

**INVESTOR
REVIEW
FY15**



Folkestone

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Folkestone's real estate expertise spans across the residential (land and apartment), non-residential and real estate related social infrastructure sectors. We own, manage and develop real estate for the benefit of our shareholders and investors in our funds.



FY15 HIGHLIGHTS

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

▲ 122.6%

NET PROFIT AFTER TAX¹

\$7.0M

FY15	7.0
FY14	3.2
FY13	1.2

▲ 57.1%

EARNINGS PER SHARE

1.1CENTS

FY15	1.1
FY14	0.7
FY13	0.3

▲ 12.8%

FUNDS UNDER MANAGEMENT

\$917M

FY15	917
FY14	813
FY13	630

1. Attributable to Owner's of the Company.

CHAIRMAN AND MANAGING DIRECTOR'S REPORT

Folkestone's delivered a strong result in FY15 driven by a focused execution of our strategy to deliver real estate wealth solutions by growing our funds management platform and undertaking quality residential and non-residential developments on our balance sheet.



Our funds under management grew from \$813 million to \$917 million and our development pipeline grew to more than \$1.0 billion (Folkestone's share \$450 million). Our financial results were extremely pleasing with a net profit after tax for the year ended June 2015 of \$7.0 million¹, a 123 per cent increase over the FY14 result and our earnings per share increased 57.1 per cent to 1.1 cents per share.

EQUITY RAISING

In the December quarter 2014, Folkestone successfully completed a \$42.0 million equity raising at 20.0 cents per share which comprised:

- a \$15.8 million placement to existing and new institutional investors; and
- a 1.0 for 4 non-renounceable entitlement offer to existing eligible shareholders to raise \$26.2 million.

“Our funds under management grew from \$813 million to \$917 million and our development pipeline grew to more than \$1.0 billion (Folkestone's share \$450 million).”

Greg Paramor, Managing Director

We were extremely pleased with the support from our existing shareholders and a number of new institutional investors. The equity raising allowed Folkestone to increase its strategic holding in the ASX listed Folkestone Education Trust, the largest owner of early learning centre properties in Australia, and to continue to execute on our strategy across both our funds management platform and on-balance sheet developments by providing additional working capital.

FUNDS MANAGEMENT

Folkestone's funds management division is a specialist real estate funds manager for private clients and select institutional investors. During FY15, Folkestone's real estate funds management activities generated a profit of \$7.2 million², up from \$7.0 million² in FY14.

KEY HIGHLIGHTS IN FY15 INCLUDE:

- in September 2014, Folkestone completed the development of Millers Junction Home, a large format retail centre anchored by Bunnings and Officeworks, on behalf of the Folkestone Real Estate Income Fund at Altona North;
- the Folkestone West Ryde Development Fund's residential development joint venture with the Toga

Group at West Ryde in Sydney was completed in June 2015 with approximately 28 per cent of the 229 apartments (64 apartments) settling prior to 30 June 2015. The balance of apartments (165 apartments) have been pre-sold with 157 apartments settled since 30 June 2015 and the remaining 8 are to be settled in the next few weeks.

As a result of the removal of 22 commercial suites, an increase in the number of apartments from 205 to 229, higher than anticipated sales revenue together with a 9 month reduction in the project's timeframe, the Fund's forecast equity internal rate of return³ (IRR) has increased from 18.0 per cent per annum to more than 30 per cent per annum and the forecast return on equity³ has increased from 32 per cent to more than 50 per cent. Folkestone has co-invested \$8.7 million in the Fund (50 per cent of the Fund);

- the ASX Listed Folkestone Education Trust (ASX:FET) continued to deliver on its strategy of owning a quality portfolio of early learning centres with an active period of acquisitions, developments and the disposal of a number of smaller centres and its successful merger with the Folkestone Social Infrastructure Trust in January 2015. FET generated a total return of 35.8 per cent in FY15 substantially outperforming the S&P/ASX 300 A-REIT Accumulation Index which returned 20.2 per cent.

Folkestone continued to acquire a strategic stake in FET during FY15 and as at 30 June 2015 held 12.8 per cent of FET units on issue (excluding units held in FET by the Folkestone Maxim A-REIT Securities Fund). Folkestone generated an unrealised gain of \$4.5 million after tax on its investment in FET during FY15;

- the Folkestone Truganina Development Fund is undertaking, in a 80/20 joint venture with ID_Land, the development of a circa 690 lot residential master planned community (“Elements”) in Truganina, in one of Melbourne's fastest growing corridors. Elements was launched in November 2014 and as at 30 June 2015, the joint venture had secured almost double the number of pre-sales forecast in the Base Case Feasibility. The first parcel of land required to develop Stages 1 and 2 of the project was settled in May 2015, with construction commencing in June 2015 and the first settlements forecast to commence in late 2015. Folkestone underwrote the Fund Offer of \$18.25 million with the capital raising closing oversubscribed in March 2015 with Folkestone co-investing \$3.43 million (18.8 per cent) in the Fund; and
- three of Folkestone's Real Estate Income Funds (Altona North, Wollongong and Sydney Olympic Park) were in the top ten best performing funds in FY15 according to the Property Council/IPD Unlisted Core Retail Property Fund Index, with the Altona North Fund the third best performing with a total return of 28.5 per cent.

