-west Sydney
- Successfully raised \$42 million from a Placement and Entitlement Offer

FINANCIAL RESULTS

Folkestone (ASX: FLK) today announced a net profit after tax for the six months ending 31 December 2014 of \$2.0 million¹ compared to a net profit after tax of \$1.6 million in the prior corresponding period.

Folkestone's Managing Director, Mr Greg Paramor said "the strong result for the first half of FY15 reflects Folkestone's strategy of growing both its funds management platform and its development exposure in both commercial and residential development".

The half year result includes the following material items:

- \$3.1 million of recurring fee income and cost recoveries generated from the Company's funds management platform;
- \$1.1 million of trust distributions received from Folkestone's unitholding in the Folkestone Education Trust (ASX:FET);
- \$0.9 million share of development profits from Folkestone's 50 per cent interest in the Officer project joint venture; and
- \$0.5 million net contribution from completion of the Stage 1 development, sale of land to Aldi and reversal of impairment on the Stage 2 land being developed in joint venture with Wilmac Properties at the Millers Junction project.

¹ The net profit after tax for the consolidated group was \$1.9 million. The consolidated group includes the 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 \$0.1 million from the Fund relating to fund administration costs. 50 per cent of the loss from the Fund (\$0.05 million) is attributable to the other unitholders in the Fund. Therefore, Folkestone's net profit after tax is \$2.0 million after adjusting for 50 per cent of the Fund loss.

Last year's half year result included the following material items:

- \$2.4 million of recurring fee income and cost recoveries generated from the Company's funds management platform;
- \$0.8 million acquisition fee generated from the successful completion of the equity raising for the Folkestone Real Estate Income Fund at Altona North;
- \$0.3 million one off disposal fee in relation to the sale of 100 per cent of the units in the Folkestone Childcare Fund to the Folkestone 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 of development profits from Folkestone's 50 per cent interest in the Officer project joint venture.

Folkestone's balance sheet is in excellent shape with more than \$25 million in cash available for new investment giving it significant capacity to fund business opportunities across both its funds management platform and on-balance sheet direct investments. Folkestone's gearing is 15.0 per cent.

Folkestone's net asset value (NAV) was 16.4 cents per share at 31 December 2014, up from 14.4 cents per share at 30 June 2014. Net tangible asset (NTA) backing was 14.5 cents per share at 31 December 2014 compared with 11.7 cents per share at 30 June 2014. During the reporting period, Folkestone successfully completed a \$42.0 million capital raising which contributed to the 2.8 cents increase in NTA per share from 30 June 2014.

As at 31 December 2014, Folkestone and its associated entities are in full compliance with all of its debt facilities and have sufficient liquidity to fund all of its commitments.

During the reporting period, the Company secured a \$20 million facility from ANZ Bank to assist with the acquisition of units in the Folkestone Education Trust (ASX: FET). The facility is for a term of three years expiring in December 2017 and was fully drawn as at 31 December 2014.

EQUITY RAISING

On 24 November 2014, Folkestone announced a \$42 million equity raising at 20.0 cents per share to take advantage of a number of new development opportunities for its balance sheet and funds management platform and to increase its unitholding in FET.

The equity raising comprised:

- a \$15.8 million placement to existing and new institutional investors; and
- a 1.0 for 4.0 non-renounceable entitlement offer to existing eligible shareholders to raise \$26.2 million.

On 26 November 2014 Folkestone announced the successful completion of the \$15.8 million placement and \$13.0 million of the accelerated institutional component of the entitlement offer. The \$13.2 million retail component of the entitlement offer was successfully completed on 19 December 2014.

Mr Paramor said “We were delighted with the strong support of the recent Folkestone capital raising from existing shareholders and new institutional investors and the additional capital has allowed Folkestone to increase its strategic holding in the Folkestone Education Trust and will allow us to continue to execute on our strategy.”

FUNDS MANAGEMENT

Folkestone’s funds management division (FFM) is a specialist real estate funds manager for private clients and select institutional investors. Since 30 June 2014, Folkestone’s funds under management have increased to \$870 million².

