

HALF YEAR FINANCIAL REPORT

31 DECEMBER 2017



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Schematic of 11 Murray Rose Ave, Sydney Olympic Park – an asset of the Folkestone SOP Opportunity Fund

FINANCIAL SUMMARY

| Six months to 31 December: | 2017 \$'000 | 2016 \$'000 | 2015 \$'000 |
|---|----------------|----------------|----------------|
| Profit from continuing operations before income tax expense | 14,117 | 4,662 | 7,650 |
| Income tax expense | (4,235) | (1,471) | (1,023) |
| Profit attributable to non-controlling interests | - | 1 | 3,618 |
| Profit attributable to Folkestone | 9,882 | 3,190 | 3,009 |
| Basic earnings per ordinary share (cents) | 6.7 | 2.2 | 2.0 |
| NAV per share at 31 December (dollars) | 1.12 | 0.97 | 0.92 |
| NTA per share at 31 December (dollars) | 1.09 | 0.92 | 0.83 |
| ASX closing price at 31 December (dollars) | 1.26 | 0.97 | 0.96 |



COMPANY HIGHLIGHTS

- STATUTORY NET PROFIT AFTER TAX OF \$9.9 MILLION, UP 209.8% ON HY17
- STATUTORY EARNINGS PER SHARE OF 6.7 CENTS, UP 204.5% ON HY17
- NET ASSET VALUE (NAV) PER SHARE OF \$1.12, UP 4.5% FROM 30 JUNE 2017
- NET TANGIBLE ASSET (NTA) PER SHARE OF \$1.09, UP 5.2% FROM 30 JUNE 2017
- GEARING OF 5.4%, UP FROM 5.2% AT 30 JUNE 2017
- FUNDS UNDER MANAGEMENT OF \$1.5 BILLION, UP 23.0% ON HY17



DIRECTORS' REPORT

The Directors' present their report together with the financial report of Folkestone Limited ('the Company') and of the consolidated entity, being the Company and its controlled entities, for the half year ended 31 December 2017 and the auditor's report thereon. In order to comply with the provisions of the Corporations Act 2001, the Directors' report as follows:

Directors'

The Directors' of Folkestone Limited during the half year and to the date of this report comprise:

- Garry R Sladden (B.Bus, CPA, FINSA)
- Mark W Baillie (B.Com, CA)
- Gregory James Paramor AO (FAPI, FAICD, FRICS)
- Ross Strang (LLB (HONS), MAICD)

FINANCIAL RESULTS

The statutory net profit after tax (NPAT) attributable to Folkestone for the half year ended 31 December 2017 was \$9.9 million (HY17: \$3.2 million), a 209.8 per cent increase compared to the prior corresponding period. This represents statutory basic earnings per share (EPS) of 6.7 cents (HY17: 2.2 cents).

The half year result attributable to Folkestone includes the following material items (pre-tax):

- \$4.4 million of recurring fee income and cost recoveries generated from the Company's funds management platform;
- \$2.3 million of distributions received from Folkestone's unitholding in the Folkestone Education Trust (ASX:FET);
- \$5.1 million in performance fees generated from the Wollongong and Sydney Olympic Park Income Funds;
- \$3.3 million in acquisition fees in respect of the Folkestone Sydney Airport Hotel Fund, Folkestone Green Square Hotel Fund and Folkestone SOP Opportunity Fund;
- a \$1.5 million leasing fee in respect of the Folkestone CIB Fund;
- a \$1.4 million profit contribution from Folkestone's 50 per cent interest in the Industria, Knoxfield office/warehouse unit project;
- a \$1.1 million profit contribution from Folkestone's 51 per cent interest in the Millers Junction Business office/warehouse unit project at Altona North; and
- a \$0.8 million expensing of development costs in respect of the South Dural project in New South Wales.

Last year's half year result included the following material items (pre-tax):

- \$3.7 million of recurring fee income and cost recoveries generated from the Company's funds management platform;
- \$2.2 million of distributions received from Folkestone's unitholding in the Folkestone Education Trust (ASX:FET);
- a \$1.1 million profit contribution from Folkestone's 51 per cent interest in the Millers Junction Business project at Altona North; and
- a \$1.0 million profit contribution from Folkestone's 50 per cent interest in the Northside residential land project at Officer.

ASSET BACKING

Folkestone's net asset value (NAV) was \$1.12 per share at 31 December 2017, up from \$1.08 per share at 30 June 2017. Net tangible asset (NTA) backing was \$1.09 per share at 31 December 2017 compared with \$1.04 per share at 30 June 2017.

FINANCIAL & CASH POSITION

As at the date of this report, Folkestone and its associated entities are in full compliance with all of their debt facilities and have sufficient liquidity to fund all of its commitments. The following is a high level summary of each facility:

- ANZ Corporate Facility - The facility limit is \$25.0 million with an expiry date of 22 December 2019. The drawn balance on the facility at 31 December 2017 was \$8.5 million.
- Millers Junction Stage 3, Altona North - The finance facility with Bank of Melbourne in respect of the Millers Junction Stage 3 land is for a facility of \$2.1 million and is fully drawn as at 31 December 2017. The Stage 3 facility is secured by the Stage 3 land only and has an expiry date of 26 June 2018. Folkestone has provided Bank of Melbourne with an unlimited guarantee and indemnity in respect of the Stage 3 facility.
- The Ranges, Karratha - The drawn balance on the St George Bank finance facility for the Karratha project at 31 December 2017 was \$2.6 million. The facility has an expiry date of 28 February 2018 and discussions are underway to extend the facility for a further 6 to 12 months. Folkestone has a 30 per cent interest in the project, however there is no recourse to Folkestone in respect of this project facility.
- Elements, Truganina - In respect of the Elements land sub-division project at Truganina in which the Folkestone Truganina Development Fund has an 80 per cent interest in the joint venture and Folkestone holds 18.76 per cent of the units in the Fund, the ANZ Bank has provided the joint venture with a development facility drawn to \$5.3 million at 31 December 2017 and a \$13.2 million land facility (drawn to \$8.7 million at 31 December 2017). The development facility expires in May 2018 and the land facility has now been fully repaid from settlement proceeds received as at 28 February 2018. There is no recourse to Folkestone in respect of the development facility however, Folkestone Limited had provided the ANZ Bank with a guarantee and indemnity limited to \$10.6 million plus costs in respect of the land facility which has now lapsed following repayment of the land facility.
- Amber, Wollert - In respect of the Amber land sub-division project at Wollert in which the Folkestone Wollert Development Fund has an 80 per cent interest in the joint venture and Folkestone holds 25 per cent of the units in the Fund, the ANZ Bank has provided the joint venture with development facilities totalling \$16.1 million (drawn to \$nil at 31 December 2017) for Stages 1-3 of the project. The Stages 1-3 facility expires in September 2018. Folkestone has provided the ANZ Bank with a guarantee and indemnity limited to \$6.6 million plus costs.
- The Walter, Hadfield - In respect of the Walter townhouse project at Hadfield in which Folkestone has a 50 per cent interest, the Bank of Queensland has provided the joint venture with a \$4.9 million facility to assist with land settlement with an expiry date of April 2018. The Bank of Queensland has also provided the joint venture with a \$24.9 million development facility (inclusive of the land facility) which has an expiry date of April 2020. The land facility was fully drawn as at 31 December 2017 and the development facility was undrawn. Folkestone has provided Bank of Queensland with a guarantee and indemnity limited to \$12.3 million plus costs.
- Industria, Knoxfield - In respect of the Industria, Knoxfield project in which Folkestone has a 50 per cent interest, the Bank of Melbourne has provided the joint venture with a \$8.8 million facility for the development of Stages 3 and 4 of the project. The facility has an expiry date of January 2019 and was drawn to \$1.4 million as at 31 December 2017. Folkestone has provided the Bank of Melbourne with a guarantee and indemnity limited to \$2.0 million plus costs in respect of this facility.
- Industria, Nunawading - In respect of the Industria, Nunawading project in which Folkestone has a 50 per cent interest, the Commonwealth Bank of Australia (CBA) has provided the joint venture with a \$15.0 million facility for the development of the project. The facility has an expiry date of August 2018 and was drawn to \$8.5 million as at 31 December 2017. Folkestone has provided CBA with a guarantee and indemnity limited to \$4.2 million plus costs in respect of this facility.
- Hornsby, New South Wales - In respect of the Hornsby residential project in north-west Sydney in which Folkestone has a 50 per cent interest, the Bank of Melbourne has provided the joint venture with an \$18.8 million facility to assist with the acquisition of four mixed use retail and office properties to allow the joint venture to amalgamate a 3,200 square metre site opposite the railway station. The loan was fully drawn as at 31 December 2017 and has an expiry date of January 2019. As part of the security for this facility, Folkestone Limited has provided Bank of Melbourne with an interest servicing guarantee limited to \$1.0 million plus costs.
- Northside, Officer - In respect of the Northside residential land project at Officer in which Folkestone has a 50 per cent interest, a \$2.1 million facility provided by the Bank of Melbourne to the joint venture has been repaid during the current period from sales proceeds of the development.

DIRECTORS' REPORT CONT.

FUNDS MANAGEMENT

Folkestone's Funds Management division is a specialist real estate funds manager for private clients and select institutional investors. Folkestone increased its funds under management from \$1.3 billion to \$1.5 billion in HY18.

Total funds management revenue was \$17.8 million, up 139.3 per cent on HY17.

Key features of the HY18 result are:

- 19.1 per cent increase in recurring fee income and cost recoveries to \$4.4 million;
- 6.4 per cent increase in distributions from FLK's co-investment in the ASX listed Folkestone Education Trust to \$2.3 million;
- \$5.1 million in performance fees in respect of the Wollongong Fund and Sydney Olympic Park Fund;
- \$3.3 million in acquisition fees in respect of the Folkestone Sydney Airport Hotel Fund, Folkestone Green Square Hotel Fund and Folkestone SOP Opportunity Fund; and
- a \$1.5 million leasing fee in respect of the Folkestone CIB Fund.

Folkestone Education Trust

The ASX listed Folkestone Education Trust (ASX:FET) continued to deliver on its stated strategy of owning a quality portfolio of early learning centres with an active period of acquisitions, developments and the disposal of a number of smaller centres. As at 31 December 2017, FET owned 407 properties and had gross assets of approximately \$954 million.

As at 31 December 2017, Folkestone held 12.1 per cent of FET units on issue (excluding units held in FET by the Folkestone Maxim A-REIT Securities Fund and other private funds managed by Folkestone Maxim), valued at \$88.4 million.

During the current reporting period, Folkestone generated the following from its investment in FET:

- \$3.9 million in fees and cost recoveries charged in accordance with FET's constitution;
- \$2.3 million in trust distributions received; and
- an unrealised gain of \$2.8 million on its unitholding in FET as at 31 December 2017 which has been recognised as Other Comprehensive Income.

Folkestone SOP Opportunity Fund

In July 2017, Folkestone announced that it had established the Folkestone SOP Opportunity Fund to acquire 11 Murray Rose Avenue, Sydney Olympic Park. The six level commercial building which is currently under construction comprises 5,811 square metres across five levels of office and ground floor retail with basement car parking. FDC Construction & Fitout (NSW) Pty Ltd is the builder. Practical completion is forecast to occur in the March 2018 quarter.

The total Fund offer of \$24.7 million was taken up by a range of high net worth investors and family offices. Folkestone received an acquisition fee of \$0.7 million on the successful completion of the equity raising in July 2017.

Folkestone Sydney Airport Hotel Fund

In October 2017, Folkestone announced that it had established the Folkestone Sydney Airport Hotel Fund to acquire the Mercure Sydney International Airport Hotel. The 271 room hotel, operated by the Accor Group under their Mercure brand, is located approximately 1.0 kilometre from the Sydney Airport International Terminal, 3.0 kilometres from the Sydney Airport Domestic Terminal and 9.0 kilometres from the Sydney CBD. The Hotel has a diverse revenue mix comprising leisure, corporate, local and overseas tourism and airline crews. Folkestone plans to undertake an extensive refurbishment and repositioning of the hotel to drive revenue, increase occupancy and enhance its capital value. The Fund has a target equity IRR of 14.0 per cent per annum (post-fees, pre-tax) over the life of the Fund.

The Fund secured underwriting commitments of \$31.9 million to assist with the acquisition of the Hotel, \$15.0 million of which was provided by Folkestone. Folkestone then successfully completed a \$50 million equity raising for the Fund which closed significantly oversubscribed. Folkestone received an acquisition fee of \$1.7 million on the successful completion of the equity raising in November 2017.

