

NOTICE OF MEETING AND
EXPLANATORY MEMORANDUM
SEPTEMBER 2018

This is an important document and requires your immediate attention. You should read this document in its entirety before deciding how to vote. If you are in any doubt about what to do, you should consult your legal, investment, taxation or other professional adviser without delay.

In relation to a recommended proposal from Charter Hall Limited to acquire all of the Folkestone Limited shares via a scheme of arrangement.

VOTE IN FAVOUR

Your Directors unanimously recommend that you vote in favour of the Scheme in the absence of a Superior Proposal.

The Independent Expert has concluded that the Scheme is fair and reasonable and in the best interest of Folkestone Shareholders in the absence of a Superior Proposal.

Financial advisors

bg capital corporation ltd



Legal advisors

CLAYTON UTZ

IMPORTANT NOTICES

General

This Explanatory Memorandum is important and requires your immediate attention. You should read this Explanatory Memorandum in full before making any decision as to how to vote at the Scheme Meeting. If you have sold all of your Folkestone Shares, please ignore this Explanatory Memorandum.

If you are in doubt as to what you should do, you should consult an independent and appropriately licensed and authorised professional adviser.

Purpose of this Explanatory Memorandum

This Explanatory Memorandum has been prepared under Part 5.1 of the Corporations Act in relation to the Scheme under which the Bidder will acquire all the Folkestone Shares on issue. The purpose of this Explanatory Memorandum is to provide Folkestone Shareholders with information which is material to the making of a decision by Folkestone Shareholders about whether or not to vote in favour of the Scheme.

Responsibility statement

Except as provided in paragraphs (a) to (c) below, the information in this Explanatory Memorandum has been provided by Folkestone and is the responsibility of Folkestone. Charter Hall Group, its Related Bodies Corporate and each of their respective directors, officers, employees and advisers are not responsible for, and do not assume responsibility for information other than the Charter Hall Group Information set out at Section 5 of this Explanatory Memorandum.

- a. Charter Hall Limited has provided and is responsible for the Charter Hall Group Information. Folkestone, its Related Bodies Corporate and each of their respective officers, employees, advisers and agents are not responsible for, and do not assume responsibility for, the Charter Hall Group Information.
- b. Lonergan Edwards & Associates has prepared the Independent Expert's Report and is responsible for that report. Neither Folkestone, Charter Hall Limited their respective Related Bodies Corporate and their respective directors, officers, employees and advisers assumes any responsibility for the accuracy or completeness of the information in the Independent Expert's Report except, in the case of Folkestone and Charter Hall Limited, in relation to information given by them for the purposes of the preparation of the Independent Expert's Report, respectively, to the Independent Expert.
- c. PwC has provided and is responsible for the information contained in Section 8 of this Explanatory Memorandum. Neither Folkestone, Charter Hall Group, their Related Bodies Corporate and their respective directors, officers, employees and advisers assumes any responsibility for the

accuracy or completeness of the information in Section 8 of this Explanatory Memorandum.

ASIC and ASX

A copy of this Explanatory Memorandum has been provided to ASIC for the purpose of section 411(2)(b) of the Corporations Act and registered by ASIC under section 412(6) of the Corporations Act. ASIC has been requested to provide a statement in accordance with section 411(17)(b) of the Corporations Act that ASIC has no objection to the Scheme. If ASIC provides that statement, it will be produced to the Court at the Second Court Hearing. Neither ASIC nor any of its officer takes any responsibility for the contents of this Explanatory Memorandum.

A copy of this Explanatory Memorandum has been lodged with the ASX. Neither the ASX nor any of its officers takes any responsibility for the contents of this Explanatory Memorandum.

Court involvement

The Court has ordered the convening of the Scheme Meeting pursuant to section 411(1) of the Corporations Act. The fact that the Court has ordered that the Scheme Meeting be convened and has approved the Explanatory Memorandum does not mean that the Court:

- has formed any view as to the merits of the proposed Scheme or as to how Folkestone Shareholders should vote (on this matter, Folkestone Shareholders must reach their own decision); or
- has prepared, or is responsible for, the content of the Explanatory Memorandum.

Forward looking statements

Some of the statements appearing in this Explanatory Memorandum may be in the nature of forward looking statements. Forward looking statements or statements of intent in relation to future events in this Explanatory Memorandum (including in the Independent Expert's Report) should not be taken to be a forecast or prediction that those events will occur. Forward looking statements generally may be identified by the use of forward looking words such as 'believe', 'aim', 'expect', 'anticipate', 'intending', 'foreseeing', 'likely', 'should', 'planned', 'may', 'estimate', 'potential', or other similar words. Similarly, statements that describe Folkestone's and Charter Hall Group's objectives, plans, goals or expectations are or may be forward-looking statements.

These forward looking statements are subject to inherent risks and uncertainties. Such risks and uncertainties include factors and risks specific to the circumstances in which Folkestone operates, as well as general economic conditions, prevailing exchange rates and interest rates, conditions in the financial markets, government policies and regulations, competitive pressures and changes in technology. Actual events or results may differ materially from the

expectations expressed or implied in such forward looking statements. Folkestone Shareholders should note that the historical financial performance of Folkestone is no assurance of future financial performance of Folkestone (whether the Scheme is implemented or not).

Neither Folkestone nor Charter Hall Limited, their respective Related Bodies Corporate or their respective directors, officers, employees, and advisers, or any person named in this Explanatory Memorandum make any representation or warranty (express or implied) as to the accuracy or likelihood of any forward looking statement, or any events or results expressed or implied in any forward looking statement. Accordingly, you are cautioned about placing undue reliance on forward looking statements contained in this Explanatory Memorandum.

The forward looking statements in this Explanatory Memorandum reflect views held only at the date of this Explanatory Memorandum. Subject to any obligations under law or the ASX Listing Rules, Folkestone and its officers, employees, agents and advisers do not give any undertaking to update or revise any forward looking statements after the date of the Explanatory Memorandum to reflect any change in expectations in relation to those statements or any change in events, conditions or circumstances on which any statement has been based.

No investment advice

This Explanatory Memorandum does not constitute financial product advice and has been prepared without reference to the investment objectives, financial situation, taxation position or particular needs of individual Folkestone Shareholders. The information in this Explanatory Memorandum should not be relied on as the sole basis for any decision in relation to your Folkestone Shares. You should seek independent professional advice before making any investment decision in relation to your Folkestone Shares or how to vote on the Scheme.

Privacy and personal information

Folkestone and Charter Hall Group may collect personal information about you in connection with the Scheme. The personal information may include the names, contact details and details of shareholdings of Folkestone Shareholders, together with the names and contact details of individuals appointed by the Folkestone Shareholders to act as proxies, attorneys or corporate representatives to vote at the Scheme Meeting.

Such information will be collected for the purpose of the Scheme Meeting and implementing the Scheme. The information may be disclosed to Folkestone, Folkestone's advisers and service providers, and to Charter Hall Limited and Charter Hall Limited's advisers and service providers to the extent necessary

in connection with the Scheme Meeting and implementing the Scheme.

The Folkestone Registry advises that personal information it holds about you (including your name, address, date of birth and details of the financial assets) is collected by the Folkestone Registry to administer your investment. Personal information is held on the public register in accordance with Chapter 2C of the Corporations Act. Some or all of your personal information may be disclosed to contracted third parties, or related companies of the Folkestone Registry in Australia and overseas. Your information may also be disclosed to Australian government agencies, law enforcement agencies and regulators, or as required under other Australian law, contract, and court or tribunal order. For further details about the personal information handling practices of the Folkestone Registry, including how you may access and correct your personal information and raise privacy concerns, visit the Folkestone Registry's website at www.boardroomlimited.com.au for a copy of the Boardroom Limited privacy policy, or contact the Folkestone Registry by phone on 1300 737 760.

Folkestone's Shareholders who appoint a named person as their proxy, attorney or corporate representative to vote at the Scheme Meeting should inform that individual of the matters outlined above.

Defined terms and interpretation

Capitalised terms used in this Explanatory Memorandum are defined in Section 10 of this Explanatory Memorandum.

Currency and financial information

A number of figures, amount, percentages, prices, estimates, calculations of values and fractions in this Explanatory Memorandum, including those in respect of the Scheme Consideration, are subject to the effect of rounding. Accordingly, their actual calculation may differ from the calculations set out in this Explanatory Memorandum.

All references in this Explanatory Memorandum to "\$" and "cents" are references to Australian currency, unless otherwise specified.

Timetable and dates

All references to time in this Explanatory Memorandum are to the time in Sydney, Australia unless expressly indicated otherwise. All times and dates relating to the implementation of the Scheme referred to in this Explanatory Memorandum may change.

Date

This Explanatory Memorandum is dated 13 September, 2018.

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Key Dates

Date	Event
Monday, 17 September, 2018	Explanatory Memorandum despatched to Folkestone Shareholders
11.30am Monday, 15 October, 2018	Deadline for receipt of Proxy Forms by the Folkestone Registry for Scheme Meeting
7:00pm Monday, 15 October, 2018	Time and date for determining eligibility to vote at the Scheme Meeting
11.30am Wednesday, 17 October, 2018	Scheme Meeting
Monday, 22 October, 2018	Second Court Hearing
Tuesday, 23 October, 2018	Effective Date
Friday, 26 October, 2018	Special Dividend Record Date
Wednesday, 31 October, 2018	Scheme Record Date
Wednesday, 7 November, 2018	Scheme Implementation Date / Special Dividend Payment Date

All dates and times are to the date and/or time in Sydney, Australia, unless otherwise stated. This timetable is indicative only. The actual times and dates will depend on a number of factors, including the Court approval process and the satisfaction or, where applicable, waiver of the conditions precedent in the Scheme Implementation Agreement. Any variation to the timetable set out above will be publicly announced and posted on Folkestone's website and on the ASX.

Chairman's Letter

13 September, 2018

Dear Folkestone Shareholder

On behalf of the Folkestone Board, I am pleased to provide you with this Explanatory Memorandum that contains important information in relation to the proposed acquisition of Folkestone by Charter Hall Limited, part of the Charter Hall Group (ASX: CHC). Charter Hall Group is one of Australia's leading fully integrated property groups, with over 25 years' experience managing and investing in high quality property on behalf of institutional, wholesale and retail clients. Charter Hall Group has over \$23.2 billion of funds under management across the office, retail and industrial sectors.

The Scheme

On 22 August 2018, Folkestone announced that it had entered into the Scheme Implementation Agreement with Charter Hall Limited (a member of the Charter Hall Group) under which it is proposed that Charter Hall Limited will acquire all of the issued share capital of Folkestone by way of a scheme of arrangement for a Scheme Consideration of \$1.39 cash per Folkestone Share.

The Scheme Consideration of \$1.39 will comprise:

- the Bidder Consideration of \$1.354 cash per Scheme Share; and
- a fully franked¹ Special Dividend of \$0.036 cash per Folkestone Share held on the Special Dividend Record Date and which Folkestone will pay if the Scheme is approved and implemented.

In addition, the FY18 Dividend of \$0.030 cash per Folkestone Share determined by Folkestone with a record date of 11 September 2018 remains payable on 27 September 2018. The FY18 Dividend will be paid to Folkestone Shareholders registered as such on the FY18 Dividend Record Date regardless of whether the Scheme is approved. The FY18 Dividend does not form part of the Scheme Consideration.

The Scheme Consideration reflects an attractive value for Folkestone Shares, representing:

- 25.2% premium to the closing price of Folkestone Shares of \$1.110 on the last trading day prior to the Announcement Date;
- 28.7% premium to the 30 June 2018 NTA of Folkestone;
- 25.6% premium to the 30-day VWAP of Folkestone Shares of \$1.107 up to the last trading day prior to the Announcement Date; and
- 25.6% premium to the 3-month VWAP of Folkestone Shares of \$1.107 up to the last trading day prior to the Announcement Date

The Scheme is subject to a number of Conditions, including shareholder and court approvals, regulatory approvals, and other customary conditions.

This Explanatory Memorandum sets out details of the proposed Scheme and important matters relevant to your vote in relation to the Scheme.

Recommendation of the Folkestone Directors

The Folkestone Board unanimously believes that the Scheme is in the best interests of Folkestone Shareholders and unanimously recommends that you vote in favour of the Scheme in the absence of a Superior Proposal. Each Folkestone Director intends to vote all Folkestone Shares they own or control in favour of the Scheme, in the absence of a Superior Proposal.

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.

The Folkestone Board has concluded that the Scheme is compelling for Folkestone Shareholders for the following reasons:

- the Scheme Consideration represents a significant premium to recent trading performance of Folkestone Shares;

¹ Folkestone has applied to the ATO requesting a class ruling in relation to the tax implications of the Scheme, including the availability of franking credits on the Special Dividend. Please refer to Section 7.7 of this Explanatory Memorandum for further information.

- the Scheme Consideration exceeds all historical trading prices of Folkestone since 2011;
- the Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of Folkestone Shareholders in the absence of a Superior Proposal;
- the Scheme Consideration is all cash which delivers certainty and immediate value for Folkestone Shareholders;
- Folkestone Shareholders will receive a Special Dividend of \$0.036 per Folkestone Share. The Special Dividend is expected to be fully franked. Depending on the individual circumstances of Folkestone Shareholders this may be an additional benefit. Folkestone has applied to the ATO requesting a class ruling on the tax implications of the Scheme, including the availability of franking credits and a tax offset in respect to the Special Dividend; and
- if the Scheme does not proceed, and no Superior Proposal emerges, the price of Folkestone Shares is likely to fall. Please refer to Section 6.2 for more information.

Further information regarding the advantages of the Scheme and the potential disadvantages of the Scheme are set out at pages 11 - 14.

Independent Expert

The Folkestone Board has commissioned Lonergan Edwards & Associates as an Independent Expert to prepare an Independent Expert's Report in respect of the Scheme. The Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of Folkestone Shareholders in the absence of a Superior Proposal.

The Independent Expert has assessed the full underlying value of Folkestone to be in the range of \$1.30 to \$1.42 per Folkestone Share. The full Independent Expert Report is set out in Annexure A.

Your vote is important in determining whether or not the Scheme proceeds. The Folkestone Directors strongly encourage you to participate in this important decision either by attending the meeting to vote or by completing the enclosed Proxy Form.

Further Information

The Folkestone Directors urge you to read the Explanatory Memorandum (including the Independent Expert's Report) in its entirety as it contains important information that will need to be considered before you vote on the Scheme.

If you have any questions about the Scheme or any other matter in this Explanatory Memorandum, you should contact Folkestone's Shareholder Information Line on 1300 032 756 (within Australia) or +61 2 8023 5418 (outside Australia). Folkestone's Shareholder Information Line is open Monday to Friday from 9:00am to 5:00pm (Sydney time).

If you are in any doubt as to what you should do, you should consult your legal, financial or other professional adviser.

On behalf of the Folkestone Board, I would like to take this opportunity to thank you again for your ongoing support of Folkestone and I look forward to your participation in the Scheme Meeting.

Yours sincerely



Garry Sladden
Chairman
Folkestone Limited

What you should do

1. Read this Explanatory Memorandum

You should read this Explanatory Memorandum carefully in its entirety, including the reasons to vote in favour of or against the Scheme, before making any decision on how to vote on the Scheme Resolution.

Answers to various frequently asked questions about the Scheme are set out in Section 1. If you have any additional questions in relation to this Explanatory Memorandum or the Scheme please consult your financial, legal or other professional adviser or contact the Folkestone Shareholder Information Line on 1300 032 756 (within Australia) or +61 2 8023 5418 (outside Australia) between 9.00 am and 5.00 pm (Sydney time).

Vote on the Scheme at the Scheme Meeting by doing one of the following:

- a. **Vote in person** - attend the Scheme Meeting in person at the offices of Boardroom Pty Limited at Level 12, 225 George Street, Sydney NSW 2000 on Wednesday, 17 October 2018 at 11.30am (Sydney time).
- b. **Vote by proxy** - complete and return the Proxy Form in accordance with the instructions set out on the Proxy Form so that it is received by the Folkestone Registry by no later than 11.30am (Sydney time) on Monday, 15 October 2018.
- c. **Vote by corporate representative** - a Folkestone Shareholder or proxy who is a body corporate may vote at the Scheme Meeting by having their corporate representative attend the Scheme Meeting in person and vote on their behalf. The authorised corporate representative will be admitted to the Scheme Meeting upon providing, at the point of entry to the Scheme Meeting, written evidence of their appointment, their name and address and the identity of their appointer.
- d. **Vote by attorney** - a Folkestone Shareholder may vote at the Scheme Meeting by having their fully authorised attorney attend the Scheme Meeting in person and vote on their behalf. Folkestone Shareholders wishing to vote by attorney at the Scheme Meeting must, if they have not already presented an appropriate power of attorney to Folkestone for notation, deliver to the Folkestone Registry the original instrument appointing the attorney or a certified copy of it by 11.30am (Sydney time) on Monday 15 October 2018.

In order for the Scheme to proceed, the Scheme must be approved by:

- a. unless the Court orders otherwise, a majority in number (more than 50%) of Folkestone Shareholders present and voting at the Scheme Meeting (either in person, by proxy or attorney or in the case of corporate Folkestone Shareholders, by a duly appointed corporate representative); and
- b. at least 75% of the total number of votes cast on the Scheme Resolution by Folkestone Shareholders at the Scheme Meeting.

If the Scheme is not approved by the Requisite Majorities of Folkestone Shareholders at the Scheme Meeting, the Scheme will not proceed.

Please refer to Section 3 for further information on how to vote at the Scheme Meeting.

2. Participate in the Scheme

If you are eligible and wish to participate in the Scheme you will need to ensure that you do not sell your Folkestone Shares prior to the Scheme Record Date. Otherwise, and assuming the Scheme is approved by the Requisite Majorities and the Court, you do not need to do anything to participate in the Scheme.

3. Receive the Special Dividend

If you are eligible and wish to receive the Special Dividend you will need to ensure that you remain registered as a Folkestone Shareholder on the Special Dividend Record Date. Otherwise, and assuming the Scheme is approved by the Requisite Majorities and the Court, you do not need to do anything to receive the Special Dividend.

Folkestone has applied to the ATO requesting a class ruling in relation to the tax implications of the Scheme, including the availability of franking credits and a tax offset in respect of the Special Dividend. On the proviso that a favourable class ruling is obtained from the ATO (please refer to Section 7.7 for further details), Folkestone Shareholders who are able to obtain the full benefit of the franking credits associated with the Special Dividend may receive additional value. Whether a Folkestone Shareholder is able to obtain the full benefit of the tax offset depends on their particular tax circumstances. Folkestone Shareholders should seek and rely only upon their own tax advice in relation to the availability of any tax offset.

Further information

Further information relating to details of the Scheme Resolution is contained in the Notice of Meeting (which is set out in Annexure D). Folkestone Shareholders who have any questions or require further information in relation to this Explanatory Memorandum or the Scheme should contact the Folkestone Shareholder Information Line on 1300 032 756 (within Australia) or +61 2 8023 5418 (outside Australia) between 9.00 am and 5.00 pm (Sydney time). Folkestone Shareholders should seek independent financial, legal and taxation advice before making any decision regarding the Scheme.

Reasons that You Might Vote FOR The Scheme

This section sets out the reasons why the Folkestone Directors consider that you should vote in favour of the Scheme. While the Directors acknowledge that there may be reasons to vote against the Scheme (see the following section titled “Reasons why you may vote against the Scheme”), they believe that the reasons that you should vote in favour of the Scheme significantly outweigh the reasons to vote against the Scheme.

1. The Folkestone Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal

The Folkestone Directors unanimously recommend that you vote in favour of the Scheme at the upcoming Scheme Meeting on 17 October 2018, in the absence of a Superior Proposal. In reaching their recommendation, the Directors have assessed the Scheme having regards to the reasons to vote in favour of, or against, the Scheme, as set out in this section of the Explanatory Memorandum.

Each Folkestone Director intends to vote in favour of the Scheme in respect of all Folkestone Shares they own or control, in the absence of a Superior Proposal.

2. The Independent Expert has concluded that the Scheme is fair and reasonable and in the best interest of Folkestone shareholders in the absence of a Superior Proposal

The Folkestone Directors appointed Lonergan Edwards & Associates as Independent Expert to prepare an Independent Expert's Report providing an opinion as to whether the Scheme is in the best interests of Folkestone Shareholders.

The Scheme Consideration of \$1.39 cash per share lies within the Independent Expert's assessed value range for Folkestone shares of \$1.30 to \$1.42 per share. Accordingly, the Independent Expert concluded the Scheme is fair and reasonable and in the best interests of Folkestone Shareholders in the absence of a Superior Proposal.

The Independent Expert has made a number of observations in relation to the Scheme, including:

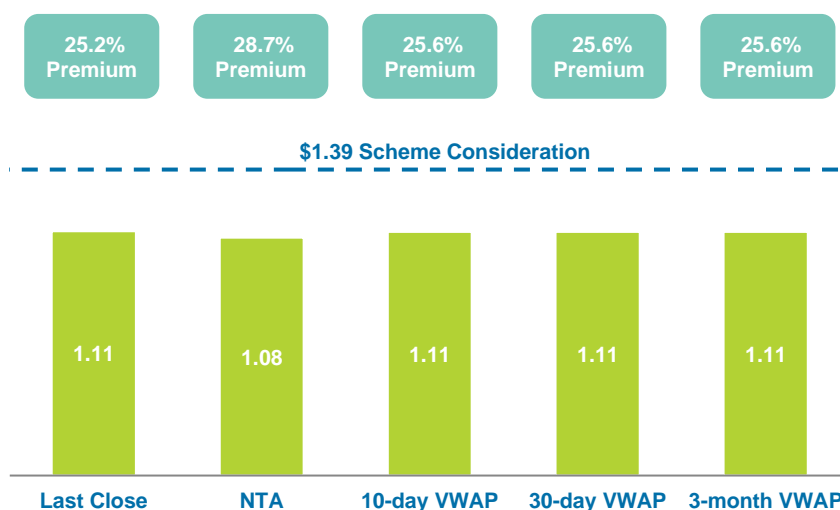
- the Scheme Consideration represents a premium to the recent market prices of Folkestone Shares prior to the announcement of the Scheme (albeit the premiums are less than observed premiums generally paid in successful takeovers due to the specific characteristics of Folkestone's operations);
- the Special Dividend may give rise to additional consideration for those Australian resident shareholders able to benefit from the related franking credits attaching to the Special Dividend; and
- if the Scheme does not proceed, and in the absence of an alternative offer or proposal, the price of Folkestone Shares is likely to trade at a significant discount to the Independent Expert's valuation and the Scheme Consideration due to the portfolio nature of individual shareholdings.

Folkestone Shareholders should carefully review the Independent Expert's Report in its entirety. A copy of the Independent Expert's report is included in Annexure A.

3. The Scheme Consideration represents a significant premium to recent trading performance of Folkestone Shares

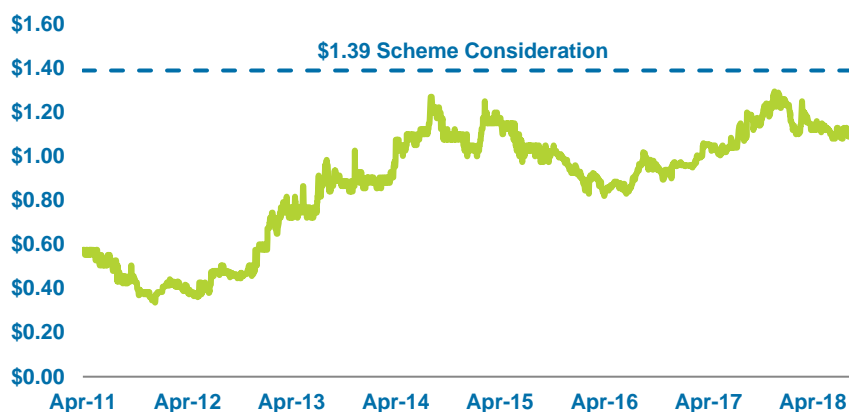
The Scheme Consideration of \$1.39 per Folkestone Share represents an attractive premium of:

- 25.2% premium to the closing price of Folkestone Shares of \$1.110 on the last trading day prior to the Announcement Date;
- 28.7% premium to the 30 June 2018 NTA of Folkestone;
- 25.6% premium to the 30-day VWAP of Folkestone Shares of \$1.107 up to the last trading day prior to the Announcement Date; and
- 25.6% premium to the 3-month VWAP of Folkestone Shares of \$1.107 up to the last trading day prior to the Announcement Date.



4. The Scheme Consideration exceeds all historical trading prices of Folkestone since 2011

Since the acquisition of Equity Real Estate Partners in April 2011 and the concurrent recapitalisation of Folkestone, the price of Folkestone Shares has traded between a low of \$0.336² on 20 December 2011 and a high of \$1.295 on 29 November 2017. The value of the Scheme Consideration of \$1.39 per Folkestone Share represents a premium over all historical trading prices of Folkestone Shares.



5. The Scheme Consideration of all cash delivers certainty and immediate value for Folkestone Shareholders

The 100% cash consideration under the Scheme, if implemented, provides Folkestone Shareholders with value and the opportunity to realise in full their investment for cash.

The certainty of the all cash consideration should be compared with the risks and the uncertainties of remaining a Folkestone Shareholder, which include, but are not limited to, the risks set out in Section 6.

You will not incur any brokerage or stamp duty costs on the transfer of your Folkestone Shares to Charter Hall Limited pursuant to the Scheme.

6. The Special Dividend is expected to be fully franked. This may give an additional benefit to certain Folkestone Shareholders who are Australian tax residents

Folkestone is permitted to pay a Special Dividend of up to \$0.036 per Folkestone Share as part of the Scheme Consideration. Subject to the Scheme becoming Effective, Folkestone will pay the Special Dividend on the Special Dividend Payment Date.

The Special Dividend is expected to be fully franked, in which case Folkestone Shareholders may receive a franking credit of up to \$0.015 per Folkestone Share in addition to the Special Dividend.

Folkestone Shareholders who are able to obtain the full benefit of the franking credits associated with the Special Dividend may also receive additional value. Whether a Folkestone Shareholder is able to obtain the full benefit of the tax offset depends on their particular tax circumstances. Folkestone Shareholders in receipt of a Special Dividend should seek and only rely upon their own tax advice in relation to any tax offset.

Further details on the Special Dividend are outlined in Section 7.7.

7. If the Scheme does not proceed, and no Superior Proposal emerges, the price of Folkestone Shares is likely to fall

If the Scheme is not implemented, Folkestone Shares will remain quoted on the ASX and will continue to be subject to market volatility, including as a result of general stock market movements, and the impact of general economic conditions.

Over the seven years prior to 21 August 2018 being the trading day prior to the Announcement Date, the closing prices of Folkestone Shares have traded between a high of \$1.295 per Folkestone Share on 29 November 2017 and a low of \$0.336² per Folkestone Share on 20 December 2011. On 21 August 2018, the last trading day prior to the Announcement Date, the Folkestone Share price closed at \$1.110 per Folkestone Share.

Since the announcement of the execution of the Scheme Implementation Agreement and up to 13 September 2018, no Superior Proposal has emerged, and the Folkestone Directors are not aware, as at 13 September 2018, of any Superior Proposal that is likely to emerge.

² Adjusted for the 1 for 5 share consolidation completed in November 2015.

Reasons that You Might Vote AGAINST the Scheme

1. You may disagree with the Folkestone Directors' recommendation and/or the conclusion of the Independent Expert

You may disagree with the recommendation of the Folkestone Directors, who have unanimously recommended that Folkestone Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal.

In addition, you may disagree with the conclusion of the Independent Expert, who has concluded that the Scheme is fair and reasonable and in the best interests of Folkestone Shareholders in the absence of a Superior Proposal.

2. The tax consequences of the Scheme may not suit your current financial position

Implementation of the Scheme may have tax consequences for Folkestone Shareholders.

A taxable gain might be realised from the sale of Folkestone Shares. Additionally, the Special Dividend might result in a tax liability depending on your individual tax circumstances.

For further detail regarding general Australian taxation consequences of the Scheme, refer to Section 8. The tax treatment of the sale of Folkestone Shares may vary depending on the nature and characteristics of each Folkestone Shareholder and their specific circumstances. Accordingly, Folkestone Shareholders should seek and only rely upon independent, professional tax advice in relation to their particular circumstances.

3. You may consider that there is potential for a Superior Proposal to emerge before the Scheme Meeting

It is possible that a more attractive proposal for Folkestone Shareholders could materialise in the future, such as a takeover bid or scheme of arrangement with a higher offer price than the Scheme Consideration. Folkestone Shareholders should note that Folkestone has agreed to certain exclusivity and break fee provisions in favour of Charter Hall Limited in certain circumstances. These provisions are summarised in Section 7.1(b) and 7.1(c) of this Explanatory Memorandum and set out in full at clause 8 and clause 9 of the Scheme Implementation Agreement.

The Folkestone Directors are, at the date of Explanatory Memorandum, not aware of any Superior Proposal for Folkestone. Moreover, given the time that has elapsed since Folkestone announced to the ASX that it had entered the Scheme Implementation Agreement with Charter Hall Limited, the Directors consider that the possibility of a proposal that could give rise to a Superior Proposal emerging in the foreseeable future is low.

4. You may prefer to participate in the future financial performance of the Folkestone business and maintain your investment profile

If the Scheme is implemented, you will no longer be a Folkestone Shareholder. This will mean that you will not participate in the future performance of Folkestone, including any benefits that may result from being a Folkestone Shareholder. Accordingly, you will not retain any exposure to Folkestone's assets or have the potential to share in the value that could be generated by Folkestone or its business in the future.

You may consider that Folkestone has stronger long-term growth potential and that the Scheme Consideration does not fully reflect your views on long term value. You may also wish to maintain your investment in Folkestone in order to have an investment in a publicly listed company with the specific characteristics of Folkestone in terms of industry, operational profile, size, capital structure and potential dividends. However, there is no guarantee as to Folkestone's future performance, as with all investments in listed securities.

Other considerations relevant to your vote on the Scheme

You should also take into account the following additional considerations in deciding whether to vote in favour of, or against, the Scheme.

1. The Scheme may proceed even if you vote against it

The Scheme will be implemented if the Scheme Resolution is passed by the Requisite Majorities and is approved by the Court, irrespective of whether you do not vote or you vote against the Scheme Resolution at the Scheme Meeting.

If this occurs, any Folkestone Shares you hold on the Scheme Record Date will be transferred to Charter Hall Limited. If you hold Folkestone Shares on both of the Scheme Record Date and the Special Dividend Date, you will receive the Scheme Consideration of \$1.39 for each Folkestone Share that you hold.

2. If the Scheme does not proceed, Folkestone Shareholders will not receive the Bidder Consideration or the Special Dividend

If the Scheme is not approved or all outstanding Conditions are not satisfied or waived, the Scheme will not proceed. In that case, Folkestone Shareholders will not receive the Bidder Consideration or Special Dividend, Folkestone will continue to operate as it does currently and Folkestone Shares will remain listed on the ASX.

If the Scheme is not implemented, the advantages of the Scheme described in the "Reasons you might vote in favour of the Scheme" section on pages 11-13 will not be realised.

The FY18 Dividend will be paid to Folkestone Shareholders registered as such on the FY18 Dividend Record Date regardless of whether the Scheme is approved.

3. Conditionality of the Scheme

The implementation of the Scheme is subject to a number of Conditions, which are summarised in Section 7.1(a) of this Explanatory Memorandum and set out in full at clause 3 of the Scheme Implementation Agreement. If the Conditions are not satisfied or waived (as applicable), the Scheme will not proceed and Folkestone Shareholders will not receive the Bidder Consideration or Special Dividend.

4. Exclusivity

Folkestone and Charter Hall Limited have entered into certain arrangements which restrict the ability of Folkestone to enter into discussions with potential rival bidders (subject to various exceptions) and requires Folkestone to provide Charter Hall Limited with certain rights in respect of notification any alternative offers, if they arise. The exclusivity provisions are summarised in Section 7.1(b) of the Explanatory Memorandum and set out in full in clause 8 of the Scheme Implementation Agreement.

5. Break fees

A break fee in an amount equal to 1% of the aggregate of the Scheme Consideration is payable by Folkestone to Charter Hall Limited in certain circumstances.

The break fee is summarised in Section 7.1(c) of this Explanatory Memorandum and set out in full at clause 9 of the Scheme Implementation Agreement.

1 Frequently Asked Questions

This section seeks to address some more commonly asked questions pertaining to the Scheme. It is not intended to address all relevant issues for Folkestone Shareholders, and should be read in conjunction with the rest of this Explanatory Memorandum.

Background and the Scheme at a glance	
Why have I received this Explanatory Memorandum?	<p>You have received this Explanatory Memorandum because you are a Folkestone Shareholder. Folkestone Shareholders are asked to vote on the Scheme.</p> <p>This Explanatory Memorandum is intended to help you to decide how to vote on the Scheme Resolution which must be passed at the Scheme Meeting to allow the Scheme to proceed.</p> <p>The Folkestone Directors recommend that you read this Explanatory Memorandum and, if necessary, consult your investment, tax, legal or other professional adviser before voting on the Scheme Resolution.</p>
What is the Scheme?	<p>The Scheme involves Charter Hall Limited (a member of the Charter Hall Group) acquiring all of the Folkestone Shares for the Scheme Consideration, by way of a scheme of arrangement under Part 5.1 of the Corporations Act.</p> <p>If the Scheme is implemented, Folkestone Shareholders will receive Scheme Consideration of \$1.39 for each Folkestone Share they own comprising:</p> <ul style="list-style-type: none"> the Bidder Consideration of \$1.354 cash per Scheme Share; and a franked³ Special Dividend of \$0.036 cash per Folkestone Share held on the Special Dividend Record Date and which Folkestone will pay if the Scheme is approved and implemented. <p>provided they are registered on the Folkestone Register on both of the Record Dates.</p> <p>Please refer to Section 2 for a summary of the Scheme.</p>
What is a “scheme of arrangement”?	<p>A scheme of arrangement is a way of implementing an acquisition of shares under the Corporations Act. The Scheme requires a vote in favour by the Requisite Majority at a meeting of the Folkestone Shareholders which has been ordered to be convened by the Court, followed by Court approval.</p>
Who is Charter Hall Group?	<p>Charter Hall Limited (a member of the Charter Hall Group) (ASX:CHC) is one of Australia's leading fully integrated property groups, with over 25 years' experience managing and investing in high quality property on behalf of institutional, wholesale and retail clients. Charter Hall Group has over \$23.2 billion of funds under management across the office, retail and industrial sectors</p>
What do your Directors recommend?	<p>Your Folkestone Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal. The reasons for this recommendation, and other matters that you may wish to take into consideration, are set out in the "Reasons you might vote in favour of the Scheme" section on pages 11-13.</p> <p>Each Director intends to vote the Folkestone Shares they hold or control in favour of the Scheme, in the absence of a Superior Proposal.</p>
What is the Independent Expert's conclusion on the Scheme?	<p>The Folkestone Directors engaged Lonergan Edwards & Associates as an independent expert to provide a report on the Scheme.</p> <p>The Independent Expert has concluded the Scheme is fair and reasonable and in the best interest of Folkestone shareholders in the absence of a Superior Proposal.</p> <p>A copy of the Independent Expert's Report, including the reasons for the Independent Expert's conclusion, is set out in Annexure A. The Folkestone Directors encourage you to read the Independent Expert's Report in its entirety before making a decision as to whether or not to vote in favour of the Scheme.</p>
Why should you vote in favour of the Scheme?	<p>The reasons to vote in favour of the Scheme are set out in the "Reasons to vote in favour of the Scheme" section on pages 11-13.</p> <p>These reasons include:</p> <ul style="list-style-type: none"> the Folkestone Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal;

³ Folkestone has applied to the ATO requesting a class ruling in relation to the tax implications of the Scheme, including the availability of franking credits on the Special Dividend. Please refer to Section 7.7 of this Explanatory Memorandum for further information.

	<ul style="list-style-type: none"> the Scheme Consideration represents a compelling premium to Folkestone's pre-announcement share price; the Scheme Consideration exceeds all historical trading prices of Folkestone since 2011; the Scheme Consideration represents upfront cash certainty for Folkestone Shareholders; the Scheme represents a defined transaction outcome; and if the Scheme does not proceed, and no Superior Proposal emerges, the price of Folkestone Shares is likely to fall.
Why you may consider voting against the Scheme?	<p>The possible reasons not to vote in favour of the Scheme are set out in the "Reasons you might vote against the Scheme" section on page 14. These reasons include:</p> <ul style="list-style-type: none"> you may disagree with the Folkestone Directors' recommendation and/or the conclusion of the Independent Expert; the tax consequences of the Scheme may not suit your current financial position; you may consider that there is potential for a Superior Proposal to emerge before the Scheme Meeting; and you may prefer to participate in the future financial performance of the Folkestone business and maintain your investment profile.
What will Folkestone Shareholders receive under the Scheme?	
What will I receive if the Scheme is implemented?	<p>If the Scheme is implemented, Folkestone Shareholders will receive the Scheme Consideration of \$1.39 for each Folkestone Share, which comprises the following:</p> <ul style="list-style-type: none"> the Bidder Consideration of \$1.354 on the Implementation Date for each Folkestone Share that they hold on the Scheme Record Date; and a Special Dividend of \$0.036 on the Special Dividend Payment Date for each Folkestone Share that they hold on the Special Dividend Record Date.
Will I still receive a dividend from Folkestone for the financial year ending 30 June 2018?	<p>Folkestone has determined that it will pay to Folkestone Shareholders who are registered as such on the FY18 Dividend Record Date a fully franked FY18 Dividend of \$0.03 cash per Folkestone Share.</p> <p>The FY18 Dividend will be paid to Folkestone Shareholders regardless of whether the Scheme is approved.</p>
What is the Special Dividend and will any franking credits be attached to the Special Dividend?	<p>Subject to the Scheme becoming Effective, Folkestone intends to pay a fully franked Special Dividend of \$0.036 for each Folkestone Share held on the Special Dividend Payment Date.</p> <p>Folkestone has applied to the ATO requesting a class ruling in relation to the tax implications of the Scheme, including the availability of franking credits and a tax offset in regard to the Special Dividend. On the proviso that a favourable class ruling is obtained from the ATO (please refer to Section 7.7 for further details), Folkestone Shareholders who are able to obtain the full benefit of the tax offset of \$0.015 per Folkestone Share may receive additional value. Whether a Folkestone Shareholder is able to obtain the full benefit of the tax offset depends on their particular tax circumstances. A Folkestone Shareholder should seek and rely only upon their own tax advice in relation to the availability of any tax offset.</p> <p>Further details on the Special Dividend are outlined in Sections 2.7 and 7.7.</p>
Will I get the benefit of franking credits attached to the Special Dividend?	<p>As noted above, a class ruling is being sought in relation to the tax implications of the Scheme, including the availability of franking credits on the Special Dividend.</p> <p>If you are an Australian resident for tax purposes and satisfy the qualified person rules, you may be able to access franking credits attached to the Special Dividend. If you are not an Australian resident for tax purposes, you will not be able to access franking credits attached to the Special Dividend, but the Special Dividend should ordinarily not be subject to Australian tax.</p> <p>Further information is provided in Section 8. The comments in Section 8 are general in nature and should not be relied upon as advice for your affairs. Each Folkestone Shareholder should seek independent professional tax advice in relation to their particular circumstances.</p>

Am I eligible to receive the Special Dividend?	If you hold Folkestone Shares on the Special Dividend Record Date, you will be paid the Special Dividend.
Will I receive the Special Dividend if the Scheme is not approved?	No. If the Scheme is not approved at the Scheme Meeting or by the Court, the Special Dividend will not be paid.
When will I receive the Bidder Consideration and the Special Dividend, if paid?	<p>If the Scheme is approved and implemented, Folkestone Shareholders will be paid the Bidder Consideration and Special Dividend as follows:</p> <ul style="list-style-type: none"> ● in relation to the Bidder Consideration: payment will be made on the Implementation Date. ● in relation to any Special Dividend: payment will be made on the Special Dividend Payment Date.
How will Performance Rights issued by Folkestone be treated in connection with the Scheme?	<p>The Folkestone Board has determined to exercise its discretion (in accordance with and as permitted by the terms of the Folkestone Limited Executive Incentive Plan) to vest all outstanding Performance Rights subject to the Scheme becoming Effective and to issue Folkestone Shares to holders of those Performance Rights prior to the Record Date.</p> <p>The Folkestone Shares issued to the holders of the Performance Rights will therefore participate in the Scheme, such that the holders will receive the Scheme Consideration in respect of those Folkestone Shares issued to them.</p> <p>Please refer to Section 7.8 of this Explanatory Memorandum for further details regarding the treatment of Performance Rights.</p>
Will I have to pay brokerage or stamp duty?	No, you will not have to pay brokerage or stamp duty on the transfer of Folkestone Shares under the Scheme.
What happens if I transfer my Folkestone Shares after the Special Dividend Record Date?	<p>It is expected that trading in Folkestone Shares on the ASX will be suspended from close of trading on the Effective Date.</p> <p>However, if you choose to effect an off-market transfer of your Folkestone Shares in between the Record Dates, such that you are registered in the Folkestone Register on the Special Dividend Record Date but cease to be registered in the Folkestone Register on the Scheme Record Date:</p> <ul style="list-style-type: none"> ● you will only receive the Special Dividend and will not receive the Bidder Consideration; and ● any transferee of your Folkestone Shares in these circumstances who becomes registered in the Folkestone Register on or before the Scheme Record Date (but after the Special Dividend Record Date) will only receive the Bidder Consideration in respect of those Folkestone Shares, and not the Special Dividend.
What are the tax implications of the Scheme?	<p>If the Scheme becomes Effective and is implemented, there will be tax consequences for Folkestone Shareholders which may include tax being payable on any gain on disposal of Folkestone Shares.</p> <p>For further detail regarding general Australian taxation consequences of the Scheme, refer to Section 8. The tax treatment of the sale of Folkestone Shares may vary depending on the nature and characteristics of each Folkestone Shareholder and their specific circumstances. Accordingly, each Folkestone Shareholder should seek independent, professional tax advice in relation to their particular circumstances.</p>
Is there a break fee payable by Folkestone?	Yes, a break fee in an amount equal to 1% of the aggregate of the Scheme Consideration which Charter Hall Limited pays for the Scheme Shares is payable by Folkestone in certain circumstances. The break fee is summarised in Section 7.1(c) of this Explanatory Memorandum and set out in full at clause 9 of the Scheme Implementation Agreement.

Voting at the Scheme Meeting

Who can vote?	If you are a Folkestone Shareholder as at 7.00pm on Monday 15 October 2018, you will be entitled to vote on the Scheme at the Scheme Meeting.
Where and when will the Scheme Meeting be held?	The Scheme Meeting will be held at the offices of Boardroom Pty Limited at Level 12, 225 George Street, Sydney NSW 2000 on Wednesday, 17 October 2018 at 11.30am (Sydney time).
How do I vote?	<p>You may vote in person by attending the Scheme Meeting. Alternatively, if you do not want to, or cannot, attend in person, you can vote by proxy, by attorney or by corporate representative (in the case of a body corporate) in accordance with the instructions in the Notice of Meeting.</p> <p>Please see Section 3 for further details on how to vote.</p>
What vote is required to approve the Scheme?	<p>The Scheme needs to be approved by the Requisite Majority of Folkestone Shareholders, which is:</p> <ul style="list-style-type: none"> • unless the Court orders otherwise, a majority in number (more than 50%) of Folkestone Shareholders present and voting (in person or by proxy, corporate representative or attorney); and • at least 75% of the total number of votes cast on the Scheme Resolution at the Scheme Meeting. <p>Even if the Scheme is approved by Folkestone Shareholders at the Scheme Meeting, the Scheme is still subject to the approval of the Court.</p>
Should I vote?	Voting is not compulsory. However, the Folkestone Directors believe that the Scheme is important for all Folkestone Shareholders and the Folkestone Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal.
What happens if I do not vote or vote against the Scheme?	<p>If the Scheme is implemented: irrespective of whether you did not vote, or voted against, the Scheme at the Scheme Meeting, all Folkestone Shares that you hold on the Scheme Record Date will be transferred to Charter Hall Limited (a member of the Charter Hall Group) and you will receive the Scheme Consideration (provided that you held your Folkestone Shares on both of the Record Dates).</p> <p>If the Scheme does not proceed:</p> <ul style="list-style-type: none"> • the Bidder Consideration will not be paid to Folkestone Shareholders; • Charter Hall Limited will not acquire the Folkestone Shares; • to the extent that Folkestone has not already declared or paid the Special Dividend, Folkestone will not declare or pay the Special Dividend; • Folkestone will continue to be listed on the ASX; and • Folkestone Shareholders will retain their Folkestone Shares and continue to share in any benefits and risks of Folkestone's ongoing business (outlined in Sections 4 and 6). <p>As previously stated in this Explanatory Memorandum, if the Scheme does not proceed, and no Superior Proposal emerges, the price of Folkestone Shares is likely to fall. Since Announcement Date to 11 September 2018, the Folkestone share price has traded between \$1.375 and \$1.405.</p> <p>Folkestone has a strong business model and management team with a proven track record in real estate investing and funds management. If the Scheme does not proceed, it is the Folkestone Directors' current intention to continue operating Folkestone in line with its previously stated objectives.</p> <p>Folkestone Shareholders failing to approve the Scheme by the Requisite Majorities will not of itself trigger the payment of the break fee by Folkestone.</p>

What are my options as a Folkestone Shareholder?	<p>You may:</p> <ul style="list-style-type: none"> • Vote in favour of the Scheme at the Scheme Meeting; • Vote against the Scheme at the Scheme Meeting; • Sell your Folkestone Shares on market at any time before close of trading on the ASX on the Effective Date. If you do so, you may incur brokerage costs; or • Do nothing.
When will the result of the Scheme Meeting be known?	<p>The results will be announced to the ASX shortly after conclusion of the Scheme Meeting, and will be accessible from ASX's website at www.asx.com.au</p> <p>If the Scheme is approved at the Scheme Meeting by the Requisite Majority of Folkestone Shareholders, the Scheme will not become Effective unless it is approved by the Court at the Second Court Hearing and the relevant order of the Court is lodged with ASIC.</p>
Implementation of the Scheme	
What will happen to Folkestone if the Scheme becomes Effective and is implemented?	If the Scheme becomes Effective and is implemented, Charter Hall Limited (as a member of Charter Hall Group) will acquire 100% of the issued Folkestone Shares, and Folkestone will be delisted from the ASX.
Are there conditions that need to be satisfied before the Scheme can proceed?	The Scheme is subject to the satisfaction or (as applicable) waiver of a number of Conditions. These Conditions are summarised in Section 2.6 of this Explanatory Memorandum and are set out in full in clause 3.1 of the Scheme Implementation Agreement which is attached to Folkestone's ASX announcement on 22 August 2018, which is available on Folkestone's website at http://www.folkestone.com.au and on the ASX' website at http://www.asx.com.au .
When will the Scheme become Effective?	Subject to Folkestone Shareholder approval, and the satisfaction, or as applicable, waiver of Conditions, the Scheme will become Effective on the Effective Date (expected to be 23 October 2018).
When will Folkestone Shares cease trading on the ASX?	If the Scheme becomes Effective, Folkestone Shares are expected to cease trading on the ASX from the close of trade on the Effective Date, which is anticipated to be 23 October 2018.
What happens if the Scheme is not approved?	If the Scheme is not approved by the Requisite Majority of Folkestone Shareholders, or the Court, the Scheme will not proceed.
What are the prospects of receiving a Superior Proposal in the future?	<p>The Folkestone Directors are, at present, not aware of any alternative proposal for Folkestone. The Folkestone Directors consider that the possibility of a proposal that could give rise to a Superior Proposal emerging in the foreseeable future is low.</p> <p>Folkestone Shareholders should note that Folkestone has agreed to certain exclusivity and break fee provisions in favour of Charter Hall Limited which are summarised in Section 7.1(c) of this Explanatory Memorandum and set out in full at clause 8 and clause 9 of the Scheme Implementation Agreement.</p>
Can I sell my Folkestone Shares now?	Yes. You can sell your Folkestone Shares on market at any time before Folkestone Shares cease trading on the ASX at the then prevailing market price (which may vary from the Scheme Consideration). If you do so, you will not receive the Bidder Consideration or the Special Dividend and you may incur brokerage costs.
What if I have further questions about the Scheme?	<p>Within Australia: 1300 032 756</p> <p>Outside Australia: +61 2 8023 5418</p>

2 Summary of the Scheme

2.1 Background

The Folkestone Board had commenced a review of the Folkestone business to determine the best actions to maximise value for Folkestone Shareholders. As part of the review, the Board considered a range of options, including maintaining the status quo, or the sale of selected assets.

Independently, on 4 June, 2018, the Board received an unsolicited proposal from Charter Hall Group to acquire all of the Folkestone Shares. The Folkestone Board consequently commenced negotiations with Charter Hall Group to maximise Folkestone Shareholder value.

Having considered a range of alternatives, the Folkestone Board concluded that, subject to a Superior Proposal emerging, the sale of Folkestone by way of the Scheme at a significant premium to the historical trading prices of Folkestone Shares delivers the most value for Folkestone Shareholders.

On 22 August 2018 Folkestone and Charter Hall Limited entered into a Scheme Implementation Agreement subject to certain Conditions, under which it is proposed that Charter Hall Limited, (a member of the Charter Hall Group), acquire 100% of the issued share capital of Folkestone pursuant to the Scheme.