Folkestone Real Estate Income Fund at Altona North

The Folkestone Real Estate Income Fund at Altona North was established in December 2013 and was the third in Folkestone’s real estate income funds series. The Fund entered into an agreement with Folkestone to acquire a 21,639 square metre large format retail centre (Centre) anchored by Bunnings and includes Officeworks, together with JB Hi-Fi Home, Repco, PETstock and petVET. The Centre, called Millers Junction Home, was developed by Folkestone on behalf of the Fund and was completed in September 2014. The Fund acquired the Centre for \$30.4 million (excluding transaction costs) and the final payment made to Folkestone in November 2014.

Mr Paramor said “Millers Junction Home clearly demonstrates the benefit of Folkestone’s platform whereby we have been able to manufacture a quality real estate asset for one of our income funds. Going forward, Folkestone will seek to develop other assets that can be held long-term by one of our income funds.”

Folkestone Real Estate Income Fund at Oxley

The Folkestone Real Estate Income Fund at Oxley acquired a 7,095 square metre neighbourhood retail centre in Oxley, Brisbane in April 2014. Folkestone underwrote the Fund Offer of \$20.55 million, with the final proceeds raised from investors in September 2014, at which time, the last of Folkestone’s underwriting units were redeemed.

Folkestone Truganina Development Fund

The Folkestone Truganina Development Fund is undertaking, in a 80-20 joint venture with ID_Land, the development of a 52.5 hectare residential master planned community in Truganina, one of Melbourne’s fastest growing areas. The project, known as Elements, comprises approximately 690 residential lots and a 3.1ha town centre on land at Doherty Road, Truganina. The land is being acquired on deferred terms with the final land payment due in October 2016. The project was launched in November 2014 and as at 31 December 2014, the joint venture had secured pre-sales of 75 lots (60 contracts and 15 deposits), which represents 10.9 per cent of the total lots within the development. A further 14 lots have been pre-sold since then. Construction of the first lots is forecast to commence in the March 2015.

² As at 18 February 2015



As at the reporting date, the Company held 100 per cent of the units in the Fund, however was in the process of raising \$14.6 million (80 per cent of the Fund) in third party capital for the Fund. As at 18 February 2015, a total of \$11.6 million has been committed from investors and the remaining \$3.0 million is forecast to be raised from investors during the March 2015 quarter. Folkestone has co-invested \$3.65 million (20 per cent) 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 77 per cent (pre-tax, net of fees).

Folkestone Education Trust

In December 2014, unitholders of the ASX listed Folkestone Social Infrastructure Trust (ASX:FST) voted in favour of a merger with the ASX listed Folkestone Education Trust (ASX:FET). The merger was implemented on 6 January 2015.

FET performed strongly in the six months to December 2014, generating a total return of 25.0 per cent compared to the S&P/ASX 300 A-REIT Accumulation Index of 12.7 per cent. Over the 5 years to 31 December 2014, FET was the best performing A-REIT with a total return of 43.2 per cent p.a. compared to the Index of 12.0 per cent p.a.

Folkestone continued to acquire a strategic stake in FET in the second half of 2014 and as at 31 December 2014 held 15.1 per cent of FET's units. Following the merger between FET and FST on 6 January 2015, Folkestone's holding in FET was 12.8 per cent³.

DIRECT INVESTMENTS

During the six months to 31 December 2014, Folkestone continued to execute on the strategies for its existing on-balance sheet development opportunities and also announced a number of new developments. Folkestone's existing development book has a forecast completion value of more than \$347 million⁴, and has a further six projects under exclusive due diligence comprising more than \$600 million⁴ in forecast completion value.

Mr Paramor said "Folkestone continued to expand its exposure to both commercial and residential development projects with quality partners for both its balance sheet and funds management platform. During the past six months, we secured development projects in key locations in both Sydney and Melbourne, and we continue to look for opportunities in these locations as well as in Brisbane".

