

**INVESTOR
REVIEW
HY16**



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.



HY16 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.

▲ 53.6%

NET PROFIT AFTER TAX¹

\$3.0M

HY16	3.0
HY15	2.0
HY14	1.6

▲ 11.1%

EARNINGS PER SHARE

2.0CENTS

HY16	2.0
HY15 ²	1.8
HY14 ²	2.0

▲ 10.8%

FUNDS UNDER MANAGEMENT

\$964M

HY16	964
HY15	870
HY14	700

1. Attributable to Owner's of the Company.

2. Comparative numbers have been adjusted to reflect the impact of the 1:5 share consolidation completed during the period.

CHAIRMAN AND MANAGING DIRECTOR'S REPORT

Folkestone's delivered a strong result in HY16 driven by a focused execution of our strategy to deliver real estate wealth solutions by growing our funds management platform and undertaking quality residential and non-residential developments on our balance sheet.



FOLKESTONE EDUCATION TRUST - ONLY ABOUT CHILDREN, ARMADALE, VIC



FOLKESTONE REAL ESTATE INCOME FUND AT WOLLONGONG, NSW



FOLKESTONE WEST RYDE DEVELOPMENT FUND, NSW



MILLERS JUNCTION STAGE 2 - ALTONA NORTH, VIC (ARTIST IMPRESSION)

We are pleased to have generated a net profit after tax for the six months ending 31 December of \$3.0 million¹, a 53.6 per cent increase over the prior corresponding period. This represents basic earnings per share of 2.0 cents, compared with 1.8 cents² for the prior corresponding period.

Our balance sheet is in excellent shape with more than \$20 million in funds available for new investment, giving us significant capacity to fund business opportunities across both our funds management platform and on-balance sheet investments. Gearing at 31 December 2015 was a low 4.8 per cent.

Folkestone's net asset value (NAV) was 91.6 cents per share at 31 December 2015, up from 87.5 cents per share at 30 June 2015 (restated from 17.5 cents per share to account for the 1:5 share consolidation which was completed during the current reporting period).

“The positive result for the first half of FY16 reflects strong contributions from both our funds management platform and our on-balance development activities”

Greg Paramor, Managing Director

FUNDS MANAGEMENT

Folkestone's Funds Management division is a specialist real estate funds manager for private clients and select institutional investors. Since June 2015, our funds under management increased from \$917 million to \$964 million.

KEY HIGHLIGHTS IN HY16 INCLUDE:

- The Folkestone West Ryde Development Fund completed, in a 50/50 joint venture with the Toga Group, a 229 residential apartment development project located at West Ryde, Sydney. Construction was completed in June 2015 with 64 apartments settled at 30 June 2015. During the current reporting period, the balance of 165 apartments settled.

The Fund's forecast equity IRR has increased from 18 per cent to 30 per cent and the forecast return on equity has increased from 32 per cent to 50 per cent (pre-tax, net of fees).

Folkestone co-invested \$8.7 million in the Fund. Folkestone has generated a return on equity of 79 per cent over the life of the Fund including a \$0.6 million acquisition fee, \$0.3 million in management fees, a \$1.6 million performance fee earned in HY16 and a net profit before tax of \$4.4 million on its investment in the Fund, of which \$3.3 million was earned in this reporting period.

- The Folkestone Truganina Development Fund is undertaking, in a 80/20 joint venture with ID_Land, the development of a 707 lot residential master planned community in Truganina, one of Melbourne's fastest growing suburbs. We have recorded strong pre-sale activity with pre-sales double the number forecast in our base case feasibility. Settlement of all of the 98 lots in Stages 1 and 2 are forecast to be completed during the March 2016 quarter.

As a result, the joint venture has elected to bring forward both the selling and construction of future stages. In October 2015, the Fund raised \$2.5 million via a loan note offer to investors in conjunction with \$2.5 million from Folkestone on an at-call basis. The notes offer closed significantly oversubscribed. The funds raised have been loaned to the joint venture to accelerate Stages 3 to 5 of the project. Completion of these stages is forecast to occur in March 2016 with settlements to occur shortly thereafter.

