

Folkestone

FOLKESTONE LIMITED
ANNUAL GENERAL MEETING

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Folkestone

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OFFICER

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- Achievements in 2006
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Finance

Profit after Tax	↑	\$1.4m to \$1.8m
Earnings per Share	↑	4.6 cents to 6.1 cents
Borrowings	↓	\$12.2m to \$4.3m
Net Debt		Debt Free

OPERATIONS – Toyota Green Business Park

- Completion of Parcel D (50/50 Joint Venture with MAB Corporation)
 - 100% sold (6,675m²)
 - Yield 7.25%



OPERATIONS – Toyota Green Business Park

- Commencement of Parcel B (Development Agreement with MGI)
 - Pre-commitment of Ericsson to a purpose build 2,985m² office and warehouse facility
 - 5 Industrial office / warehouse units totalling 7,200m²



OPERATIONS – Jolimont Square, East Melbourne

- 17 of 21 exclusive town houses sold (at 30 June 2005); to date 20 of 21 units sold
 - Average Price - \$1.9m
 - Top Price - \$2.5m



OPERATIONS – Access Constructions



- Strong performance
 - Earnings before tax \$3.2m
 - Original investment \$2m repaid in less than 12 months



**ADDITIONAL DEVELOPMENT PROJECTS
SECURED –
Sorrento Retail Complex**

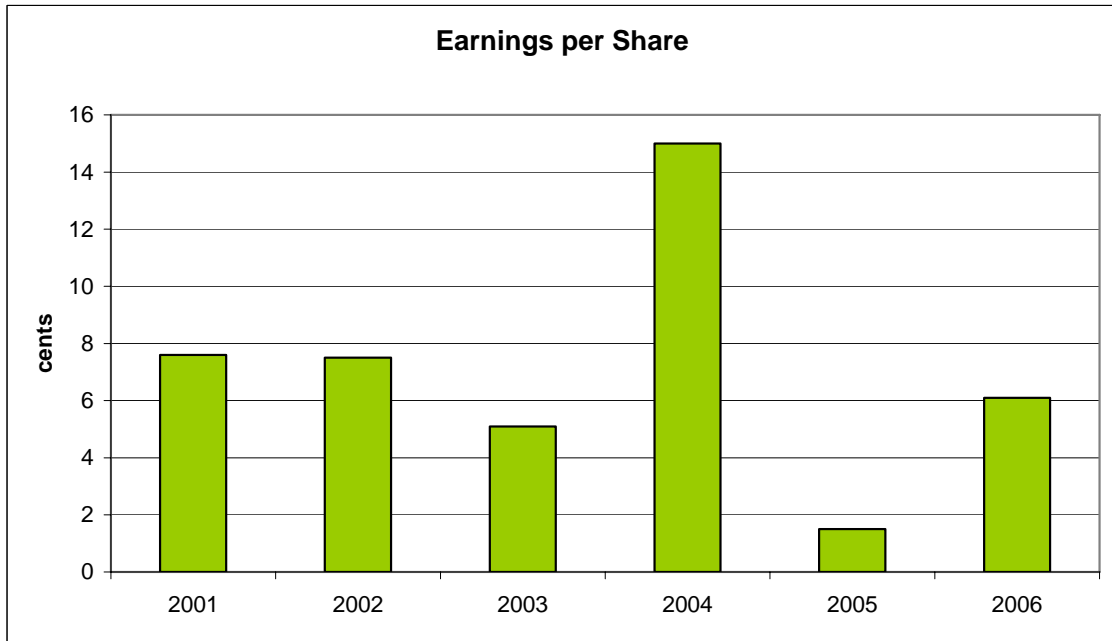
- 2,167m² of NLA
- Anchored by 1,695m² Coles supermarket and a 176m² Liquorland outlet
- End value approximately \$11.7m

