

Folkestone

**Capital Raising
Management Presentation**

April 2011

Not to be distributed in the U.S.

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Overview

Background

- Folkestone Limited (“Folkestone” or “FLK”) is a Melbourne based real estate company that listed on ASX in 2000 and currently has a market capitalisation of c.\$38m as at 11 April 2011
- On 9 March 2011, Folkestone shareholders voted at an EGM to approve the following:
 - a transaction aimed at transforming Folkestone into a larger listed real estate investment, development and funds management company involving;
 - the recapitalisation of Folkestone and the acquisition of Equity Real Estate Partners (“EREP”)
- Folkestone’s business strategy will focus on value-add and opportunistic real estate investment, development and funds management
- Following the acquisition of EREP, the business strategy will be implemented by an experienced management team led by Greg Paramor
- The new Board with a strong track record in real estate, funds management and corporate governance will drive the new strategic direction of Folkestone
- Folkestone will undertake a capital raising to recapitalise and position the company to take advantage of the unique investment opportunities currently existing in the Australian real estate sector
- Capital raising to be undertaken at \$0.12 per share via:
 - private placement; and
 - Priority/Entitlement Offer and General Offer (Public Offer)

Folkestone – The Opportunity

“Repositioning Folkestone to take advantage of the new world where real estate capital is scarce”

The Market

- Low point in real estate cycle
- Equity is king
- Debt is scarce
- Developments require lower gearing and higher pre-commitments/pre-sales
- “Equity Gap” created by risk averse, capital starved debt providers and investors
- Quality projects/sponsors need capital partners
- A number of real estate fund managers have legacy issues

The New Folkestone

- Focus on:
 - value-add, opportunistic and development investments; and
 - funds management
- Is not a REIT or stapled security
- Active real estate earnings – capital not income orientated
- Low ‘on-balance sheet’ gearing
- Provider of capital to quality real estate value-add and development opportunities
- Fund manager without any legacy issues and proven track record in funds management

Investment Highlights

UNIQUE OPPORTUNITIES

Capitalise on unique real estate opportunities from dislocation in real estate and financial markets

- Attractive point in real estate cycle
- Focus on investments between \$5m to \$50m, primarily sourced off-market
- Active management with disciplined exit strategy

COMPANY STRUCTURE

Unique offering in the listed real estate sector – mid cap company with low gearing

- Structure aimed at delivering active real estate earnings and capital growth
- Ability to act quickly and invest across the capital structure – both equity and debt
- Flexible range of investment options, including direct investment, JVs, fund co-investments
- Funds management offers additional revenue stream and source of capital

CAPITAL RETURNS

Investment strategy focused to deliver capital growth and return on capital

- Target after-tax return on equity of 15% per annum on a rolling three year basis once proceeds of the capital raising are fully deployed

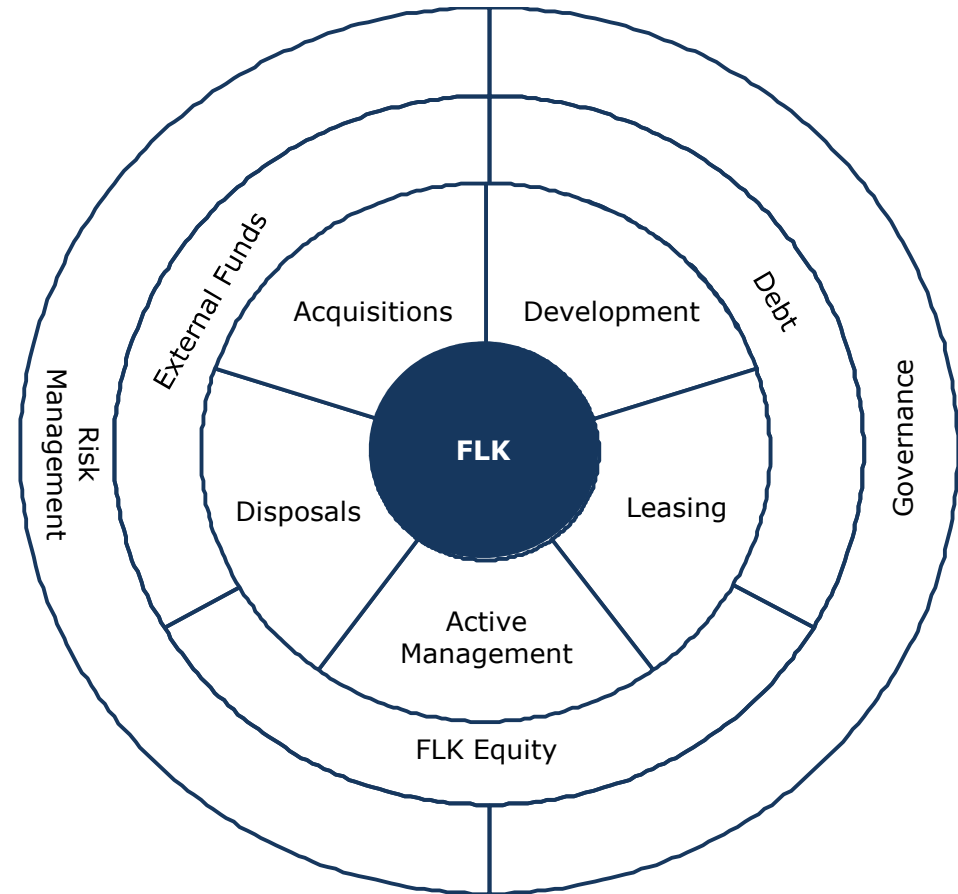
HIGH QUALITY BOARD AND MANAGEMENT

Strong experienced board and management team

- Proven track record of growth and delivering shareholder returns
- Majority independent directors (3 of 4 directors)
- Strong real estate, legal, corporate governance and financial services expertise
- Extensive relationship network to source deals and raise capital particularly for funds management

Investment Strategy

- Focus on delivering capital growth and return on capital for shareholders
- FLK will target an after-tax return on equity of 15% per annum
 - based on a rolling 3 year basis once capital raised is fully deployed
- Focus on both balance sheet (“Direct Investments”) and funds management
- Actual mix of capital allocation between balance sheet investments and funds management will vary from time to time to ensure optimal capital allocation to meet strategic and financial return hurdles
- FLK will be a flexible and active real estate investor
- Direct Investments will target capital growth and realisation over a 2–3 year investment horizon



Investment Approach

RESEARCH

- Combine internal and external research to take advantage of market inefficiencies and real estate cycles

ASSET SELECTION

- Utilise an extensive relationship network to source attractive investment opportunities
- Risk-adjusted returns based on criteria developed over years of successfully creating value from real estate

DUE DILIGENCE

- Identify material risks, validate financial assumptions with focus on capital preservation
- Rigorous analysis prior to acquisition to identify opportunities for value creation, risk mitigation and synergistic benefits with existing assets
- Engage external consultants as appropriate to review key risk areas (e.g. legal and taxation)

ASSET PLANS

- Develop Board-approved strategic asset plans and clearly articulate the objectives of the investment including expected financial performance, return hurdles and exit strategy

ASSET & DEVELOPMENT MANAGEMENT

- Create value through actively managing the portfolio during the holding period

EXIT STRATEGY

- Identify a clear exit strategy prior to acquisition, with flexibility to adapt to market conditions
- Regular review and reporting of investment performance against the asset plan, the stated investment strategies and the exit strategy to optimise the value proposition for each asset