Folkestone has also co-invested \$3.4 million (18.8 per cent) in the Fund. Due to the acceleration of the project, the Fund's current forecast equity IRR has increased from 18 per cent to 20 per cent per annum (pre-tax, net of fees).

- The Folkestone Education Trust continued to deliver on its stated strategy of owning a quality portfolio of early learning centres with an active period of acquisitions, developments and disposals. As at 31 December 2015, FET owned 396 properties and had gross assets of approximately \$709 million.

FET generated a total return of 11.0 per cent for the six months to 31 December 2015 substantially outperforming the S&P/ASX 300 A-REIT Accumulation Index which returned 7.2 per cent.

As at 31 December 2015, Folkestone held 12.8 per cent of FET units on issue (excluding units held in FET by the Folkestone Maxim A-REIT Securities Fund), valued at \$71.4 million. We earned \$4.6 million in fees and distributions from FET and generated an unrealised gain of \$3.6 million after tax on our investment in FET during the current reporting period.

DIRECT INVESTMENTS

During the six months to 31 December 2015, we continued to execute on our development strategies for Folkestone's existing on-balance sheet investments and also announced a number of new investments.

KEY HIGHLIGHTS IN HY16 INCLUDE:

- In September 2014, Folkestone announced it had entered into a 50/50 joint venture with Wilmac Properties to develop 74 strata style office/warehouse mews in

1. The net profit after tax for the consolidated group was \$6.6 million. The consolidated group includes the 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 \$7.2 million 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 (\$3.6 million) is attributable to the other unitholders in the Fund. Therefore, Folkestone's net profit after tax is \$3.0 million after adjusting for 50 per cent of the Fund's profit.

2. Comparative numbers have been adjusted to reflect the impact of the 1:5 share consolidation completed during the period.

CHAIRMAN AND MANAGING DIRECTOR'S REPORT

Stage 2 of Millers Junction in Altona North. As at 31 December 2015, 73 per cent of units released to the market had been pre-sold. Construction of Stage 1 (29 mews) commenced in the September 2015 quarter and is forecast to be completed in the September 2016 quarter. With the strong level of pre-sales secured to date, construction of Stage 2 (14 mews) is forecast to commence in the March 2016 quarter. As at the reporting date, Folkestone's funds invested were \$2.0 million with a further \$0.5 million in funds forecast to be invested to complete the project.

- In May 2015, Folkestone entered into a second 50/50 joint venture with Wilmac Properties to develop 88 strata office/warehouse/retail mews in Knoxfield, Victoria with an anticipated end value of \$31 million. Marketing of Stage 1A (12 mews) of the project commenced in the current reporting period with a total of 6 pre-sales secured at 31 December 2015 with a further 2 pre-sales secured since that time. Construction of Stage 1A is forecast to commence in May 2016. As at the reporting date, Folkestone's funds invested were \$0.4 million with a further \$1.7 million in funds forecast to be invested to complete the project.

"The move into seniors living is a natural extension of our strategy to be a key player in the social infrastructure space"

Greg Paramor, Managing Director

- 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 to develop a 240 lot land subdivision. As at 31 December 2015, 236 lots had been settled, with 38 of these settled during the current reporting period. A total of 4 lots were unsold at reporting date and as at 18 February 2016, 3 of these lots have now been contracted for sale leaving 1 lot to sell. The project has delivered Folkestone an equity IRR of 26.8 per cent. As at the reporting date, Folkestone's remaining funds invested were \$0.5 million.
- Potters Northside is a 140 lot land subdivision diagonally opposite our Potters Grove development. The development is being undertaken in a joint 50/50 venture with ID_Land. Development of the first stages of the project commenced in the December 2015 quarter and the pre-sales secured to date remain ahead of budget. As at the reporting date, Folkestone's funds invested were \$2.1 million with a further \$1.2 million in funds forecast to be invested to complete the project.
- In December 2015, Folkestone entered into a fourth joint venture with ID_Land, to develop a 48 hectare residential master-planned community in Wollert in Melbourne's rapidly growing Northern Growth Corridor. The project will encompass circa 500 residential lots, with an on completion value of approximately \$120

million. Following the PSP approval (expected in mid 2016), Folkestone and ID_Land anticipate to sell down part of their investment to third party investors consistent with the process for the Folkestone Truganina Development Fund. As at the reporting date, Folkestone's funds invested were \$2.7 million with a further \$0.3 million in funds forecast to be invested to achieve the rezoning of the site.

