

Folkestone

ASX ANNOUNCEMENT

22 February 2012

FOLKESTONE HALF YEAR RESULT REFLECTS CONTINUED IMPROVEMENT AND GROWTH

- **Significant improvement in net profit to \$0.7 million for half**
- **NTA increased to 12.1 cents per share during the half year**
- **PottersGrove, Officer land rezoning gazetted**
- **All existing debt successfully refinanced**
- **New \$18.3 million construction finance facility executed for Karratha JV**
- **Share buyback launched**
- **Market uncertainty continues to create opportunities**

Folkestone Limited (ASX: FLK) today announced a net profit after tax for the six months ending 31 December 2011 of \$0.7 million compared to a net loss after tax of \$10.2 million in the previous corresponding period.

FINANCIAL RESULTS

Folkestone's profit included \$1.1 million in development profits from its Noone Street, Clifton Hill project and a \$0.8 million reversal of part of the prior year impairment regarding Folkestone's 20.0 per cent interest in the Donnybrook Road, Mickleham project. The Donnybrook Road, Mickleham reversal of impairment was made with reference to the most recent external valuation of the asset prepared for the refinancing of the senior debt facility in December 2011. This is in contrast to last year's half year result which included \$9.7 million of non-cash provisions against the carrying values of the Donnybrook Road, Mickleham and Millers Road, Altona North assets.

As at 31 December 2011 Folkestone had \$24.6 million in cash or cash equivalents on its balance sheet and continues to be proactive in sourcing and reviewing both real estate and corporate opportunities. Net tangible assets per share increased from 11.9 cents per share at 30 June 2011 to 12.1 cents per share at 31 December 2011.

Despite challenging markets Folkestone successfully renegotiated all of the following debt facilities during the half year:

- the finance facility for Noone Street, Clifton Hill project was extended to 29 February 2012 and fully repaid on 5 January 2012 out of the proceeds of sale of the Stage 5 townhouses and apartments;

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- the finance facility for the Donnybrook Road, Mickleham project was successfully refinanced on 20 December 2011 and required the joint venture to inject \$15.3 million of further equity into the project – Folkestone’s contribution for its 20.0 per cent interest was \$3.1 million bringing Folkestone’s equity in the project to \$10.0 million. The new facility expires on 20 December 2014; and
- the finance facility for the Millers Road, Altona North project was extended until 30 November 2012.

Post 31 December 2011 The Ranges, Karratha joint venture executed a construction finance facility of \$18.3 million for Stage 1a of the project, with construction expected to commence in February 2012.

REVIEW OF REAL ESTATE PORTFOLIO

PottersGrove, Officer

Folkestone’s 50.0 per cent joint venture investment in the Princes Highway, Officer residential development now known as PottersGrove was rezoned to residential on 23 December 2011 and gazetted on 12 January 2012. Under the terms of the joint venture, the balance of Folkestone’s equity investment (\$5.6 million) in this project is due for payment on 10 July 2012. PottersGrove, Officer is a 14.1 hectare site offering affordably priced residential land packages located in the Cardinia Urban Growth Area in Melbourne's south-east growth corridor. Forecast sales for the development are expected to commence settling in early 2013.

The Ranges, Karratha

Folkestone’s 25.0 per cent interest in The Ranges, Karratha joint venture continues to make strong progress. Stage 1 comprises 2.2 hectares with a “Tourism” zoning and DA approval for 108 single level, one bedroom villas with shared guest facilities including a pool and BBQ area. As previously announced the joint venture has sold all 41 dwellings in Stage 1a and an additional 13 dwellings from Stage 1b. A formal marketing campaign for the balance of 54 dwellings in Stage 1 is due to commence in mid 2012.

Site preparation works have commenced and a construction contract has been executed with a WA based group whose principals have more than 25 years of experience in residential and commercial construction in the Pilbara and Kimberly Regions of Western Australia.

Donnybrook Rd, Mickleham

Folkestone, in conjunction with AMP Capital Investors, its joint venture partner, has been actively exploring ways to enhance the value of this site. The joint venture has determined a new masterplan for the site and a rezoning application has been submitted to Hume City Council detailing approximately 60 hectares of residential land. Should the joint venture be successful with this new masterplan it is expected to significantly enhance the value of Folkestone’s 20.0 per cent share of the project.

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Millers Road, Altona North

Following a strategic review the joint venture determined to commence construction of an internal road and progress the subdivision process to significantly improve access to the land and provide a catalyst to attract tenant commitments. Civil works have commenced to create up to three serviced super-lots and unlock the access to the site. As a result, tenant enquiry levels have increased with 88.0 per cent of Stage 1 space under negotiation with a range of leading bulky good businesses who wish to be located in Melbourne's western corridor.

Noone Street, Clifton Hill

The last remaining unsold townhouse was sold in November 2011. To date 66 or 76.0 per cent of the 87 dwellings have settled. The balance of dwellings are on track for completion and settlement in the first quarter of 2012. It is expected that cash proceeds to Folkestone from the project will be approximately \$9.0 million over the current financial year.

Garry Sladden, Folkestone's Chairman said that, "we are very pleased with the progress made on our direct investments and expect to see increasing volumes of real estate opportunities in the coming year that will meet our target return on equity."

SHARE BUYBACK

Folkestone's share buyback was launched on 30 January 2012 consistent with the announcement made on 22 December 2011. The Company can buyback up to 9,969,923 shares without obtaining shareholder approval. The Board is committed to actively managing Folkestone's capital and believes the buyback provides the opportunity to repurchase shares at attractive levels which will be value accretive to Folkestone shareholders.

The Board will continue to assess the merits of this capital management initiative given that the Company has in excess of \$20.0 million in cash on its balance sheet and no corporate debt. The Company reserves the right to suspend or terminate the share buyback program at any time and to buyback less than 9,969,923 shares.

OUTLOOK

Folkestone is actively looking for, and analysing, real estate and corporate opportunities and the creation of new funds in 2012 under the Company's rebranded real estate funds management business, Folkestone Funds Management.

Folkestone believes the significant upheaval in financial markets will create an increasing number of attractive opportunities in the residential and non-residential sectors during the next 12 months.

Folkestone expects to see continued volatility in local and international markets and continues to monitor the state of the domestic real estate markets closely.

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Greg Paramor, Folkestone's Managing Director stated that, "we remain disciplined around our assessment of value and risk and we are well placed to capitalise on any opportunities due to our liquid balance sheet and access to off balance sheet capital."

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About Folkestone

Folkestone is an ASX listed real estate investment, development and funds management company. Folkestone's on balance sheet activities focus on value-add and opportunistic real estate investments and its funds management platform offers funds to private clients, high net worth individuals and select institutional investors.