On Balance Sheet – Direct Investments

INVESTMENT OPPORTUNITIES

- Acquire development opportunities
- Acquire assets from distressed real estate owners and developers on attractive terms
- Develop strategic alliances with successful, competent real estate developers with proven track records who are positioned to take advantage of local market pricing anomalies
- Invest in preferred equity or mezzanine loans backed by real estate assets

INVESTMENT CHARACTERISTICS

- Potential for capital growth and return of capital over a 2 to 3 year investment horizon
- Assets and projects which have value-add and opportunistic characteristics
- Medium size investment opportunities in the range of \$5m to \$50m not focused on by institutional investors and yet beyond the funding capacity of small local investors

DISCIPLINED AND STRATEGIC APPROACH

- Disciplined and selective investment screening process
- Thorough due diligence, clear strategy and opportunity for FLK to create value
- Identified exit strategy in an appropriate timeframe

INVESTMENT FLEXIBILITY

- Investment structure - direct investment, joint venture investments and co-investing in FLK managed funds
- Capital structure - equity, preferred equity and mezzanine debt
- Sector - office, retail, industrial, residential and social infrastructure

Funds Management

TO BE AUSTRALIA'S LEADING PROVIDER OF REAL ESTATE WEALTH SOLUTIONS FOR PRIVATE INVESTORS

ADDITIONAL SOURCE OF REVENUE

- Provide a stable annuity style income stream from management fees

EXPAND EREP'S FUNDS PLATFORM

- Accessing senior management's strong industry contacts to source fund investment opportunities
- Leveraging senior management's extensive distribution network

TYPES OF FUNDS

- Income – focused on stabilised income producing assets – listed and unlisted
- Opportunistic – focused on value-add and development – unlisted
- Debt – focused on loans backed by real estate
- Mandates – tailored investment strategies for select clients

COLLABORATION BETWEEN FUNDS AND BALANCE SHEET

- Provides flexibility of funding sources
- Strong corporate governance to ensure complementary advantages to both FLK and funds
- Where appropriate:
 - Development worked up to a certain stage eg DA and sold into fund – FLK realises profit earlier and recycles capital
 - Funds may co-invest/JV with FLK balance sheet assets

Funds Management - Case Studies



Quakers Hill Development Fund

- Residential development site in Quakers Hill, north-west Sydney
- JV with an experienced residential developer
- 2 hectare site, located in a prime position across the road from the railway station and adjacent to the University of Western Sydney campus
- Planning consent for 237 apartments
- The fund opportunistically sold its interest in the site in November 2010, prior to completion of the project, resulting in investors receiving a pre-tax, net of fees equity IRR of 25% p.a.



Tivoli Development Fund

- Launched in September 2010
- Acquired an interest in the development of a 62 apartment project in West Melbourne
- JV with a leading Melbourne developer
- Well located, within walking distance of the CBD, the Victorian markets and Docklands precinct
- Forecast equity IRR of 27% p.a. (pre-tax, net of fees) on drawn equity
- Expected completion by November 2012

Capital Management Strategy

Minimise Cost of Capital



Optimal capital structure (debt/equity mix)

Leverage Returns



Drive equity returns through appropriate use of debt

Funding Diversification



Access different forms of equity and debt

Enhance Value



Increase value of investments through growth driven capital expenditure

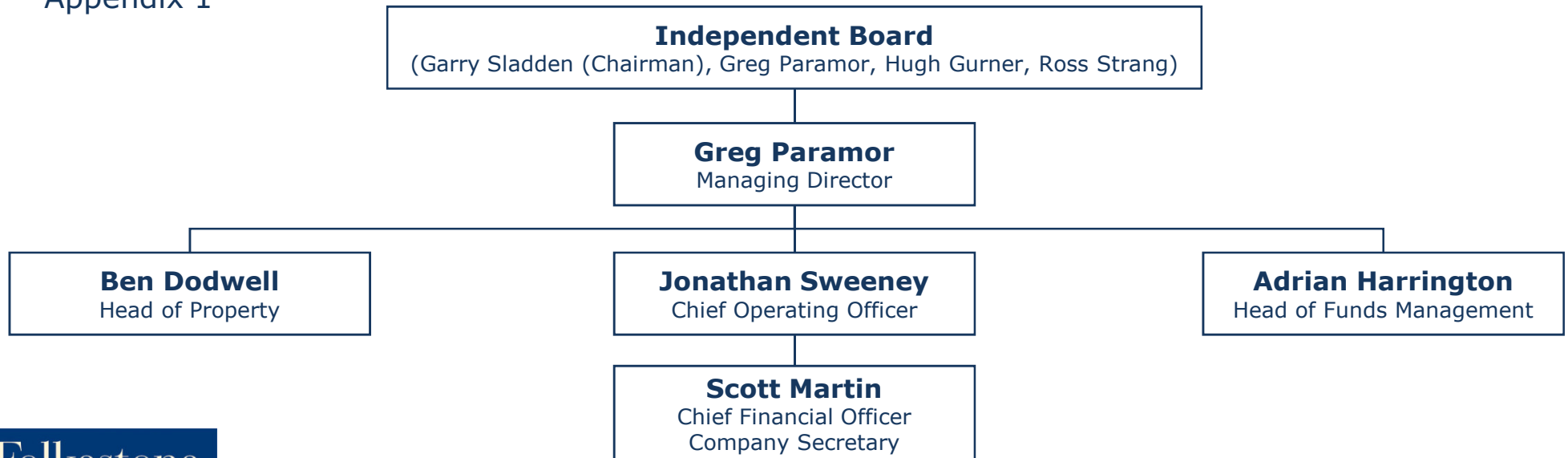
- Conservative gearing with a target balance sheet gearing range of 0% to 30%
 - target look-through gearing range of 20% to 50% (where investment through funds or SPVs)
 - primarily structured as asset/project level debt with limited or no recourse to Folkestone
- Capital growth and reinvestment focus
 - unlikely to declare and pay any dividends for a period of at least three years
 - intention to reinvest into new opportunities any excess capital generated from investments

Strong Board and Corporate Governance

- The new board of Folkestone has extensive experience in acting as senior executives and directors of both listed and unlisted entities and has an established track record of performance and strong corporate governance in the Australian market
- The Board is comprised of a majority of non-executive directors, with a broad range of skills including strong real estate, legal and financial expertise
 - Garry Sladden – Non-Executive Chairman
 - Greg Paramor – Currently Non-Executive Director and will become Managing Director after completion of the acquisition of EREP
 - Hugh Gurner – Non-Executive Director
 - Ross Strang – Non-Executive Director
- Detailed biographies for each of the directors are provided in Appendix 1

Experienced Senior Management

- After completion of the acquisition of EREP, Folkestone will employ the EREP management team, led by Greg Paramor
- The new Folkestone senior management team brings significant experience to create value for shareholders
 - extensive experience and long-standing relationships in the Australian real estate, financial services and funds management industries
 - established successful track record of performance across real estate investment, development and funds management activities
- Detailed biographies for each member of the senior management team has been provided in Appendix 1



Financial Information

Overview of Half Year Results (31 Dec 2010)

- Net loss of \$10.2m compared to \$0.9m in 2009
- \$9.7m impairment of carrying values
 - \$2.3m relates to Altona
 - \$7.4m relates to Donnybrook Rd
- NTA fell from 27¢ at June 2010 to 16.8¢ at December 2010

