



ASX / Media Release

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## **STRONG RESIDENTIAL AND RETIREMENT CONTRIBUTIONS UNDERPIN A SOLID PROFIT RESULT**

FKP Property Group (FKP) announced an underlying profit after tax of \$121.0 million for FY11 representing an increase of 11 per cent on FY10. Earnings were in line with guidance and were underpinned by strong contributions from the Residential Communities and Retirement divisions.

### **FINANCIAL HIGHLIGHTS**

- Statutory net profit after tax increased 62% to \$82.3 million
- Underlying profit after tax of \$121.0 million, up 11%
- Full year distributions of 3.0 cents per stapled security, up 100%
- Net tangible assets per stapled security of \$1.25
- Earnings per stapled security on underlying profit after tax increased by 6% to 10.3 cents
- Gearing steady at 29%

Chief Executive Officer and Managing Director Peter Brown said the solid profit result is a reflection of FKP's assets and its diversified national platform.

"In a difficult trading environment, the underlying quality of our assets has driven strong profit growth with both our Residential Communities and Retirement divisions delivering record contributions for the year – a testament to the strength of our residential platform and mature retirement portfolio," Mr Brown said.

### **OPERATING HIGHLIGHTS**

#### **Residential Communities**

- Profit \$36.4 million up from \$33.6 million
- Sales revenue \$141.0 million up from \$118.9 million, up 19%

The Residential Communities division has reported a record profit of \$36.4 million for the year, an increase of 8 per cent on FY10. While the settlement volumes were up from 493 to 512, the solid price growth generated across the projects underpins the 4 per cent increase in profit margin to 31 per cent.

FKP has reweighted its development portfolio towards residential and is now in a position to deliver further growth from the national residential platform. The delivery of the residential pipeline has only just begun to generate its full potential, and the focus remains on unlocking value from the roll out of the masterplanned communities and delivery of the apartment pipeline.

#### **Residential Land**

The FY11 record contribution from Residential Communities was largely driven by Saltwater Coast in Point Cook where 294 settlements were recorded. We expect sales to return to normal levels at Saltwater Coast in FY12.

Settlements at The Rochedale Estates in Brisbane will contribute to profit for the first time in FY12. Other land projects are expected to produce similar volume levels as FY11.

Construction has started on the first stages of Mulgoa Rise, the new masterplanned community in Western Sydney, which is being developed through a joint venture with Mulpha Australia.

FKP continues to be well placed to deliver growth in residential sales through its development pipeline of projects with over 5,000 lots still to be developed over a remaining life of more than 5 years at our major land projects including Peregrin Springs, Saltwater Coast, Mulgoa Rise and The Rochedale Estates.

### **Residential Apartments**

Strong sales have been achieved at Aerial, the luxury apartment development in Camberwell, Melbourne, with over 80 per cent of the project pre-sold at 30 June 2011. Construction is progressing well and is on track for completion in Q4 FY12.

Sales are also progressing well at Luxe, our apartment development in Woollahroo, Sydney, with over 55 per cent of the units pre-sold. Construction works are expected to commence in September 2011.

The first stage at Albion Mill in Brisbane is expected to be launched in September 2011. We are seeking a new Master Plan approval and Development Permit for Stages 2 and 3 which will comprise a mixed-use space including approximately 250 apartments.

The Milton, Brisbane's first true major transit oriented development, has achieved 97 pre-sales to date. We have seen a recent rise in enquiry and sales levels.

The existing pipeline of residential apartments, including the mixed-use urban renewal project at The Gasworks in Newstead, Brisbane, is expected to deliver in excess of 1,700 apartments over the next 8 years, with estimated revenue of over \$850 million.

### **Retirement**

- Profit contribution from operations of \$46.3 million
- Revaluation component of \$79.6 million, an increase of 4% from \$76.4 million
- Average margin on resales increased from \$79,000 in FY10 to \$91,000 in FY11

The Retirement division has delivered an excellent result in a challenging market, delivering a profit contribution of \$46.3 million, an increase of 15 per cent on FY10.

Retirement continues to provide the largest profit contribution and recurring income with the record result achieved through a mix of margin improvements and cost control.

FKP's focus continues to be on improving the underlying cash generation of its retirement assets through active management. The Retirement division profit is expected to show positive growth in FY12 through the continued improvements in DMF/CG share of existing contracts, ongoing unit buybacks as well as the reactivation of the development pipeline.

Under the Aveo brand, FKP remains committed to providing the highest quality of service to its residents. With 76 villages owned or managed, FKP maintained its leading position as one of the most experienced operators and the largest owner of retirement villages in Australia. As at 30 June 2011, FKP was responsible for the management of 9,786 units across the country.

### **Commercial and Industrial**

The Commercial and Industrial division is nearing completion of the sell-down of existing industrial and commercial stock. The focus is now shifting to the development of the second stage of the commercial and retail component of The Gasworks. Construction works are planned to commence this month with approximately one quarter of the commercial net lettable area and two thirds of the retail net lettable area already pre-committed.

Refurbishment works have commenced on 465 Victoria Avenue in Chatswood, Sydney. Once complete the 15,000sqm of commercial and retail space will be refurbished to an A-grade standard, and the building and services will be registered for a 5 star NABERS and 4 star Green Star rating.

FKP will continue to focus on re-positioning and divesting non-core commercial assets. As the commercial property market returns, we are well placed to unlock growth opportunities and meet demand through our land holding at Circa in Norwest Business Park and The Gasworks in Brisbane.

## **Funds Management and Investments**

FKP is realising its investments in the Core Plus Funds through a number of strategic sales of commercial assets. The strategy to return liquidity to investors through the divestment of assets continues to be implemented.

Contribution from FKP's investment in the Retirement Villages Group was impacted by the disposal of four villages and a lower volume of resales across the Australian and New Zealand portfolios.

FKP's stake in the Perth residential developer, Port Bouvard Limited, contributed its first earnings from the settlements at their Oceanique apartments and are well progressed on approvals for Point Grey, their 3,000 lot development near Mandurah in Western Australia.

## **Capital Management**

FKP has delivered on key capital management strategies and further strengthened its capital position, executing a new \$275 million retirement syndicate facility in March 2011 following the successful completion of the \$125 million convertible bonds issue in January 2011. During the period FKP also secured project finance for the Aerial development and refinanced the Wilbow facility to a new 3 year evergreen facility.

The next material debt maturity is the Property Trust facility, which expires in June 2012 followed by the multi-option development facility which has a July 2012 expiry. These facilities are expected to be refinanced in 2011.

The weighted average cost of borrowings has been reduced to 5.38 per cent from 6.30 per cent at 30 June 2010 while the weighted average debt maturity has been extended to 2.2 years post the FY11 refinances.

The FY11 distribution is 3.0 cents per security, up 100 per cent on FY10.

## **Strategy and Outlook**

FKP's future growth will be generated from the delivery of the existing development pipeline which is supported by the stability of the recurring income generated from the high quality retirement portfolio.

Acknowledging that there continues to be uncertainty in the financial and property markets, FKP remains well placed to deliver on its strategy. Our cautiously optimistic outlook for FY12 is reflected in an underlying profit guidance of an increase on FY11 levels.

FY12 distributions are targeted to be 3.3 cents per security.

**END**

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### **About FKP**

With more than 30 years experience in the Australian property industry, FKP Property Group (FKP) is one of Australia's leading diversified property and investment companies. FKP successfully operates an integrated business model which includes retirement, property investment and funds management, land development, property development (incorporating residential, retail, industrial and commercial) and construction across Australia and New Zealand. FKP is an ASX top 200 company.

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