
FOLKESTONE HALF YEAR RESULTS – CONTINUE TO DELIVER ON STRATEGY

- Net profit after tax of \$3.0 million¹, up 53.6% on HY15
- Earnings per share of 2.0 cents, up 11.1% on HY15
- Net asset value (NAV) per share of 91.6 cents, up 17.3% on HY15
- Funds under management of \$964 million, up 10.8% on HY15
- Completed the West Ryde residential apartment development - generating a 79% return on FLK's equity
- Acquired a 50% interest in two residential development opportunities in Sydney and Melbourne
- Secured strong pre-sales across FLK's active developments
- Folkestone Education Trust performed strongly with a total return of 11.0% compared to the benchmark² of 7.2% and contributed \$4.6 million in management fees/distributions and \$3.6 million in unrealised gains to FLK on its unitholding

FINANCIAL RESULTS

Folkestone (ASX:FLK) today announced a net profit after tax for the six months ended 31 December 2015 of \$3.0 million¹ compared to a net profit after tax of \$1.96 million in the prior corresponding period, a 53.6 per cent increase over the prior corresponding period. This represents basic earnings per share of 2.0 cents, compared with 1.8 cents³ for the prior corresponding period.

Folkestone's Managing Director Mr Greg Paramor said "the positive result for the first half of FY16 reflects strong contributions from both our funds management platform and our on-balance sheet development activities. It also reflects our disciplined approach to implement

¹ The net profit after tax for the consolidated group was \$6.6 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 profit of \$7.2 million from the Fund relating to its share of development profits recognised during the period net of fund administration costs. 50 per cent of the profit from the Fund (\$3.6 million) is attributable to the other unitholders in the Fund. Therefore, Folkestone's net profit after tax is \$3.0 million after adjusting for 50 per cent of the Fund's profit.

² S&P / ASX300 A-REIT Accumulation Index – Six months to December 2015

³ Comparative numbers have been adjusted to reflect the impact of the 1:5 share consolidation completed during the period



our strategy in an environment where capital is abundant and competition for assets is driving prices close to cyclical highs in many sectors”.

The half year result includes the following material items:

- \$3.2 million of recurring fee income and cost recoveries generated from the Company’s funds management platform;
- \$2.1 million of distributions received from Folkestone’s unitholding in the Folkestone Education Trust (ASX:FET);
- a \$0.5 million profit contribution from Folkestone’s 50 per cent interest in the Officer project joint venture;
- a \$4.9 million profit contribution from the West Ryde project comprising a \$3.3 million share of development profits pre-tax, net of fund administration costs and a \$1.6 million performance fee payable by the Fund to Folkestone;
- a (\$1.2) million impairment provision against the Company’s investment in the Karratha project; and
- (\$0.7) million in due diligence costs on new project opportunities including seniors living opportunities which are under exclusive due diligence.

Folkestone’s balance sheet is in excellent shape with more than \$20 million in funds available for new investment and gearing of 4.8 per cent⁴ at 31 December 2015.

Mr Paramor said “Folkestone’s strong cash position and relatively low gearing gives us significant capacity to fund business opportunities across both our funds management platform and on-balance sheet investments”.

Folkestone’s net asset value (NAV) was 91.6 cents per share at 31 December 2015, up from 87.5 cents per share at 30 June 2015 (restated from 17.5 cents per share to account for the 1:5 share consolidation which was completed during the current reporting period). Net tangible asset (NTA) backing was 83.3 cents per share at 31 December 2015 compared with 77.0 cents per share at 30 June 2015 (restated from 15.4 cents per share to account for the 1:5 share consolidation which was completed during the current reporting period).

⁴ All debt, with the exception of the facility for the FET units is held at the project level in special purpose vehicles. On a look through basis, the gearing is at 8.2 per cent.



FUNDS MANAGEMENT

Folkestone's Funds Management division is a specialist real estate funds manager for private clients and select institutional investors. Since June 2015, Folkestone has increased its funds under management from \$917 million to \$964 million.

The following is a summary of the key achievements across the platform in HY16:

Folkestone West Ryde Development Fund

The Folkestone West Ryde Development Fund has completed, in a 50/50 joint venture with the Toga Group, a 229 residential development project located at West Ryde, Sydney known as Central Square. Construction was completed in June 2015 with 64 apartments settled at 30 June 2015. During the current reporting period, the balance of 165 apartments settled.

In September 2015, investors in the Fund received a distribution of \$1.50 per unit following completion of the project with a further minor distribution forecast to be made upon the expiration of the defects liability period. The Fund's forecast equity IRR has increased from 18 per cent to 30 per cent and the forecast return on equity has increased from 32 per cent to 50 per cent (pre-tax, net of fees).

Folkestone co-invested \$8.7 million in the Fund. Folkestone has generated a return on equity of 79 per cent over the life of the Fund including \$0.9 million in acquisition and management fees, a \$1.6 million performance fee earned in HY16 and a net profit before tax of \$4.4 million on its investment in the Fund of which \$3.3 million was earned in this reporting period.

