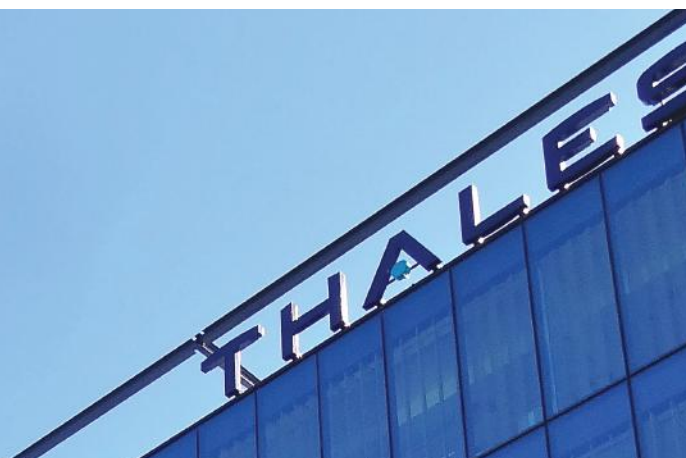


Investor Review

Welcome to the Folkestone Limited (ASX: FLK) First Half FY14 Investor Review

It's that time of year when Folkestone and each of its funds provide their respective investors with an operational and financial report card for the six months to 31 December 2013. With more than 6,400 investors investing in either Folkestone or one or more of our funds, the Investor Review will provide all of our investors with a greater insight into the activities undertaken across the entire Folkestone platform.

“The strong result in the first half of FY14 reflects the continued focus on growing our funds management platform.”



Key Highlights

- Net profit after tax of \$1.6 million
- Successfully raised \$25 million from a Placement and Entitlement Offer
- Strong growth in funds under management to \$700 million
- Two new unlisted funds closed oversubscribed
- Australian Education Trust successfully raised \$45 million and acquired 31 early learning centres
- Secured first exposure to Sydney residential development market
- Continued strong sales at the Officer residential land subdivision
- Pre-sold the Stage 1 retail development at Altona North to a new Folkestone fund

Folkestone Delivers Strong Funds Management and Balance Sheet Growth

Folkestone announced a strong operational and financial performance result to the ASX on 20 February 2014. Net profit after tax for the six months ending 31 December 2013 was \$1.6 million compared to \$0.03 million in the corresponding period in 2012.

Folkestone's Managing Director, Mr Greg Paramor said “The strong result in the first half of FY14 reflects the continued focus on growing our funds management platform with \$3.5 million or 75.0 per cent of the Group's revenue generated from funds management. We now have approximately \$700 million in funds under management across real estate income, development and social infrastructure funds.”

“During the past six months, we continued to deliver on our strategy of growing our suite of listed and unlisted funds with the successful capital raising in the ASX listed Australian Education Trust (ASX:AEU) and the launch of two new unlisted funds – the Folkestone Real Estate Income Fund at Altona North and the Folkestone West Ryde Development Fund – together with selectively increasing our exposure to quality development opportunities with our balance sheet co-investment in the Folkestone West Ryde Development Fund” said Mr Paramor.

Folkestone Capital Raising

On 15 November 2013, Folkestone announced a \$25 million equity raising at 16.5 cents per share comprising a \$9.2 million placement to existing and new institutional investors and a 1.0 for 3.86 non-renounceable entitlement offer to existing eligible shareholders to raise \$15.8 million. Both components were significantly oversubscribed having received strong support from both existing shareholders and new institutional investors.

Key Financial Highlights

| | 31 Dec 2013 | 31 Dec 2012 |
|-----------------------|-------------|-------------|
| Net Profit After Tax | \$1.6m | \$0.03m |
| Earnings Per Security | 0.40c | 0.01c |
| NTA Per Security | 11.3c | 8.8c |
| ASX Closing Price | 18.5c | 11.8c |

Social Infrastructure Funds

Australian Education Trust (ASX Code: AEU)

The ASX listed Australian Education Trust (ASX Code: AEU) is the leading provider of early learning accommodation with 297 early learning centres in Australia and 54 in New Zealand.

In the six months to December 2013, the Trust's strong financial position with nil vacancy, long term leases (average length 8.3 years) and low gearing (30.8%) was well supported by investors who received a total return of 14.3% compared to -1.5% for the S&P/ASX300 A-REIT Index.