Under the terms of the Scheme Folkestone Shareholders will be entitled to receive Scheme Consideration of \$1.39 which will comprise:

- the Bidder Consideration of \$1.354 cash per Scheme Share; and
- a fully franked⁴ Special Dividend of \$0.036 cash per Folkestone Share held on the Special Dividend Record Date and which Folkestone will pay if the Scheme is approved and implemented.

The transaction is to be effected by way of scheme of arrangement between Folkestone and Folkestone Shareholders. If the Scheme is approved by the Folkestone Shareholders and by the Court, and all other Conditions are satisfied or waived, Folkestone will become a Subsidiary of Charter Hall Limited and an application will be made to delist the Folkestone Shares from the ASX.

If the Scheme is not approved, the Scheme will not proceed, the Folkestone Shareholders will not be entitled to the Scheme Consideration, Folkestone will continue as a standalone entity listed on the ASX and Folkestone Shareholders will continue to participate in the benefits of, and be exposed to the risks associated with, an investment in Folkestone (please refer to Section 4 for information about Folkestone and Section 6 for the risk factors related to an investment in Folkestone).

A full copy of the Scheme Implementation Agreement is attached to Folkestone's ASX announcement on 22 August 2018, which is available on Folkestone's website at <http://www.folkestone.com.au> and on the ASX' website at <http://www.asx.com.au>.

A copy of the proposed form of the Scheme is set out in Annexure B.

2.2 Folkestone Directors' recommendation

The Folkestone Directors believe that the Scheme is attractive and in the best interests of the Folkestone Shareholders and unanimously recommend that Folkestone Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal.

2.3 Voting intention of the Folkestone Directors

Each Folkestone Director intends to vote all of the Folkestone Shares he or she holds or controls in favour of the Scheme, in the absence of a Superior Proposal.

Details of the interests of each Folkestone Director in Folkestone Shares are set out in Section 9.1.

2.4 Independent Expert's conclusion

Lonergan Edwards & Associates, the Independent Expert, has concluded that the Scheme is fair and reasonable and in the best interests of Folkestone Shareholders, in the absence of a Superior Proposal.

A full copy of the Independent Expert's Report is set out in Annexure A. The Folkestone Directors encourage you to read this report in its entirety before making a decision as to whether or not to vote in favour of the Scheme.

⁴ Folkestone has applied to the ATO requesting a class ruling in relation to the tax implications of the Scheme, including the availability of franking credits on the Special Dividend. Please refer to Section 7.7 of this Explanatory Memorandum for further information.

2.5 Effect of the Scheme

If the Scheme becomes Effective and is implemented then Folkestone Shareholders registered on the Folkestone Register at both of the Record Dates will receive the Scheme Consideration of \$1.39 for every Folkestone Share held, which will comprise:

- a) the Bidder Consideration of \$1.354 per Scheme Share held by that Folkestone Shareholder on the Scheme Record Date, to be funded by Charter Hall Limited (a member of the Charter Hall Group) on the Implementation Date (which is expected to be 7 November 2018); and
- b) a Special Dividend of \$0.036⁵ per Folkestone Share held by that Folkestone Shareholder on the Special Dividend Record Date to be paid by Folkestone on the Special Dividend Payment Date (which is expected to be 7 November 2018, please refer to Section 7.7 for more information about the Special Dividend).

Folkestone has also determined that it will pay to Shareholders who are registered as such on the FY18 Dividend Record Date a fully franked FY18 Dividend of \$0.03 cash per Folkestone Share. The FY18 Dividend will be paid to Folkestone Shareholders regardless of whether the Scheme is approved. The FY18 Dividend does not form part of the Scheme Consideration.

2.6 Conditions to the Scheme

The Scheme is subject to a number of Conditions set out in clause 3.1 of the Scheme Implementation Agreement which must be satisfied or (if permitted) waived before the Scheme becomes Effective. These Conditions are set out in further detail at Section 7 and include:

- a) **Independent Expert's Report:** the Independent Expert does not change its conclusion or withdraw its conclusion that the Scheme is in the best interests of the Folkestone Shareholders;
- b) **Regulatory approval:** ASIC and ASX have issued or provided all consents, confirmations and approvals necessary to implement the Scheme by 8.00 am on the Second Court Date;
- c) **No restraint:** no restraining order, injunction or other order issued by any court of competent jurisdiction, no decision, determination, notice of objection, or order issued by any Regulatory Authority or any other legal restraint preventing implementation of the Scheme as at 8.00 am on the Second Court Date;
- d) **Target Prescribed Occurrence:** no Target Prescribed Occurrence occurs between the date of the Scheme Implementation Agreement and 8.00am on the Second Court Date;
- e) **Folkestone Shareholder approval:** Folkestone Shareholders agree to the Scheme at the Scheme Meeting by the Requisite Majorities under section 411(4)(a)(ii) of the Corporations Act;
- f) **No Target Material Adverse Change:** no Target Material Adverse Change occurs between the date of the Scheme Implementation Agreement and at 8.00am on the Second Court Date;
- g) **FET Exit Transaction:** as at the later of the Scheme Meeting or the Deferred Date no FET Exit Transaction has occurred;
- h) **Court approval:** the Court approves the Scheme in accordance with section 411(4)(b) of the Corporations Act;
- i) **Target Warranties:** the Target Warranties are true and correct in all material respects as at the date of the Scheme Implementation Agreement and as at 8.00am on the Second Court Date;
- j) **Bidder Warranties:** the Bidder Warranties are true and correct in all material respects as on the date of the Scheme Implementation Agreement and as at 8:00am on the Second Court Date; and
- k) **Third party consents:** all of the Third Party Consents have been obtained or been provided (as applicable), and have not been withdrawn, cancelled or revoked as at 8:00am on the Second Court Date.

If any Conditions (other than the Court approval Condition set out in clause 3.1(h) of the Scheme Implementation Agreement) have not been satisfied or waived by the Second Court Date, Folkestone will need to discuss this matter with Charter Hall Limited and subject to that discussion intends to apply to the Court to adjourn the Second Court Date to the extent necessary to allow for the satisfaction or waiver of such Conditions.

As at the last practicable date before the date of this Explanatory Memorandum, Folkestone is not aware of any circumstances which would cause the Conditions not to be satisfied or waived. However, a number of the Conditions are outside the control of Folkestone and Charter Hall Limited. To this extent, Folkestone intends to work with Charter Hall Limited and relevant third parties (including all relevant regulators) to enable the Conditions to be satisfied or waived.

⁵ A class ruling from the ATO is being sought in relation to the availability of franking credits in relation to the Special Dividend. Please refer to Section 7.7 of this Explanatory Memorandum for further information.

2.7 Special Dividend

Subject to the Scheme becoming Effective, Folkestone intends to pay a fully franked Special Dividend of \$0.036 for each Folkestone Share on the Special Dividend Payment Date.

Folkestone has applied to the ATO requesting a class ruling in relation to the tax implications of the Scheme, including the availability of franking credits on the Special Dividend. On the proviso that a favourable class ruling is obtained from the ATO (please refer to Section 7.7 for further details), Folkestone Shareholders who are able to obtain the full benefit of the \$0.015 franking credits per Share associated with the Special Dividend may also receive additional value. Whether a Folkestone Shareholder is able to obtain the full benefit of the tax offset depends on their particular tax circumstances.

The Special Dividend will only be payable to Folkestone Shareholders on the Folkestone Register as at the Special Dividend Record Date and if the Scheme becomes Effective.

For further details please refer to Section 7.7 of this Explanatory Memorandum.

2.8 Payment of the Special Dividend and Bidder Consideration

All payments will be made:

- (a) where a Folkestone Shareholder has elected, prior to the relevant Record Date, to receive dividends by electronic funds transfer to the bank account nominated by the Folkestone Shareholder by transfer into that account; or
- (b) for overseas Shareholders who provided their banking details they will be paid via Western Union.

For Folkestone Shares held in joint names, the relevant payment will be made to the joint holders via EFT (in relation to the Special Dividend) or the holder whose name appears first in the Folkestone Register (in relation to the Bidder Consideration). If a Folkestone Shareholder does not have a Registered Address, or Folkestone considers that the Folkestone Shareholder is not known at its Registered Address and no bank account has been notified, payments due to the Folkestone Shareholder will be held by Folkestone until claimed or dealt with in accordance with the relevant laws dealing with unclaimed money.

You should be aware that if the Scheme Meeting is adjourned or the Effective Date is otherwise delayed, the payment of the Scheme Consideration described above may also be delayed.

Under the Deed Poll, Charter Hall Limited must deposit (or procure the deposit of) an amount equal to the Aggregate Scheme Consideration (less the Aggregate Special Dividend) into an Australian dollar denominated trust account, operated by Folkestone as trustee for the Scheme Shareholders, no later than the Business Day before the Implementation Date. On the Implementation Date, Folkestone will procure the payment of the Scheme Consideration to each Scheme Shareholder in accordance with the above.

2.9 Treatment of Performance Rights

Folkestone operates (or has operated in the past) employee incentive plans involving the issue, vesting and exercise of Performance Rights.

The Folkestone Board has determined that, in accordance with and as permitted by the terms of the Folkestone Limited Executive Incentive Plan, it will exercise its discretion to accelerate the vesting of 2,998,728 Performance Rights issued under that plan such that they will vest prior to the Scheme Record Date, upon the Scheme becoming Effective. Therefore, upon the Scheme becoming Effective, the 2,998,728 Performance Rights will vest.

The Folkestone Shares issued to the holders of the Folkestone Performance Rights on vesting will therefore participate in the Scheme, such that the holders will receive the Special Dividend and the Bidder Consideration in respect of those Folkestone Shares.

Further details about the Performance Rights held by or on behalf of the Folkestone Directors are set out in Section 7.8.

2.10 Implementation, timetable and procedures

The key steps to implement the Scheme are as follows:

- (a) Folkestone Shareholders will vote on whether to approve the Scheme at the Scheme Meeting. Each person registered as a Folkestone Shareholder as at 7.00pm (Sydney time) on Monday 15 October 2018 is entitled to vote at the Scheme Meeting;
- (c) if the Scheme is approved by the Requisite Majorities at the Scheme Meeting, Folkestone will apply to the Court for orders approving the Scheme on the Second Court Date;
- (d) if the Court approves the Scheme, and all Conditions to the Scheme have been satisfied or waived, Folkestone will lodge with ASIC an office copy of the Court orders approving the Scheme in accordance with section 411(10) of the Corporations Act;
- (e) it is expected that suspension of trading in Folkestone Shares on the ASX will occur from close of trading on the Effective Date;
- (f) on the Special Dividend Payment Date, Folkestone Shareholders will receive the Special Dividend for every Folkestone Share held on the Special Dividend Record Date (the Special Dividend is subject to the Scheme becoming Effective);
- (g) on the Implementation Date, Folkestone Shareholders will receive the Bidder Consideration for every Folkestone Share held on the Scheme Record Date; and
- (h) Folkestone will apply to the ASX for termination of official quotation of Folkestone Shares and to have itself removed from the official list of the ASX from close of trading on the Implementation Date.

Section 7 contains further details of the Scheme, including the approvals required in order for the Scheme to proceed.

2.11 Your choices as a Folkestone Shareholder

As a Folkestone Shareholder you have the following four options in relation to your Folkestone Shares:

(a) **Vote in favour of the Scheme at the Scheme Meeting**

The Folkestone Directors unanimously recommend that, in the absence of a Superior Proposal that the Scheme is in the best interests of Folkestone Shareholders, you vote in favour of the Scheme. The reasons for the Folkestone Directors' unanimous recommendation are set out in the "Reasons that you might vote for the Scheme" section on pages 11-13.

(b) **Vote against the Scheme at the Scheme Meeting**

If, despite the Folkestone Directors' unanimous recommendation and the conclusion of the Independent Expert, you do not support the Scheme, you may vote against the Scheme at the Scheme Meeting.

However, you should note that if all of the Conditions to the Scheme are satisfied or waived (as applicable), including receipt of the approval of the Requisite Majorities, the Scheme will bind all Folkestone Shareholders, including those who vote against the Scheme at the Scheme Meeting or those who do not vote at all.

(c) **Sell your Folkestone Shares on the ASX**

You can sell your Folkestone Shares on the ASX at any time before the cessation of trading of Folkestone Shares on the ASX. If you sell your Folkestone Shares on the ASX you may incur brokerage or other costs. If the Scheme becomes Effective, trading in Folkestone Shares on the ASX is expected to cease at the close of trading on the ASX on the day on which the Scheme becomes Effective.

(d) **Do nothing**

If, despite the Folkestone Directors' unanimous recommendation and the conclusion of the Independent Expert, you decide to do nothing, you should note that if all of the Conditions to the Scheme are satisfied or waived (as applicable), including receipt of the approval of the Requisite Majorities, the Scheme will bind all Folkestone Shareholders, including those who vote against the Scheme at the Scheme Meeting or those who do not vote at all.

If you want to receive the Bidder Consideration and the Special Dividend, your vote is important. If the Scheme is not approved by the Requisite Majorities of Folkestone Shareholders you will not be entitled to receive any Scheme Consideration.

2.12 Key documents

The key documents to effect the Scheme are as follows:

- (a) Scheme Implementation Agreement (a summary of which is set out in Section 7.1 and a full copy of which is attached to Folkestone's ASX announcement on 22 August 2018, which is available on Folkestone's website at <http://www.folkestone.com.au> and on the ASX' website at <http://www.asx.com.au>);
- (b) Scheme of Arrangement (a copy of which is set out in Annexure B); and
- (c) Deed Poll (a copy of which is set out in Annexure C).

2.13 What happens if the Scheme does not proceed?

If the Scheme does not proceed Folkestone Shareholders will retain the Folkestone Shares and Folkestone will continue to operate as a standalone entity listed on the ASX and Folkestone Shareholders will not receive the Bidder Consideration or the Special Dividend.

In this instance, Folkestone will continue to focus on its current business plan and growth strategy. Folkestone Shareholders will therefore remain exposed to the risks of Folkestone, as discussed in Section 6 and Section 4.10.

Folkestone Shareholders will still receive the FY18 Dividend as determined by the Folkestone Board.

2.14 No brokerage or stamp duty

No brokerage or stamp duty will be payable by Scheme Shareholders on the transfer of their Scheme Shares under the Scheme.

2.15 Tax implications of the Scheme

If the Scheme becomes Effective and is implemented, there will be tax consequences for Folkestone Shareholders which may include tax being payable on any gain on disposal of Folkestone Shares.

For further detail regarding general Australian tax consequences of the Scheme, refer to Section 8. The tax treatment may vary depending on the nature and characteristics of each Folkestone Shareholder and their specific circumstances. Accordingly, Folkestone Shareholders should seek and rely only on their own professional tax advice in relation to their particular circumstances.

2.16 Further information for Folkestone Shareholders

If you have any questions in relation to this Explanatory Memorandum or the Scheme you should contact the Folkestone's Shareholder Information Line on 1300 032 756 (within Australia) or +61 2 8023 5418 (outside Australia). Folkestone's Shareholder Information Line is open Monday to Friday from 9:00am to 5:00pm (Sydney time).

3 How to vote

3.1 Meeting details

The Scheme Meeting has been convened for 11.30am (Sydney time) on 17 October 2018 at the offices of Boardroom Pty Limited at Level 12, 225 George Street, Sydney NSW 2000.

3.2 What is the business of the Meeting?

At the Scheme Meeting, Folkestone Shareholders will be asked to pass the Scheme Resolution. The Scheme Resolution must be approved:

- (a) unless the Court orders otherwise, by a majority (i.e. greater than 50%) in number of Folkestone Shareholders voting on the Scheme Resolution (in person or by proxy, attorney or, in the case of corporate Folkestone Shareholders, by a corporate representative); and
- (b) by Folkestone Shareholders who vote in favour must cast at least 75% of the total number of votes cast by Folkestone Shareholders on the Scheme Resolution (in person or by proxy, attorney or, in the case of corporate Folkestone Shareholders, by a corporate representative).

If you wish the Scheme to proceed, it is important that you vote in favour of the Scheme Resolution at the Scheme Meeting. The Scheme will not proceed unless the Scheme is approved by Folkestone Shareholders and the Court.

3.3 Entitlement to vote

All Folkestone Shareholders who are on the Folkestone Register as at 7:00pm on 15 October 2018 will be entitled to vote at the Scheme Meeting.

If Folkestone Shares are jointly held, only one of the joint holders is entitled to vote. If more than one shareholder votes in respect of jointly held Folkestone Shares, only the vote of the Folkestone Shareholder whose name appears first on the Folkestone Register will be counted.

Where a general meeting is convened, three Folkestone Shareholders must be present to constitute a quorum for a meeting. If a quorum is not present within 15 minutes of the time specified in the Notice of Meeting, the meeting is dissolved unless the Folkestone Board adjourns the meeting to a date, time and place to be determined by it. If no quorum is present at any adjourned meeting within 15 minutes after the time for the meeting, the meeting is dissolved.

3.4 How to vote

Folkestone Shareholders can vote in either of two ways:

- attending the Scheme Meeting in person or by attorney or, in the case of corporate shareholders by corporate representative; or
- by appointing a proxy to attend and vote on their behalf.

3.5 Voting in person

Folkestone Shareholders are asked to arrive at the offices of Boardroom Pty Limited at Level 12, 225 George Street, Sydney NSW 2000, 30 minutes prior to the time designated for the Scheme Meeting, so that their shareholding can be checked against the Folkestone Register and attendances noted.

3.6 Voting by proxy

Folkestone Shareholders who wish to appoint a proxy to attend and vote at the Scheme Meeting, must complete and return the Proxy Form accompanying this Notice of Meeting to the Folkestone Registry. The Proxy Form must be received by the Folkestone Registry (as indicated on the Proxy Form you receive) by no later than 11.30am (Sydney time) on Monday 15 October 2018.

You must return the Proxy Form to the Folkestone Registry by lodging, sending, delivering or faxing it as follows:

By email:	folkestone@boardroomlimited.com.au
Mail to:	Boardroom Pty Limited GPO Box 3993 Sydney NSW 2001, Australia
Fax to:	+61 2 92909655

A Proxy Form must be signed by the Folkestone Shareholder or the Folkestone Shareholder's attorney. Proxies given by corporations must be executed in accordance with the Corporations Act.

If a proxy appointment is signed by or validly authenticated by a Folkestone Shareholder but does not name the proxy or proxies in whose favour it is given, the Chairman of the Scheme Meeting may act as proxy.

If:

- a) a Folkestone Shareholder nominates the Chairman of the Scheme Meeting as the Folkestone Shareholder's proxy; or
- b) a proxy appointment is signed by a Folkestone Shareholder but does not name the proxies in whose favour it is given or otherwise under a default appointment according to the terms of the Proxy Form,

the person acting as Chairman in respect of an item of business at the Scheme Meeting must act as proxy under the appointment in respect of that item of business.

Proxy appointments in favour of the Chairman of the Scheme Meeting, the Folkestone Company Secretary or any Folkestone Director which do not contain a direction will be voted in support of the Scheme Resolution.

A Folkestone Shareholder who wishes to submit a proxy has the right to appoint a proxy (who need not be a Folkestone Shareholder) to represent him, her or it at the Scheme Meeting, other than the Chairman of the Scheme Meeting, by inserting the name of his or her chosen proxy in the space provided for that purpose on the Proxy Form.

A Folkestone Shareholder entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise, but where the proportion or number is not specified, each proxy may exercise half the votes (disregarding fractions). The Folkestone Shares represented by proxy will be voted for or against or withheld from voting in accordance with instructions of the Folkestone Shareholder on any ballot that may be called for, and if the Folkestone Shareholder specifies a choice with respect to any matter to be acted upon, the Folkestone Shares will be voted accordingly.

A Folkestone Shareholder who has deposited a Proxy Form may revoke it prior to its use, by instrument in writing executed by the Folkestone Shareholder or by his, her or its attorney duly authorised in writing or, if the Folkestone Shareholder is a company, executed by a duly authorised officer or attorney in compliance with applicable law and deposited at the Folkestone Registry by 11.30am (Sydney time) on Monday 15 October 2018 or with the Chairman of the Scheme Meeting on the day of, and prior to the start of, the Scheme Meeting. A Folkestone Shareholder may also revoke a proxy in any other manner permitted by law.

3.7 Voting by attorney

Alternatively, if you cannot attend the Scheme Meeting, you may have a duly authorised attorney attend and vote on your behalf. An attorney need not be a Folkestone Shareholder. The power of attorney, or a certified copy of the power of attorney, should be brought to the Scheme Meeting (unless previously lodged with the Folkestone Registry).

3.8 Corporate representative

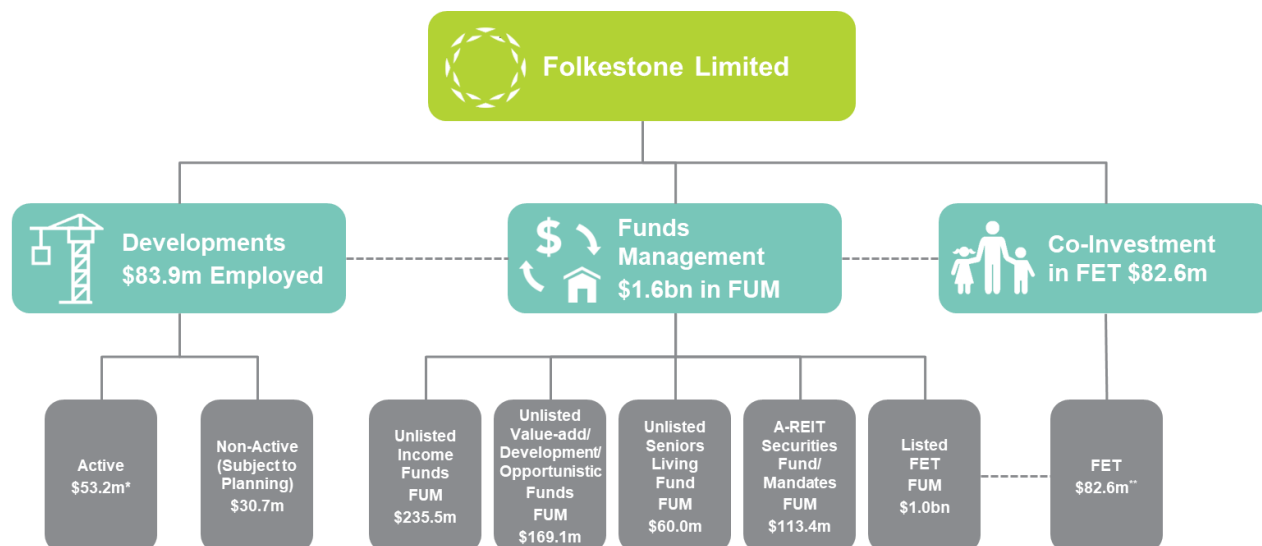
Folkestone Shareholders which are bodies corporate can also vote at the Scheme Meeting by having its corporate representative attend the Scheme Meeting in person and voting on its behalf. If a corporate representative is to attend the Scheme Meeting pursuant to section 250D of the Corporations Act, a certificate of appointment of the representative (or such other document as the Chairman of the Scheme Meeting considers sufficient together with any power of attorney or other authority under which the certificate or other document is signed or a certified copy of that power of attorney or authority) should be lodged with Folkestone's Registry prior to the Scheme Meeting or be brought to the meeting.

4 Information on Folkestone

4.1 Overview of Folkestone Group

Folkestone is an ASX listed real estate funds manager and developer providing real estate wealth solutions. Folkestone's funds management platform, with more than \$1.6 billion under management, offers listed and unlisted real estate funds to private clients and select institutional investors, while its on balance sheet activities focus on value-add and opportunistic (development) real estate investments.

For the Financial Year ending 30 June, 2018, Folkestone reported a net profit after tax of \$13.9 million.



* Includes FLK's co-investments in the Folkestone Seniors Living Fund No.1, Folkestone Truganina Development Fund, Folkestone Wollert Development Fund and Folkestone Plumpton Development Fund.

** Based on Folkestone Education Trust's (ASX:FET) Unit Price of \$2.69 at 30 June 2018. Excludes interest in FET held by Folkestone Maxim A-REIT Securities Fund/Mandates.

4.2 Operational structure

Folkestone's income is apportioned into two business segments:

- **Funds Management:** Funds Management revenue and segment profit includes trust distributions, management fees and other fees generated from Folkestone's Funds Management platform. Folkestone's Funds Management segment includes management rights over the ASX-listed Folkestone Education Trust, a \$1,030 million social infrastructure real estate investment trust.
- **Development:** 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.

4.3 Board & Senior Management

Board Member Profiles:

Garry Sladden: Non-Executive Chairman

Garry was appointed as Non-Executive Chairman of Folkestone in March 2011. Garry is a business and strategic adviser who has a diversified business background in the areas of real estate, private equity, business operations, banking and finance, and equity raising, having held the position of General Manager Operations at Consolidated Press Holdings for six years. Garry is Chairman of Ashton Manufacturing Pty Limited, Chairman of FivePointFour Pty Limited, and Non-Executive Chairman of Clarius Limited (ASX: CND) and Non-Executive Chairman Star Car Wash Café Holdings Pty Ltd.

Mark Baillie: Non-Executive Deputy Chairman

Mark was appointed as Non-Executive Deputy Chairman of Folkestone in February 2013. Prior to this Mark was Macquarie Group Limited's Head of Real Estate – Europe and North America. During his 14 years at Macquarie, Mark was responsible for the creation and listing of three AREITs on the ASX and was an AREIT CEO for five years. Mark was located in Chicago, USA (2001 to 2006) and London UK (2006 to 2009) in order to establish and manage the growth of Macquarie Real Estate's business in both regions. Mark was a director on the boards of all Macquarie's listed AREITs. In addition, Mark has been a director of the following real estate industry bodies, the Property Council of Australia, the Shopping Centre Council of Australia, the Association of Foreign Investors in Real Estate (past Chairman) and the European Public Real Estate Association. Also, Mark is currently Chairman of the United States Studies Centre Limited and a director of Perth USA Asia Centre Limited.

Ross Strang: Non-Executive Director

Ross was appointed as Non-Executive Director of Folkestone in March 2011 and a Non-Executive Director of Folkestone Funds Management in May 2012. Ross is a consultant to Kemp Strang, a Sydney commercial law firm. Ross is one of Kemp Strang's founders and was a partner in the practice for over 30 years. Ross has extensive experience in commercial real estate, construction and securities matters on a broad front and is well known in legal, commercial and community circles. He is a former non-executive Director of Mirvac Funds Management Limited and Mirvac Wholesale Funds Management Limited, and is a member of the Australian Institute of Company Directors.

Executives Profiles:

Greg Paramor AO: Managing Director

Greg Paramor has more than 45 years' experience in the real estate and funds management industry and is the Managing Director of Folkestone Limited, a specialist property funds management group with over \$1.6 billion funds under management. Greg was the co-founder of Growth Equities Mutual, Paladin Australia and the James Fielding Group and CEO of Mirvac Group between 2004 and 2008. He is a past president of both the Property Council of Australia and Investment Funds Association. Greg is a past and current director of a number of not-for-profit organisations and is the current Chair of BackTrack, an organisation assisting vulnerable young people. Greg is also a board member of the Sydney Swans and Sydney Swans Foundation. Greg received an Order of Australia in 2015 in recognition of his contribution to the community through executive roles in a range of fields, including breast cancer research, sport, the not-for-profit sector and real estate and property investment industries.

Scott Martin: Chief Financial Officer & Company Secretary

Scott joined Folkestone in December 2005 and has held the position of Chief Financial Officer and Company Secretary since this time. Scott has over 20 years' experience in finance, specialising in the property and construction industries having previously held positions at R.Corporation and Higgins Coatings. Scott is a Chartered Accountant who began his career at Deloitte providing specialist accounting and taxation advice to a variety of clients in a broad range of sectors. Scott is a member of the Institute of Chartered Accountants and holds a Bachelor of Commerce from the University of Melbourne.

Adrian Harrington: Head of Funds Management

Adrian joined Folkestone in April 2011 following the acquisition of Equity Real Estate Partners. Adrian was a founding partner of Equity Real Estate Partners. Adrian has more than 25 years of experience in the funds management and real estate industries. He is currently a Non-Executive Director of both the National Housing Finance & Investment Corporation and the Australian Housing and Urban Research Institute (AHURI). He was formerly CEO Funds Management, UK and USA for Mirvac Group. He previously held senior positions at James Fielding Group, Deutsche Asset Management, Paladin Australia and the Property Council of Australia. Adrian is a Fellow of the Financial Services Institute of Australasia. Adrian has a Bachelor of Science (Hons) from the University of New South Wales, a Graduate Diploma in Applied Finance and Investment from the Financial Services Institute of Australasia and is a Graduate of the Australian Institute of Company Directors.

Ben Dodwell: Head of Real Estate

Ben joined Equity Real Estate Partners in October 2010, and was appointed to the role of Head of Real Estate at Folkestone in April 2011. Ben has held a number of senior executive roles at Stockland and Lend Lease where he has been responsible for the operations and profitability of significant real estate investment portfolios and development pipelines. Throughout his 20-year career, Ben has broad sector experience in hotels, retail shopping centres, commercial buildings together with residential land, apartments and seniors living. Ben has a Bachelor of Industrial Design, a Graduate Diploma of Applied Finance and Investment from the Financial Services Institute of Australasia and a Diploma of Property Finance from the Property Council of Australia. He was appointed to the Board of Rowing Australia in August 2017, where he is presently a Director. Ben has attended three Olympic Games and is an Olympic, World Championship and Commonwealth medalist.

Nick Anagnostou: Chief Executive Officer, Social Infrastructure Funds

Nick joined Folkestone in September 2012 following Folkestone's acquisition of Austock's property business (Nick joined Austock in 2006). Nick is the CEO and executive board member for the ASX listed Folkestone Education Trust (ASX:FET) and the Folkestone CIB Fund. Nick has more than 25 years of experience in the Australian commercial property and Funds Management industries. Nick holds a Bachelor of Business in Property and is an Associate of the Australian Property Institute and Finsia. He is a Certified Funds Manager, qualified property valuer and a Licensed Estate Agent and was previously a Director of an international real estate agency where he focused on Premium and A-Grade office markets.

Stuart Nicolson: Chief Executive Officer, Seniors Living

Stuart joined Folkestone in November 2015. Stuart has over 30 years of experience in senior executive management roles and 12 years' experience in the senior's living space, more recently as CEO at Retirement Alliance (formerly Becton). Stuart built the Retirement Alliance business which developed, owned and operated a national portfolio of seniors living communities. Stuart developed a business strategy defined by quality construction, extensive facilities and a culture of high-level customer service to build a business that set industry benchmarks. Stuart is a director of the peak industry body, the Retirement Living Council and a regular speaker at industry forums and conferences. Stuart formerly held senior positions at Melbourne Business School and Australian Dairy Corporation. He is also past director of the Melbourne Fringe Arts Festival.

Travis Butcher: Chief Financial Officer, Funds

Travis joined Folkestone in September 2012 following Folkestone's acquisition of Austock's property business (Travis joined Austock in 2006). Travis is the Chief Financial Officer – Funds across Folkestone's property funds. Travis has over 15 years financial experience in Australia and overseas. Travis is a Chartered Accountant who began his career at PricewaterhouseCoopers specialising in transaction services and audit. Travis is a member of the Institute of Chartered Accountants and holds a Bachelor of Accounting from Monash University.

Mark Stewien: General Counsel

Mark joined Folkestone in September 2012 following Folkestone's acquisition of Austock's property business (Mark joined Austock in 2009). Mark is General Counsel at Folkestone. Mark has over 15 years of experience in corporate, funds, finance and real estate law in Australia and overseas including serving in-house at Nakheel in Dubai and in private legal practice at Baker & McKenzie. Mark holds a Bachelor of Laws and Bachelor of Commerce from Deakin University.

Winston Sammut: Managing Director, Folkestone Maxim Asset Management

Winston has in excess of 35 years' experience in investment markets. Folkestone Ltd acquired Maxim Asset Management in 2014. Prior to establishing Maxim, Winston was one of the founding shareholders of Ausbil Dexia Limited, a boutique asset management company formed in April 1997. Whilst at Ausbil Dexia, Winston was the Deputy Chief Investment Officer and was also responsible for the management of the Listed Property Securities portfolio. Between 1997 and early in 2003 whilst at Ausbil Dexia, Winston built an impressive long term track record in the management of Listed Property Trust Securities, which has been built upon at Maxim and now reflects a track record of over 13 years in this asset class. Prior to Ausbil, Winston joined BZW Investment Management in 1993 as Manager Equities. Subsequently, in 1995 he was appointed Director and Deputy Chief Investment Officer. From 1986 until 1992, Winston was the Senior Investment Manager with the Commonwealth Bank, managing the Commonwealth Bank Officers' Superannuation Fund's equity portfolio (value \$1.4 billion).

4.4 Folkestone Director's intentions

The Folkestone Board unanimously recommends that you vote in favour of the Scheme in the absence of a Superior Proposal at the Scheme Meeting to be held at the offices of Boardroom Pty Limited at Level 12, 225 George Street, Sydney NSW 2000 on Wednesday, 17 October 2018 at 11.30am. Each Folkestone Director intends to vote all Folkestone Shares they own or control in favour of the Scheme, in the absence of a Superior Proposal.

4.5 Strategy and intentions for Folkestone if the Scheme does not proceed

Folkestone has a strong business model and management team. If the Scheme does not proceed, it is the Folkestone Directors' current intention to continue operating Folkestone in line with its previously stated objectives.

4.6 Folkestone Capital Structure

As of the date of this Explanatory Memorandum, Folkestone has 148,368,964 Folkestone Shares on issue that are quoted on the ASX.

In addition, Folkestone has 2,998,728 Folkestone Performance Rights on issue to Folkestone employees under the Folkestone Limited Executive Incentive Plan. The Folkestone Board has determined to exercise its discretion (in accordance with and as permitted by the terms of the Folkestone Limited Executive Incentive Plan) to vest all of the outstanding Performance Rights subject to the Scheme becoming Effective and to issue Folkestone Shares to holders of those Performance Rights prior to the Record Date.

4.7 Substantial Folkestone Shareholders

The substantial Folkestone Shareholders as recorded in the Folkestone Register as at 12 September 2018, the last practicable trading date prior to the date of this Explanatory Memorandum, are as follows:

Name	Shares Held	% of Shares Held
G J P Investments Pty Ltd & Associated Entities	13,612,755	9.17%
Phoenix Portfolios Pty Ltd	15,310,623	10.32%
FDC Construction & Fitout Pty Ltd & Associated Entities	10,491,817	7.07%
KIL Property Management Pty Ltd ATF KEL Property Fund	8,229,392	5.55%

4.8 Historical financial information

Consolidated Statement of Profit and Loss

The audited historical consolidated statement of profit and loss for the years ended 30 June 2016, 2017 and 2018 are summarised below.

Audited Statement of Profit and Loss*			
	FY16 (\$m)	FY17 (\$m)	FY18 (\$m)
<u>Revenue</u>			
Funds Management	15.9	17.0	26.8
Development (Net)	6.9	16.7	6.5
Other	0.4	0.1	0.2
Total Revenue	23.2	33.8	33.5
<u>Expenses</u>			
Employee Expenses	(8.0)	(10.5)	(10.3)
Administration	(2.0)	(2.7)	(2.5)
Due Diligence	(1.2)	(0.6)	(0.2)
Finance	(0.5)	(0.6)	(0.5)
Rental	(0.4)	(0.3)	(0.4)
Depreciation & Amortisation	(0.1)	(0.1)	(0.1)
Total Expenses	(12.2)	(14.8)	(14.0)
Net Profit before Tax	11.0	19.0	19.4
Income Tax Benefit/(Expense)	(1.9)	(5.6)	(5.5)
Net Profit after Tax	9.0	13.4	13.9
Other Comprehensive Income (Net of Tax)	11.9	2.6	(2.1)
Total Comprehensive Income	20.9	16.0	11.7
Total Comprehensive Income Attributable to Folkestone	17.3	16.0	11.7
Total Comprehensive Income Attributable to NCI	3.6	0.0	0.0
Total Comprehensive Income	20.9	16.0	11.7

* Numbers may not add up due to rounding

Consolidated Balance Sheet

The consolidated balance sheet as at 30 June 2016, 2017 and 2018 are summarised below.

Audited Balance Sheet*			
	FY16 (\$m)	FY17 (\$m)	FY18 (\$m)
Assets			
Total Current Assets	42.9	40.9	46.9
Total Non-Current Assets	123.5	148.3	159.9
Total Assets	166.4	189.2	206.8
Total Current Liabilities	10.2	11.9	16.8
Total Non-Current Liabilities	10.5	18.6	23.3
Total Liabilities	20.7	30.6	40.1
Net Assets	145.8	158.7	166.7
Folkestone Interest	145.7	158.7	166.7
Non-Controlling Interest	0.0	0.0	0.0
Total Net Assets	145.8	158.7	166.7

* Numbers may not add up due to rounding

4.9 Material changes to the financial position of Folkestone

As at the date of this Explanatory Memorandum, to the knowledge of the Folkestone Directors, there have been no material changes to the financial position of Folkestone since 30 June 2018.

4.10 Risks relating to Folkestone Group's business

If the Scheme does not proceed, Folkestone will continue to be subject to a number of risks and uncertainties. These risks can include but are not limited to general market, trading, business and economic conditions, and risks specific to Folkestone's business, including the broader performance of the real estate market, development and asset-level risks, and operational risks. One or more or a combination of these risks could materially impact Folkestone's businesses, its operating and financial performance, the price of Folkestone Shares or any dividends which might be paid in respect of Folkestone Shares.

You should carefully consider the risk factors described in Section 6, as well as the other information contained in this Explanatory Memorandum before voting on the Scheme. If you are unclear in relation to any matter, you should consult your legal, financial or other professional advisor.

4.11 Publicly available information

As an ASX listed company and a "disclosing entity" under the Corporations Act, Folkestone is subject to regular reporting and disclosure obligations. Among other things, these obligations require Folkestone to announce price sensitive information to the ASX as soon as Folkestone becomes aware of information, subject to some exceptions.

Pursuant to the Corporations Act, Folkestone is required to prepare and lodge with ASIC and the ASX both annual and half-yearly financial statements accompanied by a statement and report from the Folkestone Directors and an audit or review report respectively.

Copies of the documents filed with the ASX may be obtained from the ASX website at <http://www.asx.com.au> and Folkestone's website at <http://www.folkestone.com.au>. Copies of the documents lodged with ASIC in relation to Folkestone may be obtained from, or inspected at, an ASIC office. Copies of these documents will also be made available free of charge following a request in writing to Folkestone at any time before the Scheme Meeting.

5 Information on Charter Hall Group and the Bidder

The information contained in this Section 5 has been prepared by Charter Hall Limited. The information concerning Charter Hall Limited and its Related Bodies Corporate and the intentions, views and opinions contained in this section are the responsibility of Charter Hall Limited. Folkestone and its officers and advisers do not assume any responsibility for the accuracy or completeness of this information.

5.1 Overview of Charter Hall Limited and the Charter Hall Group

The Charter Hall Group is a stapled group comprising shares in Charter Hall Limited, the operating business, and units in Charter Hall Property Trust (ARSN: 113 339 147), which predominantly co-invests in the funds and partnerships that the Charter Hall Group manages. The Charter Hall Group has been listed on the ASX since 2005 under the ticker code CHC.

The Charter Hall Group is one of Australia's leading fully integrated property groups, with over 25 years' experience managing and investing in high quality property on behalf of institutional, wholesale and retail clients. The Charter Hall Group has over \$23.2 billion of funds under management across the office, retail and industrial sectors. The Charter Hall Group owns and manages 330 commercial properties around Australia, including office buildings, supermarket anchored retail centres, and a rapidly growing stable of industrial assets, on behalf of our institutional, wholesale and retail investors.

The Charter Hall Group has offices in Sydney, Melbourne, Brisbane, Adelaide and Perth. Further information on the Charter Hall Group is available from its website at: <https://www.charterhall.com.au/>.

5.2 Directors of Charter Hall Limited

The directors of Charter Hall Limited as at the date of this Explanatory Memorandum are:

- David Clarke (Non-Executive Director and Chairman);
- Anne Brennan (Non-Executive Director);
- Philip Garling (Non-Executive Director);
- Karen Moses (Non-Executive Director);
- David Ross (Non-Executive Director); and
- David Harrison (Managing Director and Charter Hall Group Chief Executive Office).

5.3 Rationale for Charter Hall Limited's proposed acquisition of Folkestone

If the Scheme is implemented, Charter Hall Limited expects that the acquisition of Folkestone will grow the Charter Hall Group's funds under management by \$1.6 billion, delivering fund management and development investment earnings, driving earnings accretion for the Charter Hall Group.

The acquisition of Folkestone would also expand the Charter Hall Group's investable universe into the social infrastructure and early learning sector, including by acquiring a Relevant Interest and management rights in FET, a specialist early learning property owner which owns 410 properties primarily located in metropolitan areas.

5.4 Funding arrangements for the Bidder Consideration

If the Scheme becomes Effective, Scheme Shareholders will be entitled to receive the Scheme Consideration, being \$1.39 per Folkestone Share, comprising the Bidder Consideration and the Special Dividend.

The Scheme is not conditional on Charter Hall Limited obtaining debt or equity finance to fund the payment of the Bidder Consideration. Charter Hall Limited intends to fund the Bidder Consideration, being \$1.354 cash per Scheme Share.

The Bidder Consideration which has been set aside in its entirety for the acquisition of the Scheme Shares, is made up of the Charter Hall Group's own cash surplus amounts (ie \$94.9 million at 30 June 2018) which has been increased by the subsequent draw down of US\$175 million (A\$231.5 million) of cash from the proceeds of the Charter Hall Group's debt offering raised pursuant to the issuance of a United States Private Placement note issued on 24 May 2018 (and the entire amount of the note was drawn down into Charter Hall Group's cash reserves on 24 August 2018).

5.5 Charter Hall Limited's intentions if the Scheme is implemented

This Section 5.5 sets out Charter Hall Limited's current intentions on the basis of facts and information concerning Folkestone and the general business environment, each of which as known to Charter Hall Limited at the time of the preparation of this Explanatory Memorandum.

If the Scheme is implemented, Charter Hall Limited intends to fully integrate the Folkestone business into its existing operations.

(a) **Operations**

Charter Hall Limited views the Folkestone business as consistent with the Charter Hall Group's existing strategy. Charter Hall Limited intends to integrate Folkestone's portfolio of listed and unlisted funds into its sources of equity and generate property investments for the expanded list of managed funds.

(b) **Board of directors**

If the Scheme is implemented, Charter Hall Limited intends to replace the current Folkestone Board with nominees of Charter Hall Limited (who are yet to be identified as at the date of this Explanatory Memorandum).

As noted in Section 9.5, Charter Hall Limited intends to appoint Greg Paramor as a non-executive director of Charter Hall Limited subject to the Scheme becoming Effective.

(c) **Management and employees**

Charter Hall Limited considers that the Folkestone culture shares many similarities to Charter Hall Group's own culture and sees two organisations as a close fit.

Charter Hall Limited has offered new employment agreements to all Folkestone employees, subject to implementation of the Scheme.

(d) **Delisting**

If the Scheme is implemented, it is intended that quotation of Folkestone Shares on the ASX will be terminated and Folkestone will be removed from the official list of the ASX on or around the Business Day immediately following the Implementation Date.

5.6 Charter Hall Limited's interests in Folkestone Shares

(a) **Interest in Folkestone Shares**

As at the date of this Explanatory Memorandum, none of Charter Hall Limited or, to the best of its knowledge, any of its Associates directly or indirectly holds any Folkestone Shares.

(b) **Dealing in Folkestone Shares in previous four months**

None of Charter Hall Limited or, to the best of its knowledge, any of its Associates has provided or agreed to provide consideration for any Folkestone Shares under any other transaction during the period of four months before the date of this Explanatory Memorandum.

(c) **Benefits to holders of Folkestone Shares**

During the four months before the date of this Explanatory Memorandum, none of Charter Hall Limited or, to the best of its knowledge, any of its Associates has given or offered to give or agreed to give a benefit to another person where the benefit was likely to induce the other person or an Associate to:

- vote in favour of the Scheme; or
- dispose of Folkestone Shares,

where the benefit was not offered to all Folkestone Shareholders.

(d) **Benefits to Folkestone officers**

None of Charter Hall Limited or, to the best of its knowledge, its Associates will be making any payment or giving any benefit to any current officers of Folkestone as compensation or consideration for, or otherwise in connection with, their resignation from their respective offices if the Scheme is implemented.

6 Risk Factors

6.1 Introduction

If the Scheme is not implemented, Folkestone will remain as a listed company and it will continue to be subject to various risk factors.

Some notable risk factors that could have an impact on Folkestone and therefore a continued investment in Folkestone Shares are listed below. The risks described below are not to be taken as exhaustive or listed in any order of importance. The risks described below as well as other risks not described below could, in the future, materially and adversely affect the financial performance of Folkestone and the value of Folkestone Shares.

In considering the Scheme, you should be aware that there are a number of risk factors, both general and specific associated with Folkestone.

This Section 6 outlines general investment risks and specific risk factors relating to the ongoing business and operations of Folkestone.

The outline of risks in this Section 6 is a summary only and should not be considered exhaustive. This Section 6 does not purport to list every risk that may be associated with an investment in Folkestone now or in the future or take into account the individual investment objectives, financial situation, position or particular needs of Folkestone Shareholders. The occurrence or consequences of some of the risks described in Section 6.2 may be partially or completely outside the control of Folkestone.

You should carefully consider the risk factors discussed in Section 6.2, as well as other information contained in this Explanatory Memorandum before voting on the Scheme. If the Scheme is implemented you will receive the Scheme Consideration, will cease to be a Folkestone Shareholder and will also no longer be exposed to the risks set out below.

