

Folkestone

Folkestone 2012 Half Year Result

Period Ending 31 December 2011



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

Result Overview

2012 Half Year Result Highlights

- ◆ In the period ending 31 December 2011 :
 - ◆ significant improvement in net profit to \$0.7 million for the half year
 - ◆ NTA increased to 12.1 cents per share over the half year
 - ◆ PottersGrove, Officer land residential rezoning gazetted
 - ◆ all existing debt successfully refinanced
 - ◆ new \$18.3 million construction finance facility executed for Karratha JV
 - ◆ share buyback launched

- ◆ Net profit of \$0.7 million as a result of:
 - ◆ \$1.1 million in development profits for its Noone Street, Clifton Hill project; and
 - ◆ \$0.8 million reversal of the prior year impairment write down regarding Folkestone's 20.0 per cent interest in the Donnybrook Road, Mickleham project. This was made after reference to the most recent external valuation prepared for the refinancing of the senior debt facility in December 2011

- ◆ Balance Sheet as at 31 December 2011:
 - ◆ NTA per share of 12.1 cents
 - ◆ cash per share 6.6 cents

2012 Half Year Result

\$'000s	1H 2012	1H 2011
Revenue	10,741	6,490
Development Expenses	(8,802)	(5,946)
Impairment of Inventories	-	(2,282)
Consultants	(62)	(186)
Employee Expense	(1,290)	(539)
General Expenses	(669)	(302)
Reversal of Impairment/(Impairment) of Interests Held in Associated Entities	8,015	(7,394)
Share of Net Loss of Associated Entities	(7,222)	
Net Profit Before Tax	711	(10,159)

Direct Investments

- ◆ Folkestone's strategic focus on all direct investments is delivering results
- ◆ Despite challenging markets Folkestone successfully renegotiated all of its existing debt facilities during the half:
 - ◆ Noone St, Clifton Hill facility was fully repaid on 5 January 2012
 - ◆ Donnybrook Road, Mickleham facility was successfully re-financed and required the joint venture to contribute a further \$15.3 million in equity (Folkestone's share \$3.1 million) bringing Folkestone's 20.0 per cent equity interest in the project to \$10.0 million
 - ◆ 300 Millers Road, Altona North facility extended until 30 November 2012
- ◆ The joint venture investment in the PottersGrove, Officer residential development was rezoned to residential on 22 December 2011 and gazetted on 12 January 2012
- ◆ The Karratha joint venture also executed a construction facility of \$18.3 million for Stage 1a of the Karratha project and construction work is expected to commence in February 2012

Share Buyback Commenced

- ◆ Folkestone's share buyback was launched on 30 January 2012
- ◆ Folkestone can acquire a maximum of 9,969,923 shares or 2.69 per cent of total shares under the market buyback without obtaining shareholder approval
- ◆ The Board is committed to actively managing Folkestone's capital and believes the buyback provides the opportunity to repurchase shares at attractive levels which will be value accretive to Folkestone shareholders
- ◆ The Board will continue to assess the merits of this capital management initiative given that the Company has in excess of \$20.0 million in cash on its balance sheet and no corporate debt
- ◆ The Company reserves the right to suspend or terminate the share buyback at any time and to buyback less than 9,969,923 shares

Real Estate Portfolio Review

New Investments



- ◆ The Ranges, Karratha
 - ◆ 25.0 per cent interest in short and long term accommodation development
 - ◆ Stage 1 comprises 2.2 hectares consisting of 108 one bedroom villas – all the 41 dwellings in Stage 1a as well as 13 dwellings from the next stage have been sold
 - ◆ marketing campaign for the remaining 54 dwellings in Stage 1 is due to commence by mid 2012
 - ◆ total forecast equity commitment of c\$3.6 million with an option over adjoining 7.1 hectare site (Stage 2)
 - ◆ site preparation works have commenced and a construction contract has been executed

- ◆ PottersGrove, Officer
 - ◆ a 50:50 joint venture in a 14.1 hectare affordably priced residential land subdivision in Melbourne’s south-east growth corridor
 - ◆ total forecast equity commitment of c\$6.1 million
 - ◆ rezoning confirmation was received on 22 December 2011 and the rezoning was gazetted on 12 January 2012
 - ◆ balance of Folkestone’s equity investment (\$5.6 million) due for payment on 10 July 2012
 - ◆ forecast sales from the PottersGrove, Officer residential development are expected to commence settling in early 2013

