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FKP Property Group 2012 Annual General Meeting

Chairman's Address:

Good morning ladies and gentlemen and welcome to FKP Property Group's 2012 Annual General Meeting. My name is Seng Huang Lee, I am the Executive Chairman of FKP Property Group and on behalf of my fellow Board members I would like to thank you for attending today's meeting.

This meeting is the nineteenth Annual General Meeting of FKP Limited which is being held in conjunction with the eighth general meeting of unit holders of the FKP Property Trust. This is my first Annual General Meeting as Executive Chairman.

A quorum is present and I declare this combined meeting open.

Let me commence by introducing you to your Directors, the Company Secretary, and Senior Management Team.

To my left are Directors Leonard McKinnon, Jim Frayne, Walter McDonald and Alan Zammit. To my right is David Hunt, CFO; Geoff Grady, COO; Mark Jewell, Director of Development and Lisa Godfrey, Company Secretary.

I would also like to welcome our Audit Partner Ric Roach from Ernst & Young who is seated in the front row.

Today, I would like to discuss our 2012 financial results and ensure you are aware of the environment in which these results were delivered.

I would also like to outline for you our new operating strategy and provide an overview of some of the key developments since the end of the 2012 financial year. David Hunt will then provide you with a more detailed overview of our financial result and capital management position; Geoff Grady will provide a detailed update on our Retirement division; and Mark Jewell will follow with an update on our Development division.

We will then move to the formal part of the meeting to address the resolutions we are proposing today, when I will be happy to take any of your questions.

A year of change – adopting a back-to-basics approach

As you would be aware, for property groups and most listed companies outside the resources sector, the past few years have been challenging. This year was no exception – FKP faced a volatile economic climate in Australia, weak consumer sentiment and constrained capital flows.

Regardless, our company took decisive action in FY12. Our objective remains – to deliver enhanced value to you and all securityholders – and we believe that the actions we took this past year have positioned the Group better to do this.

In FY12 FKP delivered an underlying profit after tax of $94.7 million. This result excludes abnormal, non-recurring items and was in line with revised market guidance.

Given the difficult market environment we faced, one of the decisive actions we took was to adopt more conservative valuation assumptions. As a result, this impaired the Group's retirement portfolio and some of our development assets. Following these impairments and other one-off charges, FKP reported a full year statutory loss of $350.3 million and our net tangible assets (NTA) per stapled security decreased to $0.90 at 30 June 2012.

Our underlying earnings per stapled security after tax was 7.9 cents and the total distribution for the year was 2.8 cents per stapled security.

In August, FKP successfully raised $208 million through an entitlement offer which received strong support from both institutional and retail securityholders. Approximately 97 per cent of our eligible institutional securityholders subscribed to take up their entitlements. The proceeds have been used to reduce debt levels, giving us a more robust balance sheet in an uncertain environment.

As a result of the entitlement offer, NTA per stapled security reduced from $0.90 at 30 June 2012 to $0.58 on a pro-forma basis.

This capital raising addressed the immediate balance sheet and liquidity requirements that were clouding FKP's prospects. We are now moving forward from a position of renewed strength and we are entirely focused on closing the gap between our current security price and the NTA per stapled security.

A key initiative to bridging the gap to our NTA is to streamline our structure and simplify our business as well as reducing overheads. In short, getting back-to-basics.

We are very focused on extracting the embedded value from our market leading retirement portfolio.

The Retirement sector in Australia has been unnecessarily complicated by operating models and confusion over the Deferred Management Fee structure. Pre-GFC, the valuation pendulum swung too far to the right driven by financial models and debt. Now it has, in my opinion, swung too far to the left driven by distressed sales and loss of confidence in the retirement sector.

In reality, the business is simply about the provisioning of a quality service and creating communities for elderly Australians. This is what we are focused on and it is a natural comparative advantage that FKP possesses given the size and depth of our portfolio.

Through our interest in Retirement Villages Group (RVG), Forest Place Group (FPG), Metlifecare in New Zealand and our own on balance sheet assets, FKP is the market leader in retirement with approximately 13,700 units owned (directly or indirectly) or under management.

The strategic review of our retirement portfolio conducted earlier in the year established that it is sub-optimal to hold our retirement assets in different structures and mixed with non-retirement assets. As a result, FKP is working toward consolidating the ownership of retirement assets currently held through the FKP, FPG and RVG structures into a sustainable, long-term and cost efficient platform, separate from our non-retirement assets.

While there is a lot of work still to be done, we have already made significant progress in this process. Earlier in the year FKP took full control of the funds management of RVG and subsequently merged three retirement platforms in New Zealand on behalf of RVG – Metlifecare, Vision Senior Living and Private Life Care. RVG now holds a 43% stake in Metlifecare. Since the announcement of the merger in May 2012, Metlifecare's share price has increased by almost 50%.

This merger in NZ was a significant achievement for FKP and a promising indicator that if structured and funded appropriately, the market will value the assets fairly. This initiative validates our own strategy of streamlining our retirement vehicles into a single platform and eventually embarking on a separation of the retirement and development businesses to unlock their respective intrinsic values.

Change in profit reporting – removing retirement revaluation from underlying profit

In addition to the stated strategy that is underway, FKP has made the decision to remove the retirement revaluation component from underlying profit. As such, this revaluation contribution will be treated as a non-operating item going forward.

