

Folkestone

Folkestone 2011 Annual General Meeting

Garry Sladden – Non-Executive Chairman & Greg Paramor – Managing Director



A specialist investor, developer
and funds manager providing
real estate wealth solutions

Introduction – Garry Sladden

Agenda

- ◆ Introduction – Garry Sladden

- ◆ Ordinary Business and Voting
 - ◆ Resolution 1: Financial Statements
 - ◆ Resolution 2: Re-election of Hugh Gurner
 - ◆ Resolution 3: Adoption of Remuneration Report

- ◆ Folkestone Overview – Greg Paramor
 - ◆ A New Folkestone
 - ◆ 2011 Annual Result
 - ◆ New Investments
 - ◆ Improved Existing Assets
 - ◆ High Activity Levels
 - ◆ Case Studies
 - ◆ Outlook


Ordinary Business & Voting

Resolution 1

- ◆ Financial Statements
 - ◆ To receive and consider the Directors' Report, Financial Statements and Independent Auditor's Report for the year ended 30 June 2011

Resolution 2

- ◆ To consider and, if thought fit, to pass the following as an ordinary resolution:
 - ◆ “That Mr Alistair Hugh Gurner, a Director retiring from office by rotation in accordance with Article 58 of the Constitution, being eligible, is re-elected as a Director of the Company.”

	
FOR:	60,272,546
OPEN:	17,348,221
AGAINST:	378,093
<hr/>	
FOR:	77.27%
<hr/>	
AGAINST:	0.48%
<hr/>	

Resolution 3

- ◆ To consider and, if thought fit, to pass the following as an ordinary resolution:
 - ◆ “That the Remuneration Report for the financial year ended 30 June 2011 be adopted.”

FOR: 56,497,888

OPEN: 7,803,172

AGAINST: 1,068,846

FOR: 86.43%

AGAINST: 1.64%

Folkestone Overview – Greg Paramor

A New Folkestone

- ◆ In a challenging market, we successfully raised over \$31.0 million to rejuvenate the business and establish new avenues of growth
- ◆ New Board established
 - ◆ The Board now includes Garry Sladden as Non-Executive Chairman and Ross Strang, Non-Executive Director who joined on 9 March 2011, Greg Paramor, Managing Director and Hugh Gurner, Non-Executive Director
 - ◆ The new Board has extensive experience and a wide range of skill sets including; real estate, law, financial services and corporate governance. All have acted as senior executives and /or directors of both listed and unlisted entities
- ◆ New senior management team in place
 - ◆ Folkestone's new senior management has extensive experience in the real estate and funds management industries spanning four decades
 - ◆ The new Senior Management possess longstanding and deep relationships throughout the Australian real estate, financial services and funds management industries, providing Folkestone with a competitive advantage in identifying, sourcing and executing investment and development opportunities, often off-market

2011 Annual Result

\$'000s	2011	2010
Revenue	8,229	2,925
Development Expenses	(7,187)	(2,052)
Impairment of Inventories	(2,526)	(1,357)
Consultants	(367)	(47)
Employee Expense	(1,283)	(1,231)
General Expenses	(1,075)	(666)
Impairment of Interests in Associated Entities	(8,015)	-
Loss Before Tax	(12,224)	(2,428)

2011 Annual Result

- ◆ Since March 2011:
 - ◆ two new real estate development projects have been secured in key growth regions
 - ◆ investment strategies for pre-existing assets determined
 - ◆ well positioned to capitalise on attractive opportunities
 - ◆ strong deal flow seen at both real estate and corporate levels

- ◆ Net loss of \$12.2 million mainly due to:
 - ◆ significant writedowns to Donnybrook Road, Mickleham and Millers Road, Altona North assets totalling \$10.5 million, of which \$9.7 million was incurred in the first half