1. The net profit after tax for the Consolidated Group in FY15 was \$8.2 million. The Consolidated Group includes Folkestone West Ryde Development Fund (“Fund”) even though Folkestone only owns 50 per cent of the units in the Fund. The Consolidated Group's net profit after tax includes a net profit of \$2.4 million after tax from the Fund relating to its share of development profits recognised during the period net of fund administration costs. 50 per cent of the profit from the Fund (\$1.2 million) is attributable to the other unitholders in the Fund. Therefore, Folkestone's net profit after tax after adjusting for 50 per cent of the Fund's profit is \$7.0 million.

2. Before the allocation of head office costs.

3. Post fees, pre-tax.

DIRECT INVESTMENTS

Folkestone continued to successfully deliver its on-balance sheet developments and to expand its exposure to both residential and non-residential developments. During FY15, Folkestone's real estate development activities generated net profit of \$5.6 million⁴, up from \$2.1 million⁴ in FY14.

By partnering with best of breed developers, Folkestone has been able to diversify its balance sheet activities across more projects, sectors and locations. Our existing on-balance sheet development book has a forecast completion value of more than \$1.0 billion (\$450 million FLK share) and we have 5 projects under exclusive due diligence comprising more than \$1.3 billion (more than \$650 million FLK share) in forecast completion value.

“By partnering with best of breed developers, Folkestone has been able to diversify its balance sheet activities across more projects, sectors and locations”

Greg Paramor, Managing Director

KEY HIGHLIGHTS IN FY15 INCLUDE:

- completed the development of Stage 1 at Millers Junction, Altona North in September 2015. The 22,016 square large format retail centre known as Millers Junction Home is a great example of how we can use our balance sheet to manufacture high quality real estate for our funds management platform;
- entered into a 50/50 joint venture with Wilmac Properties to develop Stage 2 of Millers Junction. The joint venture will develop approximately 60 strata style office/warehouse/retail mews on the 2.6 hectare site with an anticipated end value of approximately \$30.0 million. As at 30 June 2015, 21 pre-sales had been secured, representing 31 per cent of the project's forecast sales revenue with construction to commence in September 2015;
- settled the sale of 8,063 square metres of land at Millers Junction in December 2014 to ALDI Stores for a 1,600 square metre supermarket which adjoins the Stage 1 development;
- entered into a call option agreement in May 2015 with BWP Trust to purchase the former Bunnings site adjacent to Millers Junction. Subject to planning approval, the 3.4 hectare parcel will be consolidated with Folkestone's existing Stage 3 land holding of 4.4 hectares to create a substantial development opportunity which will include traditional retail, large format retail and social infrastructure investments. In line with FLK's strategy of growing its funds management platform, Folkestone expects to establish a fund to own the completed development in Stage 3 as Folkestone did when it developed Millers Junction Home for the Folkestone Real Estate Income Fund at Altona North;
- entered into a 50/50 joint venture in December 2014 with the Lyon Group Australia, a leading Sydney developer, to develop a strategically located, mixed use site opposite a key train station in Sydney's north-west. As at 30 June 2015, the joint venture had secured a land area of 2,865 square metres and is seeking to consolidate further land adjoining the existing properties to unlock a significant mixed-use development opportunity in this key location;
- entered into a second 50/50 joint venture with Wilmac Properties in May 2015 to develop approximately 88 strata office/warehouse/retail mews in Knoxfield, Victoria. Knoxfield is 27 kilometres south-east of the Melbourne CBD and the site lies within an established business park precinct with excellent access to the Eastlink and M1 Motorways. The Knoxfield site has been acquired on deferred settlement terms (April 2016) at which time it is forecast development of the first stages will commence;
- continued the strong sales at its Potters Grove land sub-division project being undertaken in a 50/50 JV with ID_Land. During FY15, 100 lots were settled, since 30 June 2015, a further 5 lots have settled and 33 lots are contracted for sale but are yet to settle leaving 4 lots to be sold to complete the project;
- acquired, in a 50/50 joint venture with ID_Land, a call option over 8 hectares of land in Officer, south-east Melbourne. The land is located diagonally opposite Folkestone and ID_Land's Potters Grove project. The zoned site has been purchased on deferred terms with development planning currently underway. The project, known as Potters Northside, comprises approximately 140 lots with an estimated end value of \$28 million. The joint venture commenced marketing of this project in March, 2015 and as at 30 June 2015 has secured strong pre-sales. Development is expected to commence in the first half of FY16; and
- substantially completed construction of Stage 1b (32 villas) at The Ranges, Karratha. At 30 June 2015 all 32 villas were pre-committed with Folkestone retaining three villas. Settlements are expected to occur in the September 2015 quarter. Folkestone holds a 25 per cent interest in the project. Despite the solid occupancy in Stage 1a's 41 villas (average 78.1 per cent in the June quarter) and the status of Stage 1b, in response to the current economic conditions in the region, Folkestone has made a \$0.7 million provision against the carrying value of its equity investment in the project.

4. Before the allocation of head office costs.



FY16 OUTLOOK

As we enter the second half of 2015, there is little to suggest any major sustained upswing in Australia's economic growth is likely to occur in the near term.

The rotation from resources to other sectors has yet to gain full momentum, outside of the residential construction sector, and as a result, economic growth remains below trend. Business investment remains subdued. Despite low interest rates, businesses appear reluctant to commit to increased investment until there is a marked pick-up in the economy. In an effort to stimulate the economy, the RBA lowered the cash rate in May for a second time this year, to a record low of 2.0 per cent.

