



ASX / Media Release

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## FKP Property Group Underlying Profit Up 40% for Half Year

FKP Property Group (ASX: FKP), one of Australia's leading diversified property and retirement groups, today announced its half year results for the period ended 31 December 2012.

FKP recorded an underlying profit after tax of \$23.6 million<sup>1</sup> for the half year, up 40% on the previous corresponding period (pcp) after removing the retirement revaluation component.

### Financial Results

- Statutory loss after tax of \$28.5m;
- Underlying profit after tax of \$23.6m;
- Net tangible assets per stapled security \$3.98;
- Underlying earnings per stapled security of 9.1 cents;
- Gearing steady at 31%, pro-forma at 27.8%<sup>2</sup>; and
- No interim dividend/distribution.

FKP's results for the half year were delivered against a backdrop of weak residential property markets which have continued to impact the short-term earnings of the Group.

Under new leadership, FKP has adopted a back-to-basics strategy by focusing on generating cash, simplifying the business, streamlining the reporting structure and reducing management expenses.

FKP Executive Chairman Seng Huang Lee said: "Following the capital raising in August, FKP has been focused on increasing operating cash flows, as shown by increased sales in the Retirement business, the sale of three investment properties and the delivery of Aerial in Melbourne.

"While conditions in the residential property markets remain challenging, there are signs in the Sydney and Brisbane markets that confidence amongst buyers may gradually be returning. It is too early to assess whether this is the beginning of a recovery, however we continue to deliver high quality communities for our customers and lay the foundations for the market upturn.

"The combination of scale and location makes FKP's assets highly attractive, which is not being reflected in our security price, currently trading at a circa 61% discount to our NTA of \$3.98. Much of this is due to a perceived complexity of the specialised retirement sector. We are working to ensure that this perception is clarified so that FKP's inherent value is better recognised.

"We continue to make progress on consolidating ownership of the retirement portfolios under our management. Our intent is to create the largest 'pure-play' listed retirement vehicle in the Australian market."

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<sup>1</sup> Underlying profit is the relevant metric to gauge FKP's performance as it reflects the financial results generated from ongoing operating activities and is calculated in accordance with AICD/Finsia principles. The non-operating adjustments are considered to be non-recurring in nature. These items are included in the Group's consolidated statutory result but excluded from the underlying result. The Group's distribution policy is based upon underlying profit.

<sup>2</sup> Post settlement of 465 Victoria Avenue, Chatswood and Browns Plains Town Centre, Brisbane.

## **Operational Highlights**

### ***Retirement Living***

FKP has a market-leading retirement business with assets held directly by FKP, the separately ASX-listed Forest Place Group and the wholesale fund managed by FKP, Retirement Villages Group. Together, these comprise Australia's largest portfolio of retirement assets with 76 retirement villages and 9,766 existing units across Australia.

Mr Lee said: "Our retirement portfolio, the largest in Australia, comprises retirement communities in major metropolitan areas. This is particularly important for a retirement business where resident demand and unit price growth are highest in established residential areas."

For the half year, the Retirement division delivered an underlying profit of \$12.4 million (HY12: \$9.8 million). The Retirement division recorded a total of 244 resales and new sales, a 19% increase on the same period in FY12 when 205 settlements were achieved. This continues the trend set in the second half of FY12 when 299 unit settlements were recorded.

"Our Retirement division has experienced record sales in the first half of this financial year with settlements expected to flow through in 2013. It is encouraging that the sales on hand have increased to 124 up 43% on pcp," Mr Lee said.

In line with FKP's focus on generating cash flow, the emphasis of the Retirement division in the six months to 31 December 2012 was to improve turnover of retirement units, in particular company-owned units, as this is an important cash flow driver for the Group. To date, FKP has sold 189 company-owned units representing \$50 million.

In response to ongoing challenging market conditions, and in line with FKP's back-to-basics approach of simplifying the business structure, FKP has extracted further cost efficiencies across the Retirement division lowering the overall operational cost base by 10% on a like-for-like basis.

FKP continues to actively transition its Retirement business operating model to that of an integrated healthcare company, which will involve increased healthcare and lifestyle services.

During the period, on behalf of the Retirement Villages Group, FKP successfully oversaw the completion of the merger of Metlifecare, Private Life Care, and Vision Senior Living in New Zealand. The merger has provided Metlifecare with a strong development platform and has unlocked value across the three businesses. Metlifecare's position in the New Zealand retirement market has strengthened since completion of the merger.

"The experience with Metlifecare last year is instructive for us, with the New Zealand market recognising the attraction of this business model and its 'pure-play' position with Metlifecare's share price up 36% since the consolidation transaction last year. It is also encouraging to see Metlifecare included in the NZX 50 Index," said Mr Lee.

As announced at the AGM in November 2012, FKP has removed the retirement revaluation component from underlying profit. As such, this revaluation contribution will be treated as a non-operating item going forward. Removing the retirement valuation component, which is non-cash in nature, from underlying profit is consistent with FKP's strategy of being a cash flow focused Group. It is also consistent with market peers and with how FKP treats other forms of investment property revaluations. This will improve earnings transparency and highlight the operational performance of the Retirement business during a reporting period.

