



Folkestone

INVESTOR REVIEW

FY18



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Folkestone's real estate expertise spans the residential (land, apartment and townhouse), non-residential (office, retail, industrial and hotels) and real estate related social infrastructure sectors (early learning centres, police stations, court houses and seniors living). Folkestone own, manage and develop real estate for the benefit of our shareholders and investors in our funds.

FY18 HIGHLIGHTS

Folkestone continued to execute on its strategy of growing its funds management platform and its on-balance sheet exposure to quality residential and non-residential developments.

\$13.9m

NPAT¹

▲ 3.3%

9.4c

EPS²

▲ 3.3%

\$1.6bn

FUM

▲ 26.1%³

3.0c

ORDINARY
DIVIDEND⁴

▲ 9.1%⁵

1. Statutory net profit after tax for the 12 months to 30 June 2018.

2. Statutory earnings per share for the 12 months to 30 June 2018.

3. Growth in Funds Under Management for the 12 months to 30 June 2018.

4. FY18 Dividend to be paid on 27 September 2018.

5. Percentage increase on FY17 Ordinary Dividend.



CHAIRMAN AND MANAGING DIRECTOR'S REPORT

Folkestone delivered a strong result in FY18 driven by a focused execution of our strategy to deliver real estate wealth solutions by growing our funds management platform and undertaking quality residential and non-residential developments on our balance sheet.

Folkestone (ASX: FLK) today announced a statutory net profit after tax (NPAT) for the year ended 30 June 2018 of \$13.9 million, a 3.3 per cent increase compared to the prior period. Normalised NPAT was \$13.9 million, a 48.1 per cent increase compared to the prior period.

Statutory earnings per share (EPS) are 9.4 cents compared to 9.1 cents in FY17. Normalised earnings per share are 9.4 cents compared to 6.3 cents in FY17.

Folkestone's net asset value (NAV) was \$1.13 per share at 30 June 2018, up from \$1.08 per share at 30 June 2017. Net tangible asset (NTA¹) backing was \$1.08 per share at 30 June 2018 compared to \$1.04 per share at 30 June 2017.

¹ NTA per share is calculated using assets less liabilities, net of intangible assets and deferred tax liabilities.

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 to \$1.6 billion at 30 June 2018, up 26.1 per cent on 30 June 2017.

Total funds management revenue was \$26.8 million, an increase of 57.7 per cent on FY17.

Key features of the FY18 result are:

- launched four new funds;
- 25.1 per cent increase in recurring fee income and cost recoveries to \$9.5 million;
- \$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;
- \$5.1 million in performance fees in respect of the Wollongong and Sydney Olympic Park Income Funds;
- \$1.5 million leasing fee in respect of the Folkestone CIB Fund; and
- 6.3 per cent increase in distributions from FLK's co-investment in the ASX listed Folkestone Education Trust to \$4.6 million.

New Funds Launched

During FY18, Folkestone generated \$3.3 million in acquisition fees from the launch of three new funds:

Folkestone SOP Opportunity Fund

In July 2017, Folkestone launched 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 5,810 square metres across five levels of office and ground floor retail with basement car parking. Practical completion took place in March 2018.

Folkestone received commitments of \$24.7 million from 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 launched 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.

Folkestone is undertaking 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 14.4 per cent per annum (post-fees, pre-tax) over the life of the Fund.

Folkestone successfully completed a \$50.0 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 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.

Folkestone successfully raised \$23.2 million to assist in funding the acquisition of the Hotel. The Fund has a target equity

IRR of 12.0 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 Plumpton Development Fund

In June 2018, Folkestone launched the Folkestone Plumpton Development Fund to develop a circa 251 lot residential land subdivision in Plumpton, Victoria known as Rosewood. The project will be undertaken in a 50/50 joint venture with ID_Land. The land is zoned and construction commenced in July 2018.

The Fund has a target equity IRR of 16.0 per cent per annum (post fees, pre-tax) over the life of the Fund.

Folkestone successfully completed a \$16.5 million equity raising for the Fund which closed significantly oversubscribed. Folkestone received an acquisition fee of \$0.4 million on the successful completion of the equity raising, which will be recognised in HY19.

We are delighted with the positive response to our new funds, with all funds closing oversubscribed. Folkestone raised \$114.4 million from high net worth and family office clients, which reflects the strong distribution network we have created over the past few years.

Performance and Leasing Fees

During FY18, Folkestone generated \$6.6 million in performance and leasing fees from the following funds:

Folkestone Real Estate Income Fund at Wollongong

In October 2017, Unitholders in the Folkestone Real Estate Income Fund at Wollongong voted in favour of the sale the Fund's 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 hurdle benchmark of 12.0 per cent per annum. As a result of the sale of the asset and the windup of the Fund, Folkestone received a performance fee of \$2.9 million.

Folkestone Real Estate Income Fund at Sydney Olympic Park

In November 2017, Unitholders in the Folkestone Real Estate Income Fund at Sydney Olympic Park 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 with 100 per cent of the office space leased to Thales, a leading international electronics and systems group for another five years.

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.

Folkestone CIB Fund

Folkestone's CIB Fund owns a portfolio of 9 police stations and 2 courthouses leased to the Victorian Government. As a result of renewing the leases from a common expiry date of 2020 to varying dates between August 2023 and August 2028, Folkestone received a leasing fee of \$1.5 million.

Folkestone Education Trust

The largest fund managed by Folkestone, the ASX listed Folkestone Education Trust (ASX: FET) increased its gross assets by 14.1 per cent to \$1.03 billion in FY18.

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

- \$8.4 million in fees and cost recoveries charged in accordance with FET's constitution;
- \$4.6 million in trust distributions received from its 12.0 per cent investment in FET; and
- an unrealised loss of \$3.1 million on its investment in FET as at 30 June 2018.

DIRECT INVESTMENTS - DEVELOPMENTS

Folkestone's development division focuses on value-add and opportunistic real estate developments. Folkestone's

development division generated a net return² of \$6.5 million, down 61.1 per cent on FY17.

Key features of the FY18 result are:

- \$6.1 million in net development profits from Millers Junction Business at Altona North Industria at Knoxfield, Northside at Officer and Elements at Truganina (via Folkestone's 18.8 per cent interest in the Folkestone Truganina Development Fund);
- \$1.5 million in preferred equity interest in FY18 from four projects (South Dural, Hornsby, Wollert and Green Square); and
- (\$1.7) million share of development costs expensed and impairments in respect of the South Dural project.

Folkestone continues to secure strong pre-sales across our active residential and enterprise park (office/warehouse units) developments in Melbourne. Folkestone's strategy to invest in these sectors in Melbourne, continues to be rewarded. Melbourne's strong population, employment and economic growth continues to drive demand for both residential land lots and enterprise park units.