While the Australian non-residential real estate fundamentals (demand and rental growth) are still recovering post the GFC, capital values are being driven higher by an abundance of capital flowing from both domestic and off-shore investors.

Yield compression (when yields fall, values increase) continues to be driven by investors deploying capital rather than strong non-residential real estate fundamentals (i.e. strong tenant demand underpinning income growth), which in turn is driving value increases. Non-residential real estate yields look attractive compared to bond yields, but the absolute levels are nearing record lows across most core sectors.

Looking forward, Folkestone will continue to be disciplined in seeking new opportunities that offer appropriate risk-adjusted returns. We will remain focused on the east coast markets for both residential and non-residential investment opportunities. However, we are cautious on a number of sub-markets such as the inner Melbourne and inner Brisbane apartment markets, the South Sydney apartment market and the Perth and Brisbane CBD office markets.

We will also continue to focus on identifying opportunities that for various reasons may be mispriced or we see an opportunity that others haven't assessed to add value. We will also continue to look for opportunities where we can manufacture core product for our funds rather than relying on entering a competitive tender process to acquire assets on market. Folkestone will continue to undertake accretive, opportunistic development acquisitions for its on-balance sheet investments and to seed and/or co-invest in development funds.

We remain positive on the real estate related social infrastructure sectors, especially early learning and seniors living. The demographic tailwinds are compelling. Also most social infrastructure sectors have an undersupply of quality assets which provides opportunities for real estate specialists to either manufacture new product or refurbish and reposition older stock, as most operators don't have the skill set to execute on the real estate.

Folkestone is well placed with a strong balance sheet, a funds management platform that spans listed and unlisted real estate funds and a development pipeline across residential and non-residential projects, to grow earnings and create long-term value for its shareholders.

Given the growth in our recurring income, our strong balance sheet and assuming no material change in market conditions, we are pleased to announce that Folkestone expects to pay a fully franked dividend of at least 0.5 cents per share in respect of FY16. On behalf of the Board, we would like to thank all our staff for their hard work and our shareholders and investors in our funds for their on-going support.

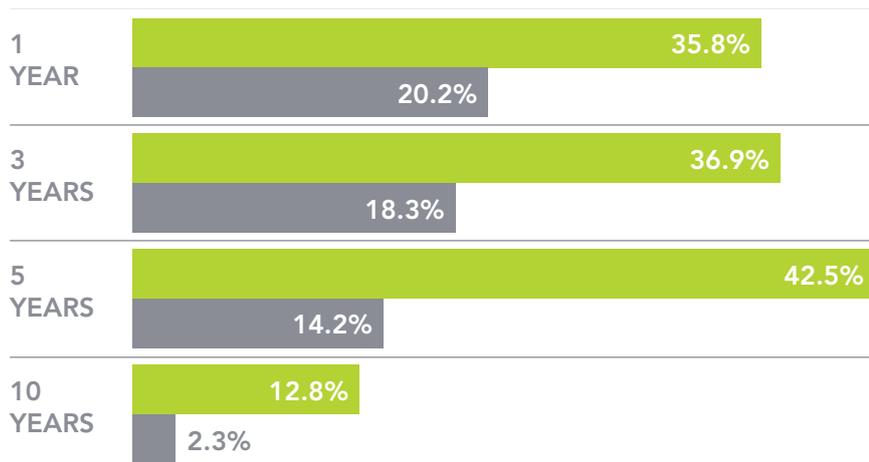
LISTED A-REIT

FOLKESTONE EDUCATION TRUST (ASX CODE: FET)

YEAR ENDED 30 JUNE	2015	2014	VAR. %
Distributable income (\$m)	29.7	24.4	21.7
Distribution (cpu)	12.8	12.0	6.7
AS AT	JUNE 15	JUNE 14	VAR. %
Total Assets (\$m)	654.5	464.6	40.9
Investment Properties ¹ (\$m)	627.3	461.2	36.0
Borrowings ² (\$m)	193.2	147.3	31.2
Net Assets (\$m)	445.0	306.7	45.1
Gearing ³ (%)	29.5	31.7	(2.2)
NTA per Unit (\$)	1.82	1.50	21.3

TOTAL RETURN (P.A.)

■ FET ■ S&P/ASX 300 A-REIT ACCUMULATION INDEX



The ASX listed Folkestone Education Trust (ASX: FET) is the leading provider of early learning accommodation with 396 early learning centres and sites in Australia and in New Zealand.

FET continued to deliver strong returns to its investors – distributions per unit were up 6.7 per cent to 12.8 cpu in the year and the total return for the year to 30 June 2015 was 35.8 per cent substantially outperforming the S&P/ASX 300 A-REIT Accumulation Index which returned 20.2 per cent.

During the year, FET acquired 47 early learning centres and a medical centre following the acquisition of Folkestone Social Infrastructure Trust and acquired 12 sites for early learning centres in quality locations in Sydney, Melbourne and

Perth. These acquisitions plus 2 sites post 30 June 2015, take FET's development pipeline to 18 sites with an end value of approximately \$89.5 million. FET continues to actively manage its existing portfolio with 18 centres that were considered low growth being sold on an average passing yield of 7.1 per cent with the lowest yield achieved at 5.8 per cent. The sales were at a 36.0 per cent premium to book value.