Project	Ownership	Book Value (\$m)	Debt (\$m)	Net Book Value (\$m)	Debt Expiry	
Noone St, Clifton Hill	Residential	50%	9.7	2.4	7.3	December 2011
Millers Rd, Altona	Bulky Goods	50%	6.2	4.2	2.0	November 2011
Donnybrook Rd, Mickleham	Industrial	20%	14.1	8.7	5.4	December 2011
Cash /Net Working Capital			2.1		2.1	
Total			32.1	15.3	16.8	

Note:

1. Values reflect Folkestone's respective ownership in the assets as at 31 December 2010

Offer Details

Offer Overview

- Capital Raising initiatives in two (2) stages (“Capital Raising”) via a:
 - Private placement to institutional and sophisticated investors to raise a minimum of \$20m (“Placement”)
 - Priority and General Offer (Retail Offer) (“Priority and General Offer”)
- Placement occurred on 23 March 2011 and settled 31 March 2011 - \$25m raised
- Priority and General Offer opened on 11 April 2011
- Advisers to the transaction include:
 - Macquarie Capital Advisers are acting as Underwriter of the Priority and Retail Offer
 - Macquarie Capital Advisers and Moelis & Company are Joint Lead Managers to the Capital Raising
 - BG Capital, Macquarie Capital Advisers and Moelis & Company are acting as Joint Financial Adviser

Key Dates

Record Date for the Priority Offer	7:00pm, 30 March 2011
Offer opens	11 April 2011
Broker Firm Offer bookbuild	19 April 2011
General Offer and Priority Offer Close	4 May 2011
Broker Firm Offer Close	9 May 2011
Allotment of New Shares	10 May 2011
New Shares commence trading on deferred settlement basis	10 May 2011
New Shares commence trading on a normal basis	12 May 2011

Capital Raising Pricing

- Shares issued under the Placement will be at an issue price of \$0.12 per share
- The Board will issue shares under the Priority and General Offer at \$0.12 per share being the same price as the Placement issue price
- The Placement issue price represents:
 - 28.6% discount to the 31 December 2010 NTA of \$0.168 per share
 - 15.0% discount to 30 day VWAP of \$0.141 per share¹
- Shares issued under the Capital Raising will rank equally with each other and existing shares upon allotment

	CAPITAL RAISED (\$m) ²				
	25	30	40	50	60
31 December 2010 Proforma NTA at 12¢ issue price (¢)	12.5	12.4	12.2	12.1	12.0
12¢ issue price Discount to Proforma NTA	(4.2%)	(3.2%)	(1.7%)	(0.7%)	0.0%

Note: 1. As at close of business 9 March 2011

2. Capital raised includes both Placement and Priority/Retail Offer

Risks

Key Risk Factors

Further details of these risk factors are set out in Appendix 5

GENERAL MARKET RISKS

Economic risks

Share market risks

Discount to net asset value

Liquidity and realisation risk

General business risk

Credit and insurance risk

Legislative and regulatory changes

Taxation risk

FOLKESTONE SPECIFIC RISKS

Pipeline risk

Key personnel risk

Financial and interest rate risk

Real estate market risk

Development risk

Changing investor demand for real estate investments

Capital expenditure

Joint venture interests and co-ownership arrangements

Due diligence

Competitor risk

Funds management business

Real estate finance

Liquidity risk in relation to Folkestone investments

No operating history under the current business strategy

EREP's investment history

Dividend risk

Earnings volatility risk

Divestment risk

Integration risk

Appendices

Appendix 1

Folkestone Board and Senior Management Team

Folkestone Board



Garry Sladden – Non-Executive Chairman

Garry was appointed as Non-Executive Director of Folkestone on 9 March 2011. Garry is a business and strategic adviser who has a diversified business background in the areas of real estate, private equity, business operations, banking and finance, having held the position of General Manager Operations at Consolidated Press Holdings for six years and more recently (2007) the role of Group Operations Executive for a real estate investment, development and funds management group. He is Chairman of Trafalgar Corporate Group and Ashton Manufacturing Pty Limited, and a Non-Executive director of Endeavour Healthcare Limited.



Greg Paramor – Non-Executive Director (to become Managing Director upon acquisition of EREP)

Greg was appointed as a Non-Executive Director on Folkestone in May 2010. Greg is a founding partner of Equity Real Estate Partners. Greg has been involved in the real estate and funds management industry for more than 37 years, and was the cofounder of Growth Equities Mutual, Paladin Australia and the James Fielding Group. Greg was the CEO of Mirvac between 2004 and 2008. Greg is a past president of the Property Council of Australia and past president of Investment Funds Association, a Fellow of the Australian Property Institute and The Royal Institute of Chartered Surveyors. Greg is a director of a number of not-for-profit organisations, including the Garvan Institute of Medical Research and the National Breast Cancer Foundation. Greg is also a board member of the Sydney Swans FirstFolio and the Non-Executive Chairman of LJ Hooker.



Hugh Gurner – Non-Executive Director

Hugh was appointed as a Non-Executive Director of Folkestone in May 2010. Hugh has extensive experience in the real estate sector as an analyst and corporate adviser and has held board positions in a number of ASX listed and unlisted companies including executive and non-executive roles as a founding director of listed real estate funds management and venture capital companies. He is a Fellow of the Australian Institute of Company Directors and holds a Bachelor of Arts degree.



Ross Strang – Non-Executive Director

Ross was appointed Non-Executive Director of Folkestone on 9 March 2011. Ross is a consultant to Kemp Strang, a Sydney commercial law firm. Ross is one of Kemp Strang's founders and was a partner in the practice for over 30 years. Ross has extensive experience in commercial real estate, construction and securities matters on a broad front and is well known in legal, commercial and community circles. He is a Non-Executive Director of Mirvac Funds Management Limited and Mirvac Wholesale Funds Management Limited, and a member of the Australian Institute of Company Directors. Ross is also a director of the Millers Point Youth and Employment Partnership, which is a not for profit initiative aimed at providing employment and educational opportunities for inner city youth.

Folkestone Senior Management Team



Greg Paramor – Non-Executive Director (to become Managing Director upon acquisition of EREP)

Greg was appointed as a Non-Executive Director of Folkestone in May 2010. Greg is a founding partner of Equity Real Estate Partners. Greg has been involved in the real estate and funds management industry for more than 37 years, and was the cofounder of Growth Equities Mutual, Paladin Australia and the James Fielding Group. Greg was the CEO of Mirvac between 2004 and 2008. Greg is a past president of the Property Council of Australia and past president of Investment Funds Association, a Fellow of the Australian Property Institute and The Royal Institute of Chartered Surveyors. Greg is a director of a number of not-for-profit organisations, including the Garvan Institute of Medical Research and the National Breast Cancer Foundation. Greg is also a board member of the Sydney Swans, FirstFolio and the Non-Executive Chairman of LJ Hooker.



Adrian Harrington – Head of Funds Management

Adrian is a founding partner of Equity Real Estate Partners. Adrian has 20 years of experience in the funds management and real estate industries. He was formerly CEO Funds Management, UK and USA for Mirvac. He previously held senior positions at James Fielding Group, Deutsche Asset Management, Paladin Australia and the Property Council of Australia. Adrian is the Non-Executive Chairman of IPD Australia. Adrian is Fellow of the Financial Services Institute of Australasia. Adrian has a Bachelor of Science (Hons) from the University of New South Wales and a Graduate Diploma in Applied Finance and Investment from the Financial Services Institute of Australasia.