The following is a brief update on key achievements for Folkestone's direct investments in FY18.

Enterprise Parks

Folkestone's three enterprise parks, located in Melbourne at Altona North (Stages 1 and 2), Knoxfield and Nunawading, are all in joint venture with Wilmac Properties.

Settlements and pre-sales continued across all three projects with a total of 71 pre-sales and 53 settlements recorded in FY18. During FY18 Folkestone recognised \$1.3 million in development profits in respect of Millers Junction Business (Stage 1) at Altona North and \$3.6 million from Industria in Knoxfield.



² Net of all project costs incurred during the period and includes development profit, fees, preferred equity income, impairments and rental expenses on operating leases.

Residential Land

Folkestone's residential land projects (Potters Northside in Officer, in south-east Melbourne, Elements in Truganina³, in western Melbourne and Amber, Wollert⁴ in northern Melbourne) are all in joint venture with ID_Land.

The Melbourne residential land market continues to experience favourable demand and limited supply. During FY18, 227 lots were pre-sold and 258 lots were settled across Folkestone's projects. Folkestone recognised a \$0.3 million share of development profits in respect of the Potters Northside project and a \$0.8 million share of development profits (net of fund costs) from its investment in the Folkestone Truganina Development Fund.

In October 2015, Folkestone announced that it had entered into a second 50/50 joint venture with the Lyon Group, 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 does not intend 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 FY18, Folkestone recognised a \$0.9 million impairment provision against the carrying value of its investment, the project in addition to the \$0.8 million of development costs expensed during the year.

Residential Townhouses

In September 2017, Folkestone entered into a 50/50 joint venture with ID_Land to develop 64 townhouses in Hadfield, known as The Walter, 14 kilometres north of the Melbourne CBD. Settlement of the land occurred in October 2017 and construction is

now underway. As at 30 June 2018, a total of 45 townhouses had been pre-sold, representing 70.3 per cent of the Project

In the face of affordability limitations, shifting lifestyle choices and a growing population, townhouse living is becoming more popular in the inner and middle ring suburbs and Folkestone is currently looking at opportunities to further expand its exposure to this sector in both Sydney and Melbourne.

Residential Apartments

In FY18, the Folkestone/Lyon Group joint venture settled the acquisition of a commercial building it had under option in Hornsby in Sydney's north-west. The joint venture has now acquired four sites totalling in excess of 3,200 square metres, strategically located opposite the Hornsby Train Station and Westfield Hornsby.

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.

In June 2017, Folkestone entered into agreements with BWP Trust to acquire 1.0 hectares of land and 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. In June 2018, the Victorian Planning Minister approved the rezoning of the land to Commercial 2 and the issue of a planning permit for the development of a retail anchored supermarket and large format retail centre. Settlement of the BWP Trust land is due to be completed in September 2018

Hotels

In November 2016, Folkestone announced that it had entered into a 50/50 joint venture with Furnished Property to develop a 144 room hotel at Green Square, Sydney. The site, is located within the \$13.0 billion, 278 hectare Green Square Urban Regeneration Area and is strategically located approximately 120 metres from the Green Square Train Station.

During FY18, 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 has commenced and is forecast to be completed in the September 2019 quarter.

3 Folkestone holds a 18.8 per cent interest in the Folkestone Truganina Development Fund.

4 Folkestone holds a 25.0 per cent interest in the Folkestone Wollert Development Fund.

CHARTER HALL GROUP TO ACQUIRE FOLKESTONE LIMITED

Folkestone and the ASX listed Charter Hall, one of Australia's leading fully integrated property groups, entered into a Scheme Implementation Agreement on 22 August 2018 for Charter Hall to acquire Folkestone.

Under the terms of the Scheme, Folkestone shareholders will be entitled to receive \$1.39⁵ cash per share (Scheme Consideration), comprising a Charter Hall cash consideration of \$1.354⁵ per share and a special dividend of \$0.036 per share (Special Dividend).

The proposed Scheme Consideration of \$1.39, represents:

- a 25.2 per cent premium to the previous closing price;
- a 25.6 per cent premium to the 30 day VWAP; and
- a 25.6 per cent premium to the 3-month VWAP.

We see this as an excellent fit of two like minded businesses.

Folkestone brings significant expertise and skills to Charter Hall and our listed and unlisted funds also complement Charter Hall's existing platform, providing opportunities for Charter Hall to either grow these funds, or create new fund initiatives leveraging Folkestone's extensive private client network and Charter Hall's extensive distribution network.

The Folkestone Board has been considering a range of strategic options to maximise shareholder value, including maintaining the status quo or the sale of selected assets. After receiving and evaluating the proposed Scheme, Folkestone's Board has unanimously concluded that the sale of Folkestone at a significant premium to market is the most certain value proposition for all Folkestone shareholders and the Scheme Consideration is all cash which delivers certainty and immediate value for Folkestone shareholders.

Consistent with their recommendation, each member of the Folkestone Board intends to vote the Folkestone shares in his control in favour

of the Scheme in the absence of a superior proposal and subject to the Independent Expert concluding that the Scheme is in the best interests of Folkestone shareholders.

The Scheme Implementation Agreement and Scheme are subject to the usual conditions precedent including:

- all necessary regulatory and court approvals;
- Independent Expert's recommendation;
- Folkestone shareholder approval by the requisite majorities (being a majority in number of Shareholders who vote and at least 75% of the total number of shares voted); and
- other customary conditions.

A shareholder meeting will be held in mid October 2018, and subject to the Folkestone shareholders voting in favour of the Scheme, implementation of the acquisition will occur in early November 2018.

On behalf of the Board, we extend our thanks to our high performing staff for their commitment and significant contribution to Folkestone, not only over the past year but since the recapitalisation and repositioning of Folkestone into a real estate fund manager and developer in 2011.

We would also like to thank our shareholders, and investors across our funds, for their continued support.



Garry Sladden
Non-Executive Chairman



Greg Paramor AO
Managing Director

⁵As at the date of this announcement, there are 148,099,564 shares on issue and 3,268,128 unvested performance rights. In accordance with the terms of the Executive Incentive Plan, these performance rights will vest and as a result will receive the Scheme Consideration.



Only about Children Hawthorn - An Asset of the Folkestone Education Trust



FUNDS MANAGEMENT HIGHLIGHTS

Folkestone's funds management division is a specialist real estate funds manager for private clients and select institutional investors.

