



ASX AND MEDIA RELEASE

25 February 2010

FKP ANNOUNCES 40% LIFT IN FIRST HALF OPERATING PROFIT

Financial Highlights

Net Operating Profit \$49.2m, up 40% on prior year

Statutory Profit \$48.8m as writedown cycle eases

Cash flow from operations (before inventory investment) \$115.1m up 92%

NTA \$1.27 per security

Gearing 28%

1H distribution 0.5c per security confirmed

FKP Property Group (FKP or the Group) today announced an operating profit after tax of \$49.2m for the half year to December 2009, an increase of 40% on the corresponding prior period.

The cycle of write-downs in the valuation of investment properties and development assets which has affected the whole property sector for the past eighteen months has slowed, with only minor adjustments to values required in the December half. Largely for this reason, the statutory or “headline” profit for the half was \$48.8m, compared with a loss of \$158.4m in the corresponding period in the prior year. A reconciliation of operating and statutory profit is attached in an Appendix to this announcement.

CEO and Managing Director Peter Brown said today *“the first half result was solid, and showed the Group is back on track, but more importantly the outlook in the short to medium term is positive.”*

FKP had limited development commitments during the last six months, so the strong operating cash flow from the Group’s recurring income businesses and sale of development stock was very evident. Statutory Cash Flow from Operations (before inventory investment) was \$115.1m compared with \$60.0m in the corresponding period last year.

Net Tangible Assets

NTA has increased to \$1.27 per security.

Divisional Operating Results

Division	December 2009 EBITDA (\$m)	December 2008 EBITDA ¹ (\$m)
Retirement	56.1	63.4
Residential Communities ²	5.5	(1.1)
Commercial & Industrial (C&I) ³	27.3	3.4
Funds Management & Investments	5.4	10.7

Operating Highlights

Retirement

The trading activity within the Retirement division continued the strong trend that had been apparent in the final quarter of the 2009 financial year. The cash generated from DMF/Capital Gains on traditional resident to resident resales was 62% higher than in the corresponding period last year. About half of the increase was attributable to a recovery in volumes from the low point of the cycle, but the other half was due to a higher pricepoint of the average transaction and the continuing impact of the Group's average contract terms being lifted over time.

Although the overall profit of the division was reduced, this is due to the lower revaluation increase compared with the year before.

The Retirement division has budgeted for a further increase in cash generation in the second half of the year.

Residential Communities

The newly constituted Residential Communities division posted a modest profit in the first half, as compared with a loss in the first half of the corresponding prior period. The turnaround came via a modest pick up of sales at Peregian and smaller estates, plus increased activity in the sales of completed apartment product.

The division is positioned to be a significant profit contributor going forward, with the second half expected to see the first settlements from the Point Cook estate in Melbourne. The pre-sales at Point Cook now exceed 300, and at the current rate FKP will sell nearly all of the 380 lots available in the first releases before completion – an excellent result given that the product first came to the market during the GFC.

¹ Comparative numbers have been restated in accordance with the new organisational structure

² Includes the former Land Division plus medium density

³ Development of non-residential product (trading income) plus FKP Property Trust (recurring income)

The Aerial apartments project in Melbourne had its formal launch in late 2009, and to date about 25%-30% of the project has been pre-sold. FKP currently anticipates that construction will commence in mid-2010, with a two year delivery timeframe.

Approval was recently received for the Union at Milton apartment project in Brisbane. FKP believes the market is currently receptive to the product and pricepoint of this development, and expects to formally commence pre-selling in the near future.

The Rochedale project in Brisbane (residential land) has also received approval recently, and FKP expects this development to make its initial contribution in FY 2011.

Commercial and Industrial

Trading Income \$18.2m
Recurring Income \$9.1m

Commercial and Industrial (C&I) encompasses non-residential development, and also the earnings of the FKP Property Trust (the Trust).

The trading income was underpinned by the profit on the pre-sale of the Energex development in July, and ongoing project management and construction fees associated with the project. The division also continued to sell out completed inventory on legacy projects, and recorded profits on external construction activity.

FKP has currently weighted its development book towards residential, so there are no significant C&I development projects about to start, but detailed planning is taking place on the retail and remaining commercial components of the Newstead Riverpark development in Brisbane.

The division continued its focus upon management of project assets within the Trust. The property at Clarence Street, Sydney was completely refurbished, and shortly after completion more than 25% of the project has been leased. The Town Centre at Browns Plains, completed in mid-2009, is now over 70% committed, with the recent commitment of JB Hi-Fi to the centre.

Funds Management and Investments

FKP's funds management operations and its investments returned combined operating profits of \$5.4m compared with \$10.9m in the corresponding period last year.

The current economic climate is not conducive to earning performance fees, and base fees were slightly down as a result of asset divestments.

The largest external investment, RVG, saw improved cash trading, but due to a lower revaluation component, overall reported profits were lower. The Core Plus Funds have performed satisfactorily, with asset valuations appearing to have stabilised.

Financial Position

FKP remains in a strong financial position as it moves back into a growth cycle, and met its covenants easily during and at the end of the period.

Debt gearing is at 28%, based on net bank debt drawn of \$743m. At the same time last year, gearing was 41%, and net bank debt was \$1,222m. The Group raised \$312m (net of costs) in a capital raising in July 2009 to repay debt, but a further \$167m of bank debt has been repaid, as well as about \$30m of other loans and borrowings, from a combination of operating cash flow and asset sales.

FKP has just over \$300m of undrawn development facilities available to it, with additional liquidity to become available through the completion of Point Cook and Rosebery later in 2010, the continued sale of other completed inventory, plus surplus cash flow from the recurring income arms of the business. Accordingly, the Group has funding to embark on the imminent development of Aerial, Union on Milton and Rochedale, which will commence when acceptable levels of pre-sales are in place.

The Group is no longer seeking to achieve asset sales to fund its future commitments, and FKP will only consider the disposal of an asset if it believes that value would be optimised by such a transaction.

Outlook

The first half Operating NPAT of \$49.2m is consistent with existing consensus estimates of earnings for the full year of approx. \$100m.

Based on current and anticipated trading, FKP expects a stronger second half and full year Operating NPAT may be 5% to 10% ahead of existing consensus. Apart from a general caveat as to there being no material change to the economic environment, the major risk factor to this projection is completion of works on land stages (particularly at Point Cook) and settlement by June 30. Based upon current progress, schedules are expected to be met.

For the half, the distribution has been limited to earnings from the FKP Property Trust, but the policy will be reviewed before the full year distribution is determined. That review will consider the status of current and anticipated trading, and consideration of the Group's funding position as it then sits.

For further information:

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FKP Property Group

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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Annexure 1

Statutory (AIFRS) profit

	\$m
Operating Profit After Tax	49.2
Mark to market of interest rate swaps	7.6
Non-cash share-based payments under AASB2	(5.6)
FKP Property Trust asset write-downs	(9.8)
Non-operating gains in retirement portfolio	4.1
Non-operating gains on equity investments	1.4
Other (includes bad debts recovered)	1.9
Headline Profit After Tax	48.8