- In October 2015, we entered into a second 50/50 joint venture with the Lyon Group Australia, to acquire development rights to circa 60 hectares of land which is currently owned or under option by an entity associated with the Lyon Group in South Dural. The joint venture has been appointed as Preferred Developer Proponent by the South Dural Residents and Ratepayers Group and is working collaboratively with Hornsby Shire Council and the NSW State Government to have more than 240 hectares in South Dural rezoned including the joint venture's land. As at the reporting date, Folkestone's funds invested in this project were \$5.9 million with a further \$0.6 million to be invested over the next year to fund costs associated with the rezoning.
- Folkestone holds a 25 per cent interest in the project The Ranges, Karratha. Stage 1 comprises 2.2 hectares with a "Tourism" zoning and DA approval for 108 single level, one bedroom villas. During the current reporting period, construction of Stage 1B (32 villas) was completed. As at 31 December 2015, a total of 12 settlements of Stage 1B villas had been completed with a further 4 settlements due to be completed in the March 2016 quarter. The remaining 16 villas will be acquired by the various joint venture partners in the project with Folkestone agreeing to acquire 4 villas. Settlement of these villas is forecast to be completed in the March 2016 quarter. Folkestone made a \$1.2 million provision against the carrying value of its investment in this project given the slowdown in the Karratha market and the resultant impact on values.

SENIORS LIVING

In November 2015, Folkestone announced the appointment of Stuart Nicolson as CEO – Seniors Living to drive Folkestone's development of a seniors living platform which will include retirement villages and aged care facilities. Folkestone is in exclusive due diligence on a number of seniors living assets which we expect to conclude during the second half of FY16.

OUTLOOK

Despite an uncertain economic environment, demand should improve across most non-residential sectors with the exception of the Perth market which is being impacted by the resource sector downturn. Despite cap rates nearing cyclical lows we expect, due to the continued weight of money chasing real estate assets, capital values for quality assets (i.e. those with strong covenants and long leases in quality locations) to rise in the year ahead, albeit not to the extent recorded in 2015.



The challenge in this environment is to avoid taking greater risk in the search of higher (yield) returns. Investors should focus on quality assets or secondary assets which offer opportunities for value-creation through active management via releasing, repositioning or refurbishing. Now is not the time to stretch on price. Maintaining investment discipline will be key.

We continue to believe that real estate related social infrastructure (childcare and seniors living) will offer attractive investment returns in the coming year. The demographic drivers (workforce participation and population growth for childcare and an aging population for seniors living) and the shortage of quality accommodation in both sectors will see investors increasingly look at these investments as a legitimate part of a real estate investment portfolio.

The residential sector is not homogenous and therefore the prospects for residential will vary across markets and between houses and medium density apartments. Tighter credit conditions, lower yields and affordability issues will temper price growth in the Sydney and Melbourne markets. However, we don't expect these markets to collapse. The Brisbane house and land market should hold-up due to its competitive affordability, while the Perth residential market will continue to struggle following the resource sector downturn. We remain concerned about the risk of oversupply in the South Sydney, inner Melbourne and inner Brisbane apartment markets, and the tighter lending controls on investors will exacerbate the risks in these markets. Our preference in the coming 12 months, is residential land in the growth corridors of Melbourne, Sydney and Brisbane, apartments in Sydney around major transport nodes and residential in mixed use developments.