\$1.6bn

FUM

▲ 26.1%¹

4

NEW FUNDS
LAUNCHED

\$5.1m

PERFORMANCE
FEES²

\$3.3m

TRANSACTION
FEES³

1. Growth in Funds Under Management for the 12 months to 30 June 2018.

2. Folkestone Real Estate Income Fund at Wollongong and Folkestone Real Estate Income Fund at Sydney Olympic Park.

3. Acquisition and Leasing Fees, excludes the Folkestone Plumpton Development Fund, which will be recognised in HY19.

LISTED A-REIT

FOLKESTONE EDUCATION TRUST

(ASX CODE: FET)

The ASX listed Folkestone Education Trust (ASX: FET) is the leading provider of early learning accommodation with 410 early learning centres in Australia and New Zealand (including 29 development sites) in Australia.

FET provided a total return of 1.8 per cent for the year to 30 June 2018. FET has outperformed the Index over three, five and 10 years (see the figure below). FET continued its active management of its portfolio with the disposal of 19 Assets, the acquisition of 23 Assets including 9 existing and 14 development sites for new centres. 26 leases were renewed for five year options and market rent reviews were completed at 34 centres.

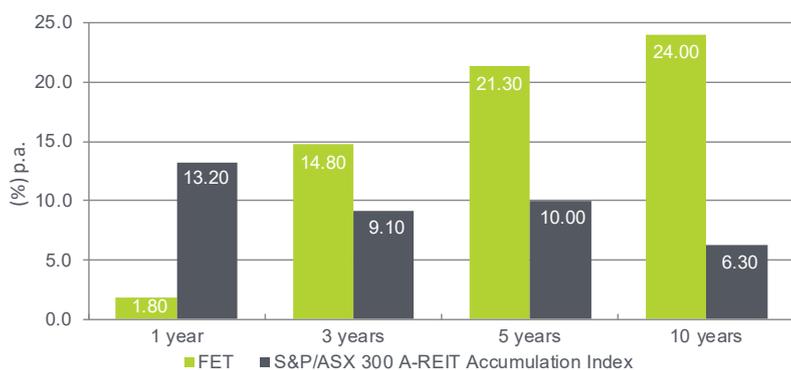
At 30 June 2018, FET's development pipeline comprised 29 sites with a forecast completion value of \$170.3 million. These centres, when completed, are expected to add

approximately \$10.6 million per annum of net rental income to FET.

FET continues to target new opportunities based on our strong understanding of the market, with the key focus on selecting high quality real estate supported by sound early learning demand and supply fundamentals.

Folkestone, as well as managing FET, owns 12.0 per cent of the Trust, and generated \$8.4 million in fees and cost recoveries, \$4.6 million in distributions and an unrealised gain of \$3.1 million on its investment in FET in FY18.

Total Returns To 30 June 2018



BALANCE SHEET AS AT	JUN 18	JUN 17	VAR. %
Total Assets (\$m)	1,029.4	902.4	14.1
Investment Properties (\$m)	985.5	861.2	14.4
Borrowings (\$m)	300.0	249.9	20.0
Net Assets (\$m)	710.7	628.8	13.0
Gearing ¹ (%)	29.1	27.7	1.4
NTA per Unit (\$)	2.78	2.51	10.8

¹ Gearing is calculated by borrowings/total assets

Key Information

1.03

Total Value of Assets (\$bn)

41.9

FY18 Distributable Income (\$m)

2.78

NTA Per Unit (\$)

100

Occupancy (%)

6.3

Average Property Yield (%)

9.9

Weighted Average Lease Expiry (Years By Income)

29

Number of Tenants

170.3

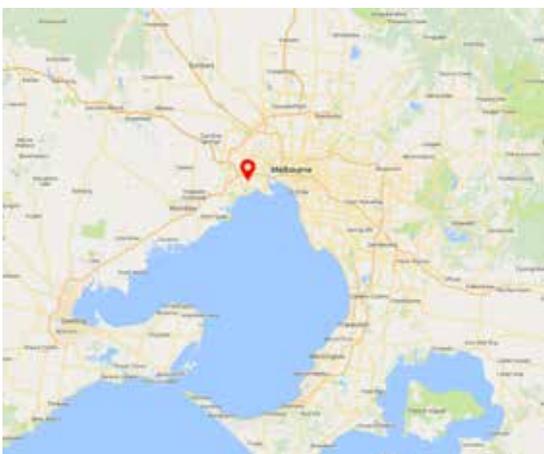
Development Pipeline (\$m)

16.0

FY19 Forecast Distribution (cpu)

PRIVATE FUNDS

FOLKESTONE REAL ESTATE INCOME FUND AT ALTONA NORTH



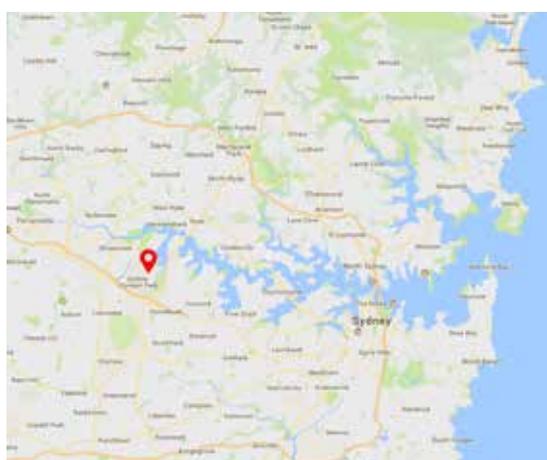
The Fund owns a large format retail centre, known as Millers Junction Home, which is anchored by Bunnings and includes Officeworks, JB Hi-Fi Home, Repco, PETstock, petVET and Pitt Stop Cafe. Millers Junction Home was developed by Folkestone on behalf of the Fund and opened in September 2014.

As at 30 June 2018, 100 per cent of the Centre was leased with a weighted average lease expiry by income of 6.8 years and 7.4 years by area. Millers Junction Home continues to perform well, based on the positive feedback from tenants and its strategic location, just 13.0 kilometres west of the Melbourne CBD.

The Fund generated a total return of 18.2 per cent in the year to 30 June 2018, outperforming the PCA/IPD Australia Core Retail Fund Index which returned 17.4 per cent.