With the strong demand for early learning services, we believe the Trust is well placed to build on its relationships with leading early learning operators and to strengthen its profile as the "go to" landlord in the early learning sector, and in doing so, providing investors with predictable and secure long term cash-flows with the opportunity for capital growth.

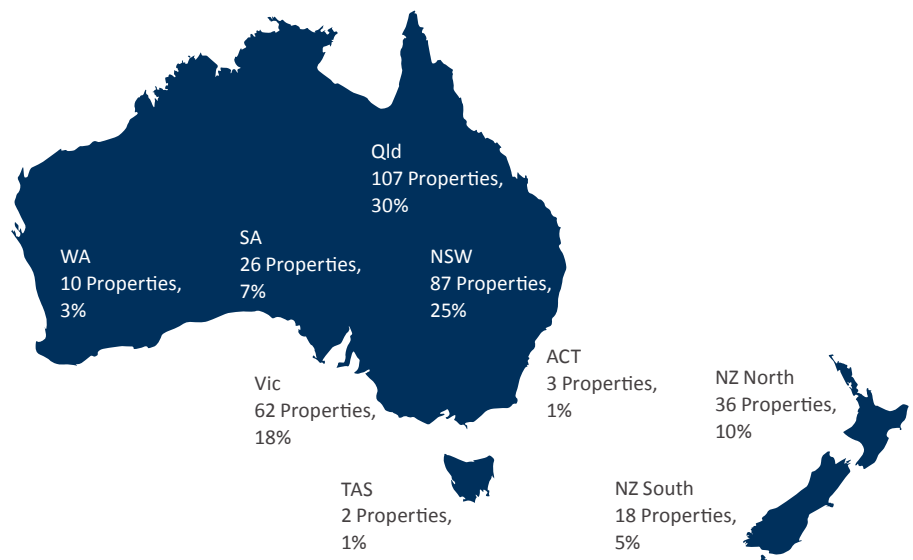
Capital Raising

In December 2013, the Australian Education Trust successfully completed a \$45 million capital raising to fund the acquisition of:

- all of the units in the Folkestone Childcare Fund, an unlisted fund also managed by Folkestone comprising 22 early learning centres;
- a portfolio of 5 early learning centres in premium Sydney metro locations, operated by Only About Children;
- a new purpose built early learning centre in Gungahlin ACT; and
- 3 development sites for new early learning centres to be constructed on a fund-through basis and owned long-term by the Trust.

| Half-year Ending | Dec 2013 | Dec 2012 | Var. % |
|----------------------|----------|-----------|--------|
| Distributable income | \$11.3m | \$8.7m | 29.9% |
| Distribution (cpu) | 6.0c | 5.0c | 20.0% |
| ASX Closing Price | \$1.53 | \$1.28 | 19.5% |
| As at | Dec 2013 | June 2013 | Var. % |
| Total Assets | \$429.4m | \$368.5m | 16.5% |
| Investment Property | \$421.9m | \$366.8m | 15.0% |
| Borrowings | \$132.2m | \$125.8m | 5.1% |
| Net Assets | \$286.6m | \$233.5m | 22.7% |
| Gearing | 30.8% | 34.1% | (3.3%) |
| NTA per unit | \$1.40 | \$1.33 | 5.3% |

AUSTRALIAN EDUCATION TRUST PORTFOLIO OF EARLY LEARNING CENTRES



351

EARLY LEARNING CENTRES

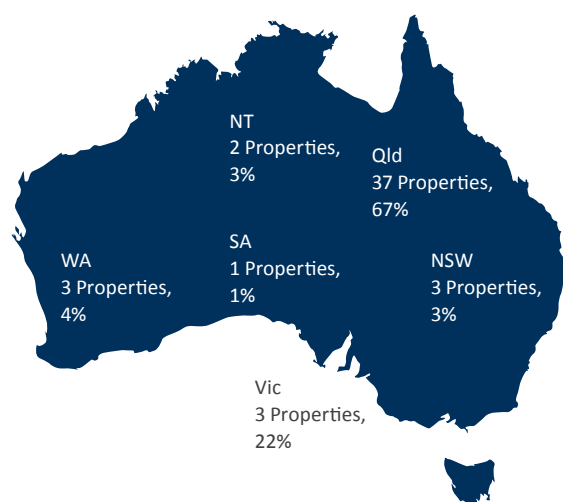
"The Trust is well placed to build on its relationships with leading early learning operators and to strengthen its profile as the 'go to' landlord in the early learning sector"