Looking forward, we will continue to be disciplined in seeking new opportunities that offer appropriate risk adjusted returns and will focus on:

- the east coast markets for both residential and non-residential investment opportunities;
- delivering on our development pipeline which has an end value of more than \$1.6 billion (Folkestone's share \$782 million) and securing more than \$365 million (Folkestone's share \$217 million) currently under exclusive due diligence;
- expanding our exposure to the real estate related social infrastructure space, especially early learning and seniors living - the demographic tailwinds are compelling;
- seeking opportunities where we can manufacture quality investment product rather than relying on entering a competitive tender process to acquire completed assets on market; and
- undertaking accretive, opportunistic development acquisitions for Folkestone's on-balance sheet investments and to seed and/or co-invest in development funds.

Folkestone, with its strong balance sheet and access to third party capital, is well placed to grow its funds under management across its listed and unlisted funds management platform, and invest in select development opportunities on its balance sheet.

Since the recapitalisation of the Company in March 2011, the Company has focussed on increasing its recurring income so that it provides a stable funding source for the payment of the fixed operating costs of the business. Given the growth in our recurring income, our strong balance sheet and assuming no material change in market conditions, Folkestone confirms its prior advice that it expects to pay a fully franked dividend of at least 2.5 cents per share in respect of FY16.

Garry Sladden
Non-Executive Chairman

Greg Paramor
Managing Director

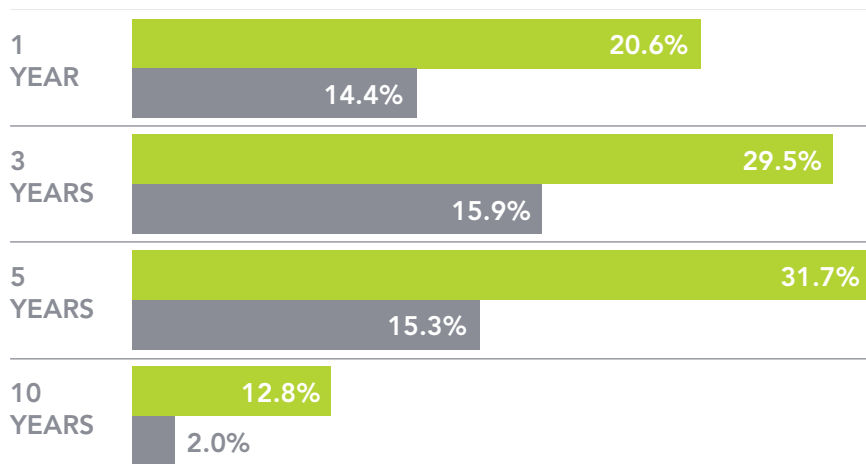
LISTED A-REIT

FOLKESTONE EDUCATION TRUST (ASX CODE: FET)

YEAR ENDED 31 DECEMBER	2015	2014	VAR. %
Distributable Income (\$m)	16.9	13.1	29.0
Distribution (cpu)	6.7	6.35	5.5
AS AT	DEC 15	JUN 14	VAR. %
Total Assets (\$m)	708.7	654.5	8.3
Investment Properties ¹ (\$m)	677.1	627.3	7.9
Borrowings ² (\$m)	195.6	193.2	1.2
Net Assets (\$m)	493.8	445.0	11.0
Gearing ³ (%)	27.6	29.5	(1.9)
NTA per Unit (\$)	2.00	1.82	9.9

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 5.5 per cent to 6.7 cpu in the six months to 31 December 2015. The total return for the six months to 31 December 2015 was 11.0 per cent substantially outperforming the S&P/ASX 300 A-REIT Accumulation Index which returned 7.2 per cent. FET has outperformed the Index significantly over 1, 3, 5 and 10 year periods.

During the six months to 31 December, the Fund acquired four existing centres (total value of \$12.8 million) and settled

two development sites which will be developed as centres (total end value of \$9.5 million).

The Fund continued its active program of selling non-core centres, with three centres sold for a total of \$6.6 million at an average yield of 6.9 per cent and a 27.8 per cent premium to the carrying value at 30 June 2015.

