

FOLKESTONE FULL YEAR RESULTS AND ACQUISITION PROPOSAL

- Folkestone delivers strong 30 June 2018 full year results
 - Statutory net profit after tax of \$13.9 million, up 3.3%
 - Statutory earnings per share of 9.4 cps, up 3.3%
 - Normalised net profit after tax¹ of \$13.9 million, up 48.1%
 - Normalised earnings per share¹ of 9.4 cps, up 48.8%
 - Net asset value (NAV) per share of \$1.13, up 4.8%
 - Funds under management of \$1.6 billion, up 26.1%
- Folkestone and Charter Hall Group (ASX: CHC) enter Scheme Implementation Agreement for Charter Hall to acquire Folkestone

FINANCIAL RESULTS

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

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

Folkestone's Managing Director Mr Greg Paramor AO said "Folkestone delivered a strong FY18 result 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."

Reconciliation of Statutory NPAT and Normalised NPAT Attributable to Folkestone

Year Ending 30 June	2018	2017	% Change
Statutory NPAT (\$m)	13.9	13.4	3.4
Adjustments			
Wollert Rezoning Fee Outperformance (\$m)	-	(5.8)	100
Tax Impact of the Above (\$m)	-	1.7	(100)
Normalised NPAT ¹ (\$m)	13.9	9.4	48.1

Note: numbers may not add up due to rounding

¹ The normalised figures are non-statutory amounts and in Folkestone's view better reflect the underlying operating performance of the business. Normalised net profit after tax is arrived at after adjusting the Group's statutory NPAT in FY17 for the classification of \$5.8 million of the Wollert rezoning fee as a one-off as the \$8.8 million was \$5.8 million above the budgeted fee of \$3.0 million.

FY18 DIVIDEND

Consistent with the announcement made on 26 July 2018, the Board is pleased to confirm that it has determined that a final ordinary dividend in respect of the year ended 30 June 2018 of 3.0 cents per share fully franked at the rate of 30.0 per cent will be paid, an increase of 9.1 per cent on the FY17 ordinary dividend.

The ex-date for the dividend will be 10 September 2018, the record date will be 11 September 2018 and the payment date will be 27 September 2018.

ASSET BACKING

Folkestone's net asset value (NAV) was \$1.13 per share at 30 June 2018, up from \$1.08 per share at 30 June 2017. Net tangible asset (NTA²) backing was \$1.08 per share at 30 June 2018 compared to \$1.04 per share at 30 June 2017.

FUNDS MANAGEMENT

Folkestone's funds management division is a specialist real estate funds manager for private clients and select institutional investors. Folkestone increased its funds under management to \$1.6 billion at 30 June 2018, up 26.1 per cent from 30 June 2017.

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

Key features of the FY18 result are:

- launched four new funds;
- 25.0 per cent increase in recurring fee income and cost recoveries to \$9.5 million;
- 100.5 per cent increase in transaction fees to \$6.3 million which included \$3.3 million in acquisition fees from the launch of new funds and a \$1.5 million leasing fee in respect of the CIB Fund;
- \$5.1 million in performance fees in respect of the Wollongong and Sydney Olympic Park Income Funds; and
- 6.3 per cent increase in distributions from Folkestone's co-investment in the ASX listed Folkestone Education Trust to \$4.6 million.

NEW FUNDS LAUNCHED

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

- **Folkestone SOP Opportunity Fund** - In July 2017, Folkestone launched the Folkestone SOP Opportunity Fund to acquire 11 Murray Rose Avenue, Sydney Olympic Park. The six level commercial building, which was under construction at the time of the acquisition, comprises 5,811 square metres across five levels of office and ground floor retail with basement car parking. Practical completion occurred in March 2018.

Folkestone received commitments of \$24.7 million from a range of high net worth investors and family offices. Folkestone received an acquisition fee of \$0.7 million on the successful completion of the equity raising in July 2017.

² NTA per share is calculated using assets less liabilities, net of intangible assets and deferred tax liabilities.



- **Folkestone Sydney Airport Hotel Fund** - In October 2017, Folkestone launched the Folkestone Sydney Airport Hotel Fund to acquire the Mercure Sydney International Airport Hotel. The 271 room hotel, operated by the Accor Group under their Mercure brand, is located approximately 1.0 kilometre from the Sydney Airport International Terminal. Folkestone is undertaking an extensive refurbishment and repositioning of the Hotel to drive revenue, increase occupancy and enhance its capital value. The Fund has a target equity IRR of 14.4 per cent per annum (post fees, pre-tax) over the life of the Fund.