Existing Assets



- ◆ Noone Street, Clifton Hill
 - ◆ 50:50 joint venture in a residential development of 87 dwellings
 - ◆ last remaining townhouse sold in November 2011 and settled in December 2011 – to date 66 of the 87 dwellings have settled
 - ◆ the balance of 21 dwellings on track for completion and settlement in first quarter of 2012
 - ◆ senior debt facility repaid in full on 5 January 2012
 - ◆ completion scheduled for early 2012 with proceeds of c\$9.0 million expected



- ◆ Millers Road, Altona North
 - ◆ 50:50 joint venture in a 13.9 hectare site suitable for industrial/bulky goods retail
 - ◆ civil works have commenced to create up to three super-lots and to provide significantly improved access to the site
 - ◆ tenant enquiry levels have increased with 88.0 per cent of Stage 1 space under negotiation with a range of leading bulky good businesses who wish to be located in Melbourne's western corridor



- ◆ Donnybrook Road, Mickleham
 - ◆ 20.0 per cent share in a joint venture in a 320.2 hectare site 33.2 kilometres north of Melbourne
 - ◆ new masterplan for the site determined which appeared in the recently exhibited Corridor Plan
 - ◆ rezoning application has been submitted to Hume City Council detailing approximately 60.0 hectares of residential land
 - ◆ joint venture successfully refinanced (until 20 December 2014) the senior debt facility which required the joint venture to inject \$15.3 million of further equity into the project bringing Folkestone's 20.0 per cent share of the equity in the project to \$10.0 million