6.2 General investment risks and specific Folkestone risk factors

If the Scheme does not proceed, Folkestone Shareholders will retain their Folkestone Shares, and Folkestone will continue in its business as if the Scheme had not been proposed. In those circumstances, Folkestone will continue to be subject to risks as a going concern, including the following:

Risk	Consideration
Fall in Folkestone Share price	<p>If the Scheme is not implemented, Folkestone Shares will remain quoted on the ASX, and will continue to be subject to market volatility, including as a result of general stock market movements, and the impact of general economic conditions.</p> <p>Since Folkestone announced to the ASX on 22 August, 2018 the offer from Charter Hall Limited to acquire Folkestone by way of scheme of arrangement, up until 11 September 2018 the Folkestone Share price has traded between \$1.375 and \$1.405, likely carrying Scheme Consideration in the price.</p> <p>As such, if the Scheme is not implemented, the price at which Folkestone Shares trade is likely to fall.</p>
Economic risk	<p>Folkestone's operating and financial performance is influenced by a variety of general economic and business conditions, including the level of inflation, interest rates, commodity prices, ability to access funding, supply and demand conditions and government fiscal, monetary and regulatory policies. Prolonged deterioration in these conditions, including an increase in interest rates, an increase in the cost of capital or a decrease in investor demand for real estate investments, could have a materially adverse impact on Folkestone's operating and financial performance.</p>
Share market risk	<p>There are risks associated with any investment in listed securities. The market price of listed securities such as the Folkestone Shares is affected by numerous factors including the prevailing economic conditions, general movements in local and international stock markets, investor sentiment, interest and exchange rates, government taxation, market supply and demand and other legal, regulatory or policy changes. As a consequence, Folkestone Shares may trade on ASX at higher or lower prices than the current price and may not fully reflect Folkestone's underlying net asset value.</p> <p>The value of an investment in Folkestone could decrease as well as increase and investors who decide to sell their Folkestone Shares on ASX may receive less than the amount invested.</p>

Liquidity and realisation risk	There can be no guarantee that there will be an active market in the Folkestone Shares or that the price of the Folkestone Shares will increase. There may be relatively few or many potential buyers or sellers of the Folkestone Shares on ASX at any given time. This may increase the volatility of the market price of the Shares. It may also affect the prevailing market price at which Folkestone Shareholders are able to sell their Folkestone Shares. This may result in Folkestone Shareholders receiving a market price for their Folkestone Shares that is less than the price that Folkestone Shareholders paid.
General business risk	Folkestone is exposed to general business risk. This includes, but is not limited to, counterparty performance risk, staff retention risk, occupational health and safety risk, taxation change risk, other regulatory change risk, dispute risk, environmental and contamination risk and insurance coverage risk.
Legislative and regulatory changes	Legislative or regulatory changes, or the interpretation of such, may have legal, tax or accounting consequences that adversely affect Folkestone. Any such changes may operate retrospectively.
Taxation risk	Changes in income tax, capital gains tax, GST or stamp duty legislation, case law, rulings and determinations issued by the Australian Commissioner of Taxation and other tax authorities, particularly in regard to investment in income-producing real estate, may adversely affect Folkestone's profitability and cash flow, as well as the tax treatment of returns received by Shareholders.
Investment pipeline risk	The performance of Folkestone is to a large extent dependent on the ability of the senior management team to identify and source suitable investment opportunities. Such opportunities are subject to market conditions and other factors outside the control of the senior management team.
Key personnel risk	Folkestone's business strategy is implemented by the Folkestone Board and the management team. This provides Folkestone with an exposure to an extensive network of relationships within the real estate industry and capital markets. Folkestone's continuing success as a going concern will depend in a large part on the judgment and performance of the Board and senior management team. The loss of services of any of these key personnel could have a material adverse impact on Folkestone's ability to successfully implement Folkestone's business strategy.
Real estate market risk	<p>Folkestone's asset values and earnings are subject to real estate market conditions. Increases in supply or falls in demand in any of the sectors of the real estate market in which Folkestone operates could influence the acquisition of sites, the timing and value of the Folkestone's sales and the carrying value of projects and any income producing assets as well as earnings. A downturn in the real estate markets due to deterioration in the economic climate could result in reduced asset values and earnings, as could a decline in sales. Changes in market conditions for properties, including vacancy rates, incentive levels and rental rates may impact on any proceeds received from Folkestone's assets.</p> <p>Market sentiment may be influenced by media commentary and observations by industry analysts and may have a significant influence on the confidence of and the propensity of purchasers to buy properties. Such sentiment may have a more significant short term influence on project enquiry levels and rates of sale than medium term factors such as the likelihood of oversupply or undersupply in some market segments. Although rates of sale may not have a significant influence on the profitability of individual projects in the medium/long term, a decline in market sentiment which reduces rates of sales could adversely influence the amount of profit that can be brought to account in a particular financial period and can impact on Folkestone's liquidity.</p> <p>Real estate specific factors which might impact on asset values and future earnings include the following:</p> <ul style="list-style-type: none"> ● environmental issues and changes to government regulations relating to real estate; ● any failure to deliver on or to effectively execute Folkestone's stated strategy or a failure to redefine the strategy to meet changing market conditions; ● an increase in capitalisation rates considered appropriate by professional valuers in response to changed market conditions; ● changes in the conditions of town planning consents applicable to Folkestone projects as a consequence of the unpredictable nature of council policies; ● variances in the cost of development as a consequence of the imposition of levies by state and local government agencies;

	<ul style="list-style-type: none"> • a failure of a significant portion of purchasers to settle on development projects; • the activities of resident action groups; and • land resumptions for roads and major infrastructure, which cannot be adequately offset by the amount of compensation eventually paid.
Development risk	<p>One of Folkestone's business segments is to identify, analyse and invest in development projects which have a number of inherent risks in addition to those associated with real estate generally, including:</p> <ul style="list-style-type: none"> • a risk that appropriate planning consents are not obtained or, if obtained, are not properly adhered to; • a risk that development costs escalate beyond those originally anticipated; • a risk of project delays due to factors beyond the control of Folkestone; • a risk that any real estate development manager and/or subcontractor appointed to implement a development project does not perform their role to a satisfactory standard or acts or fails to act in breach of contract; • a risk that competing real estate development projects adversely affect the overall return achieved by a real estate development project undertaken by Folkestone because they provide competitive alternatives for potential purchasers and potential lessees; • a risk that the property does not sell; and • a risk that market conditions change during any development. <p>Although some of these risks can be mitigated, it is not possible to remove entirely the risks inherent in development projects.</p>
Financial and interest rate risk	<p>Folkestone may use leverage to maintain an optimal capital structure for its own balance sheet and each of its investments. The use of leverage may enhance returns and enable a broader range of investments to be made. However, it will increase the exposure of Folkestone to financial and interest rate risk. These risks may result in the negative performance of investments and a reduction in the underlying value of Folkestone and Folkestone Shares. As such, neither the achievement of the investment objectives as stated nor the return of capital to Shareholders can be guaranteed.</p>
Funds under management	<p>One of Folkestone's business segments is the management of listed and unlisted real estate funds. The ability to manage and retain funds under management will depend on the availability of suitable assets, capital and other market conditions at the time.</p> <p>The demand for real estate as an asset class changes over time and can be influenced by general economic factors such as interest rates and stock market cycles. The demand for real estate and unlisted real estate funds which Folkestone manages may change as investor preferences for particular sectors and asset classes change and this could adversely impact Folkestone's future earnings potential.</p>
Capital expenditure	<p>The risk of unforeseen capital expenditure requirements for Folkestone may impact returns to investors.</p>
Joint venture interests and co-ownership arrangements:	<p>Folkestone is a co-investor with investment partners on a number of development projects. At times, Folkestone's objectives may conflict with its partners' in major objectives in respect of these joint ventures and ongoing or material disagreements may adversely affect the ability to efficiently manage such assets.</p>
Competitor risk	<p>Although Folkestone targets medium-sized development opportunities which are below the minimum investment size for most large institutional developers and beyond the funding capacity of small local investors, the existence or escalation of such a competitor with similar investment horizons may affect Folkestone's ability to obtain development rights to those opportunities, which could adversely affect Folkestone's financial performance and Shareholder returns.</p>
Real estate finance	<p>Folkestone has provided financing by way of preferred equity or mezzanine loan style investments backed by real estate assets or development projects. To the extent that the asset values fall or the development projects do not complete or provide the required returns this may have an adverse impact on the carrying value of these investments along with reduced coupon interest income.</p>

Liquidity risk in relation to Folkestone investments	Folkestone has invested in assets that are not listed on a stock exchange or for which there are only a limited number of potential investors. As a consequence, the realisable value of an asset may be less than its expected value and divestment of the asset at such a time may adversely affect Folkestone Shareholder returns.
Co-investment in Folkestone Education Trust	Folkestone maintains a co-investment in the FET, over which it holds management rights. As such, Folkestone is exposed to the unit price performance of FET, and to the ongoing maintenance of its management contract.
Break fee	<p>Some circumstances which cause the Scheme not to proceed may result in the payment of a break fee (being an amount equal to 1% of the Scheme Consideration) by Folkestone to Charter Hall Limited. Folkestone Shareholders failing to approve the Scheme by the Requisite Majorities will of itself not trigger the payment of the break fee by Folkestone.</p> <p>The break fee is summarised in Section 7.1(c) of this Explanatory Memorandum and set out in full at clause 9 of the Scheme Implementation Agreement.</p>

7 Implementation of the Scheme

All dates referred to in this Section 7 are indicative only. The actual dates on which events referred to in this Section 7 will occur will depend upon the time at which the Conditions to the Scheme are satisfied or, if applicable, waived. Folkestone has the right to vary all dates subject to the approval of such variation by Charter Hall Limited, the Court and the ASX where required. Any variation will be announced to the ASX and published on Folkestone's website.

7.1 Scheme Implementation Agreement

The Scheme Implementation Agreement sets out the obligations of Folkestone and Charter Hall Limited (a member of the Charter Hall Group) in connection with the implementation of the Scheme.

On 22 August 2018 Folkestone and Charter Hall Limited, entered into the Scheme Implementation Agreement under which Folkestone agreed to propose the Scheme to the Folkestone Shareholders and Folkestone and Charter Hall Group agreed to take all steps reasonably necessary to implement the Scheme.

A full copy of the Scheme Implementation Agreement is attached to Folkestone's ASX announcement on 22 August 2018, which is available on Folkestone's website at <http://www.folkestone.com.au> and on the ASX' website at <http://www.asx.com.au>. Certain key aspects of the Scheme Implementation Agreement are summarised below. Unless the context indicates otherwise, capitalised words have the meaning given in the Scheme Implementation Agreement.

(a) **the Conditions:**

- (i) **(Independent Expert's Report)** the Independent Expert's Report to the Target, states that in its opinion the Scheme is in the best interests of the Folkestone Shareholders and is provided before the date on which the Explanatory Memorandum is lodged with ASIC, and the Independent Expert does not change its conclusion or withdraw the Independent Expert's Report prior to the Scheme Meeting;
- (ii) **(Regulatory approvals)** ASIC and ASX have issued all or approvals or have done such other acts which the parties agree are reasonably necessary or desirable to implement the Scheme, and such approvals or other acts have not been revoked;
- (iii) **(No restraint)** no restraint imposed by a court or other governmental agency that prohibits, materially restricts, makes illegal or restrains the completion of the Scheme remains in effect;
- (iv) **(Target Prescribed Occurrence)** no Target Prescribed Occurrence occurs between the date of the Scheme Implementation Agreement and the Second Court Date;
- (v) **(Target Shareholder approval)** Target Shareholders approve the Scheme by the requisite majorities;
- (vi) **(No Target Material Adverse Change)** no Target Material Adverse Change occurs between the date of the Scheme Agreement and 8.00am on the Second Court Date;
- (vii) **(FET Exit Transaction)**, by the Scheme Meeting, no FET Exit Transaction has occurred:
 - a. where the relevant meeting, offer or other corporate action remains outstanding;
 - b. which in the case of a FET Acquisition Proposal, has resulted in an event listed in paragraphs (a), (b) or (c) of the definition of FET Acquisition Proposal; or
 - c. which in the case of paragraph (a) of the definition of FIML Replacement Proposal, the relevant meeting has passed such resolutions as necessary to replace FIML.
- (viii) **(Court approval)** the Court approves the Scheme;
- (ix) **(Target Warranties)** the Target Warranties are true and correct in all material respects on the date of the Scheme Implementation Agreement and on the Second Court Date;
- (x) **(Bidder Warranties)** the Bidder Warranties are true and correct in all material respects as on the date of the Scheme Implementation Agreement and on the Second Court Date; and
- (xi) **(Third party consents)** all of the Third Party Consents have been obtained or been provided, and have not been revoked as at the Second Court Date.

If all the Conditions are not satisfied or (where permitted) waived by the relevant time specified in the Scheme Implementation Agreement or the Scheme has not become Effective by the End Date, the Bidder and the Target must consult in good faith and acting reasonably to determine whether they can reach agreement with respect to the Transaction proceed by way of alternative means, changing the date on which application is made to the Court to

approve the Scheme or adjourning that application if it has been made, or extending the date for satisfaction of the relevant Condition or the End Date (as relevant).

(b) **the exclusivity regime;**

(i) **No shop**

During the Exclusivity Period, the Target must not, and must ensure that its Representatives do not, except with the prior written consent of the Bidder, solicit, encourage, initiate or invite any Competing Proposal or initiate any discussions with any Third Party which may reasonably be expected to lead to any offer, proposal, or expression of interest in relation to a Competing Proposal.

(ii) **No talk and no due diligence**

During the Exclusivity Period, the Target must not, and must ensure that its Representatives do not, except with the prior written consent of the Bidder, directly or indirectly:

- a. participate in any negotiations or discussions with a Third Party in relation to, a Competing Proposal or which may reasonably be expected to lead to a Competing Proposal (even if not solicited); or
- b. make available to any Third Party, or permit any Third Party to receive, any non-public information relating to the Target for the purposes of enabling that party to make a Competing Proposal.

(iii) **Limitation to no talk and no due diligence**

The Target, its Related Bodies Corporate and their Representatives may undertake any action that would otherwise be prohibited in relation to a potential or proposed Competing Proposal, where:

- a. after consultation with its financial advisers, such a Competing Proposal is, or could reasonably be considered to become, a Superior Proposal; and
- b. after receiving legal advice from external legal advisers, the Target Board, acting in good faith and in order to satisfy what the Target Board considers to be its fiduciary or statutory duties, determines that not undertaking that act is likely to be a breach of the fiduciary or statutory duties owed by any Target director.

(iv) **Notification of approaches**

During the Exclusivity Period, the Target must promptly notify the Bidder (and in any event within 2 Business Days of becoming aware) if:

- a. it receives an approach by any person which proposes a bona fide Competing Proposal, including details of the party making the proposal, the terms of the proposal and any material updates to the proposal; or
- b. the Target provides any non-public information concerning the business or operations of the Target Group to any person in connection with the formulation, development or finalisation of an actual, proposed or potential Competing Proposal.

(v) **Matching Right**

During the Exclusivity Period the Target:

- a. must not enter into any agreement, arrangement or understanding in connection with a Competing Proposal or give effect to an actual, proposed or potential Competing Proposal; and
- b. procure that none of the Target Board change their Recommendation, Voting Intention or publicly recommend an actual, proposed or potential Competing Proposal,

unless:

- a. the Competing Proposal is a Superior Proposal;
- b. the Target has provided the Bidder with the material terms of the Competing Proposal;
- c. the Target has given the Bidder at least 5 Business Days from the provision of the material terms of the Competing Proposal to provide a matching or superior proposal to that Competing Proposal; and
- d. the Bidder has not announced or formally offered a matching or superior proposal to the Target at the expiry of that 5 Business days.

(vi) **Provision of information**

During the Exclusivity Period the Target must provide the Bidder with a copy of any non-public information about the business of affairs of the Target or Target Group provided to a Third Party in connection with an actual, proposed or potential Competing Proposal.

(vii) **Normal provision of information**

Nothing prevents the Target from:

- a. providing information to its Representatives;
- b. providing information to any Regulatory Authority;
- c. providing information to its auditors, advisers, customers, joint venturers and suppliers acting in that capacity in the ordinary course of business;
- d. providing information to its advisers acting in that capacity in connection with the transaction or a Superior Proposal;
- e. providing information to be required to be provided by law or any Regulatory Authority; or
- f. making presentations to brokers, portfolio investors, analysts and other Third Parties in the ordinary course of business.

(c) **the break fee:**

The Target must pay the Bidder a break fee of an amount being equal to 1% of the aggregate of Scheme Consideration which the Bidder pays for the Scheme Shares where:

- a. **(Competing Proposal)** a Competing Proposal is notified to the Bidder or announced before the earlier of (i) the Second Court Date and (ii) the termination of the Scheme Implementation Agreement and that Competing Proposal completes within 12 months of the date of the Scheme Implementation Agreement;
- b. **(change of Recommendation or Voting Intention)** any Target director fails to recommend the Scheme or withdraws their Recommendation or Voting Intention except where the Independent Expert has not concluded or withdraws or varies its conclusion that the Scheme is in the best interests of the Target Shareholders (other than where the conclusion is due wholly or in material part to the existence, announcement or publication of a Competing Proposal); or
- c. **(Termination)** the Bidder validly terminates the Scheme Implementation Agreement as a result of a material breach of the Scheme Implementation Agreement by the Target where:
 - 1) the Bidder has given written notification to the Target of its intention to terminate the Scheme Implementation Agreement; and
 - 2) that material breach is not remedied by the Target within 10 Business Days from the time the Target receives that written notice (or any shorter period ending on the Second Court Date).

(d) **conduct of business:**

Subject to certain exceptions, up to and including the Implementation Date, the Target must ensure that the business of the Target Group is conducted in the ordinary course, in a manner substantially consistent with the manner in which the such business has been conducted prior to the date of the Scheme Implementation Agreement and in accordance with all laws in all material respects and in accordance with certain specific undertakings set out in clause 6 of the Scheme Implementation Agreement (including ensuring that no Target Prescribed Occurrence occurs).

(e) **access to information:**

Up to and including the Implementation Date, the Target must use reasonable endeavours to promptly provide the Bidder reasonable access to documents, records or any other information (including reasonable access to officers and employees of the Target Group) relating to the business of the Target Group as reasonably required and requested in writing by the Bidder for the purpose of:

- a. the implementation and facilitation of the Scheme;
- b. refinancing of any Target Group debt facilities which the Bidder intends to repay on or following the Effective Date;
- c. planning the transition of the Target and other matters relating to the conduct of the Target following the Implementation Date; and

d. any other purpose agreed in writing by the parties,

and that the parties work together in good faith and take reasonable actions to minimise disruption to the business of the Target Group and Target Funds.

(f) **representations, warranties and indemnities:**

The Scheme Implementation Agreement contains customary representations and warranties by each of the Target and the Bidder.

(g) **each party's termination rights:**

(i) **Termination by either party**

Either party may terminate the Scheme Implementation Agreement by written notice to the other party:

- a. if before the Second Court Date, at the Scheme Meeting or any adjournment or postponement of it at which the Scheme is voted on, the Scheme is not approved by the requisite majority of Target Shareholders required under the Corporations Act;
- b. if the Scheme has not been Implemented by the End Date; or
- c. if the parties otherwise agree in writing.

(ii) **Termination by Bidder**

The Bidder may terminate the Scheme Implementation Agreement by notice in writing to the Target:

- a. before the Second Court Date, the Target is in material breach of the Scheme Implementation Agreement (including the Target Warranties), and the relevant circumstances are not remedied and have continued to exist for 10 Business Days from the time notice of breach is received by the Target (or any shorter period ending on the Second Court Date);
- b. a majority of the Target Directors publicly change or withdraw their Recommendation or Voting Intention or publicly recommend a Superior Proposal, for any reason; or
- c. the Target enters into an agreement to implement a Superior Proposal.

(iii) **Termination by Target**

The Target may terminate the Scheme Implementation Agreement at any time before the Second Court Date:

- a. if, on the Second Court Date, the Bidder is in material breach of the Scheme Implementation Agreement (including the Bidder Warranties), and the relevant circumstances are not remedied and have continued to exist for 10 Business Days from the time notice of breach is received by the Bidder (or any shorter period ending on the Second Court Date); or
- b. a majority of the Target directors publicly change or withdraw their Recommendation or Voting Intention or publicly recommend a Superior Proposal and the Target has complied with obligations in respect of exclusivity arrangements and payment of the break fee (if applicable).

(h) **obligations on termination:**

On termination of the Scheme Implementation Agreement, the parties will have no further liabilities or obligations (except in respect of certain clauses which are expressed to survive termination) and each party will retain any rights and remedies that accrued prior to termination.

The Scheme Implementation Agreement contains other clauses including some clauses which are customary for an agreement of this nature. A full copy of the Scheme Implementation Agreement is attached to Folkestone's ASX announcement on 22 August 2018, which is available on Folkestone's website at <http://www.folkestone.com.au> and on the ASX' website at <http://www.asx.com.au>.

7.2 Deed Poll

Charter Hall Limited has entered into the Deed Poll in favour of the Scheme Shareholders under which it has undertaken to deposit (or procure the deposit of) the Scheme Consideration (less the Special Dividend) into a trust account operated by Folkestone as trustee for the Scheme Shareholders and undertake all other actions attributed to it under the Scheme.

The Deed Poll may be relied upon by any Scheme Shareholder, despite the fact that they are not a party to it, and each Scheme Shareholder appoints Folkestone and each of its directors, officers and secretaries (jointly and each of them severally) as its agent and attorney to enforce their rights under the Deed Poll.

The Deed Poll is attached in full at Annexure C.

7.3 Scheme Meeting

In accordance with an order of the Court on 12 September 2018, the Folkestone Shareholders will be asked to approve the Scheme at the Scheme Meeting to be held on 17 October 2018. The Notice of Meeting is set out in Annexure D.

At the Scheme Meeting, the Folkestone Shareholders will be asked to consider and, if thought fit, to pass a resolution approving the Scheme. For the Scheme to be approved by the Folkestone Shareholders, votes "in favour" of the Scheme must be received from:

- (a) a majority in number (more than 50%) of Folkestone Shareholders present and voting at the Scheme Meeting (either in person, by proxy or attorney or in the case of corporate Folkestone Shareholders, by a duly appointed corporate representative)(the **Headcount Test**); and
- (b) at least 75% of the total number of votes cast on the Scheme Resolution by Folkestone Shareholders at the Scheme Meeting.

If the Scheme is not approved by the Folkestone Shareholders at the Scheme Meeting by reason only of the non-satisfaction of the Headcount Test, Folkestone may apply to the Court for the Court to exercise its discretion to disregard the Headcount Test and make orders approving the Scheme.

7.4 Second Court Date

If the Scheme is approved by the Requisite Majorities of Folkestone Shareholders, and all other Conditions to the Scheme (other than approval by the Court) have been satisfied or waived, and any other conditions to be imposed by the Court under section 411(6) of the Corporations Act have been satisfied, Folkestone will apply to the Court for orders approving the Scheme following the Scheme Meeting. The date on which the Court hears Folkestone's application in relation to the Scheme is the Second Court Date. The Second Court Date is expected to be on or around 22 October 2018 and is open to all Folkestone Shareholders.

If the Scheme is not approved by the Requisite Majorities of Folkestone Shareholders at the Scheme Meeting, the Scheme will not proceed, and Folkestone will not apply to the Court for any orders in connection with the Scheme.

The Court has discretion whether or not to approve the Scheme under section 411(4)(b) of the Corporations Act and may refuse to approve the Scheme even if the Scheme is approved by the Requisite Majorities of Folkestone Shareholders.

The Corporations Act and the relevant Court rules provide a procedure for Folkestone Shareholders to oppose the approval by the Court of the Scheme. Any Folkestone Shareholder who wishes to oppose the approval of the Scheme at the Second Court Date may do so by filing with the Court and serving on Folkestone a notice of appearance in the prescribed form together with an affidavit on which the Folkestone Shareholders will seek to rely at the Second Court Date. The notice of appearance and affidavit must be served on Folkestone at least one Business Day before the Second Court Date. Any change to the Second Court Date will be announced through the ASX and published on the Folkestone website.

ASIC will be asked to issue a written statement that it has no objection to the Scheme. ASIC would not be expected to issue such a statement until shortly before the Second Court Date. If ASIC does not produce a written statement that it has no objection to the Scheme, the Court may still approve the Scheme provided it is satisfied that section 411(17)(a) of the Corporations Act is satisfied.

7.5 Effective Date

If the Court approves the Scheme, Folkestone will lodge with ASIC an office copy of the Court order approving the Scheme. Folkestone intends to lodge this with ASIC on the Business Day following receipt of the orders, expected to be 23 October 2018. The Scheme comes into effect on the date on which Folkestone lodges the Court order approving the Scheme with ASIC. This date is referred to in this Explanatory Memorandum as the Effective Date.

If the Scheme has not become Effective by the End Date or such later date as Folkestone and Charter Hall Group agree in writing, the Scheme Implementation Agreement will lapse and be of no further force or effect, unless otherwise agreed by both Folkestone and Charter Hall Group.

7.6 Bidder Consideration

Folkestone Shareholders will be entitled to receive the Bidder Consideration if they are registered as the holders of Folkestone Shares on the Scheme Record Date. The Scheme Record Date is currently expected to be 7.00pm on 31 October 2018.

For the purposes of determining who is a Scheme Shareholder, dealings in Folkestone Shares or other alterations to the Folkestone Register will only be recognised if:

- (a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Folkestone Register as the holder of the relevant Folkestone Shares at or before the Scheme Record Date; and

- (b) in all other cases, registrable transfer or transmission applications in respect of those dealings, or valid requests in respect of other alterations, are received at or before the Scheme Record Date at the place where the Folkestone Register is kept.

Folkestone must not accept for registration, nor recognise for any purpose (except a transfer to Charter Hall Limited pursuant to the Scheme and any subsequent transfer by Charter Hall Limited or its successors in title), any transfer or transmission application or other request received on or after the Scheme Record Date, or received prior to the Scheme Record Date but not in registrable or actionable form.

For the purpose of determining entitlements to the Bidder Consideration, Folkestone must maintain the Folkestone Register until the Bidder Consideration has been paid to the Scheme Shareholders. The Folkestone Register in this form will solely determine entitlements to the Bidder Consideration.

After the Scheme Record Date, all statements of holding for Folkestone Shares (other than statements of holding in favour of Charter Hall Limited) will cease to have effect as documents of title in respect of those shares and, as from that date, each entry current at that date on the Folkestone Register (other than entries in respect of Charter Hall Limited) will cease to have effect except as evidence of entitlement to the Bidder Consideration in respect of the Folkestone Shares relating to that entry.

7.7 Special Dividend

Folkestone will pay the Special Dividend to Folkestone Shareholders, subject to the Scheme becoming Effective. Folkestone Shareholders will be entitled to receive the Special Dividend if they are registered as the holders of Folkestone Shares on the Special Dividend Record Date. The Special Dividend Record Date is currently expected to be 26 October 2018.

Folkestone has applied to the ATO requesting a class ruling in relation to the tax implications of the Scheme, including the availability of franking credits on the Special Dividend. On the proviso that a favourable class ruling is obtained from the ATO (please refer to Section 8 for further details), Folkestone Shareholders who are able to obtain the full benefit of the franking credits associated with the Special Dividend may also receive additional value. Whether a Folkestone Shareholder is able to obtain the full benefit of the tax offset depends on their particular tax circumstances.

It is expected that trading in Folkestone Shares on the ASX will be suspended from close of trading on the Effective Date. However, if you choose to effect an off-market transfer of your Folkestone Shares in between the Record Dates, such that you are registered in the Folkestone Register on the Special Dividend Record Date but cease to be registered in the Folkestone Register on the Scheme Record Date:

- (a) you will only receive the Special Dividend and will not receive the Bidder Consideration; and
- (b) any transferee of your Folkestone Shares in these circumstances who becomes registered in the Folkestone Register on or before the Scheme Record Date (but after the Special Dividend Record Date) will only receive the Bidder Consideration in respect of those Folkestone Shares, and not the Special Dividend.

7.8 Treatment of Performance Rights

Folkestone operates (or has operated in the past) employee incentive plans involving the issue, vesting and exercise of Performance Rights.

Under the Folkestone Limited Executive Incentive Plan, Performance Rights give the holder the right to subscribe for, acquire or be allocated (as determined by the Folkestone Board in its sole and absolute discretion) one Folkestone Share, for nil consideration, subject to the satisfaction of any vesting conditions, performance hurdles and / or exercise conditions.

The Folkestone Limited Executive Incentive Plan provides that the Board has the discretion to vest part of or all of a participant's Performance Rights, including in the event of a change of control of Folkestone and in the event of a court ordering the holding of a meeting in relation to a compromise or arrangement of Folkestone,

Under the Scheme Implementation Agreement, Folkestone is required to put in place arrangements so that all outstanding Performance Rights vest or lapse prior to the Scheme Record Date.

Accordingly, the Folkestone Board has determined that, to reward the employees who hold Performance Rights in respect of their past service to Folkestone Group and in accordance with and as permitted by the terms of the Folkestone Limited Executive Incentive Plan, it will exercise its discretion to accelerate the vesting of the 2,998,728 outstanding Performance Rights issued under that plan such that they will vest prior to the Scheme Record Date, subject to the Scheme becoming Effective.

The Folkestone Shares issued to the holders of the Performance Rights on vesting will therefore participate in the Scheme, such that the holders will receive the Special Dividend and the Bidder Consideration in respect of those Folkestone Shares.

No Folkestone Directors hold Folkestone Performance Rights. See Section 9.1.

7.9 Transfer of Folkestone Shares

On the Implementation Date, subject to the provision of the Scheme Consideration, all Folkestone Shares held by Scheme Shareholders will be transferred to Charter Hall Limited without any further action required by Scheme Shareholders and at no cost to them. Folkestone will enter the name of Charter Hall Limited into the Folkestone Register in respect of the Folkestone Shares. Folkestone will then become a Subsidiary of Charter Hall Limited.

7.10 Warranty by Scheme Shareholders about their Folkestone Shares

Under the Scheme, each Scheme Shareholder is taken to have warranted to Charter Hall Limited, and appointed and authorised Folkestone as its attorney and agent to warrant to Charter Hall Limited, that:

- (a) all their Scheme Shares (including any rights and entitlements attaching to their Scheme Shares) which are transferred under the Scheme will, at the date of the transfer of them to Charter Hall Limited, be fully paid and free from all encumbrances and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind; and
- (b) they have full power and capacity to transfer their Scheme Shares to Charter Hall Limited together with any rights attaching to those shares.

7.11 Suspension of trading in Folkestone Shares

It is expected that suspension of trading in Folkestone Shares on the ASX will occur from close of trading on the Effective Date. This is expected to occur on 23 October 2018.

Folkestone will apply for termination of the official quotation of Folkestone Shares on the ASX and to have itself removed from the official list of the ASX with effect from the close of trading on the Business Day following the Implementation Date.

8 Taxation Implications



Private & Confidential

The Directors
Folkestone Limited
Level 14, 357 Collins Street
Melbourne VIC 3000

13 September 2018

Dear Directors

Scheme of Arrangement – Australian Tax Implications

We have been engaged by Folkestone Limited (**Folkestone**) to provide a general summary of the Australian income tax, goods and services tax (**GST**) and stamp duty implications for Australian tax resident shareholders of Folkestone who participate in the proposed Scheme of Arrangement (the **Scheme**) between Folkestone, Folkestone shareholders (the **Folkestone Shareholders**) and Charter Hall Limited under which Charter Hall Limited will acquire all of the issued shares in Folkestone (**Folkestone Shares**).

We understand that this document will be included as Section 8 of the Explanatory Memorandum, dated on or about 13 September 2018, which will be distributed to Folkestone Shareholders. This document should be read together with the Explanatory Memorandum.

The meanings of the terms used in this letter are consistent with those contained in the Glossary at Section 10 of the Explanatory Memorandum.

Scope of Tax Comments

This document provides a general overview of the Australian income tax, GST and stamp duty implications for the Australian resident Folkestone Shareholders on implementation of the Scheme and payment of the fully franked special dividend of \$0.036 per share (**Special Dividend**).

The categories of Folkestone Shareholders considered in this summary are limited to individuals, companies (other than life insurance companies), trusts and complying superannuation funds that hold their Folkestone Shares on capital account for income tax purposes.

Our tax comments as outlined below are not applicable to all Folkestone Shareholders and are not intended to cover Folkestone Shareholders who:

- hold their Folkestone Shares as a revenue asset (i.e. trading entities or entities who acquired their Folkestone Shares for the purposes of resale at a profit) or as trading stock;
- acquired their Folkestone Shares pursuant to an employee share plan (including any Folkestone Shares issued under the vesting of the Folkestone Limited Executive Incentive Plan);

PricewaterhouseCoopers, ABN 52 780 433 757

2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331 MELBOURNE VIC 3001
T +61 3 8603 1000, F +61 3 8603 1999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.



- are under a legal disability;
- are not Australian income tax residents as determined under Australian income tax law;
- are exempt from Australian income tax;
- are subject to the taxation of financial arrangements rules in Division 230 of the *Income Tax Assessment Act 1997* (Cth) in relation to gains and losses on their Folkestone Shares¹; or
- are subject to the Investment Manager Regime under Subdivision 842-I of the *Income Tax Assessment Act 1997* (Cth) in respect of their Folkestone Shares.

This summary is based on the Australian tax law, and our understanding of the practice of the tax authorities, at the time of issue of this letter. The laws are complex and subject to change periodically as is their interpretation by the courts and the tax authorities. This summary is general in nature and is not intended to be an authoritative or complete statement of the applicable law. This summary does not take into account the tax law of countries other than Australia. The precise implications of ownership or disposal will depend upon each Folkestone Shareholder's specific circumstances.

Our comments should not be a substitute for advice from an appropriate professional adviser having regard to each Folkestone Shareholders' individual circumstances. All Folkestone Shareholders are strongly advised to obtain and rely only on their own professional advice on the tax implications based on their own specific circumstances.

In providing our tax comments, PricewaterhouseCoopers (**PwC**) has relied on information obtained from documents provided to PwC, and during various discussions with personnel from Folkestone. PwC has relied on the accuracy and completeness of the information provided and has not undertaken any procedures to validate or verify the completeness or accuracy of such information. PwC does not accept any responsibility or any liability arising from the inaccuracy or incompleteness of any information provided to us.

Folkestone has applied for a class ruling from the Australian Taxation Office (**ATO**) regarding the income taxation implications for Folkestone Shareholders of receiving the Special Dividend of \$0.036 per share and the consideration to be received by Folkestone Shareholders from Charter Hall Limited of \$1.354 per share (**Bidder Consideration**). The income tax comments provided below are consistent with the positions taken in the class ruling application lodged with the ATO.

The class ruling will not be issued by the ATO until after the Implementation Date (which is expected to be 7 November 2018). However Folkestone expects to receive a draft of the class ruling prior to the Scheme Meeting on 17 October 2018 for Folkestone Shareholder approval of the Scheme. Folkestone Shareholders should refer to the class ruling once it is published on www.ato.gov.au.

¹ Division 230 of the *Income Tax Assessment Act 1997* (Cth) will generally not apply to individuals, unless they have made an election for it to apply to them.



1. Australian Income Tax Treatment of the Special Dividend

The Directors of Folkestone will determine to pay the Special Dividend as part of the Scheme should Folkestone Shareholders approve the Scheme at the Scheme Meeting. If the anticipated Special Dividend is paid, the Folkestone Shareholders on the Special Dividend Record Date (which is expected to be 26 October 2018) will be entitled to the Special Dividend. The Special Dividend will be paid to Folkestone Shareholders on the Special Dividend Payment Date (which is expected to be 7 November 2018).

The Special Dividend is expected to be fully franked.

The Special Dividend will be assessable to Australian resident Folkestone Shareholders in the year of income in which it is paid.

Franking credits attached to the Special Dividend paid to Folkestone Shareholders should be included in the assessable income of each Folkestone Shareholder (i.e. Folkestone Shareholders are assessed on the cash component of the Special Dividend received, plus the amount of any franking credits attached to the Special Dividend).

Folkestone Shareholders may be entitled to a tax offset equal to the franking credit attached to the Special Dividend. Folkestone Shareholders that are individuals or complying superannuation entities may be entitled to a refund of excess franking credits where the tax offset associated with franking credits attached to the Special Dividend exceeds their tax liability for the relevant income year. Folkestone Shareholders that are companies will not be entitled to a refund of excess franking credits where the franking credits attached to the Special Dividend exceeds their tax liability for the relevant income year. Instead, Folkestone Shareholders that are companies will convert any excess franking offset to a tax loss and will be taken to have a tax loss for the relevant income year. Folkestone Shareholders that are companies may be able to credit their franking account with the amount of any franking credit attached to the Special Dividend.

For Folkestone Shareholders to be assessed on any franking credits attached to the Special Dividend and to be eligible for the tax offset associated with any franking credit attached to the Special Dividend, those Folkestone Shareholders must be considered to be 'qualified persons'. For Folkestone Shareholders to be considered to be 'qualified persons' in relation to the Special Dividend, Folkestone Shareholders must have held their Folkestone Shares 'at risk' for a continuous period of at least 45 days (not including the date of acquisition or the date of disposal of the Folkestone Shares) within the relevant 'qualification period'.

A Folkestone Shareholder will be considered to have not held their Folkestone Shares 'at risk' where that Folkestone Shareholder holds 'positions' (such as options or other hedging instruments and arrangements) which materially diminish the risk of loss or opportunities for gains in respect of those Folkestone Shares by more than 70%. In the context of the Scheme, Folkestone Shareholders will no longer hold their Folkestone Shares at risk from the Scheme Record Date (which is expected to be 31 October 2018).

In the context of the Scheme, Folkestone Shareholders should be considered to be qualified persons where they hold their Folkestone Shares at risk for a continuous period of at least 45 days from 14 September 2018 to 30 October 2018 (inclusive). Practically, assuming a Scheme Record Date of 31

October 2018, it is expected that Folkestone Shareholders that acquire their Folkestone Shares on or after 16 September 2018 would not be entitled to a tax offset for franking credits attached to the Special Dividend.

2. Tax Implications associated with the disposal of Folkestone Shares

Folkestone Shareholders will dispose of their Folkestone Shares to Charter Hall Limited under the Scheme for capital gains tax (CGT) purposes on the Implementation Date.

Folkestone Shareholders will be required to determine their capital gain or loss in respect of disposal of their Folkestone Shares. In this regard, Folkestone Shareholders should make a capital gain on disposal of their Folkestone Shares if the capital proceeds from the disposal of their Folkestone Shares exceeds the cost base of their Folkestone Shares. Conversely, Folkestone Shareholders should make a capital loss on disposal of their Folkestone Shares if the capital proceeds from the disposal of their Folkestone Shares is less than the reduced cost base of their Folkestone Shares.

Folkestone Shareholders' cost base of their Folkestone Shares will generally comprise the cost of their Folkestone Shares, plus certain incidental costs incurred in relation to the acquisition or disposal of their Folkestone Shares (such as brokerage). No brokerage is payable in relation to the transfer of the Folkestone Shares to Charter Hall Limited under the Scheme. Broadly, a Folkestone Shareholders' reduced cost base in the Folkestone Shares will exclude any non-deductible ownership costs related to the shares.

For Australian income tax purposes, where a Folkestone Shareholder receives the Special Dividend of \$0.036 per share, their capital proceeds should consist of the Scheme Consideration of \$1.39 per share including the Special Dividend. In this scenario, where a Folkestone Shareholder makes a capital gain in respect of the disposal of their Folkestone Shares, the capital gain will be reduced to the extent of the Special Dividend. Where a Folkestone Shareholder makes a capital loss in respect of the disposal of their Folkestone Shares, there will be no adjustment to the amount of the loss for the Special Dividend. This position is consistent with Taxation Ruling 2010/4 and it is anticipated should be confirmed in the class ruling to be issued by the ATO. Folkestone Shareholders will be advised should the ATO reach a contrary view.

No CGT roll-over will be available to Folkestone Shareholders in relation to the Scheme.

3. CGT discount

If a Folkestone Shareholder is an individual, complying superannuation entity, or trustee and acquired their Folkestone Shares at least 12 months before the Implementation Date (the date that the relevant CGT event is taken to have occurred), the amount of the capital gain (after being reduced for current year capital losses and prior year capital losses) is reduced by the relevant CGT discount. If a Folkestone Shareholder who is an individual or a trustee applies the CGT discount, the taxable capital gain (after being reduced for current year capital losses and prior year capital losses) will be reduced by 1/2 (or 1/3 if the Folkestone Shareholder is a complying superannuation entity).

Folkestone Shareholders who are companies are not entitled to the CGT discount.



4. Stamp duty

No stamp duty should be payable by Folkestone Shareholders in relation to the transfer of their Folkestone Shares to Charter Hall Limited under the Scheme.

5. GST

No GST will be payable by Folkestone Shareholders in relation to the disposal of their Folkestone Shares to Charter Hall Limited under the Scheme.

GST may be imposed on taxable supplies (if any) obtained by Folkestone Shareholders from third party suppliers (such as advisor costs) in connection with the Scheme. The entitlement to Folkestone Shareholders to input tax credits in relation to these acquisitions (if any) may be restricted. Folkestone Shareholders who are GST registered should seek their own professional tax advice in relation to this matter.

Liability

The liability of PwC is limited to the inclusion of this tax commentary as Section 8 of the Explanatory Memorandum. PwC makes no representation regarding, and has no liability for, any other statements or other material in, or omissions from, the Explanatory Memorandum.

Disclaimer

To persons receiving this document in Australia:

The information contained in this document does not constitute "financial product advice" within the meaning of the *Corporations Act 2001* (Cth) (**Corporations Act**). The PwC partnership which is providing this advice is not licensed to provide financial product advice under the Corporations Act. To the extent that this document contains any information about a "financial product" within the meaning of the Corporations Act, taxation is only one of the matters that must be considered when making a decision about the relevant financial product.

This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider taking advice from a person who is licensed to provide financial product advice under the Corporations Act. Any recipient should, before acting on this material, also consider the appropriateness of this material having regard to their objectives, financial situation and needs and consider obtaining independent financial advice.

Yours sincerely

A handwritten signature in blue ink, appearing to read "K Arblaster", written over a horizontal line.

Kirsten Arblaster
Partner
PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read "Paul Abbey", written over a horizontal line.

Paul Abbey
Partner
PricewaterhouseCoopers

9 Additional Information

9.1 Interests of Folkestone Directors in Folkestone Shares

As at the date of this Explanatory Memorandum, the Folkestone Directors have a Relevant Interest in Folkestone Shares and Performance Rights:

Name	Folkestone Shares	Folkestone Performance Rights
Mr Gregory James Paramor	13,612,755	Nil
Mr Garry Roy Sladden	131,153	Nil
Mr Kenneth Ross Strang	Nil	Nil
Mr Mark W Bailie	2,780,585	Nil

Folkestone Shares held by Folkestone Directors will be treated in the same manner under the Scheme as all other Folkestone Shares.

9.2 Interests held by Folkestone Directors in Charter Hall Limited

No marketable securities in Charter Hall Limited or any of its Related Bodies Corporate are held by, or on behalf of, any Folkestone Director as at the date of this Explanatory Memorandum.

9.3 Other interests of Folkestone Directors

Except as set out in this Section 7 of this Explanatory Memorandum, no Folkestone Director has any other interest material to the Scheme.

9.4 Folkestone Directors' intentions regarding the business, assets and employees of Folkestone

If the Scheme is implemented, all Folkestone Shares will be transferred to Charter Hall Limited, all Performance Rights will be vested and Charter Hall Limited will be the sole Folkestone Shareholder. Charter Hall Limited intends to replace the members of the Folkestone Board and the boards of its Subsidiaries with nominees of Charter Hall Limited (who are yet to be identified). As such, it is not possible for the Folkestone Directors to provide a statement of their intentions regarding:

- (a) the continuation of the business of Folkestone;
- (b) any major changes to be made to the business of Folkestone, including any redeployment of the fixed assets of Folkestone; or
- (c) the future employment of the present employees of Folkestone.

The intentions of Charter Hall Limited in relation to these matters are outlined above in Section 5 of this Explanatory Memorandum.

9.5 Agreements or arrangements with Folkestone Directors

Except as set out in this Section 9 or as set out elsewhere in this Explanatory Memorandum, there is no agreement or arrangement made between any Folkestone Director and any other person in connection with or conditional on the outcome of the Scheme:

- (a) each Folkestone Director who holds Folkestone Shares on each of the Record Dates will be entitled to receive the Scheme Consideration in accordance with the terms of the Scheme; and
- (b) the board of Charter Hall Limited intends to appoint Greg Paramor as a non-executive director of Charter Hall Limited subject to the Scheme becoming Effective. Greg Paramor's appointment will be on market based terms and conditions.

9.6 Payments and other benefits to Directors, Secretaries or executive officers of Folkestone Group

No payment or other benefit is proposed to be made or given to any Folkestone Director or any secretary or executive officer of Folkestone, or any Related Bodies Corporate of Folkestone, as compensation for loss of, or as consideration for or in connection with, his or her retirement from office as Folkestone Director, secretary or executive officer of Folkestone or a body corporate connected with Folkestone.

9.7 ASX Waiver and ASIC relief

Clause 8302(h) of Schedule 8 of the Corporations Regulations requires the Explanatory Memorandum to set out whether, within the knowledge of the Folkestone Directors, the financial position of Folkestone has materially changed since the date of the last balance sheet laid before Folkestone Shareholders in general meeting or sent to shareholders in accordance with section 314 or 317 of the Corporations Act.

Folkestone has sought relief from ASIC for it to rely on its audited balance sheet for the year ended 30 June 2018. These accounts have been sent to Shareholders, however they have not yet been laid before Folkestone Shareholders at a general meeting.

9.8 Consents to be named

The following parties have given, and have not withdrawn before the date of this Explanatory Memorandum, their consent to be named in this Explanatory Memorandum in the form and context in which they are named:

- a) BG Capital and Moelis Australia, as financial advisors to Folkestone;
- b) Clayton Utz, as legal advisor to Folkestone;
- c) Boardroom Pty Limited, as the Folkestone Registry;
- d) PwC as tax advisor in relation to the Scheme; and
- e) Lazard for acting as financial advisors to the independent board committee's of Folkestone Investment Management Limited, Folkestone Funds Management Limited and Folkestone Seniors Living Management Limited.

The Independent Expert has given and has not withdrawn its consent to be named in this Explanatory Memorandum and to the inclusion of the Independent Expert's Report in Annexure A to this Explanatory Memorandum and to the references to the Independent Expert's Report in this Explanatory Memorandum being made in the form and context in which each such reference is included.

Each of Charter Hall Group and Charter Hall Limited has given and has not withdrawn its consent to be named in this Explanatory Memorandum and in relation to the inclusion of the Charter Hall Group Information in this Explanatory Memorandum in the form and context in which that information is included.

9.9 Transaction costs

The fees set out in this section relate to fees payable by Folkestone in connection with the Scheme. Those fees include payments to:

- BG Capital and Moelis Australia for acting as financial advisers;
- Clayton Utz for acting as legal adviser;
- Lonergan Edwards & Associates for acting as Independent Expert and for providing the Independent Expert's Report;
- Lazard for acting as financial advisers to the independent board committee's of Folkestone Investment Management Limited, Folkestone Funds Management Limited and Folkestone Seniors Living Management Limited;
- PwC for acting as taxation adviser; and
- Boardroom Pty Limited for acting as the Folkestone Registry and providing various other services.

In aggregate, if the Scheme is implemented Folkestone expects to pay approximately \$3.4 million (excluding GST) in transaction costs. In aggregate, if the Scheme is not implemented Folkestone expects to pay approximately \$1.0 million (excluding GST) in transaction costs excluding any break fees that may be payable in those circumstances.

9.10 Supplementary information

Folkestone will issue a supplementary document to this Explanatory Memorandum if it becomes aware of any of the following between the date of lodgment of this Explanatory Memorandum for registration by ASIC and the date of the Scheme Meeting:

- a) a material statement in this Explanatory Memorandum is false or misleading;
- b) a material omission from this Explanatory Memorandum;
- c) a significant change affecting a matter included in this Explanatory Memorandum; or

- d) a significant new matter has arisen and it would have been required to be included in this Explanatory Memorandum if it had arisen before the date of lodgment of this Explanatory Memorandum for registration by ASIC.

Depending on the nature and timing of the changed circumstances and subject to obtaining any relevant approvals, Folkestone may circulate and publish the supplementary document by any or all of:

- a) placing an advertisement in a prominently published newspaper that is circulated throughout Australia;
- b) posting the supplementary document on Folkestone's website at <http://www.folkestone.com.au/>;
- c) making an announcement to the ASX; or
- d) issuing a supplementary explanatory statement.

9.11 No unacceptable circumstances

The Folkestone Directors believe that the Scheme does not involve any circumstances in relation to the affairs of Folkestone that could reasonably be characterised as constituting 'unacceptable circumstances' for the purposes of section 657A of the Corporations Act.

10 Glossary

Announcement Date	22 August 2018 being the date on which Folkestone announced on the ASX market announcements platform that it had entered into the Scheme Implementation Agreement.
ASIC	Australian Securities and Investments Commission.
Associate	The meaning given to that term in section 12 of the Corporations Act.
ASX	ASX Limited ABN 98 008 624 691 or the market operated by it as the context requires.
ASX Listing Rules	The official listing rules of the ASX as amended from time to time.
ATO	Australian Taxation Office.
BG Capital	BG Capital Corporation Limited ACN 094 694 694.
Bidder Consideration	\$1.354 cash per Scheme Share.
Bidder Warranties	The meaning given to that term in the Scheme Implementation Agreement.
Boardroom Pty Limited	Boardroom Pty Limited ACN 003 209 836.
Business Day	A day which is a "Business Day" within the meaning given in the ASX Listing Rules.
Charter Hall Group	Charter Hall Group, the stapled group comprising Charter Hall Limited and Charter Hall Property Trust (ARSN: 113 339 147).
Charter Hall Group Information	Information regarding the Bidder and Charter Hall Group in this Explanatory Memorandum for which the Bidder is responsible, being Section 5 of this Explanatory Memorandum and any references to the information in the above in the form and context in which they are included in the Explanatory Memorandum
Charter Hall Limited or Bidder	Charter Hall Limited ACN 113 531 150.
CHESS	The Clearing House Electronic Subregister System operated by ASX Settlement Pty Ltd and ASX Clear Pty Limited.
Conditions	The conditions precedent to the Scheme set out at clause 3.1 of the Scheme Implementation Agreement.
Corporations Act	<i>Corporations Act 2001</i> (Cth).
Corporations Regulations	<i>Corporations Regulations 2001</i> (Cth).
Court	Federal Court of Australia or such other court of competent jurisdiction as agreed by Folkestone and the Bidder.
Deed Poll	The deed poll executed by Charter Hall Limited in favour of Folkestone Shareholders in the form set out in Annexure C.
Deferred Date	The meaning given to that term in the Scheme Implementation Agreement.
EBITDA	Earnings before interest, taxes, depreciation and amortisation.
Effective	When used in relation to the Scheme, the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to the Scheme.
Effective Date	The date on which the Scheme becomes Effective, which is anticipated to be 23 October 2018.

End Date	The date 5 months after of the date of the Scheme Implementation Agreement or such other date as Charter Hall Limited and Folkestone agree in writing in accordance with the terms of the Scheme Implementation Agreement.
Explanatory Memorandum	This document, including the Notice of Meeting and the Proxy Form.
Exclusivity Period	The meaning given to that term in the Scheme Implementation Agreement.
FET	Folkestone Education Trust ABN 58 102 955 939.
FET Acquisition Proposal	The meaning given to that term in the Scheme Implementation Agreement.
FET Exit Transaction	The meaning given to that term in the Scheme Implementation Agreement.
FIML	Folkestone Investment Management Limited ACN 111 338 937.
FIML Replacement Proposal	The meaning given to that term in the Scheme Implementation Agreement.
Folkestone, or FLK or Target	Folkestone Limited ACN 004 715 226.
Folkestone Board	The board of directors of Folkestone.
Folkestone Director	A director of Folkestone.
Folkestone Group	Folkestone and each of its Subsidiaries.
Folkestone Register	The register of holders of Folkestone Shares from time to time, as administered by Folkestone or the Folkestone Registry (as applicable).
Folkestone Registry	Boardroom Pty Limited.
Folkestone Shareholder	A person who is registered in the Folkestone Register as the holder of one or more Folkestone Shares from time to time.
Folkestone Shares	Fully paid ordinary shares in Folkestone.
Folkestone Shareholder Information Line	On 1300 032 756 (within Australia) or +61 2 8023 5418 (outside Australia).
FY	Financial year.
FY18	Financial year ending 30 June 2018.
FY18 Dividend	A franked cash dividend of \$0.03 for each Folkestone Share held by a Folkestone Shareholder on the FY18 Dividend Record Date (payable by Folkestone).
FY18 Dividend Payment Date	The payment date for providing entitlements to the FY18 Dividend, being 27 September 2018.
FY18 Dividend Record Date	The record date for determining entitlements to the FY18 Dividend, being 11 September 2018.
GST	Means goods and services tax or similar value added tax levied or imposed in Australia under A New Tax System (Goods and Services Tax) Act 1999 (Cth) or otherwise on supply.
IE Valuation Range	The meaning given to that term in Annexure A, being the Independent Expert's Report.
Implementation Date	The date on which the Scheme is to be implemented currently to be 7 November 2018.
Independent Expert	Lonergan Edwards & Associates.
Independent Expert's Report	The report prepared by the Independent Expert, a copy of which is set out in Annexure A of this Explanatory Memorandum.