Folkestone Green Square Hotel Fund

In November 2017, Folkestone announced that it had launched the Folkestone Green Square Hotel Fund which will own a 144 room hotel to be constructed at 18 O'Riordan Street, Alexandria, New South Wales. The project was initially secured by Folkestone in November 2016 when it announced that it had entered a 50/50 joint venture with Furnished Property to develop the Hotel. Folkestone and Furnished Property will develop the hotel on behalf of the Fund, with the Fund not taking any development risk.

DIRECTORS' REPORT CONT.

Folkestone successfully raised \$23.2 million which, together with borrowings of \$21.75 million, will be used to fund the acquisition of the Hotel. The Fund has a target equity IRR of 12.6 per cent per annum (post fees, pre-tax) over the life of the Fund. Folkestone received an acquisition fee of \$0.9 million on the successful completion of the equity raising in December 2017.

Folkestone Truganina Development Fund

The Folkestone Truganina Development Fund is undertaking, in an 80/20 joint venture with ID_Land, the development of a circa 718 lot residential master planned community in Truganina, one of Melbourne's fastest growing suburbs. The joint venture has continued to see strong pre-sale activity with 700 sales secured at 31 December 2017, representing approximately 97 per cent of total lots.

As at 31 December 2017 a total of 437 lots had settled, 105 of which have occurred in HY18.

Folkestone initially co-invested \$3.5 million (18.76 per cent) in the Fund. Due to the acceleration of the project, the Fund's current forecast equity IRR has increased from 18.0 per cent to 21.5 per cent per annum (pre-tax, net of fees on drawn equity).

As at the reporting date, Folkestone has invested \$3.0 million in this project.

Folkestone Wollert Development Fund

The Folkestone Wollert Development Fund is undertaking, in an 80/20 joint venture with ID_Land, the development of a circa 560 residential master planned community in Wollert located approximately 25 kilometres north of the Melbourne CBD in the northern growth corridor. The joint venture has continued to see strong pre-sale activity with 306 sales secured at 31 December 2017, representing approximately 54 per cent of total lots. Stages 1-3 (148 lots) are currently under construction and are forecast to be completed in the September 2018 quarter. Construction of Stages 4-5 (78 lots) is forecast to commence in the March 2018 quarter.

Folkestone initially co-invested \$6.3 million (25.0 per cent) in the Fund. The Fund has a target forecast equity IRR of 17.0 per cent per annum (post fees, pre-tax) however, due to the acceleration of the project, the Fund's current forecast equity IRR has increased to 22.5 per cent per annum.

As at the reporting date, Folkestone has invested \$6.1 million in this project.

Folkestone Real Estate Income Fund at Wollongong

In October 2017, Folkestone announced that unitholders in the Folkestone Real Estate Income Fund at Wollongong overwhelmingly voted in favour of the sale of its sole asset, 43 Burelli Street Wollongong, and the windup of the Fund. The property was sold for \$46.1 million, a 67.5 per cent premium to the April 2013 acquisition price (inclusive of capitalised expenditure since acquiring the property).

Investors in the Fund received \$1.80 for each \$1.00 invested which represents an internal rate of return of 23.6 per cent per annum (post fees, pre-tax) since inception of the Fund four and a half years ago compared to the performance benchmark of 12 per cent per annum.

Folkestone received a performance fee of \$2.9 million as a result of the sale of the asset and the windup of the Fund.

Folkestone Real Estate Income Fund at Sydney Olympic Park

In November 2017, Folkestone announced that unitholders in the Folkestone Real Estate Income Fund at Sydney Olympic Park overwhelmingly voted in favour to extend the Fund term for a further three years to December 2020. The Fund owns 7 Murray Rose Ave, Sydney Olympic Park, a 5,931sqm A-Grade commercial building comprising five levels of office, ground floor retail together with parking for 53 vehicles and a weighted average lease expiry of 4.5 years. Thales, a leading international electronics and systems group, currently leases 100 per cent of the office space which expires in December 2022, and has two five year options.

Investors in the Fund have received a total return since inception of circa 17.2 per cent per annum (post fees, pre-tax) compared to the performance hurdle benchmark of 10.0 per cent per annum. As a result of the Fund's extension and outperformance, Folkestone received a performance fee of \$2.2 million.

DIRECTORS' REPORT CONT.

DIRECT INVESTMENTS - DEVELOPMENT

The following is a brief update on the progress of Folkestone's Direct Investments during the reporting period:

Folkestone's development division generated a net development profit of \$3.1 million, up 9.3 per cent on HY17.

Key features of the HY18 results are:

- \$3.3 million in net development profits from Millers Junction Business (via Folkestone's 51.0 per cent interest in the joint venture), Industria, Knoxfield (via Folkestone's 50.0 per cent interest in the joint venture), Officer Northside (via Folkestone's 50.0 per cent interest in the joint venture) and Truganina (via Folkestone's 18.8 per cent interest in the Folkestone Truganina Development Fund);
- \$0.5 million in preferred equity interest in HY18 from four projects (South Dural, Hornsby, Wollert and Green Square); and
- a \$0.8 million share of development costs expensed in respect of the South Dural project in New South Wales.

Millers Junction Business 1, Altona North

In September 2014, the Company announced it had entered into a 51/49 joint venture with Wilmac Properties to develop 69 strata style office/ warehouse units and a café at Millers Junction, Altona North. As at 31 December 2017, all 69 units had been completed and settled with the final 8 units settling in HY18. The remaining cafe is forecast to settle in the March 2018 quarter.

During the current reporting period, Folkestone recognised a \$1.1 million share of development profits in respect of this project. As at the reporting date, Folkestone's funds invested in this project were \$0.3 million.

Millers Junction Business 2, Altona North

In June 2017, Folkestone announced that it has entered into its fourth joint venture with Wilmac Properties ("Wilmac") to expand its exposure to enterprise park developments. Folkestone and Wilmac will develop a further 2.2 hectares of Folkestone's land at Altona North into 76 office/warehouse units with an end value of circa \$32 million ("Millers Junction Business 2").

Millers Junction Business 2 is immediately adjacent to the proposed Millers Junction Retail site and directly opposite Folkestone and Wilmac's first enterprise park development, Millers Junction Business 1. Construction of Millers Junction Business 2 is expected to commence in mid 2018.

As at the reporting date, Folkestone has invested \$5.9 million in the Millers Junction Business 2 project.