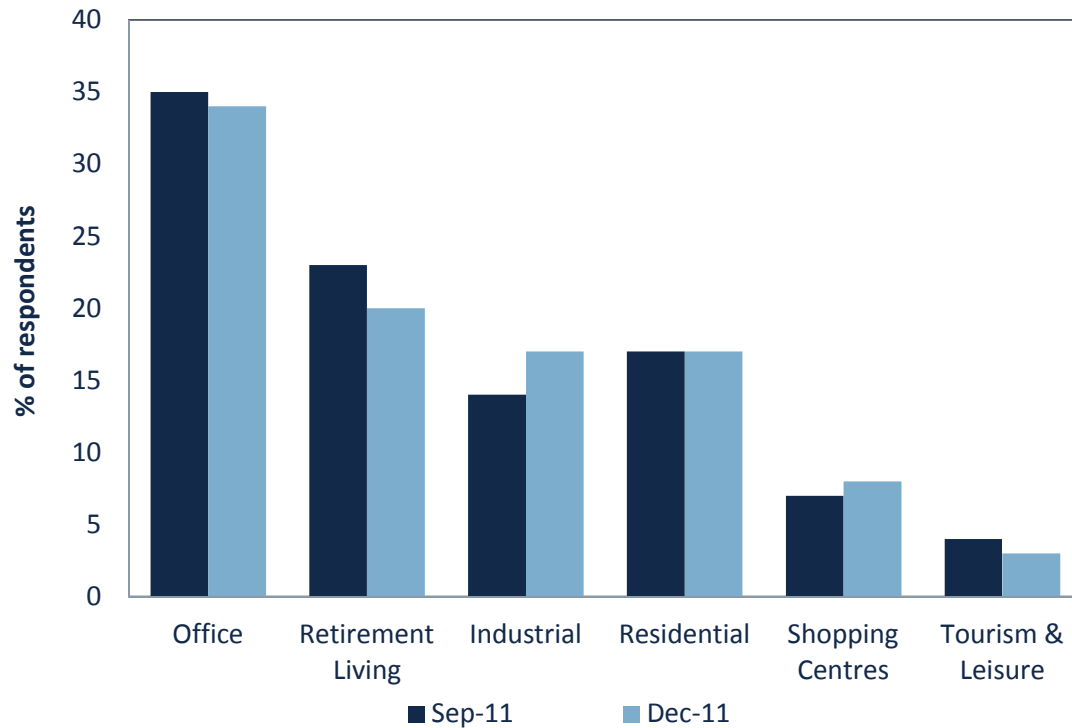
Market Overview

Mega-Trends

	WHAT IS IT?	WHAT ARE THE IMPLICATIONS FOR THE REAL ESTATE INDUSTRY
GLOBALISATION	<ul style="list-style-type: none"> ◆ Real estate capital is increasingly global ◆ Financial markets are interconnected ◆ Widespread de-leveraging 	<ul style="list-style-type: none"> ◆ Competition for core assets ◆ Market volatility is infectious ◆ Debt appetite low and cost high
LESS APPETITE FOR RISK	<ul style="list-style-type: none"> ◆ Investors focus on security – yield and lower volatility investments ◆ Return to cash 	<ul style="list-style-type: none"> ◆ Yield products will be in demand ◆ Investors/advisers still concerned about “legacy” issues of unlisted funds and have a risk “hangover”
LOWER GROWTH EXPECTATIONS	<ul style="list-style-type: none"> ◆ Lower capital growth environment leads to lower total returns 	<ul style="list-style-type: none"> ◆ Focus on yield and income sustainability ◆ Greater emphasis on active asset management to drive performance
CHANGING CONSUMPTION PATTERNS	<ul style="list-style-type: none"> ◆ Rise of the digital consumer ◆ Aging population - more spent on travel, leisure and healthcare ◆ Return to ‘simple’ investment products ◆ Capital preservation, quality of earnings key 	<ul style="list-style-type: none"> ◆ Shopping centres will need to adapt ◆ Growth in distribution centres ◆ Healthcare/ tourism growing sector ◆ Simple, transparent real estate funds ◆ Changing residential product mix
SUSTAINABILITY	<ul style="list-style-type: none"> ◆ Green buildings ◆ Increasingly non-discretionary – regulators and customers want it ◆ Social sustainability increasing theme 	<ul style="list-style-type: none"> ◆ More green buildings – driven by regulatory changes and tenant demand ◆ Greater obsolescence and higher cap ex on older buildings impacting demand and valuations
REGIONAL GROWTH	<ul style="list-style-type: none"> ◆ Australia’s resource boom fueling growth in non-metropolitan areas – NW WA, Central QLD, Hunter Valley 	<ul style="list-style-type: none"> ◆ Growing demand for real estate to support growth – residential and non-residential
SUPERANNUATION - RISE OF SMSFs	<ul style="list-style-type: none"> ◆ Significant growth in SMSF’s ◆ Investors want to control investments ◆ SMSF can borrow within fund 	<ul style="list-style-type: none"> ◆ SMSF will increase investment in residential and non-residential real estate ◆ Greater direct investing