Lonergan Edwards & Associates	Lonergan Edwards & Associates Limited ABN 53 095 445 560.
Moelis Australia	Moelis Australia Advisory Pty Limited ACN 142 008 446 AFSL 345499.
Notice of Meeting	The Notice of Meeting contained in this Explanatory Memorandum at Annexure D.
NTA	Net tangible assets, which is calculated using assets less liabilities net of intangible assets and deferred tax liabilities.
Performance Rights	Performance rights exercisable into Folkestone Shares issued pursuant to the Folkestone Limited Executive Incentive Plan.
Proxy Form	The form for the Scheme Meeting, a copy of which is enclosed with this Explanatory Memorandum.
PwC	PricewaterhouseCoopers ABN 52 780 433 757
Recommendation	The meaning given to that term in the Scheme Implementation Agreement.
Record Dates	The Special Dividend Record Date and the Scheme Record Date.
Regulatory Authority	The meaning given to that term in the Corporations Act.
Related Body Corporate	The meaning given to that term in the Corporations Act.
Relevant Interest	The meaning given to that term in the Corporations Act.
Requisite Majority	In relation to the Scheme Resolution, the Scheme Resolution being passed by: <ul style="list-style-type: none"> a) unless the Court orders otherwise, a majority in number (more than 50%) of Folkestone Shareholders present and voting at the Scheme Meeting (in person, by proxy or by corporate representative or attorney); and b) at least 75% of the total number of votes cast on the Scheme Resolution (in person, by proxy or by corporate representative or attorney).
Scheme	The scheme of arrangement pursuant to Part 5.1 of the Corporations Act between Folkestone and the Scheme Shareholders, substantially in the form set out in Annexure B of this Explanatory Memorandum, subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and approved by Folkestone.
Scheme Consideration	\$1.39 per Folkestone Share, comprising the Bidder Consideration and the Special Dividend.
Scheme Implementation Agreement	The Scheme Implementation Agreement between Folkestone and Charter Hall Limited dated 22 August 2018, a summary of which is set out in Section 7.1 of this Explanatory Memorandum.
Scheme Meeting	The meeting of Folkestone Shareholders ordered by the Court to be convened pursuant to section 411(17) of the Corporations Act to consider and, if thought fit, to approve the Scheme.
Scheme Record Date	7:00pm (Sydney time) on the date which is 5 Business Days after the Effective Date or such other time and date agreed in writing between the parties, currently expected to be 31 October 2018.
Scheme Resolution	The resolution outlined in the Notice of Meeting to be put to Folkestone Shareholders to approve the Scheme.
Scheme Share	A Folkestone Share on issue as at the Scheme Record Date.
Scheme Shareholder	A Folkestone Shareholder on the Scheme Record Date.

Second Court Hearing	The first day of hearing of an application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme or, if the hearing of such application is adjourned for any reason, means the first day of the adjourned hearing.
Special Dividend	A franked cash dividend of \$0.036 for each Folkestone Share held by a Folkestone Shareholder on the Special Dividend Record Date (payable by Folkestone).
Special Dividend Payment Date	The payment date for providing entitlements to the Special Dividend, currently expected to be 7 November 2018.
Special Dividend Record Date	The record date for determining entitlements to the Special Dividend, currently expected to be 26 October 2018.
Superior Proposal	The meaning given to that term in the Scheme Implementation Agreement.
Subsidiaries	The meaning given to that term in the Corporations Act.
Target Material Adverse Change	The meaning given to that term in the Scheme Implementation Agreement.
Target Prescribed Occurrence	The meaning given to that term in the Scheme Implementation Agreement.
Target Warranties	The meaning given to that term in the Scheme Implementation Agreement.
Third Party	The meaning given to that term in the Scheme Implementation Agreement.
Third Party Consents	The meaning given to that term in the Scheme Implementation Agreement.
Transaction	The acquisition by the Bidder of the Scheme Shares for the Scheme Consideration pursuant to the Scheme.
Voting Intention	The meaning given to that term in the Scheme Implementation Agreement.
VWAP	The volume weighted average price of a security.

Annexure A - Independent Expert's Report

The Directors
Folkestone Limited
Level 10, 60 Carrington Street
Sydney NSW 2000

12 September 2018

Subject: Proposed acquisition by way of Scheme

Dear Directors

Introduction

- 1 On 22 August 2018, Folkestone Limited (Folkestone or the Company) announced that it and Charter Hall Group (Charter Hall) had signed a Scheme Implementation Deed (the Agreement) under which Charter Hall would acquire 100% of the issued shares in Folkestone for consideration of \$1.39 cash per share.
- 2 The proposed acquisition of the shares is to be implemented via a scheme of arrangement between Folkestone and its shareholders (the Scheme) and is subject to a number of conditions precedent (as summarised in Section I of our report).
- 3 If the Scheme is approved and implemented, Folkestone shareholders will receive \$1.39 cash for each Folkestone share they hold (Scheme Consideration), which will comprise:
 - (a) Charter Hall cash consideration of \$1.354 per share for each Folkestone share they hold on the Scheme Record Date (31 October 2018); and
 - (b) a special (fully franked) dividend of \$0.036 per share (Special Dividend) for each Folkestone share they hold on the Special Dividend Record Date (26 October 2018).
- 4 Regardless of whether the Scheme is implemented, Folkestone shareholders will also be entitled to the fully franked final dividend for FY18 of \$0.03 per share if they held their Folkestone shares on the record date for that dividend, being 11 September 2018. The payment of this final dividend (which will occur on 27 September 2018) will not reduce the Scheme Consideration that is payable pursuant to the Scheme.
- 5 Folkestone will request that the Court convene a meeting of Folkestone shareholders. Under the *Corporations Act 2001* (Cth) (Corporations Act), the Scheme is approved by Folkestone shareholders if a resolution in favour of the Scheme is passed by a majority in number of the Folkestone shareholders present and voting at the Scheme meeting (in person or by proxy), and by 75% of the votes cast on the resolution. If this occurs, a second Court hearing will be held to approve the Scheme which, if approved, will become binding on all Folkestone shareholders who hold Folkestone shares as at the Scheme Record Date, whether or not they voted for the Scheme (and even if they voted against the Scheme).

Folkestone

- 6 Folkestone is an Australian Securities Exchange (ASX) listed real estate funds manager and developer providing real estate wealth solutions for private clients and select institutions. The Company currently provides funds management services to a range of listed and unlisted real estate funds, with total funds under management (FUM) of \$1.6 billion as at 30 June 2018 and is engaged in a number of residential and commercial development projects throughout Australia. Folkestone also has co-investments in a number of the funds that it manages, including a 12.0% interest in the units in the ASX listed Folkestone Education Trust (FET)¹.

Charter Hall

- 7 Charter Hall Group is a property fund manager and developer that manages a suite of institutional, wholesale and retail unlisted property funds (office, retail, industrial and residential) in which it also holds investments. The group's funds management portfolio includes \$23.2 billion of property assets (as at 30 June 2018), comprised of 330 office, retail and industrial properties located across every state and territory in Australia. Charter Hall Group's investment portfolio totals \$1.7 billion, with 298 properties covering the industrial, office and retail property sectors (as at 30 June 2018).

Purpose of report

- 8 The Scheme is subject to a number of conditions precedent, including an independent expert concluding, and continuing to conclude, that the Scheme is in the best interests of Folkestone shareholders. In addition, the Directors' recommendation of the Scheme is subject to an independent expert concluding, and continuing to conclude, that the Scheme is in the best interests of Folkestone shareholders, and there being no superior proposal.
- 9 Accordingly, the Directors of Folkestone have requested Lonergan Edwards & Associates Limited (LEA) to prepare an IER stating whether, in our opinion, the Scheme is fair and reasonable and in the best interests of Folkestone shareholders and the reasons for that opinion.
- 10 LEA is independent of Folkestone and Charter Hall and has no other involvement or interest in the proposed Scheme.

Summary of opinion

- 11 In our opinion, the Scheme is fair and reasonable and in the best interests of Folkestone shareholders in the absence of a superior proposal. We have formed this opinion for the reasons set out below.

Value of Folkestone

- 12 We have assessed the value of Folkestone shares on a 100% controlling interest basis at between \$1.30 to \$1.42 per share, as shown below:

¹ This is Folkestone's direct interest in FET (i.e. excluding units held by associates of Folkestone).

Folkestone – valuation summary⁽¹⁾

	Paragraph	Low \$m	High \$m
Funds Management	124	51.9	59.5
Co-Investments	163	95.2	101.8
Developments	187	58.7	65.3
Corporate	194	(9.4)	(11.2)
Value of core business		196.4	215.4
Other assets / (liabilities)	201	0.2	0.2
Net cash / (debt)	203	-	-
Equity value – controlling interest basis		196.6	215.5
Fully diluted shares on issue (million) ⁽²⁾	206	151.4	151.4
Folkestone value per share – controlling interest basis (\$)		1.30	1.42

Note:

- 1 Rounding differences may exist.
- 2 Assumes that 3.0 million performance rights will vest.

Fair and reasonable opinion

- 13 Pursuant to the Australian Securities & Investments Commission (ASIC) Regulatory Guide 111 – *Content of expert reports* (RG 111) a scheme is “fair” if the value of the Scheme Consideration is equal to or greater than the value of the securities the subject of the Scheme. This comparison for Folkestone shares is shown below:

Position of Folkestone shareholders

	Low \$ per share	High \$ per share	Mid-point \$ per share
Value of Scheme Consideration	1.39	1.39	1.39
Value of 100% of Folkestone	1.30	1.42	1.36
Extent to which the Scheme Consideration exceeds (or is less than) the value of Folkestone	0.09	(0.03)	0.03

- 14 As the Scheme Consideration lies within (and toward the top end of) our assessed valuation range for Folkestone shares on a 100% controlling interest basis, in our opinion, the Scheme Consideration is fair to Folkestone shareholders when assessed based on the Guidelines set out in RG 111.
- 15 Pursuant to RG 111, a transaction is reasonable if it is fair. Further, in our opinion, if the Scheme is “fair and reasonable” it must also be “in the best interests” of shareholders.
- 16 Consequently, in our opinion, the Scheme is also “reasonable” and “in the best interests” of Folkestone shareholders in the absence of a superior proposal.

Assessment of the Scheme

- 17 We summarise below the likely advantages and disadvantages of the Scheme for Folkestone shareholders.

Advantages

18 In our opinion, the Scheme has the following benefits for Folkestone shareholders:

- (a) the Scheme Consideration of \$1.39 cash per share lies within (and toward the top end of) our assessed value range for Folkestone shares on a 100% controlling interest basis. Thus, in our view, Folkestone shareholders are being paid an appropriate price to compensate them for the fact that control of Folkestone will pass to Charter Hall if the Scheme is approved
- (b) the Scheme Consideration represents a premium to the recent market prices of Folkestone shares prior to the announcement of the Scheme (albeit the premiums are less than observed premiums generally paid in successful takeovers due to the specific characteristics of Folkestone's operations²)
- (c) the Special Dividend may give rise to additional consideration for those Australian resident shareholders able to benefit from the related franking credits attaching to the Special Dividend
- (d) if the Scheme does not proceed, and in the absence of an alternative offer or proposal, the price of Folkestone shares is likely to trade at a significant discount to our valuation and the Scheme Consideration due to the portfolio nature of individual shareholdings.

Disadvantages

- 19 Folkestone shareholders should note that if the Scheme is implemented they will no longer hold an interest in Folkestone. Folkestone shareholders will therefore not participate in any future value created by the Company over and above that reflected in the Scheme Consideration.
- 20 However, as our assessed value of Folkestone shares is consistent with the Scheme Consideration, in our opinion, the present value of Folkestone's future potential (in the absence of the Scheme) is reflected in the Scheme Consideration.

Conclusion

- 21 Given the above analysis, we consider that the advantages of the Scheme outweigh the disadvantages. Consequently, in our view, the acquisition of Folkestone shares by Charter Hall under the Scheme is fair and reasonable and in the best interests of Folkestone shareholders in the absence of a superior proposal.

General

- 22 In preparing this report we have considered the interests of Folkestone shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.

² Folkestone is comprised of a number of individual (albeit interrelated) income generating business operations (Funds Management, Co-Investments, Developments) which (with the exception of Funds Management) are, in our opinion, unlikely to attract a significant premium.

- 23 The impact of approving the Scheme on the tax position of Folkestone shareholders depends on the individual circumstances of each investor. Folkestone shareholders should read the Explanatory Memorandum and consult their own professional advisers if in doubt as to the taxation consequences of the Scheme.
- 24 The ultimate decision whether to approve the Scheme should be based on each Folkestone shareholder's assessment of their own circumstances. If Folkestone shareholders are in doubt about the action they should take in relation to the Scheme or matters dealt with in this report, shareholders should seek independent professional advice.
- 25 For our full opinion on the Scheme and the reasoning behind our opinion, we recommend that Folkestone shareholders read the remainder of our report.

Yours faithfully



Nathan Toscan
Authorised Representative



Julie Planinic
Authorised Representative

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I Key terms of the Scheme

Terms

- 26 On 22 August 2018, Folkestone Limited (Folkestone or the Company) announced that it and Charter Hall Group (Charter Hall) had signed a Scheme Implementation Deed (the Agreement) under which Charter Hall would acquire 100% of the issued shares in Folkestone for consideration of \$1.39 cash per share.
- 27 The proposed acquisition of the shares is to be implemented via a scheme of arrangement between Folkestone and its shareholders (the Scheme) and is subject to a number of conditions precedent, as summarised below.
- 28 If the Scheme is approved and implemented, Folkestone shareholders will receive \$1.39 cash for each Folkestone share they hold (Scheme Consideration), which will comprise:
- (a) Charter Hall cash consideration of \$1.354 per share for each Folkestone share they hold on the Scheme Record Date (31 October 2018); and
 - (b) a special (fully franked) dividend of \$0.036 per share (Special Dividend) for each Folkestone share they hold on the Special Dividend Record Date (26 October 2018).
- 29 Regardless of whether the Scheme is implemented, Folkestone shareholders will also be entitled to the fully franked final dividend for FY18 of \$0.03 per share if they held their Folkestone shares on the record date for that dividend, being 11 September 2018. The payment of this final dividend (which will occur on 27 September 2018) will not reduce the Scheme Consideration that is payable pursuant to the Scheme.

Conditions³

- 30 The Scheme is subject to the satisfaction of a number of conditions precedent, including the following which are outlined in the Agreement between Folkestone and Charter Hall dated 22 August 2018:
- (a) before 8.00am on the Second Court Date, ASIC and ASX have issued or provided such consents, confirmations or approvals or have done such other acts which the parties agree are reasonably necessary or desirable to implement the Scheme, and such consents, confirmations, approvals or other acts have not been revoked
 - (b) approval of the Scheme by the Court in accordance with s411(4)(b) of the Corporations Act
 - (c) Folkestone shareholder approval by the requisite majorities at the Scheme meetings under the Corporations Act
 - (d) no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction, no preliminary or final decision, determination, notice of objection, or order issued by any Regulatory Authority or other legal restraint or prohibition preventing the transaction is in effect at 8.00am on the Second Court Date

³ Definitions used in paragraph 30 are taken from clause 1.1 of the Agreement.

- (e) no Target Prescribed Occurrence occurs in respect of Folkestone on or before 8.00am on the Second Court Date
- (f) no Target Material Adverse Change occurs in respect of Folkestone on or before 8.00am on the Second Court Date
- (g) all Third Party Consents have been obtained or provided (as applicable) as at 8:00am on the Second Court Date, and have not been withdrawn, cancelled or revoked
- (h) all Target Warranties and Bidder Warranties are true and correct in all material respects on the date of the Agreement and as at 8:00am on the Second Court Date
- (i) by the date of the Scheme Meeting, no FET Exit Transaction has occurred:
 - (i) where the relevant meeting, offer or other corporate action remains outstanding
 - (ii) which has resulted in a takeover, merger or amalgamation of FET by a Third Party, or a Third Party acquiring an economic interest in more than 50% of the securities or assets of FET
 - (iii) which has resulted in a Third Party replacing FIML as responsible entity of FET
- (j) an independent expert issues a report which concludes that the Scheme is in the best interests of Folkestone shareholders, and the independent expert does not change its conclusion or withdraw its IER prior to the Scheme Meeting.

31 In addition, Folkestone has agreed that during the Exclusivity Period (as defined in clause 1.1 of the Agreement) it will:

- (a) not solicit, invite, encourage or initiate any competing transaction
- (b) not initiate or participate in any discussions or negotiations which may reasonably be expected to lead to a competing transaction
- (c) not enter into any agreement, arrangement or understanding in relation to a competing transaction or any agreement, arrangement or understanding which may reasonably be expected to lead to the completion of a competing transaction
- (d) in relation to the receipt of any bona fide competing proposal from a third party:
 - (i) notify Charter Hall within two business days of the receipt of such competing proposal and the details of the party making the proposal
 - (ii) provide Charter Hall with the material terms and conditions of, and any material updates to, any such competing proposal
 - (iii) allow at least five business days for Charter Hall to provide a matching or superior proposal
- (e) in relation to the provision of non-public information:
 - (i) not provide any non-public information to a third party for the purposes of enabling that party to table a competing transaction
 - (ii) notify Charter Hall within two business days in the event of provision of any such non-public information

- (iii) provide Charter Hall with a copy of any written materials (or, in any other case, a written statement of) any non-public information about the business or affairs of Folkestone provided to any third party in connection with a competing proposal which has not previously been provided to Charter Hall.
- 32 The exclusivity obligations set out in paragraphs 31(a) to 31(c) do not apply if Folkestone has complied with the various obligations set out in the Agreement and the Folkestone Board determines:
- (a) the proposed competing transaction is a superior proposal or the steps which the Folkestone Board proposes to take may reasonably be expected to lead to a competing transaction which is a superior proposal⁴; and
 - (b) based on written advice from its legal advisers, that compliance with exclusivity obligations would involve a breach of fiduciary duties or would otherwise be unlawful.
- 33 A break fee of 1% of the aggregate of the Scheme Consideration is payable by Folkestone to Charter Hall in certain circumstances as specified in clause 9 of the Agreement.

Resolution

- 34 Folkestone shareholders will be asked to vote on the Scheme in accordance with the resolution contained in the notice of meeting accompanying the Explanatory Memorandum.
- 35 If the resolution is passed by the requisite majorities, Folkestone must apply to the Court for orders approving the Scheme, and if that approval is given, lodge the orders with ASIC and do all things necessary to give effect to the Scheme. Once the Court approves the Scheme it will become binding on all Folkestone shareholders who hold Folkestone shares as at the Scheme Record Date, whether or not they voted for the Scheme (and even if they voted against the Scheme).

⁴ Subject to any potential breach of fiduciary duties, Folkestone must notify Charter Hall if it receives a superior competing proposal and give Charter Hall at least five business days to match that competing proposal.

II Scope of our report

Purpose

- 36 The Scheme is to be effected pursuant to Part 5.1 of the Corporations Act, which governs schemes of arrangement. Part 3 of Schedule 8 of the Corporations Regulations prescribes information to be sent to shareholders in relation to a member's scheme of arrangement pursuant to s411 of the Corporations Act.
- 37 Paragraph 8303 of Schedule 8 of the Corporations Regulations provides that, where the other party to the transaction holds not less than 30% of the voting shares in the company the subject of the scheme, or where a director of the other party to the transaction is also a director of the company the subject of the scheme, the explanatory statement must be accompanied by an IER assessing whether the proposed scheme is in the best interests of shareholders and state reasons for that opinion.
- 38 Charter Hall has no current shareholding in Folkestone and has no representation on the Folkestone Board. Accordingly, there is no strict legal requirement under the Corporations Act or the Corporations Regulations for an IER in relation to the Scheme.
- 39 However, it is both a condition precedent to the Scheme, and a qualification to the Folkestone Directors' recommendation of the Scheme, that an independent expert concludes (and continues to conclude) that the Scheme is in the best interests of Folkestone shareholders. In addition, as the Scheme (if approved and implemented) will result in 100% of the securities in Folkestone being held by Charter Hall, RG 111 requires that we provide an opinion on whether the consideration payable under the Scheme is "fair" and "reasonable" to the shareholders of Folkestone.
- 40 Accordingly, the Directors of Folkestone have therefore requested LEA to prepare an IER stating whether the proposed acquisition of the shares in Folkestone by Charter Hall under the Scheme is fair and reasonable and in the best interests of Folkestone shareholders and the reasons for that opinion.
- 41 This report has been prepared by LEA for the benefit of Folkestone shareholders to assist them in considering the resolution to approve the Scheme. Our report will accompany the Notice of Meeting and Explanatory Memorandum to be sent to Folkestone shareholders. The sole purpose of our report is to determine whether, in our opinion, the Scheme is fair and reasonable and in the best interests of Folkestone shareholders.
- 42 The ultimate decision whether to approve the Scheme should be based on each Folkestone shareholder's assessment of their own circumstances. If in doubt about the action they should take in relation to the Scheme or matters dealt with in this report, shareholders should seek independent professional advice.

Basis of assessment

- 43 In preparing our report we have given due consideration to the Regulatory Guides issued by ASIC including, in particular, RG 111.
- 44 RG 111 distinguishes “fair” from “reasonable” and considers:
- (a) the Scheme to be “fair” if the value of the Scheme Consideration is equal to or greater than the value of the securities that are the subject of the Scheme. A comparison must be made assuming 100% ownership of the target company
 - (b) the Scheme to be “reasonable” if it is fair. The Scheme may also be “reasonable” if, despite not being “fair” but after considering other significant factors, there are sufficient reasons for shareholders to approve the Scheme in the absence of a superior proposal.
- 45 There is no legal definition of the expression “in the best interests”. However, RG 111 states that a Scheme may be “*in the best interests of the members of the company*” if there are sufficient reasons for shareholders to vote in favour of the Scheme in the absence of a higher offer.
- 46 In our opinion, if the Scheme is “fair” and “reasonable” under RG 111 it must also be “in the best interests” of Folkestone shareholders.
- 47 Our report has therefore considered:
- (a) the market value of 100% of the shares in Folkestone
 - (b) the value of the Scheme Consideration
 - (c) the extent to which (a) and (b) differ (in order to assess whether the Scheme is fair under RG 111)
 - (d) the extent to which a control premium is being paid to Folkestone shareholders
 - (e) the extent to which Folkestone shareholders are being paid a share of any synergies likely to be generated pursuant to the potential transaction
 - (f) the listed market price of Folkestone shares, both prior to and subsequent to the announcement of the proposed Scheme
 - (g) the likely market price of Folkestone shares if the proposed Scheme is not approved
 - (h) the value of Folkestone to an alternative offeror and the likelihood of a higher alternative offer being made for Folkestone prior to the date of the Scheme meeting
 - (i) the advantages and disadvantages of the Scheme from the perspective of Folkestone shareholders
 - (j) other qualitative and strategic issues associated with the Scheme.

Limitations and reliance on information

- 48 Our opinions are based on the economic, share market, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

- 49 Our report is also based upon financial and other information provided by Folkestone and its advisers. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.
- 50 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Scheme from the perspective of Folkestone shareholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, “due diligence” of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an IER.
- 51 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the proposed transaction, rather than a comprehensive audit or investigation of detailed matters. Further, this report and the opinions therein, must be considered as a whole. Selecting specific sections or opinions without context or considering all factors together, could create a misleading or incorrect view or opinion. This report is a result of a complex valuation process that does not lend itself to a partial analysis or summary.
- 52 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.
- 53 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.
- 54 In forming our opinion, we have also assumed that:
- (a) the information set out in the Explanatory Memorandum is complete, accurate and fairly presented in all material respects
 - (b) if the Scheme becomes legally effective, it will be implemented in accordance with the terms set out in the Agreement and the terms of the Scheme itself.

III Profile of Folkestone

Overview

55 Folkestone is an ASX listed real estate funds manager and developer providing real estate wealth solutions for private clients and select institutions. The Company currently provides funds management services to a range of listed and unlisted real estate funds, with total FUM of \$1.6 billion as at 30 June 2018 and is engaged in a number of residential and commercial development projects throughout Australia. Folkestone also has co-investments in a number of the funds that it manages, including a 12.0% interest in the units in the FET⁵.

History

56 A summary of the key historical developments of Folkestone is set out below:

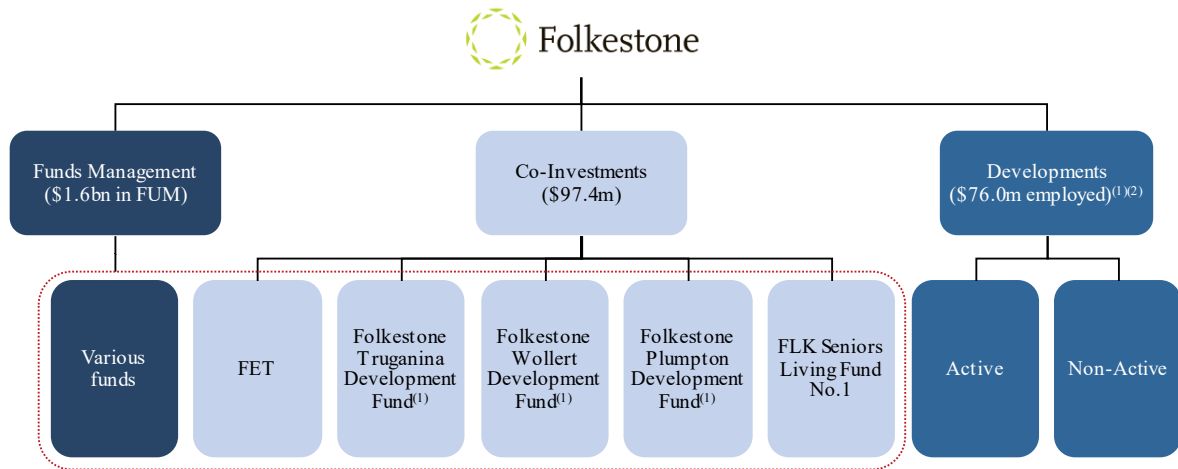
Folkestone – history	
Date	Key development
1967	<ul style="list-style-type: none"> Folkestone was founded in December 1967 as a property investment company
1982	<ul style="list-style-type: none"> Folkestone enhanced its operations to actively pursue development opportunities
2000	<ul style="list-style-type: none"> Folkestone lists on the ASX following a successful initial public offering (IPO) in April 2000
2011	<ul style="list-style-type: none"> Folkestone acquired Equity Real Estate Partners (EREP), a real estate investment, development and funds management company
2012	<ul style="list-style-type: none"> Folkestone acquired all of the shares in Austock Property Funds Management Pty Ltd and related entities in the property funds management business (Austock Property) for \$11.5 million
2013	<ul style="list-style-type: none"> In December 2013, Folkestone becomes a substantial unitholder in ASX listed FET (formerly known as Australian Education Trust)
2014	<ul style="list-style-type: none"> Folkestone acquired 100% of the share capital in Maxim Asset Management Limited (Maxim), a boutique real estate funds management business In December 2014, Folkestone acquired a further 8 million units in FET at \$1.96 per unit increasing its holding to some 12.8% (since that time Folkestone's direct interest has reduced as a result of the sale of units in FY16 and has been further diluted by FET's dividend reinvestment plan (DRP))

Current operations

57 Folkestone has offices in both Melbourne (Head Office) and Sydney and employs approximately 33 staff. A diagrammatic overview of Folkestone's operations is set out below:

⁵ This is Folkestone's direct interest in FET (i.e. excluding units held by associates of Folkestone).

Folkestone – operations as at 30 June 2018



Note:

- 1 Excludes any investment held by Folkestone in those unlisted funds, that it manages, which are undertaking development activities. These funds are the Folkestone Truganina Development Fund (Truganina Development Fund), the Folkestone Wollert Development Fund (Wollert Development Fund), the Folkestone Plumpton Development Fund (Plumpton Development Fund) and FLK Seniors Living Fund No. 1 (FLK Seniors Living).
- 2 Prior to any allowance for short term borrowings associated with the development projects.

Source: Folkestone.

58 The development activities undertaken and/or facilitated by Folkestone are an integrated component of its overall business and generally provide a source of funds management revenue because:

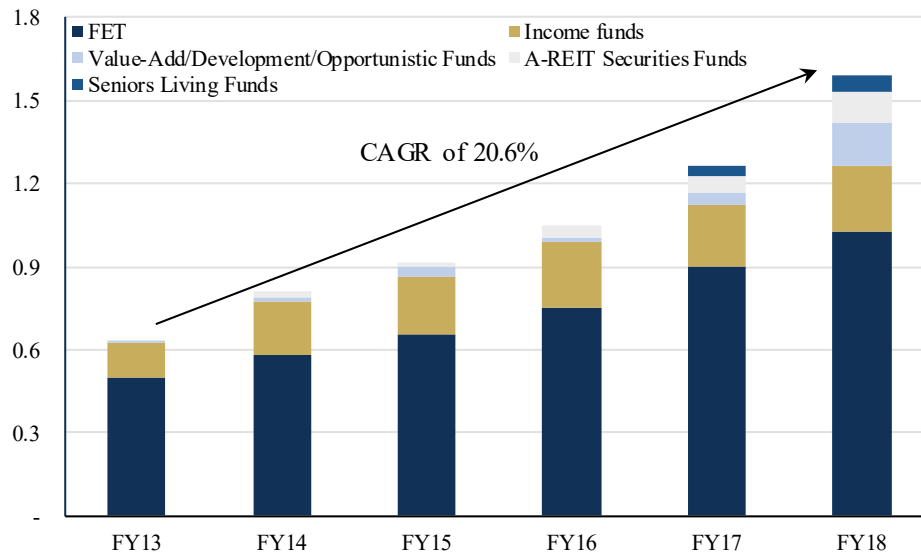
- (a) funds are established to provide finance to or undertake the development projects (e.g. Truganina Development Fund)
- (b) constructed assets or completed projects are sometimes retained by / acquired by the funds and managed in the medium to long-term⁶.

Funds Management

59 Folkestone's Funds Management business provides funds management services to a range of listed and unlisted real estate funds in Australia. Over the five years to 30 June 2018, Folkestone's FUM grew at a compound annual growth rate (CAGR) of 20.6% to reach some \$1.6 billion:

⁶ For example, the large format retail centre, known as Millers Junction Home, was developed by Folkestone and is now owned and managed by the Folkestone Real Estate Income Fund at Altona North (Altona North). Folkestone is also currently developing a hotel in Alexandria, which will be owned by the Folkestone Green Square Hotel Fund (Green Square Hotel Fund).

Folkestone – FUM (\$b)



Source: Folkestone.

60 Growth in FUM over the period set out above has been driven by, inter alia:

- (a) growth in FET's total assets since FY13 (which has generally accounted for around 70% of Folkestone's total FUM)
- (b) the addition of a number of new funds in recent periods such as the Folkestone Sydney Olympic Park Opportunity Fund (SOP Opportunity Fund) and FLK Seniors Living (both FY17) and the Folkestone Sydney Airport Hotel Fund (Sydney Airport Hotel Fund) (FY18) albeit this has been partially offset by fund closures
- (c) organic growth in the value of existing funds as a result of (inter alia) increases in property values during the period above.

61 The table below sets out the listed and unlisted funds currently managed by Folkestone:

Folkestone – managed funds as at 30 June 2018⁽¹⁾

Fund	Fund Type⁽²⁾	FUM \$m	Co-Investment⁽³⁾		Base fee per annum	Properties held No.
			\$m	%		
FET	Listed	1,029.4	82.6	12.0	0.5% of gross assets	410
CIB Fund ⁽⁴⁾	UI	131.3	-	-	0.25% of gross assets	11
SOP Income Fund ⁽⁴⁾	UI	44.5	-	-	1.3% of net assets	1
Altona North	UI	47.5	-	-	1.1% of net assets	1
Green Square Hotel Fund	UI	12.2 ⁽⁷⁾	-	-	1.3% of net assets ⁽⁵⁾	1
Sydney Airport Hotel Fund	UVA	80.0	-	-	1.3% of net assets	1
SOP Opportunity Fund	UO	35.0	-	-	1.3% of net assets ⁽⁶⁾	1
Truganina Development Fund	LD	16.2 ⁽⁸⁾	2.8	18.8	\$0.4 million p.a.	1
Wollert Development Fund	LD	28.4 ⁽⁸⁾	6.1	25.0	\$0.45 million p.a.	1
Plumpton Development Fund	LD	9.6 ⁽⁸⁾⁽⁹⁾	3.3	20.0	\$0.45 million p.a.	1
FLK Seniors Living	SL	61.8	2.7	9.7	0.7% of net assets	1
Maxim A-REIT Securities Fund ⁽⁴⁾ ARS		113.4	-	-	0.4% - 0.95% gross assets	na
		1,609.3	97.4			

Note:

- 1 Rounding differences may exist.
- 2 Unlisted income (UI), unlisted value add (UVA), unlisted opportunistic (UO), land development (LD), seniors living (SL), A-REIT Securities (ARS).
- 3 Folkestone's dollar investment and percentage interest in the fund. As at 30 June 2018, Folkestone held 30.7 million units in FET, 2.3 million units in the Truganina Development Fund, 6.35 million units in the Wollert Development Fund, 3.3 million units in the Plumpton Development Fund and 2.5 million units in FLK Seniors Living.
- 4 Folkestone CIB Fund (CIB Fund), Folkestone Real Estate Income Fund at Sydney Olympic Park (SOP Income Fund), Folkestone Maxim A-REIT Securities Fund (Maxim A-REIT Securities Fund).
- 5 During construction Folkestone is entitled to receive \$0.2 million per annum, and 1.3% of net assets per annum on completion.
- 6 Comprises a base management fee of 1.28% and a custody fee of 0.02% per annum.
- 7 Based upon gross assets as at 30 June 2018, not forecast completion value.
- 8 Based upon gross assets as at 30 June 2018, whereas Folkestone's reported FUM for its Development Funds (per its management presentations) represents the current number of units on issue in the fund, multiplied by the original issue price of \$1.
- 9 As at 30 June 2018, the \$16.5 million fund raising was underway but only partially complete. The fund is now fully subscribed.

na – not applicable.

Source: Folkestone.

- 62 The managed LD and SL funds from above are undertaking the following development projects:

Folkestone – developments being undertaken by managed funds as at 30 June 2018

Fund	Project	Location	Sector
Truganina Development Fund	Elements, Truganina	VIC	Residential land
Wollert Development Fund	Amber, Wollert ⁽¹⁾	VIC	Residential land
Plumpton Development Fund	Rosewood, Plumpton ⁽¹⁾	VIC	Residential land
FLK Seniors Living	Watermark, Castle Cove	NSW	Seniors living

Note:

1 Folkestone also has direct exposure to the development through short term funding it has provided (see paragraph 67).

Source: Folkestone.

63 Appendices C and D set out further information on the funds managed by Folkestone.

Co-Investments

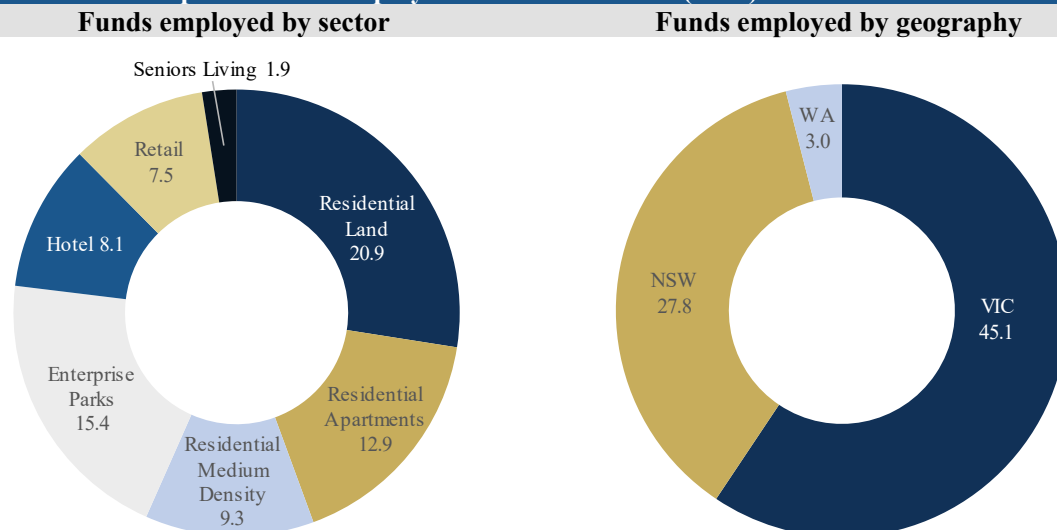
64 Folkestone has co-investments in a number of the funds that it manages (refer to paragraph 61), including 30.7 million units (a 12.0% interest) in the ASX listed FET, which is the largest Australian based property trust that holds investments in early learning properties (i.e. childcare centres) across Australia and New Zealand (NZ).

Developments⁷

65 Folkestone's development business focuses on value-add and opportunistic real estate developments. As at 30 June 2018, Folkestone had \$76.0 million⁸ funds employed in a mixture of active and non-active (i.e. subject to planning approval (STPA), etc.) residential and commercial development projects primarily located in Victoria (VIC) and New South Wales (NSW).

66 A summary of the funds employed in the developments by sector and geography is set out in the table below:

Folkestone – development funds employed as at 30 June 2018 (A\$m)⁽¹⁾



Note:

1 Excludes any investment held by Folkestone in those unlisted funds, that it manages, which are undertaking land development or seniors living activities. These funds are the Truganina Development Fund, the Wollert Development Fund, the Plumpton Development Fund and FLK Seniors Living. Also excludes borrowings associated with project debt.

Source: Folkestone.

⁷ Excludes any investment held by Folkestone in those unlisted funds, that it manages, which are undertaking land development or seniors living activities. These funds are the Truganina Development Fund, the Wollert Development Fund, the Plumpton Development Fund and FLK Seniors Living.

⁸ Prior to any allowance for short term borrowings associated with the development projects.

67 A summary of Folkestone's individual projects and their development status is as follows:

Folkestone – developments as at 30 June 2018 ⁽¹⁾			
Project	Location	Sector	Funds employed ⁽²⁾ \$m
Active – completed or nearing completion			
Millers Junction Business 1 (MJB1)	VIC	Enterprise Park	– ⁽³⁾
Northside, Officer	VIC	Residential land	0.6
Potters Grove, Officer	VIC	Residential land	0.0 ⁽⁴⁾
West Ryde	NSW	Residential apartments	0.3
Subtotal			0.9
Active – ongoing			
Amber, Wollert	VIC	Residential land	1.0 ⁽⁵⁾
Green Square	NSW	Hotel	5.1
Hadfield	VIC	Residential townhouses	9.3
Knoxfield	VIC	Enterprise Park	1.8
Millers Junction Retail	VIC	Retail	7.5 ⁽⁶⁾
Millers Junction Business 2 (MJB2)	VIC	Enterprise Park	10.8 ⁽⁶⁾
Nunawading	VIC	Enterprise Park	2.9
Rosewood, Plumpton	VIC	Residential land	6.4 ⁽⁵⁾
Subtotal			44.
Total Active			45.5
Non-Active or new			
Chatswood	NSW	Seniors living	1.9
Gisborne	VIC	Residential land	4.9
Green Valley / Karratha	WA	Hotel	3.0
Hornsby	NSW	Residential apartments	12.6
Minto ⁽⁶⁾	NSW	Residential land	-
South Dural	NSW	Residential land	8.0
Total Non-Active			30.5
Total Developments⁽²⁾			76.0

Note:

- 1 Rounding differences may exist.
- 2 Excludes any investment held by Folkestone in those unlisted funds, that it manages, which are undertaking land development or seniors living activities. These funds are the Truganina Development Fund, the Wollert Development Fund, the Plumpton Development Fund and FLK Seniors Living. Also excludes any borrowings associated with the developments.
- 3 The total net funds employed is \$nil.
- 4 The total net funds employed is some \$40,132.
- 5 Folkestone has provided short term loans to either the Fund, or the joint venture (JV) partner. Folkestone also has indirect exposure to the development via its co-investment in the Fund (see paragraph 62).
- 6 Prior to any allowance for short term borrowings associated with these development projects.
- 7 To date, the JV entity established by Folkestone and its JV partner has entered into a number of call options to purchase properties in the Minto precinct.

Source: Folkestone.

68 Further information of Folkestone's development projects can be found in Appendix E.

Financial performance

69 The financial performance of Folkestone for the four years ended 30 June 2018 is set out below:

Folkestone – statement of financial performance ⁽¹⁾⁽²⁾				
	FY15	FY16	FY17	FY18
	\$m	\$m	\$m	\$m
Funds Management income	7.4	10.1	12.5	22.2
Distributions / gains from Co-Investments	3.1	4.2	4.4	4.6
Net development income	4.0	3.6	10.9	6.5
Other income	0.6	0.5	0.3	0.2
Total (normalised) revenue	15.1	18.4	28.0	33.5
Employee benefits expense	(8.1)	(8.0)	(10.5)	(10.3)
Administration expenses	(1.4)	(2.0)	(2.7)	(2.5)
Due diligence	(0.2)	(0.4)	(0.6)	(0.2)
Rental on corporate operating leases	(0.3)	(0.4)	(0.3)	(0.4)
Total (normalised) expenses	(10.0)	(10.7)	(14.1)	(13.4)
Normalised EBITDA⁽³⁾	5.1	7.7	13.9	20.0
Depreciation and amortisation	(0.1)	(0.1)	(0.1)	(0.1)
Normalised EBIT⁽³⁾	5.0	7.6	13.8	19.9
Finance costs	(0.5)	(0.5)	(0.6)	(0.5)
Add back non-recurring items ⁽⁴⁾	-	0.6	5.8	-
Reported PBT⁽³⁾	4.5	7.7	19.0	19.4
Company tax	2.6	(2.2)	(5.6)	(5.5)
Reported NPAT⁽³⁾	7.1	5.4	13.4	13.9
<i>Normalised earnings per share (cents)</i>	<i>2.3</i>	<i>3.4</i>	<i>6.3</i>	<i>9.4</i>
<i>Dividend per share (cents)</i>	<i>-</i>	<i>2.5</i>	<i>3.3</i>	<i>6.6</i>

Note:

- 1 Rounding differences may exist.
- 2 Excludes the impact of consolidation of the Folkestone West Ryde Development Fund in FY16 which is included in the Consolidated Financial Statements of the Group.
- 3 Earnings before interest, tax depreciation and amortisation (EBITDA), earnings before interest and tax (EBIT), profit before tax (PBT), net profit after tax (NPAT).
- 4 Non-recurring items comprise the following:

Wollert rezoning fee outperformance	-	-	(5.8)	-
Due diligence costs	-	0.8	-	-
Realised gain on FET units	-	(1.2)	-	-
Realised gain on A-REIT securities	-	(0.3)	-	-
Total non-recurring items	-	(0.6)	(5.8)	-

Source: Folkestone.

70 Folkestone's financial performance is predominately influenced by the income that it is able to generate from its Funds Management business which is then supplemented by the income derived from its Co-Investments and Development activities. Folkestone does not (for reporting, or day-to-day management purposes) allocate its costs of operation to its individual business divisions.

71 A break-up of the sources of income derived by operation; Funds Management, Co-Investments, Developments and Other is set out below:

- (a) **Funds management income** – a summary of the funds management income generated by Folkestone over the four years to 30 June 2018, is set out below:

Folkestone – funds management income⁽¹⁾				
	FY15	FY16	FY17	FY18
	\$m	\$m	\$m	\$m
Management fees / cost recoveries	6.1	6.3	7.6	9.5
Transaction fees	1.4	2.2	3.2	6.3
Performance fees	-	1.6	0.9	5.1
Property management fees	-	-	0.8	1.2
Funds management revenue	7.4	10.1	12.5	22.2
<i>Average FUM for the period⁽²⁾</i>	<i>865.1</i>	<i>984.3</i>	<i>1,158.8</i>	<i>1,437.6</i>

Note:

1 Rounding differences may exist.

2 Calculated as the average of the FUM at the start and end of the period.

Source: Folkestone.

Management fees / cost recoveries have increased since FY15 as a result of the increase in Folkestone's FUM (refer paragraph 59). Transaction fees (which relate to acquisition, leasing, debt establishment and development management fees) have also increased in recent periods due to the addition of a number of new funds which have required transaction related services upon establishment. Folkestone is also entitled to performance fees for a number of its managed funds subject to certain events and the achievement of performance hurdles. Performance fees received in FY16 and FY17 related to the West Ryde Development Fund and the Oxley Income Fund respectively upon the winding up of the funds. In FY18, a \$2.2 million performance fee was received in respect of approval by unitholders to extend the SOP Income Fund for a further three years to December 2020. A further \$2.9 million performance fee was received in FY18 in respect of the sale of the property and associated wind up of the Folkestone Real Estate Income Fund at Wollongong (Wollongong Income Fund)

- (b) **Co-Investments** – distributions / gains from Folkestone's Co-Investment in FET over the four years to 30 June 2018 is set out below:

Folkestone – distributions / gains from Co-Investments⁽¹⁾				
	FY15	FY16	FY17	FY18
	\$m	\$m	\$m	\$m
Distributions from FET	3.1	4.2	4.4	4.6
Realised gains on FET	-	1.2	-	-
Subtotal	3.1	5.4	4.4	4.6
Deduct non-recurring FET realised gains	-	(1.2)	-	-
Total after non-recurring items	3.1	4.2	4.4	4.6

Note:

1 Rounding differences may exist.

Source: Folkestone.

- (c) **Developments** – net development income generated over the four years to 30 June 2018 is set out below:

Folkestone – net development income⁽¹⁾				
	FY15	FY16	FY17	FY18
	\$m	\$m	\$m	\$m
Net development profit	2.5	3.9	6.2	5.0
Development fees	1.2	-	8.9	-
Preferred equity income	0.0	1.1	2.2	1.5
Reversals of prior period impairment	1.9	1.5	0.2	0.5
Impairment provisions	(0.7)	(1.2)	(0.6)	(0.8)
Rental exp. on development op. leases	(0.9)	(1.6)	(0.2)	-
Other fees	-	-	-	0.4
Net development income	4.0	3.6	16.7	6.5
Deduct non-recurring items	-	-	(5.8) ⁽²⁾	-
Recurring net development income	4.0	3.6	10.9	6.5

Note:

1 Rounding differences may exist.

2 Relates to the Wollert rezoning outperformance fee that exceeded expectations.

Source: Folkestone.

Development income (by its nature) is volatile and depends on, inter alia, timing and stage of completion of various projects. Development fees in FY17 relate largely to the \$8.8 million rezoning fee received from the Amber residential project in Wollert. Key contributions in FY18 related to \$3.6 million development profit from the Industria project at Knoxfield and \$1.3 million development profit from the Millers Junction Business project at Altona North

- (d) **Other income** – other income generated over the four years to 30 June 2018 is set out below:

Folkestone – other income⁽¹⁾				
	FY15	FY16	FY17	FY18
	\$m	\$m	\$m	\$m
Interest income	0.6	0.4	0.1	0.1
Unrealised gains / losses ⁽²⁾	(0.1)	0.1	0.2	0.0
Distributions ⁽²⁾	-	0.0	-	-
Other	0.0	-	0.0	(0.0)
Other income	0.6	0.5	0.3	0.2

Note:

1 Rounding differences may exist.

2 Relates to Folkestone's investment in a Mason Stevens Separately Managed Account.

Source: Folkestone.

Financial position

72 The financial position of Folkestone as at 31 December 2017 and 30 June 2018 is set out below:

Folkestone – financial position⁽¹⁾⁽²⁾		
	As at 31 Dec 17 \$m	As at 30 Jun 18 \$m
Cash and cash equivalents	24.8	12.2
Trade and other receivables	4.2	3.7
Other current assets	0.5	0.7
Co-Investments (including FET)	100.1	97.4
Developments ⁽³⁾	54.4	76.0
Other investments	0.1	0.1
Property, plant & equipment	0.4	0.4
Intangible assets ⁽⁴⁾	16.2	16.2
Total assets	200.8	206.8
Trade and other payables	(2.5)	(2.8)
Short term borrowings	(2.2)	(7.0)
Long term borrowings	(8.5)	(13.5)
Employee benefit provisions	(1.3)	(1.4)
Tax liabilities ⁽⁴⁾	(17.8)	(15.5)
Total liabilities	(32.2)	(40.1)
Net assets attributable to Folkestone	168.6	166.7
<i>Shares on issue (000s)</i>	<i>147.9</i>	<i>147.9</i>
<i>Net tangible assets (NTA) per share (\$) ⁽⁵⁾</i>	<i>1.03</i>	<i>1.02</i>
<i>Gearing on balance sheet basis (%)</i>	<i>5.4</i>	<i>7.0</i>
<i>Gearing on see-through basis (%)</i>	<i>13.3</i>	<i>16.3</i>

Note:

- 1 Rounding differences may exist.
- 2 Represents the assets and liabilities attributable to Folkestone (i.e. excludes minority interests).
- 3 Comprises interest in JVs, preferred equity loans (PE loans) and other project or JV partner loans. Prior to any allowance for short term borrowings associated with these development projects.
- 4 In accordance with the International Financial Reporting Interpretations Committee (IFRIC) interpretation issued in July 2017 relating to non-finite life intangible assets the financial report for 30 June 2018 and 31 December 2017 now reflects a deferred tax liability (DTL) relating to the management rights recognised in relation to the Austock Property and Maxim acquisitions.
- 5 Folkestone's calculated NTA (per its management presentations) excludes deferred tax liabilities and is therefore marginally higher.