**ADDITIONAL DEVELOPMENT PROJECTS
SECURED –
Kororoit Creek Road, Altona**

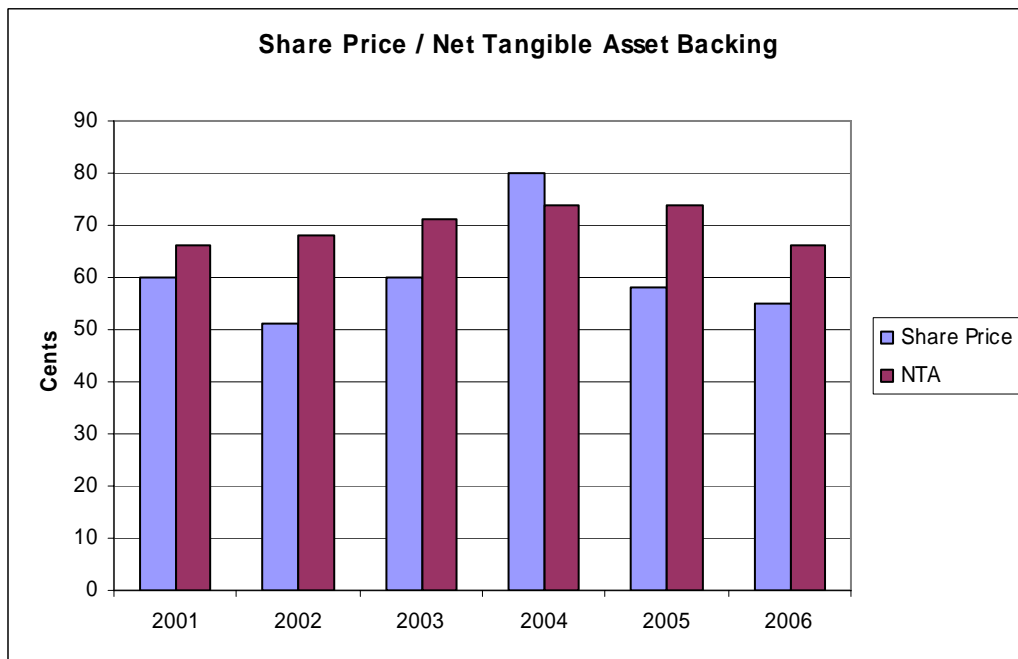
- 52 hectares of zoned industrial land



Over the past five years, Folkestone’s annual profit results have been volatile reflecting the uneven timing of project completion.



As a consequence, the company’s share price has consistently traded below net tangible asset backing.



Management's core objective is to achieve annual growth in earnings per share and to remove the previous volatility. Management has previously outlined a strategy to achieve these objectives. This has been built around an integrated model of property development, property investment and property funds management. Such a model has generally taken hold in the property industry in recent years as evident by the emergence of very large fully integrated property companies sponsored by traditional developers, construction groups and more recently, from wider investment sources such as investment banks, superannuation funds and wealth management organisations.

Folkestone's strategy continues to evolve into a more flexible and sophisticated model reflecting its property development expertise which has been demonstrated over the last 10 years with the successful completion of landmark developments such as 700 Collins Street and the Hilton Hotel development at Melbourne Airport.

Typically, the large property companies and trusts have created a range of funds with different risk profiles and investment strategies to satisfy the property investment requirements of various types of investors. More recently many of these companies have created opportunistic funds that have harnessed capital to participate at the earliest stages of the development cycle. These funds are looking to partner with experienced developers to share in the enhanced rewards of participating in the development risk. Their objective is to secure projects that will mature over the medium to long term with the potential to deliver returns over an extended period of time. Moreover, as these funds have typically already raised their capital they are

capable of transacting very quickly which is a critical advantage in today's competitive investment markets.

Accordingly, Folkestone has identified a clear growth pathway in marrying its core competencies with the needs of opportunistic property investment funds.

Management recognises that its core competencies and value creating capabilities lie in managing the development cycle and in bringing together the various parties needed to create and deliver a successful project.

The company's strategy is to identify and control parcels of land that can support multi-year development programs and to bring in like – minded investors as a partner in the development. This strategy will enable the company to generate fee income at various stages of the development process as value is created and to share in the development profits of the project.

Folkestone's recently acquired parcel of land (52 hectares) at Altona is an example of this strategy. The land was acquired for \$25.5 million via a 50 / 50 joint venture with the Select Property Portfolio No 2 fund ("SPP"), a property opportunistic fund managed by AMP Capital Investors ("AMP"). The land is be developed over the next 3-5 years and is expected to be a solid contributor to the group's earnings in the form of management fees and development profits over that timeframe.

In addition, the introduction of SPP/AMP enabled Folkestone to free up its valuable capital to source additional opportunities which would have otherwise been required for the Altona project.

The buy-in of a sophisticated property investor such as SPP/AMP who is well versed with the risk / reward equation associated with property development should be seen as an endorsement of Folkestone's property development capabilities.

The strategy which I have outlined today is designed to ensure Folkestone's earning profile is sustainable, that its funding requirements are met from diversified sources thus ensuring its development exposure is reduced and its opportunities enhanced.