FET, with its quality portfolio (99.7 per cent occupancy, long-terms leases averaging 7.9 years and no major lease expiries in the portfolio until 2020), low gearing of 29.5 per cent and a strong acquisition and development pipeline is well placed to continue to provide investors with predictable and secure long-term cashflows with the opportunity for capital growth.

Portfolio as at
30 June 2015

VALUE OF INVESTMENT
PROPERTIES

\$627.3M

FY15 ANNUAL
OPERATING INCOME

\$54.7M

AVERAGE LEASE
INCOME INCREASE
(Y-O-Y)

2.4%

PROPERTY YIELD

8.0%

DEVELOPMENT
PIPELINE

\$89.5M

OCCUPANCY RATE

99.7%

WEIGHTED AVERAGE
LEASE EXPIRY
(BY INCOME)

7.9YRS

PERCENTAGE OF
AUSTRALIANS LIVING
WITHIN 5KMS OF
FET CENTRES

53.5%

1. Includes \$0.3 million of transaction costs in relation to properties contracted and not settled.

2. Borrowings as at 30 June 2015 include loans of \$190.0 million and bank overdraft of \$3.2 million.

3. Gearing is calculated by borrowings / total assets.

PRIVATE FUNDS

FOLKESTONE REAL ESTATE INCOME FUND AT SYDNEY OLYMPIC PARK



OCCUPANCY

100%

Type	Unlisted
Sector	Office
Location	Sydney Olympic Park
No of Properties	1
Gross Assets (\$m)	34.1
Occupancy (%)	100
FY15 Annualised Distribution (%)	8.5
FY16 Forecast Distribution (%)	9.0
Fund Expires	Dec 2017

The Fund owns 7 Murray Rose Avenue, Sydney Olympic Park, a 5,931 square metre commercial office building, completed in December 2012, with ground floor retail and basement car parking.

The office space is 100 per cent leased to Thales Australia Limited on a ten year lease term commencing 1 December 2012. The 5 retail tenancies on the ground floor are leased to a range of food and service providers. As at 30 June 2015, the building was 100 per cent occupied with an weighted average lease expiry of 6.7 years by income.

The building was valued at \$33.0 million as at 30 June 2015, a 6.5 per cent increase during the year. The Fund's total return for the year to 30 June 2015 was 19.7 per cent.

FOLKESTONE REAL ESTATE INCOME FUND AT ALTONA NORTH



FUND TOTAL RETURN

28.5%

Type	Unlisted
Sector	Large Format Retail
Location	Altona North, Victoria
No of Properties	1
Gross Assets (\$m)	35.9
Occupancy (%)	98.7
FY15 Annualised Distribution (%)	10.75
FY16 Forecast Distribution (%)	11.0
Fund Expires	Nov 2020

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

As at 30 June 2015, 100 per cent of Centre was leased with a weighted average lease term by income of 9.9 years and 10.2 years by area. Millers Junction Home is performing well, based on the positive feedback from tenants.

Millers Junction Home was valued at \$35.0 million as at 30 June 2015, 9.4 per cent higher than the September 2014 'upon completion' valuation. The increase in valuation reflects both the quality of Millers Junction Home and the strong appetite from investors for quality large format retail centres. The Fund generated a total return of 28.5 per cent for the year to 30 June 2015 - the third best performing fund in the PCA/IPD Unlisted Core Retail Property Fund Index.

PRIVATE FUNDS

FOLKESTONE REAL ESTATE INCOME FUND AT WOLLONGONG



FORECAST DISTRIBUTION (FY16)

11.0%

Type	Unlisted
Sector	Office
Location	Wollongong
No of Properties	1
Gross Assets (\$m)	29.9
Occupancy (%)	98.7
FY15 Annualised Distribution (%)	10.75
FY16 Forecast Distribution (%)	11.0
Fund Expires	June 2019

The Fund owns 43 Burelli Street, Wollongong, a six level A-Grade office building comprising 9,812 square metres together with parking for 89 vehicles. Central Square comprises a strong tenancy mix anchored by Commonwealth and State Government tenants who currently contribute the majority of the asset's income.

Folkestone's active management of the asset has paid dividends in the past year. As at 30 June 2015, 46.2 per cent of the net lettable area was either leased to new tenants or renewed to existing tenants. During FY15, Folkestone completed Stage 1 of a major capital works program to upgrade the building's heating, ventilation and air-conditioning (HVAC) and install a new building management system (see break-out box).

The Fund's total return for the year to 30 June 2015 was 21.0 per cent.

Improving the Efficiency and Sustainability of Our Assets for the Benefit of Tenants and Our Investors

Folkestone does not just acquire assets like Sydney Olympic Park or manufacture new assets like Millers Junction Home with long leases to blue-chip tenants. We are happy to secure older assets or assets with short-term leases where we can apply our real estate expertise to add value. Our acquisition of Central Square, Wollongong for the Folkestone Real Estate Income Fund at Wollongong is a classic example of acquiring a building from the receivers below valuation and where the previous owner had spent very little money maintaining the asset.

Stage 1 of the capital works program was successfully completed in December 2014 and was delivered for \$2.55 million, \$0.3 million below the budget and with minimal tenant interruption. The works included upgrading the building's heating, ventilation and air conditioning ("HVAC") and the Building Management System ("BMS"), installing LED lighting throughout the lift, lobby and corridor areas, new electrical switchboards, rewiring for all equipment installed and retrofitting three vacant suites (two of these are now let).