Source: Folkestone.

73 In respect of the above, we note that:

- (a) **Trade and other receivables** – primarily represents accrued management fees from Folkestone's funds management business and the 4Q18 distribution receivable from FET
- (b) **Co-Investments (including FET)** – Folkestone holds units in a number of the listed and unlisted funds it manages (refer to paragraph 61)

- (c) **Developments** – represents Folkestone’s total funds employed in its mixture of active and non-active (i.e. still subject to planning etc.) residential and commercial development projects and comprises interest in JVs, PE loans and other project or JV partner loans
- (d) **Other investments** – represents Folkestone’s investment in a Mason Stevens A-REIT Securities Portfolio Separately Managed Account (SMA). The investment is carried on the balance sheet at market value
- (e) **Intangible assets** – intangible assets primarily relate to management rights that have arisen as a result of a number of transactions:

Folkestone – intangible assets⁽¹⁾⁽²⁾⁽³⁾		
	31 Dec 17	30 Jun 18
	\$m	\$m
Management rights:		
– Maxim ⁽⁴⁾	0.3	0.3
– Austock Property funds management business	11.1	11.1
Goodwill:		
– Austock Property funds management business	3.6	3.6
– EREP	1.2	1.2
Total intangible assets	16.2	16.2

Note:

- 1 Rounding differences may exist.
- 2 Folkestone annually tests the carrying values of the management rights and goodwill for impairment.
- 3 In accordance with the IFRIC interpretation issued in July 2017 relating to non-finite life intangible assets the financial report for 30 June 2018 and 31 December 2017 now reflects a DTL relating to the management rights recognised in relation to the Austock Property and Maxim acquisitions.
- 4 Now known as Folkestone Maxim Asset Management Limited (FMAM).

Source: Folkestone.

In respect of the above acquisitions, we note that:

- (i) Maxim – in April 2014, Folkestone acquired 100 percent of the share capital in Maxim for \$0.3 million. At the time Maxim was a boutique real estate funds managed business that specialised in listed real estate securities and high yield real estate debt and had \$30.0 million of FUM
- (ii) Austock Property funds management business – in September 2012, Folkestone acquired the Austock Property business for \$11.5 million. At the time, Austock Property was an investment management company with approximately \$555 million of FUM across four listed and unlisted funds specialising in childcare, medical centres and police stations / courthouses
- (iii) EREP – pursuant to shareholder approval, in April 2011, Folkestone acquired EREP, a real estate investment, development and funds management company

- (f) **Net cash / (debt)** – a summary of Folkestone’s net cash / (debt) position is set out below (noting that on occasion, Folkestone utilises its debt facilities to secure property / developments on behalf of funds / JV entities that will ultimately hold the property):

Folkestone – net cash / (debt)⁽¹⁾		
	31 Dec 17	30 Jun 18
	\$m	\$m
Cash and cash equivalents	24.8	12.2
Short term borrowings	(2.2)	(7.0)
Long term borrowings	(8.5)	(13.5)
Add back unamortised capitalised borrowing costs	0.0	0.0
Subtotal	14.2	(8.1)
Add back borrowings associated with project debt:		
– Short term borrowings associated with development projects	2.2	7.0
– Long term borrowings used to secure project opportunities	5.0	10.0
Net cash	21.4	8.8

Note:

1 Rounding differences may exist.

Source: Folkestone.

Share capital and performance

- 74 Folkestone has 148.4 million fully paid ordinary shares on issue.
- 75 In addition, Folkestone has approximately 3.0 million performance rights outstanding which had been issued to (eligible) executives, managers and employees, pursuant to the Company’s Long Term Executive Incentive Plan (EIP).

Folkestone – performance rights			
Number	Grant date	Vesting date	Remaining vesting conditions
178,818	29 Sep 15	1 Jul 19	Ongoing employment to vesting date
30,109	12 Nov 15	1 Jul 19	Ongoing employment to vesting date
1,294,000	16 Nov 16	30 Jun 20	Ongoing employment to vesting date
269,400	16 Nov 16	1 Jul 19	Ongoing employment to vesting date
269,400	16 Nov 16	1 Jul 20	Ongoing employment to vesting date
319,000	30 Sep 17	31 Aug 19	Performance condition ⁽¹⁾ plus ongoing employment to vesting date
319,000	30 Sep 17	30 Jun 20	Performance condition ⁽¹⁾ plus ongoing employment to vesting date
319,000	30 Sep 17	30 Jun 21	Performance condition ⁽¹⁾ plus ongoing employment to vesting date

Note:

- 1 Average Compound Return on Equity (CROE) of 5.0% to 10.0% over the performance period FY18 to FY19. 50% will vest if a CROE of 5.0% is achieved and 100% will vest if CROE of 10.0% or above is achieved (with anything in between vesting on a straight line sliding scale basis).

- 76 The performance rights do not carry any voting or dividend rights. Each performance right confers the holder with an entitlement to receive one share for no consideration upon satisfaction of the performance conditions, namely the extent to which the average CROE in Folkestone exceeds the targeted growth rate over the performance period and continuity of employment up to the vesting date.

- 77 Unless the Folkestone Board determines otherwise, unvested performance rights automatically lapse in the event the participant ceases to be an employee. All performance rights that fail to vest also immediately lapse.
- 78 In a situation where there is likely to be a change of control event, the Folkestone Board may determine (at its discretion) that all or a specified number of a participant's performance rights will immediately vest, or cease to be subject to any other restrictions that may apply.

Substantial shareholders

- 79 As at 21 August 2018⁹, four substantial shareholders in Folkestone held 32.1% of the ordinary shares on issue. The substantial shareholders of Folkestone (based upon the annual report and substantial shareholder notices released to the ASX) were as follows:

Folkestone – substantial shareholders ⁽¹⁾		
Shareholder	Shares held	
	Million	% interest
Phoenix Portfolios Pty Ltd ⁽²⁾	15.3	10.3
G J P Investments Pty Ltd & Associated Entities ⁽²⁾	13.6	9.2
FDC Constructions & Fitout Pty Ltd & Associated Entities ⁽²⁾	10.5	7.1
KIL Property Management Pty Ltd ATF KEL Property Fund ⁽²⁾	8.2	5.5
Total	47.6	32.1

Note:

- 1 Rounding differences may exist.
2 Folkestone Annual Report 2018.

Share price performance

- 80 The following chart illustrates the movement in the share price of Folkestone from 1 January 2017 to 21 August 2018¹⁰:

⁹ Being the last trading day prior to the announcement of the Scheme.

¹⁰ Being the last trading day prior to the announcement of the Scheme.

Folkestone – share price history⁽¹⁾⁽²⁾

1 January 2017 to 21 August 2018



Note:

1 Based upon closing prices. The S&P / ASX 300 Index has been rebased to Folkestone's price on 1 January 2017 of \$0.97.

2 Folkestone's calculated NTA per unit (per its management presentations) excludes deferred tax liabilities and is therefore marginally higher than that set out above.

Source: Bloomberg.

81 Since January 2017, Folkestone has generally traded at a premium to its reported NTA position. It has also marginally outperformed the S&P / ASX300 Index. Key market sensitive announcements during the period are as follows:

- (a) **28 February 2017** – Folkestone announced its results for the half year ended 31 December 2016. Folkestone reported a 12% increase in FUM to \$1.2 billion and maintained its dividend guidance for FY17 of \$0.02625 per share. Reported NTA per share dropped 2.3% to \$0.88 per share
- (b) **8 March 2017** – Folkestone announced the sale of the sole property asset of the Folkestone Real Estate Income Fund at Oxley and that the company would receive a performance fee of approximately \$0.8 million when the fund was wound up
- (c) **21 March 2017** – Folkestone confirmed the launch of the Folkestone Wollert Development Fund (Wollert Development Fund) and announced that the company would receive a rezoning fee of \$8.8 million on completion of the successful equity raising by the fund
- (d) **25 July 2017** – Folkestone announced its earnings and dividend guidance for FY17 (normalised NPAT of between \$9.0 million to \$9.4 million, statutory NPAT of between \$13.1 million to \$13.5 million and an ordinary final dividend and special dividend of \$0.0275 per share and of \$0.005 per share respectively)
- (e) **24 August 2017** – Folkestone announced its results for the full year ended 30 June 2017. Normalised NPAT came in at the top end of the previously reported guidance (i.e. \$9.4 million). Statutory NPAT also came in at the top end of the previously reported guidance (i.e. \$13.5 million). FUM and reported NTA grew by 8.3% and 12.3% to \$1.3 billion and \$0.988 per share respectively

- (f) **12 October 2017** – Folkestone announced that it was seeking to raise \$50.0 million for the recently established Sydney Airport Hotel Fund which had exchanged contracts for the acquisition of the 271 room Mercure Sydney International Airport Hotel for \$76.4 million
- (g) **19 October 2017** – Folkestone announced the sale of the sole property asset of the Wollongong Income Fund and that the company would receive a performance fee of approximately \$2.9 million when the fund was wound up
- (h) **21 November 2017** – Folkestone announced that it was seeking to raise \$23.2 million for the recently launched Green Square Hotel Fund which had agreed to acquire a 144 room hotel to be constructed in Alexandria, NSW
- (i) **29 November 2017** – Folkestone announced that investors voted to extend the term of the SOP Income Fund and that the company would receive a performance fee of \$2.2 million
- (j) **28 February 2018** – Folkestone announced its results for the half year ended 31 December 2017. FUM and reported NTA grew by 14.1% and 5.0% to \$1.5 billion and \$1.04 per share respectively. Folkestone also provided an increase of guidance for FY18 of statutory NPAT of between \$11 million and \$12 million and ordinary dividend of \$0.03 per share¹¹
- (k) **30 May 2018** – Folkestone announced the acquisition of a 49.9% interest in a circa 251 lot residential land subdivision known as “Rosewood in Plumpton” (located in Melbourne). The interest was intended to be held by a new fund, the Folkestone Plumpton Development Fund (Plumpton Development Fund) which was seeking to raise \$16.5 million with Folkestone intending to retain a 20% to 25% interest in the fund
- (l) **26 July 2018** – Folkestone upgraded its profit guidance for the year to 30 June 2018. The Company announced expected statutory NPAT (subject to audit) of approximately \$13.8 million which was 15.0% higher than the top end of the guidance range of \$11 million to \$12 million announced in February 2018. Folkestone also confirmed its intention to pay an ordinary dividend of \$0.03 per share (subject to audit).

¹¹ A 9.1% increase on the ordinary dividend for FY17 of \$0.0275 per share.

Liquidity in Folkestone shares

- 82 The liquidity in Folkestone shares based on trading on the ASX over the 12 month period prior to 21 August 2018¹² is set out below:

Folkestone – liquidity in shares						
Period	Start date	End date	No of shares traded 000	WANOS ⁽¹⁾ outstanding 000	Implied level of liquidity Period ⁽²⁾ %	Annual ⁽³⁾ %
1 month	22 Jul 18	21 Aug 18	1,411	148,100	1.0	11.4
3 months	22 May 18	21 Aug 18	3,396	148,009	2.3	9.2
6 months	22 Feb 18	21 Aug 18	5,824	147,952	3.9	7.9
1 year	22 Aug 17	21 Aug 18	12,906	147,914	8.2	8.2

Note:

- 1 Weighted average number of securities outstanding (WANOS) during relevant period.
- 2 Number of shares traded during the period divided by WANOS.
- 3 Implied annualised figure based upon implied level of liquidity for the period.

Source: Bloomberg and LEA analysis.

- 83 Folkestone is a closely held stock (with a high number of shares held by the four substantial shareholders and others) and as a result, trading in Folkestone shares is relatively illiquid.

¹² Being the last trading day prior to the announcement of the Scheme.

IV Valuation methodology

Valuation approaches

- 84 RG 111 outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:
- (a) the discounted cash flow (DCF) methodology
 - (b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets
 - (c) the amount that would be available for distribution to shareholders in an orderly realisation of assets
 - (d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis
 - (e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.
- 85 Under the DCF methodology the value of the business is equal to the net present value (NPV) of the estimated future cash flows including a terminal value. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.
- 86 Methodologies using capitalisation multiples of earnings or cash flows are commonly applied when valuing businesses where a future “maintainable” earnings stream can be established with a degree of confidence. Generally, this applies in circumstances where the business is relatively mature, has a proven track record and expectations of future profitability and has relatively steady growth prospects. Such a methodology is generally not applicable where a business is in start-up phase, has a finite life, or is likely to experience a significant change in growth prospects and risks in the future.
- 87 Capitalisation multiples can be applied to either estimates of future maintainable operating cash flow, EBITDA, earnings before interest, tax and amortisation, EBIT or NPAT. The appropriate multiple to be applied to such earnings is usually derived from stock market trading in shares in comparable companies which provide some guidance as to value and from precedent transactions within the industry. The multiples derived from these sources need to be reviewed in the context of the differing profiles and growth prospects between the company being valued and those considered comparable. When valuing controlling interests in a business an adjustment is also required to incorporate a premium for control. The earnings from any non-trading or surplus assets are excluded from the estimate of the maintainable earnings and the value of such assets is separately added to the value of the business in order to derive the total value of the company.

- 88 An asset based methodology is applicable in circumstances where neither a capitalisation of earnings nor a DCF methodology is appropriate. It can also be applied where a business is no longer a going concern or where an orderly realisation of assets and distribution of the proceeds is proposed. Using this methodology, the value of the net assets of the company are adjusted for the time, cost and taxation consequences of realising the company's assets.

Methodologies selected

- 89 Our assessment of the market value of Folkestone is based upon a sum-of-the-parts approach whereby the market value of its individual business operations (Funds Management, Co-Investments, Developments and Corporate) is determined on a going-concern basis (using an appropriate valuation methodology) and aggregated with the realisable value of its other assets / (liabilities) and net borrowings.
- 90 We summarise below the primary valuation methodologies adopted in valuing Folkestone's business operations.
- 91 It should be noted that we have valued Folkestone's income generating business operations (i.e. Funds Management, Co-Investments and Developments) net of direct and shared overhead expenses (e.g. finance, accounting, information technology (IT), human resources (HR) etc) where applicable. The direct and shared overhead costs of operation are based upon estimates prepared by Folkestone management for the purposes of this report, noting that the Company does not, in the ordinary course, allocate its operating expenses to its income generating business operations for either statutory, or management reporting purposes (further information on the cost allocation can be found in Section V from paragraph 190).

Funds Management

- 92 We have adopted the capitalisation of EBIT method as our primary valuation methodology for Folkestone's Funds Management business. Under this method, the value of the business is represented by its maintainable EBIT which is capitalised at a rate (or multiple) that reflects the risk and growth prospects of the business.
- 93 In our opinion, the capitalisation of EBIT method is the most appropriate methodology for the Funds Management business because:
- (a) long-term cash flow projections which would enable a DCF valuation to be adopted are unavailable
 - (b) the business has a demonstrated history of recurring earnings and expected ongoing profitability
 - (c) participants in the funds management / property investment sectors have varying levels of gearing and tax structures (making it difficult to rely upon the price to earnings method)
 - (d) there is sufficient transaction evidence available to determine an appropriate earnings multiple.
- 94 We have also supplemented the capitalisation of EBIT approach with the DCF approach, which we have applied in valuing the earnings of the Funds Management business which are finite / non-recurring in nature and are not captured in our capitalisation of EBIT methodology (noting that these earnings are relatively immaterial).

- 95 We have cross-checked our valuation against the enterprise value (EV) to FUM multiples implied by recent market transactions involving property management rights.

Co-Investments

- 96 Folkestone has co-investments in a number of the funds that it manages, including a substantial unitholding in the ASX listed FET. In determining the value of Folkestone's co-investments, we have adopted the following bases of valuation:
- (a) **FET** – we have valued Folkestone's interest in FET by reference to the recent prices at which the units in that fund have traded because its securities are reasonably liquid and the listed market price is likely to represent a reasonable proxy for the value that Folkestone could expect to realise if it sold its interest in FET either immediately or in the short-term
 - (b) **Truganina Development Fund and Wollert Development Fund** – are both finite life funds involved in the development of residential master planned communities in Victoria. Folkestone has prepared detailed cash flow forecasts for each of the developments and accordingly, we have valued Folkestone's interest in these funds by applying the DCF methodology
 - (c) **Plumpton Development Fund** – is also a finite life fund involved in the development of a residential master planned community. However, this fund is very early stage and was only established in June 2018. Accordingly, we have valued Folkestone's interest therein based upon a net assets approach, having regard to the price at which units were issued to third party investors in June 2018
 - (d) **FLK Seniors Living** – we have assessed the value of Folkestone's interest by reference to the net assets approach. We have done so because the value of the fund primarily lies in the underlying property / development assets it holds, the carrying values of which are annually updated in accordance with independent valuations.

Developments

- 97 In our opinion, the most appropriate way to value the property development activities of Folkestone is by reference to the market value of the current development projects and inventory (i.e. the Active and Non-Active developments).
- 98 In this regard, we note that:
- (a) generally, for property development businesses, it is impossible to derive reliable long term cash flow forecasts beyond those reflected in projects (inventories) on hand
 - (b) given the competitive nature of the property development industry, the relatively low barriers to entry, the one-off nature of developments and the cyclical nature of the industry, a property developer's historic profits are generally not a reliable indication of a "future maintainable" earnings stream. Furthermore, due to the one-off nature of property development projects, a reliable future "maintainable" earnings stream cannot normally be determined with any degree of confidence. The selection of an appropriate capitalisation multiple is also difficult, particularly given that there are no two "truly comparable" development companies.

- 99 In determining the value of the net assets comprising Folkestone's current development inventory, we have adopted the following bases of valuation:
- (a) **Active** –
 - (i) **completed / nearing completion** – market value of net assets on a going concern basis or for projects awaiting settlement on a DCF basis to assess the NPV of net after tax cash flows to Folkestone's equity
 - (ii) **ongoing** – DCF basis to assess the NPV of net after tax cash flows to Folkestone's equity
 - (b) **Non-Active** – market value of net assets on a going concern basis by reference to the underlying property values.
- 100 Folkestone also holds other financial interests in developments projects including PE loans provided to development participants. We have assessed the value of these loans by reference to the estimated project cash flows and security held by Folkestone.
- 101 We have cross-checked our assessed value of the development interests (before debt and corporate costs) to the carrying value of the total development inventory.
- 102 In adopting a going concern basis of valuation for Folkestone's development activities, our valuation of the current development projects also includes an allowance for the direct and shared overhead costs (e.g. finance, accounting, IT, HR etc) that will be incurred in completing and realising the value of the remaining development inventory. As Folkestone's development operations are assumed to remain a going concern, the notional costs of wind-up are ignored and the ongoing direct and shared overhead costs are implicitly assumed to be offset by the future profits that arise from future developments¹³.

Corporate costs

- 103 As noted above, Folkestone does not allocate its operating expenses to its income generating operations. That said, Folkestone management has, for the purposes of this report only, prepared an estimate of the direct and shared overhead costs (e.g. finance, accounting, IT, HR etc) that it considers are reasonably allocable to its income generating business operations.
- 104 We have assumed that the unallocated corporate overheads will continue to be incurred by Folkestone in operating its income generating business operations, albeit at a reduced level as a result of public company cost synergies. Accordingly, we have assessed the value of these unallocated costs based upon a capitalisation of earnings approach.

¹³ In this regard we note that Folkestone has a number of new projects which have not yet commenced and are expected to generate profits in the future (currently expected in the period FY20 to FY24).

Summary of valuation methodologies and overall cross-check

105 The following table summarises the primary valuation methodologies we have adopted in valuing each of Folkestone's business components:

Methods used to value Folkestone	
Component	Primary methods
Funds Management	<ul style="list-style-type: none"> • Capitalisation of earnings, using EBIT • DCF (for finite / non-recurring cash flows only)
Co-Investments	<ul style="list-style-type: none"> • Value of tradeable securities (FET) • DCF (Truganina Development Fund / Wollert Development Fund) • Net assets (Plumpton Development Fund / FLK Seniors Living)
Developments (Active)	<ul style="list-style-type: none"> • DCF
Developments (Non-Active)	<ul style="list-style-type: none"> • Net assets on a going concern basis
Unallocated corporate overheads	<ul style="list-style-type: none"> • Capitalisation of earnings, using EBIT

106 We have compared our assessed aggregate value for Folkestone (on a per share basis) with the listed market prices of Folkestone shares on the ASX prior to the announcement of the Scheme and considered the reasonableness of the implied premium.

V Valuation of 100% of Folkestone

Overview

- 107 As stated in Section IV, our assessment of the market value of Folkestone is based upon a sum-of-the-parts approach whereby the market value of its individual business operations (Funds Management, Co-Investments, Developments and Corporate) is determined on a going-concern basis (using an appropriate valuation methodology) and aggregated with the realisable value of its other assets / (liabilities) and net borrowings.
- 108 We have compared our assessed aggregate value for Folkestone (on a per share basis) with the listed market prices of Folkestone shares on the ASX prior to the announcement of the Scheme and considered the reasonableness of the implied premium.

Funds Management

- 109 As noted in Section IV, we have adopted the capitalisation of EBIT method as our primary valuation methodology for Folkestone's Funds Management business. Under this method, the value of the business is represented by its maintainable EBIT which is capitalised at a rate (or multiple) that reflects the risk and growth prospects of the business.
- 110 We have also supplemented the capitalisation of EBIT approach with the DCF approach, which we have applied in valuing the earnings of the Funds Management business which are finite / non-recurring in nature and are not captured in our capitalisation of EBIT methodology (noting that these earnings are relatively immaterial).
- 111 We have cross-checked our valuation against the EV to FUM multiples implied by recent market transactions involving property management rights.

Maintainable EBIT

- 112 In order to assess the appropriate level of EBIT for valuation purposes we have had regard to the historical and forecast results of Folkestone's Funds Management operations and have discussed the financial performance, operating environment and prospects with Folkestone management.
- 113 A summary of the revenue generated by Folkestone's Funds Management operations for the three reporting periods ended FY18 is set out below:

Funds Management – revenue ⁽¹⁾			
	FY16 \$000	FY17 \$000	FY18 \$000
Management fees	4.4	5.5	7.3
Cost recoveries	1.0	1.1	1.2
Transaction fees	2.1	2.3	6.2
Property management fees	-	0.8	1.2
Total recurring revenue	7.4	9.7	15.9
Finite / non-recurring revenue ⁽²⁾	0.5	1.4	3.2
Discontinued ⁽³⁾	2.1	1.3	3.1
Total revenue	10.1	12.5	22.2
<i>Average FUM for the period⁽⁴⁾</i>	984.3	1,158.8	1,437.6
<i>Management fees / Average FUM</i>	0.4%	0.5%	0.5%

Note:

- 1 Rounding differences may exist.
 - 2 Includes performance fees which are not necessarily recurring in nature and have been valued separately (refer paragraph 119). Also includes contributions from the Truganina Development Fund, Wollert Development Fund and Plumpton Development Fund which are land development funds that have a finite term and have also been valued separately (refer paragraph 121).
 - 3 Revenue from discontinued operations from the West Ryde Development Fund (wound up in FY16), the Oxley Income Fund and Wollongong Income Fund (both wound up in FY18).
 - 4 Calculated as the average of the FUM at the start and end of the period.
-

114 In respect of the recurring revenue, we note that:

- (a) management fees have grown over the period above, due to growth in FUM:
 - (i) FET represents the largest single contributor (as it broadly represents approximately two thirds of FUM) and attracts a 0.5% management fee
 - (ii) management fees in FY18 reflect part year contributions from three newly established funds¹⁴. Allowing for the full year impact from these funds would increase management fees in FY18 to some \$7.7 million
 - (iii) based on FUM as at 30 June 2018, annual management fees would approximate \$8.3 million
 - (iv) the Green Square Hotel Fund and Sydney Airport Hotel Fund are currently undertaking development / refurbishment activities which will result in an increase in FUM on completion, albeit the uplift will have a relatively immaterial impact on overall management fees
- (b) whilst recurring revenue includes income from closed end funds with set expiry dates, we note that there is opportunity for extension and the contribution from these funds to continue¹⁵
- (c) transaction fees represent acquisition, disposal, leasing, debt establishment and development management fees. FY18 included acquisition fees of some \$3.3 million relating to the acquisition of properties for the three newly established funds
- (d) property management operations first commenced in September 2016, and FY18 represented the first full year contribution from this revenue source.

115 In addition to the above, we note that the Funds Management business is required to hold regulatory capital of some \$6.0 million. As Folkestone has traditionally held this regulatory capital in cash, we have allowed for some \$0.1 million of interest earned on these funds in our assessment of maintainable EBIT.

116 Although Folkestone incurs costs in operating its Funds Management business, it does not, in the ordinary course, record / allocate these expenses to its Funds Management business. That said, Folkestone management has, for the purposes of this report only, prepared an estimate of the direct and shared overhead costs (e.g. finance, accounting, IT, HR etc) that it considers are

¹⁴ Being SOP Opportunity Fund (August 2017), Sydney Airport Hotel Fund (November 2017) and Green Square Hotel Fund (December 2017).

¹⁵ For example, in November 2017, the SOP Income Fund was extended for a further three year term to December 2020.

reasonably allocable to its Funds Management business. The total costs allocated are \$7.0 million, based upon FY18 (refer to paragraph 191).

117 Based on the above, we have assessed maintainable EBIT for valuation purposes as follows:

Funds Management – assessed maintainable EBIT⁽¹⁾			
	Paragraph	Low \$000	High \$000
Total revenue	114	13.2	14.1
Add interest on regulatory capital	115	0.1	0.1
Deduct costs allocated to Funds Management business	116	(7.0)	(7.0)
EBIT for valuation purposes		6.3	7.2
Say (based upon a rounded mid-point)		7.0	
<i>Implied EBIT margin⁽²⁾</i>		47.4%	50.7%
<i>EBIT / FUM as at 30 June 2018</i>		0.4%	0.5%

Note:

- 1 Rounding differences may exist.
- 2 We note that the implied margin is consistent with available evidence as to the EBIT margins of Australian based property fund management businesses (generally between 40% and 60%).

EBIT multiple

118 We have adopted an EBIT multiple range of 7.0 times to 8.0 times as appropriate, given the current nature of the Funds Management business. This range includes a premium for control and reflects in particular:

- (a) a large proportion of Folkestone's funds management income is derived from the management of FET, a large ASX listed open ended fund in which Folkestone holds a substantial co-investment. While there is a degree of concentration risk associated with FET (as it accounts for approximately 65% of Folkestone's FUM), we note that FET is the largest Australian owner of early learning properties (i.e. childcare centres) across Australia and NZ. The early learning sector is a growth sector¹⁶ and is still highly fragmented
- (b) risks associated with the continuation of the management of the unlisted funds, which have set expiry dates and may not be extended for further periods
- (c) in the Australasian property sector there are a number of entities with existing property funds management platforms (e.g. Centuria Group, Charter Hall, GPT etc.). The potential therefore exists for mergers / acquisitions / business combinations with such entities to realise potentially significant cost synergies¹⁷
- (d) the multiples at which comparable property funds management businesses have transacted in recent times (refer Appendix F). In particular, we note (inter alia):
 - (i) except where noted, the transactions relate to the acquisition of 100% of the businesses and therefore implicitly incorporate a premium for control

¹⁶ Underpinned by population growth, increasing female participation in the work force and government funding.

¹⁷ And that due to the relatively high number of industry participants, it is reasonable to expect that a percentage of the value of the synergy benefits arising from a transaction will be shared by the purchaser with the vendor.

- (ii) all else equal, higher multiples are typically paid for transactions involving larger funds management businesses due to, inter alia, economies of scale, diversification benefits, depth of management etc
 - (iii) based upon the entirety of the evidence, the average EBIT multiple paid for funds management businesses approximates 8.7 times (forecast), albeit this average is affected by a number of outliers¹⁸ and larger transactions¹⁹ that we do not consider relevant in the context of Folkestone (i.e. the number of transactions in the sector that could reasonably be viewed as comparable is limited)
 - (iv) while Folkestone paid only 3.9 times for the Austock Property business in 2012²⁰, transaction multiples have generally increased since that time and Folkestone's Funds Management business is now much larger
 - (v) we consider the transactions concerning the APG²¹ management platform and Armada Funds Management to be of greater relevance for Folkestone. These transactions, which are relatively recent, occurred on multiples of 8.6 times (forecast) and 6.5 times (historic) respectively. The APG management platform generates similar EBIT margins to Folkestone but is slightly larger and also generates higher EBIT per dollar of FUM. While the Armada Funds Management platform generates similar EBIT margins and EBIT per dollar of FUM, it is a smaller platform and manages 10 unlisted single asset funds (on behalf of a mixture of institutional and high net worth clients)
- (e) the reasonableness of our EV / FUM cross-check (refer below).

Non-recurring performance fees

- 119 In addition to receiving the management fee revenue set out at paragraph 113, Folkestone is entitled to performance fees for a number of its managed funds subject to the occurrence of certain events / achievement of performance hurdles. We have valued performance fees on a post-tax basis with an allowance for the probability of payment, based on discussions with Folkestone management and consideration of key factors such as the applicable hurdle rate and duration of the remaining performance period. We have used a post-tax discount rate of 11.8%, which is consistent with our adopted EBIT multiple range (above).
- 120 Based on the above, we have assessed value of performance fees at \$1.6 million to \$2.2 million.

¹⁸ For example, the 360 Capital Investment Management transaction was not only a transformational deal for Centuria Capital Group but was also likely to give rise to significant revenue and cost synergies. Relative to Folkestone, Generation Healthcare also generates some six times the amount of EBIT (including performance and transaction fees) per dollar of FUM and should not be considered comparable.

¹⁹ In that context, we note that a number of the recent transactions concern funds management platforms that are significantly larger than Folkestone's (e.g. Investa Commercial Management Platform, Novion Management Platform, Federation Management Platform and Valad Europe Management Platform).

²⁰ Which at the time had approximately \$555 million of FUM, the majority of which related to FET.

²¹ Aventus Property Group Limited and its subsidiaries (APG).

Finite management fee income

- 121 Folkestone is the fund manager of three land development funds, all of which are finite in nature and are expected to be wound up upon completion of their respective developments. As manager of the funds, Folkestone is entitled to receive a fixed management fee as set out in the table below:

Funds Management – finite life funds			
Fund	Management fee ⁽¹⁾ \$m pa	Last month of forecast management fees ⁽²⁾	Forecast fund expiry date
Truganina Development Fund	0.415	October 2018	June 2019
Wollert Development Fund	0.465	March 2021	August 2021
Plumpton Development Fund	0.465	May 2020	October 2021

Note:

- 1 Includes cost recoveries.
- 2 Management fees are forecast to cease prior to wind-up as the time period post completion of the development up to and including the forecast date of wind-up of the fund requires minimal management.

- 122 We have valued the management rights on a post-tax basis through to the final month that the management fees are forecast to be received using a post-tax discount rate of 11.8%, which is consistent with our adopted EBIT multiple range (above).
- 123 Based on the above, we have assessed the value of the finite management fees at \$1.4 million.

Summary

- 124 We have assessed the value of the Folkestone's Funds Management business as follows:

Funds Management – assessed value ⁽¹⁾			
	Paragraph	Low \$m	High \$m
EBIT for valuation purposes	117	7.0	7.0
EBIT multiple (times)	118	7.0	8.0
Value of non-finite / recurring business		49.0	56.0
Value of non-recurring performance fees	120	1.6	2.2
Value of earnings from non-finite funds		50.6	58.2
Value of finite management fees	123	1.4	1.4
Assessed value of Funds Management business		51.9	59.5

Note:

- 1 Rounding differences may exist.

- 125 As at 30 June 2018, Folkestone had FUM of \$1.6 billion. However, this included the FUM of the three land development funds which are expected to be wound up upon completion of the development. For the purpose of our valuation cross-check we have therefore adjusted FUM as follows:

Funds Management – adjusted FUM⁽¹⁾

	\$m
FUM as at 30 June 2018	1,609
Truganina Development Fund	(16)
Wollert Development Fund	(28)
Plumpton Development Fund	(10)
FUM for non-finite funds (i.e. adjusted FUM)	<u>1,555</u>

Note:

1 Rounding differences may exist.

- 126 Our assessed valuation of Folkestone's Funds Management business (excluding the performance fees and finite funds) implies a value that is equivalent to 3.2% to 3.6% of (adjusted) FUM. Based on observed comparable metrics for recent transactions concerning property management rights we consider this to be reasonable, having regard to the characteristics of Folkestone's Funds Management business (in particular, the EBIT it generates per dollar of FUM).

Co-Investments

FET

- 127 In determining the value of Folkestone's interest in FET we have had regard to the recent prices at which the units in that fund have traded. The market price methodology is often preferred when the securities of an entity are reasonably liquid and the market is well informed because:
- (a) the listed market price typically reflects all publicly available information about that entity's future risks and prospects and therefore provides the best indication as to value
 - (b) the listed market price is likely to represent a reasonable proxy for the value that Folkestone could expect to realise if it sold its interest in FET either immediately or in the short-term.
- 128 In adopting the market price approach, we have considered the following:
- (a) the price at which FET has historically traded, including the price at which it has traded relative to its reported NTA
 - (b) the distribution yields upon which FET has historically traded
 - (c) the depth of the market for the securities and volatility thereof
 - (d) whether there are trading restrictions and potential information disclosure issues
 - (e) analyst research on FET.
- 129 We have also cross-checked the reasonableness of our assessed value of FET by comparing the key value metrics implied by our adopted valuation range against those exhibited by FET's ASX listed Australian real estate investment trust (A-REIT) peers.

Recent trading and NTA per unit history

- 130 Historical security prices for FET from 1 January 2017 are set out in Appendix D. More recent trading in FET securities up to 21 August 2018 (being the last trading day prior to the announcement of the Scheme) is shown below:

FET – security price history								
Time periods	Reported NTA per security	Security price⁽¹⁾			VWAP / NTA⁽²⁾	Securities traded	Implied annual liquidity⁽³⁾	
	\$	Low \$	High \$	VWAP \$	%	000	%	
8 Aug 18 ⁽⁴⁾ to 21 Aug 18	2.78	2.66	2.79	2.72	(2.2)	2,926	31.6	
1 week to 7 Aug 18 ⁽⁴⁾	2.67	2.62	2.75	2.67	0.1	2,123	42.6	
1 month to 7 Aug 18 ⁽⁴⁾	2.67	2.61	2.79	2.66	(0.3)	6,907	32.4	
3 April 18 ⁽⁴⁾ to 7 Aug 18	2.67	2.58	2.90	2.71	1.6	33,404	52.2	
14 Feb 18 ⁽⁴⁾ to 2 Apr 18	2.67	2.56	2.89	2.73	2.3	11,811	34.7	
9 Aug 17 ⁽⁴⁾ to 13 Feb 18	2.51	2.58	3.00	2.79	11.2	29,799	22.9	

Note:

- 1 The trading range during the periods above may be impacted by “accrued” distributions being reflected in the security price.
- 2 Premium / (discount) of the volume weighted average price (VWAP) during the period relative to reported NTA.
- 3 Number of securities traded during the period divided by WANOS. Implied annualised figure based upon calculated implied level of liquidity for the period.
- 4 FET announced its results for FY18 on 8 August 2018. On 3 April 2018, FET provided a quarterly update (which included the announcement of the acquisition of nine childcare centres for \$63.1 million). On 14 February 2018, FET announced its 1H17 results. On 9 August 2017, FET announced its FY16 results.

Source: Bloomberg and LEA analysis.

- 131 The traded price of an A-REIT is influenced by (inter alia) reported NTA per security.
- 132 Prior to the announcement of its 1H17 results, FET traded at a sizeable premium to its reported NTA per security (based upon VWAP). Since then, FET has traded at a much smaller premium to reported NTA per security and more recently has traded at a discount. In that regard, we note that since February 2018, the share prices of ASX listed childcare centre operators have declined²² as a result of market and industry concerns relating to (inter alia) an oversupply of centres / places and affordability²³ which is impacting occupancy rates and profitability. It appears that trading in FET (which is a landlord to childcare centre operators) has also been affected by these concerns. We further note that at this point in the interest rate cycle, yield compression is stabilising and is likely to limit further significant upside arising from the revaluation of FET’s portfolio.

²² The decline in the share of G8 Education Limited commenced in early December 2017, subsequent to it announcing an earnings downgrade on 4 December 2017.

²³ While the new childcare subsidy that was implemented in July 2018 should improve affordability for the majority of parents, the medium-to-long term impact of the new scheme is not yet known.

133 That said, we note that:

- (a) despite market concerns regarding childcare centre operators, in FY18 FET conducted 34 market rent reviews and achieved an average rent increase of 4.7% (noting that most leases have 5.0% caps over prior year rents)
- (b) FET's portfolio is 100% occupied with a weighted average lease expiry (WALE) of 9.9 years (which has increased from 9.1 years as at 30 June 2017, due to 26 out of 28 five year options being renewed and new leases over existing properties being executed)
- (c) FET has a committed development pipeline of some 29 sites, which are likely to provide further future earnings and balance sheet upside on completion
- (d) FET has recently (August 2018) refinanced its debt facilities resulting in a weighted average debt maturity of 5.0 years
- (e) FET's level of gearing as at 30 June 2018 was 29.1%, which is below its targeted range of between 30% and 40%.

134 Given the above, in our view, factors exist to support the potential unwinding of the current discount to NTA.

135 We note that subsequent to the announcement of the Scheme on 22 August 2018 up to 7 September 2018, FET securities have traded between \$2.72 and \$2.85, with a VWAP of \$2.78.

Distribution yields

136 We set out below the one year forward distribution yields upon which FET has recently traded prior to the date of this report:

FET – one year forward distribution yields⁽¹⁾
1 July 2017 to 7 September 2018



Note:

1 Forward distribution yield line based upon closing prices with shaded area around line representing the implied yield based upon intra-day high and low prices.

Source: Bloomberg and LEA analysis.

- 137 FET has generally (and particularly during 2018) traded on a one year forward distribution yield of between 5.5% and 6.0% (and has traded outside this range on only a limited number of occasions). On 8 August 2018, FET indicated that distributions for FY19 are expected to be \$0.16 per security. Based upon the above one year forward trading range and forecast distributions for FY19, the implied price range for FET is between \$2.67 and \$2.91.

Share trading restrictions and liquidity

- 138 There are no significant restrictions on trading in FET which would prevent sufficient trading (on a day-to-day basis) to produce an unbiased share price.
- 139 While there are listed entities that exhibit higher levels of turnover than FET (refer to Appendix D), in our opinion, share market trading in the fund is sufficiently liquid enough to warrant the use of the recent market prices as a reasonable point of reference. We also note that based upon observed trading (as set out in the table above), there is little evidence to suggest that liquidity is materially impacting the security price.

Analyst coverage and information disclosures

- 140 FET is actively researched and analysed by share broking firms and institutional investors.
- 141 As at 7 September 2018, current forecasts for FET were provided on Bloomberg from five securities / brokerage firms. The target security prices²⁴ for FET, which range from \$2.89 to \$3.20 (with an average of \$3.00), by individual broker are as follows:

FET – analyst target security prices as at 7 September 2018

Broker	Date of report	\$ per security
Broker One	9 August 2018	2.92
Broker Two	8 August 2018	3.20 ⁽¹⁾
Broker Three	8 August 2018	3.10
Broker Four	8 August 2018	2.89
Broker Five	8 August 2018	2.89

Note:

1 We note that the broker describes this as the “fair value” price rather than target price.

Source: Bloomberg.

- 142 Significant information in relation to FET’s operations and property portfolio has also been disclosed in its financial reports and ASX announcements. Further, FET has an obligation under the ASX Listing Rules (subject to certain exemptions) to notify the ASX immediately of any information that it becomes aware of concerning FET which a reasonable person would expect to have a material effect on the price or value of FET securities.

Conclusion

- 143 Based upon the above, for the purposes of this report, we have adopted a value range of between \$2.70 and \$2.90 per FET security.
- 144 In assessing the value of Folkestone’s interest in FET, we have allowed for an estimate of the present value (PV) of the latent company tax that would be crystallised in the event of a sale. In this regard, we note that Folkestone’s interest in FET is an integral part of its Funds

²⁴ Which are generally 12 month price targets.

Management business operations and is unlikely to be sold whilst the business continues to operate²⁵. We have been advised by Folkestone management that the tax cost base of Folkestone's interest in FET was \$58.8 million as at 30 June 2018. We have assessed the PV of the latent tax liability based on the advised cost base, an assumed company tax rate of 30%, an assumed cost of debt of 5% per annum and a deferred realisation period of 10 to 15 years.

145 Our assessed value of Folkestone's interest in FET is therefore as follows:

FET – assessed value of interest held by Folkestone⁽¹⁾			
	Paragraph	Low \$m	High \$m
Assessed value per unit (\$)	143	2.70	2.90
Number of units held by Folkestone (m)	64	30.7	30.7
Assessed value of interest held by Folkestone (pre-tax)		82.9	89.0
PV of company tax payable	144	(5.1)	(5.4)
Assessed value of interest held by Folkestone (post-tax)		77.8	83.6

Note:

1 Rounding differences may exist.

146 We have cross-checked our assessment of the (pre-tax) realisable value of FET securities by comparing the key value metrics implied by our valuation (premium / discount to NTA and distribution yields) against those exhibited by what we consider to be FET's closest A-REIT peer, Arena REIT (Arena).

147 As at 30 June 2018, Arena held a portfolio 209 properties (comprising 202 early learning centres and seven healthcare / medical centres located across Australia), with a WALE of 12.9 years and book value of \$682.1 million. It also held five development sites with a book value of \$17.3 million. In comparison, FET's portfolio consisted of 387 early learning centres with a WALE of 9.9 years and book value of \$921.3 million. It also held 23 development sites with a book value of \$62.9 million²⁶.

148 The comparison between our valuation of FET and Arena is as follows:

FET – comparison to Arena			
	FET⁽¹⁾		Arena⁽²⁾
	Low %	High %	%
Implied earnings yield (FY19)	5.9	6.3	6.0
Implied distribution yield (FY19)	5.5	5.9	5.8
Implied premium to NTA	(2.9)	4.3	20.2

Note:

- Based upon our assessed (pre-tax) valuation range per unit, consensus forecast earnings of 17.1 cents per unit, FET forecast distributions of 16.0 cents per unit and reported NTA per unit as at 30 June 2018.
- Based upon five day VWAP price to 7 September 2018, consensus forecast earnings of 13.9 cents per unit, Arena forecast distributions of 13.5 cents per unit and reported NTA per unit as at 30 June 2018.

²⁵ Noting that Clause 1.1 of the Agreement includes a condition precedent whereby the interest in FET must be retained for the Scheme to proceed.

²⁶ A further six development sites had also been contracted but had not settled as at 30 June 2018.

149 In respect of the above, we note that:

- (a) Arena is trading on consistent earnings and distribution yields to that implied by our valuation of FET²⁷. We also note that the yields implied by our (portfolio) valuation of FET are consistent with the (FY19) trading yields associated with the broader group of A-REITs set out at Appendix G
- (b) the premium to NTA implied by our valuation is not as high as that at which Arena is currently trading. That said, we note:
 - (i) Arena has historically traded at a greater premium to NTA than FET (for example, since 22 February 2018²⁸ to 7 September 2018, the average additional premium at which Arena has traded has been 13.1%)
 - (ii) Arena acts as a fund manager for a number of unlisted funds that invest in the healthcare property sector. FET does not provide fund management services. The value of Arena's funds management business is not reflected on balance sheet but is likely to be reflected in its security price (noting that this is consistent with other A-REITs that have funds management operations such as Charter Hall and Goodman, refer Appendix G).
 - (iii) Arena is internally managed, whereas FET is externally managed (by Folkestone).

150 Having regard to the above, we consider our adopted valuation range for FET (on a per security basis) to be reasonable and appropriate.

Truganina Development Fund and Wollert Development Fund

151 Folkestone's interest in the Truganina Development Fund and the Wollert Development Fund has been valued by reference to the forecast distributions to be made by the funds over the next three years to Folkestone as it completes its involvement in the respective residential JV developments. In adopting this approach, we have assumed that Folkestone will remain a co-investor in these development funds and will not seek to realise a capital value for its interests prior to the completion of the projects.

152 Consistent with the valuation of the development activities (refer below), we have discounted the future cash flows to equity at post-tax discount rates in the range of:

- (a) 10.5% to 11.6% for the Truganina Development Fund as the remaining lots in the project are due to complete in late 2018 and the majority of the remaining lots are pre-sold with settlement to occur by the end of 2018
- (b) 11.9% to 14.0%% for the Wollert Development Fund as this project has longer to run, with expected completion not occurring until FY21, and only 41% of the total project lots having been presold.

153 In determining the abovementioned discount rates we have had regard to the commercial rates received by Folkestone on PE loans advanced in association with its development activities

²⁷ We note that Arena has a higher forecast payout ratio of 97% compared to FET at 93% and that this impacts the variance between FET and Arena when comparing distribution yields.

²⁸ Being the date Arena announced its 1H18 results and updated NTA per unit as at 31 December 2017.

and considered the additional rate of return that would likely be required by ordinary equity investors in the individual development projects.

- 154 When discounting the forecast cash flows we have considered the potential impact of a delay in the receipt of the proceeds and have, on balance, assessed the value of Folkestone's units in the:
- (a) Truganina Development Fund in the range of \$3.2 million to \$3.4 million
 - (b) Wollert Development Fund in the range of \$8.3 million to \$8.8 million.

Plumpton Development Fund

- 155 The Plumpton Development Fund was established in June 2018, with the Information Memorandum for the fund issued on 13 June 2018.
- 156 Folkestone has co-invested in the fund, subscribing for 3.3 million units of \$1.00 each (representing a 20% interest). The fund has been well subscribed with 100% of the targeted subscriptions of \$16.5 million raised to date.
- 157 Given the early stage nature of the fund, in our opinion, Folkestone's investment (which was made on the same terms as third party unitholders under the offer) of \$3.3 million reflects the value of the investment.

FLK Seniors Living

- 158 FLK Seniors Living prepares its financial statements on a mark-to-market basis whereby the change in fair value of the investment properties and the change in value of the resident liabilities are assessed by means of an independent valuation.
- 159 Given the above, we have assessed the value of Folkestone's co-investment as at 30 June 2018 having regard to:

- (a) the latest available reported NTA of the fund of \$1.09 per unit and the movement in the reported NTA of the fund since establishment:

FLK Seniors Living – NTA per unit			
	Commencement September 2016	30 June 2017	30 June 2018⁽¹⁾
NTA value per unit	\$1.00	\$1.07	\$1.09

Note:

- 1 Reflects the current independent valuation of the 58 completed independent living units (ILU).

- (b) the net present value of the forecast cash flows to the unitholders over the life of the fund
- (c) an independent valuation of the completed ILUs and deferred management fees undertaken in May 2018 and reflected in the NTA of the fund as at 30 June 2018 (we have reviewed the independent valuation prepared for the Responsible Entity (RE) for financial reporting purposes and considered the basis of valuation, critical assumptions adopted and the valuation conclusion).

- 160 Based on the above, we have valued Folkestone's 2.5 million units in the fund at some \$2.7 million.
- 161 In assessing the value of Folkestone's interest in FLK Seniors Living, we have allowed for an estimate of the PV of the latent company tax that would be crystallised in the event of a sale of the FLK Seniors Living units. In this regard, we note that Folkestone's interest in FLK Seniors Living is an integral part of its Funds Management business operations and is unlikely to be monetised before the fund's cessation in 2023. We have been advised by Folkestone management that the tax cost base of Folkestone's interest in FLK Seniors Living was \$2.5 million as at 30 June 2018. We have assessed the PV of the latent tax liability based on the advised cost base, an assumed company tax rate of 30%, an assumed cost of debt of 5% per annum and a deferred realisation period of five years.
- 162 Our assessed value of Folkestone's interest in FLK Seniors Living is therefore as follows:

FLK Seniors Living – assessed value of interest held in FLK Seniors Living⁽¹⁾		
	Paragraph	\$m
Assessed value per unit (\$)	159	1.09
Number of units held by Folkestone (m)	61	2.5
Assessed value of interest held by Folkestone (pre-tax)		2.7
Company tax payable	161	(0.1)
Assessed value of interest held by Folkestone (post-tax)		2.7

Note:

- 1 Rounding differences may exist.

Summary of Co-Investments

- 163 Based upon the above, we have assessed the value of Folkestone's Co-Investments as follows:

Folkestone – assessed value of Co-Investments⁽¹⁾			
	Paragraph	Low \$m	High \$m
FET	145	77.8	83.6
Truganina Development Fund	154(a)	3.2	3.4
Wollert Development Fund	154(b)	8.3	8.8
Plumpton Development Fund	157	3.3	3.3
FLK Seniors Living	162	2.7	2.7
Total Co-Investments		95.2	101.8

Note:

- 1 Rounding differences may exist.