Millers Junction Retail, Altona North

In June 2017, Folkestone announced it had entered into agreements with BWP Trust to acquire 1.0 hectare of land as well as a new call option to acquire an adjoining further 2.4 hectares of land at 290-298 Millers Road, Altona North, to undertake Stage 3 of its successful Millers Junction project.

The 3.4 hectares of BWP Trust land will be amalgamated with approximately 2.2 hectares of Folkestone's existing land holding, immediately to the rear of the BWP Trust land, to create Millers Junction Retail, a 13,330 square metre neighbourhood and large format retail centre anchored by Woolworths. The masterplan has secured unanimous support from Hobsons Bay Council and is now subject to consent by the Minister for Planning under the Department of Environment, Land, Water and Planning.

As at the reporting date, Folkestone has invested \$6.8 million in the Millers Junction retail project.

Industria, Knoxfield

In June 2015, Folkestone entered into a second 50/50 joint venture with Wilmac Properties to develop 88 strata office/warehouse/retail units plus a cafe in Knoxfield, Victoria with an anticipated end value of \$41.8 million.

As at 31 December 2017, a total of 44 units had been completed, 41 of which have settled. Of the 41 settlements, 21 units settled in HY18. Construction of the remaining 44 units in Stage 3 & 4 commenced in the December 2017 quarter and as 31 December 2017, 28 of these had been pre-sold.

During the current reporting period, Folkestone recognised a \$1.4 million share of development profits in respect of this project. As at the reporting date, Folkestone has invested \$1.6 million in this project.

DIRECTORS' REPORT CONT.

Industria, Nunawading

In May 2016, Folkestone entered into a third 50/50 joint venture with Wilmac Properties to develop an enterprise business park in Nunawading, Victoria with an anticipated end value of \$42.4 million.

Since launching the project, a total of 68 of 71 units have been pre-sold plus the proposed three storey office building and cafe. Construction of Stage 1 (39 units plus the three storey office building) is scheduled for completion in the June 2018 quarter.

As at the reporting date, Folkestone has invested \$2.8 million in this project.

Northside, Officer

In August 2014, Folkestone acquired, in a 50/50 joint venture with ID Land, Northside Officer to develop a 146 lot land subdivision diagonally opposite Folkestone and ID_Land's Potters Grove development. The zoned site was purchased on deferred terms. Settlement of the first tranche of land (3.6 hectares) took place in August 2015 and the remaining tranche (4.7 hectares) was settled in August 2016.

As at 31 December 2017, 145 of the 146 lots had been pre-sold, and 137 lots had been settled, 19 of which occurred in HY18.

During the current reporting period, Folkestone recognised a \$0.4 million share of development profits in respect of this project. As at the reporting date, Folkestone has invested \$0.7 million in this project.

The Walter, Hadfield

In September 2017, Folkestone acquired in a 50/50 joint venture with ID_Land, the Walter to develop 64 townhouses in Hadfield, 14 kilometres north of the Melbourne CBD. The project has a forecast end value of approximately \$40 million. Settlement of the land occurred in October 2017 and a pre-sales marketing campaign is currently underway.

As at 31 December 2017, a total of 26 townhouse had been pre-sold representing 40.7 per cent of total townhouses.

As at the reporting date, Folkestone has invested \$7.2 million in this project.

Hornsby

In December 2014, Folkestone announced that it had entered into a 50/50 joint venture with the Lyon Group Australia, a leading Sydney developer, to develop a strategically located, mixed use site opposite Hornsby railway station in Sydney's north-west. Following the settlement of a commercial building in the current reporting period, the joint venture has now acquired four sites totalling in excess of 3,200 square metres, strategically located opposite the Hornsby Train Station on the western side and Westfield Hornsby on the southern side.

Master-planning for a mixed-use development, including residential apartments, retail and community uses is ongoing. In December 2017, Hornsby Council adopted the Hornsby Eastside Town Centre Planning Proposal that re-zones B3 Commercial Core to B4 Mixed Use and approved funding to allow for the necessary technical studies to be undertaken to address the matters outlined in the Gateway Determination issued by the NSW Department of Planning and Environment.

As at the reporting date, Folkestone has \$12.3 million invested in this project.

South Dural

In October 2015, Folkestone announced that it had entered into a second 50/50 joint venture with the Lyon Group Australia, in relation to land currently zoned rural in South Dural, in north-west Sydney, to pursue a rezoning to residential. Since 2015, the joint venture has been actively seeking a rezoning of land. However, this process is expected to take significantly longer than originally anticipated, and as a result, Folkestone has advised the Lyon Group it intends not to proceed with the project. The joint venture has a sunset date of March 2019, and Folkestone expects its funds employed to be returned by June 2019.

During the current reporting period, Folkestone recognised a \$0.8 million expense relating to the development costs incurred in respect of its 50 per cent interest in the project. As at the reporting date, Folkestone has invested \$6.9 million in this project.

Green Square, Alexandria

In November 2016, Folkestone announced that it had entered into a 50/50 joint venture with Furnished Property to develop a circa 144 room hotel at Green Square, Sydney. The site, at 18 O'Riordan Street, Alexandria, is located within the \$13 billion, 278 hectare Green Square Urban Regeneration Area ('GSURA') and is strategically located approximately 100 metres from the Green Square Train Station. The Sydney Airport Domestic and International Terminals are two and three train stops respectively to the south with Central Station one train stop to the north.

DIRECTORS' REPORT CONT.

During the current reporting period, Folkestone successfully completed a \$23.2 million equity raising for the Folkestone Green Square Hotel Fund. The equity raised, together with construction finance, will fund the development of the hotel on a fund-through basis reducing Folkestone and Furnished Property's funds employed to develop the hotel. Construction of the hotel is expected to commence in the June 2018 quarter and is forecast to be completed in the September 2019 quarter.

As at the reporting date, Folkestone has invested \$5.0 million in this project.

Chatswood Golf Club

In May 2017 Folkestone announced that it had entered into a partnership agreement with Watermark Retirement Living to develop a seniors living community in partnership with the Chatswood Golf Club. The proposed development includes a new clubhouse, associated parking and a seniors living community on circa 14,700 square metres of golf course land currently utilised for the clubhouse and car park. The Watermark, Folkestone and Chatswood Golf Club partnership are working towards submitting the first stage of the planning process with the Department of Planning. Following planning approval, it is expected that the project will be a suitable acquisition for the Folkestone Seniors Living Fund No.1, alongside Watermark Castle Cove.

As at the reporting date, Folkestone has invested \$1.7 million in this project.