Jonathan Sweeney – Chief Operating Officer

Jonathan is a founding partner of Equity Real Estate Partners. Jonathan has over 25 years experience in the financial services industry, firstly in London as a funds manager with Gartmore for 5 years and then in Australia with Armstrong Jones before joining the Trust Company in 1991. He occupied a variety of senior positions at Trust and was Managing Director from May 2000 to December 2008. Jonathan holds a Bachelor of Law and a Bachelor of Commerce from the University of New South Wales, is a Certified Financial Analyst and a member of the Institute of Company Directors. He is a past president of the Trustee Corporation's Association and is a director of the Australian Davis Cup Tennis Foundation and Equities & Freeholds Ltd. He is also a member of the University of New South Wales School of Business Advisory Council.

Folkestone Senior Management Team (cont.)



Ben Dodwell – Head of Property

Ben Dodwell joined EREP in October 2010 as Head of Property. Ben has held a number of senior executive roles at Stockland and Lend Lease where he has been responsible for the operations and profitability of development pipelines worth in excess of \$500 million. During his career Ben has been responsible for the development of traditional retail shopping centres, integrated mixed use, urban renewal townhouse and apartments projects. Ben is also the principal of Gillespie+Dodwell Design and Delivery, a family business specialising in design and development of premium residential terraces and townhouses. Ben is an Olympic, World Championship and Commonwealth medallist in the sport of rowing, a member of the Institute of Company Directors, an Australia Day Ambassador and a passionate contributor to the training and development of Aboriginal Australians.



Scott Martin – Chief Financial Officer, Company Secretary

Scott joined Folkestone in December 2005 and has held the position of Chief Financial Officer and Company Secretary since this time. Scott has 9 years experience in the property and construction industries and has previously held finance positions at R.Corporation and Higgins Coatings. Scott is a Chartered Accountant and spent the first 6 years of his career at Deloitte providing specialist accounting and taxation advice to a variety of clients in a broad range of sectors. Scott is a member of the Institute of Chartered Accountants and has a Bachelor of Commerce from the University of Melbourne.

Appendix 2
Development Book

Noone Street, Clifton Hill

- Noone Street located 3.1kms northeast of the Melbourne CBD is a 50:50 joint venture residential development between Folkestone and AMP
- The development comprises 103 residential dwelling made up of 58 townhouses and 45 apartments
- Pre-sales total \$53.4m representing over 95% of the total project revenue
- To date 2 of the 7 development stages, together with the sale of a super-lot have now been completed and settled
 - construction on the remaining 5 stages is underway and scheduled to be completed in early 2012
- Folkestone recently refinanced the Noone Street debt facility which now matures in December 2011
- The strategy is to actively manage the delivery and settlement risk to ensure cash flow is as forecast with project completion in early 2012.

Ownership	50%
Sector	Residential
Dwellings	103
Book Value ¹	\$9.7m
Debt ¹	\$2.4m
Debt Maturity	Dec-11

Note:

1. Values reflect Folkestone's ownership in the asset, being 50% as at 31 December 2010



Millers Road, Altona

- Millers Road comprises a 13 hectare parcel of land with an industrial 3 zoning and a permit to develop a 36,693sqm bulky goods retail complex
- Located 11kms from the Melbourne CBD and 2.5kms from the Westgate Freeway and Western Ring Road
- The development is a 50:50 joint venture between Folkestone and AMP
- Proposed tenants for the bulky goods centre remain interested in the site, albeit with abeyance until a clear construction start date is confirmed
- The debt facility was recently extended to November 2011
- Presently under strategic review; options include;
 - Englobo land sale
 - Value enhanced superlot sales (e.g. through packaged development approvals)
 - Develop out
- All options will require AMP consent and some development expenditure. Options will be evaluated against the Folkestone TSR target.

Ownership	50%
Sector	Industrial / Bulky Goods
Hectares	13
Book Value ¹	\$6.2m
Debt ¹	\$4.2m
Debt Maturity	Nov-11

Note:

1. Values reflect Folkestone's ownership in the asset, being 50% as at 31 December 2010



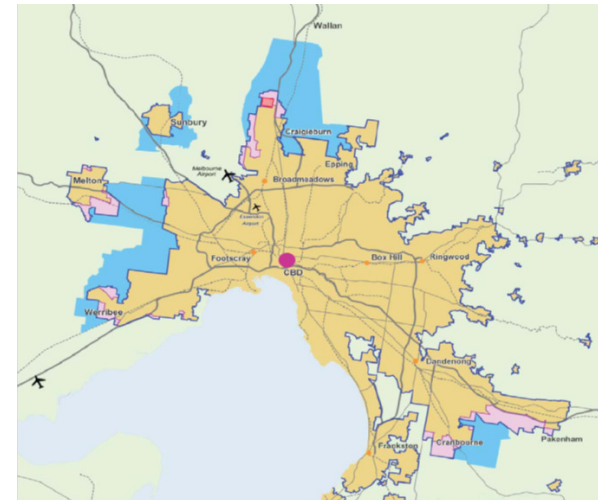
Donnybrook Road, Mickleham

- Donnybrook Road is a 320 hectare site zoned for business use and located within the Urban Growth Boundary of Victoria
 - designated employment corridor anticipated to receive priority attention for the Government
- The site is owned in a 20:80 joint venture between Folkestone and AMP
- The final payment to the vendor was made on 21 December 2010
 - works currently underway to bring infrastructure services to the site to ensure the site is able to capitalise on any demand for employment land in the northern corridor
- The debt facility for Donnybrook Road expires in December 2011
- Presently under strategic review; key focus is to crystallise a liquidity event within mid to late 2012 and this may require further development expenditure underpinned by further value enhancement.

Ownership	20%
Sector	Industrial
Hectares	320
Book Value ¹	\$14.1m
Debt ¹	\$8.7m
Debt Maturity	Dec-11

Note:

1. Values reflect Folkestone's ownership in the asset, being 20% as at 31 December 2010



Appendix 3

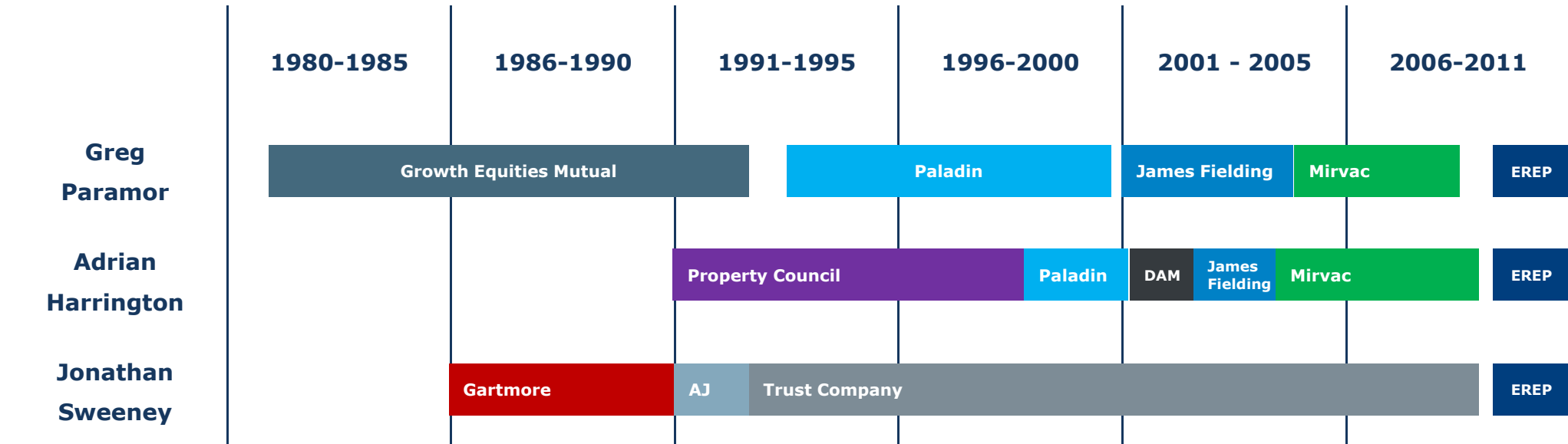
EREP Acquisition Background

Acquisition of EREP

- As part of the recapitalisation, Folkestone will acquire EREP for 8.33 million Folkestone shares (\$1m of shares at \$0.12 per share)
- EREP is a specialist real estate funds management and advisory business
- EREP was established in 2009 by its principals
 - Greg Paramor – former Managing Director Mirvac Group (37 years experience)
 - Adrian Harrington – former CEO, US & UK Mirvac Funds Management (20 years experience)
 - Jonathan Sweeney – former CEO Trust Company (25 years experience)
- Acquisition conditional on Folkestone raising at least \$20m

EREP Principals – Track Record

EREP Principals



EREP Principals – Folkestone Employment Terms

	Greg Paramor	Adrian Harrington	Jonathan Sweeney
Position	Managing Director ¹	Head of Funds Management	Chief Operating Officer
Remuneration	\$300,000	\$300,000	\$300,000
Performance Rights ²	12.5 million performance rights allowing the holder to acquire 12.5 million shares	6.25 million performance rights allowing the holder to acquire 6.25 million shares	6.25 million performance rights allowing the holder to acquire 6.25 million shares
Hurdles for vesting of Performance Rights	<p>The Performance Rights will vest 3 years following the grant date subject to the following performance hurdles</p> <p>50% will vest based on the achievement of compound annual growth in Total Shareholder Return³ over the performance period on a sliding scale</p> <ul style="list-style-type: none"> – the full 50% vesting where Total Shareholder Return is 15% per annum or above – 25% vesting where Total Shareholder Return is 10% per annum – between 10% and 15% per annum, the number of Performance Rights will be calculated on a straight line basis <p>50% will vest based on the achievement of compound annual growth in Folkestone’s Net Total Assets⁴ per share over the performance period on a sliding scale</p> <ul style="list-style-type: none"> – the full 50% vesting where the growth in Net Total Assets per share is 15% per annum or above – 25% vesting where the growth in Net Total Assets per share is 10% per annum – between 10% and 15% per annum, the number of Performance Rights will be calculated on a straight line basis 		
Employment termination terms	<ul style="list-style-type: none"> – Employment commences once Folkestone successfully raise gross proceeds of at least \$20m under the capital raising – Folkestone may terminate employment at any time on 12 months notice – EREP principals may terminate employment at any time on 6 months notice – EREP principals must not solicit Folkestone employees or compete within a defined restraint area for 6 months following employment termination 		

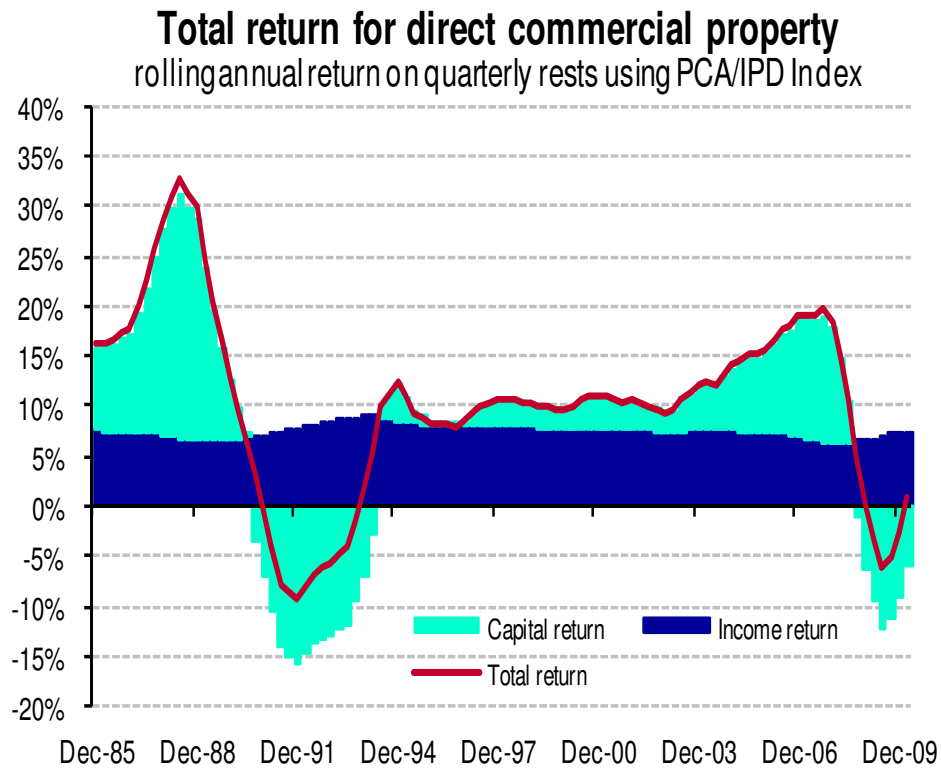
1. With effect from the date of successfully raising gross proceeds of \$20m under the Capital Raising, Greg Paramor will hold the position of Managing Director
2. The performance rights are exercisable for nil consideration with a deemed value (based on a share price of \$0.12 representing \$3m in total, split \$1.5m to Greg Paramor, and \$750,000 to each of Adrian Harrington and Jonathan Sweeney)
3. Total Shareholder Return represents the total return on a Folkestone share to shareholders comprising the movement in share price plus any dividends paid
4. Net Total Assets represents the total assets less liabilities as disclosed in Folkestone’s Statement of Financial Position for the appropriate financial year

Appendix 4
Market Outlook

Australian Market Conditions

- **Economy in relative good shape compared to global peers but headwinds still prevail**
- **Real estate debt**
 - remains tight, margins high and conservative underwriting applied to deals
 - developers, in particular, are struggling to get finance
- **Non-residential**
 - sentiment improving with transaction activity picking up and yields stabilising
 - demand patchy – strong correlation with economic growth
 - buying and managing assets well will drive growth rather than trying to pick sectors
- **Residential**
 - market slowed after stellar run in 2009
 - medium term outlook positive – high population growth, demographic changes, chronic undersupply of dwellings, and growing acceptance of medium density accommodation
- **Funds management**
 - investors want quality management, simpler structures and greater transparency
 - consolidation of some managers and funds – only the strong will survive