As a result of these works being completed, the building's systems are working more efficiently. For example, electricity costs have fallen 66.4 per cent from circa \$21,000 per month in December 2013 to circa \$7,000 per month in June 2015. Over the same period, total greenhouse gas emissions have declined 65.6 per cent – a win for the environment, a major selling point to the tenants in the building and improved investment performance for the Fund's investors.

During FY16 we will commence Stage 2 of the capital works program. This will see the upgrade of levels 1-5 lift lobbies, corridors, and the ground floor. These additional works aim to breathe fresh life into the public areas of the building, provide an enhanced work place environment for tenants and improve the potential for tenant retention.

The property was independently valued at \$29.0 million at 30 June 2015. This was \$3.65 million or 14.4 per cent higher than the previous valuation on 30 June 2014 of \$25.35 million. Factoring in the \$2.55 million spent on the Stage 1 capital works program during the year, the net increase of \$1.1 million represents a 46.0 per cent return on the capital expenditure.

FOLKESTONE REAL ESTATE INCOME FUND AT OXLEY



MOVING ANNUAL TURNOVER

\$32.1M

Type	Unlisted
Sector	Neighbourhood Retail
Location	Oxley, QLD
No of Properties	1
Gross Assets (\$m)	37.8
Occupancy (%)	98.6
FY15 Annualised Distribution (%)	8.0
FY16 Forecast Distribution (%)	8.1
Fund Expires	April 2020

The Folkestone Real Estate Income Fund at Oxley was established in April 2014 and is the fourth in the real estate income fund series. The Fund owns a 7,095 square metre neighbourhood shopping centre in the inner Brisbane suburb of Oxley. The Centre is anchored by a 3,200 square metre Woolworths supermarket and the Queensland Government's Department of Communities, Child Safety and Disability Service which occupies 2,400 square metres of office space on level 1 of the Centre. The Centre was completed in July 2013.

The Centre continues to build market share in its trade area, with moving annual turnover up 20.4 per cent to \$32.1 million at 30 June 2015. The Fund's total return for the year to 30 June 2015 was 17.4 per cent.

FOLKESTONE CIB FUND



OCCUPANCY

100%

Type	Unlisted
Sector	Police Stations & Courthouses
Location	Victoria
No of Properties	11
Gross Assets (\$m)	73.7
Occupancy (%)	100
Fund Expires	2020

The Folkestone CIB Fund is a closed wholesale unit trust that owns nine 24-hour police stations and two law court complexes. The leases to the State Government of Victoria conclude on 30 November 2015, with an option term of 5 years. Discussions are underway with the Government in relation to an extension of these leases.

All of the Fund's properties were independently valued as at 30 June 2015 which resulted in an increase of \$1.8 million. The Fund's NTA per unit as at 30 June 2015 was \$2.02 (2014: \$1.92).

PRIVATE FUNDS

FOLKESTONE WEST RYDE DEVELOPMENT FUND



FORECAST FUND RETURN ON EQUITY

50%²

Type	Unlisted
Sector	Residential Apartment
Location	West Ryde, NSW
No of Apartments	229
JV Partner	Toga
Fund Interest in Project (%)	50
Fund Equity (\$m)	17.4
FLK Co-Investment in Fund (%)	50
Forecast ROE/Equity IRR (%) ²	50.0/31.0
Fund Expires	June 2016 ¹

The Fund is undertaking, in joint venture with the Toga Group, a residential development located in West Ryde. Central Square originally comprised 205 apartments, 22 commercial suites and 259 car spaces over 7 levels on a rooftop stratum above a Coles supermarket. The joint venture applied for, and was granted, three s96 variations to have the commercial suites converted to residential and to change the mix of apartments to increase the number from 205 to 229.

As at 30 June 2015, 64 apartments were settled with 157 settled since then and the remaining 8 apartments are on track to be settled by the end of August 2015 - 9 months ahead of schedule.

As a result of the increase in apartments, higher than forecast sales prices and reduction in time, the forecast return on equity² has increased from 32.0 per cent p.a. to more than 50.0 per cent p.a. and the equity IRR² has increased from 18.0 per cent p.a. to 31.0 per cent p.a.

1. Completion of 12 Month Defect Liability Period.

2. Post fees, pre-tax.

FOLKESTONE TRUGANINA DEVELOPMENT FUND



LAND SUB-DIVISION

~690 LOTS

Type	Unlisted
Sector	Residential Land
Location	Truganina, VIC
No of Lots	Circa 690
JV Partner	ID_Land
Fund Interest in Project (%)	80
Fund Equity (\$m)	18.25
FLK Co-Investment in Fund (%)	18.7
Forecast ROE/Equity IRR (%) ²	77.1/18.0
Fund Expires	2019

The Folkestone Truganina Development Fund has an 80 per cent interest in Elements, a residential master planned community in Truganina, one of Melbourne's fastest growing areas. The Fund is developing, in joint venture with ID_Land (20 per cent), circa 690 residential lots and a 3.1 hectare town centre. Truganina is located approximately 20 kilometres west of the Melbourne CBD in the Western Growth Corridor.