Social Infrastructure Funds

The Australian Social Infrastructure Fund (ASX Code: AZF)

| Half-year Ending | Dec 2013 | Dec 2012 | Var. % |
|----------------------|----------|-----------|--------|
| Distributable income | \$2.8m | \$2.4m | 16.7% |
| Distribution (cpu) | 9.5c | 8.5c | 11.8% |
| ASX Closing Price | \$2.41 | \$1.90 | 26.8% |
| As at | Dec 2013 | June 2013 | Var. % |
| Total Assets | \$109.7m | \$107.3m | 2.2% |
| Investment Property | \$85.2m | \$87.0m | (2.1%) |
| Securities Portfolio | \$23.4m | \$19.9m | 17.6% |
| Borrowings | \$34.9m | \$34.8m | 0.3% |
| Net Assets | \$72.9m | \$70.6m | 3.2% |
| Gearing | 31.8% | 32.4% | (0.6%) |

THE AUSTRALIAN SOCIAL INFRASTRUCTURE FUND DIRECT PORTFOLIO



5.3%

**INCREASE IN FORECAST
DISTRIBUTION IN FY14**

The ASX listed The Australian Social Infrastructure Fund (ASX Code: AZF) provides a diversified exposure to a directly held portfolio of 47 early learning centres, a medical centre, and self storage facility.

In addition through its investment in the Australian Education Trust and the CIB Fund it has exposure to additional early learning centres and a portfolio of police stations and courthouses.

In the six months to December 2013, the Trust's strong financial position with nil vacancy, long term leases (average length 7.3 years) and low gearing (31.8%) was well supported by investors who received a total return of 17.0% compared to -1.5% for the S&P/ASX300 A-REIT Index.

As part of the FY14 Half Year announcement, the Trust announced a 5.3% increase in forecast distributions for the year ending 30 June 2014 to 20 cents per unit. This was a welcome announcement for investors looking for high yielding investments backed by predictable and secure long-term cashflows.

THE CIB Fund

The CIB Fund is a closed wholesale unit trust that owns nine 24-hour police stations and two law court complexes. During the past 12 months, the Fund has undertaken an extensive capital works program across its portfolio. We are in discussions with the Victorian Government in relation to an extension of the leases.

| | |
|------------------|---------------------------------|
| Type | Unlisted |
| Sector | Police Stations and Courthouses |
| Location | Victoria |
| No of Properties | 11 |
| Gross Assets | \$69m |

Real Estate Income Funds

Folkestone Real Estate Income Fund at Sydney Olympic Park

| | |
|----------------------------|---------------------|
| Type | Unlisted |
| Sector | Office |
| Location | Sydney Olympic Park |
| No of Properties | 1 |
| Gross Assets | \$30.8m |
| NTA | \$0.96 |
| FY14 Forecast Distribution | 8.3% |
| Fund Expires | Dec 17 |



The Fund owns 7 Murray Rose Avenue, Sydney Olympic Park, a 5,931 square metre commercial office building with ground floor retail and basement car parking, completed in December 2012. The office space is 100 per cent leased to Thales Australia Limited on a ten year lease term commencing 1 December 2012. As at 31 December 2013, the building is 100 per cent leased following the leasing of the remaining retail space in October 2013. The building won the NSW Master Builders Association award for Commercial Buildings in the \$10 - \$25 million category in November 2013.

Folkestone Real Estate Income Fund at Wollongong

| | |
|----------------------------|------------|
| Type | Unlisted |
| Sector | Office |
| Location | Wollongong |
| No of Properties | 1 |
| Gross Assets | \$26.6m |
| NTA | \$0.94 |
| FY14 Forecast Distribution | 10.5% |
| Fund Expires | Jun 19 |



The Fund owns 43 Burelli Street, Wollongong, a six level A-Grade office building comprising 9,769 square metres together with parking for 90 vehicles. The building comprises a strong tenancy mix anchored by Commonwealth and State Government tenants who currently contribute approximately 79 per cent of the building's income. Since acquiring the building in June 2013, Folkestone has commenced an active asset management program to improve the lease expiry profile, reduce operating costs, improve the NABERS energy rating from 3.0 to 4.5 stars and enhance the overall amenity and tenant satisfaction with the building. Already, the amount of energy consumption in the building has been reduced although further improvements can be made. Two government tenants have exercised options for further three year lease terms, and agreement was recently reached with another government tenant for a new five year lease to commence 1 May 2014 cementing the building's identity as the key government building in Wollongong, and more importantly, underpinning the Fund's cashflows from government tenants.