Non-residential Investment Cycle



IPD

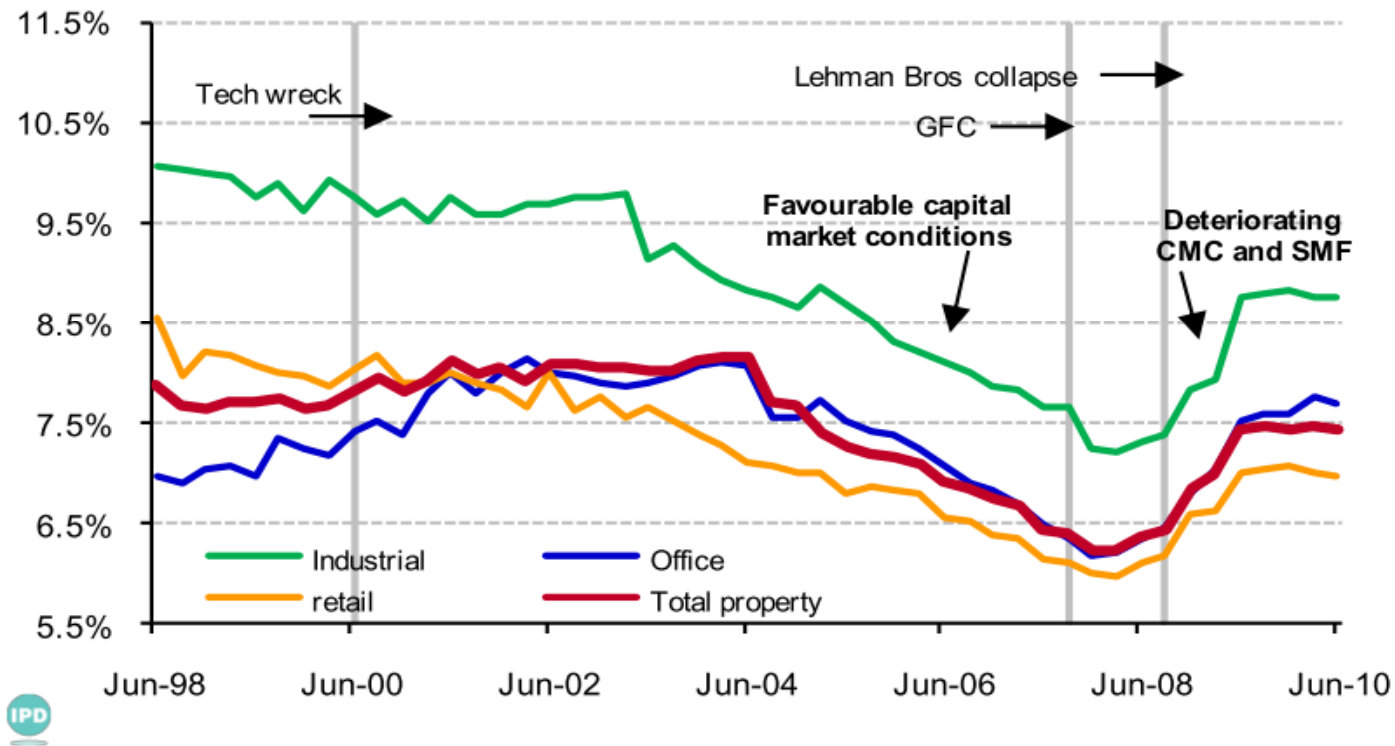
Source: PCA/IPD Property Index

Downturn – not that bad?

- Downturn not as bad as 1991
- Peak to trough values circa 26% compared to 40% in 1990
- Total return 12 months to December 2010 was 9.5%
 - Retail was 9.5%
 - Office was 9.3%
 - Industrial was 8.4%

Non-residential Movements in Cap Rates

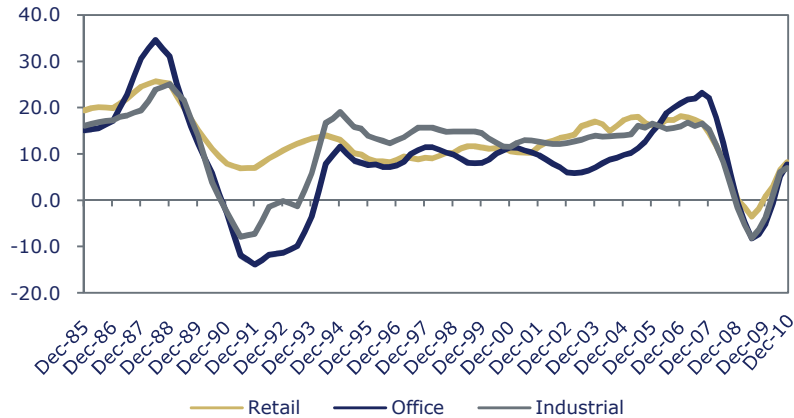
Australian Average Direct Property Cap Rates: 1998 – 2010



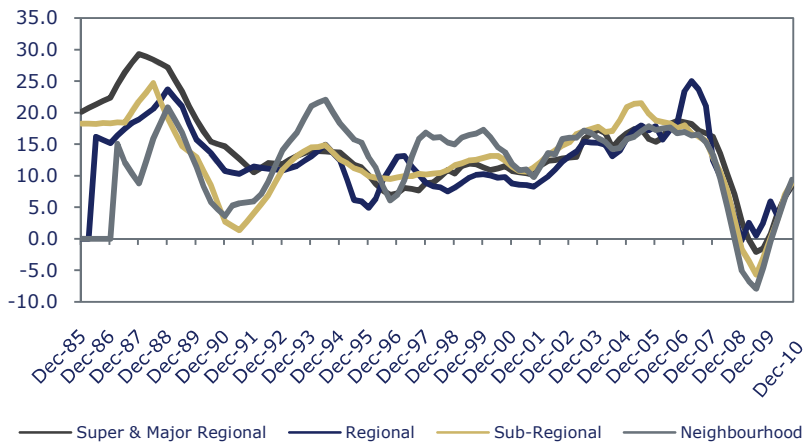
Source: PCA/IPD Property Index

Retail Provides Better Risk-adjusted Returns

Historical Total Returns by Sector: 1985 - 2010



Historical Total Returns by Sector: 1985 - 2010



Source: PCA/IPD Property Index

		RETAIL %	OFFICE %	INDUSTRIAL %
Last 10 years	Total Return	11.6	9.2	10.2
	Volatility	3.2	4.1	3.7
Last 20 years	Total Return	11.0	6.0	9.8
	Volatility	2.4	4.7	3.9

		SUPER & MAJOR REGIONAL %	REGIONAL %	SUB-REGIONAL %	NEIGHBOURHOOD %
Last 10 years	Total Return	11.9	12.0	12.2	10.9
	Volatility	3.1	3.9	3.8	3.9
Last 20 years	Total Return	11.5	11.1	11.3	12.4
	Volatility	2.3	2.9	2.9	3.3

Strong retail assets have ability to outperform over the longer-term; less volatile and higher risk-adjusted returns

Residential Outlook – Differing Views

Something has to give in housing

- Jennifer Hewett, National affairs correspondent
- From: The Australian

Friday, 9 September 2010

The Australian housing riddle

Karen Maley | Business Spectator | 18/09/10

Herald Sun

Mixed housing data unlikely to spook RBA, economists

The Australian Financial Review
www.afr.com • Thursday 28 October 2010

The Australian Financial Review
www.afr.com • Thursday 28 October 2010

say

The Australian Financial Review
www.afr.com • Tuesday 2 November 2010

House prices expected to stagnate

Ben Hurley

Capital city house prices rose by 0.1 per cent in the three months ended September 30, according to the Australian Bureau of Statistics. The growth is...