PRIVATE FUNDS

FOLKESTONE REAL ESTATE INCOME FUND AT SYDNEY OLYMPIC PARK

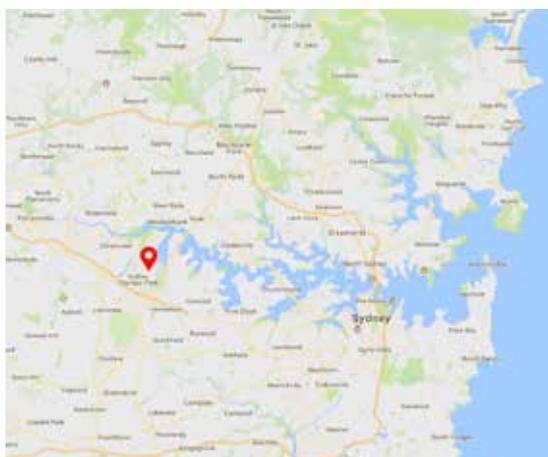


The Fund owns 7 Murray Rose Avenue, Sydney Olympic Park, a 5,931 sqm commercial office building, completed in December 2012, with ground floor retail and basement car parking. The office space is 100 per cent leased to Thales Australia on a ten year lease term to 1 December 2022. The five retail tenancies on the ground floor are leased to a range of food and service providers.

In November 2017, Unitholders overwhelmingly voted to extend the term of the Fund for a further three years to December 2020. As a result of the Fund's extension and its strong performance, Folkestone received a performance fee of \$2.2 million in December 2017.

The Fund generated a total return of 19.0 per cent in the year to 30 June 2018, outperforming the PCA/IPD Australian Core Retail Fund Index which returned 17.4 per cent.

PRIVATE FUNDS FOLKESTONE SOP OPPORTUNITY FUND



In July 2017, the Folkestone SOP Opportunity Fund entered into an agreement to acquire prior to completion, 11 Murray Rose Avenue, Sydney Olympic Park. The six level commercial building, comprises 5,811sqm across five levels of office and ground floor retail with basement car parking. Practical completion occurred in March 2018.

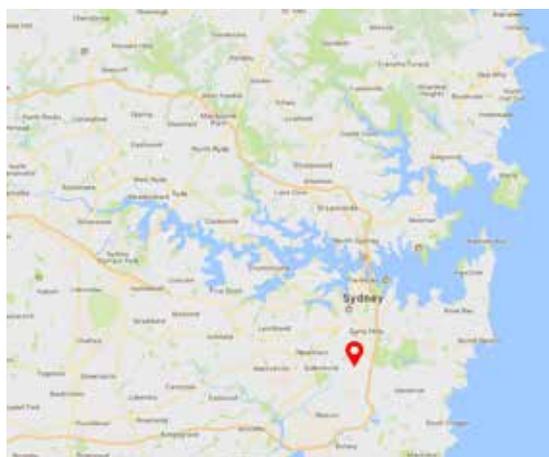
This is Folkestone's first opportunistic investment fund, with investors in the Fund taking leasing, financing and valuation risk, but not development risk. The Fund has a target forecast equity IRR of 14.0 per cent per annum over the life of the Fund.

As at 30 June 2018, 1,488 sqm of office space had been leased to Jardine Lloyd Thompson and Energizer, with a further 446 sqm of retail space subject to a Heads of Agreement. There is strong interest for the remaining space.

1. Post-fees, pre-tax over the life of the Fund.

PRIVATE FUNDS

FOLKESTONE GREEN SQUARE HOTEL FUND



In November 2017, Folkestone launched a new fund to acquire a 144 room hotel at 18 O'Riordan Street, Alexandria which is being developed in joint venture between Folkestone and Furnished Property. The Fund has agreed to acquire the Hotel on a fund through basis and will own the Hotel long term.

Demolition works commenced in May 2018, and the Hotel is forecast to complete in August 2019 and open for trade in October 2019.

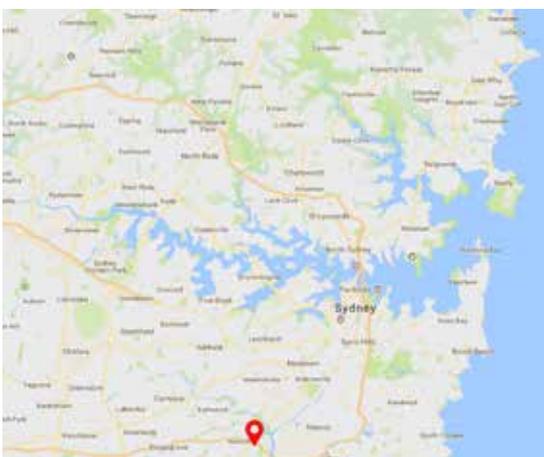
Veriu Hotels & Suites, a leading boutique hotel operator, has committed to a 10 year lease (with 8 x 5 year options), with a minimum base rent and annual increases plus a turnover rent.

Folkestone has not co-invested in the Fund, but has a 50 per cent interest in the development joint venture, and as at 30 June 2018, Folkestone's funds invested in the project were \$5.1 million.

¹ Total acquisition cost including land and development fee payment.

² Fund target total return (post fees, pre-tax) over the life of the Fund.

PRIVATE FUNDS FOLKESTONE SYDNEY AIRPORT HOTEL FUND



The Fund acquired the Mercure Sydney International Airport Hotel, a 271 room hotel for \$76.4 million in November 2017. The Fund raised \$50.0 million from a range of high net worth, investors and family offices, and closed significantly oversubscribed.

An extensive refurbishment program for the Hotel began in May 2018 and is on track for completion in December 2018. Planned works include refurbishing guest rooms, function/conference facilities, bar/restaurant areas, external façade and the hotel's plant and equipment to improve the operational efficiency of the Hotel.

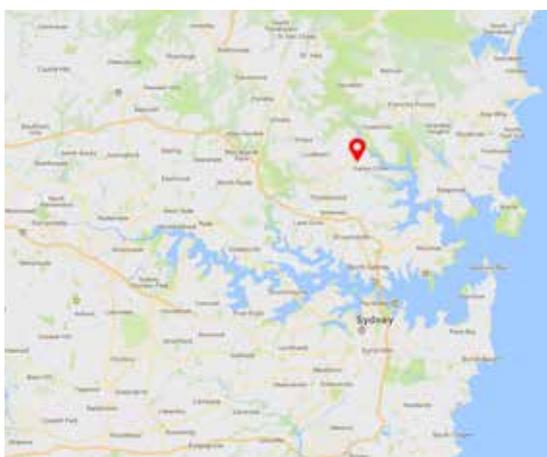
The Hotel continues to trade well, buoyed by its proximity to the Sydney International Airport and the strong domestic and international tourism market.

¹ Fund target total return (post fees, pre-tax) over the life of the Fund.

PRIVATE FUNDS

FOLKESTONE

SENIORS LIVING FUND NO.1



In August 2016, the Fund acquired Watermark Castle Cove, an award winning retirement living community on Sydney's lower North Shore. Watermark Castle Cove comprises 58 independent living units, with a further 18 under construction and due for completion between August and October 2018.