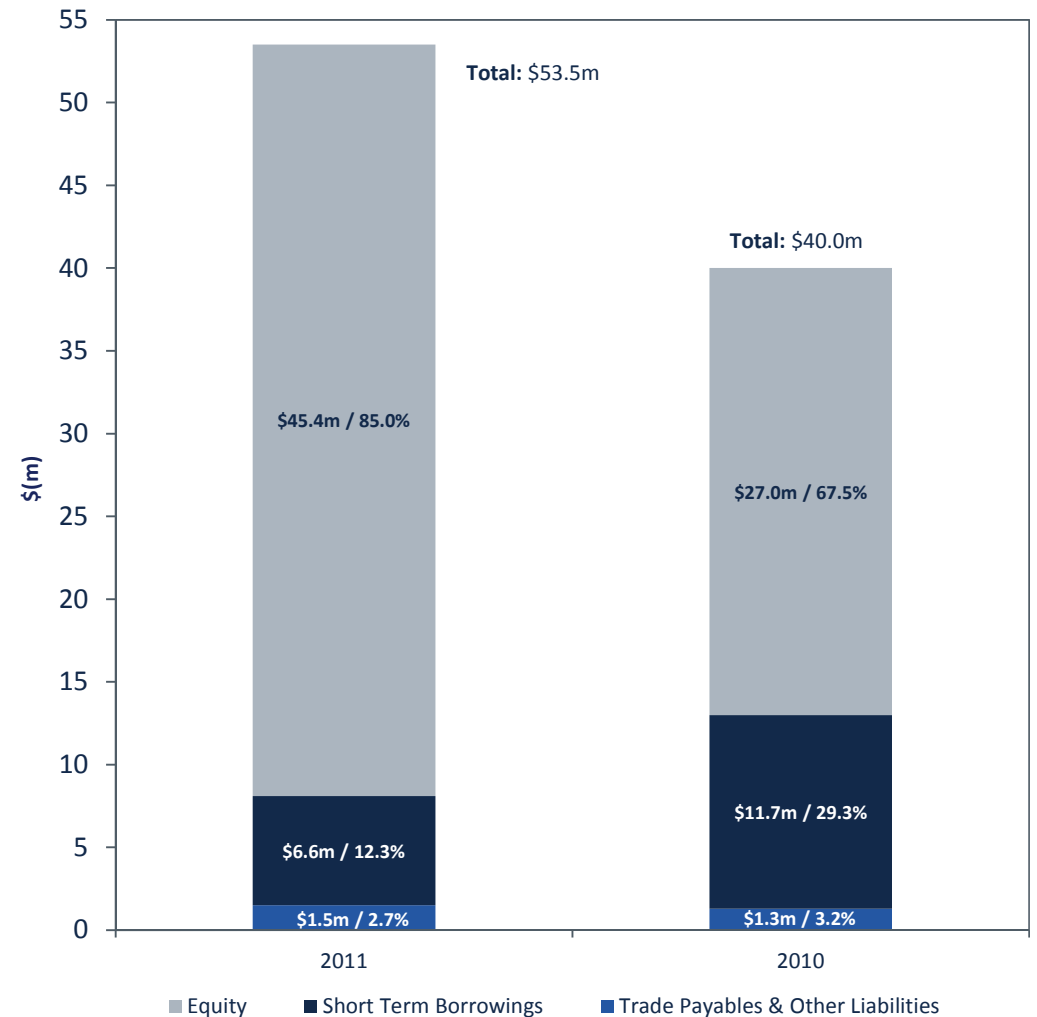
- ◆ Balance Sheet as at 30 June 2011:
 - ◆ NTA per share of 12.2 cents
 - ◆ cash per share 7.4 cents

Strong Balance Sheet

Assets: 2010 & 2011



Equity & Liabilities: 2010 & 2011



New Investments



- ◆ The Ranges, Karratha, WA
 - ◆ 25 per cent interest in short and long term accommodation development
 - ◆ Stage 1 consists of 108 one bedroom villas, 54 have been presold
 - ◆ Total forecast equity commitment of c\$3.6 million
 - ◆ Option over adjoining 7.1 hectare site with potential for another 350 dwellings
 - ◆ Rapidly growing population area that services a number of large scale natural resource projects



- ◆ Princes Highway, Officer, VIC
 - ◆ A 50:50 joint venture in a 14.1 hectare residential land subdivision in Melbourne's south-east growth corridor
 - ◆ Total forecast equity commitment of c\$6.1 million
 - ◆ Settlement is subject to rezoning
 - ◆ Rezoning process is currently on track

Improved Existing Assets



- ◆ The Terraces, Clifton Hill
 - ◆ 50:50 joint venture in a residential development of 87 dwellings
 - ◆ Removed construction bottlenecks, increased resourcing and safety standards and improved production quality and efficiency
 - ◆ Project scheduled for completion in early 2012 with proceeds of c\$8.0 million expected