The land is being acquired on a staged settlement basis with a series of payments required between now and 2016. Elements was launched in November 2014 and as at 30 June 2015 we have pre-sold almost double the number of lots forecast at this point in the Base Case Feasibility.

The Fund raised \$18.25 million after closing oversubscribed in February 2015. As a result, Folkestone made available \$225,000 of its \$3.65 million (20 per cent) co-investment in the Fund to accommodate the oversubscriptions.

A-REIT SECURITIES AND DEBT FUNDS

FOLKESTONE MAXIM A-REIT SECURITIES FUND

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

The Fund generated a total return of 20.4 per cent (after fees, before tax) in the year to 30 June 2015 outperforming the S&P/ASX300 A-REIT Accumulation Index which returned 20.2 per cent. The Fund was the best performing fund in the Morningstar A-REIT Australian Institutional Sector Survey for FY15.

At the end of June, the Fund's investments comprised 18 ASX listed securities totalling 97.8 per cent of the portfolio. Of these, 13 securities were constituents of the S&P/ASX 300 A-REIT Index with the remaining 5 being ex-Index securities. Unlisted securities comprised 0.8 per cent of the portfolio whilst the remaining 1.4 per cent of the portfolio was held in Cash/Liquid investments.

FOLKESTONE MAXIM INCOME FUND

The Folkestone Maxim Income Fund invested in senior-subordinated level of non-bank commercial lending platforms. The Fund invested in two pools of commercial mortgages managed by Think Tank. As a result of Think Tank putting these pools into a CMBS, the Fund redeemed its investment. Given margins on real estate debt have compressed substantially since the Fund was established in June 2010, it was decided that it was in the best interest of investors to return the capital and close the Fund in March 2015.

Since inception, the Fund generated an annualised total return of 12.7 per cent (after fees, before tax).



DIRECT INVESTMENTS

MILLERS JUNCTION HOME (STAGE 1)



OCCUPANCY

100%

Sector	Large Format Retail
Location	Altona North, VIC
Size (sqm)	22,016
Client	Folkestone Real Estate Income Fund at Altona North
Folkestone Interest (%)	100
Completion Date	Sept 2014
Acquisition Date	Fund Through Final Payment – Nov 2014

The Millers Road, Altona North development site was acquired in December 2007. The land is located approximately 13 kilometres west from the Melbourne CBD. The precinct is now known as Millers Junction.

In September 2014, Folkestone completed the Stage 1 development, Millers Junction Home, comprising a 22,016 square metre large format retail centre which is 100 per cent leased to anchor tenants Bunnings and Office Works, together with JB Hi-Fi Home, Repco, PETstock, PETvet and Pitt Stop Cafe. The Centre was developed for the Folkestone Real Estate Income Fund at Altona North.

Folkestone also sold 8,063 square metres of land to Aldi Stores for a 1,600 square metre supermarket which opened in April 2015.

MILLERS JUNCTION BUSINESS (STAGE 2)



Artist Impression

FORECAST GROSS REVENUE

\$30M

Sector	Commercial/Industrial/Retail Mews
Location	Altona North, VIC
Size	Circa 74 mews
Folkestone Interest (%)	50
JV Partner	Wilmac Properties
Forecast Gross Revenue (\$m)	30
Construction Commence	September 2015
Forecast Completion Date	April 2019

Folkestone announced in September 2014, a 50/50 joint venture with Wilmac Properties to develop Stage 2 of the Millers Junction precinct into circa 74 office/warehouse/retail mews providing a mix of flexible business, retail and storage space. Millers Junction Business when completed will be a prominent new business hub in the inner western suburbs of Melbourne.

Millers Junction Business has a forecast gross revenue of approximately \$30.0 million.

Marketing of the mews has commenced and as at 30 June 2015, 21 pre-sales had been secured, representing 31 per cent of the forecast sales revenue. Construction is forecast to commence in September 2015.

MILLERS JUNCTION RETAIL & FAMILY (STAGE 3)



LAND HOLDING¹

7.8HA

Sector	Large Format Retail, Retail and Community Use
Location	Altona North, VIC
Land Area Owned (ha)	4.4
Land Area Optioned (ha)	3.4
Folkestone Interest (%)	100
Forecast Growth Revenue (\$m)	60 ²
Construction Commences	Mid 2016
Forecast Completion Date	Early 2018

Millers Junction Retail and Family is the third and final stage in Folkestone's Millers Junction development, in Altona North, Victoria.

Folkestone entered into an option agreement in May 2015 with BWP Trust and Bunnings Group Limited to purchase the former Bunnings site adjacent to the Stage 3 land. Subject to planning approval, the 3.4 hectare parcel will be consolidated with Folkestone's existing Stage 3 land holding of 4.4 hectares to create a substantial development opportunity which will include traditional retail, large format retail and social infrastructure investments. Folkestone is currently finalising the masterplan for the site before a development application is lodged with Council.

In line with Folkestone's strategy of growing its funds management platform, Folkestone expects to establish a fund to own the completed development in Stage 3 as Folkestone did with Stage 1 when it developed Millers Junction Home for the Folkestone Real Estate Income Fund at Altona North. This will be subject to planning approval and leasing.