The Fund will seek to acquire a portfolio of high quality retirement living communities. This will be achieved by investing in existing retirement living communities and also by joint venturing with partners to develop and ultimately own such communities.

Folkestone holds a 10.0 per cent interest in the Fund. At 30 June 2018, Folkestone's funds invested in the Fund were \$2.7 million.

1 It is proposed that the Fund will acquire additional assets.

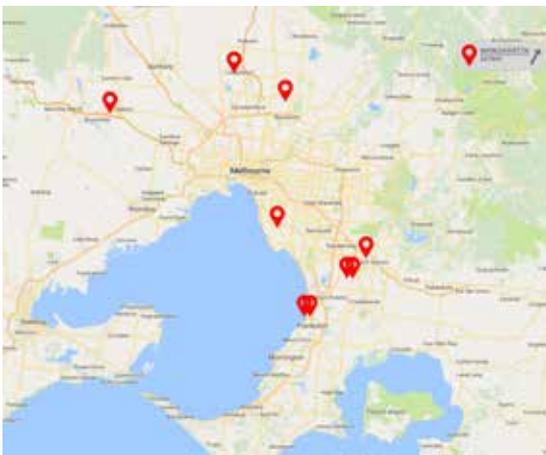
2 Fund target total return (post fees, pre-tax) over the life of the Fund.

3 Comprising 58 Units complete and 18 Units under construction.

PRIVATE FUNDS

FOLKESTONE

CIB FUND



The Folkestone CIB Fund is a wholesale fund that owns nine police stations and two law court complexes in Victoria.

In August 2017, the State Government renewed the lease for the two law court complexes and nine police stations from a common expiry date of November 2020 to varying dates ranging between August 2023 and August 2028. As a result, Folkestone generated a leasing fee of \$1.5 million in FY18.

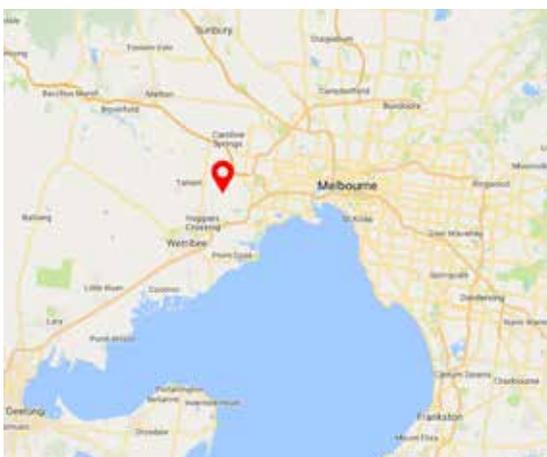
The Fund generated a total return of 41.6 per cent in the year to 30 June 2018, substantially outperforming the Mercer/IPD Australia Core Wholesale Property Fund Index which returned 12.0 per cent.

¹ Total Return - 12 months to 30 June 2018.

PRIVATE FUNDS

FOLKESTONE

TRUGANINA DEVELOPMENT FUND



The Fund has an 80.0 per cent interest in Elements, a residential master planned community in Truganina, one of Melbourne’s fastest growing suburbs. The Fund is developing, in joint venture with ID_Land (20 per cent), circa 718 residential lots and a 2.3 hectare town centre.

Elements was launched in November 2014 and as at 30 June 2018 had settled 570 lots and pre-sold a further 137 lots (total 707 lots) compared to the 576 lots originally forecast to be sold by this date, reflecting 1.23 times the original forecast sales volumes. This equates to 99.6 per cent of lots released to date and 98.5 per cent of total lots in the Elements estate.

The Fund’s forecast investment return has been upgraded to an equity IRR (post fees, pre-tax) of 21.0 per cent from the initial 18.0 per cent, and the return on equity (post fees, pre-tax) from 77.3 per cent to 88.0 per cent.

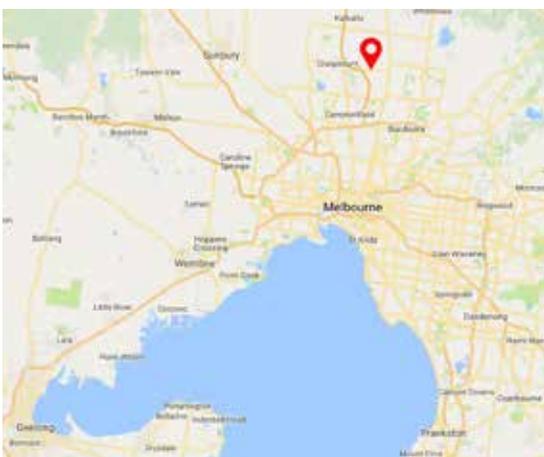
Folkestone holds an 18.8 per cent interest in the Fund. In FY18 it recognised \$0.8 million in profit, as at 30 June 2018, its funds invested were \$2.8 million.

1 Post fees, pre-tax. Forecast as at 30 June 2018.

PRIVATE FUNDS

FOLKESTONE

WOLLERT DEVELOPMENT FUND



The Fund has an 80.0 per cent interest in Amber, a residential master planned community in Wollert in Melbourne's rapidly growing Northern Growth Corridor. The Fund is developing in joint venture with ID_Land (20 per cent), 563 residential land lots.

As at 30 June 2018, 345 lots had been sold, reflecting 96.9 per cent of lots released to date and 61.3 per cent of the total lots in the Amber estate. This compares to the 210 lots originally forecast to be sold by this date

The Fund's forecast investment return has been upgraded to an equity IRR (post fees, pre-tax) of 24.8 per cent from the initial 17.0 per cent, and the return on equity (post fees, pre-tax) from 56.0 per cent to 85.0 per cent.

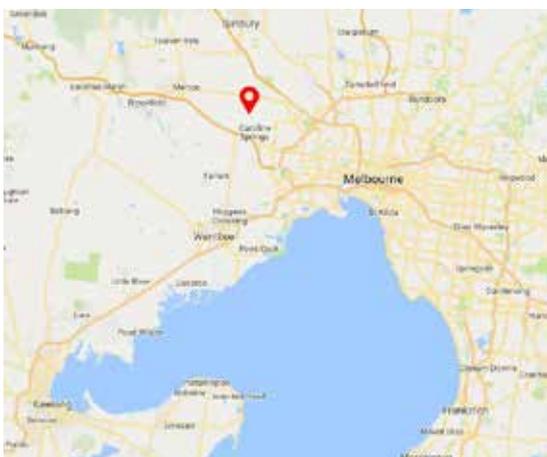
Folkestone holds 25.0 per cent interest in the Fund. As at 30 June 2018, Folkestone's funds invested in the Fund were \$7.0 million.

