



## **FKP PROPERTY GROUP**

comprising FKP LIMITED ABN 28 010 729 950 and  
FKP PROPERTY TRUST ARSN 099 648 754  
the responsible entity of which is FKP FUNDS  
MANAGEMENT LIMITED  
ABN 17 089 800 082, AFS Licence number 222273

## **ASX ANNOUNCEMENT**

**Date** 28 November 2008

**Subject** **Chairman's Address at 2008 AGM**

### **INTRODUCTION**

On behalf of the Board I would like to thank you for attending our Annual General Meeting today.

Some of you may have attended on previous occasions while others may be here for the first time.

One thing we can all acknowledge is that we are here in what are very different market and economic conditions than in previous years. Recent events have caused turmoil in financial markets across the world and the share price in almost every company with property investments has plunged.

I am sure many of you here are seeking further information in relation to the steps that we have - and are taking - to steer our way through what is happening in the market.

Steps that - we believe - will ultimately generate value for FKP security holders.

I can assure you that we too have been concerned by what has happened to our share price.

But given the context in which the falls have taken place, we believe these changes are driven by market-wide sentiment.

They are not a reflection of any major change in the underlying asset value of FKP.

FKP continues to be one of Australia's leading diversified property groups and is Australia's largest owner / operator of retirement villages.

FKP also possesses an attractive land and development pipeline that will underpin our earnings growth in future periods.

Reading the newspapers I can understand that sometimes you may think otherwise about FKP.

Today I hope to shed some light on some incomplete and inaccurate reports that you may have read about FKP over the past months.

To put things in context - let me tell you about the events leading up to these reports.

## **LEND LEASE APPROACH**

In late May we received an unsolicited, incomplete and highly conditional approach from Lend Lease.

That incomplete approach sought to acquire securities in FKP for \$4.60 per security by an unspecified mix of cash and Lend Lease shares. The Board unanimously rejected that proposal.

A further approach was received from Lend Lease in mid-June. That approach sought to acquire FKP securities for \$5.00 per security by a 50:50 mix of cash and Lend Lease shares.

Each of the Lend Lease approaches was incomplete in a number of areas and subject to a significant number of conditions. It is very important for security holders to understand that neither approach was an offer that could have been accepted by the Board, even if the Board had been inclined to do so.

I mentioned before that each approach was subject to a range of conditions. Of particular concern to the Board was the condition that Lend Lease conduct due diligence on FKP without a firm price being agreed beforehand.

Opening the FKP books in the absence of a firm offer would not have been either prudent or appropriate.

At the time of receipt of each approach the FKP Board determined that each approach considerably undervalued the underlying assets of FKP.

There were two important reasons why \$5.00 per security was not a reflection of the underlying asset value of FKP at that time.

I thought it would be valuable to share these reasons with you today.

Firstly - at 31 December 2007 our stated Net Tangible Assets was \$4.96 per security. However, this stated Net Tangible Asset value did not take into account the portfolio value of our retirement villages, the value of the retirement development pipeline nor the market value of our land and development inventory.

Trading stock is required to be held in the accounts at historical cost – even if the market value is higher – which is the case with a number of FKP land and development assets.

Secondly - the approach by Lend Lease did not include any intangible value attributable to the FKP business – especially our retirement assets.

Taking these fundamentals into account, the value placed on FKP securities by the Lend Lease approaches was judged, at the time, to be clearly inadequate.

At the time the Lend Lease approaches were received the Directors were aware that the underlying Net Tangible Asset value per security was higher than the figure stated in the accounts for the reasons I have given.

Subsequent to the receipt of the approaches, detailed work was done to distil those values. This led to our announcement in August that if the components of commercial value I have just referred to could be recognised on the balance sheet,

the estimated market net tangible asset (tax effected) value of the Group's securities was in the order of \$6.00 per security.

Based on these value fundamentals and the highly conditional nature of the approaches - the Board made the unanimous decision that each approach was inadequate. And as I mentioned before, the approaches were not offers that could have been accepted in any event.

This did not mean that the Board did not continue discussions with Lend Lease.

In fact over the days and months that followed such discussions between FKP and Lend Lease did continue.