The Ranges, Karratha

Stage 1 of The Ranges comprises 2.2 hectares with a "Tourism" zoning and DA approval for 108 single level, one bedroom villas with pool and BBQ facilities. Stage 1a comprising 41 villas opened for trade in December 2012 and a further 32 villas in Stage 1b were completed in 2015. During FY17, the joint venture completed the construction of a food and beverage facility to complement the existing offer and make it more appealing to customers, particularly business travellers to the Pilbara.

During the current reporting period, Folkestone has recognised a \$0.1 million share of the operating loss for this project. As at the reporting date, Folkestone has invested \$2.9 million in this project.

OUTLOOK

Folkestone is well placed to continue to build sustainable growth across its funds management and development divisions.

Across most real estate markets, yields are at record lows buoyed by low interest rates and strong capital flows. Real estate has been an attractive investment, especially for those seeking income. However, we believe that in the year ahead, yields are unlikely to fall much lower, and therefore, the focus will turn to active asset management and/or development of individual assets to drive returns. The due diligence and underwriting of risk will be even more critical in assessing new investment opportunities.

Folkestone continues to assess a number of opportunities that will either be acquired on balance sheet and sold down at a later date to Folkestone funds, or acquired directly by new funds established by Folkestone.

Folkestone's balance sheet is conservatively geared. Combined with its existing cash reserves and undrawn corporate debt facility, Folkestone's ability to recycle capital from projects that are earmarked for new funds or are nearing completion and its extensive distribution network provides it with significant flexibility to continue to execute on its strategy.

Folkestone will continue to look for investment opportunities across the residential, non-residential and social infrastructure sectors where the projects offer the potential for attractive risk-adjusted returns, can be acquired and/or developed using efficient capital structures (i.e. staged land payments or deferred settlement terms), and where appropriate, undertaken in joint venture with quality partners and held in Folkestone managed funds.

Whilst as a policy Folkestone does not provide earnings guidance due to the variable nature of its earnings, given the timing of the recognition of \$5.1 million of performance fees in HY18, Folkestone, assuming no material change in market conditions, advises:

- that it expects its statutory net profit after tax to range between \$11.0 million and \$12.0 million for FY18; and
- its current intention to pay a fully franked dividend of 3.0 cents per share in respect of FY18, an increase of 9.1 per cent on the FY17 ordinary dividend.

DIRECTORS' REPORT CONT.

ROUNDING OF AMOUNTS TO NEAREST THOUSAND DOLLARS

The economic entity has applied the relief available to it in ASIC Class Order 98/100 and accordingly certain amounts in the financial report and the Directors' report have been rounded off to the nearest \$1,000.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 13 of the half year financial report.

This report is signed in accordance with a resolution of the Board of Directors' made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the Directors,



Garry Sladden
Non-Executive Chairman
Sydney, 28 February 2018



Greg Paramor AO
Director

AUDITOR'S INDEPENDENCE DECLARATION



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28 February 2018

The Board of Directors
Folkestone Limited
Level 14, 357 Collins St
MELBOURNE VIC 3000

Dear Board Members

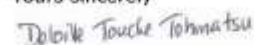
Folkestone Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Folkestone Limited.

As lead audit partner for the review of the financial statements of Folkestone Limited for the half year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Craig Bryan
Partner
Chartered Accountants

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FINANCIAL REPORT

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CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOLKESTONE LIMITED AND ITS CONTROLLED ENTITIES

For the half year ended 31 December 2017

| Consolidated Group Continuing Operations | 31 Dec 2017 \$'000 | 31 Dec 2016 \$'000 |
|---|-----------------------|-----------------------|
| Revenue | 21,790 | 21,023 |
| Development expenses | (3,259) | (12,821) |
| Reversal of impairment of finished goods and work in progress | - | 237 |
| Share of profits of associates and joint ventures | 2,456 | 2,139 |
| Reversal of impairment of interest held in associated entity | 64 | - |
| Impairment of other receivables | (64) | - |
| Employee benefits expense | (5,103) | (3,950) |
| Depreciation and amortisation expense | (66) | (58) |
| Due diligence and acquisition costs | (84) | (110) |
| Rental expense on operating leases - developments | - | (237) |
| Rental expense on operating leases - corporate | (162) | (141) |
| Administration expenses | (1,200) | (1,187) |
| Finance costs | (301) | (302) |
| Changes in fair value of financial assets through profit and loss | 11 | 24 |
| Changes in fair value of derivative instruments through profit and loss | 35 | 45 |
| Profit before income tax | 14,117 | 4,662 |
| Income tax expense | (4,235) | (1,471) |
| Profit after tax for the half year | 9,882 | 3,191 |
| Net profit after tax for the half year attributable to: | | |
| Owners of the company | 9,882 | 3,190 |
| Non-controlling interests | - | 1 |
| Net profit after tax for the half year | 9,882 | 3,191 |
| Other comprehensive income | | |
| Items that may be re-classified subsequently to profit or loss: | | |
| Changes in fair value of financial assets | 2,762 | (3,989) |
| Income tax (expense)/benefit relating to components of other comprehensive income | (829) | 1,197 |
| Total other comprehensive income net of tax | 1,933 | (2,792) |
| Total comprehensive income for the half year | 11,815 | 399 |
| Total comprehensive income for the half year attributable to: | | |
| Owners of the company | 11,815 | 398 |
| Non-controlling interests | - | 1 |
| Total comprehensive income net of tax for the half year | 11,815 | 399 |
| Earnings per share from continuing operations: | | |
| Basic earnings per share (cents per share) | 6.7 | 2.2 |
| Diluted earnings per share (cents per share) | 6.5 | 2.2 |

The above condensed statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 19-24.