¹ Post fees, pre-tax. Forecast as at 30 June 2018.

PRIVATE FUNDS

FOLKESTONE

PLUMPTON DEVELOPMENT FUND



In June 2018, Folkestone launched the Folkestone Plumpton Development Fund to develop a circa 251 lot residential land subdivision, known as Rosewood, in Plumpton, north-west Melbourne. The Fund is undertaking the Project in a 49.9/50.1 per cent Joint Venture with ID_Land, an experienced Melbourne residential developer.

The Fund's capital raising of \$16.5 million (FLK \$3.3 million and third party investors \$13.2 million) closed significantly oversubscribed. The final units were allotted in July 2018, and Folkestone will recognise a \$0.4 million acquisition fee in HY19

The Fund's forecast investment return is 16.0 per cent, and the return on equity (post fees, pre-tax) is 30.0 per cent.

¹ Post fees, pre-tax. Forecast as at 30 June 2018.

A-REIT SECURITIES FOLKESTONE MAXIM A-REIT SECURITIES

The Folkestone Maxim A-REIT Securities Fund provides access to a diversified portfolio of quality ASX listed real estate securities which own office, retail, industrial, residential and real estate related social infrastructure assets. The Fund employs a high conviction, active investment strategy, which focuses on building a portfolio based on individual merit and not by benchmark weights.

The Fund generated a total return of 12.46 per cent (post fees, pre-tax) in the year to 30 June 2018. Over the three years to 30 June 2018, the Fund generated a total return of 12.48 per cent per annum (post fee, pre-tax) outperforming the S&P/ ASX300 A-REIT Accumulation Index, which returned 9.9 per cent per annum. Folkestone Maxim also manages a number of separate mandates, offering clients a customised portfolio of listed real estate securities.

As at 30 June 2018, Folkestone Maxim managed \$113 million in A-REIT securities, a 75.7 per cent increase in funds under management during FY18.

12.46

FY18 Fund
Total Return¹
(%)

113.4

FUM²
(\$m)

2

Fund Manager of
The Year Awards

Folkestone Maxim Wins Two Fund Manager of the Year Awards



Folkestone Maxim Wins 2017 Industry Leadership Award

In December 2017, Folkestone Maxim won the inaugural Financial Standard Investment Leadership Award for Australian Listed Property.

The Financial Standard award recognises “investment strategies that showcase all the qualities investors - whether they be advised or self directed - are looking for in a manager”.



Folkestone Maxim Wins 2018 Australian Property Securities Fund Manager of the Year

In May 2018, Folkestone Maxim won the Money Management/ Lonsec Australian Property Securities Fund Manager of the year.

The award recognises the Fund’s strong investment “performance against the benchmark and the Fund’s positive qualitative momentum.”



¹ Folkestone Maxim A-REIT Securities Fund (post fees, pre-tax) for the 12 months to 30 June 2018.

² Includes the Folkestone Maxim A-REIT Securities Fund and individual mandates.

DIRECT INVESTMENT HIGHLIGHTS

Folkestone's development division focuses on value-add and opportunistic real estate developments.

\$4.9m

DEVELOPMENT
PROFIT FROM
ENTERPRISE
PARKS

\$1.2m

DEVELOPMENT
PROFIT FROM
RESIDENTIAL
LAND
PROJECTS

\$1.5m

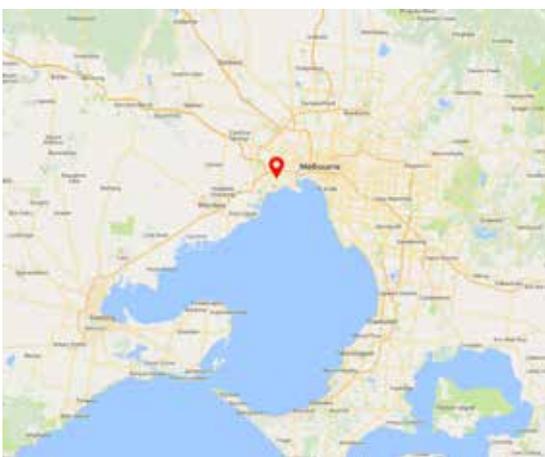
PREFERRED
EQUITY
INTEREST

2

NEW JOINT
VENTURES
WITH ID_LAND

DIRECT INVESTMENTS

MILLERS JUNCTION BUSINESS 1, ALTONA NORTH



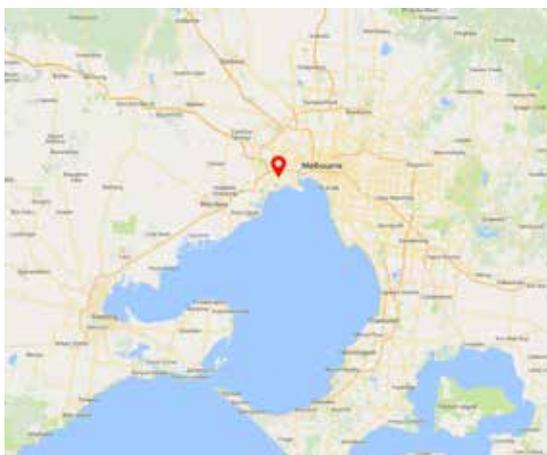
Folkestone announced in September 2014, a 51/49 per cent joint venture with Wilmac Properties to develop Stage 2 of the Millers Junction precinct into circa 69 office/warehouse units plus a cafe, providing a mix of flexible business, retail and storage space. Millers Junction Business is now a prominent new business hub in the inner western suburbs of Melbourne.

As at 30 June 2018, all 69 office/warehouse units plus the cafe have settled.

Folkestone recognised \$1.28 million of development profit in FY18.

DIRECT INVESTMENTS

MILLERS JUNCTION BUSINESS 2, ALTONA NORTH



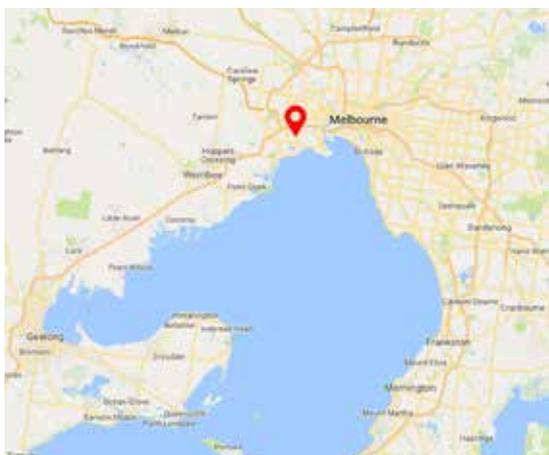
In June 2017, Folkestone entered into its fourth joint venture with Wilmac Properties to expand its exposure to enterprise park developments.