FKP sought to be both proactive in these discussions - but also protective of the value of FKP assets – that is, we sought to achieve value for FKP assets but not allow Lend Lease to undertake due diligence in the absence of a firm offer.

Discussions between FKP and Lend Lease continued throughout June and concluded as recently as last month - October.

Despite these ongoing discussions at no time did Lend Lease make an offer and at no time did the Board have an offer that could be taken to you - our security holders.

While we did not receive an offer, at no time were Lend Lease prevented from making an offer directly to security holders at \$5.00 per security should they have been inclined to do so.

I can assure you that with a number of major security holders represented on the Board at the time - the interests of the Directors were well and truly aligned with those of other FKP security holders.

The media reports and market rumours - that I am sure many of you heard and read - gave a very different impression of the standing and circumstances of the Lend Lease approach.

There is no doubt that these reports and rumours had a considerable negative impact on the FKP share price - an impact that you and your Directors continue to feel.

I trust that the information I provide you with today clarifies and corrects the misinformation circulated at that time.

I am also pleased that the Federal Government - through a newly announced review of the integrity and transparency of the Australian share market - has recognised that there is an urgent need to address the spreading of false market rumours to ensure shareholders like you have access to accurate market information.

## **SECURING THE VALUE OF FKP**

I would now like to take you through developments that have taken place since the Lend Lease approaches.

Our funding plans for the 2008/2009 financial year assumed the receipt of proceeds from sales of a number of developments and trust assets for which terms had been agreed.

In late May we were also in the advanced stages of launching a new wholesale fund. We were also exploring a number of other initiatives including joint venture discussions over some of our development sites.

While that was happening we received the approaches from Lend Lease.

When a number of sales fell over because buyers could not obtain finance due to the tightening of bank credit policies, and the uncertainty about the Lend Lease situation meant that we were unable to pursue the launch of our proposed wholesale fund, the company needed to act to restore this liquidity.

In these circumstances your Board undertook a number of initiatives to strengthen your company's capital position.

I will deal with each of these initiatives in turn.

### **STOCKLAND PLACEMENT**

On 15 October we conducted a placement to Stockland at \$2.00 per security.

The placement price of \$2.00 per security was not a reflection of your Directors' assessment of the value of FKP securities, but rather was a function of the trading price at the time the placement was made.

This placement in fact occurred at a premium of thirty three per cent to the previous closing price.

I recognise that placements at below Net Tangible Asset value do dilute existing security holders – but in this case the placement was for a modest amount and the dilution of Net Tangible Asset value per security was from \$5.04 to \$4.85.

The Board believed that that this modest level of dilution was outweighed by the benefits to FKP of having a company of the calibre of Stockland as a strategic investor.

### **CAPITAL RAISING**

As you know, the sharp deterioration in the global financial environment has had adverse consequences for the operation of credit markets worldwide.

With debt markets closed in practice, and asset sales very difficult to rely on, we - like many of our peers – initiated a capital raising via a rights issue.

We decided that a small capital raising underwritten by two of our major security holders was the best course of action.

Once again it is important to recognise that the entitlement offer pricing of \$1.50 per security was a factor of the prevailing FKP security price.

It is not reflective of your Directors' assessment of the value of the underlying assets of FKP.

The continued market volatility has meant that many security holders like you have naturally chosen not to take up the entitlement offer.

However the securing of strong commitments from both Mulpha and Stockland has meant that \$133million has been raised from the placement and the capital raising.

The funds from the capital raising are being received by FKP today. They will assist in funding our committed land and development pipelines.

These projects include the Energex Building at Newstead Riverpark and the SL8 apartments at West End here in Queensland, as well as our land project at Point Cook in Victoria.

Peter Brown will in his presentation provide you with further details in relation to FKP's capital position.

## **STRATEGIC REVIEW**

FKP has an excellent record of buying and selling assets.

This recycling of capital has been part and parcel of FKP's strategy and has resulted in the establishment of entities such as the Retirement Villages Group wholesale fund. The establishment of RVG created a natural purchaser of FKP's retirement assets in the future. RVG is not however currently in the market to acquire significant assets.