The following is a brief update on Folkestone's Direct Investments during the reporting period:

Millers Junction, Altona North

The Millers Junction site 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.

³ Excludes units in FET held by the Folkestone Maxim A-REIT Securities Fund

⁴ Folkestone's share of each of project



In September 2014, Folkestone completed the development of Stage 1 of the project which had been pre-sold to the Folkestone Real Estate Income Fund at Altona North. The final payment to Folkestone by the Fund for the development was made in November 2014. Stage 1, known as Millers Junction Home, comprises a 21,639 square metre large format retail centre anchored by Bunnings and includes Officeworks, together with JB Hi-Fi Home, Repco, PETstock and petVET.

In December 2014, Folkestone settled the sale of 8,063 square metres of land to Aldi Stores for a 1,600 square metre supermarket which adjoins the Stage 1 development.

In September 2014, the Company announced it had entered into a 50-50 joint venture with Wilmac Properties to develop Stage 2 of the site. The joint venture will develop approximately 60 strata style office/warehouse mews on the 2.5 hectare site with an anticipated end value of approximately \$30.0 million. Wilmac Properties will manage delivery of the project on behalf of the joint venture. Marketing of the mews has commenced with construction forecast to commence in mid-2015.

Folkestone is currently master-planning a further 4.4 hectares of development land, known as Stage 3, on the northern side of Cabotts Drive.

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 development company specialising in land subdivision and mixed-use developments.

As at 31 December 2014, 157 lots had been settled and 59 of these were settled during the current reporting period. A further 58 lots have been contracted for sale but are yet to settle. Development of Stage 3b (28 lots) commenced during the reporting period and as at 31 December 2014, works had been completed. Development of Stage 4 (46 lots) and Stage 5 (36 lots) also commenced during the current reporting period and are forecast to be completed by the June quarter 2015 and September quarter 2015 respectively.

As at 18 February 2015, the total number of lots settled across the entire project was 158 lots (66 per cent of the total lots to be developed) and 62 lots (26 per cent of the total) had been contracted for sale but not yet settled. There are a further 20 lots to be sold to complete the project.

Northside, Officer

In August 2014, the Company announced that it has acquired, in a 50-50 joint venture with ID_Land, a call option over 8 hectares of land in Officer, south-east Melbourne. The land is located on the northern side of the Princes Highway in Officer, diagonally opposite Folkestone and ID_Land's current 240 lot residential land sub-division project known as Potters Grove. The zoned site has been purchased on deferred terms with development planning currently underway. The project comprises approximately 140 lots with an



estimated end value of \$28 million. Development is expected to commence in the first half of FY16 following completion of the Potters Grove project.

Lyon Group Joint Venture

In December 2014, the Company announced that it has entered into a 50-50 joint venture with the Lyon Group Australia, a leading Sydney developer, to develop a strategically located, mixed use site opposite one of the major train stations in Sydney's north-west. Folkestone has agreed to contribute circa \$2.2 million in a series of payments to the joint venture to fund option agreements over two commercial buildings. Under the agreement, the JV will also seek to consolidate a number of adjoining land parcels to unlock a significant mixed-use development opportunity in this key location.

The Ranges, Karratha

The Ranges is located 1.5 kilometres from Karratha's CBD and Folkestone holds a 25 per cent interest in the project. Stage 1 comprises 2.2 hectares with a "Tourism" zoning and DA approval for 108 single level, one bedroom villas with pool and BBQ facilities. Stage 1a comprising 41 villas is operational.

In August 2014, the joint venture secured a finance facility for the development of Stage 1b (32 lots). Construction of Stage 1b commenced in November 2014 with completion forecast in the June quarter 2015. All 32 lots have been pre-committed. Folkestone has \$3.5 million in preferred equity loans to the joint venture in addition to its \$1.9 million equity investment.

OUTLOOK

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 to selectively invest into higher return residential and non-residential developments for its on-balance sheet investments and to seed and/or co-invest, in its development funds.

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 \$870 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

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