Folkestone successfully completed a \$50.0 million equity raising for the Fund which closed significantly oversubscribed. Folkestone received an acquisition fee of \$1.7 million on the successful completion of the equity raising in November 2017.

- **Folkestone Green Square Hotel Fund** - In November 2017, Folkestone launched the Folkestone Green Square Hotel Fund which will own a 144 room hotel to be constructed at 18 O'Riordan Street, Alexandria, New South Wales.

The project was initially secured by Folkestone in November 2016, when it announced that it had entered a 50/50 joint venture with Furnished Property to develop the hotel. Folkestone and Furnished Property will develop the hotel on behalf of the Fund, with the Fund not taking any development risk.

Folkestone successfully raised \$23.2 million to assist in funding the acquisition of the Hotel. The Fund has a target equity IRR of 12.0 per cent per annum (post fees, pre-tax) over the life of the Fund. Folkestone received an acquisition fee of \$0.9 million on the successful completion of the equity raising in December 2017.

Mr Paramor said "We are delighted with the positive response to our new funds, with all three closing significantly oversubscribed. Folkestone raised \$97.9 million from high net worth and family office clients, which reflects the strong distribution network we have created over the past few years".

- **Folkestone Plumpton Development Fund** - In June 2018, Folkestone launched the Folkestone Plumpton Development Fund, which will undertake a circa 251 lot residential land subdivision in a 50/50 Joint Venture with ID_Land. The Fund closed oversubscribed in July 2018, raising \$16.5 million. A \$0.4 million acquisition fee will be recognised in HY19.

TRANSACTION FEES

During FY18, Folkestone generated \$6.3 million in performance and leasing fees from the following funds:

- **Folkestone Real Estate Income Fund at Wollongong** - In October 2017, Unitholders voted in favour of the sale of the Fund's sole asset, 43 Burelli Street Wollongong and the windup of the Fund. The property was sold for \$46.1 million, a 67.5 per cent premium to the April 2013 acquisition price (inclusive of capitalised expenditure since acquiring the property). Unitholders in the Fund received \$1.80 for each \$1.00 invested, which represents an internal rate of return of 23.6 per cent per annum (post fees, pre-tax) since inception of the Fund four and a half years ago, compared to the performance hurdle benchmark of 12.0 per cent per annum. As a result of the sale of the asset and the windup of the Fund, Folkestone received a performance fee of \$2.9 million.



- **Folkestone Real Estate Income Fund at Sydney Olympic Park** - In November 2017, Unitholders voted in favour to extend the Fund term for a further three years to December 2020. The Fund owns 7 Murray Rose Avenue, Sydney Olympic Park, a 5,931sqm A-Grade commercial building with 100 per cent of the office space leased to Thales, a leading international electronics and systems group for another five years. Unitholders in the Fund received a total return since inception of circa 17.2 per cent per annum (post fees, pre-tax) compared to the performance hurdle benchmark of 10.0 per cent per annum. As a result of the Fund's extension and outperformance, Folkestone received a performance fee of \$2.2 million.
- **Folkestone CIB Fund** - Folkestone's CIB Fund owns a portfolio of 9 police stations and 2 courthouses leased to the Victorian Government. As a result of renewing the leases from a common expiry date of 2020 to varying dates between August 2023 and August 2028, Folkestone received a leasing fee of \$1.5 million.

FOLKESTONE EDUCATION TRUST

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

During the current reporting period, Folkestone generated \$9.9 million before tax from FET, which included:

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

DIRECT INVESTMENTS - DEVELOPMENTS

Folkestone's development division focuses on value-add and opportunistic real estate developments. Folkestone's development division generated a net development profit³ of \$6.5 million, down 61.0 per cent on FY17⁴.

Key features of the FY18 result are:

- \$6.0 million in net development profits from Millers Junction Business at Altona North, Industria at Knoxfield, Northside at Officer and Elements at Truganina (via Folkestone's 18.8 per cent interest in the Folkestone Truganina Development Fund);
- \$1.5 million in preferred equity interest in FY18 from four projects (South Dural, Hornsby, Wollert and Green Square);
- (\$1.7) million share of development costs expensed and impairments in respect of the South Dural project; and
- continued strong sales and settlements in respect of our residential land projects and enterprise park projects in Melbourne.

