

**Folkestone Limited**

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21 February 2011

Dear Shareholder,

**INDEPENDENT DIRECTORS RECOMMEND VOTING AGAINST EREP PROPOSAL**

Please refer to the attached ASX announcement, which was issued by Folkestone today.

You will see in the ASX announcement that the Independent Directors now recommend that shareholders vote against the EREP Proposal at the forthcoming general meeting of shareholders, and that the Independent Directors now intend to vote all undirected proxies held by them against each of the EREP Proposal resolutions.

The ASX announcement also advises that the meeting will now to be held at **2.00 pm on Wednesday, 9 March 2011**.

As contemplated by the ASX announcement, accompanying this letter is a new proxy form. 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 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.

Yours sincerely



Scott Martin  
Company Secretary

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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

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## 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	<del>2.5</del> to 1.
Underwriting Quantum	<del>249,248,070</del> <u>199,398,456</u> shares (approximately \$25 million).
Rights Issue Price	<del>1012.5</del> 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	<u>The Bell Potter Proposal is conditional on shareholders not approving the EREP Proposal at the general meeting of shareholders.</u>  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.
Shareholder Approval Requirements	No shareholder approval is required.
Timing	<del>Able-Intended</del> to proceed <del>promptly</del> <u>immediately following rejection of the EREP Proposal by shareholders at the general meeting.</u>
Key Commitments Received	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.  Subunderwriting commitment from Thorney Investments Pty Ltd for \$10 million has been received, Thorney having a 9.6% shareholding in Folkestone.  <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>
Directors	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.  <u>Another non-executive director will be appointed.</u>

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	<p><u>These appointments</u> 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. <u>Mr Bowness' These appointments</u> 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>



**By mail:**  
 Folkestone Limited  
 C/- Link Market Services Limited  
 Locked Bag A14  
 Sydney South NSW 1235 Australia



**By fax:** +61 2 9287 0309

### Folkestone Limited

ABN 21 004 715 226  
 (Incorporated in Victoria)



**All enquiries to:** Telephone: 1300 554 474    Overseas: +61 2 8280 7111



**X99999999999**

## SHAREHOLDER VOTING FORM

I/We being a member(s) of Folkestone Limited and entitled to attend and vote hereby appoint:

### STEP 1

### APPOINT A PROXY

the Chairman  
 of the Meeting  
 (mark box)

**OR** if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered shareholder) you are appointing as your proxy

or failing the person/body corporate named, or if no person/body corporate is named, the Chairman of the Meeting, as my/our proxy and to vote for me/us on my/our behalf at the General Meeting of the Company to be held at **2:00pm on Wednesday, 9 March 2011**, at the offices of Baker & McKenzie, Level 19, 181 William Street, Melbourne, Victoria 3000 and at any adjournment or postponement of the meeting.

Proxies will only be valid and accepted by the Company if they are signed and received no later than **48 hours** before the meeting.

Please read the voting instructions overleaf before marking any boxes with an **X**

### STEP 2

### VOTING DIRECTIONS

**Resolution 1**  
 Change of Business

For	Against	Abstain*
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Resolution 6**  
 Issue of Performance Rights to  
 Jonathan Sweeney

For	Against	Abstain*
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Resolution 2**  
 Capital Raising

For	Against	Abstain*
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Resolution 7**  
 Issue of Performance Rights to  
 Adrian Harrington

For	Against	Abstain*
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Resolution 3**  
 Issue of Shares to the EREP Vendors

For	Against	Abstain*
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Resolution 8**  
 Appointment of Garry Sladden as a director

For	Against	Abstain*
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Resolution 4**  
 Executive Incentive Performance Rights Plan

For	Against	Abstain*
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Resolution 9**  
 Appointment of Ross Strang as a director

For	Against	Abstain*
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Resolution 5**  
 Issue of Performance Rights to Greg Paramor

For	Against	Abstain*
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Resolution 10**  
 Participation in placement by  
 Greg Paramor

For	Against	Abstain*
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**i** \* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

### STEP 3

### IMPORTANT - VOTING EXCLUSIONS

If the Chairman of the Meeting is appointed as your proxy, or may be appointed by default and you do **not** wish to direct your proxy how to vote as your proxy in respect of Items 4, 5, 6 and 7 above, please place a mark in this box. By marking this box, you acknowledge that the Chairman of the Meeting may exercise your proxy even if he/she has an interest in the outcome of those Items and that votes cast by him/her for those Items, other than as proxyholder, would be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chairman of the Meeting will not cast your votes on Items 4, 5, 6 and 7 and your votes will not be counted in calculating the required majority if a poll is called on any those Items.

The Chairman of the Meeting intends to vote undirected proxies against of Items 4, 5, 6 and 7.

### STEP 4

### SIGNATURE OF SHAREHOLDERS - THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Sole Director and Sole Company Secretary

Joint Shareholder 2 (Individual)

Director/Company Secretary (Delete one)

Joint Shareholder 3 (Individual)

Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).



## HOW TO COMPLETE THIS PROXY FORM

### Your Name and Address

This is your name and address as it appears on the company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

### Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the name of that person in Step 1. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a shareholder of the company. A proxy may be an individual or a body corporate.

### Votes on Items of Business - Proxy Appointment

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

### Appointment of a Second Proxy

You are entitled to appoint up to two persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's share registry or you may copy this form and return them both together.

### Lodgement of a Proxy Form

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **2:00pm on Monday 7 March 2011**, being not later than 48 hours before the commencement of the meeting. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy Forms may be lodged using the reply paid envelope or:



**ONLINE** >

[www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

Select the 'Proxy Voting' option on the top right of the home page. Choose the company you wish to lodge your vote for from the drop down menu, enter your holding details as shown on this form, and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the proxy form).



**by mail:**

Folkestone Limited  
C/- Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235  
Australia



**by fax:**

+61 2 9287 0309



**by hand:**

delivering it to Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000.

To appoint a second proxy you must:

- on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- return both forms together.

### Signing Instructions

You must sign this form as follows in the spaces provided:

**Individual:** where the holding is in one name, the holder must sign.

**Joint Holding:** where the holding is in more than one name, either shareholder may sign.

**Power of Attorney:** to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

**Companies:** where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

### Corporate Representatives

If a representative of the corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the company's share registry.

If you would like to attend and vote at the General Meeting, please bring this form with you.  
This will assist in registering your attendance.