1. Owned - 4.4 hectares and Optioned - 3.4 hectares.

2. Subject to Council Approval.

KNOXFIELD



FORCAST GROSS REVENUE

\$30M

Sector	Commercial/Industrial/Retail Mews
Location	Knoxfield, VIC
Size	Circa 88 mews
Folkestone Interest (%)	50
JV Partner	Wilmac Properties
Forecast Gross Revenue (\$m)	30
Construction Commences	May 2016
Forecast Completion Date	Early 2020

Folkestone announced in April 2015 that it has agreed terms to enter into a second 50/50 joint venture with Wilmac Properties to develop approximately 88 strata office/warehouse/retail mews in Knoxfield, Victoria.

Knoxfield is 27 kilometres south-east of the Melbourne CBD and the site lies within an established business park precinct with excellent access to the Eastlink and M1 Motorways.

The Knoxfield site has been acquired on deferred settlement terms (April 2016). A planning application was lodged in June 2015 with construction forecast to commence in May 2016.

DIRECT INVESTMENTS

POTTERS GROVE, OFFICER



LOTS SETTLED IN FY15

100

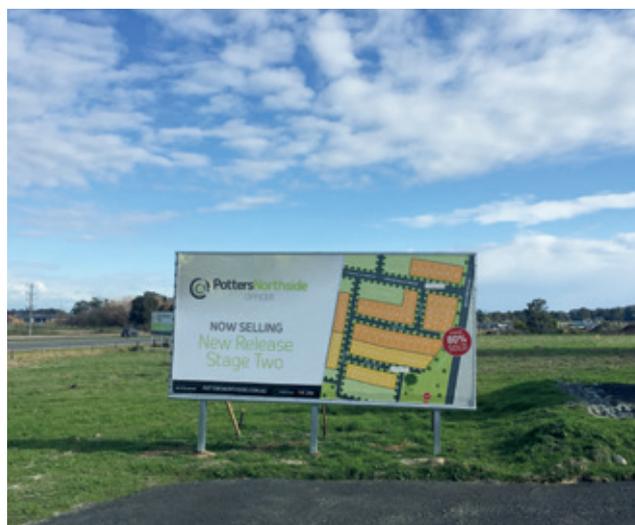
Sector	Residential Land
Location	Officer, VIC
No of Lots	240
Folkestone Interest (%)	50
JV Partner	ID_Land
Forecast Gross Revenue (\$m) ¹	44.4
Lots Sold ²	236
Lots Remaining ²	4
Forecast Completion Date	September 2015

Potters Grove, Officer is a 14.1 hectare site located in the Cardinia Shire, in south-east Melbourne. Potters Grove is a 50/50 joint venture between Folkestone and ID_Land.

As at 30 June 2015, 198 lots (83 per cent of the total lots) had been settled with 100 lots settled in FY15. Since 30 June 2015, a further 5 lots have been settled and there are 33 lots contracted for sale but have yet to settle. Folkestone expects the remaining 4 lots to be sold by September 2015.

Potters Grove is forecast to deliver a total return of \$4.5 million, an equity IRR of 27.0 per cent and a return on equity of 71.0 per cent.

POTTERS NORTHSIDE, OFFICER



NUMBER OF LOTS

140

Sector	Residential Land
Location	Officer, VIC
No of Lots	140
Folkestone Interest (%)	50
JV Partner	ID_Land
Forecast Gross Revenue (\$m)	28.0
Construction Commence	August 2015
Forecast Completion Date	Mid 2017

In August 2014, Folkestone acquired, in a 50/50 joint venture with ID_Land, a call option over 8 hectares of land in Officer, south-east Melbourne. The land is located on the northern side of the Princes Highway in Officer, diagonally opposite Folkestone and ID_Land's current 240 lot residential land sub-division project known as Potters Grove. Officer is located in the Cardinia Shire which is in the south-east growth corridor of Melbourne and one of the fastest growing areas in Melbourne.

Potters Northside is Folkestone's third joint venture with ID_Land, who specialise in land sub-division and medium density development. The joint venture has acquired the land on deferred terms providing a capital efficient structure. We have been able to leverage our existing brand and marketing in Officer to achieve good speed to market. Marketing commenced in March 2015, and pre-sales are running ahead of budget. Construction is expected to commence in late August 2015.

1. Total Project.

2. As at 18 August 2015.

THE RANGES, KARRATHA



NUMBER OF VILLAS COMPLETED

73

Sector	Accommodation
Location	Karratha, WA
No of Villas – Stage 1	108 (73 completed)
Folkestone Interest (%)	25
JV Partner	Various Parties
Forecast Gross Revenue (\$m) ¹	58.0
No of Villas Sold ²	73
Forecast Completion Date	Late 2016

Stage 1 of The Ranges comprises 2.2 hectares with a "Tourism" zoning and DA approval for 108 single level, one bedroom villas with pool and BBQ facilities in Karratha, WA.

Stage 2 comprises a further 7.1 hectares of land zoned as Urban Development. The first 41 dwellings in Stage 1a opened in December 2012. The opening of The Ranges has provided much needed accommodation for business travellers to Karratha. The average occupancy in the June quarter was 78.1 per cent.

Construction of Stage 1b (32 villas) was substantially completed at 30 June 2015 with all villas pre-committed with Folkestone retaining three villas. Settlements are expected to occur in the September 2015 quarter.

Folkestone holds a 25 per cent interest in the project. At 30 June 2015, despite the solid occupancy in Stage 1a and status of Stage 1b, and in response to the current economic conditions in the region, Folkestone made a \$0.7 million provision against the carrying value of its equity investment in the project. As at 30 June 2015, Folkestone had \$3.5 million in preferred equity loans to the joint venture in addition to its \$1.2 million equity investment.