FET, with its quality portfolio (99.5 per cent occupancy, long-terms leases averaging 7.8 years and no major lease expiries in the portfolio until 2020), low gearing of 27.6 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
31 December 2015

VALUE OF INVESTMENT
PROPERTIES

\$677.1M

HY16 OPERATING
INCOME

\$30.5M

AVERAGE LEASE
INCOME INCREASE
(Y-O-Y)

2.6%

PROPERTY YIELD

7.6%

DEVELOPMENT
PIPELINE

\$88.9M

OCCUPANCY RATE

99.5%

WEIGHTED AVERAGE
LEASE EXPIRY
(BY INCOME)

7.8YRS

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)	34.3
Occupancy (%)	100
HY16 Annualised 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 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 31 December 2015, the building was 100 per cent occupied with an weighted average lease expiry of 6.2 years by income.

The Fund's total return for the year to 31 December 2015 was 20.9 per cent.

FOLKESTONE REAL ESTATE INCOME FUND AT ALTONA NORTH



FUND TOTAL RETURN

28.4%

Type	Unlisted
Sector	Large Format Retail
Location	Altona North, Victoria
No of Properties	1
Gross Assets (\$m)	35.9
Occupancy (%)	100
HY16 Annualised Distribution (%)	8.75
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 September 2014.

As at 31 December 2015, 100 per cent of the Centre was leased with a weighted average lease expiry by income of 9.4 years and 9.7 years by area. Millers Junction Home is performing well, based on the positive feedback from tenants.

The Fund generated a total return of 28.4 per cent for the year to 31 December 2015.

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)	30.5
Occupancy (%)	98.7
HY16 Annualised 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 continued in the past six months. During HY16, Folkestone completed Stage 2A of a major capital works program to enhance the operational efficiency and appearance/amenity of the building. Works completed during the half year included major upgrades to the common areas on levels 1-5. Works planned in the next six months include an upgrade to the foyer including the addition of a small cafe.

The Fund's total return for the year to 31 December 2015 was 21.6 per cent.

FOLKESTONE REAL ESTATE INCOME FUND AT OXLEY



MOVING ANNUAL TURNOVER

\$34.1M

Type	Unlisted
Sector	Neighbourhood Retail
Location	Oxley, QLD
No of Properties	1
Gross Assets (\$m)	37.6
Occupancy (%)	98.9
HY16 Annualised 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 14.0 per cent to \$34.1 million at 31 December 2015. The Fund's total return for the year to 31 December 2015 was 19.6 per cent.

PRIVATE FUNDS

FOLKESTONE CIB FUND



OCCUPANCY

100%

Type	Unlisted
Sector	Police Stations & Courthouses
Location	Victoria
No of Properties	11
Gross Assets (\$m)	73.1
Occupancy (%)	100

The Folkestone CIB Fund is a closed wholesale unit trust that owns nine 24 hour police stations and two law court complexes. The State Government have recently exercised the five year option to extend the lease expiry on all sites to 30 November 2020. Discussions continue in relation to a further extension of all leases across the portfolio.

The Fund's NTA per unit as at 31 December 2015 was \$2.07 (2014: \$1.96).

FOLKESTONE WEST RYDE DEVELOPMENT FUND



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
ROE/Equity IRR (%) ²	50.0/30.0
Fund Expires	June 2016 ¹

The Fund, in joint venture with the Toga Group, has completed a 229 residential development located in West Ryde.

As at 30 June 2015, 64 apartments were settled with the remaining 165 apartments settled by the end of August 2015 - 9 months ahead of schedule. The return on equity² increased from 32.0 per cent p.a. to 50.0 per cent per annum and the equity IRR² increased from 18.0 per cent per annum to 30.0 per cent per annum.

Folkestone invested \$8.7 million in the Fund, and has generated a return on equity of 79 per cent over the life of the Fund comprising an acquisition fee of \$0.6 million, management fees of \$0.3 million, a performance fee of \$1.6 million and co-investment net profit before tax of \$4.4 million of which \$3.3 million was earned in this reporting period.

