

9 March 2011

Chairman's Address

The recapitalisation of the company has been a long journey. Since the placement to EREP nominees in May 2010 at 12 cents a share, the initial expectation was that the matter would be concluded before the 2010 AGM and the company would be in a position to start the recovery process. In any event it took a long time to receive a detailed business plan and negotiate and receive a definitive offer from EREP that shareholders are able to vote on today. In the intervening period the company remained constricted by inadequate funding and had to prudentially manage its cash reserves. All three of Folkestone's current projects are joint ventures with AMP who, we understand, continue to support and believe in their potential value. Folkestone has survived the Global Financial Crisis, and after today's meeting should be in a position one way or another to move forward on a positive basis.

The comments we are receiving from those in the property industry suggest that we are at the nadir of the market as it relates to land zoned for industrial and warehouse use. This should provide comfort to shareholders whatever the outcome of today's meeting.

Since the AGM in late November 2010, the role of the Independent Directors has been placed under the microscope by way of a particularly active press and telephone campaign. That the Independent Directors have been heavily criticised and threatened with litigation during this process is unfortunate, although we understand this goes with the territory where a choice is concerned. But at all times the Independent Directors have sought to seek the best possible outcome for all shareholders. The Independent Directors have successfully overseen a significant improvement in the terms and conditions of a capital raising that benefit all shareholders, especially small holders of the company's shares, regardless of which way shareholders choose.

Under the EREP Proposal the minimum price of the capital raising has risen from 8 cents per share to 12 cents, now consistent with the placement in May 2010. Proposed substantial interest free loans to EREP principals and associates totalling around \$4 million have been eliminated, incentive payments have been linked to total shareholder returns, and corporate governance improved by the separation of the roles of Chairman and Chief Executive Officer.

The arrival of a signed fully underwritten offer, capable of immediate acceptance, from Bell Potter brought a welcome degree of competitive tension that saw the share price rise to a peak of 15.2 cents with increased liquidity, and consequently an opportunity for shareholders to trade at or close to that level. Notwithstanding that the Bell Potter offer was capable of immediate acceptance and is preferred by your Independent Directors because above all it offered financial security for the company, the Independent Directors recognised that in the interests of shareholder democracy, the two competing propositions should be placed before shareholders for their choice and decision having regard to preference as to their respective value propositions.

This is the process we are going through today and one that I believe is entirely appropriate. That it may generate high emotions is interesting, but this probably demonstrates that all shareholders are the ultimate beneficiaries of the role Independent Directors are required to and have in fact performed.

For further information regarding this announcement please contact:

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