Developments

Active

- 164 As noted in Section IV, we have adopted the DCF methodology for the purposes of valuing Folkestone's interest in its active developments. These developments have a finite life and are either completed / nearing completion, and if ongoing, have commenced construction and in many instances have largely been pre-sold and are awaiting settlement.
- 165 Our DCF valuation of Folkestone's interest in its active developments is based on the free cash flow projections prepared by Folkestone management for each individual development project. In respect of these projections, we note that:
- (a) they generally cover a one to two year period only (i.e. are not long-term projections)
 - (b) the projections were extracted from Folkestone's project management software which is utilised for project monitoring / control purposes and are frequently reviewed by Folkestone management (i.e. the projections were not prepared specifically for the purposes of this transaction)
 - (c) the projections were reviewed by Folkestone's auditors for financial reporting purposes as at 30 June 2018
 - (d) the key inputs to the projections, sales and construction costs, are predominately underpinned by pre-sales and executed construction contracts
 - (e) we have discussed the development status, project risks and projected financial performance of each active development project with Folkestone management.
- 166 Based upon the above, nothing has come to our attention that would indicate that the projections have not been prepared on a reasonable basis. Accordingly, we consider it appropriate to rely upon the projections for valuation purposes.
- 167 As the detailed cash flow projections are commercially sensitive they have not been set out in our report. However, it should be noted that:
- (a) the major assumptions underlying the projections were formulated in the context of current economic, financial and other conditions
 - (b) the projections and the underlying assumptions have not been reviewed by an investigating accountant for reasonableness or accuracy of compilation and application of assumptions
 - (c) future profits and cash flows are inherently uncertain
 - (d) the achievability of the projections is not warranted or guaranteed by Folkestone or LEA, as they are predictions by Folkestone management of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of Folkestone and its management; and
 - (e) actual results may be significantly more or less favourable.

Completed / nearing completion

- 168 Folkestone's net funds employed in completed / nearing completion projects was some \$0.9 million as at 30 June 2018, and represented the residual interest in the developments (that is, Folkestone's share of the net assets of the JV entities established to undertake the respective developments). The value lies in the underlying assets of the JV entities, the majority of which comprise either cash and/or cash equivalents and (in the case of Northside, Officer) developed property awaiting settlement. We note that any retentions, future costs, warranties etc. have been allowed for in each of the JV balance sheets.
- 169 The value of Folkestone's interest in these developments has been assessed having regard to the NPV²⁹ of the following future cash flows:
- (a) the return of the net funds held in the JV entities
 - (b) the final post-tax cash flows to be received in respect of lots yet to be settled, which is expected to occur in FY19.
- 170 The aggregate assessed value of the completed and nearing completion developments approximates \$0.9 million.

Ongoing

- 171 Folkestone currently has interests in eight active projects which have commenced or are about to commence construction. Many of these developments have significant pre-sales and are expected to complete between January 2019 and July 2021.
- 172 Folkestone's interest in each of the developments differs by project. However, it generally comprises an equity interest in the entity undertaking the development (often a JV) together with other investments such as loans (including PE loans). The total funds employed by Folkestone in active (ongoing) developments was some \$44.7 million as at 30 June 2018.
- 173 The total forecast profits yet to be recognised on active (ongoing) developments are some \$22.5 million³⁰ (\$15.7 million after tax).
- 174 We have assessed the value of Folkestone's equity interests in the active (ongoing) projects on a DCF basis³¹. The future forecast cash flows to equity has been discounted at the rates of:
- (a) 10.5% to 11.6% (post-tax) for lower risk projects (that is, where construction is well under way and there is low sales and settlement risk). These projects are:

²⁹ We have adopted a discount rate in the range of 10.5% to 11.6% consistent with the lower risk active development projects.

³⁰ Of which some 41% is expected to be received in the six months to 31 December 2018.

³¹ With the exception of MJB2, which has been assessed by reference to the underlying land value given the early stage of this project. We have reviewed the independent valuation report prepared for first mortgage purposes in April 2018 which reflected an "as is" basis of valuation using the direct comparison approach, which referenced a range of similar properties that had also been granted planning approval.

Developments – lower risk (active) projects	
Project	Comment
Green Square	Sale price agreed, construction contract in place, expected completion September 2019
Knoxfield	96% of project is pre-sold, construction of Stage 4 about to complete
Nunawading	All pre-sold, construction substantially complete (with completion of remaining units expected prior to the end of 2018)

- (b) 11.9% to 14.0% (post-tax) for medium risk projects (that is, where construction is yet to commence or is in early stages and there is moderate sales and settlement risk). These projects are:

Developments – medium risk (active) projects	
Project	Comment
Hadfield	Some pre-sales, however construction has just commenced, expected completion late 2020, sales and settlement risk exists
MJB2	Some pre-sales, however construction has just commenced, expected completion late 2020, sales and settlement risk exists

- 175 In determining the abovementioned discount rates we have had regard to the commercial rates received by Folkestone on PE loans advanced in association with its development activities and considered the additional rate of return that would likely be required by ordinary equity investors in the individual development projects.
- 176 In forming our view as to the risk and value of Folkestone's equity interests, we have reviewed the forecast future cash flows to equity and considered (where applicable) the following sensitivities:
- (a) variations in design and construction costs in the range of -5% to +5%
 - (b) an extension of the time over which the respective projects will be completed (assuming a 10% increase in timing of the remaining future cash flows rounded to the next month)
 - (c) sales and settlement risk.
- 177 We have assessed the value of Folkestone's other interests in the development projects (i.e. PE and other loans) having regard to the forecast aggregate project cash flows of each (relevant) individual development project and the security provided to Folkestone (where applicable).
- 178 Our aggregate assessed value of Folkestone's interest in the active (ongoing) projects is in the range of \$54.1 million to \$58.0 million. This represents an uplift in the range of \$9.4 million to \$13.3 million (some 21.0% to 29.7)% on carrying value (before debt) and compares to the estimated unrealised profits after tax of some \$15.7 million. We consider this uplift to be reasonable on the basis that a large proportion of the uplift relates to the two industrial projects that will be completed prior to 31 December 2018 and an uplift in land values attaching to the development approval of the retail development project.

Non-Active

- 179 As noted in Section IV, we have adopted the net asset methodology for the purposes of valuing Folkestone's interest in its Non-Active developments. These developments are generally either properties in the process of being acquired, have been recently acquired, or are still subject to planning approval.
- 180 Folkestone has an interest in six such developments, with net funds employed (representing a blend of equity and other investment loans) of some \$30.5 million as at 30 June 2018.
- 181 We have assessed the value of Folkestone's net funds invested, having regard to:
- (a) the market value of the underlying property interests as supported by independent valuations³² or, where applicable, the recent purchase price (net of any tax payable on unrealised profits)
 - (b) the likelihood of recovery of any development and other costs incurred to date as part of an uplift in property value for planning approval of the future development project. The low end of our valuation range reflects the non-recovery of capitalised development costs in the event that planning approvals (where relevant) are not received
 - (c) the recoverability of loans advanced by Folkestone to the development project.
- 182 The aggregate assessed value range of the Non-Active developments is in the range of \$28.2 million to \$30.8 million.

Debt funding for development interests

- 183 On occasion, Folkestone utilises its debt facilities to secure property / developments on behalf of funds / JV entities that will ultimately hold the property. As at 30 June 2018, \$17.0 million in debt had been drawn for this purpose:

Developments – project specific debt	
	\$m
Short term borrowings associated with development projects:	
– Millers Junction Retail	1.1
– MJB2	5.9
Subtotal	7.0
Long term borrowings used to secure project opportunities:	
– Plumpton development	6.4
– Gisborne development	3.6
Subtotal	10.0
Total project related debt	17.0

- 184 These development specific borrowings, whilst temporary, have been used to acquire the assets reflected in the value of Folkestone's development interests above. Accordingly, we have deducted this debt from the assessed value of the development projects.

³² We have reviewed these independent valuations prepared for first mortgage purposes and considered the basis of valuation, critical assumptions adopted and the valuation conclusion.

Direct and shared operating expenses

- 185 Although Folkestone incurs costs in identifying and establishing new development projects and administering its interests in the development projects, it does not, in the ordinary course, record / allocate these expense to its Developments operations. That said, Folkestone management has, for the purposes of this report only, prepared an estimate of the direct and shared overhead costs (e.g. finance, accounting, IT, HR etc) that it considers are reasonably allocable to its Developments operations. The total costs allocated are \$3.0 million, based upon FY18 (refer to paragraph 191).
- 186 The current projects have a three year time horizon and we have assumed that the above costs (excluding due diligence and acquisition costs relating to new developments) will continue to be incurred over this period. We have assessed the PV of these costs, after allowing for cost increases, wage inflation and tax and adopting a discount rate of 10.0% per annum, at some \$7.4 million. These costs have been deducted from the assessed value of the current development project inventory³³.

Summary of development interests

- 187 Based upon the above, we have assessed the value of Folkestone's development interests as follows:

Folkestone – assessed value of development interests ⁽¹⁾			
	Paragraph	Low \$m	High \$m
Active – completed or nearing completion	170	0.9	0.9
Active – ongoing	178	54.0	58.0
Total Active		54.9	58.9
Non-Active	182	28.2	30.8
Total Developments		83.1	89.7
Debt related to development projects	184	(17.0)	(17.0)
Allowance for overheads during completion	186	(7.4)	(7.4)
Total Developments net of debt and future overheads⁽²⁾		58.7	65.3

Note:

- 1 Rounding differences may exist.
- 2 Excluding any investment held by Folkestone in those unlisted funds, that it manages, which are undertaking development activities. These funds are the Truganina Development Fund, the Wollert Development Fund, the Plumpton Development Fund and FLK Seniors Living.

- 188 We have cross-checked our assessed value of the development interests (before debt and corporate costs) to the carrying value of the total development inventory (before debt) of \$76.0 million. The valuation range reflects an uplift of some \$7.1 million to \$13.7 million (9.4% to 18.0% respectively) to book value (and represents the net present value of the estimated post-tax future cash flows to equity and, where applicable, the uplift in land values to reflect planning approvals received). The low end of the range captures the potential downside associated with the non-active developments should planning approval not be granted and capitalised development costs are not recovered.

³³ As Folkestone's developments operations are assumed to remain a going concern, the notional costs of wind-up are ignored and the ongoing direct and shared overhead costs (e.g. finance, accounting, IT, HR etc) are implicitly assumed to be offset by the future profits that arise from future developments.

- 189 In our view, the valuation uplift is reasonable and reflects the time and risk associated with the completion of the projects.

Corporate costs

- 190 As per Section III of this report, Folkestone's (normalised) operating expenses in FY18 (excluding due diligence expenses) were as follows:

Folkestone – (normalised) operating expenses⁽¹⁾	
	FY18 \$m
Employee benefits expense	10.3
Administration expenses	2.5
Rental expense	0.4
Total (normalised) operating expenses excluding due diligence expenses	13.2

Note:

- 1 Rounding differences may exist.

- 191 As noted above, Folkestone does not, in the ordinary course, allocate its operating expenses to its income generating business operations (i.e. Funds Management, Co-Investments and Developments) for either statutory, or management reporting purposes. That said, Folkestone management has, for the purposes of this report only, prepared an estimate of the direct and shared overhead costs (e.g. finance, accounting, IT, HR etc) that it considers are reasonably allocable to its income generating business operations. We have discussed the cost allocations with Folkestone management and adjusted the allocations where considered necessary. The estimated cost allocations are as follows:

Folkestone – allocation of FY18 (normalised) operating expenses⁽¹⁾⁽²⁾					
	Funds Management \$000	Co- Investments⁽³⁾ \$000	Developments \$000	Unallocated \$000	Total \$000
Employee benefits expense	5,720	-	2,586	2,041	10,347
Administration expenses	1,091	-	348	1,102	2,541
Rental expense	195	-	88	70	353
Total	7,006	-	3,022	3,213	13,241

Note:

- 1 Rounding differences may exist.
2 Excluding due diligence expenses.
3 The direct costs of managing the co-investments in development funds are already reflected in the cash flows for those funds. The direct and shared overhead costs associated with managing Folkestone's interest in FET and FLK Seniors Living are considered to be relatively immaterial.

- 192 Total unallocated corporate costs approximate \$3.2 million. We have assumed the unallocated corporate overheads (of this order of magnitude) will continue to be incurred by Folkestone in operating its income generating business operations. However, a proportion of these costs would be saved in the event Folkestone was acquired and delisted from the ASX. Based upon discussions with Folkestone management, savings are estimated to be approximately \$1.4 per annum, with implementation costs (needed to be incurred in order to achieve these savings) of approximately \$0.6 million (pre-tax).

- 193 We have capitalised the unallocated corporate costs at an EBIT multiple of 5.0 times to 6.0 times, having regard to:
- (a) the multiples adopted for the Funds Management business
 - (b) the multiple implied by our DCF of the corporate costs allocated to Folkestone's Developments business (noting that our valuation of the Developments business was limited to existing work on hand, not profits in perpetuity)
 - (c) the relative allocations of the corporate costs to the Funds Management and Developments businesses and the assumed reliance of each business on the unallocated corporate function.
- 194 Based upon the above, we have valued the unallocated corporate costs as follows:

Folkestone – assessed value of unallocated corporate costs⁽¹⁾			
	Paragraph	Low \$m	High \$m
Unallocated corporate costs (net of synergy benefits)	192	(1.8)	(1.8)
EBIT multiple	193	5.0	6.0
Value unallocated corporate costs (pre implementation costs)		(9.0)	(10.8)
Implementation costs (net of tax)	192	(0.4)	(0.4)
Value of unallocated corporate costs		(9.4)	(11.2)

Note:

- 1 Rounding differences may exist.

Other assets / (liabilities)

- 195 Folkestone has a number of other assets / (liabilities) that are not reflected in our valuation of the above components of its business and for which an allowance must be made.

Distribution from FET

- 196 On 20 June 2018, FET declared that it would pay a 4Q18 distribution of 3.77 cents per unit. FET securities traded ex-entitlement on 28 June 2018, and the distribution was paid on 20 July 2018. The value of FET's 4Q18 distribution for Folkestone (net of applicable company tax) was \$0.8 million.

Mason Stevens SMA

- 197 Folkestone has funds invested with Mason Stevens in an SMA³⁴. Folkestone's investment with Mason Stevens has a carrying value of \$0.1 million, reflecting the quoted price of the underlying units in the portfolio on the ASX as at 30 June 2018.
- 198 We understand that the portfolio can be realised without the incidence of fees or exit costs but would result in the crystallisation of a tax liability (which is immaterial).

³⁴ An SMA is a managed model portfolios to provide exposure to various asset classes and strategies, via concentrated portfolios of direct securities.

199 On the basis of the above, we have assessed the value of Folkestone's interest in the Mason Stevens SMA at \$0.1 million.

Unpaid tax on FY18 development profits

200 Our DCF valuation of the Developments business does not specifically take into account unpaid tax on historic profits recognised on the development projects. The unpaid tax is estimated at some \$0.8 million.

Summary of other assets / (liabilities)

201 We have assessed the value of Folkestone's other assets / (liabilities) as follows:

Folkestone – other assets / (liabilities) ⁽¹⁾			
	Paragraph	Low \$m	High \$m
Distributions	196	0.8	0.8
Mason Stevens SMA	199	0.1	0.1
Unpaid tax on FY18 development profits	200	(0.8)	(0.8)
Total other assets / (liabilities)		0.2	0.2

Note:

1 Rounding differences may exist.

Net cash / (debt)

202 As at 30 June 2018, Folkestone had net debt of \$8.1 million. However, we note that:

- (a) on occasion, Folkestone utilises its debt facilities to secure property / developments on behalf of funds / JV entities that will ultimately hold the property. As at 30 June 2018, \$17.0 million in debt had been drawn for this purpose and has been reflected in our valuation of Folkestone's Developments business (refer to paragraph 183)
- (b) the level of net cash held for corporate purposes can vary during the year. Given this, for valuation purposes we are of the opinion that it is appropriate to consider the average net cash / (debt) level throughout the year (excluding the temporary drawdowns discussed above), rather than the net cash / (debt) level at a point in time when determining the value of the equity in Folkestone
- (c) Folkestone's Funds Management business is required to hold regulatory capital of some \$6.0 million, which was held in cash as at 30 June 2018
- (d) the net cash / (debt) balance does not reflect the unpaid proportion of the unavoidable transaction costs associated with the Scheme for which Folkestone is responsible³⁵
- (e) Folkestone will pay a fully franked final dividend for FY18 of \$0.03 per share in September 2018. The cash impact of the payment of this dividend (approximately \$4.5 million³⁶) is not reflected in the above stated net cash / (debt) balance.

³⁵ i.e. costs that would be incurred by Folkestone even if the Scheme were not to proceed.

³⁶ Assuming 148.4 million shares on issue at the time of payment.

203 Having regard to the above, we have concluded that there is no surplus cash that should be recognised for valuation purposes.

Share capital outstanding

204 Folkestone has some 148.4 million shares on issue.

205 In addition, Folkestone had approximately 3.0 million performance rights outstanding which had been issued to (eligible) executives, managers and employees, pursuant to the Company's EIP. Under the relevant EIP rules, in the event of a proposed change of control of Folkestone, the Board of Folkestone has discretion to determine the treatment of any unvested performance rights. The Folkestone Board intends to exercise its discretion and has determined to accelerate and vest all of the outstanding performance rights subject to the Scheme becoming effective.

206 Accordingly, for valuation purposes we have adopted 151.4 million fully diluted shares on issue (being the number of shares and performance rights on issue).

Valuation summary

207 Given the above, we have assessed the value of 100% of the equity in Folkestone on a controlling interest basis as follows:

Folkestone – valuation summary⁽¹⁾			
	Paragraph	Low \$m	High \$m
Funds Management	124	51.9	59.5
Co-Investments	163	95.2	101.8
Developments	187	58.7	65.3
Corporate	194	(9.4)	(11.2)
Value of core business		196.4	215.4
Other assets / (liabilities)	201	0.2	0.2
Net cash / (debt)	203	-	-
Equity value – controlling interest basis		196.6	215.5
Fully diluted shares on issue (million) ⁽²⁾	206	151.4	151.4
Folkestone value per share – controlling interest basis (\$)		1.30	1.42

Note:

- 1 Rounding differences may exist.
- 2 Assumes that 3.0 million performance rights will vest.

Comparison with listed market price

208 Although trading in Folkestone shares is relatively illiquid (refer Section III), we note that:

- (a) Folkestone is researched and analysed by two share broking firms and has institutional investors on its register
- (b) significant information has been disclosed in relation to Folkestone's operations in its financial reports and ASX announcements

- (c) Folkestone has an obligation under the ASX Listing Rules (subject to certain exemptions) to notify the ASX immediately of any information that it becomes aware of concerning Folkestone which a reasonable person would expect to have a material effect on the price or value of Folkestone
- (d) volatility in the Folkestone share price is relatively low and its shares have traded within a narrow range of between \$1.06 and \$1.17 per share from 1 April 2018 through to 21 August 2018³⁷.

209 Given the above, we consider it reasonable to have regard to the trading price of Folkestone shares for the purposes of an overall indicative cross-check of our assessed aggregate value.

210 In order to cross-check our assessed aggregate value of Folkestone (on a per share basis) we have considered the listed market price of Folkestone shares up to 21 August 2018 (being the last day of trading prior to the announcement of the Scheme), adjusted for a premium for control.

211 The volume weighted average share prices for Folkestone in the one and three month periods up to 21 August 2018 were both \$1.11³⁸. Empirical evidence undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover, and after adjusting the pre-bid market price for the movement in share market indices between the date of the pre-bid market price and the announcement of the takeover).

212 Adding a 30% to 35% premium for control to these share prices would therefore result in a theoretical “control” value of \$1.44 to \$1.50 per share. While our assessed valuation range is less than the theoretical “control” value, we note that Folkestone is comprised of a number of individual (albeit interrelated) income generating business operations (Funds Management, Co-Investments, Developments) which (with the exception of Funds Management) are, in our opinion, unlikely to attract a significant premium:

- (a) Folkestone’s Co-Investments business represents some 45% of or assessed aggregate value range (before unallocated corporate overheads) and this is largely attributable to its investment in FET. FET is an externally managed ASX listed A-REIT which trades at or around its reported NTA per security. Folkestone does not hold a controlling interest in FET (based upon its unitholding alone) and irrespective of this, A-REITs (which generally passively hold a portfolio of properties) are quite different in character to industrial operating companies (upon which the empirical control premium evidence is based) and there is normally little justification for the payment of any material premiums over NTA value (when the A-REIT is not also carrying on other business operations such as property funds management)³⁹

³⁷ Being the last trading day prior to the announcement of the Scheme.

³⁸ Folkestone provided earnings guidance for FY18 on 26 July 2018. Although the one and three month VWAPs include trading prior to this date, we note that the announcement has not had any material impact on the listed price of Folkestone shares, when measured on a VWAP basis.

³⁹ We note that that if a premium were to be paid for Folkestone’s interest in FET this is likely to be because it also holds the management rights to the fund. However, any such premium should be reflected in the value of its Funds Management business as opposed to the standalone value of FET, consistent with our valuation approach.

- (b) whilst some premium may be expected on Folkestone's Developments business (including its development inventory), we note that its current projects have finite lives and only limited amounts of unrealised profits
- (c) given the high number participants in the industry, it is reasonable to expect that Folkestone's Funds Management business would attract a takeover premium. The value of this business represents some 25% of our assessed aggregate value range (before unallocated corporate overheads).

213 Given the above, it is reasonable to expect that the premium implied by our valuation range is less than the average premium paid in successful takeovers.

VI Evaluation of the Scheme

214 In our opinion, the Scheme is fair and reasonable and in the best interests of Folkestone shareholders in the absence of a superior proposal. We have formed this opinion for the reasons set out below.

Assessment of the Scheme

Value of Folkestone

215 As set out in Section V, we have assessed the value of Folkestone on a 100% controlling interest basis at between \$1.30 and \$1.42 per share.

Value of Scheme Consideration

216 If the Scheme is approved and implemented, Folkestone shareholders will receive \$1.39 cash for each Folkestone share they hold (Scheme Consideration), which will comprise:

- (a) Charter Hall cash consideration of \$1.354 per share for each Folkestone share they hold on the Scheme Record Date (31 October 2018); and
- (b) a special (fully franked) dividend of \$0.036 per share (Special Dividend) for each Folkestone share they hold on the Special Dividend Record Date (26 October 2018).

217 Regardless of whether the Scheme is implemented, Folkestone shareholders will also be entitled to the fully franked final dividend for FY18 of \$0.03 per share if they held their Folkestone shares on the record date for that dividend, being 11 September 2018. The payment of this final dividend (which will occur on 27 September 2018) will not reduce the Scheme Consideration that is payable pursuant to the Scheme.

218 Accordingly, we have assessed the Scheme Consideration at \$1.39 per share. However, due to the benefit of franking credits attaching to the Special Dividend, we note that the value of the Scheme Consideration to some Australian resident shareholders may be greater than \$1.39 per share.

Assessment of fairness

219 Pursuant to RG 111 the Scheme is “fair” if the value of the Scheme Consideration is equal to, or greater than the value of the securities the subject of the Scheme. This comparison is shown below:

Comparison of Scheme Consideration to value of Folkestone			
	Low	High	Mid-point
	\$ per share	\$ per share	\$ per share
Value of Scheme Consideration	1.39	1.39	1.39
Value of 100% of Folkestone	1.30	1.42	1.36
Extent to which the Scheme Consideration exceeds (or is less than) the value of Folkestone	0.09	(0.03)	0.03

- 220 As the Scheme Consideration lies within (and toward the top end of) our assessed valuation range for Folkestone shares on a 100% controlling interest basis, in our opinion, the Scheme Consideration is fair to Folkestone shareholders when assessed based on the Guidelines set out in RG 111.

Assessment of reasonableness and in the best interests

- 221 Pursuant to RG 111, a transaction is reasonable if it is fair. Further, in our opinion, if the Scheme is “fair and reasonable” it must also be “in the best interests” of shareholders.
- 222 Consequently, in our opinion, the Scheme is also “reasonable” and “in the best interests” of Folkestone shareholders in the absence of a superior proposal.
- 223 In assessing whether the Scheme is reasonable and in the best interests of Folkestone shareholders LEA has also considered, in particular:
- (a) the extent to which a control premium is being paid to Folkestone shareholders
 - (b) the extent to which Folkestone shareholders are being paid a share of any synergies likely to be generated pursuant to the potential transaction
 - (c) the listed market price of the shares in Folkestone, both prior to and subsequent to the announcement of the proposed Scheme
 - (d) the likely market price of Folkestone securities if the proposed Scheme is not approved
 - (e) the value of Folkestone to an alternative offeror and the likelihood of a higher alternative offer being made for Folkestone prior to the date of the Scheme meeting
 - (f) the advantages and disadvantages of the Scheme from the perspective of Folkestone shareholders
 - (g) other qualitative and strategic issues associated with the Scheme.

- 224 These issues are discussed in detail below.

Extent to which a control premium is being paid

- 225 Research undertaken by LEA indicates that average premiums paid in successful takeovers in Australia generally range between 30% and 35% above the listed market price of the target company’s shares⁴⁰ three months prior to the announcement of the bid (assuming no speculation of the takeover is reflected in the pre-bid price). This premium range reflects the fact that:
- (a) the owner of 100% of the shares in a company obtains access to all the free cash flows of the company being acquired, which it would otherwise be unable to do as a minority shareholder
 - (b) the controlling shareholder can direct the disposal of surplus assets and the redeployment of the proceeds
 - (c) a controlling shareholder can control the appointment of directors, management policy and the strategic direction of the company

⁴⁰ After adjusting the pre-bid market prices for the movement in share market indices between the date of the pre-bid market price and the announcement of the takeover.

- (d) a controlling shareholder is often able to increase the value of the entity being acquired through synergies and/or rationalisation savings.

- 226 We have calculated the premium implied by our assessed value of the Scheme Consideration by reference to the market prices of Folkestone shares (as traded on the ASX) for periods up to and including 21 August 2018 (being the last trading day prior to the announcement of the Scheme).
- 227 We note that Folkestone shareholders will receive a fully franked final dividend for FY18 of \$0.03 per share if they held their Folkestone shares on the record date for that dividend, being 11 September 2018. The payment of this dividend (which will occur on 27 September 2018) will not reduce the Scheme Consideration that is payable pursuant to the Scheme.
- 228 Accordingly, to ensure the implied premium is calculated on an appropriate basis we have therefore adopted the following total consideration for implied offer premium calculation purposes:

Total consideration for offer premium calculations ⁽¹⁾⁽²⁾	
	\$
Scheme Consideration	1.39
Folkestone's FY18 final dividend	0.03
Total value to Folkestone shareholders	<u>1.42</u>

Note:

- 1 In our opinion, it is more appropriate to calculate the implied offer premium using the pre-bid market price without adjustment for the dividend, and compare this price with the total value received by shareholders (being the Scheme Consideration and the dividend paid post announcement of the Scheme). This is primarily because it is, in our view, a better measure of the "return" generated by shareholders over the period.
- 2 Excluding any separate benefit from franking credits.

- 229 The implied offer premium relative to Folkestone share prices up to 21 August 2018 (being the last trading day prior to the announcement of the Scheme) is shown below:

Implied offer premium relative to recent Folkestone share prices ⁽¹⁾		
	Folkestone share price \$	Implied offer premium %
Closing share price on 21 August 2018	1.11	27.9
One month 21 August 2018 – VWAP ⁽²⁾	1.11	27.9
Three months to 21 August 2018 – VWAP ⁽²⁾	1.11	27.9

Note:

- 1 Rounding differences may exist.
- 2 Folkestone provided earnings guidance for FY18 on 26 July 2018. Although the one and three month VWAPs include trading prior to this date, we note that the announcement has not had any material impact on the listed price of Folkestone shares, when measured on a VWAP basis.

- 230 While the above premiums are less than the average premiums generally paid in successful takeovers in Australia (assuming the pre-bid market price does not reflect any speculation of the takeover), we do not consider this unreasonable given the specific characteristics of Folkestone's operations. In essence, Folkestone is comprised of a number of individual (albeit interrelated) income generating business operations (Funds Management, Co-Investments, Developments) which (with the exception of Funds Management) are, in our opinion, unlikely to attract a significant premium (refer to paragraph 212).

Extent to which Folkestone shareholders are being paid a share of synergies

- 231 Charter Hall has not provided any specific guidance on the level of synergies it expects to realise from the acquisition of Folkestone. However, if the Scheme is approved and implemented, Folkestone will be delisted from the ASX, resulting in the elimination of listed public company costs (e.g. Director fees, listing fees, share registry fees, shareholder communication costs etc). In our view, it is also reasonable to expect that Charter Hall will generate other synergies as a result of the transaction.
- 232 Synergy benefits are, in part, a reason why control premiums are paid. Whilst the level of synergies to be generated by Charter Hall are unknown, we note that our valuation range implicitly incorporates a premium for control (albeit the observed premium is less than that generally paid in successful takeovers in Australia⁴¹, due to the specific characteristics of Folkestone).
- 233 Given that the Scheme Consideration falls within our valuation range, it would therefore appear that a proportion of the synergy benefits to be realised by Charter Hall are being reflected in the Scheme Consideration.

Recent share prices subsequent to the announcement of the Scheme

- 234 Shareholders should note that Folkestone shares have traded on the ASX in the range of \$1.36 to \$1.41 per share in the period since the Scheme was announced up to 7 September 2018 (and closed at \$1.41 per share). The VWAP over the period was \$1.39 per share.
- 235 These share prices are lower than the Scheme Consideration plus the fully franked final dividend for FY18 (of \$0.03 per share). In our view, this trading range suggests that, in the absence of a superior proposal, the consensus market view is that the Scheme is likely to be successful.

Likely price of Folkestone shares if the Scheme is not implemented

- 236 If the Scheme is not implemented we expect that, at least in the short-term, Folkestone shares will trade at a significant discount to our valuation and the Scheme Consideration due to the difference between the value of Folkestone shares on a portfolio basis and their value on a 100% controlling interest basis. In this regard, we note that Folkestone shares last traded at \$1.11 per share on 21 August 2018 (being the last trading day prior to the announcement of the Scheme).
- 237 If the Scheme is not implemented those Folkestone shareholders who wish to sell their Folkestone shares are therefore likely, at least in the short-term, to realise a significantly lower price for their shares than will be payable under the Scheme.

⁴¹ Assuming the pre-bid market price does not reflect any speculation of the takeover.

Likelihood of an alternative offer

- 238 We have been advised by the Directors of Folkestone that Folkestone commenced a strategic review process in mid-2017 which contemplated a number of possible transaction alternate structures aimed at unlocking the Company's value. The review culminated in Folkestone undertaking a formal sales process of its business and assets. The Folkestone Board considered Charter Hall's proposal to be the superior offer arising out of the process undertaken and the Scheme reflects the outcome of the subsequent negotiations that ensued between Folkestone and Charter Hall.
- 239 We have been further advised by the Directors of Folkestone that no formal alternative superior offers have been received by the Company subsequent to Charter Hall's offer and the related announcement of the Scheme.
- 240 Whilst there effectively remains an opportunity for third parties to contemplate an acquisition of Folkestone and table a proposal before the Folkestone Board, Folkestone shareholders should note the exclusivity obligations on Folkestone pursuant to the Agreement, which are summarised in Section I and discussed in further detail in the Explanatory Memorandum.

Summary of opinion on the Scheme

- 241 We summarise below the likely advantages and disadvantages for Folkestone shareholders if the Scheme proceeds.

Advantages

- 242 The Scheme has the following benefits for Folkestone shareholders:
- (a) the Scheme Consideration of \$1.39 cash per share lies within (and toward the top end of) our assessed value range for Folkestone shares on a 100% controlling interest basis. Thus, in our view, Folkestone shareholders are being paid an appropriate price to compensate them for the fact that control of Folkestone will pass to Charter Hall if the Scheme is approved
 - (b) the Scheme Consideration represents a premium to the recent market prices of Folkestone shares prior to the announcement of the Scheme (albeit the premiums are less than observed premiums generally paid in successful takeovers due to the specific characteristics of Folkestone's operations⁴²)
 - (c) the Special Dividend may give rise to additional consideration for those Australian resident shareholders able to benefit from the related franking credits attaching to the Special Dividend
 - (d) if the Scheme does not proceed, and in the absence of an alternative offer or proposal, the price of Folkestone shares is likely to trade at a significant discount to our valuation and the Scheme Consideration due to the portfolio nature of individual shareholdings.

⁴² Folkestone is comprised of a number of individual (albeit interrelated) income generating business operations (Funds Management, Co-Investments, Developments) which (with the exception of Funds Management) are, in our opinion, unlikely to attract a significant premium.

Disadvantages

- 243 Folkestone shareholders should note that if the Scheme is implemented they will no longer hold an interest in Folkestone. Folkestone shareholders will therefore not participate in any future value created by the Company over and above that reflected in the Scheme Consideration.
- 244 However, as our assessed value of Folkestone shares is consistent with the Scheme Consideration, in our opinion, the present value of Folkestone's future potential (in the absence of the Scheme) is fully reflected in the Scheme Consideration.

Conclusion

- 245 Given the above analysis, we consider that the advantages of the Scheme outweigh the disadvantages. Consequently, in our view, the acquisition of Folkestone shares by Charter Hall under the Scheme is fair and reasonable and in the best interests of Folkestone shareholders in the absence of a superior proposal.

Appendix A

Financial Services Guide

Lonergan Edwards & Associates Limited

- 1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

- 3 The *Corporations Act 2001 (Cth)* (Corporations Act) authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Explanatory Memorandum to be sent to Folkestone shareholders in connection with the Scheme.
- 4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

- 5 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

- 6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
- 7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

- 8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at \$300,000 plus GST.
- 9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

Appendix A

- 10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.
- 11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

- 12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited (FOS), an external complaints resolution service. You will not be charged for using the FOS service.

Contact details

- 14 LEA can be contacted by sending a letter to the following address:

Level 7
64 Castlereagh Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

Appendix B

Qualifications, declarations and consents

Qualifications

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared hundreds of IERs.
- 2 This report was prepared by Mr Nathan Toscan and Ms Julie Planinic, who are each authorised representatives of LEA. Mr Toscan and Ms Planinic have over 15 years and 21 years experience respectively in the provision of valuation advice (and related advisory services).

Declarations

- 3 This report has been prepared at the request of the Directors of Folkestone to accompany the Explanatory Memorandum to be sent to Folkestone shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Scheme is fair and reasonable and in the best interests of Folkestone shareholders.

Interests

- 4 At the date of this report, neither LEA, Mr Toscan nor Ms Planinic have any interest in the outcome of the Scheme. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.
- 5 LEA has had no prior business or professional relationship with Folkestone or Charter Hall prior to the preparation of this report.

Indemnification

- 6 As a condition of LEA's agreement to prepare this report, Folkestone agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of Folkestone which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

- 7 LEA consents to the inclusion of this report in the form and context in which it is included in the Explanatory Memorandum.

Appendix C

Funds under management (ex FET)

- 1 Folkestone's funds management business provides funds management services to a range of listed and unlisted real estate funds in Australia. A summary of the key details of these funds (excluding FET, a profile of which is set out in Appendix D) is set out below.

CIB Fund

- 2 The CIB Fund is a closed wholesale unit trust that was established in June 2001. The fund owns nine police stations and two law court complexes located throughout VIC. The key details of the fund are set out in the table below:

CIB Fund – key details as at 30 June 2018

Fund type	Unlisted
Sector	Police Stations & Courthouses
Location	VIC
Responsible entity	FIML ⁽¹⁾
Folkestone co-investment in fund (A\$m)	\$nil
Base management fee	0.25% of gross assets
Property acquisition fees	1.4% of the purchase price
Other fees	Property sale fee – 1.0% of purchase price Leasing fees
Number of properties	11
Gross assets (A\$m)	131.3
Net assets (\$Am)	115.1
Occupancy (%)	100.0
WALE (income by years)	8.7
Fund expires	April 2081

Note:

- 1 Folkestone Investment Management Limited (FIML).

- 3 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.

Appendix C

SOP Income Fund

- 4 The SOP Income Fund is a single asset, closed end unlisted real estate fund that was established in June 2012. The fund owns a 5,931 square metre (sqm) commercial office building located at 7 Murray Rose Avenue, Sydney Olympic Park, NSW. The building was completed in December 2012 and comprises five levels of office space, ground floor retail and two levels of basement car parking. The office space is 100% leased to Thales Australia on a 10-year lease term which expires on 1 December 2022. The five retail tenancies on the ground floor are leased to a range of food and service providers.
- 5 The key details of the fund are set out in the table below:

SOP Income Fund – key details as at 30 June 2018

Fund type	Unlisted
Sector	Office
Location	Sydney Olympic Park, NSW
Responsible entity	FFML ⁽¹⁾
Folkestone co-investment in fund (A\$m)	\$nil
Base management fee	1.3% of net assets
Property acquisition fees	1.5% of the acquisition cost
Other fees	Performance fee
Number of properties	1
Gross assets (A\$m)	44.5
Net assets (A\$m)	26.8
Occupancy (%)	100
WALE (income by years)	4.4
Fund expires	December 2020

Note:

1 Folkestone Funds Management Limited (FFML).

- 6 In addition to receiving base management and acquisition fees, Folkestone is entitled to a performance fee equal to 20% of the outperformance of the fund⁴³. The performance period starts on the date of the previous performance fee calculation and ends on the date of the event that triggers the performance fee calculation⁴⁴. In November 2017, the fund was extended for a further three year term to December 2020. As a result of the extension and outperformance, Folkestone received a performance fee of \$2.2 million in FY18.

⁴³ If the internal rate of return (IRR) is greater than 10% in respect of a performance fee calculation period, the outperformance of the fund is the PV of cash outflows on the performance fee calculation date that reduces the IRR to 10%.

⁴⁴ The performance fee becomes payable (provided the outperformance hurdles are met) when particular events occur, such as the extension of the fund, termination of the scheme, removal of the responsible entity (RE) etc.

Appendix C

Altona North

7 Altona North is a single asset, closed end unlisted real estate fund. The fund owns a large format retail centre, known as Millers Junction Home, located in Altona North, VIC. The property was developed by Folkestone on behalf of the fund and opened in September 2014. The property is anchored by a number of large retail tenants including Bunnings, Officeworks, JB Hi-Fi and Repco.

8 The key details of the fund are set out in the table below:

Altona North – key details as at 30 June 2018

Fund type	Unlisted
Sector	Large format retail
Location	Altona North, VIC
Responsible entity	FFML
Folkestone co-investment in fund (A\$m)	\$nil
Base management fee	1.1% of net assets
Property acquisition fees	2.5% of the acquisition cost
Other fees	Performance fee
Number of properties	1
Gross assets (A\$m)	47.5
Net assets (A\$m)	30.9
Occupancy (%)	100.0
WALE (income by years)	6.8
Fund expires	November 2020

9 In addition to receiving base management and acquisition fees, Folkestone is entitled to a performance fee equal to 20% of the outperformance of the fund⁴⁵. The performance period starts on the date of fund commencement and ends on the date of the event that triggers the performance fee calculation⁴⁶.

⁴⁵ If the IRR is greater than 10% in respect of a performance fee calculation period, the outperformance of the fund is the PV of cash outflows on the performance fee calculation date that reduces the IRR to 10%.

⁴⁶ The performance fee becomes payable (provided the outperformance hurdles are met) when particular events occur, such as the extension of the fund, termination of the scheme, removal of the RE etc.

Appendix C

Green Square Hotel Fund

- 10 Folkestone launched the Green Square Hotel Fund in November 2017, raising \$23.2 million⁴⁷ of third party capital which together with construction finance, will fund the development of a 144 room hotel at 18 O’Riordan Street, Alexandria, NSW. The hotel is being developed by Folkestone and Furnished Property on behalf of the fund⁴⁸, which will own the hotel long term. Practical completion is targeted for August 2019, with the hotel forecast to open in October 2019. Furnished Property will operate the hotel under their Veriu Hotels & Suites brand and have committed to a 10 year lease (with eight five-year options).
- 11 The key details of the fund are set out in the table below:

Green Square Hotel Fund – key details as at 30 June 2018

Fund type	Unlisted
Sector	Hotel
Location	Alexandria, NSW
Responsible entity	FFML
Folkestone co-investment in fund (A\$m)	\$nil
Base management fee	\$0.2 million per annum during construction 1.3% net assets on completion
Property acquisition fees	2.0% of the acquisition cost
Other fees	Performance fees
Number of properties	1 hotel (144 rooms)
Gross assets (A\$m)	12.2 ⁽¹⁾
Net assets (A\$m)	11.5
Occupancy (%)	na
WALE (income by years)	na
Fund expires	June 2024

Note:

- 1 The call for the remainder of the commitment from third party investors of \$0.50 per unit will be made at practical completion, which is expected to be in August 2019.
na – not applicable.

- 12 During the construction period of the hotel, Folkestone is entitled to receive a management fee of \$0.2 million per annum, which will revert to 1.3% of the net assets of the fund upon completion. In addition to these fees, Folkestone is entitled to a performance fee equal to 20% of the outperformance of the fund⁴⁹. The performance period starts on the date of fund commencement and ends on the date of the event that triggers the performance fee calculation⁵⁰.

⁴⁷ The funds were raised at an issue price of \$1.00 per unit, of which \$0.50 has been paid. The call for the remainder of the commitment of \$0.50 per unit will be made at practical completion, which is expected to be in August 2019.

⁴⁸ The fund is not taking on any development risk.

⁴⁹ If the IRR is greater than 12% in respect of a performance fee calculation period, the outperformance of the fund is the PV of cash outflows on the performance fee calculation date that reduces the IRR to 12%.

⁵⁰ The performance fee becomes payable (provided the outperformance hurdles are met) when particular events occur, such as the extension of the fund, termination of the scheme, removal of the RE etc.

Appendix C

Sydney Airport Hotel Fund

- 13 The Sydney Airport Hotel Fund is a single asset, closed end, unlisted hotel fund. The fund acquired the Mercure Sydney International Airport Hotel for \$76.4 million in November 2017 located at 22 Levey Street, Wolli Creek, NSW. The fund intends to undertake an extensive refurbishment and repositioning of the hotel to enhance revenue and occupancy, and increase value of the hotel.
- 14 The key details of the fund are set out in the table below:

Sydney Airport Hotel Fund – key details as at 30 June 2018

Fund type	Unlisted
Sector	Hotel
Location	Wolli Creek, NSW
Responsible entity	FFML
Folkestone co-investment in fund (A\$m)	\$nil
Base management fee	1.3% of net assets
Property acquisition fee	2.25% of the acquisition cost
Other fees	Performance fee
Number of properties	1 hotel (271 rooms)
Gross assets (A\$m)	80.0
Net assets (A\$m)	45.2
Occupancy (%)	na
WALE (income by years)	na
Fund expires	June 2023

na – not applicable.

- 15 In addition to base management and acquisition fees, Folkestone is entitled to a performance fee equal to 20% of the outperformance of the fund⁵¹. The performance period starts on the date of fund commencement, or previous performance fee calculation and ends on the date of the event that triggers the performance fee calculation⁵².

⁵¹ If the IRR is greater than 14% in respect of a performance fee calculation period, the outperformance of the fund is the PV of cash outflows on the performance fee calculation date that reduces the IRR to 14%.

⁵² The performance fee becomes payable (provided the outperformance hurdles are met) when particular events occur, such as the extension of the fund, termination of the scheme, removal of the RE etc.

Appendix C

SOP Opportunity Fund

- 16 The SOP Opportunity Fund is a single asset, closed end unlisted real estate fund. In July 2017, the fund entered into an agreement to acquire 11 Murray Rose Avenue, Sydney Olympic Park, NSW to construct a six level commercial building on the site. The property reached practical completion in March 2018 and comprises 5,811 sqm across five levels of office and ground floor retail with basement car parking.
- 17 The key details of the fund are set out in the table below:

SOP Opportunity Fund – key details as at 30 June 2018

Fund type	Unlisted
Sector	Office
Location	Sydney Olympic Park, NSW
Responsible entity	FFML
Folkestone co-investment in fund (A\$m)	\$nil
Base management fee	1.28% net assets
Property acquisition fee	2.0% of the acquisition cost
Other fees	Custody fee 0.02%
	Performance fees
Number of properties	1
Gross assets (A\$m)	35.0
Net assets (A\$m)	24.9
Occupancy (%)	-(1)
WALE (income by years)	6.8 ⁽¹⁾
Fund expires	March 2020

Note:

- 1 As at 30 June 2018 there were leases in place for two office tenants over 1,488 sqm which were due to commence on 1 August 2018 (with a combined WALE of 6.8 years) and a Heads of Agreement with a retail tenant over 446 sqm (of which a lease has subsequently been signed).

- 18 In addition to base management and acquisition fees, Folkestone is entitled to a performance fee equal to 20% of the outperformance of the fund⁵³. The performance period starts on the date of fund commencement, or previous performance fee calculation and ends on the date of the event that triggers the performance fee calculation⁵⁴.

⁵³ If the IRR is greater than 14% in respect of a performance fee calculation period, the outperformance of the fund is the PV of cash outflows on the performance fee calculation date that reduces the IRR to 14%.

⁵⁴ The performance fee becomes payable (provided the outperformance hurdles are met) when particular events occur, such as the extension of the fund, termination of the scheme, removal of the RE etc.

Appendix C

Truganina Development Fund

- 19 The Truganina Development Fund is a closed end, unlisted development fund. The fund has an 80% interest in the project known as “Elements”, a residential master planned community in Truganina, VIC. The fund is developing, in a JV with ID Land Pty Ltd (ID_Land) (on an 80:20 basis), some 718 residential lots and a 3.1 hectare town centre. Truganina is located approximately 20 kilometres west of the Melbourne central business district (CBD). As at 30 June 2018, 707 lots had been sold, representing 99.6% of the lots released and 98.5% of the total project. A total of 130 lots are currently under construction and all lots are expected to reach practical completion between July 2018 and November 2018.
- 20 It is anticipated that the fund will be wound-up after the project is completed, with the remaining stages of construction forecast to reach practical completion between July and November 2018. Settlement for these lots is expected in the December 2018 quarter and the fund is forecast to be wound-up by June 2019.
- 21 We note that there is no facility for investors (including Folkestone) to exit the fund prior to completion, other than that during the life of the fund there may be distributions made to investors that comprise a partial return of capital.
- 22 The key details of the fund are set out in the table below:

Truganina Development Fund – key details as at 30 June 2018

Fund type	Unlisted
Sector	Residential land
Location	Truganina, VIC
Responsible entity	FFML
Folkestone co-investment in fund (A\$m)	2.8
Base management fee	\$0.400 million per annum
Property acquisition fee	3.0% of the acquisition cost
Other fees	Performance fee
Number of properties	718 lots
Gross assets (A\$m)	16.2
Net assets (A\$m)	15.0
Occupancy (%)	na
WALE (income by years)	na
Fund expires	June 2019

na – not applicable.

- 23 In addition to base management and acquisition fees, Folkestone is entitled to a performance fee equal to 20% of the outperformance of the fund⁵⁵. The performance period starts on the date of completion of the capital raising pursuant to the first offer to the public of units in the

⁵⁵ If the IRR is greater than 18% in respect of a performance fee calculation period, the outperformance of the fund is the PV of cash outflows on the performance fee calculation date that reduces the IRR to 18%.

Appendix C

scheme⁵⁶ and ends on the date of the event that triggers the performance fee calculation⁵⁷. On 4 August 2014, Folkestone entered into a Fee Sharing Deed with ID_Land, whereby Folkestone is required to pay ID_Land 50% of any performance fee it is paid pursuant to the constitution of the fund.

Wollert Development Fund

- 24 The Wollert Development Fund is a closed end, unlisted development fund. The fund has an 80% interest in the project known as “Amber”, a residential master planned community in Wollert, VIC. The fund is developing in a JV with ID_Land (on an 80:20 basis), 563 residential land lots.
- 25 It is anticipated that the fund will be wound-up after the project is completed. We note that there is no facility for investors (including Folkestone) to exit the fund prior to completion, other than that during the life of the fund there may be distributions made to investors that comprise a partial return of capital.
- 26 Further information on the status of the “Amber” development can be found in Appendix E.
- 27 The key details of the fund are set out in the table below:

Wollert Development Fund – key details as at 30 June 2018

Fund type	Unlisted
Sector	Residential land
Location	Wollert, VIC
Responsible entity	FFML
Folkestone co-investment in fund (A\$m)	6.1
Base management fee	\$0.450 million per annum
Property acquisition fee	3.0% of the acquisition cost
Other fees	Performance fees
Number of properties	563 lots
Gross assets (A\$m)	28.4
Net assets (A\$m)	24.2
Occupancy (%)	na
WALE (income by years)	na
Fund expires	August 2021

na – not applicable.

- 28 In addition to base management and acquisition fees, Folkestone is entitled to a performance fee equal to 20% of the outperformance of the fund⁵⁸. The performance period starts on the date when the units were first allotted to third party investors (being 28 April 2017) and/or the

⁵⁶ Being 6 February 2015.

⁵⁷ The performance fee becomes payable (provided the outperformance hurdles are met) when particular events occur, such as the fund disposing of substantially all of its assets, termination of the scheme, removal of the RE etc.

⁵⁸ If the IRR is greater than 17% in respect of a performance fee calculation period, the outperformance of the fund is the PV of cash outflows on the performance fee calculation date that reduces the IRR to 17%.

Appendix C

occurrence of each extension event and ends on the date of the event that triggers the performance fee calculation⁵⁹.

- 29 On 21 March 2017, Folkestone entered into a Fee Sharing Deed with ID_Land, whereby Folkestone is required to pay ID_Land 50% of any performance fee it is paid pursuant to the constitution of the fund.