Folkestone Truganina Development Fund

The Folkestone Truganina Development Fund is undertaking, in a 80/20 joint venture with ID_Land, the development of a 707 lot residential master planned community in Truganina, one of Melbourne's fastest growing suburbs. The joint venture has continued to see strong pre-sale activity, with 352 pre-sales at 31 December 2015, twice the number forecast in the base case feasibility. Settlement of all 98 lots in Stages 1 and 2 are forecast to be completed during the March 2016 quarter.

As a result of the strong pre-sales achieved to date, the joint venture has elected to bring forward both the selling and construction of further stages. In October 2015, the Fund raised \$2.5 million via a loan note offer to Fund investors in conjunction with \$2.5 million from Folkestone on an at-call basis. The notes offer closed significantly oversubscribed. The funds raised have been loaned to the joint venture to accelerate Stages 3 to 5 of the project. The parcel of land required to develop Stages 3 to 5 comprising 142 lots was settled in



December 2015 at which time development commenced. Completion of these stages is forecast to occur in March 2016 with settlements to occur shortly thereafter.

Folkestone has also co-invested \$3.4 million (18.8 per cent) in the Fund. Due to the acceleration of the project, the Fund's current forecast equity IRR has increased from 18 per cent to 20 per cent per annum (pre-tax, net of fees) on drawn equity.

Folkestone Education Trust

The ASX listed Folkestone Education Trust (ASX:FET) continued to deliver on its stated strategy of owning a quality portfolio of early learning centres with an active period of acquisitions, developments and the disposal of a number of smaller centres. As at 31 December 2015, FET owned 396 properties and had gross assets of approximately \$709 million.

FET generated a total return of 11.0 per cent during the half year to 31 December 2015 substantially outperforming the S&P/ASX 300 A-REIT Accumulation Index which returned 7.2 per cent.

As at 31 December 2015, Folkestone held 12.8 per cent of FET units on issue (excluding units held in FET by the Folkestone Maxim A-REIT Securities Fund), valued at \$71.4 million. Folkestone earned \$4.6 million in fees and distributions from FET and generated an unrealised gain of \$3.6 million after tax on its investment in FET during the current reporting period.

DIRECT INVESTMENTS

During the six months to 31 December 2015, Folkestone continued to execute on the development strategies for its existing on-balance sheet investments and also announced a number of new investments.

Mr Paramor said “we continue to secure strong pre-sales across our development activities. Our residential land and commercial developments in Melbourne are in the key growth corridors of Melbourne and are performing strongly. We have also secured key residential and mixed-use sites in north-west Sydney, that once planning approvals have been achieved, will provide strategic development opportunities in one of Sydney’s fastest growing corridors.”

The following is an update on key activities in Folkestone’s Direct Investments during the reporting period:



Millers Junction Business, Altona North

In September 2014, the Company announced it had entered into a 50/50 joint venture with Wilmac Properties to develop 74 strata style office/warehouse mews in Stage 2 of Millers Junction in Altona North. As at 31 December 2015, 73 per cent of units released to the market had been pre-sold. Construction of Stage 1 (29 mews) commenced in September 2015 and is forecast to be completed in the September 2016 quarter. With the strong level of pre-sales secured to date, construction of Stage 2 (14 units) is forecast to commence in the March 2016 quarter.

As at the reporting date, Folkestone's funds invested in this project were \$2.0 million with a further \$0.5 million in funds forecast to be invested to complete the project.

Industria, Knoxfield

In May 2015, Folkestone entered into a second 50/50 joint venture with Wilmac Properties to develop 88 strata office/warehouse/retail mews in Knoxfield, Victoria with an anticipated end value of \$31 million.

Marketing of Stage 1A (12 mews) of the project commenced in the current reporting period with a total of 6 pre-sales secured at 31 December 2015 with a further 2 pre-sales secured since this time. The total pre-sales secured to date is sufficient to commence development of Stage 1A immediately after settlement of the land in March 2016 which was purchased on deferred terms.

As at the reporting date, Folkestone's funds invested in this project were \$0.4 million with a further \$1.7 million in funds forecast to be invested to complete the project.

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 to develop a 240 lot land subdivision.

As at 31 December 2015, 236 lots had been settled, with 38 of these settled during the current reporting period. A total of 4 lots were unsold at reporting date and as at the date of this announcement, 3 of these lots have now been contracted for sale leaving 1 lot to sell. The project has delivered Folkestone an equity IRR of 26.8 per cent on funds invested and a total return before tax of \$4.5 million.

As at the reporting date, Folkestone's remaining funds invested in this project were \$0.5 million.

Northside, Officer

In August 2014, Folkestone acquired, in a 50/50 joint venture with ID Land, Northside, Officer to develop a circa 140 lot land subdivision diagonally opposite Folkestone and ID_Land's Potters Grove development. The zoned site has been purchased on deferred terms and settlement of the first tranche of land (3.6 hectares) took place on 25 August 2015. Development of the first stages of the project commenced in the December 2015 quarter and the 64 per cent of pre-sales secured to date remains ahead of program.