With this in mind and with a desire to demonstrate value for our security holders, FKP has entered into a strategic review which enables exploration of further opportunities to unlock value in FKP assets – a review which has a focus on the recycling of our retirement assets.

The strategic review includes an agreement with Stockland. There are a number of important aspects of this agreement that I would like to highlight.

We have granted Stockland a first right to acquire and a two month period of exclusivity in relation to a purchase of some or all of FKP's retirement assets.

Providing exclusivity to Stockland in relation to FKP's retirement assets does not prevent other parties putting forward an offer in relation to some or all of FKP's retirement assets at any time.

It is also important to recognise that for any Stockland proposal to proceed it must first be deemed 'fair and reasonable' by an independent expert, and secondly, be approved by you - FKP security holders.

No sale transaction will be concluded unless it is for the benefit of our security holders. So you can see that the FKP-Stockland agreement provides a number of ways to ensure that the value of FKP's assets is both protected and realised.

## **STRATEGY**

The current market conditions are likely to be with us for some time. In order to stabilise the company and retrieve security holder value, your company is undertaking a number of initiatives in addition to those already outlined. These include:

- exploring asset sales across all classes;
- the sale of assets that are peripheral to our core business;

- investigating opportunities to develop our assets in joint venture with third parties;
- reducing operational costs and driving greater efficiencies from our business; and
- delaying development of uncommitted projects

Peter Brown will address these items in more detail during his presentation.

## **DIVIDEND**

I would like now to turn to your Dividend.

The last six years has seen FKP deliver strong earnings and distribution growth for security holders.

While our operating profit for year ended 30 June 2008 was an eleven per cent increase on the previous year the unprecedented market conditions we are now in requires a more prudent approach.

In light of the liquidity crisis caused by the market conditions - on October 15 we announced that we had reviewed our distribution policy.

For the period to 31 December 2008 FKP will distribute one hundred per cent of taxable earnings from the FKP Property Trust.

We estimate that the full year distribution will be in the range of 2 to 3 cents per security but this could be influenced by one off events such as assets sales.

For FKP Limited we will - however - pay no dividend.

This 'break from tradition' will ensure that we retain the majority of cash earnings to assist in the funding of working capital requirements.

Naturally - we will be actively monitoring market conditions and we will review our distribution policy in June 2009.

## **MANAGEMENT**

Peter Brown - FKP CEO and Managing Director - will provide you with further details about your company's performance and plans for the short and medium term.

I would like to thank Peter and the FKP management team for their contributions during the past year.

I am sure that you would agree that 2008 has produced some extraordinary challenges for FKP. The FKP management team have performed extremely well in what can only be described as very difficult market conditions.

From the major refinancing in March 2008 to the Lend Lease approach, the capital raising, placement and strategic and operational reviews, the FKP senior management have had to address major issues over the past months.

Despite these conditions I know that the FKP management team have delivered - and at times - have delivered at a significant personal cost.

They also have delivered knowing that the environment we are now in will not provide the financial reward they might otherwise have anticipated receiving for their efforts in 2009.

I would also like to thank my fellow Directors for their contribution and commitment to FKP.

In terms of remuneration - the Board are well aware that there has been ongoing scrutiny of executive and Board remuneration policies.

Our remuneration policies are transparent and are clearly laid out in our Annual Report.

Your Board will be asking you to support the adoption of the remuneration report later in the meeting.

We are sensitive to the market conditions and our responsibilities.

As a result, your Board has decided to freeze the base salaries for both Directors and senior management for the time being.

## **CONCLUSION**

In concluding I would like to thank you for your patience today.

I have spoken longer than I have on previous occasions.

But I believe that the details provided to you today will ensure that you have a more accurate and meaningful understanding of FKP decisions and events over what have been tumultuous times.

I trust that you found this information helpful. I know many of you recognise the value and strength of FKP assets.

You are not alone.

I can assure you that your Directors together with three of Australia's major property companies - Lend Lease, Stockland and Mulpha who are now on the FKP share registry – understand and recognise the value of FKP.

On behalf of the Board I would like to thank you for your continuing support.

I will now hand over to Peter Brown to provide details on FKP's performance and plans.

Thank you.

**Ben Macdonald**  
**CHAIRMAN**