Stronger markets tipped to grow 20pc

and Hobart are moderate

demand is predicted to pick up before the end of the calendar year.

first home buyers before the end of this year and certainly strong in

House prices poised to rise, not burst: BIS Shrapnel report

Bloomberg Businessweek

Available on the iPad

Monday November 1, 2010

IMF's Brooks Says Australian Housing May Be 5%-15% Overvalued

Housing not a bubble

Demand keeping housing bubble whole

Property observed
Robert Harley

The September quarter house price numbers will once again bring out the housing bubble. Once again, they will be...
Up

The Australian Financial Review
Tuesday 2 November 2010 • www.afr.com

Reserve Bank says property investors could create housing bubble

Australian Property News Housing affordability worsens

Posted on Thursday, September 09 2010

Business Spectator

NEWS - Property

Housing bubble a myth: Report

By a staff reporter

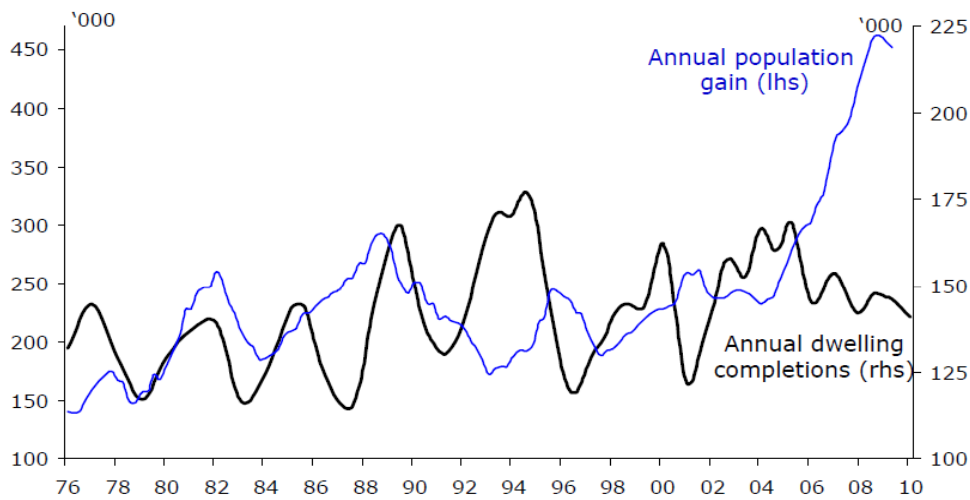
Published 11:27 AM, 28 Oct 2010 Last update 4:36 PM, 28 Oct 2010

AFR 18/10/10

...ousing market is not in the grip of a bubble, although an acute shortage in housing is support prices, which are set to rise further over the medium term, a report by... omics has found.

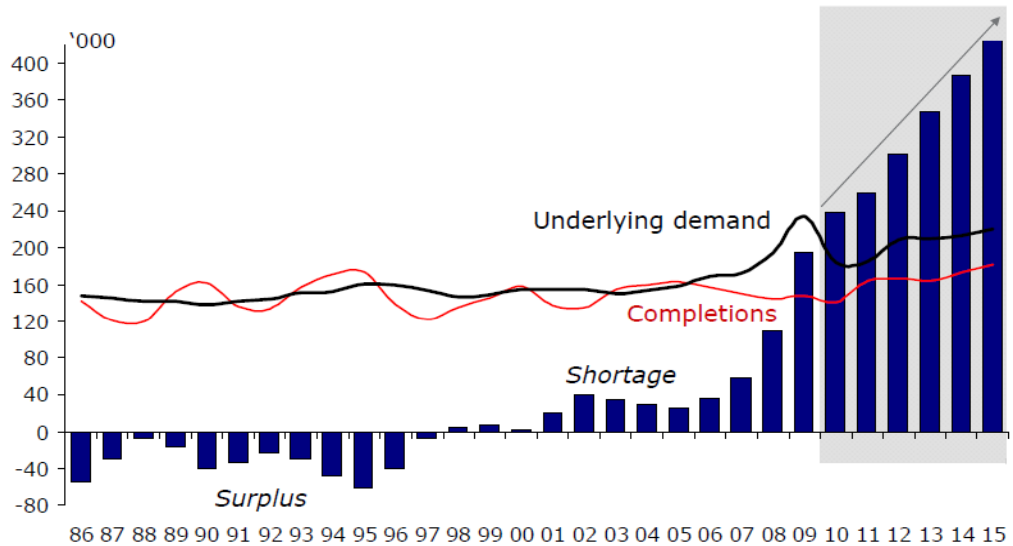
Residential – Demand and Supply Mismatch

**Population Growth vs Dwelling Completions:
1976 – 2010**



Source: ABS/ANZ

Australia Housing Market Balance: 1986 – 2015

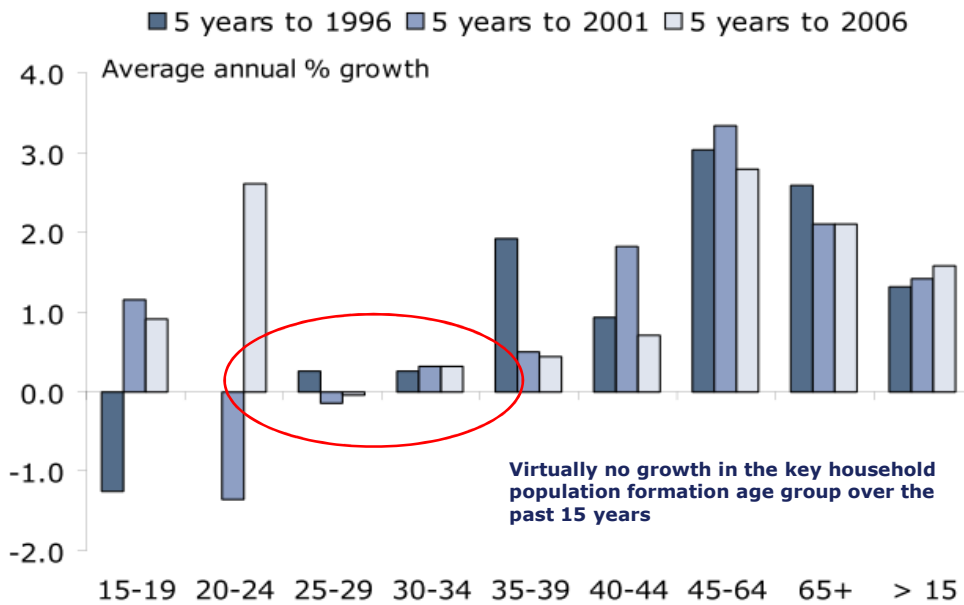


Source: ABS/ANZ

- Strong population growth in recent years has outpaced dwelling construction
- The housing shortage has reached unprecedented levels – and is likely to get worse

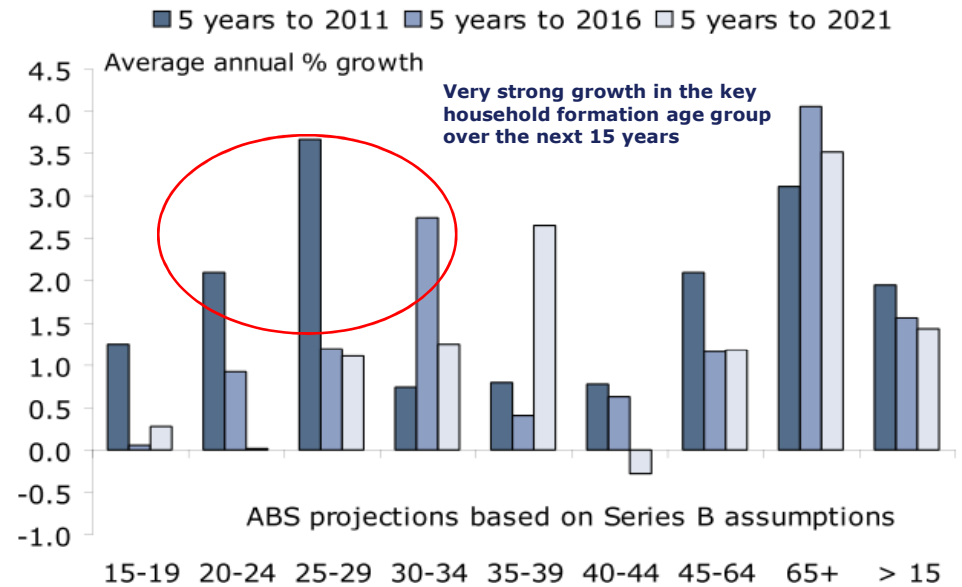
Residential – Population Key Demand Driver