- ◆ Millers Road, Altona North
 - ◆ 50:50 joint venture in a 13.9 hectare site suitable for industrial/bulky good retail
 - ◆ After a strategic review we have commenced civil works and exploring a possible subdivision
 - ◆ Once works start we expect to be able to pre-lease space thus creating value and improving saleability / development potential of the land
 - ◆ Well progressed with securing a major anchor tenant and national chain retail operators



- ◆ Donnybrook Road, Mickleham
 - ◆ 20 per cent share in a joint venture in a 320 hectare site 32 kilometres north of Melbourne
 - ◆ Developing a new masterplan and will be seeking council approval for part of the site to be residential
 - ◆ Managing the roll over of the senior debt facility by end of 2011

High Activity Levels

- ◆ Folkestone has a highly disciplined investment process with a target after tax return on equity of 15 per cent per annum on a rolling three year basis
- ◆ Since March 2011, 41 real estate opportunities passed our first level of scrutiny, of those:
 - ◆ 32 made it to the feasibility stage;
 - ◆ 19 made it to the Expression Of Interest stage (EOI); and
 - ◆ 2 successful acquisitions – Officer and Karratha
- ◆ We have also looked at six corporate transactions all involving funds management platforms and continue to look for opportunities in this space
- ◆ Folkestone now has the capacity to source and analyse opportunities as well as run an expanded real estate funds management platform – these overheads are necessary to set up and establish our future business
- ◆ We have been working with a number of well established co-investors thereby giving us the potential to pursue a number of major acquisitions that meet our strict investment criteria

Case Study 1

- ◆ 20 storey, B-grade commercial office building in Sydney CBD
- ◆ Folkestone was attracted to:
 - ◆ opportunity for major redevelopment / repositioning / increase net lettable area
 - ◆ central location and proximity to major transport exchanges
 - ◆ strong covenant of the retail anchor
- ◆ After examining the likely returns from the asset and ensuring they were within Folkestone's hurdle rate criteria an EOI was submitted for \$80.5 million in JV with a leading construction company
- ◆ Asset sold at \$95.0 million
- ◆ Asset would have been underwritten by Folkestone and then sold down into a closely held syndicate

Case Study 2

- ◆ Sydney lower north shore neighbourhood shopping centre comprising a Franklins supermarket and 26 specialty stores over 1,800 square metres
- ◆ Folkestone was attracted to:
 - ◆ significant redevelopment potential with opportunity for residential above
 - ◆ infill location and high discretionary spend of the surrounding catchment area
 - ◆ potential repositioning to a specialty food services offering
- ◆ EOI submitted for acquisition price of \$19.5 million
- ◆ Major supermarket chain was selected as preferred bidder at over 20 per cent higher price
- ◆ Asset would have been developed on our balance sheet and sold off at the appropriate time