CONDENSED STATEMENT OF FINANCIAL POSITION

FOLKESTONE LIMITED AND ITS CONTROLLED ENTITIES

For the half year ended 31 December 2017

| Consolidated Group | Notes | 31 Dec 2017 \$'000 | 30 Jun 2017 \$'000 |
|--------------------------------------|-------|-----------------------|-----------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | 24,781 | 21,887 |
| Trade and other receivables | | 4,152 | 4,851 |
| Inventories | | 12,831 | 11,330 |
| Investment in joint ventures | | 1,166 | 2,458 |
| Other current assets | | 509 | 406 |
| TOTAL CURRENT ASSETS | | 43,439 | 40,932 |
| NON-CURRENT ASSETS | | | |
| Trade and other receivables | | 23,422 | 15,628 |
| Other financial assets | 2 | 91,169 | 88,396 |
| Units in associated entities | | 9,067 | 9,521 |
| Investment in joint ventures | | 17,026 | 18,041 |
| Property, plant and equipment | | 432 | 491 |
| Intangibles | | 11,389 | 11,389 |
| Goodwill | | 1,433 | 1,433 |
| TOTAL NON-CURRENT ASSETS | | 153,938 | 144,899 |
| TOTAL ASSETS | | 197,377 | 185,831 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | | 2,479 | 4,121 |
| Short-term borrowings | 3 | 2,206 | 2,705 |
| Employee benefit provisions | | 1,209 | 1,060 |
| Provision for income tax | | 8,293 | 4,058 |
| TOTAL CURRENT LIABILITIES | | 14,187 | 11,944 |
| NON-CURRENT LIABILITIES | | | |
| Long-term borrowings | 3 | 8,451 | 7,429 |
| Derivative financial instruments | | - | 35 |
| Employee benefit provisions | | 78 | 107 |
| Deferred tax liability | | 8,444 | 7,616 |
| TOTAL NON-CURRENT LIABILITIES | | 16,973 | 15,187 |
| TOTAL LIABILITIES | | 31,160 | 27,131 |
| NET ASSETS | | 166,217 | 158,700 |
| EQUITY | | | |
| Issued capital | 4 | 124,668 | 124,668 |
| Reserves | | 24,048 | 21,607 |
| Retained earnings | | 17,502 | 12,426 |
| Parent interest | | 166,218 | 158,701 |
| Non-controlling interest | | (1) | (1) |
| TOTAL EQUITY | | 166,217 | 158,700 |

The above condensed statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 19-24.

CONDENSED STATEMENT OF CHANGES IN EQUITY

FOLKESTONE LIMITED AND ITS CONTROLLED ENTITIES

For the half year ended 31 December 2017

| Consolidated Group | Issued Capital \$'000 | Retained Earnings \$'000 | Reserves \$'000 | Attributable to Holders of the Parent \$'000 | Non-controlling Interest \$'000 | Total \$'000 |
|---------------------------------------|--------------------------|-----------------------------|--------------------|---|------------------------------------|-----------------|
| Balance at 1 July 2016 | 124,668 | 2,758 | 18,301 | 145,727 | 38 | 145,765 |
| Profit for the period | - | 3,190 | - | 3,190 | 1 | 3,191 |
| Other comprehensive income net of tax | - | - | (2,792) | (2,792) | - | (2,792) |
| Total comprehensive income | - | 3,190 | (2,792) | 398 | 1 | 399 |
| Dividend paid or provided for | - | (3,690) | - | (3,690) | - | (3,690) |
| Issue of performance rights | - | - | 240 | 240 | - | 240 |
| Balance at 31 December 2016 | 124,668 | 2,258 | 15,749 | 142,675 | 39 | 142,714 |
| Balance at 1 July 2017 | 124,668 | 12,426 | 21,607 | 158,701 | (1) | 158,700 |
| Profit for the period | - | 9,882 | - | 9,882 | - | 9,882 |
| Other comprehensive income net of tax | - | - | 1,933 | 1,933 | - | 1,993 |
| Total comprehensive income | - | 9,882 | 1,993 | 11,815 | - | 11,815 |
| Dividend paid or provided for | - | (4,806) | - | (4,806) | - | (4,806) |
| Issue of performance rights | - | - | 508 | 508 | - | 508 |
| Balance at 31 December 2017 | 124,668 | 17,502 | 24,048 | 166,218 | (1) | 166,217 |

The above condensed statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 19-24.

CONDENSED STATEMENT OF CASH FLOWS

FOLKESTONE LIMITED AND ITS CONTROLLED ENTITIES

For the half year ended 31 December 2017

| Consolidated Group | 31 Dec 2017 \$'000 | 31 Dec 2016 \$'000 |
|--|-----------------------|-----------------------|
| Cash flows from operating activities | | |
| Receipts from customers | 19,564 | 19,436 |
| Payments to suppliers and employees | (12,993) | (22,018) |
| Interest received | 66 | 74 |
| Finance costs | (278) | (339) |
| Trust distributions received | 2,235 | 2,117 |
| Net cash provided by/(used in) operating activities | 8,594 | (730) |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (6) | (184) |
| Payment for investment in associate entity | - | (1,900) |
| Proceeds received from redemption of units in investments in associated entity | 207 | - |
| Distributions received from investment in associated entity | 636 | - |
| Payment for interest in joint ventures | (2,516) | (8,488) |
| Distributions received from interests in joint ventures | 6,955 | 925 |
| Loans advanced to associated entities | (13,463) | (6,718) |
| Repayment of loans by associated entity | 6,227 | 4,917 |
| Net cash used in investing activities | (1,960) | (11,448) |
| Cash flows from financing activities | | |
| Proceeds from borrowings | 15,000 | 17,500 |
| Repayment of borrowings | (14,000) | (10,000) |
| Funds returned from/ (funds placed on) deposits to secure bank guarantee | 41 | (56) |
| Dividends paid to members of the parent entity | (4,781) | (3,671) |
| Net cash (used in)/provided by financing activities | (3,740) | 3,773 |
| Net increase/(decrease) in cash and cash equivalents | 2,894 | (8,405) |
| Cash and cash equivalents at beginning of the period | 21,887 | 20,175 |
| Cash and cash equivalents at end of the period | 24,781 | 11,770 |

The above condensed statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 19-24.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The half year financial report is a financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is a company of the kind referred to in ASIC Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the half year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the Company's 2017 annual financial report for the financial year ended 30 June 2017, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

New and revised ASBs affecting amounts reported and/or disclosures in the financial statements

In the current period, the Group has applied the following standards and amendments AASBs issued by the Australian Accounting Standards Board (the AASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2017, and therefore relevant for the current half year end:

- AASB 1048 Interpretation of Standards
- AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses
- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107
- AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016

The application of these amendments does not have any material impact on the disclosures or the amounts recognised in the Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS CONT.

Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

| Standard/Interpretation | Effective for Annual Reporting Periods Beginning on or After |
|---|---|
| AASB 9 Financial Instruments | 1 January 2018 |
| AASB 15 Revenue from Contracts with Customers, 2014-5 Amendments to Australian Accounting Standards arising from AASB 15, 2015-8 Amendments to Australian Accounting Standards – Effective date of AASB 15, 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15 | 1 January 2018 |
| AASB 16 Leases | 1 January 2019 |
| AASB 17 Insurance Contracts | 1 January 2021 |
| AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [AASB 10 & AASB 128], AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections | 1 January 2022 (Editorial corrections in AASB 2017-5 apply from 1 January 2018) |
| AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions | 1 January 2018 |
| AASB 2017-1 Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments | 1 January 2018 |
| AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation | 1 January 2019 |
| AASB 2017-7 Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) | 1 January 2019 |
| Interpretation 22 Foreign Currency Transactions and Advance Consideration | 1 January 2018 |
| Interpretation 23 Uncertainty over Income Tax Treatments | 1 January 2019 |

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

| Standard/Interpretation | Effective for Annual Reporting Periods Beginning on or After |
|---|--|
| Annual Improvements to IFRS Standards 2015–2017 Cycle | 1 January 2019 |

The potential effect of the revised Standards/Interpretations on the Group's financial statements has not yet been determined.

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 2: OTHER FINANCIAL ASSETS

| | Economic Entity | |
|--|-----------------------|-----------------------|
| | 31 Dec 2017 \$'000 | 30 Jun 2017 \$'000 |
| Units - Folkestone Education Trust | 88,381 | 85,619 |
| Listed Securities - Mason Stevens A-REIT Securities Portfolio Separately Managed Account | 113 | 102 |
| Units - Folkestone Seniors Living Fund No. 1 | 2,675 | 2,675 |
| | 91,169 | 88,396 |

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

This note provides information about how the Group determines the fair values of various financial asset and financial liabilities.

The Group owns 30,687,878 units in the Folkestone Education Trust (ASX:FET) which is a listed real estate investment trust on the Australian Securities Exchange. The units have been acquired in a number of tranches since December 2013 for a total consideration of \$58,208,976 at an average acquisition price of \$1.90 per unit. The fair value hierarchy for this asset is Level 1. The fair value assessed as at 31 December 2017 was \$88,381,089, where the valuation technique used was the quoted bid price of the units on the Australian Securities Exchange as at 31 December 2017. If the market price was 1 per cent higher/lower, the carrying amount would increase/decrease by \$883,811.

The Group owns listed securities held through the Mason Stevens A-REIT Securities Portfolio Separately Managed Account. The listed securities were acquired for a total consideration of \$100,462. The fair value hierarchy for this asset is Level 1. The fair value assessed as at 31 December 2017 was \$113,069 where the valuation technique used was the quoted bid price of the individual units on the Australian Securities Exchange at 31 December 2017. If the market price was 1 per cent higher/lower the carrying amount would increase/decrease by \$1,131.

The Group owns 2,500,000 units in the Folkestone Seniors Living Fund No.1. The units were acquired for a total consideration of \$2,500,000. The fair value hierarchy for this asset is a Level 1. The fair value assessed as at 31 December 2017 as \$2,675,000 where the valuation technique used was based upon the audited Net Asset Value per unit of the units in the Folkestone Seniors Living Fund No. 1 at 30 June 2017. If the market price was 1 per cent higher/lower the carrying amount would increase/decrease by \$26,750.

NOTE 3: BORROWINGS

| | Economic Entity | |
|--|-----------------------|-----------------------|
| | 31 Dec 2017 \$'000 | 30 Jun 2017 \$'000 |
| Short term borrowings | | |
| Bank loans - secured | 2,097 | 2,097 |
| Loans - other | 109 | 608 |
| | 2,206 | 2,705 |
| Long term borrowings | | |
| Bank loans - secured | 8,500 | 7,500 |
| Less: unamortised up front transaction costs | (49) | (71) |
| | 8,451 | 7,429 |

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 3: BORROWINGS CONT.

Short-Term Borrowings

The Group has a debt facility with Bank of Melbourne in respect of the project at 302-330 Millers Road, Altona North.

The key commercial terms of the debt facility as at 31 December 2017 are as follows:

| | |
|--------------------------|---------------|
| Facility Limit | \$2.1 million |
| Drawn Amount | \$2.1 million |
| Facility Maturity | June 2018 |

The Group also has an additional loan of \$0.1m from Wilmac-FLK Millers Road Pty Ltd. The loan is repayable from the sales proceeds of the Millers Junction Business project. During the current period, sales proceeds of \$0.5m were applied against the 30 June 2017 loan balance of \$0.6m. The balance of sales proceeds required to repay the loan are expected to be received by 30 June 2018.

The loan is interest free and does not have a fixed term.

Long-Term Borrowings

The Group has a debt facility with ANZ Bank.

The key commercial terms of the debt facility as at 31 December 2017 are as follows:

| | |
|--------------------------|----------------|
| Facility Limit | \$25.0 million |
| Drawn Amount | \$8.5 million |
| Facility Maturity | December 2019 |

NOTE 4: ISSUED CAPITAL

| | Shares No '000 | Shares \$'000 |
|--|---------------------------|--------------------------|
| Balance at 1 July 2016 | 147,307 | 124,668 |
| Issue of shares under employee share option plan | 299 | - |
| Balance at 31 December 2016 | 147,606 | 124,688 |
| Balance at 1 July 2017 | 147,606 | 124,688 |
| Issue of shares under employee share option plan | 34 | - |
| Issue of shares to the Folkestone Employee Share Trust | 251 | - |
| Balance at 31 December 2017 | 147,891 | 124,688 |

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 5: CONTINGENT LIABILITIES

Folkestone Limited has guaranteed the performance of certain controlled entities in relation to development projects which it holds an interest in. These include:

- The Walter, Hadfield - The Group has a 50 per cent interest in the development of the Walter project located at Hadfield. The Bank of Queensland has provided the joint venture with a \$24.9 million loan facility (drawn to 31 December 2017: \$4.9 million) for this development. The loan facility runs to April 2020. As part of the security for this facility, Folkestone Limited has provided Bank of Queensland with a guarantee and indemnity limited to \$12.3 million plus costs.
- Industria, Knoxfield - The Group has a 50 per cent interest in the development of the Industria project at Knoxfield. The Bank of Melbourne has provided the joint venture with an \$8.8 million loan facility (drawn to 31 December 2017: \$1.4 million) for this development. The loan facility runs to January 2019. As part of the security for this facility, Folkestone Limited has provided Bank of Melbourne with a guarantee and indemnity limited to \$2.0 million plus costs.
- Industria, Nunawading. The Group has a 50 per cent interest in the development of the Industria project at Nunawading. The Commonwealth Bank of Australia has provided the joint venture with a \$15.0 million loan facility (drawn to 31 December 2017: \$8.5 million) to assist with the acquisition of the land. The facility has an expiry date of August 2018. Folkestone has provided CBA with a guarantee and indemnity limited to \$4.2 million plus costs.
- Amber, Wollert. - The Group has an effective 25.0 per cent interest in the development of the Amber project at Wollert via a co-investment in the Folkestone Wollert Development Fund. The ANZ Bank has provided the joint venture with a \$16.1 million development facility (drawn to 31 December 2017: \$nil) for this project. The loan facility runs to September 2018 (Stages 1-3). Folkestone Limited has provided ANZ Bank with a guarantee and indemnity limited to \$6.6 million plus costs.
- Hornsby - The Group has a 50 per cent interest in the project located at Hornsby, New South Wales. The Bank of Melbourne has provided the joint venture with an \$18.8 million loan facility (drawn to 31 December 2017: \$18.8 million) for this project. The loan facility runs until January 2019. As part of the security for this facility, Folkestone Limited has provided Bank of Melbourne with an interest servicing guarantee limited to \$1.0 million plus costs.
- Folkestone Sydney Airport Hotel Fund - The Group is the trustee of the Folkestone Sydney Airport Hotel Fund which acquired the Mercure Sydney International Airport Hotel in November 2017. The ANZ Bank has provided the Fund with a \$34.4 million core debt facility (drawn to 31 December 2017: \$34.4 million) and a \$10.0 million capital expenditure facility (drawn to 31 December 2017: \$nil). The loan facility runs to November 2020. In respect of the capital expenditure facility, Folkestone Limited has provided ANZ Bank with a guarantee and indemnity limited to \$10.0 million plus costs.

Each of the above contingent liabilities have been reviewed to determine whether they meet the definition of a financial guarantee contract as defined under AASB 139. The Company has determined that there is no value attributable to the financial guarantees disclosed in this note. In assessing the liability arising from the financial guarantee contracts, the following have been considered:

- probability of default under the terms of the facility agreement to which the financial guarantee contract relates
- past history of claims on financial guarantee contracts that the Company has provided
- other securities that the bank holds in addition to the financial guarantee contracts
- value of primary asset securing the obligation to which the financial guarantee contract relates

No material losses are anticipated in respect of any of the above contingent liabilities.

Based upon these criteria, the Directors have assessed that the liability arising from the financial guarantee contracts is \$nil.

At the date of this report, the Directors are not aware of any liability in relation to the guarantees mentioned above that has not been provided for in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 6: SEGMENT REPORTING

Business Segments

The economic entity's reportable segments under AASB 8 are Development and Funds Management.

| | Revenue 31 Dec 2017 \$'000 | Revenue 31 Dec 2016 \$'000 | Segment Profit 31 Dec 2017 \$'000 | Segment Profit 31 Dec 2016 \$'000 |
|--|----------------------------------|----------------------------------|---|---|
| Continuing operations | | | | |
| Funds management ¹ | 17,824 | 7,447 | 17,824 | 7,447 |
| Development ² | 6,367 | 15,665 | 3,108 | 2,843 |
| | 24,191 | 23,112 | 20,932 | 10,290 |
| Other revenue | 66 | 74 | 66 | 74 |
| Administration costs | | | (6,881) | (5,702) |
| Profit before income tax | | | 14,117 | 4,662 |
| Income tax expense | | | (4,235) | (1,471) |
| Consolidated profit after tax for the period | | | 9,882 | 3,191 |
| | | | | |
| | | | 31 Dec 2017 \$'000 | 30 Jun 2017 \$'000 |
| Segment assets | | | | |
| Funds management ³ | | | 123,785 | 116,744 |
| Development ⁴ | | | 64,143 | 57,929 |
| Unallocated ⁵ | | | 9,449 | 11,158 |
| | | | 197,377 | 185,831 |
| Segment liabilities | | | | |
| Funds management | | | - | - |
| Development | | | 2,206 | 2,705 |
| Unallocated | | | 28,954 | 24,426 |
| | | | 31,160 | 27,131 |

¹ Funds management revenue and segment profit includes trust distributions, management fees and other fees generated from Folkestone's funds management platform.

² Development revenue and segment profit includes amounts in relation to direct balance sheet investments, interests in joint ventures and associated entities and interest on preferred equity loans.

³ Funds management segment assets include regulatory capital and goodwill allocated to the funds management cash generating unit.

⁴ Development segment assets includes amounts in relation to direct balance sheet investments, goodwill, interests in joint ventures and associated entities and preferred equity loans.

⁵ Unallocated assets includes \$7.9 million of cash reserves.

NOTE 7: EVENTS AFTER BALANCE DATE

There were no significant events after 31 December 2017.

DIRECTORS' DECLARATION

The Directors' declare that:

- (a) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (b) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the Directors' made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors



Garry Sladden
Non-Executive Chairman



Greg Paramor AO
Director

Sydney, 28 February 2018

INDEPENDENT AUDITOR'S REPORT



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Independent Auditor's Review Report to the members of Folkestone Limited

We have reviewed the accompanying half-year financial report of Folkestone Limited, which comprises the condensed statement of financial position as at 31 December 2017, and the condensed statement of profit or loss and other comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 15 to 25.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including, giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Folkestone Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Folkestone Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

INDEPENDENT AUDITOR'S REPORT CONT.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Folkestone Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, appearing to read "Craig Bryan".

Craig Bryan
Partner
Chartered Accountants
Melbourne, 28 February 2018



Millers Junction Home, Altona North, VIC – an asset of the Folkestone Real Estate Income Fund at Altona North



Only About Children, Brighton East, VIC – an asset of the Folkestone Education Trust



DIRECTORY

DIRECTORS

Garry R Sladden
(Non-Executive Chairman)

Mark W Baillie
(Non-Executive Deputy Chairman)

Greg J Paramor AO
(Managing Director)

Ross Strang
(Non-Executive Director)

CHIEF FINANCIAL OFFICER & SECRETARY

Scott N Martin

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AUDITOR

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STOCK EXCHANGE LISTING

Folkestone Limited shares are listed on the Australian Securities Exchange. The ASX code is FLK.

WEBSITE

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Folkestone