Mr Paramor said "Folkestone continues to secure strong pre-sales across our active residential and enterprise park (office/ warehouse units) developments in Melbourne. Folkestone's strategy to invest in these sectors in Melbourne, continues to be rewarded.

³ Net of all project costs incurred during the period and includes development profit, fees, preferred equity income, impairments and rental expenses on operating leases.

⁴ FY17 net development profit was \$16.7 million, boosted by a \$8.8 million one-off rezoning fee from its Wollert residential development.



Melbourne's strong population, employment and economic growth continues to drive demand for both residential land lots and enterprise park units."

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

ENTERPRISE PARKS

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

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

RESIDENTIAL LAND

Folkestone's residential land projects (Potters Northside in Officer, in south-east Melbourne, Elements in Truganina⁵, in western Melbourne, Amber, Wollert⁶ in northern Melbourne and Rosewood in Plumpton in north-west Melbourne⁷) are all in joint venture with ID_Land.

During FY18, 227 lots were pre-sold and 258 lots were settled across Folkestone's projects. Folkestone recognised a \$0.3 million share of development profits in respect of the Potters Northside project and a \$0.8 million share of development profits (net of fund costs) from its investment in the Folkestone Truganina Development Fund.

Folkestone and ID_Land also announce they have entered into their sixth joint venture to purchase a 75 hectare site at Gisborne, Victoria. The site, at 39 Willowbank Road, Gisborne, is one of only a few parcels already zoned general residential in the fast-growing Macedon Ranges where they plan to create a circa \$250 million residential master planned community of more than 600 lots, plus major reserves, sports ground and a primary school (subject to council approval). Folkestone and ID_Land 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.

In October 2015, Folkestone announced that it had entered into a second 50/50 joint venture with the Lyon Group, in relation to land currently zoned rural in South Dural, in north-west Sydney, to pursue a rezoning to residential. Since 2015, the joint venture has been actively seeking a rezoning of land. However, this process is expected to take significantly longer than originally anticipated and as a result, Folkestone has advised the Lyon Group that it does not intend to proceed with the project. The joint venture has a sunset date of March 2019, and Folkestone expects its funds employed to be returned by June 2019. During FY18, Folkestone recognised a \$0.8 million impairment provision against the carrying value of its investment in the project, in addition to the \$0.9 million of development costs expensed during the year.

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

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

7 Folkestone holds a 20.0 per cent interest in the Folkestone Plumpton Development Fund.

RESIDENTIAL TOWNHOUSES

In September 2017, Folkestone entered into a 50/50 joint venture with ID_Land to develop 64 townhouses in Hadfield, known as The Walter, 14 kilometres north of the Melbourne CBD. Settlement of the land occurred in October 2017 and construction is now underway. As at 30 June 2018, a total of 45 townhouses had been presold, representing 70.3 per cent of the Project.

RESIDENTIAL APARTMENTS

In FY18, the Folkestone/Lyon Group joint venture settled the acquisition of a commercial building it had under option in Hornsby in Sydney's north-west. The joint venture has now acquired four sites totalling in excess of 3,200 square metres, strategically located opposite the Hornsby Train Station and Westfield Hornsby. Master-planning for a mixed-use development, including residential apartments, retail and community uses is ongoing. In December 2017, Hornsby Council adopted the Hornsby Eastside Town Centre Planning Proposal that re-zones B3 Commercial Core to B4 Mixed Use and approved funding to allow for the necessary technical studies to be undertaken to address the matters outlined in the Gateway Determination issued by the NSW Department of Planning and Environment.

RETAIL

In June 2018, the Victorian Planning Minister approved the rezoning of the land at Millers Road, Altona North to Commercial 2 and the issue of a planning permit for the development of a neighbourhood and large format retail centre which will be anchored by Woolworths.

HOTELS

In November 2016, Folkestone announced that it had entered into a 50/50 joint venture with Furnished Property to develop a 144 room hotel at Green Square, Sydney. The site, is located within the \$13.0 billion, 278 hectare Green Square Urban Regeneration Area and is strategically located approximately 120 metres from the Green Square Train Station. During FY18, Folkestone successfully completed a \$23.2 million equity raising for the Folkestone Green Square Hotel Fund. The equity raised, together with construction finance, will fund the development of the hotel on a fund-through basis reducing Folkestone and Furnished Property's funds employed to develop the hotel. Construction of the hotel has commenced and is forecast to be completed in the September 2019 quarter.