Folkestone and Wilmac are developing a further 2.2 hectares of Folkestone's land at Altona North into 76 office/warehouse units with an end value of circa \$32.0 million. Millers Junction Business 2 is immediately adjacent to the 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 commenced in May 2018. As at 30 June 2018, 38 of the 76 units have been pre-sold.

As at 30 June 2018, Folkestone's funds invested in this project were \$4.9 million.

DIRECT INVESTMENTS

MILLERS JUNCTION RETAIL (STAGE 3), ALTONA NORTH



In May 2017, Folkestone entered into agreements with BWP Trust to acquire 1.0 hectare of land and a new call option to acquire an adjoining further 2.4 hectares of land 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 to create Millers Junction Retail, a 13,330 sqm convenience and large format retail centre. The Centre will be anchored by Woolworths and discussions are underway with various other tenants.

In June 2018, the Victorian Planning Minister granted final approval to rezone the land to allow the retail centre to be developed.

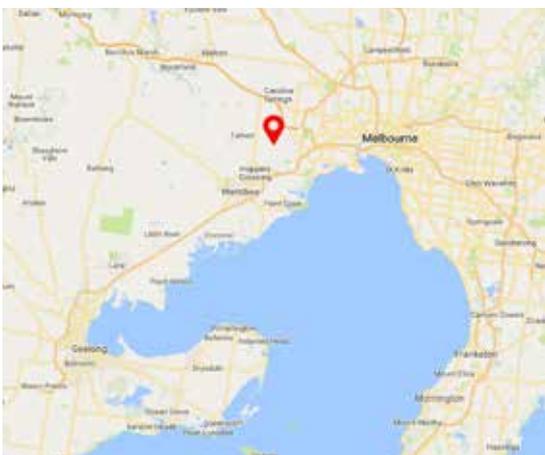
As at 30 June 2018, Folkestone's funds invested in this project were \$6.5 million.

1 3.2 hectares owned and option over 2.4 hectares.

2 Approximate size of centre subject to Planning Approval.

DIRECT INVESTMENTS

NEIGHBOURHOOD ACTIVITY CENTRE, TRUGANINA

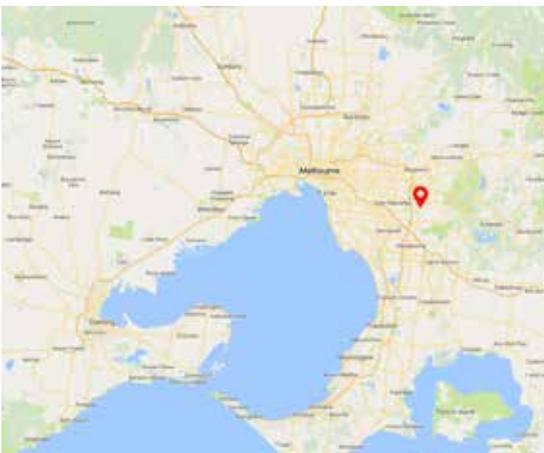


The Folkestone Truganina Development Fund and ID_Land (80/20 JV) are undertaking a residential land sub-division known as Elements, in Truganina in the western corridor of Melbourne (See page [16]).

As part of the Elements estate, 2.3 hectares has been set aside for a retail neighbourhood activity centre (NAC). Folkestone Limited (not the Fund) and ID_Land (FLK-ID JV) have provided a letter of intent to the Fund and ID_Land to acquire rights to the land and to develop the NAC. A master plan is being prepared for a supermarket, retail shops, commercial and ancillary services of approximately 7,460 sqm and parking for circa 330 cars. An Agreement for Lease has been signed with a major supermarket to anchor the NAC. The proposed sale to the FLK-ID JV will be at market value as determined by an independent expert valuer following development approval of the NAC and the population in the Centre's catchment area reaching a certain level, which is forecast to occur in mid 2019.

¹ The land is currently owned in a joint venture between the Folkestone Truganina Development Fund and ID_Land.

DIRECT INVESTMENTS INDUSTRIA, KNOXFIELD



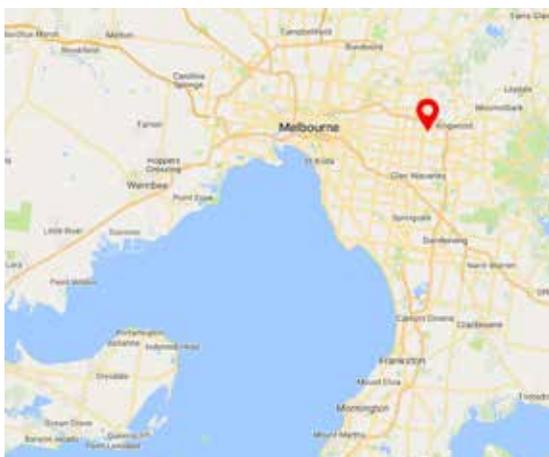
In June 2015, Folkestone entered into a second 50/50 joint venture with Wilmac Properties to develop 88 strata office/warehouse units plus a cafe in Knoxfield, Victoria. Knoxfield is 27 kilometres south-east of the Melbourne CBD and the site lies within an established business park precinct with excellent access to the Eastlink and M1 Motorways.

As at 30 June 2018, 66 units had been completed, 64 of which have settled, 44 of these occurred in FY18. The remaining two units settled in July 2018. The final 22 lots in the project are under construction and due for completion in August 2018, with 19 of these lots pre-sold at 30 June 2018.

Folkestone recognised \$3.6 million of development profit in FY18. To date Folkestone has recognised \$4.9 million of its total \$7.5 million forecast profit contribution from the Project. As at 30 June 2018, Folkestone's funds invested in this project were \$1.8 million.

DIRECT INVESTMENTS

INDUSTRIA, NUNAWADING



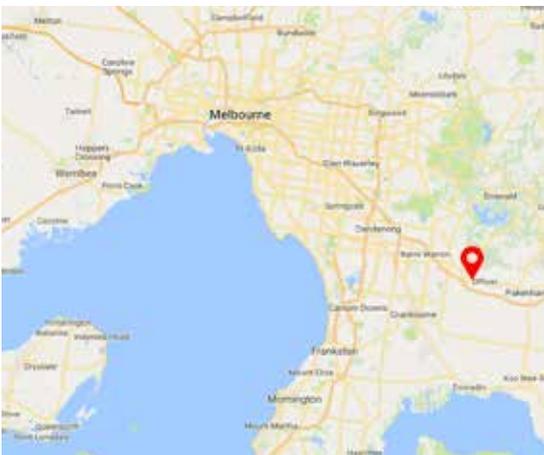
In May 2016, Folkestone entered into a third 50/50 joint venture with Wilmac Properties to develop 71 strata office/warehouse units plus a three storey strata office building and cafe in Nunawading, Victoria. Nunawading is located 18 kilometres east of the Melbourne CBD and the site is well located near major road infrastructure.