As at the reporting date, Folkestone's funds invested in this project were \$2.1 million with a further \$1.2 million in funds forecast to be invested to complete the project.

Wollert, Victoria

In December 2015, Folkestone announced that it had entered into a fourth joint venture with ID_Land, to develop a 48 hectare residential master-planned community in Wollert in Melbourne's rapidly growing Northern Growth Corridor. Wollert is located in the City of Whittlesea, approximately 25 kilometres north of the Melbourne CBD and is ideally positioned between Craigieburn and Mernda.

The project is located within the Wollert Precinct Structure Plan (PSP) which is expected to receive Government approval in 2016. The project will encompass more than 500 residential lots, with an on completion value of approximately \$120 million. The land is being acquired on a staged settlement basis with a series of payments required between December 2015 and 2019. Following the PSP approval, Folkestone and ID_Land anticipates to sell down part of their investment in the project to third party investors consistent with the process for the Folkestone Truganina Development Fund.

As at the reporting date, Folkestone's funds invested in this project were \$2.7 million with a further \$0.3 million in funds forecast to be invested to achieve the rezoning of the site.

South Dural, New South Wales

In October 2015, Folkestone announced that it had entered into a second 50/50 joint venture with the Lyon Group Australia, to acquire development rights over 59.7 hectares of land which is currently owned or under option by an entity associated with the Lyon Group in South Dural. South Dural is strategically located between the rapidly growing suburbs of Glenhaven and Kellyville and the established areas of Castle Hill and Cherrybrook in Sydney's north-west.

The joint venture is seeking the rezoning of South Dural which comprises approximately 240 hectares, including the land over which it has development rights, to facilitate residential and



mixed use development in an integrated manner under the NSW Government's Gateway Determination dated 4 March 2014. The joint venture has been appointed as Preferred Developer Proponent by the South Dural Residents and Ratepayers Group and is working collaboratively with Hornsby Shire Council and the NSW State Government to have South Dural rezoned.

As at the reporting date, Folkestone's funds invested in this project were \$5.9 million with a further \$0.6 million in funds forecast to be invested over the next 12 months to fund costs associated with the rezoning.

The Ranges, Karratha

Folkestone holds a 25 per cent interest in 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. Stage 1a which comprises 41 villas opened for trade in December 2012.

During the current reporting period, construction of Stage 1b (32 villas) was completed. As at 31 December 2015, 12 settlements of Stage 1b villas had completed with a further 4 settlements due to be completed in the March 2016 quarter. The remaining 16 villas will be acquired by the various joint venture partners in the project with Folkestone agreeing to acquire a total of 4 villas. Settlement of these villas is forecast to be completed in the March 2016 quarter.

Folkestone has completed a review of the carrying value of its investment in this project which has been referenced by updated third party valuations which have been completed following the completion of Stage 1b. As a result of this process, and in response to the current economic conditions in the region, Folkestone has made a further \$1.2 million provision against the carrying value of its investment in the project. As at the reporting date, Folkestone's funds invested in this project were \$3.3 million.

SENIORS LIVING PLATFORM

In November 2015, Folkestone announced the appointment of Stuart Nicolson as CEO of Seniors Living to drive Folkestone's development of a seniors living platforms, including retirement villages and aged care facilities.

Mr Paramor said "the move into seniors living is a natural extension of our strategy to be a key player in the social infrastructure space."

Folkestone is in exclusive due diligence on a number of retirement villages and aged care facilities which we expect to conclude during the second half of FY16.

OUTLOOK

Looking forward, Folkestone will continue to be disciplined in seeking new opportunities that offer appropriate risk adjusted returns. Folkestone will focus on:

- the east coast markets for both residential and non-residential investment opportunities;
- delivering our diverse development pipeline which has an end value of more than \$1.6 billion (Folkestone's share \$782 million) and securing more than \$365 million (Folkestone's share \$217 million) currently under exclusive due diligence;
- expanding our exposure to real estate related social infrastructure, especially early learning and seniors living - the demographic tailwinds are compelling;
- seeking opportunities where we can manufacture quality investment product rather than relying on entering a competitive tender process to acquire completed assets on market;
- undertaking accretive, opportunistic development projects, particularly residential, commercial, retail and seniors living, for Folkestone's on-balance sheet investments, including the seeding of and/or co-invest in development funds.

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.

Since the recapitalisation of the Company in March 2011, the Company has focussed on increasing its recurring income so that it provides a stable funding source for the payment of the fixed operating costs of the business. Given the growth in our recurring income, our strong balance sheet and assuming no material change in market conditions, Folkestone confirms its prior advice that it expects to pay a fully franked dividend of at least 2.5 cents per share in respect of FY16.

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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 \$964 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