Plumpton Development Fund

- 30 Plumpton Development Fund is a single asset, closed end unlisted real estate fund. The fund has a 49.9% interest in the project known as “Rosewood”, a residential master planned community in Plumpton, VIC. The fund is developing in a JV with ID_Land (on a 49.9:50.1 basis), 251 residential land lots. The fund has successfully raised \$16.5 million of which \$3.3 million has been provided by Folkestone (20% interest in the fund) and \$13.2 million from third party investors
- 31 The fund is expected to be wound-up in October 2021 upon completion of the development. We note that there is no facility for investors (including Folkestone) to exit the fund prior to completion, other than that during the life of the fund there may be distributions made to investors that comprise a partial return of capital.
- 32 The key details of the fund are set out in the table below:

Plumpton Development Fund – key details as at 30 June 2018

Fund type	Unlisted
Sector	Residential land
Location	Plumpton, VIC
Responsible entity	FFML
Folkestone co-investment in fund (A\$m)	\$3.3
Base management fee	\$0.45 million per annum
Property acquisition fee	\$0.40 million
Other fees	Performance fee
Number of properties	251 lots
Gross assets (A\$m)	9.6 ⁽¹⁾
Net assets (A\$m)	9.6 ⁽¹⁾
Occupancy (%)	na
WALE (income by years)	na
Fund expires	Oct 2021

Note:

- 1 As at 30 June 2018, the \$16.5 million fund raising was only partially complete.
na – not applicable

⁵⁹ The performance fee becomes payable (provided the outperformance hurdles are met) when particular events occur, such as the fund disposing of substantially all of its assets, termination of the scheme, removal of the RE etc.

Appendix C

- 33 In addition to base management and acquisition fees, Folkestone is entitled to a performance fee equal to 20% of the outperformance of the fund⁶⁰. The performance period starts on the date on which units, other than the initial units, were first issued⁶¹ and ends on the date of the event that triggers the performance fee calculation⁶².

FLK Seniors Living

- 34 FLK Seniors Living is a closed end unlisted fixed term (seven years) fund. In August 2016, FLK Seniors Living acquired Watermark Castle Cove, an award-winning retirement living community on Sydney's lower North Shore. Watermark Castle Cove comprises 58 ILUs with a further 18 units in Stage 3 under construction and due for completion in between August 2018 (12 ILUs) and October 2018 (six ILUs). Settlement on these ILUs is expected to occur between October 2018 and March 2019, with 15 ILUs having been conditionally pre-sold. An application for Stage 4 (three ILUs) is nearing completion for lodgement with council. Whilst the project has encountered delays, the current forecast distributions exceed the forecast distributions included in the Information Memorandum.
- 35 The fund term is seven years and will not have a withdrawal facility during the fund term and is considered an illiquid investment.
- 36 The key details of the fund are set out in the table below:

FLK Seniors Living – key details as at 30 June 2018

Fund type	Unlisted
Sector	Retirement home
Location	Castle Cove, NSW
Responsible entity	FSLML ⁽¹⁾
Folkestone co-investment in fund (A\$m)	2.7
Base management fee	0.7% of net assets ⁽²⁾
Property acquisition fee	2.0% of the acquisition cost
Other fees	Performance fees
Number of properties	1
Gross assets (A\$m)	61.8
Net assets (A\$m)	28.0
Occupancy (%)	100.0
WALE (income by years)	na
Fund expires	August 2023

Note:

- 1 Folkestone Seniors Living Management Limited (FSLML).
 - 2 While FSLML is entitled to a management fee of 1.0% of net assets p.a., as detailed in the information memorandum it has agreed to only charge the fund 0.7% of net assets until an additional asset has been acquired by the fund.
- na – not applicable

⁶⁰ If the IRR is greater than 16% in respect of a performance fee calculation period, the outperformance of the fund is the PV of cash outflows on the performance fee calculation date that reduces the IRR to 16%.

⁶¹ Being 29 June 2018.

⁶² The performance fee becomes payable (provided the outperformance hurdles are met) when particular events occur, such as the fund disposing of substantially all of its assets, termination of the scheme, removal of the RE etc.

Appendix C

- 37 In addition to base management fees, Folkestone is entitled to 2.0% of the acquisition cost of properties purchased by the fund. Folkestone is also entitled to a performance fee equal to 20% of the outperformance of the fund⁶³. The performance period starts on the date which the units were allotted (which occurred in September 2016) and/or the occurrence of each extension event and ends on the date of the event that triggers the performance fee calculation⁶⁴.
- 38 The balance sheet of FLK Seniors Living as at 30 June 2017 and 30 June 2018 is set out below:

FLK Seniors Living – financial position⁽¹⁾		
	30 Jun 17	30 Jun 18
	\$m	\$m
Cash and cash equivalents	3.5	0.9
Other current assets	0.4	1.2
Investment property at valuation (including resident loans)	90.1	92.9
Development property at cost	21.3	35.2
Total assets	115.3	130.1
Trade and other payables	(10.9)	(9.1)
Resident loans	(67.4)	(70.0)
Borrowings	(8.6)	(22.0)
Deferred tax liabilities	(0.8)	(1.0)
Total liabilities	(87.7)	(102.1)
Net assets	27.6	28.1
<i>Units on issue (million)</i>	<i>25.7</i>	<i>25.7</i>
<i>NTA per unit (\$)</i>	<i>1.07</i>	<i>1.09</i>

Note:

1 Rounding differences may exist.

Source: Folkestone.

⁶³ If the IRR is greater than 15% in respect of a performance fee calculation period, the outperformance of the fund is the PV of cash outflows on the performance fee calculation date that reduces the IRR to 15%.

⁶⁴ The performance fee becomes payable (provided the outperformance hurdles are met) when particular events occur, such as the fund disposing of substantially all of its assets, termination of the scheme, removal of the RE etc.

Appendix C

Maxim A-REIT Securities Fund

- 39 The Maxim A-REIT Securities Fund is a high conviction, actively managed fund that provides access to a diversified portfolio of ASX listed real estate securities which own office, retail, industrial, residential and real estate related social infrastructure assets. FMAM, a wholly owned subsidiary of Folkestone, has been appointed as the Investment Manager.
- 40 In addition to the Maxim A-REIT Securities Fund, Folkestone also provides funds management for a number of SMAs for individual investors, which similarly invest in a diversified portfolio of predominately A-REIT and related securities.
- 41 As at 30 June 2018 Folkestone had \$113 million in FUM between the Maxim A-REIT Securities Fund and its SMAs. As investment manager, Folkestone is entitled to management fees which range from 0.40% to 0.95% gross assets.

Appendix D

Profile of FET

Overview

- 1 FET is the largest Australian based property trust that invests in early learning properties (i.e. childcare centres) across Australia and NZ. As at 30 June 2018 FET had 410 properties (comprising 387 operational early learning centres and 23 development sites) across Australia and NZ with a carrying value of \$984.2 million⁶⁵. FET is managed by FIML, a wholly owned subsidiary of Folkestone.
- 2 FET operates from a Melbourne head office and employs approximately 12 staff.
- 3 The key details of the FET are set out in the table below:

FET – key details as at 30 June 2018

Trust type	Listed A-REIT
Sector	Early learning properties
Location	Australia and NZ
Responsible entity	FIML
Responsible entity management fee	0.5% of gross assets
Folkestone co-investment in fund (A\$m)	82.6 ⁽¹⁾
Number of properties	410 ⁽²⁾
Gross assets (A\$m)	1,029.4
NTA per unit (\$)	2.78
Borrowings (A\$m)	300.0
Gearing ⁽³⁾ (%)	29.1
Occupancy (%)	100.0
WALE (years)	9.9

Note:

- 1 Being Folkestone's directly owned 30.7 million units (i.e. excludes the units held by Folkestone's associates) at a unit price of \$2.69 as at 30 June 2018.
- 2 Comprises 387 operational early learning centres and 23 development sites.
- 3 Gearing is calculated by borrowings divided by total assets.

Source: FET company announcements and Folkestone.

⁶⁵ Excluding \$1.3 million of capitalised transaction costs in relation to properties contracted and not settled.

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History

4 A summary of the key historical developments of FET is set out below:

FET – history	
Date	Key development
2003	• FET (previously known as Peppercorn Investment Fund) listed on the ASX in May 2003
2005	• In January 2005 Peppercorn Investment Fund changed its name to Australian Education Trust
2012	• The responsible entity of FET (Austock Property) was sold to Folkestone in September 2012
2013	• In December 2013, FET acquired all of the units of Folkestone Childcare Fund (Childcare Fund) which owned 22 early learning centres principally located in Queensland (QLD) for \$16.9 million
2014	• Folkestone became a substantial shareholder in FET holding 11.8 million units (5.8%)
	• Inclusion in the S&P / ASX 300 index
	• Australian Education Trust changed its name to FET in June 2014
	• FET merged with ASX listed Folkestone Social Infrastructure Fund (FST) in November 2014. FST predominantly owned 47 early learning centres, a self-storage facility (disposed as part of the merger), a medical centre and a 15% interest in the CIB Fund
	• In December 2014, Folkestone acquired a further 8 million units in FET at \$1.96 per unit increasing its holding to 12.8% post the merger between FET and FST (since that time Folkestone's direct interest has reduced as a result of the sale of units in FY16 and has been further diluted by FET's DRP)

Source: FET company announcements and Folkestone.

Financial performance

5 The key financial performance metrics of FET for the five years to 30 June 2018 are set out below:

FET – key financial performance metrics ⁽¹⁾						
	FY13	FY14	FY15	FY16	FY17	FY18
	\$m	\$m	\$m	\$m	\$m	\$m
Lease income	35.0	38.2	47.0	52.4	56.0	60.3
Goodstart ⁽²⁾ % of lease income	64.0	59.0	63.0	59.0	56.0	50.0
Statutory profit	39.7	53.8	88.6	106.8	121.4	103.1
Distributable income	19.0	24.4	29.7	34.5	37.8	41.9
WANOS(million)	175.5	192.7	224.2	246.9	249.5	254.6
Earnings per unit ⁽³⁾ (cents)	10.8	12.7	13.3	14.0	15.2	16.5
Distribution per unit (cents)	10.7	12.0	12.8	13.4	14.2	15.1
Distributed earnings (%)	99.1	94.5	96.2	95.7	93.4	91.5

Note:

1 Rounding differences may exist.

2 Goodstart Early Learning (Goodstart), is FET's largest tenant and has historically accounted for more than half of FET's lease income.

3 Calculated as distributable earnings divided by WANOS.

Source: FET company announcements.

Appendix D

- 6 FET's statutory profit has increased significantly since FY13. However, this has largely been attributable to the increase in non-distributable earnings associated with property revaluations. Distributions per unit have consistently increased since FY13 and are relatively high as a percentage of distributable earnings, with more than 90% distributed to unitholders in the period above.

Financial position

- 7 The key financial position metrics of FET as at 30 June 2013 to 2018 are set out below:

FET – key financial position metrics ⁽¹⁾						
	30 Jun 13	30 Jun 14	30 Jun 15	30 Jun 16	30 Jun 17	30 Jun 18
	\$m	\$m	\$m	\$m	\$m	\$m
Investment properties	366.8	461.2	627.3	719.5	861.2	985.5
Total assets	368.5	464.6	654.5	753.6	902.4	1,029.4
Borrowings	125.8	145.7	193.2	200.4	249.9	300.0
<i>NTA per unit (\$)</i>	<i>1.33</i>	<i>1.50</i>	<i>1.82</i>	<i>2.14</i>	<i>2.51</i>	<i>2.78</i>
<i>Number of properties</i>	<i>326</i>	<i>357</i>	<i>396</i>	<i>394</i>	<i>407</i>	<i>410</i>
<i>Average value per property(\$m)</i>	<i>1.1</i>	<i>1.3</i>	<i>1.6</i>	<i>1.8</i>	<i>2.1</i>	<i>2.4</i>
<i>Gearing⁽²⁾ (%)</i>	<i>34.1</i>	<i>31.7</i>	<i>29.5</i>	<i>26.6</i>	<i>27.7</i>	<i>29.1</i>
<i>WALE (years)</i>	<i>8.2</i>	<i>8.0</i>	<i>7.9</i>	<i>8.2</i>	<i>9.1</i>	<i>9.9</i>

Note:

1 Rounding differences may exist.

2 Gearing is calculated as borrowings divided by total assets.

Source: FET company announcements.

- 8 Over the five years to 30 June 2018, FET's total assets grew at a CAGR of 22.8% to reach \$1,029.4 million. NTA per unit has also increased significantly over the period. Growth in total assets has been driven by, inter alia:
- (a) the acquisition of the Childcare Fund and FST in December 2013 and November 2014 respectively
 - (b) the significant growth in the value of FET's existing property portfolio due to increases in property prices over the period (FET's investment properties are carried at fair value and are "revalued with sufficient regularity to ensure the carrying amount of each property does not differ materially from its fair value at the reporting date"⁶⁶. We note that FET's properties are independently revalued on a three-year rolling valuation cycle. This cycle is supplemented with interim valuations conducted by FET's Directors⁶⁷).

⁶⁶ FET annual report for FY18, note 1(f).

⁶⁷ FET annual report for FY18, page 4.

Appendix D

Unit capital and unit price performance

9 As at 7 September 2018, FET had 256.4 million fully paid ordinary units on issue.

Substantial unitholders

10 As at 7 September 2018, three substantial unitholders in FET held 24.6% of the ordinary units on issue. The substantial unitholders of FET (based upon the annual report and substantial unitholder notices released to the ASX) were as follows:

FET – substantial unitholders ⁽¹⁾		
Unitholder	Units held	
	Million	% interest
Folkestone and its associates ⁽²⁾	33.4	13.0
The Vanguard Group Inc. ⁽³⁾	18.8	7.3
Mr Louis Pierre Ledger ⁽³⁾	10.9	4.3
Total	63.0	24.6

Note:

- 1 Rounding differences may exist.
- 2 Includes 30.7 million units directly held by Folkestone, with the balance relating to units held by Folkestone's associates. Source Folkestone.
- 3 FET annual report for FY18.

Unit price performance

11 The following chart illustrates the movement in the unit price of FET from 1 January 2017 to 7 September 2018:

Folkestone Education Trust– unit price history⁽¹⁾
1 January 2017 to 7 September 2018



Note:

- 1 Based upon closing prices. The S&P / ASX 300 A-REIT Index has been rebased to FET's price on 1 January 2017 of \$2.60.
- Source:** Bloomberg.

Appendix D

- 12 Since January 2017, FET has generally traded at a premium to its NTA position. It has also marginally outperformed the S&P/ASX 300 A-REIT Index. Key market sensitive announcements during the period are as follows:
- (a) **14 February 2017** – FET announced its results for the half year ended 31 December 2016. FET's investment properties increased by 10.4% to \$794.5 million and NTA per unit grew by 9.8% (over a six month period) to \$2.35
 - (b) **30 June 2017** – FET announced that it had increased its bilateral banking facilities by \$50 million to \$317 million (as well as an increase in the term by one year). FET also announced that it had increased its interest rate hedging position (which marginally reduced the cost of debt to 4.2% per annum as at 30 June 2017)
 - (c) **9 August 2017** – FET announced its full year results for the financial year ended 30 June 2017. NTA per unit grew by 6.8% (over a six month period) to \$2.51. As part of the release, FET provided distribution guidance for FY18 of \$0.151 per unit representing a 6.3% increase on FY17
 - (d) **14 February 2018** – FET announced its results for the half year ended 31 December 2017. FET's investment properties increased by 5.5% to \$908.3 million and NTA per unit increased by 6.4% (over a six month period) to \$2.67
 - (e) **3 April 2018** – FET announced the acquisition of nine childcare centres for a total value of \$63.1 million. The transaction was expected to be immediately earnings accretive and increased the WALE of its total portfolio from 9.2 years to 9.9 years
 - (f) **8 August 2018** – FET announced its full year results for the financial year ended 30 June 2018. NTA per unit grew by 4.1% (over a six month period) to \$2.78. As part of the release, FET provided distribution guidance for FY19 of \$0.16 per unit representing a 6.0% increase on FY18
 - (g) **22 August 2018** – FET acknowledged that Folkestone and Charter Hall Group had signed an agreement, pursuant to which Charter Hall would acquire 100% of the issued shares in Folkestone.

Appendix D

Liquidity in FET units

- 13 The liquidity in FET units based on trading on the ASX over the 12 month period prior to 7 September 2018 is set out below:

FET – liquidity in units						
Period	Start date	End date	No of units traded 000	WANOS outstanding 000	Implied level of liquidity Period ⁽¹⁾ %	Annual ⁽²⁾ %
1 month	08 Aug 18	07 Sep 18	10,566	256,417	4.1	49.4
3 months	08 Jun 18	07 Sep 18	26,904	256,121	10.5	42.0
6 months	08 Mar 18	07 Sep 18	49,257	255,817	19.3	38.5
1 year	08 Sep 17	07 Sep 18	80,183	255,207	31.4	31.4

Note:

- 1 Number of units traded during the period divided by WANOS.
- 2 Implied annualised figure based upon implied level of liquidity for the period.

Source: Bloomberg and LEA analysis.

-
- 14 Total unit turnover (on an annualised basis) has been relatively consistent during the past year with levels at approximately 40% of total number of units outstanding (on an annualised basis).

Appendix E

Developments

- 1 Folkestone has direct interests in a number of value-add and opportunistic real estate developments located primarily in NSW and VIC. An overview of each of these developments is set out below.

Active – completed or nearing completion

Northside, Officer

- 2 In August 2014, Folkestone acquired, in JV with ID_Land (on a 50:50 basis), a call option over 8 hectares of land in Officer, south-east Melbourne. The JV acquired the land on deferred terms with the first tranche of land settled on 25 August 2015 and the second tranche on 5 August 2016. The development, which comprises a 146 lot subdivision, is due for completion in mid-2018 with final settlement to occur in the September 2018 quarter. As at 30 June 2018, all 146 lots had been sold and 138 settlements had occurred.

Potters Grove, Officer

- 3 Potters Grove in Officer, in south-east Melbourne, was a JV with ID_Land (on a 50:50 basis) for a 240 lot residential subdivision. As at 30 June 2018, all 240 lots had been settled. The carrying value of the development as at 30 June 2018 relates to cash and term deposits held in the JV entity which are yet to be released.

West Ryde

- 4 Folkestone, via the West Ryde Development Fund⁶⁸, undertook a residential development in JV with the Toga Group (on a 50:50 basis) in West Ryde, NSW. The development, which comprised 229 apartments was completed in FY15 and the third party unitholders had their units redeemed in FY16 leaving Folkestone as the majority unitholder (99%). The carrying value of the development as at 30 June 2018 relates to net cash held by the development partnership after allowance for sundry creditors.

Active – ongoing

Amber, Wollert

- 5 Folkestone established the Wollert Development Fund, which in JV with ID_Land (on an 80:20 basis) is developing a 42 hectare residential master planned community in Wollert, VIC⁶⁹. The development, which comprises a 563 lot subdivision, commenced construction in May 2017. As at 30 June 2018, 345 lots had been sold, reflecting 61% of the total project. Settlement of the first lots is forecast to commence in September 2018.

⁶⁸ Folkestone held a 99% interest in the West Ryde Development Fund.

⁶⁹ Folkestone holds a 25% in the Wollert Development Fund. In addition, Folkestone has loaned funds to I.D.FLK Amber Development Pty Ltd as well as the project.

Appendix E

Green Square

- 6 In November 2016, Folkestone entered into a JV with Furnished Property (on a 50:50 basis) to develop a 144 room hotel at Green Square, Sydney. The site, at 18 O’Riordan Street, Alexandria, is located approximately 100 metres from the Green Square train station and is within close proximity to the Sydney CBD and airport. The property is being developed for the Green Square Hotel Fund which has agreed to acquire the hotel for \$43.5 million. Construction commenced in 2018 with practical completion forecast in the September quarter of 2019.

The Walter, Hadfield

- 7 In September 2017, Folkestone announced it had entered into its fifth JV with ID_Land (on a 50:50 basis) to develop 64 townhouses in Hadfield, VIC. The site, which was acquired in September 2017, is located 14 kilometres north of the Melbourne CBD. Construction commenced in November 2017, with practical completion estimated in late 2020. As at 30 June 2018, 45 of the townhouses had been sold, representing 70% of the total development.

Industria, Knoxfield

- 8 In June 2015 Folkestone entered into a second JV with Wilmac Properties Pty Ltd (Wilmac) (on a 50:50 basis) to develop approximately 88 office / warehouse units and a café in Knoxfield, VIC. The site was acquired on deferred settlement terms in March 2016. Construction commenced in May 2016 with forecast practical completion anticipated by mid-2019. As at 30 June 2018, 86 of the 88 units had been sold of which 64 units had settled. Construction of the remaining 22 units in Stage 4 is due for completion in August 2018, with settlements to commence from September 2018 onwards.

Millers Junction Retail

- 9 Millers Junction Retail is the third and final stage in Folkestone’s Millers Junction development in Altona North, VIC. In June 2017, Folkestone announced it had 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 Millers Junction project. The site will be amalgamated with approximately 2.2 hectares of Folkestone’s existing land holding to create a 13,330 sqm neighbourhood and large format retail centre anchored by Woolworths. In June 2018, the Victorian Planning Minister approved the rezoning of the land and a planning permit has now been issued.

MJB2

- 10 MJB2 is immediately adjacent to the proposed Millers Junction Retail development and directly opposite MJB1 which was completed in April 2018. In June 2017, Folkestone and Wilmac entered into their fourth JV (on a 51:49 basis) to develop a further 2.2 hectare site into 76 office / warehouse units with an end value of circa \$32.0 million. The project was officially launched in August 2017 and as at 30 June 2018, a total of 45 units had been pre-sold. Construction of the first stage of MJB2 (some 20 units) commenced in May 2018 and is due for completion in February 2019. Completion of the second and third stages of the development is expected in June 2019 and May 2020 respectively.

Appendix E

Industria, Nunawading

- 11 In May 2016, Folkestone entered into a third JV with Wilmac (on a 50:50 basis) to develop 71 office / warehouse units plus a three level stand-alone office building and café in Nunawading, VIC. The site, which is located 18 kilometres east of the Melbourne CBD, was acquired on deferred settlement terms with settlement occurring in September 2016.
- 12 Stage 1 construction commenced in February 2017 and is scheduled for completion in mid-2018, with the remaining units forecast to be complete by the end of 2018. As at 30 June 2018, all 71 units plus the three storey office building had been pre-sold.

Non-Active

Chatswood

- 13 In May 2017, Folkestone entered into an agreement with Watermark Retirement Living (FLK / WP Partnership) to develop a seniors living community in partnership with the Chatswood Golf Club. Under the agreement, the FLK / WP Partnership plans 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. Work is underway to submit a planning proposal with the NSW Department of Planning and Environment, with construction anticipated to commence in late 2019.

Gisborne

- 14 ID_Land has entered into an agreement to acquire a 75 hectare site at 39 Willowbank Road, Gisborne, VIC. The site, already zoned residential, will be developed into a 600 lot residential precinct with a primary school, parks and reserves. As at 30 June 2018, Folkestone had advanced 80% of the funds required for the deposit to the JV entity on a short term basis which provided Folkestone with an exclusive due diligence period. Subsequent to year end, the Folkestone Board has approved Folkestone taking a 50% interest in the project with transaction documentation currently being prepared. Folkestone and ID_Land have indicated that they may elect to sell down part of their investment in the project to third party investors via a Folkestone managed fund later in the development process.

The Ranges, Karratha

- 15 Folkestone has entered into a JV with a consortium (on a 30:70 basis) to develop a hotel in Karratha, Western Australia. Karratha is the largest community in the Pilbara region with a population of approximately 15,000 people. Stage one of the development comprises 2.2 hectares of land with a “Tourism” zoning and development application (DA) approval for 108 single level, one bedroom serviced villas with a pool and barbecue facilities. As at 30 June 2018, 73 units had been completed and are operating as hotel accommodation under the Best Western brand. Vacant land is owned by the consortium and is targeted for development (subject to pre-commitments) to expand the number of villas and related facilities when market conditions permit.

Appendix E

Hornsby

- 16 In December 2014, Folkestone entered into a 50:50 JV with Lyon Group, a leading Sydney developer, to develop a 3,200 sqm mixed use site located immediately opposite Hornsby train station and Hornsby Westfield in Sydney's north-west.
- 17 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 technical studies to be undertaken to address the matters outlined in the Gateway Determination issued by the NSW Department of Planning and Environment.
- 18 Forecast completion for the project is calendar year 2020 when it is assumed that the land will be sold as a DA approved site. Folkestone may decide to develop the site in JV with Lyon Group or bring in other third party capital. However, at the date of our report no decision had been made.

Minto

- 19 Folkestone and Lyon Holdings have entered into a JV (on a 50:50 basis) for the potential development of a residential precinct at Minto, NSW. The JV has entered into a number of call options over properties in the area and a number of other properties have been identified for potential acquisition.

South Dural

- 20 In October 2015, Folkestone announced that it had entered into a JV with the Lyon Group (on a 50:50 basis) in relation to land currently zoned rural in South Dural, in north-west Sydney, to pursue a rezoning of the 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 JV has a sunset date of March 2019 and Folkestone expects its funds employed to be returned by June 2019.

Appendix F

Transaction evidence – property / property fund management rights

- 1 Set out below are a selection of relevant significant transactions (for which financial information is available) from early 2010 involving property / property fund management rights primarily relating to Australian assets (with a brief transaction description following):

Transaction multiples – property / property fund management rights							
Date ⁽¹⁾	Target	Acquirer	EV ⁽²⁾ A\$m	FUM A\$m	EV / FUM %	EV / EBIT x	EBIT / FUM %
Aug 18	APG management platform	Internalisation by Aventus Retail Property Fund	143.1	2,000	7.2	8.6 (F) ⁽³⁾	0.8 (F) ⁽³⁾
May 17	Armada Funds Management	Moelis Australia	30.7	800	3.8	6.5 (H)	0.6 (H)
Nov 16	360 Capital Investment Management	Centuria Capital Group	91.5	1,395	6.6	10.1 (F)	0.7 (F)
Jun 16	Generation Healthcare	NorthWest Healthcare	58.5	439	13.3	5.1 (H) ⁽⁴⁾	2.6 (H) ⁽⁴⁾
Apr 16	GPT Metro Office Management Platform	Growthpoint Australia	9.0	439	2.0	7.0 (F)	0.3 (F)
Feb 16	Investa Commercial Management Platform	Investa Commercial Property Fund	90.0	8,500	1.1	9.4 (F)	0.1 (F)
Feb 15	Novion Management Platform	Novion & Federation merger	725.0 ⁽⁵⁾	14,889 ⁽⁵⁾	4.9 ⁽⁵⁾	14.6 (F) ⁽⁵⁾	0.3 (F)
Feb 15	Federation Management Platform	Novion & Federation merger	400.0 ⁽⁵⁾	7,328 ⁽⁵⁾	5.5 ⁽⁵⁾	13.3 (F) ⁽⁵⁾	0.4 (F)
Jan 15	Valad Europe Management Platform ⁽⁶⁾	Cromwell Property Group	158.1 ⁽⁷⁾	7,600	2.1	6.4 (F)	0.3 (F)
Nov 14	Citrus Investment Services	Internalisation by Arena	11.5 ⁽⁸⁾	411 ⁽⁸⁾	2.8 ⁽⁸⁾	10.5 (F) ⁽⁸⁾	0.3 (F)
Apr 14	Maxim Asset Management	Folkestone	0.3	30	1.1	na	na
Dec 13	CFS Retail Property Trust	Internalisation by CFS Retail Property Trust	460.0	13,900	3.3	9.5 (F)	0.3 (F)
Dec 13	Commonwealth Property Office Fund	DEXUS Property Group	41.0	3,824	1.1	2.9 (F) ⁽⁹⁾	0.4 (F) ⁽⁹⁾
Dec 13	Westfield Group's ANZ Operating Platform ⁽¹⁰⁾	Westfield Group Restructure	2,922.8	38,600	7.6	13.5 (F)	0.6 (F)
Oct 13	GDI Property Group	Internalisation by GDI	18.5 ⁽¹¹⁾	742	2.5 ⁽¹¹⁾	3.7 (H) ⁽¹¹⁾	0.7 (H) ⁽¹¹⁾
Aug 13	360 Capital Funds Management	Trafalgar Corporate	5.5	850	0.6	5.5 (H)	0.1 (H)
Jul 13	Kiwi Income Property Trust ⁽⁶⁾	Internalisation by Kiwi Income Property Trust	62.4 ⁽¹²⁾	1,809 ⁽¹²⁾	3.5	6.6 (H)	0.5 (H)
Jul 12	Austock Property	Folkestone Group	11.5	555	2.1	3.9 (H) ⁽¹³⁾	0.5 (H) ⁽¹³⁾
Jun 12	PFA Div Property Trust	Charter Hall Group	5.0	445	1.1	na	na
Dec 11	Orchard Funds Management	Morgan Stanley Real Estate	13.0	1,200	1.1	na	na
Aug 11	Centro Services Business	Centro Retail Group	251.0	6,975	3.6	6.2 (H)	0.6 (H)
						3.6 (F)	1.0 (F)
Jul 11	ING Healthcare Fund	APN Property Group	3.3	190	1.7	6.9 (H)	0.3 (H)
Mar 11	Trinity Wholesale Funds Management ⁽¹⁴⁾	Jones Lang LaSalle	9.3	650	1.4	3.5 (H)	0.4 (H)
						3.7 (F)	0.4 (F)

Appendix F

Note:

- 1 Date of announcement.
 - 2 Implied value of an acquisition of 100% if transaction does not already involve an acquisition of 100%.
 - 3 Based on EBIT which has been normalised for investment management fee waivers. The EV / EBIT multiple is 9.3 times excluding the normalisation adjustment.
 - 4 Calculated by reference to EBIT including performance and transaction fees. If these fees are excluded, the EV / EBIT multiple is 17.4 times.
 - 5 Property management platform values and other information are sourced from the IER for this transaction.
 - 6 We note that the acquisitions of the Valad Europe Management Platform and the internalisation of the Kiwi Income Property Trust relate to portfolios of predominately foreign based assets.
 - 7 Consideration excludes payment for performance fees.
 - 8 Transaction includes syndicate consideration for PHC Syndicate and PSH JV. On the basis that the transaction excludes the syndicate and JV, the consideration would be \$9.5 million, FUM would be \$378.8 million, EV / FUM would be 2.5% and EBIT multiple would be 11.9 times.
 - 9 Earnings upon which multiple is based incorporate significant synergy benefits (which in-turn are also reflected in the multiple).
 - 10 Westfield Group's ANZ Operating Platform includes retail property management, funds management and property development platforms.
 - 11 Consideration excludes payment for disposal and performance fees. As earnings vary widely from year to year, EBIT has been based upon the average of FY11 to FY13 (excluding disposal and performance fees). The inclusion of disposal fees and performance fees in consideration and earnings would increase EV / FUM to 4.3%, EV / EBIT to 5.7 times and EBIT / FUM to 0.8%.
 - 12 Translated at an exchange rate of AUD:NZD = 1.1611, being the exchange rate prevailing on the date of announcement.
 - 13 Estimate based upon information disclosed by Austock Group Limited in its 1H13 results.
 - 14 Primarily based upon information disclosed in the 10 September 2012 IER on Trinity Limited's (Trinity) off-market buy back.
- na – not available, H – Historic multiple, F – Forecast multiple.

Source: Company announcements, press commentary, analyst reports and LEA analysis.

Appendix F

Transaction descriptions

Aventus Retail Property Fund's internalisation of management rights

- 2 Aventus Retail Property Fund was externally managed by Aventus Property Group Limited (Aventus) and its subsidiaries (APG). On 10 August 2018, the fund announced a proposal to acquire APG and thereby internalise its management functions, as well as assume management of the retail asset known as Kotara North. At the time of the announcement, APG had assets under management of some \$2.0 billion, being the carrying value of Aventus' property portfolio which consisted of 20 large format retail centres, plus Kotara North.

Moelis Australia's acquisition of Armada Funds Management

- 3 On 3 May 2017, Moelis Australia agreed to acquire specialist real estate fund manager Armada Funds Management. Armada Funds Management held \$800 million in assets under management across ten unlisted single asset funds managed on behalf of a mixture of institutional and high net worth clients.

Centuria Capital Group's acquisition of 360 Capital Investment Management

- 4 On 23 November 2016, 360 Capital Group announced it had entered into a transaction with Centuria Capital Group for the sale of 360 Capital Investment Management for cash consideration of \$91.5 million. At the date of announcement, 360 Capital Investment Management held approximately \$1.4 billion in FUM across two listed and four unlisted funds.

NorthWest Healthcare Properties acquisition of Generation Healthcare FUM platform

- 5 On 27 June 2016, APN Property Group announced that it (and associated entities) had sold its interest in the healthcare real estate investment platform to NorthWest Healthcare Properties REIT for \$58.5 million. The business undertook management services for Generation Healthcare REIT, an ASX listed healthcare real estate investment entity with assets under management of some \$439 million and ownership of 17 properties located across VIC, NSW and QLD. The property portfolio included hospitals, medical centres, laboratories, residential aged care facilities and other purpose-built healthcare facilities.

Growthpoint Properties Australia's acquisition of GPT Metro Office Management Platform

- 6 On 5 April 2016, Growthpoint Properties Australia announced the proposed acquisition of GPT Metro Office Fund, which included the acquisition of the GPT Metro Office property management platform for some \$9 million. At the time of the acquisition, GPT Metro Office Fund had some \$439 million assets under management, with six properties located across NSW, VIC and QLD.

Investa Commercial Property Fund acquisition of Investa Office Management Platform

- 7 On 22 February 2016, an entity stapled to the Investa Commercial Property Fund entered into a binding agreement to purchase Investa Office Management Holdings (IOMH), the owner of Investa Office Management Platforms from Morgan Stanley Real Estate Investing. At the time of the acquisition IOMH had approximately \$8.5 billion assets under management, with 22 property investments located in core CBD markets throughout Australia.

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Novion Property Group merger with Federation Centres

- 8 On 3 February 2015, Novion Property Group announced the proposed merger with Federation Centres. At the time of the announcement, the Novion Property Group management platform and Federation Centres management platform provided asset management services to both their respective property portfolios as well as external property funds. The assets under management at the transaction date were approximately \$14.9 billion (Novion) and \$7.3 billion (Federation).

Cromwell Property Group acquisition of Valad Europe's property management platform

- 9 On 27 January 2016, Cromwell Property Group announced the acquisition of Valad Europe property management platform, a European based property funds manager with assets under management of approximately €5.3 billion (\$7.6 billion). Valad Europe's property management platform managed assets across 13 countries and provided a fully internalised approach to property and funds management.

Arena's internalisation of management rights

- 10 On 4 November 2014, Arena Investment Management, the responsible entity for both Arena REIT No. 1 and Arena REIT No. 2 (together Arena) announced that it had entered into an implementation agreement with Citrus II Investments Pty Ltd for Arena to internalise its corporate governance and management function and to assume management rights over two wholesale funds (PHC Darlinghurst Syndicate and Trust and BSH Joint Venture). The transaction included some \$416 million assets under management.

Folkestone's acquisition of Maxim Asset Management

- 11 On 3 April 2014, Folkestone announced the acquisition of Maxim for \$0.3 million. At the time of the acquisition, Maxim actively managed two funds with a combined FUM of \$30 million, consisting of the Maxim Property Securities Fund and the Maxim Income Fund. These funds held assets in real estate securities and high yield real estate debt.

CFS Retail Property Trust Group management rights internalisation

- 12 On 18 December 2013, the responsible entity of CFS Retail Property Trust Group announced an agreement with the Commonwealth Bank of Australia to internalise the management rights of CFS Retail Property Trust Group. At the time of the announcement the trust owned 35 retail property assets and held assets under management of some \$13.9 billion.

DEXUS Property Group acquisition of Commonwealth Property Office Fund

- 13 On 13 December 2013, DEXUS Property Group announced that it had entered into an exclusive binding Facilitation Agreement to transition the management of Commonwealth Property Office Fund to DEXUS Property Group for \$41 million, contingent on the successful acquisition of Commonwealth Property Office Fund. At the time of the announcement, Commonwealth Property Office Fund had some \$3.7 billion office property assets under management.

Appendix F

Restructure of Westfield and Westfield Group's ANZ Operating Platform

- 14 On 4 December 2013 Westfield Group and Westfield Retail Trust (WRT) announced a proposal to merge Westfield Group's Australian / NZ business (ANZ) with WRT to form a new entity to be known as Scentre Group, with the international business of Westfield Group to become Westfield Corporation. Implicit in this transaction was the acquisition of Westfield Group's ANZ operating platform, which included both property management and property development. At the time of the transaction, Westfield Group's ANZ operating platform had a portfolio 47 properties with assets under management of some \$38.6 billion.

GDI Property Group management rights internalisation

- 15 On 25 November 2013, GDI Property Group announced that at the completion of the proposed ASX public listing, GDI Property Group would become a listed stapled entity whereby GDI Property would be internally managed. At the date of announcement the fund held some \$742 million assets under management, which included four properties located in core CBD locations in Perth, Sydney, Adelaide and Brisbane.

Trafalgar Corporate acquisition of 360 Capital funds management business

- 16 On 19 August 2013, 360 Capital Property Group announced that it would backdoor list on the ASX following entering into a conditional sale agreement with Trafalgar Corporate Group. At the time of the transaction the 360 Capital Property Fund had some 15 employees with some \$860 million funds under management across 10 funds, holding 28 properties.

Kiwi Income Property Trust management rights internalisation

- 17 On 24 July 2013, Kiwi Income Property Trust received a non-binding proposal from Commonwealth Bank of Australia to internalise the management rights of Kiwi Income Property Trust for NZ\$72.5 million. At time of acquisition the trust held funds under management of some NZ\$2.1 billion, which primarily included retail and office assets across NZ.

Folkestone's acquisition of Austock Property

- 18 On 9 July 2012, Folkestone announced that it would purchase Austock Group Limited's Austock Property funds management business. At the time of the acquisition, Austock Property was an investment management company with approximately \$555 million of assets under management across four listed and unlisted funds specialising in childcare, medical centres and police stations / courthouses.

Charter Hall's appointment as RE to the PFA Diversified Property Trust

- 19 On 28 June 2012, Charter Hall announced that it had entered into a contract with various entities of the Australian Property Growth Fund to purchase the right to manage PFA Diversified Property Trust. As consideration, Charter Hall paid a facilitation fee of \$5.0 million. The change in the RE was approved by PFA Diversified Property Trust unitholders on 15 August 2012. At the time of acquisition, PFA Diversified Property Trust held \$444.5 million of predominately office assets located across Australia.

Appendix F

Morgan Stanley Real Estate Fund VII's acquisition of Orchard Funds Management

- 20 Morgan Stanley Real Estate Fund VII purchased Orchard Funds Management for \$13 million in December 2011. At the date of the transaction the company managed seven unlisted property funds with approximately \$1.2 billion of assets under management (mostly Australian commercial property).

Centro Retail Group's acquisition of Centro Properties Group's Service Business

- 21 On 9 August 2011, Centro Group announced a restructure which included Centro Retail Group, Centro Properties Group, Centro Direct Property Fund, Centro Australia Wholesale Fund and several other closed end property syndicates. Part of the restructure involved the internalisation of the management rights, which were owned by Centro Properties Group within its Services Business. At the date of the acquisition, the Services Business managed 31 funds and had \$7.0 billion of assets under management.

APN Property Group's acquisition of ING Healthcare Pty Ltd

- 22 On 7 July 2011, APN Property Group announced that it had entered into an agreement to purchase 67.5% of ING Healthcare Pty Ltd, the manager of the ING Real Estate Healthcare Fund, which owned private hospitals and clinics and had FUM of \$190 million. The transaction, which was subject to the approval of ING Real Estate Healthcare Fund unitholders, would also result in a change of RE from ING Management to APN Property Group.

Jones Lang LaSalle's acquisition of Trinity's wholesale funds management business

- 23 On 7 July 2011, Trinity announced that Jones Lang LaSalle had contracted to purchase 100% of Trinity's wholesale funds management business for \$9.25 million plus NTA (the business was owned 50% by Trinity and 50% by Clarence Property Corporation). At the time of acquisition, the wholesale funds management business had approximately \$650 million of assets under management (mostly commercial Australian property).

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Trading evidence – A-REITs

- 1 We set out below the trading evidence for a number of selected ASX listed A-REITs (with a brief description of each entity following):

Selected listed A-REIT multiples ⁽¹⁾								
	Property management	Market cap A\$m	Gearing ⁽²⁾ %	Earnings yield ⁽³⁾ Forecast		Distribution yield ⁽³⁾ Forecast		Premium/ (Discount) to NTA %
				FY19 %	FY20 %	FY19 %	FY20 %	
Diversified A-REITs								
DEXUS Property Group	Internal	10,681	22.4	5.7	5.9	4.8	4.9	9.7
Charter Hall Group ⁽⁴⁾	Internal	3,209	(4.4)	6.1	7.9	5.1	5.7	82.4
Growthpoint Properties Aust.	Internal	2,485	29.3	6.2	6.3	6.3	6.2	15.2
Abacus Property Group	Internal	2,028	4.3	7.3	7.7	5.4	5.4	10.3
Propertylink Group	Internal	630	30.1	7.0	7.1	6.8	7.2	0.5
Office A-REITs								
Investa Office Fund ⁽⁵⁾	External	3,100	22.8	5.2	5.3	3.9	3.9	(5.3)
Cromwell Property Group	Internal	2,184	35.6	7.5	7.6	7.0	7.3	11.8
Centuria Metropolitan REIT	External	672	3.5	6.8	6.3	6.3	6.3	5.7
GDI Property Group	Internal	605	25.9	7.4	7.6	7.3	7.3	0.1
Australian Unity Office Fund	External	438	30.4	6.7	7.0	5.9	6.2	0.7
Industrial A-REITs								
Goodman Group ⁽⁴⁾	Internal	18,638	3.3	4.9	5.2	2.9	3.1	123.0
Centuria Industrial REIT	External	668	34.2	6.9	7.2	6.8	7.0	4.9
Industria REIT	External	432	27.1	6.8	7.0	6.5	6.7	(1.9)
Specialised A-REITs								
Folkestone Education Trust	External	710	25.6	7.3	7.3	5.8	6.1	(0.3)
Arena REIT	Internal	605	24.3	6.2	6.5	6.1	6.4	15.8

Note:

- 1 Above calculated as at 24 August 2018, based upon latest available information (unless stated otherwise).
- 2 Gearing equals net debt divided by enterprise value. Enterprise value includes net debt (interest bearing liabilities less non-restricted cash), preference shares, convertible notes, net derivative liabilities, market capitalisation adjusted for material option dilution and excludes surplus assets.
- 3 Excludes capital returns and special distributions.
- 4 Charter Hall Group and Goodman Group have large fund management operations.
- 5 On 28 May 2018, Investa Office Fund announced it had received a proposal from Blackstone Group L.P. to acquire 100% of the group at \$5.25 per unit (less any distributions declared post 4 May 2018). This consideration was subsequently increased to \$5.45 per unit on 23 August 2018, less the 10.15 cent per unit distribution previously declared (taking the net cash consideration to \$5.3485 per unit).

Source: Bloomberg, company announcements and LEA analysis.

Appendix G

Diversified A-REITs

DEXUS Property Group (DEXUS)

- 2 DEXUS is one of Australia's largest real estate groups, with operations covering the development, management and ownership of office and industrial properties. As at 30 June 2018, the group had funds under management of \$27.2 billion, comprising its directly owned office and industrial property (\$13.3 billion) and property managed for third party clients (\$13.9 billion). The group's directly owned office portfolio is situated in the CBDs of Sydney (where it is the largest institutional owner of office buildings), Melbourne, Brisbane, Perth, Adelaide and Canberra. In addition, DEXUS actively manages office, industrial and retail properties across Australia on behalf of third party clients.

Charter Hall Group

- 3 Refer to the description of Charter Hall Group at paragraph 7.

Growthpoint Properties Australia

- 4 Growthpoint Properties Australia is a real estate investment trust with a mandate to invest in Australian office, industrial and retail property. The group has an Australian direct property investment portfolio of \$3.4 billion (as at 30 June 2018), which comprises 57 industrial and office properties located in metropolitan areas across all Australian states (excluding Tasmania). Growthpoint Properties Australia operates under an internalised management structure.

Abacus Property Group

- 5 Abacus Property Group is a diversified property investment group with property investment, funds management and development operations. It owns a diversified investment portfolio of office, storage, industrial and retail properties with a book value of \$2.8 billion (as at 30 June 2018) located in NSW, VIC, the Australian Capital Territory (ACT), South Australia, QLD and NZ. In addition, the group manages assets on behalf of third party investment partners, with assets under management of \$1.8 billion as at 30 June 2018.

Propertylink Group

- 6 Propertylink Group is an internally managed real estate group specialising in Australian industrial and office property investments. It owns a diversified portfolio of industrial assets including logistics facilities, warehouses and business parks. The group's portfolio has a value of approximately \$800 million and a WALE of 4.4 years (as at 30 June 2018). Propertylink Group also operates a funds management business which held approximately \$973 million in assets under management as of 30 June 2018.

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Office A-REITs

Investa Office Fund

- 7 Investa Office Fund is an ASX listed REIT that holds a property portfolio of \$3.4 billion comprising 20 office properties located in core CBD markets throughout Australia (as at 30 June 2018). Its properties are predominantly located in Sydney (65% of total assets), with Melbourne (15%) and Brisbane (14%) its next largest locations. Its tenant register is predominantly comprised of government and blue chip tenants. The fund is externally managed by Investa Listed Funds Management Limited.
- 8 On 28 May 2018, Investa Office Fund announced that it had received a proposal from Blackstone Group L.P. to acquire 100% of the group at \$5.25 cash per unit, less any distributions declared or paid after 4 May 2018. The proposal was to be implemented under a Scheme Implementation Agreement and was subsequently confirmed on 13 June 2018. On 23 August 2018, Invest Office Fund announced that Blackstone Group. L.P. had increased the consideration payable per unit to \$5.45, less the 10.15 cent per unit distribution previously declared (taking the net cash consideration to \$5.3485 per unit).

Cromwell Property Group

- 9 Cromwell is a global real estate investment manager. The group has an Australian direct property investment portfolio of some \$2.45 billion, as well as total assets under management of \$11.5 billion across Australia, NZ and Europe (as at 30 June 2018). A large portion of Cromwell's property portfolio is focused towards the office sector, with many properties internally managed.

Centuria Metropolitan REIT

- 10 Centuria Metropolitan REIT is an externally managed REIT that listed on the ASX on 10 December 2014. It focuses on acquiring office and industrial properties in metropolitan markets across Australia that deliver stable and predictable rental income with opportunity for capital growth. Its current portfolio comprises 19 properties located across metropolitan and CBD markets in Sydney, Brisbane, Wollongong, Canberra, Melbourne, Adelaide and Perth. As at 30 June 2018, Centuria Metropolitan REIT's property portfolio had a value of \$930 million, with a WALE of 4.0 years.

GDI Property Group

- 11 GDI Property Group is an integrated internally managed property and funds management group with capabilities in ownership, management, refurbishment, leasing and syndication of office properties. The group currently owns a portfolio of office properties in Sydney, Perth, Townsville and the Gold Coast with a combined book value of approximately \$760 million (as at 30 June 2018), and manages a number of unlisted and unregistered managed investment schemes.

Australian Unity Office Fund

- 12 Australian Unity Office Fund is an ASX listed REIT that owns nine office properties located across metropolitan and CBD markets in Sydney, Melbourne, Brisbane, Adelaide and Canberra. As at 30 June 2018, the fund's property portfolio had a combined value of some

Appendix G

\$636 million, with a diversified income profile and a WALE of 4.1 years. The fund is externally managed by Australian Unity Investment Real Estate Limited.

Industrial A-REITs

Goodman Group

- 13 Goodman Group is an integrated property group with operations throughout Australia, NZ, Asia, Europe, the United Kingdom, North America and Brazil. The group is the largest industrial property group listed on the ASX and is one of the largest listed specialist investment managers of industrial property globally. Goodman Group's operations are spread across property investment, investment management and property services, and property development, and it owns a \$9.7 billion investment property portfolio (as at 30 June 2018).

Centuria Industrial REIT

- 14 Centuria Industrial REIT (previously 360 Capital Industrial Fund) is an externally managed REIT that listed on the ASX on 13 December 2012. It focuses on investment in industrial properties (principally warehouse and logistics) in Australia. As at 30 June 2018, its property portfolio comprised 37 industrial properties geographically diversified across Australia, which were valued at \$1 billion.

Industria REIT

- 15 Industria REIT is an ASX listed REIT that owns interests in office and industrial properties that provide functional and affordable workspaces for business. Its \$640 million portfolio of 15 properties is geographically diversified across the major Australian cities. Industria REIT is externally managed by APN Property Group and governed by a majority independent board.

Specialised A-REITs

Folkestone Education Trust (FET)

- 16 Refer to the profile of FET in Appendix D.

Arena REIT

- 17 Arena REIT is an internally managed REIT that owns, manages and develops specialised real estate assets across Australia. As of 30 June 2018, Arena held a portfolio 209 properties (comprising 202 early learning centres and seven healthcare / medical centres located across Australia) with a WALE of 12.9 years and book value of \$682.1 million. It also held five development sites with a book value of \$17.3 million.