As at 30 June 2018, 71 units had been pre-sold plus the three story office building/café. Stage 1 (39 units plus the three story office building/café) are completed, with settlements due in August 2018. Stage 2 (32 units) are all pre-sold and under construction, with settlements due in late 2018.

Folkestone recognised \$0.2 million of development profit in FY18. As at 30 June 2018, Folkestone’s funds invested in this project were \$2.9 million.

DIRECT INVESTMENTS

POTTERS NORTHSIDE, OFFICER



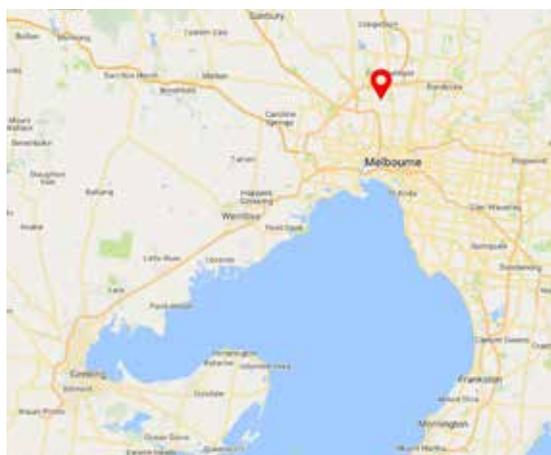
In August 2014, Folkestone acquired, in a 50/50 joint venture with ID_Land, a call option over 8 hectares of land in Officer, south-east Melbourne. The land is located on the northern side of the Princes Highway, diagonally opposite Folkestone and ID_Land's Potters Grove residential land sub-division (completed in 2016). Officer is located in the Cardinia Shire which is in the south-east growth corridor, one of the fastest growing areas in Melbourne.

As at 30 June 2018, all 146 lots had been pre-sold, and 138 settlements had occurred. The project is due for completion in August 2018.

Folkestone recognised \$0.35 million share of development profit in FY18. To date, Folkestone has recognised \$2.1 million of its forecast share of profit of \$2.25 million. As at 30 June 2018, Folkestone's funds invested in this project were \$0.6 million.

DIRECT INVESTMENTS

THE WALTER, HADFIELD



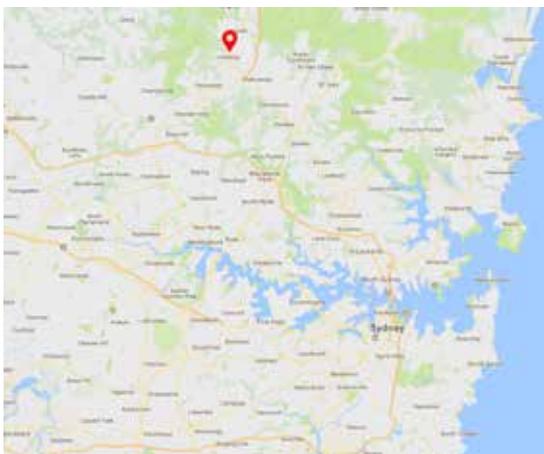
In September 2017, Folkestone entered its fifth joint venture with ID_Land to deliver 64 townhouses in Hadfield, 14 kilometres north of the Melbourne CBD. The \$40 million approved development, known as “The Walter”, has been designed by Peddle Thorpe Architects.

As at 30 June 2018, a total of 45 townhouses had been pre-sold, representing 70 per cent of the townhouses in the project. Construction is underway with the project due to complete in late 2019.

As at 30 June 2018, Folkestone’s funds invested in this project were \$9.3 million.

DIRECT INVESTMENTS

HORNSBY, SYDNEY



In December 2014, Folkestone entered into a 50/50 joint venture with the Lyon Group to develop a strategically located, mixed-use site opposite Hornsby railway station in Sydney's north-west. Following the settlement of an office building in the December 2017 quarter, the joint venture has amalgamated a total landholding of circa 3,200 sqm.

Master-planning for a mixed-use development including residential apartments, retail and community uses is ongoing. In December 2017, Hornsby Council rezoned the land from B3 Commercial Core to B4 mixed-use and approved funding to allow for the technical studies to be undertaken to address the matters outlined in the Gateway Determination issued by the NSW Department of Planning and Environment. Folkestone may sell down part of its investment to introduce third party capital into the project prior to rezoning/DA approval or at the development stage.

As at 30 June 2018, Folkestone's funds invested in this project were \$12.6 million.

¹ It is assumed that the land is sold in 2020 as a DA approved site. FLK may decide to develop this in JV with the Lyon Group or bring in third party capital.

DIRECT INVESTMENTS

SENIORS LIVING COMMUNITY AT CHATSWOOD GOLF CLUB, SYDNEY



In May 2017, Folkestone entered into an agreement with Watermark Retirement Living to develop a seniors living community in partnership with the Chatswood Golf Club. The Chatswood Golf Club is located 11 kilometres north-west of the Sydney CBD on Sydney's lower North Shore and has elevated views of the Lane Cove National Park.

Under the agreement, the FLK/WP Partnership plan to develop a new clubhouse, associated parking and seniors living community on circa 14,700 sqm of golf course land currently utilised for the clubhouse and car park. A Planning Proposal and Development Application are being finalised and an appropriate planning pathway is being decided. Following planning approval, it is expected that Folkestone's interest in the project will be a suitable acquisition for the Folkestone Seniors Living Fund No.1 (see page 14).

As at 30 June 2018, Folkestone's funds invested in this project were \$1.9 million.

DIRECT INVESTMENTS 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 serviced villas with pool and BBQ facilities in Karratha, WA. To date, 73 units have been completed.

In September 2017, the hotel was renamed to Best Western Plus The Ranges, allowing the hotel to tap into the extensive Best Western network.

As at 30 June 2018, Folkestone’s funds invested in this project were \$3.0 million.

DIRECTORY

FOLKESTONE LIMITED

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ASX Code: FLK

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Folkestone Investment Management Limited
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Folkestone Maxim Asset Management
ABN 25 104 512 978 AFSL 238349

Folkestone Seniors Living Management Limited
ABN 29 094 185 092 AFSL 238506

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