Real Estate Outlook

12 Month Investment Potential – Best Performer in 2012

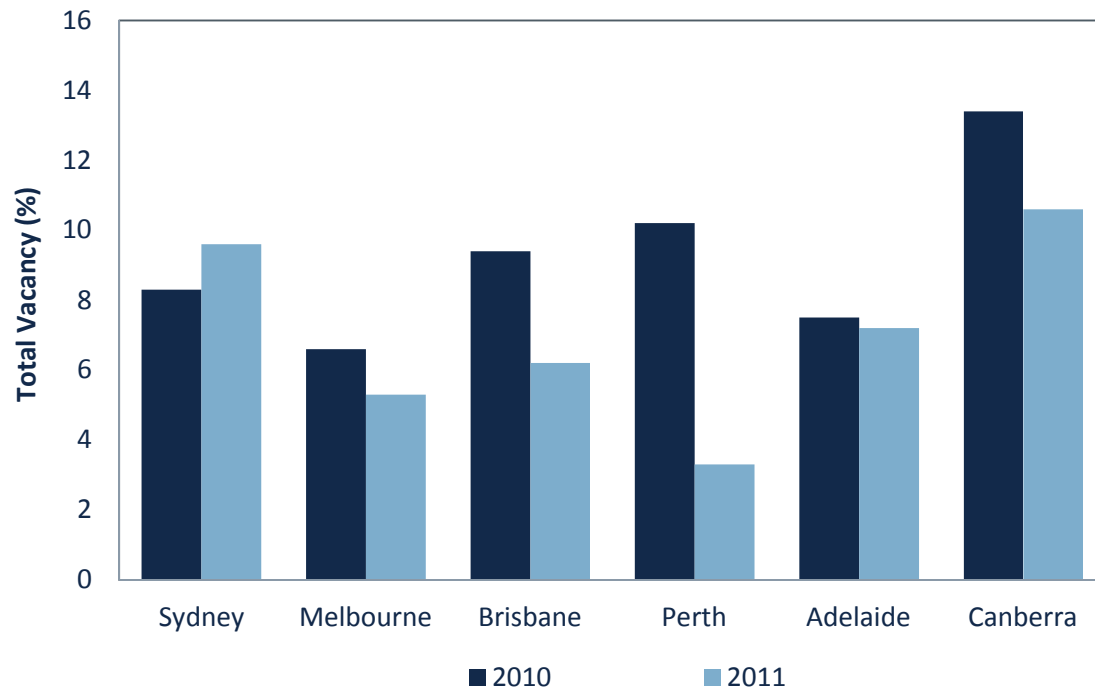


Source: Property Council/ANZ Property Industry Confidence Survey – 4,123 respondents

- ◆ Office sector is expected to outperform other sectors due, in part, to stronger demand in resource states – Brisbane and Perth – and minimal supply in most markets
- ◆ Retail and tourism sectors less favoured – impacted by both structural and cyclical factors
- ◆ Industrial benefiting from commodity boom and inbound trade activity – growth of distribution centres
- ◆ Residential sentiment remains cautious
- ◆ Retirement living is a growing opportunity, however there are issues around the best model to capture the aging population

Office Sector

CBD Office Vacancy Rates: 2010 & 2011

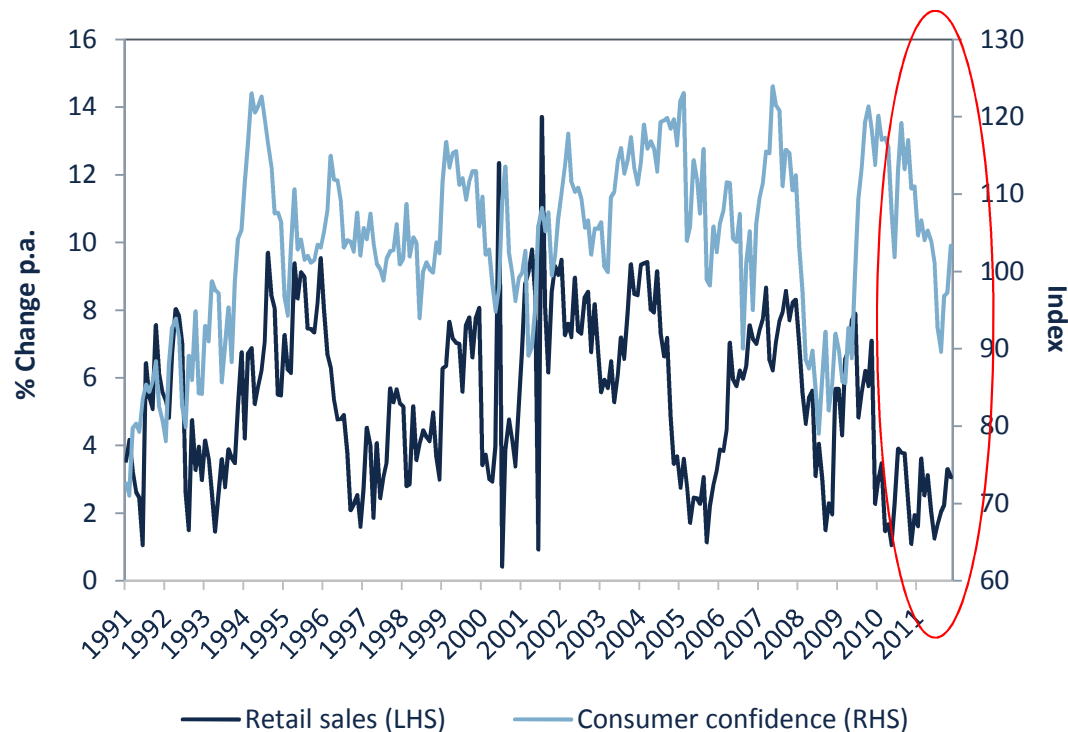


Source: Property Council of Australia

- ◆ CBD office market vacancy rates have declined over the past 12 months with exception of Sydney
- ◆ Brisbane and Perth CBD markets benefiting due to demand from resource-related sectors
- ◆ Sydney CBD impacted by strong linkage to financial services sector
- ◆ Supply in most markets remains constrained – very difficult to secure finance without large tenant pre-commitments