The new treatment of recognising the retirement revaluation below the line and excluding it from underlying profit is consistent with our competitors and also with how FKP itself treats other forms of investment property revaluations. Based on current trading multiples, it is clear the market also excludes these earnings from their valuation considerations.

Removing the retirement valuation component from operating profit will result in underlying profit levels being lower than historical levels, however this change will improve earnings transparency and highlight the operational performance of the retirement business during a reporting period.

Statutory profit will not be impacted by this change as the retirement revaluation will still be included in this figure.

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.

Cash flow focused

FKP has overhauled our business model and adopted a back-to-basics approach, simplifying our business activities and extracting greater cost efficiencies in response to the ongoing challenging market environment.

Turnover of retirement units is an important cash flow driver for the Group, and is something we are especially focused on improving. In addition the Group is reducing the level of company owned stock, releasing cash flow.

FKP has continued to deliver on the trend set in the second of half of FY12 when 299 units turned over, representing a 46% increase on the volume of unit turnover seen in the first half of the financial year.

To ensure this momentum continued, FKP lowered list prices in select retirement villages to meet the market demand and as a result, we have seen a strong level of deposits taken with October recording the third-highest level achieved since 2007 and the first quarter of 2013 up 25% on the previous corresponding period.

In addition to generating more cash from the retirement portfolio, FKP has been able to lower its overall operational cost base through an operational efficiency program that is targeting overhead savings of 10% on a like-for-like basis.

The markets in which FKP operates continue to be difficult and as a result FKP has adapted by simplifying the business where it makes financial sense. In line with this strategy and the Group's focus on cash flow generation, FKP is actively reweighting its reliance on its development portfolio by building up a larger portfolio of passive, income generating assets.

Our focus on closing the security price to NTA discount will also see the Group continue to improve the balance sheet and delever through more non-core asset disposals. In FY12, we successfully disposed of 8 Spring Street in Sydney, Peregian Springs Shopping Centre on the Sunshine Coast, and the Browns Plains Bulky Goods Centre south of Brisbane.

This financial year, FKP has continued to divest non-core assets with the sale of our 50% stake in the Browns Plains Homemaker Centre and the sale of Industroplex Rocklea from the FKP-managed Core Plus Fund Two, a closed-end investment fund. We are in the process of winding this fund up as part of the Group's broader strategy to streamline business lines.

All these disposals were done at or near book values.

In addition to the focus on balance sheet management, FKP is also ensuring that we continue to deliver on the current projects under development.

FKP completed the refurbishment of 465 Victoria Avenue in Sydney this year and executed long dated leases over all 15 levels of the commercial office tower. This delivers recurring, sustainable income to the Group and allows FKP to reweight towards more passive income in line with our new strategy.

Also earlier this month, FKP's Aerial apartment development in Melbourne reached practical completion. Settlements relating to the 85% of apartments already sold are expected to immediately generate $105 million of proceeds for the Group, and eventually an additional $21 million when the remaining stock is sold.

Yesterday, FKP executed the lease with Bank of Queensland for 13,100sqm of space in Gasometer 2, the third stage of the Gasworks precinct at Newstead Riverpark in Brisbane. Stage 2 of the precinct, known as Gasometer 1, is currently under construction and is due to be completed mid next year – delivering a total of 9,000sqm of commercial space and 8,000sqm of retail space. Over 80% of the retail component of the building has already been pre-committed as leasing momentum at the precinct continues to grow.

Finally, in line with this strategy and after consultation with our major securityholders, the Board has deemed it prudent for FKP not to pay any dividend in relation to FY13.

Board renewal and change in leadership

In September, Managing Director and CEO Peter Brown retired from his position after leading the Group for almost 10 years. A search for Mr Brown's replacement is underway, and during the transition period I will continue to lead the Group as Executive Chairman.

In August, Walter McDonald and Alan Zammit were appointed to the Board – bolstering both the independence and overall experience of the Board.

Mr McDonald is a leading legal practitioner in Australia with extensive experience in advising major government and corporate clients. Currently, Mr McDonald is a partner in the Corporate Division of Piper Alderman.

Mr Zammit has over 40 years' experience in urban, regional and community development. Currently, he is the Managing Director of UPDM Pty Limited, a private company offering corporate and property advisory services.

On behalf of the Board, I would like to welcome both Walter and Alan.

Security consolidation

The recent equity raise has significantly increased the number of FKP stapled securities on issue from approximately 1.21 billion to 2.25 billion. As a result of this large increase, the Board considered it practical to consolidate the total number of securities on issue.

With your endorsement, every seven Ordinary Shares in the Company on issue will be consolidated into one Ordinary Share. The units in the Trust that are stapled to these Ordinary Shares will be consolidated in the same manner.

As a result of the security consolidation, a higher absolute security price is likely to lessen intraday volatility and broaden the appeal of FKP's securities for more investors. Benefits associated with security consolidations include:

- enables investment by institutions with a mandate to only invest in companies of a minimum security price level; and
- reduces potential volatility in the security price as a result of smaller price movements relative to the underlying security price.

Immediately after the security consolidation is approved, and following its implementation, each securityholder will still hold the same proportion of stapled securities and economic interest as before the consolidation.

Outlook

While the financial year to 30 June 2012 had proven to be challenging for the Group, we continue to make solid progress. By adopting a back-to-basics approach, focusing on delivering the projects underway and rebuilding balance sheet strength, we are well-positioned to benefit from an eventual upturn in property and global investment conditions.

On behalf of the Board, I thank you for your patience and support during a tough past year.

ENDS

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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.
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