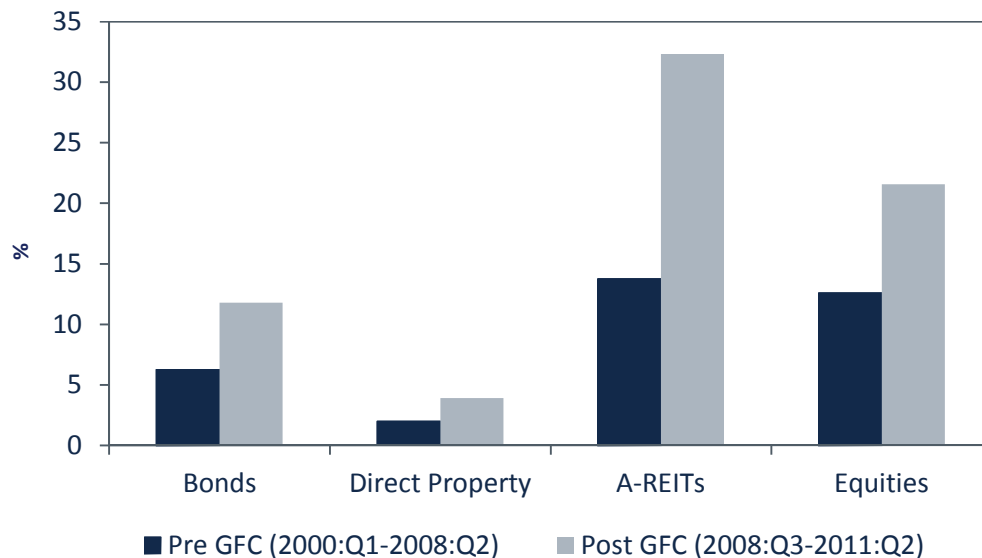
Case Study 3

- ◆ Inner suburban Adelaide based sub regional shopping centre comprising a supermarket, discount department store and 19 specialty stores
- ◆ Folkestone was attracted to:
 - ◆ historical and future income growth
 - ◆ value add from minor expansion / repositioning of specialty component
- ◆ EOI submitted for acquisition however preferred bidder selected at a forecast initial yield of 7.7 per cent versus Folkestone's offer of 8.7 per cent
- ◆ Asset would have been put into a single asset syndicate for high net worth and retail investors

Outlook

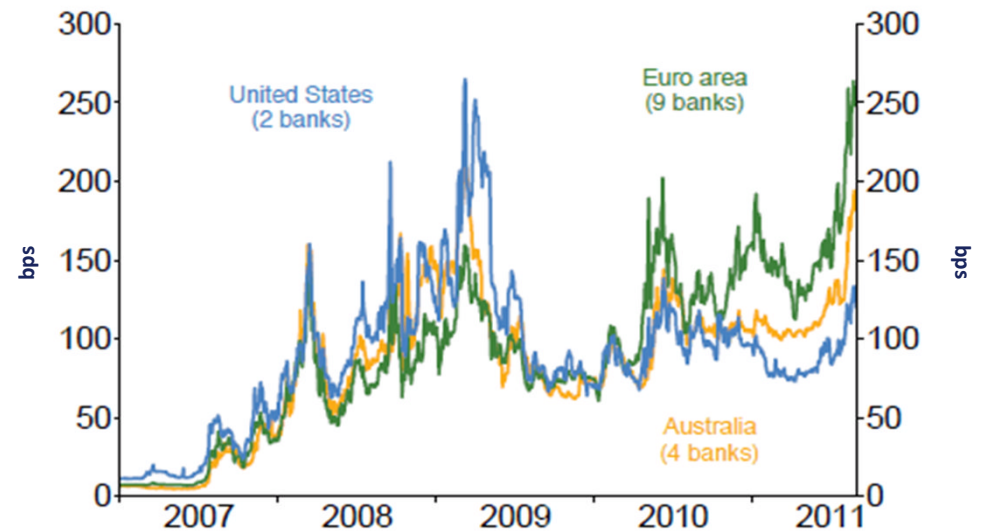
- ◆ Highly volatile, unpredictable and risk averse investment markets
- ◆ We continue to be presented with a range of real estate and funds management opportunities
- ◆ Folkestone is well positioned to capitalise on any attractive investment opportunities that satisfy our strict investment criteria

Return Volatility Across Selected Asset Classes:
2000 - 2011



Source: IPD

Selected Highly-Rated Bank CDS Spread:
2006 - 2011



Source: Bloomberg

Disclaimer

This paper has been published for information purposes only. The information contained in this paper is of a general nature only and does not constitute financial product advice. This presentation has been prepared without taking account of any person's objectives, financial situation or needs. Because of that, each person should, before acting on this presentation, consider its appropriateness, having regard to their own objectives, financial situation and needs. You should consult a professional investment adviser before making any decision regarding a financial product.

In preparing this presentation the author has relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources or which has otherwise been reviewed in preparation of the paper. The information contained in this paper is current as at the date of this paper and is subject to change without notice. Past performance is not an indicator of future performance.

Neither Folkestone Ltd , EREFM nor any of their associates, related entities or directors, give any warranty as to the accuracy, reliability or completeness of the information contained in this paper. Except insofar as liability under any statute cannot be excluded, Folkestone Ltd , EREFM and its associates, related entities, directors, employees and consultants do not accept any liability for any loss or damage (whether direct, indirect, consequential or otherwise) arising from the use of this paper.

If a product managed by Folkestone Ltd and/or EREFM is acquired, Folkestone Ltd. EREFM and its associates and related entities may receive fees and other benefits.

Folkestone Ltd // Equity Real Estate Funds Management Pty Ltd

T: +612 8667 2882

www.folkestone.com.au