1. Completion of 12 Month Defect Liability Period.

2. Post fees, pre-tax.

PRIVATE FUNDS

FOLKESTONE TRUGANINA DEVELOPMENT FUND



LAND SUB-DIVISION

~707 LOTS

Type	Unlisted
Sector	Residential Land
Location	Truganina, VIC
No of Lots	Circa 707
JV Partner	ID_Land
Fund Interest in Project (%)	80
Fund Equity (\$m)	18.25
FLK Co-Investment in Fund (%)	18.8
Forecast ROE/Equity IRR (%) ¹	69/20
Fund Expires	July 2018

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 suburbs. The Fund is developing, in joint venture with ID_Land (20 per cent), circa 707 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 31 December 2015 we have pre-sold almost double the number of lots forecast at this point in the base case feasibility.

To facilitate the fast tracking of the development based on the strong pre-sales, in October 2015, the Fund raised \$2.5 million from Investors through a loan note offer in conjunction with a further \$2.5 million from Folkestone on an at-call basis. The Loan Notes Offer closed significantly oversubscribed.

1. Post fees, pre-tax.

A-REIT SECURITIES 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 16.8 per cent (after fees, before tax) in the year to 31 December 2015 outperforming the S&P/ASX300 A-REIT Accumulation Index which returned 14.4 per cent. The Fund was the best performing fund in the Mercer A-REIT Australian Institutional Sector Survey for the year to 31 December 2015 and is second best performing fund over 3 years.

At the end of December, the Fund's investments comprised 20 ASX listed securities totalling 97.0 per cent of the portfolio. Of these, 14 securities were constituents of the S&P/ASX 300 A-REIT Index with the remaining 6 being ex-Index securities. Unlisted securities comprised 0.6 per cent of the portfolio whilst the remaining 2.4 per cent of the portfolio was held in Cash/Liquid investments.

FOLKESTONE MAXIM A-REIT SECURITIES SMA

The Folkestone Maxim A-REIT Securities SMA actively invests in a diversified portfolio of predominantly Australian listed real estate investment trusts and real estate related securities. The SMA has exposure to a broad range of real estate assets including, but not limited to, retail, residential, commercial, industrial and real estate related social infrastructure.



DIRECT INVESTMENTS

MILLERS JUNCTION BUSINESS (STAGE 2)



FORECAST GROSS REVENUE

\$30M

Sector	Commercial/Industrial/ Retail Mews
Location	Altona North, VIC
Size	Circa 74 mews
Folkestone Interest (%)	50
Folkestone Invested Capital (\$m)	2.0
JV Partner	Wilmac Properties
Forecast Gross Revenue (\$m)	30
Construction Commenced	September 2015
Forecast Completion Date	Late 2018

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.

The project has a forecast gross revenue of approximately \$30.0 million.

Marketing of the mews has commenced and as at 31 December 2015, 73% of mews released had been pre-sold. Construction of Stage 1 (29 mews) has commenced and with the strong level of pre-sales secured to date, Stage 2 (14 mews) is due to commence construction in the March quarter 2016.

As at the reporting date, Folkestone's funds invested in this project were \$2.0 million with a further \$0.5 million in funds forecast to be invested to complete the project.

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
Folkestone Invested Capital (\$m)	6.7
Forecast Growth Revenue (\$m)	65 ²
Construction Commences	Mid 2017
Forecast Completion Date	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. Heads of agreement for lease have been secured with a major supermarket operator. Folkestone is currently finalising the masterplan for the site before a development application is lodged with Council.

As at the reporting date, Folkestone's funds invested in this project were \$6.8 million with a further \$1.9 million in funds forecast to be invested to fund master planning costs and the remainder of the sub-lease with Bunnings prior to the exercise date of the option agreement in July 2016.

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

2. Subject to Council Approval.

DIRECT INVESTMENTS

KNOXFIELD



FORECAST GROSS REVENUE

\$31M

Sector	Commercial/Industrial/ Retail Mews
Location	Knoxfield, VIC
Size	Circa 88 mews
Folkestone Interest (%)	50
Folkestone Invested Capital (\$m)	0.4
JV Partner	Wilmac Properties
Forecast Gross Revenue (\$m)	31
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 (March 2016). Marketing of Stage 1A commenced in HY16 with 6 pre-sales secured at 31 December 2015 and a further 2 pre-sales secured since that time. Construction of this stage will commence in May 2016.