1. Total Project.

2. 41 settled in Stage 1a and 32 lots pre-committed in Stage 1b.

NORTH-WEST, SYDNEY



JOINT VENTURE

50/50

Sector	Mixed-use
Location	North-West Sydney
Land Area Optioned and/or Owned (sq.m.)	2,835
Folkestone Interest (%)	50
JV Partner	Lyon Group
Forecast Gross Revenue (\$m)	>435
Forecast Construction	Mid 2017
Forecast Completion	Mid 2020

In December 2014, Folkestone entered into a 50/50 joint venture with Lyon Group, a leading Sydney developer, to develop strategically located, mixed-use sites opposite one of the major train stations in Sydney's North-West.

The joint venture has acquired option agreements over two commercial buildings and has acquired a small mixed use retail and office property. As at 30 June 2015, the joint venture had secured a land area of 2,865 square metres and is seeking to consolidate further land adjoining the existing properties to unlock a significant mixed-use (residential, commercial, retail and community) development opportunity in this key location.

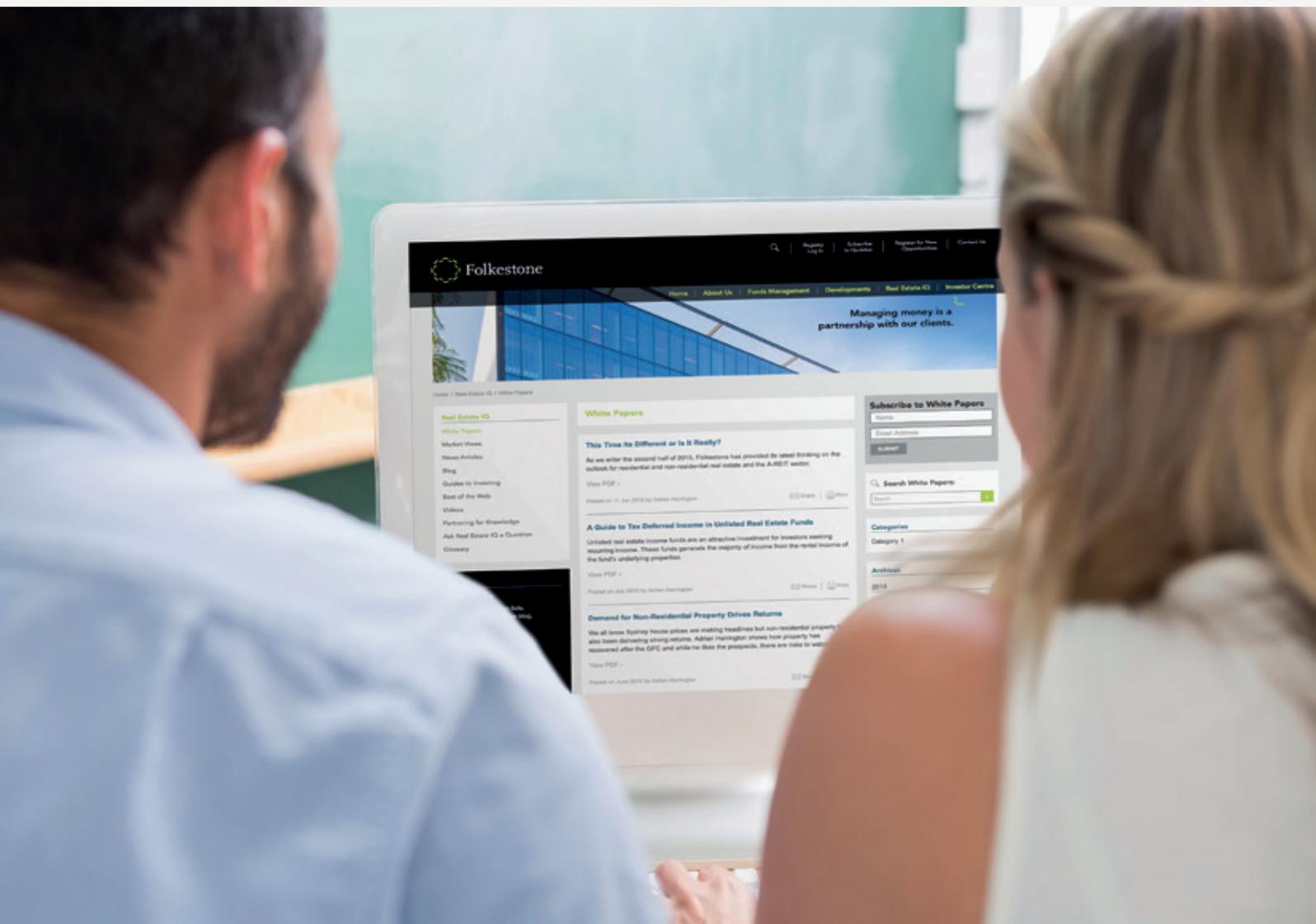
Folkestone may sell down part of its investment to introduce third party capital into the project prior to rezoning/DA approval and/or at the development stage.

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Social Infrastructure Funds

Travis Butcher
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Adrian Harrington
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Scott Martin
Chief Financial Officer &
Company Secretary

Mark Stewien
General Counsel

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