Retail Sector

Retail Sales vs. Consumer Confidence: 1991 - 2011

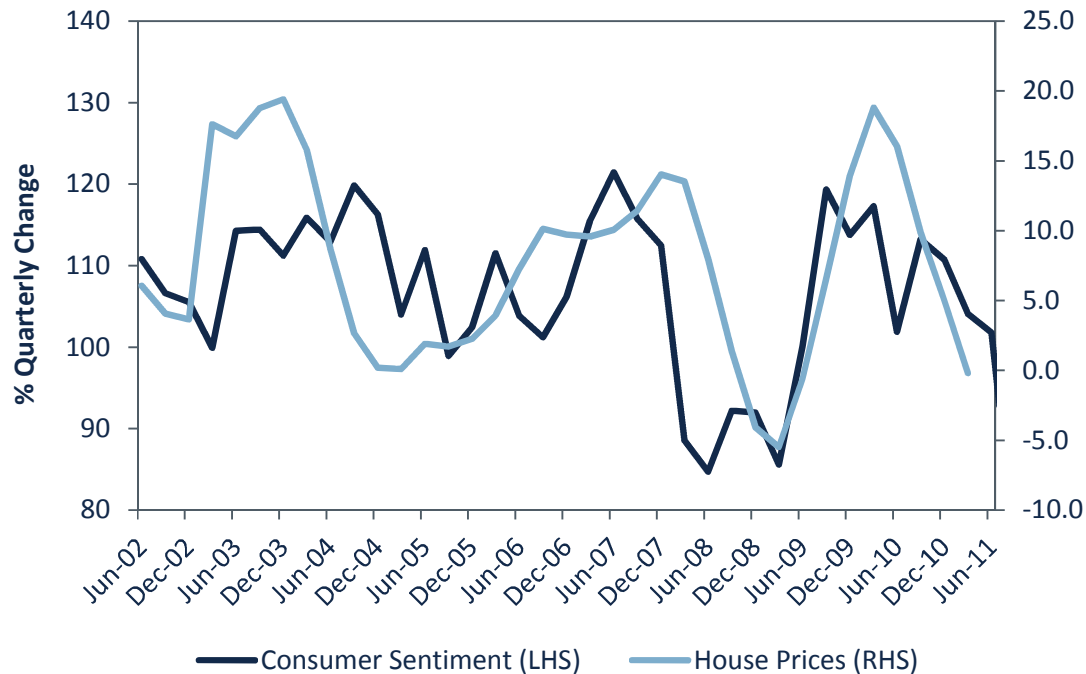


Source: ABS/Westpac-Melbourne Institute

- ◆ Consumers cautious – sentiment remains low
- ◆ Food spending continues to remain strong – represents about 40.0 per cent of total retail sales
- ◆ Discretionary retailers struggling – Colorado and Borders exit, a flurry of retailers’ profit downgrades – Myer, David Jones, Kathmandu
- ◆ Retailer landscape continues to evolve – new formats, loss of certain retailers (i.e. Borders) and competition from internet
- ◆ Cyclical upturn in retail values expected to be more muted than office due to pressure on rents and structural changes in the retail sector
- ◆ Quality retail centres will remain in demand but the best opportunity is in neighbourhood “food” based centres with strong catchment or repositioning potential

