

Folkestone

ASX ANNOUNCEMENT

22 December 2011

FOLKESTONE PROVIDES MARKET UPDATE AND ANNOUNCES BUYBACK

- **Share buyback effective 30 January 2012**
- **Pursuing opportunities in difficult markets**
- **Noone Street, Clifton Hill sold out, cash proceeds this financial year expected to be c\$9.0m**
- **Millers Road, Altona North subdivision underway, strong tenant enquiry**
- **Donnybrook Road, Mickleham refinanced and residential rezoning application submitted**
- **The Ranges, Karratha underway and additional rezoning application submitted**

Folkestone Limited (ASX: FLK) today announced a share buyback as part of a capital management plan, as well as updating the market on several new initiatives regarding the Company's real estate portfolio.

SHARE BUYBACK

Folkestone intends an on market buyback of up to 9,969,923 shares* representing approximately 2.69 per cent of total shares on issue, which is the maximum number of shares permitted without having to obtain shareholder approval.

Commenting on the initiative Folkestone's Managing Director, Mr Greg Paramor, stated that the Company had made significant progress since a board and management restructure in April 2011 and it is well placed to take advantage of ongoing volatility in the property sector.

"Folkestone's share price is currently trading at an approximate 40.0 per cent discount to NTA which in our view does not reflect the value of the underlying business nor our strong capital position. The Board of Folkestone is committed to actively managing Folkestone's capital, with more than \$20.0 million in cash on the balance sheet and no corporate debt, we believe the buyback provides the opportunity to repurchase shares at attractive valuations which will be accretive for Folkestone shareholders," he said.

The Board will continue to assess the merits of this capital management initiative as market conditions evolve and will keep the market informed of the buyback's progress.

The earliest day the buyback will commence is 30 January 2012. Folkestone has appointed E L & C Baillieu Stockbroking Ltd to act on behalf of the Company in relation to the share buyback process. There is no guarantee Folkestone will repurchase the full 9,969,923 shares.

*Folkestone reserves the right to suspend or terminate the share buyback program at any time and to buyback less than 9,969,923 shares

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OUTLOOK

Folkestone remains active in looking for both real estate and corporate opportunities and will explore the launch of new funds in 2012 under the Company's rebranded real estate funds management business, Folkestone Funds Management.

Mr Paramor said the significant upheaval in financial markets will create an increasing number of attractive opportunities in both the residential and non-residential sectors during the next 12 months.

"We expect to see continued volatility in local and international markets, and will be monitoring the state of the domestic real estate markets closely," Mr Paramor said.

"We will continue to be disciplined around our assessment of value and risk and are well placed to capitalise on any opportunities due to our liquid balance sheet and access to off balance sheet capital."

"We have been busy reviewing a number of transactions and note that some have come back onto the market, due to purchasers failing to complete, thereby providing a further opportunity to buy at a more realistic value," he added.

REAL ESTATE PORTFOLIO UPDATE

In the first full reporting period under new management (i.e. the half to 31 December 2011) Folkestone has actively managed its portfolio of real estate investments with a view to minimising risk and realising value thereby driving shareholder returns. The Company made significant improvements and progressed plans for the three existing projects - Noone Street, Clifton Hill, Millers Road, Altona North and Donnybrook Road, Mickleham - which were part of the real estate portfolio before the management changes earlier this year.

"We have achieved significant positive momentum with the legacy assets which all had various issues that needed to be worked through with our joint venture partner, AMP Capital Investors." Mr Paramor said.

Noone Street, Clifton Hill

The last remaining townhouse was sold in November 2011. To date 49 of the 87 dwellings (56.0 per cent) have settled or are scheduled to settle before Christmas 2011 and a further 17 dwellings (20.0 per cent) are scheduled for settlement in early January 2012. The balance of 21 dwellings (24.0 per cent) are on track for completion and settlement as forecast in the first quarter of the 2012 calendar year. The senior debt facility, having recently been extended to 29 February 2012, is expected to be repaid in January 2012. It is expected that cash proceeds to Folkestone from the project will be approximately \$9.0 million over the current financial year.

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Millers Road, Altona North

After a strategic review of the site, agreement was reached with Folkestone's joint venture partner, AMP Capital Investors, to commence construction of an internal road and progress the subdivision process to improve access to the land and provide a catalyst to attract tenant commitments.

Civil works have commenced to create up to three serviced super-lots and unlock the access to the site. As a result, tenant enquiry levels have increased with 88.0 per cent of Stage 1 space under negotiation to a range of leading bulky good businesses who wish to be located in Melbourne's western corridor.

Donnybrook Road, Mickleham

Despite difficult market conditions, Folkestone is pleased to announce the successful refinancing of the site with Commonwealth Bank of Australia for a three year term until December 2014.

The joint venture has determined a new masterplan for the site which has appeared in the recently exhibited Corridor Plan. A rezoning application has been submitted to Hume City Council detailing up to 60 hectares of residential land. Should such approval be forthcoming it will significantly enhance Folkestone's 20.0 per cent share of the asset.

NEW INVESTMENTS

Since March 2011 Folkestone has applied strict investment criteria to the many opportunities that it has considered. Along with various co-investors, Folkestone reviewed more than 40 transactions and bid on 20 opportunities at both the asset and corporate level. Only two of these investments – The Ranges, Karratha and Princes Highway, Officer - transacted for prices that met that investment criteria.

The Ranges, Karratha

As announced in August 2011, The Ranges residential accommodation joint venture development in Karratha, Western Australia has sold 50.0 per cent (54 dwellings) of the total 2.1 hectare Stage 1 project. Stage 1a comprising 41 dwellings is completely sold out and a further 13 dwellings in the next stage have been sold. Site preparation works have commenced, with finalisation of the construction finance facility and construction contract anticipated to occur early in the new year.

A further 7.1 hectares adjoining the Stage 1 site has been secured on favourable terms and a rezoning proposal has now been submitted to the Shire of Roebourne and if successful will increase the yield significantly.

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Princes Highway, Officer

Folkestone's joint venture investment in the 14.1 hectare site in Officer, located in the Casey-Cardinia Growth Area in Melbourne, awaits Ministerial approval. Settlement is now likely to occur in mid 2012, in line with our original expectations. The joint venture will be in a strong position to deliver affordable product in a growth corridor of Melbourne in what is expected to be a more favourable interest rate environment. The preparation of the development plan is progressing well and is timed to coincide with rezoning and settlement.

For further information regarding this announcement please contact:

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About Folkestone

Folkestone is an ASX listed real estate company. A new Board joined Folkestone in March 2011 and a new senior management team joined Folkestone in April 2011 to transform it into an active real estate investment, development and funds management company. Folkestone's on balance sheet activities focus on value-add and opportunistic real estate investments. Folkestone's funds management platform offers funds to private clients, high net worth individuals and select institutional investors across the risk-return spectrum (core, value add and opportunistic).