## ***Residential Development***

During the half year, FKP focused on positioning the existing development pipeline to maximise profit contribution in future years. Substantial progress was made during the period:

- Further pre-sales achieved at The Milton (QLD). This development is now 56% sold in terms of units and has achieved pre-sale commitments of over 50% of total value;
- The Hudson at Albion Mill (QLD) is 31% pre-sold in terms of units; and
- The future stages of Saltwater Coast (VIC), The Rochedale Estates, Peregrin Springs and Ridges (QLD) continue to be developed.

The Residential Communities division's \$24.0 million contribution for the half year ended 31 December 2012 is up by \$13.3 million on the previous comparative period. This is largely due to the completion of the Aerial development at Camberwell in Victoria where 121 apartments have settled to date.

Mr Lee said: "The Aerial development in particular demonstrates FKP's ability to remain dynamic in difficult market conditions while still delivering the high quality product that we are renowned for."

In addition, FKP settled 74 lots across three masterplanned communities in the half year. Whilst the number of settlements is down on the previous corresponding period, contracts on hand this half year are in line with the six months to 31 December 2011 and settlements will be skewed to the second half of the year. The openings of Display World, Queensland's largest residential display village, and the residents' Lifestyle Centre have underpinned an increase in sales and enquiry at The Rochedale Estates. Despite a subdued Melbourne market, sales at Saltwater Coast remain steady.

FKP's joint venture with Mulpha Australia continues to deliver for the Group. The JV's masterplanned communities include Beaumont Rise, Bella Vista Waters, Central Park at the Lakes, Mulgoa Rise, The Greens at the Lakes and The Pointe (all located in New South Wales) and Alpinia at Sanctuary Cove in Queensland.

Construction continues to progress well at LUXE, Woolloomooloo with completion on track for the second quarter of FY14 and settlements expected shortly thereafter. Approximately 80% of the total 77 apartments have been pre-sold to date. There has been a significant focus on pre-sales at both The Milton and The Hudson at Albion Mill with works already commenced at The Milton.

## ***Commercial and Industrial***

Profit contribution from the Commercial and Industrial division reduced by \$2.0 million from the \$4.7 million achieved in the previous corresponding period. This is largely due to reduced rental revenues as a result of the continued sell down of Property Trust assets.

FKP has continued to divest non-core assets with the sale of a 50% stake in the Browns Plains Homemaker Centre during the period.

In addition, unconditional contracts of sale have been agreed for 465 Victoria Avenue, Chatswood in Sydney and Browns Plains Town Centre in Queensland with gross proceeds of \$92.0 million and \$27.0 million respectively. Both transactions are expected to settle in February 2013.

Mr Lee said: "These divestments demonstrate management's focus on narrowing the gap between our current security price and NTA and are in line with our stated back-to-basics strategy to simplify our business and strengthen our balance sheet."

Momentum at Gasworks, FKP's \$1.3 billion urban revitalisation precinct in Brisbane, continues with Bank of Queensland executing a lease for 13,100sqm of space in the building known as 'Gasometer 2'. This lease equates to approximately 56% of the 23,400sqm 13-level tower.

Construction of Gasometer 1 is on track for completion in mid-2013. Gasometer 1 will comprise approximately 8,000sqm of retail and 9,000sqm of A-grade office space. Over 90% of the retail space has been pre-committed to date and approximately 40% of the commercial space is under negotiation. On completion, Gasworks will comprise a total of approximately 210,000sqm of GFA, including approximately 104,000sqm of commercial space, approximately 17,000sqm of retail space and 750 apartments.

## **Capital Management**

In August, FKP successfully raised \$208 million through an entitlement offer which received strong support from both institutional and retail securityholders. The proceeds have been used to reduce debt levels and permanently reduce facility limits and have provided FKP with a more robust balance sheet.

Following the entitlement offer FKP completed a 7 for 1 stapled security consolidation reducing the amount of stapled securities on issue. The NTA per stapled security at 31 December 2012 is \$3.98.

In December 2012, FKP selectively bought-back and cancelled \$12.3 million of Convertible Notes in relation to the \$125 million 8.0% Guaranteed Convertible Notes currently on issue at a price of \$11.7 million. Following the buy-back the face value of Convertible Notes on issue is \$112.7 million.

FKP has successfully refinanced a new \$90 million Wilbow facility that was due to expire in mid-2013. The Wilbow facility has been refinanced with the current lender for a further 13 months from the current maturity date. Pricing is comparable to that on the existing facility. In addition, terms have been agreed for a new \$60 million working capital facility.

FKP's gearing has decreased to 31%, below the Group's gearing policy maximum level of 35%. Post the settlement of 465 Victoria Avenue and Browns Plains Town Centre pro-forma gearing will decrease further to 27.8%.

## **Outlook**

As announced at the AGM in November 2012, the FKP Board has decided that no dividend will be paid in relation to FY13. As FKP Property Group is a stapled security the Board will determine the appropriate distribution for the Property Trust at June 2013.

For the remainder of this financial year FKP will streamline its structure, simplify its business and reduce management expenses to maintain and optimise FKP's position to benefit from the eventual upturn in the property market.

## **ENDS**

### **For further information please contact:**

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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.

**Issued by** FKP Property Group (ASX: FKP) comprising FKP Limited ABN 28 010 729 950 and FKP Funds Management Limited ABN 17 089 800 082, AFSL No. 222273 as Responsible Entity for the FKP Property Trust ARSN 099 648 754. [www.fkp.com.au](http://www.fkp.com.au)