Appendix H

Glossary

Term	Meaning
Agreement	Scheme Implementation Deed dated 22 August 2018
Altona North	Folkestone Real Estate Income Fund at Altona North
ANZ	Westfield Group's Australian / NZ business
APG	Aventus and its subsidiaries
A-REIT	Australian real estate investment trust
Arena	Arena REIT
ARS	A-REIT securities
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
Austock Property	Austock Property funds management business consisting of Austock Property Funds Management Pty Ltd and its subsidiaries
Aventus	Aventus Property Group Limited
CAGR	Compound annual growth rate
CBD	Central business district
Charter Hall	Charter Hall Group
Childcare Fund	Folkestone Childcare Fund
CIB Fund	Folkestone CIB Fund
Corporations Act	<i>Corporations Act 2001 (Cth)</i>
Corporations Regulations	<i>Corporations Regulations 2001</i>
CROE	Compound return on equity
DA	Development approval
DCF	Discounted cash flow
DRP	Dividend reinvestment plan
DTL	Deferred tax liability
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax depreciation and amortisation
EIP	Executive Incentive Plan
EREP	Equity Real Estate Partners
FET	Folkestone Education Trust
FFML	Folkestone Funds Management Limited
FIML	Folkestone Investment Management Limited
FLK / WP Partnership	Agreement between Folkestone and Watermark Retirement Living
FLK Seniors Living	FLK Seniors Living Fund No. 1
FMAM	Folkestone Maxim Asset Management Limited
Folkestone / the Company	Folkestone Limited
FOS	Financial Ombudsman Services Limited
FSG	Financial Services Guide
FSLML	Folkestone Seniors Living Management Limited
FST	Folkestone Social Infrastructure Fund
FUM	Funds under management
FY	Financial year
Goodstart	Goodstart Early Learning
Green Square Hotel Fund	Folkestone Green Square Hotel Fund
HR	Human resources
ID Land	ID Land Pty Ltd
IER	Independent expert's report
IFRIC	International Financial Reporting Interpretations Committee
ILU	Independent living units

Appendix H

Term	Meaning
IOMH	Investa Office Management Holdings
IRR	Internal rate of return
IT	Information technology
JV	Joint venture
LD	Land development
LEA	Lonerган Edwards & Associates Limited
Maxim	Maxim Asset Management Limited
Maxim A-REIT Securities Fund	Folkestone Maxim A-REIT Securities Fund
MJB1	Millers Junction Business 1
MJB2	Millers Junction Business 2
NPAT	Net profit after tax
NPV	Net present value
NSW	New South Wales
NTA	Net tangible assets
NZ	New Zealand
NZD / NZ\$	NZ dollar
PBT	Profit before tax
PE loans	Preferred equity loans
Plumpton Development Fund	Folkestone Plumpton Development Fund
PV	Present value
QLD	Queensland
RE	Responsible entity
RG 111	Regulatory Guide 111 – <i>Content of expert reports</i>
Scheme	Scheme of arrangement between Folkestone and its shareholders
Scheme Consideration	\$1.39 cash for each Folkestone share held, comprising \$1.354 cash consideration plus the Special Dividend
SL	Seniors living
SMA	Separately Managed Account
SOP Income Fund	Folkestone Real Estate Income Fund at Sydney Olympic Park
SOP Opportunity Fund	Folkestone Sydney Olympic Park Opportunity Fund
Special Dividend	Fully franked special dividend of \$0.036 per Folkestone share
sqm	Square metre
STPA	Subject to planning approval
Sydney Airport Hotel Fund	Folkestone Sydney Airport Hotel Fund
Trinity	Trinity Limited
Truganina Development Fund	Folkestone Truganina Development Fund
VIC	Victoria
VWAP	Volume weighted average price
WALE	Weighted average lease expiry
WANOS	Weighted average number of securities outstanding
Wilmac	Wilmac Properties Pty Ltd
Wollert Development Fund	Folkestone Wollert Development Fund
Wollongong Income Fund	Folkestone Real Estate Income Fund at Wollongong
WRT	Westfield Retail Trust

Annexure B - Scheme of Arrangement

Scheme of Arrangement

Pursuant to section 411 of the Corporations Act

Folkestone Limited ACN 004 715 226

Target

The registered holders of fully paid ordinary shares in the capital of the Target as at the Record Date

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Our reference 15387/18470/80196001

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Scheme of Arrangement made under section 411 of the Corporations Act 2001

Date

2018

Parties

Folkestone Limited ACN 004 715 226 of Level 10, 60 Carrington Street, Sydney NSW (**Target**)

The registered holders of fully paid ordinary shares in the capital of the Target as at the Record Date.

Background

- A. The Target and the Bidder have entered into the Scheme Implementation Agreement pursuant to which, amongst other things, the Target has agreed to propose this Scheme to the Target Shareholders, and each of the Target and the Bidder have agreed to take certain steps to give effect to the Scheme.
- B. If the Scheme becomes Effective, then:
- i. all the Scheme Shares will be transferred to the Bidder and the Scheme Consideration will be provided to the Scheme Shareholders; and
 - ii. the Target will enter the name and address of the Bidder in the Target Register as the holder of the Scheme Shares,
- subject to and in accordance with the provisions of the Scheme.
- C. The Bidder has entered into the Deed Poll for the purpose of covenanting in favour of Scheme Shareholders to perform the obligations contemplated of it under the Scheme.

Operative provisions

1. Definitions and interpretation

1.1 Definitions

In this Scheme:

Aggregate Scheme Consideration means the aggregate amount of the Scheme Consideration payable to Scheme Shareholders under this Scheme.

Aggregate Special Dividend means the aggregate amount of the Special Dividend payable to Scheme Shareholders under this Scheme.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited ACN 008 624 691 or, as the context requires, the financial market operated by it known as the Australian Securities Exchange.

Bidder means Charter Hall Limited ACN 113 531 150.

Business Day means a day that is not a Saturday, Sunday or public holiday and on which banks are open for business generally in Sydney.

CHESS means the Clearing House Electronic Subregister System operated by ASX Settlement Pty Limited ACN 008 504 532 and ASX Clear Pty Limited ACN 001 314 503.

Condition means each condition to this Scheme set out in clause 2.1.

Corporations Act means the Corporations Act 2001 (Cth).

Court means the Federal Court of Australia or such other court of competent jurisdiction as the Target and the Bidder agree in writing.

Deed Poll means a deed poll to be executed by the Bidder in favour of the Scheme Shareholders, substantially in the form attached to the Scheme Implementation Agreement or in such other form as the Target and the Bidder agree in writing.

Effective means, when used in relation to this Scheme, the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to this Scheme.

Effective Date means the date on which this Scheme becomes Effective.

Encumbrance means a mortgage, charge, pledge, lien, encumbrance, security interest, title retention, preferential right, trust arrangement, contractual right of set-off, or any other security agreement or arrangement in favour of any person, whether registered or unregistered, including any Security Interest.

End Date has the meaning given in the Scheme Implementation Agreement.

Implementation Date means the date which is 5 Business Days after the Record Date or such other date as the Target and the Bidder agree in writing.

Record Date means 7.00 pm (Sydney time) on the date which is 5 Business Days after the Effective Date or such other time and date as may be required by ASX or as may be agreed in writing between the Bidder and the Target.

Registered Address means, in relation to a Target Shareholder, the address shown in the Target Register as at the Record Date.

Related Body Corporate means a related body corporate of that corporation within the meaning of section 50 of the Corporations Act.

Scheme means this scheme of arrangement subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and agreed to by the Target and the Bidder.

Scheme Consideration means for each Scheme Share, an amount equal to \$1.39 inclusive of any amount that is paid by the Target per Target Share pursuant to clause 6.4(b)(ii) of the Scheme Implementation Agreement.

Special Dividend means "Special Dividend" as defined in clause 6.4 of the Scheme Implementation Agreement.

Scheme Implementation Agreement means the Scheme Implementation Agreement dated 22 August 2018 between the Target and the Bidder relating to the implementation of this Scheme.

Scheme Share means a Target Share on issue as at the Record Date and, for the avoidance of doubt, includes any Target Shares issued after the date of the Scheme Implementation Agreement but on or before the Record Date.

Scheme Shareholder means a person who holds the Target Shares as at the Record Date and, for the avoidance of doubt, includes any such person who holds the Target Shares as a result of the exercise or vesting of options or rights.

Scheme Transfer means one or more proper instruments of transfer in respect of the Scheme Shares for the purposes of section 1071B of the Corporations Act, which may be or include a master transfer of all or part of the Scheme Shares.

Second Court Date means the first day of hearing of an application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving this Scheme or, if the hearing of such application is adjourned for any reason, means the first day of the adjourned hearing.

Security Interest has the meaning given in section 12 of the Personal Property Securities Act 2009 (Cth).

Target Shareholder means a person who is registered in the Target Register as a holder of the Target Shares.

Target Shares means fully paid ordinary shares in the capital of the Target.

Target Register means the register of members of the Target maintained by or on behalf of the Target in accordance with section 168(1) of the Corporations Act.

Target Registry means Boardroom Pty Ltd ACN 003 209 836.

Third Party means a person other than the Bidder, the Target, or their respective Related Bodies Corporate.

Timetable means the timetable set out in Schedule 1 to the Scheme Implementation Agreement.

Trust Account means an Australian dollar denominated trust account operated by the Target as trustee for the Scheme Shareholders, as nominated by the Target and notified to the Bidder at least 5 Business Days prior to the Implementation Date, being the account into which the Bidder will deposit the Aggregate Scheme Consideration (less the Aggregate Special Dividend) in accordance with clause 5.1(b).

1.2 Business Day

If the day on which any act to be done under this Scheme is a day other than a Business Day, that act must be done on the immediately preceding Business Day except where this Scheme expressly specifies otherwise.

1.3 Interpretation

In this Scheme headings are for convenience only and do not affect interpretation and, unless the contrary intention appears:

- (a) a word importing the singular includes the plural and vice versa, and a word of any gender includes the corresponding words of any other gender;
- (b) the word **including** or any other form of that word is not a word of limitation;
- (c) if a word or phrase is given a defined meaning, any other part of speech or grammatical form of that word or phrase has a corresponding meaning;
- (d) a reference to a **person** includes an individual, the estate of an individual, a corporation, an authority, an association or parties in a joint venture, a partnership and a trust;

- (e) a reference to a party includes that party's executors, administrators, successors and permitted assigns, including persons taking by way of novation and, in the case of a trustee, includes any substituted or additional trustee;
- (f) a reference to a document (including this Scheme) is to that document as varied, novated, ratified or replaced from time to time;
- (g) a reference to a party, clause, schedule, exhibit, attachment, or annexure is a reference to a party, clause, schedule, exhibit, attachment, or annexure to or of this Scheme, and a reference to this Scheme includes all schedules, exhibits, attachments, and annexures to it;
- (h) a reference to an agency or body if that agency or body ceases to exist or is reconstituted, renamed or replaced or has its powers or function removed (**obsolete body**), means the agency or body which performs most closely the functions of the obsolete body;
- (i) a reference to a statute includes any regulations or other instruments made under it (**delegated legislation**) and a reference to a statute or delegated legislation or a provision of either includes consolidations, amendments, re-enactments and replacements;
- (j) a reference to \$ or **dollar** is to Australian currency;
- (k) if a word or phrase is not given a defined meaning in clause 1.1 but is defined in or for the purposes of the Corporations Act, it has the same meaning when used in this Scheme;
- (l) a reference to a date or time is to that date or time in Sydney, Australia; and
- (m) this Scheme must not be construed adversely to a party just because that party prepared it or caused it to be prepared.

2. Conditions

2.1 Conditions precedent

This Scheme is conditional upon, and will have no force or effect (including clauses 3, 4 and 5) until, the satisfaction of each of the following conditions:

- (a) all the conditions in clause 3.1 of the Scheme Implementation Agreement (other than the condition in clause 3.1(h) of the Scheme Implementation Agreement relating to Court approval of this Scheme) having been satisfied or waived in accordance with the terms of the Scheme Implementation Agreement by 8.00am on the Second Court Date;
- (b) neither the Scheme Implementation Agreement nor the Deed Poll having been terminated in accordance with their terms before 8.00am on the Second Court Date;
- (c) approval of this Scheme by the Court under section 411(4)(b) of the Corporations Act, including with any alterations made or required by the Court under section 411(6) of the Corporations Act as are acceptable to the Target and the Bidder;
- (d) such other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to this Scheme and agreed to by the Target and the Bidder having been satisfied; and
- (e) the orders of the Court made under section 411(4)(b) (and, if applicable, section 411(6)) of the Corporations Act approving this Scheme coming into effect, pursuant to section 411(10) of the Corporations Act.

2.2 Certificate in relation to conditions precedent

On the Second Court Date:

- (a) the Target must provide to the Court a certificate (or such other evidence as the Court may request) confirming (in respect of matters within its knowledge) whether or not as at 8.00 am on the Second Court Date the conditions set out in clause 3.1 (other than clause 3.1(h)) of the Scheme Implementation Agreement have been satisfied or waived in accordance with the Scheme Implementation Agreement; and
- (b) the Bidder must provide to the Court a certificate (or such other evidence as the Court may request) confirming (in respect of matters within its knowledge) whether or not as at 8.00 am on the Second Court Date the conditions set out in clause 3.1 (other than clause 3.1(h)) of the Scheme Implementation Agreement have been satisfied or waived in accordance with the Scheme Implementation Agreement.

2.3 Termination of Scheme Implementation Agreement

Without limiting any rights under the Scheme Implementation Agreement, in the event that the Scheme Implementation Agreement is terminated in accordance with its terms before 8.00am on the Second Court Date, the Target and the Bidder are each released from:

- (a) any further obligation to take steps to implement the Scheme; and
- (b) any liability with respect to the Scheme.

3. Scheme

3.1 Effective Date of the Scheme

Subject to clause 3.2, the Scheme will take effect on and from the Effective Date.

3.2 End Date

The Scheme will lapse and be of no further force or effect if the Effective Date has not occurred on or before the End Date, or such later date as the Target and the Bidder agree in writing.

4. Implementation of Scheme

4.1 Lodgement

If the Conditions are satisfied, the Target must lodge with ASIC, for the purposes of section 411(10) of the Corporations Act, an office copy of the Court orders approving this Scheme as soon as possible and in any event by 5.00pm on the Business Day following the date on which the Court approves the Scheme or such other day as the Target and the Bidder agree in writing.

4.2 Transfer of Scheme Shares

On the Implementation Date, subject to the provision of the Scheme Consideration in the manner contemplated by clause 5.1:

- (a) the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares as at the Implementation Date, will be transferred to the Bidder, without the need for any further act by any Scheme Shareholder (other than acts performed by the Target as attorney and agent for Scheme Shareholders under clause 8.4), by:

- (i) the Target delivering to the Bidder a duly completed Scheme Transfer, executed on behalf of the Scheme Shareholders by the Target (as transferor), for registration; and
 - (ii) the Bidder duly executing the Scheme Transfer (as transferee), attending to the stamping of the Scheme Transfer (if required) and delivering it to the Target for registration; and
- (b) immediately after receipt of the Scheme Transfer in accordance with clause 4.2(a)(ii), the Target must enter, or procure the entry of, the name and address of the Bidder in the Target Register as the registered holder of all the Scheme Shares.

5. Scheme Consideration

5.1 Provision of Scheme Consideration

- (a) The Bidder will provide, or procure the provision of, the Scheme Consideration payable to all Scheme Shareholders (as applicable) in accordance with clause 5.1(b).
- (b) The Bidder will, no later than 12:00pm on the Business Day before the Implementation Date, deposit (or will procure the deposit of) the Aggregate Scheme Consideration (less the Aggregate Special Dividend) into the Trust Account in cleared and immediately available funds.
- (c) Subject to the Bidder having complied with clause 5.1(a), the Target must, on the Implementation Date, pay or procure the payment to each Scheme Shareholder of an amount equal to the Scheme Consideration in respect of each Scheme Share held by that Scheme Shareholder as set out in the Target Register on the Record Date in the Target's absolute discretion:
 - (i) where a Scheme Shareholder has, before the Record Date, made an election in accordance with the requirements of the Target Registry to receive dividend payments from the Target by electronic funds transfer to a bank account nominated by the Scheme Shareholder, paying, or procuring the payment of, the relevant amount in Australian currency by electronic means in accordance with that election; or
 - (ii) otherwise, dispatching, or procuring the dispatch of, a cheque in Australian currency to the Scheme Shareholder by prepaid post to their Registered Address, such cheque being drawn in the name of the Scheme Shareholder (or in the case of joint holders, in accordance with the procedures set out in clause 5.2), for the relevant amount.

5.2 Joint holders

In the case of Scheme Shares held in joint names, the Scheme Consideration is payable to the joint holders and:

- (a) any cheque or electronic funds transfer required to be sent or made under this Scheme will, in the case of a cheque, be made payable to the joint holders and, in each case, sent or made to the holder whose name appears first in the Target Register as at the Record Date; and
- (b) any other document required to be sent under this Scheme, will be forwarded to the holder whose name appears first in the Target Register as at the Record Date.

5.3 Unclaimed monies

- (a) The Target may cancel a cheque or electronic funds transfer issued under this clause 5 if the cheque or electronic funds transfer:
 - (i) is returned to the Target; or
 - (ii) in the case of a cheque, has not been presented for payment within six months after the date on which the cheque was sent.
- (b) During the period of one year commencing on the Implementation Date, on request from a Scheme Shareholder, the Bidder must reissue a cheque or electronic funds transfer that was previously cancelled under this clause 5.

5.4 Orders of a court

If:

- (a) written notice is given to the Target (or the Target Registry) or the Bidder of an order made by a court of competent jurisdiction that requires provision to a Third Party of all or part of the Scheme Consideration that would otherwise be payable to a particular Scheme Shareholder in accordance with this clause 5, then the Bidder shall be entitled to procure compliance with that order; or
- (b) written notice is given to the Target (or the Target Registry) or the Bidder of an order made by a court of competent jurisdiction that prevents provision of all or part of the Scheme Consideration to a particular Scheme Shareholder in accordance with this clause 5, or such provision is otherwise prohibited by applicable law, the Bidder shall be entitled to retain the relevant part of the Scheme Consideration to which that Scheme Shareholder would otherwise have been entitled to receive pursuant to this clause 5 until such time as provision of that part of the Scheme Consideration to that Scheme Shareholder is permitted by that order or otherwise by law.

6. Dealings in Target Shares

6.1 Determination of Scheme Shareholders

To establish the identity of the Scheme Shareholders, dealings in the Target Shares or other alterations to the Target Register will only be recognised if:

- (a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Target Register as the holder of the relevant the Target Shares at or before the Record Date; and
- (b) in all other cases, registrable transfer or transmission applications in respect of those dealings, or valid requests in respect of other alterations, are received at or before 5:00pm on the Record Date at the place where the Target Register is kept (in which case, the Target must register such transfers or transmission applications before 7:00pm on that day),

and the Target will not accept for registration, nor recognise for any purpose (except a transfer to the Bidder pursuant to this Scheme and any subsequent transfer by the Bidder or its successors in title), any transfer or transmission application or other request received after the Record Date, or received prior to Record Date but not in registrable or actionable form.

6.2 Target Register

- (a) The Target must register registrable transmission applications or transfers of the Target Shares in accordance with clause 6.1(b) at or before the Record Date;

provided that, for the avoidance of doubt, nothing in this clause 6.2(a) requires the Target to register a transfer that would result in a Target Shareholder holding a parcel of the Target Shares that is less than a 'marketable parcel' (as defined in the operating rules of the ASX).

- (b) If this Scheme becomes Effective, a Scheme Shareholder (and any person claiming through that holder) must not dispose of or purport or agree to dispose of, any Scheme Shares or any interest in them. and the Target must not accept or register any such transfer, after the Record Date otherwise than pursuant to this Scheme, and any attempt to do so will have no effect.
- (c) For the purpose of determining entitlements to the Scheme Consideration, the Target must maintain the Target Register in accordance with the provisions of this clause 6.2 until the Scheme Consideration has been paid to the Scheme Shareholders. The Target Register in this form will solely determine entitlements to the Scheme Consideration.
- (d) All statements of holding for the Target Shares (other than statements of holding in favour of the Bidder) will cease to have effect after the Record Date as documents of title in respect of those shares and, as from that time and date, each entry current at that date on the Target Register (other than entries on the Target Register in respect of the Bidder) will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the Target Shares relating to that entry.
- (e) As soon as possible after the Record Date, and in any event within 3 Business Days, the Target will ensure that details of the names, Registered Addresses and holdings of the Target Shares for each Scheme Shareholder as shown in the Target Register are available to the Bidder in the form the Bidder reasonably requires.

7. Suspension and termination of quotation

- (a) The Target must apply to ASX to suspend trading on the ASX in the Target Shares with effect from the close of trading on the Effective Date.
- (b) The Target must apply to ASX for termination of official quotation of the Target Shares on ASX and the removal of the Target from the official list of ASX with effect from the Business Day immediately following the Implementation Date, or such later date advised by the Bidder.

8. General Scheme provisions

8.1 Consent to amendments to this Scheme

The Target may, by its counsel or solicitors, and with the consent of the Bidder, consent on behalf of all persons concerned, including a Scheme Shareholder, to any modification of or amendment to the Scheme which the Court thinks fit to impose.

8.2 Scheme Shareholders' agreements and warranties

- (a) Each Scheme Shareholder:
 - (i) irrevocably agrees to the transfer of their Target Shares together with all rights and entitlements attaching to those Target Shares in accordance with this Scheme;
 - (ii) irrevocably agrees to the variation, cancellation or modification of the rights attached to their Target Shares constituted by or resulting from this Scheme; and

- (iii) acknowledges that this Scheme binds all Scheme Shareholders.
- (b) Each Scheme Shareholder is taken to have warranted to the Bidder, that all their Scheme Shares (including any rights and entitlements attaching to those shares) which are transferred under this Scheme will, at the date of transfer, be fully paid and free from all Encumbrances and interests of Third Parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind, and that they have full power and capacity to transfer their Scheme Shares to the Bidder together with any rights attaching to those shares.

8.3 Title to and rights in Scheme Shares

- (a) The Scheme Shares transferred under this Scheme will be transferred free from all Encumbrances and interests of Third Parties of any kind, whether legal or otherwise.
- (b) Subject to payment of consideration under clause 5.1, on and from the Implementation Date, the Bidder will be beneficially entitled to the Scheme Shares transferred to it under this Scheme pending registration by the Target of the Bidder in the Target Register as the holder of the Scheme Shares.

8.4 Authority given to the Target

On this Scheme becoming Effective, each Scheme Shareholder, without the need for any further act, irrevocably appoints the Target and each of its directors, officers and secretaries (jointly and each of them severally) as its attorney and agent for the purpose of:

- (a) enforcing the Deed Poll against the Bidder and the Target undertakes in favour of each Scheme Shareholder that it will enforce the Deed Poll against the Bidder on behalf of and as agent and attorney for Scheme Shareholders; and
- (b) executing any document or doing or taking any other act, necessary, desirable or expedient to give effect to this Scheme and the transactions contemplated by it, including (without limitation) executing the Scheme Transfer,

and the Target accepts such appointment. The Target as attorney and agent of each Scheme Shareholder, may sub-delegate its functions, authorities or powers under this clause 8.4 to all or any of its directors, officers or employees (jointly, severally or jointly and severally).

8.5 Appointment of the Bidder as sole proxy

On and from the Implementation Date and until registration by the Target of the Bidder on the Target Registry as the registered holder of all the Scheme Shares, each Scheme Shareholder:

- (a) without the need for any further act, irrevocably appoints the Bidder and each of its directors, officers and secretaries (jointly and each of them separately) as its agent and attorney to appoint an officer or agent nominated by the Bidder as its sole proxy and where applicable, corporate representative to:
 - (i) attend shareholders' meetings of the Target;
 - (ii) exercise the votes attached to the Scheme Shares registered in the name of the Scheme Shareholder; and
 - (iii) sign any shareholders' resolution of the Target;
- (b) undertakes not to attend or vote at any such meetings or sign any such resolutions, whether in person, by proxy or by corporate representative other than under this clause 8.5;

- (c) must take all other actions in the capacity of a registered holder of Scheme Shares as the Bidder reasonably directs; and
- (d) acknowledges and agrees that in exercising the powers referred to in this clause 8.5, the Bidder and each of the directors, officers and secretaries of the Bidder may act in the best interests of the Bidder as the intended registered holder of the Scheme Shares,

and the Target undertakes in favour of each Scheme Shareholder that it will appoint the officer or agent nominated by the Bidder as that Scheme Shareholder's proxy or, where applicable, corporate representative in accordance with clause 8.5(a).

8.6 Binding effect of Scheme

This Scheme binds the Target and all of the Scheme Shareholders (including those who did not attend the meeting of the Target Shareholders to vote on this Scheme, did not vote at that meeting, or voted against this Scheme at that meeting) and, to the extent of any inconsistency, overrides the constitution of the Target.

9. General

9.1 Stamp duty

The Bidder will:

- (a) pay all stamp duty (if any) and any related fines and penalties payable on or in connection with the transfer by the Scheme Shareholders of the Scheme Shares to the Bidder pursuant to this Scheme; and
- (b) indemnify each Scheme Shareholder against any liability arising from failure to comply with clause 9.1(a).

9.2 Consent

Each of the Scheme Shareholders consents to the Target doing all things necessary or incidental to give full effect to the implementation of this Scheme and the transactions contemplated by it.

9.3 Notices

If a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to the Target, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at Target's registered office or at the office of the Target Registry.

9.4 Governing law

This Scheme is governed by the law applying in New South Wales.

9.5 Jurisdiction

Each party irrevocably:

- (a) submits to the non-exclusive jurisdiction of the courts of New South Wales courts having jurisdiction in that state and the courts competent to determine appeals from those courts, with respect to any proceedings that may be brought at any time relating to this Scheme; and

- (b) waives any objection it may now or in the future have to the venue of any proceedings, and any claim it may now or in the future have that any proceedings have been brought in an inconvenient forum, if that venue falls within clause 9.5(a).

9.6 Further action

The Target must do all things and execute all documents necessary to give full effect to this Scheme and the transactions contemplated by it.

Annexure C - Deed Poll

Deed Poll

(in respect of the Scheme)

Charter Hall Limited ACN 113 531 150
Bidder

In favour of each registered holder of fully paid ordinary shares in the capital of Folkestone Limited ACN 004 715 226 as at the Record Date

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Deed Poll made on

11 September 2018

Parties

Charter Hall Limited ACN 113 531 150 of Level 20, 1 Martin Place, Sydney NSW 2000 (**Bidder**)

In favour of each holder of fully paid ordinary shares in Folkestone Limited ACN 004 715 226 (**Target**) as at the Record Date (**Scheme Shareholders**)

Background

- A. The Target and the Bidder have entered into the Scheme Implementation Agreement.
- B. The Target has agreed in the Scheme Implementation Agreement to propose a scheme of arrangement between the Target and the Scheme Shareholders, the effect of which will be that the Bidder acquires all of the Scheme Shares from Scheme Shareholders for the Scheme Consideration, subject to the satisfaction of certain conditions.
- C. In accordance with clause 4.3(j) of the Scheme Implementation Agreement, the Bidder is entering into this deed poll to covenant in favour of the Scheme Shareholders that it will observe and perform its obligations under the Scheme.

Operative provisions

1. Interpretation and definitions**1.1 Definitions**

Unless the context requires otherwise, in this deed poll:

- (a) **Scheme** means the proposed scheme of arrangement under Part 5.1 of the Corporations Act between the Target and the Scheme Shareholders, subject to any alterations or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act and agreed to by the Bidder and the Target.
- (b) **Scheme Implementation Agreement** means the scheme implementation agreement dated 22 August 2018 between the Target and the Bidder under which, amongst other things, the Target has agreed to propose the Scheme to Scheme Shareholders, and each of the Bidder and the Target has agreed to take certain steps to give effect to the Scheme.
- (c) Capitalised terms have the meaning given to them in the Scheme.

1.2 Interpretation

In this deed poll, unless the contrary intention appears or the context requires otherwise, clause 1.3 of the Scheme applies to the interpretation of this deed poll, except that references to 'Scheme' are to be read as references to 'deed poll'.

1.3 Nature of deed poll

The Bidder acknowledges and agrees that:

- (a) this deed poll may be relied on and enforced by any Scheme Shareholder in accordance with its terms even though the Scheme Shareholders are not party to it; and

- (b) under the Scheme, each Scheme Shareholder irrevocably appoints the Target and each of its directors, officers and secretaries (jointly and each of them severally) as its agent and attorney to enforce this deed poll against the Bidder.

2. Conditions

2.1 Conditions Precedent

- The obligations of the Bidder under this deed poll are subject to the Scheme becoming Effective.

2.2 Termination

Unless the Target and the Bidder agree otherwise in writing, the obligations of the Bidder under this deed poll will automatically terminate and the terms of this deed poll will be of no further force or effect if:

- (a) the Scheme Implementation Agreement is terminated in accordance with its terms; or
- (b) the Scheme does not become Effective by the End Date.

2.3 Consequences of termination

If this deed poll is terminated under clause 2.2, then in addition and without prejudice to any other available rights, powers or remedies:

- (a) the Bidder is released from its obligations to further perform this deed poll except those obligations contained in clause 6.1; and
- (b) each Scheme Shareholder retains the rights they have against the Bidder in respect of any breach of this deed poll by the Bidder which occurs before this deed poll is terminated.

3. Obligation to pay Scheme Consideration

Subject to clause 2, in consideration for the transfer to the Bidder of the Scheme Shares, the Bidder covenants in favour of each Scheme Shareholder to:

- (a) deposit the Aggregate Scheme Consideration (less the Aggregate Special Dividend) in cleared funds into the Trust Account no later than the Business Day before the Implementation Date; and
- (b) undertake all other actions attributed to it under the Scheme, as if named as a party to the Scheme,

subject to and in accordance with the terms of the Scheme.

4. Representations and warranties

The Bidder represents and warrants that:

- (a) **(Status)** it is a validly existing corporation registered under the laws of its place of incorporation;
- (b) **(Power)** it has the corporate power to enter into and perform its obligations under this deed poll and to carry out the transactions contemplated by this deed poll;

- (c) **(Authorisation)** it has taken all necessary corporate action to authorise its entry into this deed poll and has taken or will take all necessary corporate action to authorise the performance of this deed poll and to carry out the transactions contemplated by this deed poll;
- (d) **(Binding)** this deed poll is valid and binding on it and is enforceable against it in accordance with its terms;
- (e) **(Transaction permitted)** execution and performance by it of this deed poll and each transaction contemplated by this deed poll did not and will not violate in any respect;
 - (i) a law, judgment, ruling, or decree binding on it; or
 - (ii) its constitution or other constituent documents.
- (f) **(Solvency)** it is solvent and no resolution has been passed nor has any other step been taken or legal proceedings commenced or threatened against it for the winding up, dissolution or termination of itself or for the appointment of a liquidator, receiver, administrator, or similar officer over any or all of its assets; and
- (g) **(No default)** this deed poll does not conflict with or result in the breach of or default under, any provision of its constitution, any material term or provision of any material agreement or any writ, order or injunction, judgment, law, rule, regulation or instrument to which it is party, of which it is subject of or of which it is bound.

5. Continuing obligations

This deed poll is irrevocable and subject to clause 2 remains in full force and effect until the earlier of:

- (a) the Bidder having fully performed its respective obligations under this deed poll; or
- (b) the termination of this deed poll under clause 2.2.

6. General

6.1 Stamp duty

The Bidder must:

- (a) pay or procure the payment of all stamp duty (if any) and any related fines and penalties in respect of this deed poll, the performance of this deed poll and each transaction effected by or made under this deed poll; and
- (b) indemnify each Scheme Shareholder against any liability arising from failure to comply with clause 6.1(a).

6.2 Notices

- (a) Any notice or other communication given to the Bidder under or in connection with this deed poll:
 - (i) may be given by personal service, email or post;
 - (ii) must be in legible writing and in English;
 - (iii) must be addressed to the Bidder as follows (or as otherwise notified by the Bidder to the Target from time to time):

Address: Level 20, 1 Martin Place, Sydney NSW 2000

Email: Mark.Bryant@charterhall.com.au

Attention: Mark Bryant

with a copy in each case to:

Email: stuart.mcculloch@allens.com.au

- (iv) **(in the case of personal service or post)** must be signed by the party making it or (on that party's behalf) by the solicitor for, or any attorney, director, secretary or authorised agent of, that party; and
 - (v) must be delivered by hand or posted by prepaid post to the address of the addressee, in accordance with this clause 6.2.
- (b) A notice or other communication given to the Bidder is taken to be received:
- (i) **(in the case of prepaid post sent to an address in the same country)** on the third day after the date of posting;
 - (ii) **(in the case of prepaid post sent to an address in another country)** on the fifth day after the date of posting by airmail; and
 - (iii) **(in the case of delivery by hand)** on delivery;
 - (iv) **(in the case of email)** unless the party sending the email knows or reasonably ought to suspect that the email and the attached communication were not delivered to the addressee's domain specified in the email address notified for the purposes of clause 6, 4 hours after the email was sent,

but if the communication would otherwise be taken to be received on a day that is not a working day or after 5.00 pm, it is taken to be received at 9.00 am on the next working day ("working day" meaning a day that is not a Saturday, Sunday or public holiday and on which banks are open for business generally, in the place to which the communication is posted, sent or delivered).

6.3 Cumulative rights

The rights, powers and remedies of each of the Bidder and the Scheme Shareholders under this deed poll are cumulative with and do not exclude the rights, powers or remedies provided by law independently of this deed poll.

6.4 Waiver and variation

- (a) A party waives a right under this deed poll only by written notice that it waives that right. A waiver is limited to the specific instance to which it relates and to the specific purpose for which it is given.
- (b) Failure to exercise or enforce, a delay in exercising or enforcing or the partial exercise or enforcement of any right, power or remedy provided by law or under this deed poll by any party will not in any way preclude, or operate as a waiver of, any exercise or enforcement, or further exercise or enforcement of that or any other right, power or remedy provided by law or under this deed poll.
- (c) A provision of this deed poll may not be varied unless:
 - (i) if before the First Court Date, the variation is agreed to by the Target and the Bidder in writing; and

- (ii) if after the First Court Date, the variation is agreed to by the Target and the Bidder in writing and the Court indicates that the variation would not of itself preclude approval of the Scheme,

in which event the Bidder must enter into a further deed poll in favour of the Scheme Shareholders giving effect to the variation.

6.5 Governing law and jurisdiction

- (a) This deed is governed by the law applying in New South Wales.
- (b) Each party irrevocably:
- (i) submits to the non-exclusive jurisdiction of the courts of New South Wales, Commonwealth courts having jurisdiction in that state and the courts competent to determine appeals from those courts, with respect to any proceedings that may be brought at any time relating to this deed poll; and
- (ii) waives any objection it may now or in the future have to the venue of any proceedings, and any claim it may now or in the future have that any proceedings have been brought in an inconvenient forum, if that venue falls within clause 6.5(b).

6.6 Assignment

- (a) The rights of a Scheme Shareholder under this deed poll are personal. They cannot be assigned, charged or otherwise dealt with, and no person shall attempt or purport to do so, without the prior written consent of the Bidder.
- (b) Any purported dealing in contravention of clause 6.6(a) is invalid.

6.7 Further Action

The Bidder must promptly do all things and execute all deeds, instruments, transfers or other documents and do all acts or things as may be necessary or desirable to give full effect to the provisions of this deed poll and the transactions contemplated by it.

Executed as a deed

Executed by **CHARTER HALL LIMITED ACN 113 531 150** in accordance with section 127 of the Corporations Act 2001 (Cth):



Signature of director

DAVID HARRISON
Full name of director



Signature of company secretary/director

MARK ROBERT BRYANT
Full name of company secretary/director

Annexure D – Notice of Meeting

Folkestone Limited

ACN 004 715 226

NOTICE OF SCHEME MEETING

Notice of Court ordered Scheme Meeting of Folkestone Shareholders

By an Order of the Federal Court of Australia made on 12 September 2018 pursuant to s411(1) of the Corporations Act, notice is hereby given that a meeting of holders of ordinary shares in Folkestone Limited (**Folkestone**) (**Folkestone Shareholders**) will be held at the offices of Boardroom Limited at Level 12, 225 George Street, Sydney NSW at 11.30am on Wednesday, 17 October 2018.

The Court has also directed that Garry Sladden, or, failing him, Mark Baillie, act as chairman of the meeting and has directed the chairman report the result of the meeting to the Court.

The purpose of the Scheme Meeting is to consider and, if thought fit, agree to a scheme of arrangement (with or without any modifications on conditions approved by the Court to which Folkestone agrees) proposed to be made between Folkestone and Folkestone Shareholders in relation to the proposed acquisition of all of the ordinary shares in Folkestone by Charter Hall Limited.

To enable you to make an informed voting decision, further information on the Scheme will be set out in the Explanatory Memorandum which this notice accompanies. Terms used in this notice have the same meaning as set out in the Glossary of the Explanatory Memorandum.

BUSINESS OF THE MEETING

Resolution - Approval of Scheme

To consider and, if thought fit, pass the following resolution:

"That, pursuant to and in accordance with the provisions of section 411 of the Corporations Act, the members approve the arrangement between Folkestone Limited and the holders of its fully paid ordinary shares, designated the "Scheme", as contained in and more particularly described in the Explanatory Memorandum accompanying the Notice of Scheme Meeting (with or without any modifications or conditions approved at this meeting or approved by the Federal Court of Australia after this meeting, and which are acceptable to Folkestone).

BY ORDER OF THE COURT

Scott Martin
Company Secretary
Folkestone Limited

Dated 12 September 2018

EXPLANATORY NOTES

General

The Notice of Scheme Meeting relates to the Scheme and should be read in conjunction with the Explanatory Memorandum. The Explanatory Memorandum contains important information to assist you in determining how to vote on the Scheme Resolution. Capitalised terms used in this notice of meeting (and not otherwise defined in it) have the meanings set out in the Glossary contained in the Explanatory Memorandum.

A copy of the Scheme is set out in Annexure B of the Explanatory Memorandum.

Required majorities

In accordance with section 411(4)(a)(ii) of the Corporations Act, the Scheme must be approved by:

- a) unless the Court orders otherwise, a majority (more than 50%) in number of Folkestone Shareholders present and voting on the Scheme Resolution (whether in person or by proxy, attorney or corporate representative); and
- b) at least 75% of the total number of votes cast on the Scheme Resolution by Folkestone Shareholders (whether in person or by proxy, attorney or corporate representative).

Court approval

In accordance with section 411(4)(b) of the Corporations Act, the Scheme (with or without modification) must be approved by an order of the Court. If the resolution put to this meeting is passed by the Requisite Majorities and the other Conditions are satisfied or waived (as applicable), Folkestone intends to apply to the Court for approval of the Scheme.

In order for the Scheme to become Effective, it must be approved by the Court and an office copy of the orders of the Court approving the Scheme must be lodged with ASIC.

Voting entitlement

The Folkestone Directors have determined pursuant to regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that Folkestone Shareholders who are registered on the Folkestone Register as at 7.00 pm (Sydney time) on 15 October 2018 may vote at the Scheme Meeting in person, by attorney, by proxy or, in the case of a body corporate, by corporate representative.

How to vote

Voting at the Scheme Meeting will occur by poll. Folkestone Shareholders may vote by either:

- a) by attending the Scheme Meeting and voting in person or by attorney or, in the case of corporate shareholders, by appointing a corporate representative to attend and vote; or
- b) appointing a proxy to attend and vote on their behalf using the Proxy Form accompanying this Notice of Scheme Meeting and by submitting the proxy appointment and voting instructions as set out below.

Voting in person (or by attorney)

Folkestone Shareholders, or their attorneys, who plan to attend the Scheme Meeting are asked to arrive at the venue 15 minutes prior to the time designated for the Scheme Meeting, so that their shareholding may be checked against the Folkestone Register and attendance recorded. Shareholders wishing to vote by attorney at the Scheme Meeting must, if they have not already presented an appropriate power of attorney to Folkestone for notation, deliver to the Folkestone Registry (at the address or fax number provided below) the original instrument appointing the attorney or a certified copy of it by 11.30am (Sydney time) on Monday 15 October 2018.

Voting by a corporation

A Folkestone Shareholder that is a corporation may appoint an individual to act as its representative and vote in person at the meeting. The appointment must comply with the requirements of section 250D of the Corporations Act. The representative should bring to the meeting evidence of his or her appointment, their name and address and the identity of their appointer.

Voting by proxy

Folkestone Shareholders who wish to appoint a proxy to attend and vote at the Scheme Meeting, must complete and return the Proxy Form accompanying this Notice of Scheme Meeting to the Folkestone Registry. The Proxy Form must be received by the Folkestone Registry (as indicated on the Proxy Form you receive) by no later than 11.30am (Sydney time) on Monday 15 October 2018.

You must return the Proxy Form to the Folkestone Registry by lodging, sending, delivering or faxing it as follows:

By email: folkestone@boardroomlimited.com.au

Mail to: Boardroom Pty Limited
GPO Box 3993
Sydney NSW 2001, Australia

Fax to: +61 2 9290 9655

A Proxy Form must be signed by the Folkestone Shareholder or the Folkestone Shareholder's attorney. Proxies given by corporations must be executed in accordance with the Corporations Act.

If a proxy appointment is signed by or validly authenticated by a Folkestone Shareholder but does not name the proxy or proxies in whose favour it is given, the chairman of the Scheme Meeting may act as proxy.

If:

- a) a Folkestone Shareholder nominates the chairman of the Scheme Meeting as the Folkestone Shareholder's proxy; or
- b) a proxy appointment is signed by a Folkestone Shareholder but does not name the proxies in whose favour it is given or otherwise under a default appointment according to the terms of the Proxy Form,

the person acting as chairman in respect of an item of business at the Scheme Meeting must act as proxy under the appointment in respect of that item of business.

Proxy appointments in favour of the chairman of the Scheme Meeting, the Folkestone company secretary or any Folkestone Director which do not contain a direction will be voted in support of the Scheme Resolution.

A Folkestone Shareholder who wishes to submit a proxy has the right to appoint a proxy (who need not be a Folkestone Shareholder) to represent him, her or it at the Scheme Meeting, other than the chairman of the Scheme Meeting, by inserting the name of his chosen proxy in the space provided for that purpose on the Proxy Form.

A Folkestone Shareholder entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise, but where the proportion or number is not specified, each proxy may exercise half the votes (disregarding fractions). The Folkestone Shares represented by proxy will be voted for or against or withheld from voting in accordance with instructions of the Folkestone Shareholder on any ballot that may be called for, and if the Folkestone Shareholder specifies a choice with respect to any matter to be acted upon, the Folkestone Shares will be voted accordingly.

A Folkestone Shareholder who has deposited a Proxy Form may revoke it prior to its use, by instrument in writing executed by the Folkestone Shareholder or by his, her or its attorney duly authorised in writing or, if the Folkestone Shareholder is a company, executed by a duly authorised officer or attorney in compliance with applicable law and deposited at the Folkestone Registry by 11.30am (Sydney time) on Monday 15 October 2018. or with the Chairman of the Scheme Meeting on the day of, and prior to the start of, the Scheme Meeting. A Folkestone Shareholder may also revoke a proxy in any other manner permitted by law.

Further information for Folkestone Shareholders

If you have any questions please contact the Folkestone Shareholder Information Line on 1300 032 756 (within Australia) or +61 2 8023 5418 (outside Australia) between 9.00 am and 5.00 pm (Sydney time).

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DIRECTORY

REGISTERED OFFICE

Level 14
357 Collins Street
Melbourne VIC 3000
T: 03 9046 9900

SHARE REGISTRY

Boardroom Pty Limited
Level 12, Grosvenor Place
225 George Street
Sydney NSW 2000

BOARD

Garry R Sladden
(Non-Executive Chairman)

Gregory J Paramor AO
(Managing Director)

Mark W Baillie
(Non-Executive Deputy Chairman)

K Ross Strang
(Non-Executive Director)

CHIEF FINANCIAL OFFICER & COMPANY SECRETARY

Scott N Martin

TAXATION ADVISORS

PricewaterhouseCoopers
2 Riverside Quay
Southbank VIC 3006

LEGAL ADVISORS

Clayton Utz
Level 15, 1 Bligh Street
Sydney NSW 2000

FINANCIAL ADVISORS

BG Capital
Level 10, 60 Carrington Street
Sydney NSW 2000

Moelis Australia
1 Farrer Place
Sydney NSW 2000



All Correspondence to:

✉ **By Mail** Boardroom Pty Limited
GPO Box 3993
Sydney NSW 2001 Australia

Level 12, 225 George Street,
Sydney NSW 2000 Australia

📠 **By Fax:** +61 2 9290 9655

💻 **Online:** www.boardroomlimited.com.au

☎ **By Phone:** (within Australia) 1300 737 760
(outside Australia) +61 2 9290 9600

YOUR VOTE IS IMPORTANT

For your vote to be effective this proxy form must be received **by 11.30am AEDT on Monday 15 October 2018.**

TO VOTE BY COMPLETING THE PROXY FORM

STEP 1 APPOINTMENT OF PROXY

Indicate who you want to appoint as your proxy.

If you wish to appoint the Chair of the Meeting as your proxy, mark the box. If you wish to appoint someone other than the Chair of the Meeting as your proxy please write the full name of that individual or body corporate. If you leave this section blank, or your named proxy does not attend the meeting, the Chair of the Meeting will be your proxy. A proxy need not be a Shareholder of the company. Do not write the name of the issuer Company or the registered Shareholder in the space.

Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the Meeting and vote. If you wish to appoint a second proxy, an additional proxy form may be obtained by contacting the Company's Share registry or you may copy this form.

To appoint a second proxy you must:

- (a) complete two proxy forms. On each proxy form state the percentage of your voting rights or the number of Shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- (b) return both forms together in the same envelope.

STEP 2 VOTING DIRECTIONS TO YOUR PROXY

To direct your proxy how to vote, mark one of the boxes opposite each item of business. All your Shares will be voted in accordance with such a direction unless you indicate only a portion of Shares are to be voted on any item by inserting the percentage or number that you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item for all your Shares your vote on that item will be invalid.

Proxy which is a Body Corporate

Where a body corporate is appointed as your proxy, the representative of that body corporate attending the Meeting must have provided an "Appointment of Corporate Representative" prior to admission. An Appointment of Corporate Representative form can be obtained from the Company's Share registry.

STEP 3 SIGN THE FORM

The form **must** be signed as follows:

Individual: This form is to be signed by the Shareholder.

Joint Holding: where the holding is in more than one name, all the Shareholders should sign.

Power of Attorney: to sign under a Power of Attorney, you must have already lodged it with the registry. Alternatively, attach a certified photocopy of the Power of Attorney to this form when you return it. Please note that original or certified copies may only be lodged by mail or in person. They may not be faxed or lodged online.

Companies: this form must be signed by a director jointly with either another director or a company secretary. Where the company has a sole director who is also the sole company secretary, this form should be signed by that person. **Please indicate the office held by signing in the appropriate place.**

STEP 4 LODGEMENT

Proxy forms (and any Power of Attorney under which it is signed) must be received no later than 48 hours before the commencement of the Meeting, therefore by **11.30am AEDT on Monday 15 October 2018**. Any proxy form received after that time will not be valid for the scheduled Meeting.

Proxy forms may be lodged using the enclosed Reply Paid Envelope or:

📠 **By Fax** + 61 2 9290 9655

✉ **By Mail** Boardroom Pty Limited
GPO Box 3993,
Sydney NSW 2001 Australia

By email folkestone@boardroomlimited.com.au

👤 **In Person** Level 12, 225 George Street,
Sydney NSW 2000 Australia

Attending the Meeting

If you wish to attend the Meeting please bring this form with you to assist registration.

Interpretation

Capitalised terms in this proxy form have the same meaning as defined in the accompanying Notice of Meeting.



FOLKESTONE LIMITED
ABN 21 004 715 226

☐

Your Address

This is your address as it appears on the Company's Share register. If this is incorrect, please mark the box with an "X" and make the correction in the space to the left. Shareholders sponsored by a broker should advise their broker of any changes.

Please note, you cannot change ownership of your Shares using this form.

PROXY FORM

STEP 1 APPOINT A PROXY

I/We being a member/s of **Folkestone Limited** (Company) and entitled to attend and vote hereby appoint:

☐

the **Chair of the Meeting** (mark box)

OR if you are **NOT** appointing the Chair of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered Shareholder) you are appointing as your proxy below

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chair of the Meeting as my/our proxy at the Scheme Meeting of the Company to be held at the offices of **Boardroom Pty Limited at Level 12, 225 George Street, Sydney, NSW, 2000 at 11:30am AEDT on Wednesday, 17 October 2018** and at any adjournment or postponement of that Meeting, to act generally on my/our behalf and to vote in accordance with the following directions or if no directions have been given, as the proxy sees fit.

The Chair of the Meeting intends to vote undirected proxies in favour of each of the items of business.

Important note for Resolution 1: If I/we have appointed the Chair of the Meeting as my/our proxy (or the Chair of the Meeting becomes my/our proxy by default) and am/are entitled to vote on Resolution 1, I/we expressly authorise the Chair of the Meeting to exercise my/our proxy in respect of Resolution 1 (and any motion for amendment of, or any procedural motion relation to, this resolution).

STEP 2 VOTING DIRECTIONS

* If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your vote will not be counted in calculating the required majority if a poll is called.

Resolution 1 To Approve The Scheme Implementation Agreement

For	Against	Abstain*
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

STEP 3 SIGNATURE OF SHAREHOLDERS

This form must be signed to enable your directions to be implemented.

Individual or Shareholder 1

Sole Director and Sole Company Secretary

Shareholder 2

Director

Shareholder 3

Director / Company Secretary

Contact Name.....

Contact Daytime Telephone.....

Date / / 2018