Residential Sector

Consumer Sentiment & House Prices: 2002 - 2011

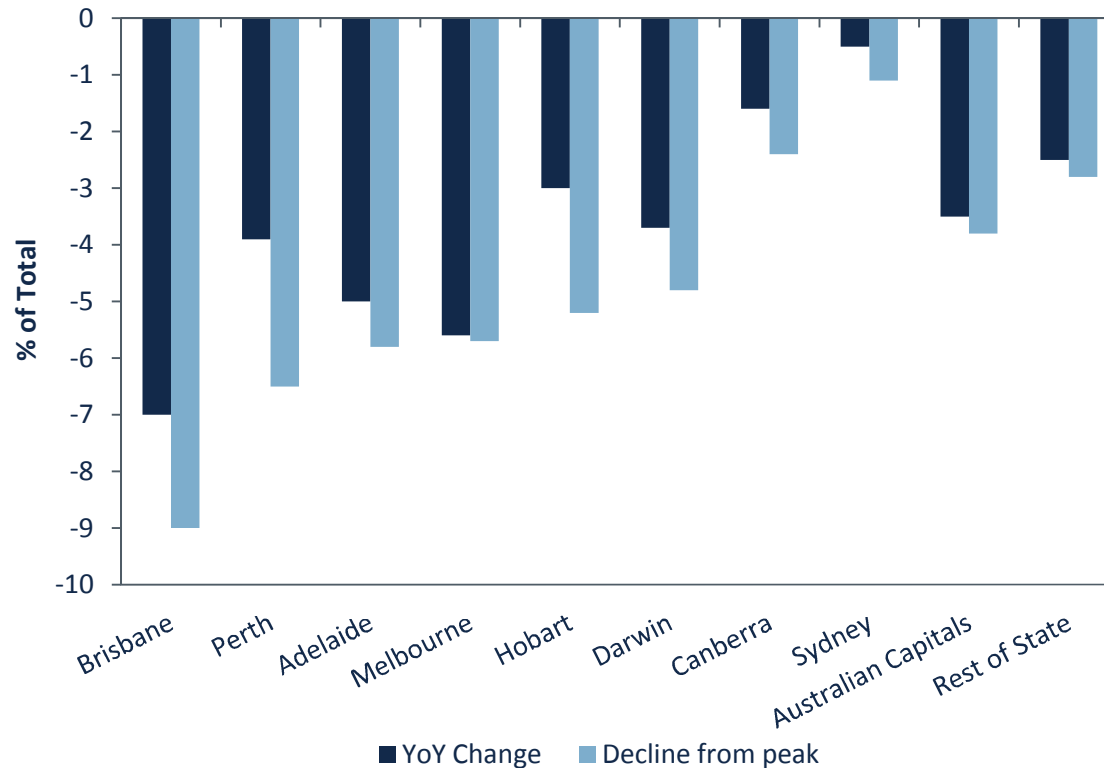


Source: ABS/Westpac-Melbourne Institute

- ◆ Consumers cautious – sentiment remains low
- ◆ Strong correlation between consumer sentiment and house prices
- ◆ House prices were under pressure in 2011 due in part to:
 - ◆ housing mortgage rates increased from 5.75 per cent in May 2009 to 7.8 per cent in late 2010 – one of the largest tightening cycles since the 80's
 - ◆ lower affordability after strong price rises in prior years
 - ◆ removal of Federal Government stimulus programme reduced number of first home buyers
- ◆ Improving consumer sentiment and lower rates key to a rebound in residential prices in 2012

Residential – Not A Uniform Downturn

Residential Prices: November 2011



Source: RP-Data Rismark

- ◆ Wide variation in price movements across markets and even within sub-markets
 - ◆ more affordable end of market has held up better than the premium end
 - ◆ regional markets have been hit harder than capital city markets. e.g. Gold Coast and Cairns
- ◆ Brisbane residential prices fallen the most over both last 12 months and since the peak
- ◆ Perth has been impacted by affordability after a strong run-up through 2006-2010
- ◆ Sydney and Canberra markets have been the most resilient – Sydney did not have the substantial run-up in prices and has lower levels of supply than Melbourne

Outlook

Outlook

- ◆ Highly volatile, unpredictable and risk averse investment markets
- ◆ Non-residential real estate outlook in positive but impacted by both structural and cyclical economic changes
 - ◆ asset selection and active management to drive returns
- ◆ Residential real estate should stabilise during 2012 but not uniform improvement
 - ◆ consumer sentiment and interest rates are key
- ◆ Folkestone:
 - ◆ is actively looking for and analysing real estate and corporate opportunities and the creation of new funds but we continue to be disciplined around our assessment of value and risk
 - ◆ believes the continuing uncertainty in financial markets will create an increasing number of attractive opportunities
 - ◆ remains well placed to capitalise on any opportunities due to our liquid balance sheet and access to off balance sheet capital

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