As at the reporting date, Folkestone's funds invested in this project were \$0.4 million with a further \$1.7 million in funds forecast to be invested to complete the project.

WOLLERT



FORECAST GROSS REVENUE

\$118M

Sector	Residential
Location	Wollert, VIC
No. of Lots ¹	Circa 500
Folkestone Interest (%)	50
Folkestone Invested Capital (\$m)	2.7
JV Partner	ID_Land
Forecast Gross Revenue (\$m) ¹	118
Construction Commences	Nov 2016
Forecast Completion Date	Mid 2021

In December 2015, Folkestone announced that it had entered into a fourth joint venture with ID_Land, to develop a 48 hectare residential master-planned community of circa 500 lots in Wollert in Melbourne's rapidly growing Northern Growth Corridor. Wollert is located in the City of Whittlesea, approximately 25 kilometres north of the Melbourne CBD and is ideally positioned between Craigieburn and Mernda.

The project is located within the Wollert Precinct Structure Plan (PSP) which is expected to receive Government approval in 2016. The land is being acquired on a staged settlement basis with a series of payments required between December 2015 and 2019. Following the PSP approval, Folkestone and ID_Land expect to sell down part of their investment in the project to third party investors consistent with the process for the Folkestone Truganina Development Fund.

As at the reporting date, Folkestone's funds invested in this project were \$2.7 million with a further \$0.3 million in the funds forecast to be invested to achieve the re-zoning of the land.

1. Subject to Council Approval.

DIRECT INVESTMENTS

POTTERS GROVE, OFFICER



RETURN ON EQUITY

26.8%

Sector	Residential Land
Location	Officer, VIC
No of Lots	240
Folkestone Interest (%)	50
Folkestone Invested Capital (\$m)	0.5
JV Partner	ID_Land
Forecast Gross Revenue (\$m) ¹	44.4
Lots Sold ²	239
Lots Remaining ²	1
Forecast Completion Date	March 2016

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 31 December 2015, 236 lots (98 per cent of the total lots) had been settled with 38 lots settled in HY16. Since 31 December 2015, a further 3 lots have been contracted for sale but have yet to settle. Folkestone expects the remaining lot to be sold by the end of March 2016.

Potters Grove is forecast to deliver to Folkestone a total return of \$4.5 million and an equity IRR of 26.8 per cent.

As at reporting date, Folkestone's remaining funds invested in this project were \$0.5 million.

POTTERS NORTHSIDE, OFFICER



NUMBER OF LOTS

~140

Sector	Residential Land
Location	Officer, VIC
No of Lots	Circa 140
Folkestone Interest (%)	50
Folkestone Invested Capital (\$m)	2.1
JV Partner	ID_Land
Forecast Gross Revenue (\$m)	28.0
Construction Commenced	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 Potters Grove residential land sub-division. 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.

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, with pre-sales running ahead of budget. Construction commenced in the December 2015 quarter.

As at the reporting date, Folkestone's funds invested in this project were \$2.1 million with a further \$1.2 million in funds forecast to be invested to complete the project.

1. Total Project.

2. As at 18 February 2016.

DIRECT INVESTMENTS

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
Folkestone Invested Capital (\$m)	4.2
JV Partner	Lyon Group
Forecast Gross Revenue (\$m)	Circa 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 a strategically located, mixed-use site 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. The joint venture has secured a total 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 strategic 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.

As at the reporting date, Folkestone's funds invested in this project were \$4.2 million with a further \$0.8 million in funds forecast to be invested to achieve the re-zoning of the land.

SOUTH DURAL



LAND OPTIONED

~60 HA

Sector	Residential
Location	South Dural
Land Area Optioned and/or Owned (hectares)	Circa 60
Folkestone Interest (%)	50
Folkestone Invested Capital (\$m)	5.9
JV Partner	Lyon Group
Forecast Gross Revenue (\$m)	Circa 610
Forecast Completion	2022

In October 2015, Folkestone announced that it had entered into a second 50/50 joint venture with the Lyon Group, to acquire development rights over circa 60 hectares of land which is currently owned or under option by an entity associated with the Lyon Group in South Dural. South Dural is strategically located between the rapidly growing suburbs of Glenhaven and Kellyville and the established areas of Castle Hill and Cherrybrook in Sydney's north-west.

