

21 February 2011

## **Independent Directors Recommend Voting Against EREP Proposal**

Shareholders will recall Folkestone's ASX announcement of 10 February 2011 which attached a letter to shareholders regarding an alternative and competing Bell Potter Proposal and a consequential revised and improved EREP Proposal.

The Company has received a revised and improved proposal from Bell Potter. Details of this in the form provided by Bell Potter are set out in the **attachment** to this announcement showing revisions from the original proposal, which you are encouraged to read.

**Having exercised its business judgement, the Independent Directors' view has been reinforced that the Bell Potter proposal is superior to the EREP Proposal. Accordingly, the Independent Directors recommend that shareholders now vote against the EREP Proposal.**

Under its revised and improved proposal, Bell Potter has agreed to underwrite a 2 for 1 renounceable rights issue at 12.5 cents per share to raise \$25 million. This represents a 25% improvement to its previous proposal in terms of price and dilution to shareholders. Bell Potter has also formalised its commitment by providing Folkestone with an underwriting agreement which has been signed by Bell Potter and which is capable of being countersigned by Folkestone. Bell Potter has also revised and improved certain other aspects of its proposal.

There are 4 key reasons behind this determination:

- 1. Certainty** - The Bell Potter Proposal underwriting agreement has been signed by Bell Potter and is capable of being countersigned by Folkestone. The key condition is that the EREP Proposal does not proceed (refer below). The EREP Proposal has no underwriting agreement nor binding financing commitments and is indicative as to its key terms. If shareholders approve the EREP Proposal but EREP fails to raise the minimum \$20 million required at 12 cents per share or more then the EREP acquisition automatically fails and Folkestone's and existing shareholders position is unclear.
- 2. Price** - The revised Bell Potter Proposal represents a 25% increase in price compared to the original proposal. The issue price is greater than the indicative minimum capital raising price of 12 cent per share under the EREP Proposal. The Bell Potter proposal is clear in that it is an underwritten 2 for 1 renounceable rights issue which provides clarity regarding the treatment of all shareholders whereas the EREP Proposal lacks certainty as to final terms and the potential dilutive effects on existing Folkestone shareholders. The Bell Potter Proposal also avoids EREP legal and other costs, and the issue of performance rights to EREP principals inherent in the EREP Proposal.
- 3. Fairness** - The Bell Potter Proposal satisfies the test of fairness to existing shareholders by proposing a renounceable rights issue as compared to the EREP proposal which envisages a capital raising of up to \$100 million resulting in a potential material dilution for existing Folkestone shareholders. The Bell Potter Proposal will have a less dilutive impact than the capital raising proposed by EREP.
- 4. No Related Party Transaction** - The Bell Potter proposal contains no related party transactions nor financial benefits for related parties. In relation to the terms of the EREP proposal, it should be noted that EREP have advised a change under their proposal relating to the structure of the Board with Mr Greg Paramor to be Managing Director and Mr Garry Sladden to be Non-Executive Chairman.

In view of the above, the Board has given careful consideration as to whether to cancel the shareholder meeting set for 22 February 2011 and to instead proceed immediately with the Bell Potter Proposal. Mr Paramor and Mr Gurner, both of whom have a conflict of interest, continue to support the EREP Proposal for the reasons set out in the notice of meeting documentation and do not support the Independent Directors' determinations and recommendations set out above. The Board has decided to proceed with the shareholder meeting so that the shareholder democratic process can take its course. The Chairman and Mr Michael Parkinson, being the two Independent Directors, advise that they now intend to vote all undirected proxies held by them **against** each of the EREP Proposal resolutions.

If the EREP Proposal is approved by shareholders then the Bell Potter Proposal will not proceed.

If the EREP Proposal is not approved by shareholders then the Board intends to immediately proceed with the Bell Potter Proposal. The Bell Potter Proposal contemplates the appointment of 2 non executive directors namely Mr Bill Bowness (as previously advised) and one other non-executive director.

In order to give shareholders sufficient time to consider the implications of the revised and improved Bell Potter Proposal and consistent with good corporate governance principles, the Board has resolved to postpone the shareholders' meeting previously scheduled for Tuesday, 22 February 2011 by 15 days. The meeting will now to be held at **2.00 pm on Wednesday, 9 March 2011** at the offices of Baker & McKenzie at Level 19, 181 William Street, Melbourne.

Folkestone intends to shortly issue a brief letter to shareholders which will include a copy of this announcement and a new proxy form for the meeting. This form will be able to be used by any shareholder who wishes to change their voting intention contained in a previously lodged proxy (with a subsequent proxy having the effect of superseding an earlier one). The new proxy form will also be able to be used by any shareholder who has not yet voted by proxy but who wishes to do so. **Any valid proxies which have already been lodged will continue to remain valid, and no new proxy needs to be lodged if the shareholder does not wish to change their voting instruction.**

Proxies must be received by Folkestone by not later than 48 hours before the commencement of the re-scheduled meeting. Alternatively shareholders can attend in person or by attorney (or in the case of a company, by corporate representative) regardless of whether they wish to change proxy instructions already lodged. If in due course you need assistance in revoking or changing your previously lodged proxy or have any queries in relation to the voting process, you should contact Folkestone's share registry, Link Market Services Limited on 1300 554 474.