CHARTER HALL GROUP TO ACQUIRE FOLKESTONE LIMITED

The Board of Folkestone also announced today that it entered into a Scheme Implementation Agreement for Charter Hall Group (CHC) to acquire Folkestone (Scheme).

Under the terms of the Scheme, Folkestone shareholders will be entitled to receive \$1.39⁸ cash per share (Scheme Consideration), comprising:

- a Charter Hall cash consideration of \$1.354⁸ per share; and
- a special dividend of \$0.036 per share⁹ (Special Dividend).

⁸ As at the date of this announcement, there are 148,099,564 shares on issue and 3,268,128 unvested performance rights. In accordance with the terms of the Executive Incentive Plan, these performance rights will vest and as a result will receive the Scheme Consideration.

⁹ Folkestone is applying to the ATO for a class ruling in relation to the tax implications of the Scheme, including the availability of franking credits for the Special Dividend.

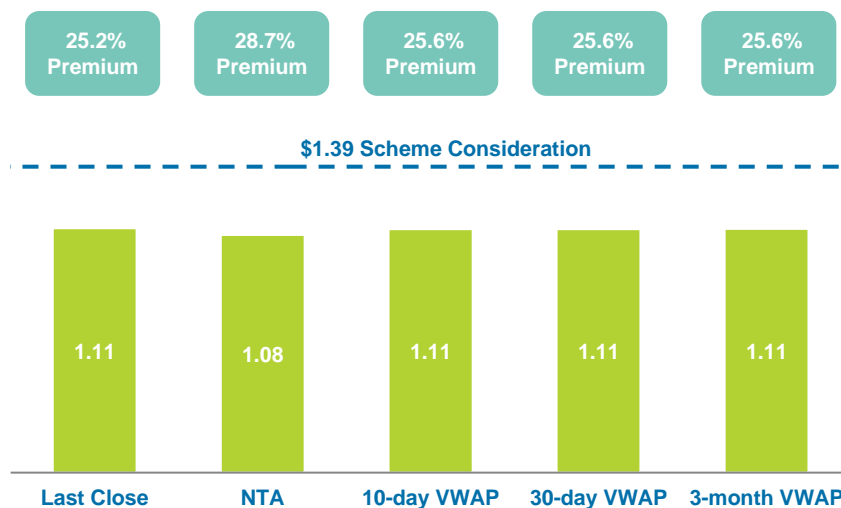


The Board of Folkestone unanimously recommends that Folkestone shareholders vote in favour of the Scheme, in the absence of a superior proposal and subject to an Independent Expert concluding that the Scheme is in the best interests of Folkestone shareholders. Subject to those same qualifications, each Director of Folkestone intends to vote all the shares held or controlled by them in favour of the Scheme.

Mr Garry Sladden, Chairman said “The Folkestone Board has considered the Scheme in the context of the current prospects of Folkestone and other strategic alternatives to maximise shareholder value, including maintaining the status quo, or sale of selected assets. After receiving and evaluating the CHC proposal, Folkestone Board has unanimously concluded that the sale of the company at a significant premium to the market price is the most certain value proposition for all Folkestone shareholders.”

SIGNIFICANT PREMIUM TO RECENT TRADING PERFORMANCE OF FLK

The proposed Scheme Consideration of \$1.39 represents a 25.2 per cent premium to the last close, a 25.6 per cent premium to 30 day VWAP, a 25.6 per cent premium to the 3-month VWAP and a 28.7 per cent premium to NTA¹⁰.



¹⁰ Net Tangible Asset (NTA) per share is calculated using assets less liabilities, net of intangible assets and deferred tax liabilities.

INDICATIVE TIMETABLE AND NEXT STEPS

Shareholders do not need to take any action at the present time. A Scheme Booklet containing information relating to the Scheme, an Independent Expert's report on whether the Scheme is in the best interests of FLK shareholders, the reasons for the Board's unanimous recommendation in favour of the Scheme, and details of the Scheme meeting will be sent to FLK shareholders in the coming weeks.

An indicative timetable for the Scheme is set out below:

Event	Date
First Court Hearing	Mid September 2018
Scheme Booklet Despatched to FLK Shareholders	Mid September 2018
Shareholder Meeting to Approve Scheme	Mid October 2018
Second Court Hearing	Mid/late October 2018
Effective Date	Mid/late October 2018
Record Date	Late October 2018
Implementation Date	Early November 2018

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About Folkestone

Folkestone (ASX:FLK) 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. www.folkestone.com.au