Real Estate Income Funds



The Folkestone Real Estate Income Fund at Altona North was established in December 2013 and is the third in the real estate income funds series. The Fund has entered into an agreement to acquire a 21,553 square metre large format retail centre (Centre) which will be anchored by Bunnings and includes Officeworks, together with JB Hi-Fi Home, Repco, PETstock and petVET. The Centre has been designed to create an attractive and functional retailing environment in an area that is relatively underserved in terms of large format retail goods. The Centre is being developed by Folkestone on behalf of the Fund and is scheduled to be completed in October 2014.

The applications for the Fund closed oversubscribed and as a result Folkestone increased the equity raising for the Fund from \$16.3 million to \$16.6 million to accommodate some of the oversubscription. The forecast annualised distribution yield for FY14 is 8.5%.

Folkestone Real Estate Income Fund at Altona North

| | |
|----------------------------|----------------------|
| Type | Unlisted |
| Sector | Large Format Retail |
| Location | Altona North |
| No of Properties | 1 |
| Gross Assets | \$16.6m ¹ |
| NTA | \$0.99 |
| FY14 Forecast Distribution | 8.5% |
| Fund Expires | Dec 20 |

¹ The gross assets at completion of the Fund in October 2014 is forecast to be \$31.7 million.

“The Altona North transaction demonstrates Folkestone’s ability to manufacture investment grade product on balance sheet for its funds management platform”.

FOLKESTONE FUNDS MANAGEMENT WAS A FINALIST IN THE DIRECT PROPERTY CATEGORY



Folkestone was pleased to be awarded finalist in the Direct Property category at the Professional Planner / Zenith 2013 Awards held on 11 October. The awards recognise excellence in the Australian funds management industry. Zenith selects finalists based on its robust and comprehensive manager assessment methodology across nine key aspects of a manager’s business.

6,435

INVESTORS ACROSS FOLKESTONE
AND ITS FUNDS

Real Estate Development Funds

Tivoli Development Fund

| | |
|--|-------------------------|
| Type | Unlisted |
| Sector | Residential Development |
| Location | West Melbourne |
| No of Apartments | 65 |
| % of Apartments Sold at Feb 14 | 98.5% |
| Fund Expires | Oct 2014 |
| JV Partner | Urban Inc |
| Forecast Return on Equity (pre-tax, post fees) | 43.0% |



The Fund was established to invest in a residential development in joint venture with Urban Inc. at 141-149 Roden Street, West Melbourne. Practical completion was completed in October 2013. As at February 2014, 64 of the 65 apartments have been settled. Investors in the Fund are forecast to receive a 43% return on their investment with 40% returned on their investment to date.

Folkestone West Ryde Development Fund

| | |
|--|-------------------------|
| Type | Unlisted |
| Sector | Residential Development |
| Location | West Ryde |
| No of Apartments/ Commercial Suites | 205/22 |
| % of Apartments Sold at Feb 14 | 62.9% |
| Fund Expires | May 2016 |
| JV Partner | Toga |
| Forecast Return on Equity (pre-tax, post fees) | 32.0% |



The Fund is undertaking, in joint venture with the Toga Group, a residential development project located at 7-19 Chatham Road, West Ryde known as Central Square. The project comprises 205 residential apartments, 22 commercial suites and 259 car parking spaces over 7 levels on a rooftop stratum above a Coles supermarket. The joint venture has entered into a development agreement with the landowner, Coles, to complete the development. The project was launched in November 2013. To date there have been a total of 129 pre-sales, which represents 62.9% of the total residential apartments. Early work commenced in February 2014.

The applications for the Fund closed oversubscribed and as a result Folkestone had to scale back the applications received. The total equity raising for the Fund was \$17.4 million, 50% of which (\$8.7 million) was called in December 2013 with the balance due to be called in March 2014. Folkestone holds a 50% interest in the Fund.