Those persons who are registered holders of shares of Folkestone as at 7:00pm on the day which is two days before the date of the meeting will be entitled to attend and vote at the re-scheduled meeting as a shareholder.

Shareholders should appreciate that as set out on page 6 of the notice of meeting documentation, any person who votes on resolution 2 will not be able to participate in the non-public capital raising component of the EREP proposal if the EREP Proposal is approved by shareholders.

**For further information regarding this announcement please contact:**

Mr Scott Martin  
CFO & Company Secretary  
Folkestone Limited  
03-9543-2544

## Bell Potter Proposal

| Item                              | Proposal  |
|-----------------------------------|---|
| Nature of capital raising         | Fully underwritten renounceable rights issue. Available to all eligible shareholders as at the applicable record date.  |
| Name of Underwriter               | Bell Potter Securities Limited.   |
| Shareholder Entitlement           | 2.5 to 1.   |
| Underwriting Quantum              | 249,248,070 <del>199,398,456</del> shares (approximately \$25 million).   |
| Rights Issue Price                | <del>10</del> 12.5 cents.   |
| Renounceable?                     | Renounceable.   |
| Top Ups                           | Top up applications for shortfall shares by existing shareholders are permitted. If there are excess oversubscription applications, then subject to any regulatory requirements Folkestone will allocate shares on a proportional basis having regard to the shareholdings of the applicants for additional shares as at the record date.   |
| Form of Underwriting Agreement    | In the form provided to Folkestone <u>and signed by Bell Potter</u> , standard form.  |
| Conditionality                    | <p><u>The Bell Potter Proposal is conditional on shareholders not approving the EREP Proposal at the general meeting of shareholders.</u></p> <p>Not conditional on any outstanding subunderwriting commitments (all of which have been obtained). Not conditional on credit or other internal approvals (all of which have been obtained). Standard conditions only.</p>   |
| Shareholder Approval Requirements | No shareholder approval is required.  |
| Timing                            | <del>Able</del> <u>Intended to proceed promptly immediately following rejection of the EREP Proposal by shareholders at the general meeting.</u>  |
| Key Commitments Received          | <p>Wilbow Pty Ltd (controlled by Mr Bill Bowness) has agreed to subscribe for \$2.67 million of shares representing the take-up of his entitlement being 10.7% of shares.</p> <p>Subunderwriting commitment from Thorney Investments Pty Ltd for \$10 million has been received, Thorney having a 9.6% shareholding in Folkestone.</p> <p><u>Patersons Securities, which underwrote the 2009 rights issue for Folkestone, has indicated interest in participating in the offer as joint lead manager in conjunction with Bell Potter.</u></p> |
| Directors                         | <p>Mr Bill Bowness will join the Board as a non-executive director. Mr Bowness is the chairman of Wilbow Group, Folkestone's largest shareholder with a 10.7% shareholding. He has over 30 years experience in all facets of property investment and development and sits on the Centro Retail Trust Board. Mr Bowness will add relevant expertise at board level in regard to development and execution of strategy and oversight of management.</p> <p><u>Another non-executive director will be appointed.</u></p>                         |

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|                             | <p>These appointments will also assist Mr Scott Martin in his capacity as acting CEO and ensure a smooth transition for Folkestone during the search for a suitable CEO candidate. Mr Bowness' These appointments will enhance the current governance structure maintaining a majority of non-executive directors.</p>   |
| <u>Related Party Issues</u> | <u>Nil.</u>  |
| Termination Events          | If any of the S&P/ASX All Ordinaries Index, 200 Index or Small Ordinaries Index is for 2 consecutive trading days 10% or more below its level at the close of trading immediately preceding the date of the Underwriting Agreement. Other standard termination events.   |
| Underwriting Fees           | 4% underwriting fee plus a management fee of 1% plus \$60,000 plus GST.  |
| <u>Strategic Direction</u>  | <ul style="list-style-type: none"> <li>▪ <u>Focussed on delivering long term shareholder value from the execution of credible strategic initiatives without the comparative dilution to existing shareholders. These include real estate acquisition and development opportunities, joint ventures, mezzanine financing, and other property services.</u></li> <li>▪ <u>It is intended that the proposal will provide sufficient working capital and financial flexibility for Folkestone to maximise the valuation of, and shareholder returns from, the three existing development projects at Donnybrook, Clifton Hill and Altona.</u></li> </ul> |