The joint venture is seeking the rezoning of South Dural which comprises approximately 240 hectares, including the land over which it has development rights, to facilitate residential and mixed use development in an integrated manner under the NSW Government's Gateway Determination dated 4 March 2014. The joint venture has been appointed as Preferred Developer Proponent by the South Dural Residents and Ratepayers Group and is working collaboratively with Hornsby Shire Council and the NSW State Government to have South Dural rezoned.

As at the reporting date, Folkestone's funds invested in this project were \$5.9 million with a further \$0.6 million in funds forecast to be invested to achieve the re-zoning of the land.

SENIORS LIVING PLATFORM

THE RANGES, KARRATHA



NUMBER OF VILLAS COMPLETED

73

Sector	Accommodation
Location	Karratha, WA
No of Villas – Stage 1	108 (73 completed)
Folkestone Interest (%)	25
Folkestone Invested Capital (\$m)	3.3
JV Partner	Various Parties
Forecast Gross Revenue (\$m) ¹	55.0
No of Villas Sold ²	73
Forecast Completion Date	Under Review

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. The first 41 dwellings in Stage 1A opened in December 2012.

During the current reporting period, construction of Stage 1B (32 villas) was completed. As at 31 December 2015, a total of 12 settlements of Stage 1B villas have been completed with a further 4 settlements due to be completed in the March 2016 quarter. The remaining 16 villas will be acquired by the various joint venture partners in the project with Folkestone agreeing to acquire 4 villas. Settlement of these villas is forecast to be completed in the March 2016 quarter.

Folkestone has completed a review of the carrying value of its investment in this project which has been referenced by updated third party valuations which were completed following the completion of Stage 1B. As a result of this process, and in response to the current economic conditions in the region, Folkestone has made a further \$1.2 million provision against the carrying value of its investment in the project.

1. Stage 1 only.

2. 41 settled in Stage 1A and 32 lots sold or pre-committed in Stage 1B.

In November 2015, Folkestone announced it intends to pursue the development of a Seniors Living platform which will offer a range of seniors living opportunities including retirement villages and aged care facilities for the community and will also provide investment and development opportunities for both our funds management platform and balance sheet. To develop this arm of our social infrastructure business, Stuart Nicolson, previously CEO of Retirement Alliance until its sale in early 2015, joined Folkestone as CEO - Seniors Living. Mr Nicolson brings 10 years' experience in the seniors living area and was instrumental in building the Retirement Alliance business which owned and managed senior living assets worth more than \$700 million.

Commenting at the time, Greg Paramor, Folkestone's Managing Director said "We are delighted that Stuart has joined Folkestone to drive our move into the senior's living space. The demographic trends are compelling, and at the same time, there is significant demand for high quality seniors living accommodation. We believe that the move into seniors living is a natural extension of our strategy to be a key player in the social infrastructure space. We already have more than \$750 million in funds under management in social infrastructure through the ASX listed Folkestone Education Trust, Australia's largest owner of early learning properties, and the unlisted ClB Fund which owns police stations and courthouses in Victoria."

The seniors' living space continues to evolve to meet the needs of an ageing population. It was once considered a cottage industry run by a large number of small operators. The seniors living space is undergoing rapid transformation, with larger operators, better quality facilities and a recognition that the continuum of care stretches from independent living to dementia care, and off-site care through home care programs that aim to help older people stay independent and in their homes and communities for longer. Folkestone is in exclusive due diligence on a number of seniors living investment opportunities which we expect to conclude in the second half of FY16.





FOLKESTONE REAL ESTATE INCOME FUND AT SYDNEY OLYMPIC PARK, NSW



FOLKESTONE REAL ESTATE INCOME FUND AT OXLEY, QLD



FOLKESTONE AND I_D LAND'S DEVELOPMENT AT POTTERS GROVE, VIC



FOLKESTONE EDUCATION TRUST - NIDO EARLY LEARNING SCHOOL, NEDLANDS, WA

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