Folkestone Direct Investments

Potters Grove, Officer is a 14.1 hectare site located in the Cardinia Shire, in south-east Melbourne.

As at 31 December 2013, all 56 lots in Stage 1 had been contracted for sale with 55 lots settled. The last remaining Stage 1 lot settled in January 2014. Construction works for Stage 2 (43 lots) commenced in July 2013 and was completed in February 2014. As at February 2014, a total of 37 lots representing 86 per cent of the total lots for this stage have been contracted for sale with settlements expected to commence in March 2014.

Marketing of Stage 3a lots (31 lots) has also commenced and a total of 10 lots representing 32 per cent of the total lots in this stage have been contracted for sale. Discussions have commenced with Bank of Melbourne with regard to a construction facility for Stage 3a and the joint venture is forecasting to commence construction works for Stage 3a in the June 2014 quarter.

Potters Grove, Officer

| | |
|---------------------------------|-------------------|
| Sector | Land Sub-division |
| Location | Officer, Vic |
| Area | 14.1ha |
| Total Lots | 227 |
| % of Lots Sold at Feb 14 | 45.3% |
| Folkestone Share | 50% |
| JV Partner | ID Land |
| Forecast Gross Revenue | \$44.0m |



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 for occupation in December 2012.

The opening of The Ranges has provided much needed accommodation for business travellers to Karratha. As at 31 December 2013, a further 3 dwellings in Stage 1a had settled, bringing total settlements to date to 40 out of the 41 dwellings. The final dwelling in Stage 1a has been contracted for sale and is yet to settle. The marketing campaign for Stage 1b is ongoing with 16 of the 32 villas in this stage contracted for sale and construction is anticipated to commence in mid-2014 subject to further pre-sales.

The Ranges, Karratha

| | |
|---------------------------------|------------------------------------|
| Sector | Accommodation |
| Location | Karratha, WA |
| Area/Size | Stage 1 – 2.2ha Stage 2 – 7.1ha |
| Total Lots Stage 1 | 108 |
| % of Lots Sold at Feb 14 | 51.9% |
| Folkestone Share | 25% |
| JV Partner | Various Parties |
| Forecast Gross Revenue | Stage 1 – \$58.0m |

Millers Road, Altona North was acquired in December 2007 and is a 13.9 hectare parcel of land, located approximately 13 kilometres from the Melbourne CBD.

In November 2013, Folkestone announced the commencement of Stage 1 of the Millers Road, Altona North development and the pre-sale of the development to a new unlisted fund – the Folkestone Real Estate Income Fund at Altona North.

The Stage 1 development comprises a 21,553 square metre large format retail centre which is 99.6% pre-committed and is anchored by Bunnings and includes Officeworks, together with JB Hi-Fi Home, Repco, PETstock and petVET. The Stage 1 development is being constructed by FDC Construction and Fitout with practical completion expected to occur in October 2014.

Folkestone has also entered into a contract of sale of 8,063 square metres of land to Aldi Stores for a 1,600 square metre supermarket which adjoins the Stage 1 development. There is a further 7.0 hectares of development land remaining after completion of the Stage 1 development and Folkestone is continuing to assess potential development opportunities for the residual land.

Altona North

| | |
|-------------------------|-------------------|
| Type | Retail/Industrial |
| Location | Altona North |
| Area | 13.9ha |
| Folkestone Share | 100% |

Folkestone Outlook

The Australian economy is showing signs of improvement although it is still growing below long term averages. Consumer spending is improving and residential construction and prices are rising. Business confidence is patchy, particular around the resource sector and as a result, business investment remains subdued.

Investors are increasingly looking to reallocate from cash and term deposits into real estate which should see continued demand for both residential and non-residential assets. Competition for both income and development assets will remain high. Folkestone will continue to look for investments primarily through 'off-market' transactions that offer attractive risk-adjusted returns for its investors.

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.

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.

Directory

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ASX Code: FLK

Responsible Entities

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Management Limited
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Folkestone Investment
Management Limited
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Investors in Folkestone and its funds can view and manage their holdings online in a secure manner. It's an effective and convenient way to access your investment details. Please visit www.investorserve.com.au

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