Population Growth by Age Group: 1991 - 2006



Source: Goldman Sachs/ABS

Population Growth by Age Group: 2006 - 2021

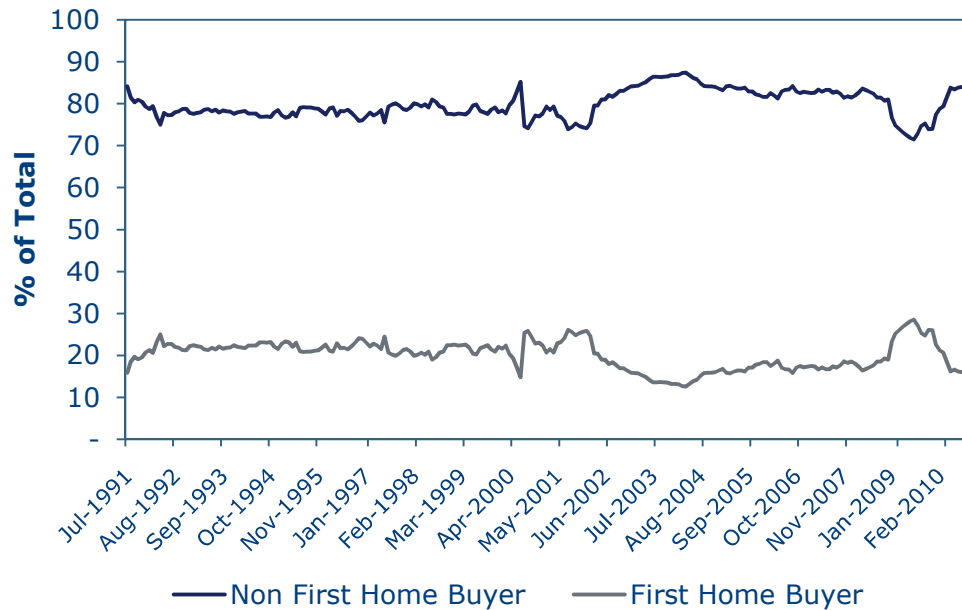


Source: Goldman Sachs/ABS

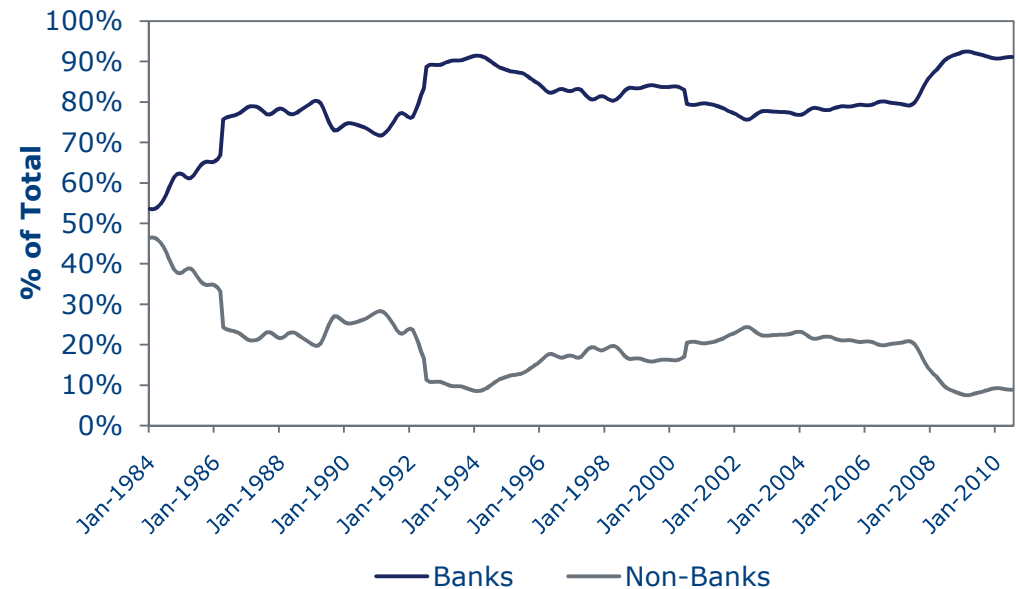
- Past 20 years – growth in population concentrated in very young or 45 and older group
- Next 10 years – growth is strong in the 25-29 and 30-34 age groups, the key household formation age groups

Residential – Shifts in Housing Finance

Housing Finance by Type of Borrower: 1991 - 2010



Housing Finance by Lender: 1984 - 2010



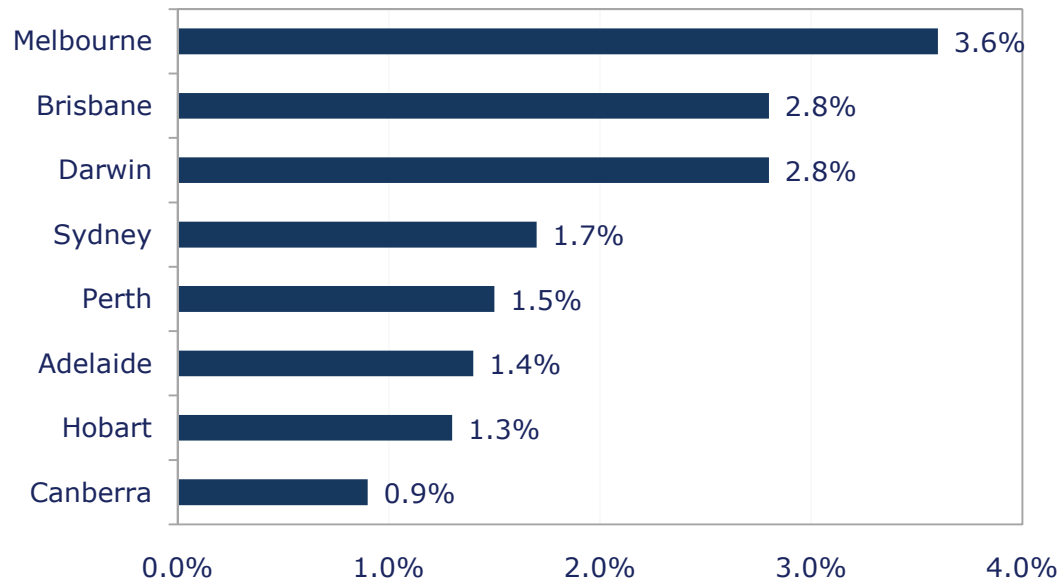
Source: ABS

Source: ABS

- First Home Buyers activity has declined following the strong pull-forward of demand driven by the stimulus package
- The GFC has resulted in a dramatic shift in the lending market – non-bank lenders have fallen to less than 10% of the market

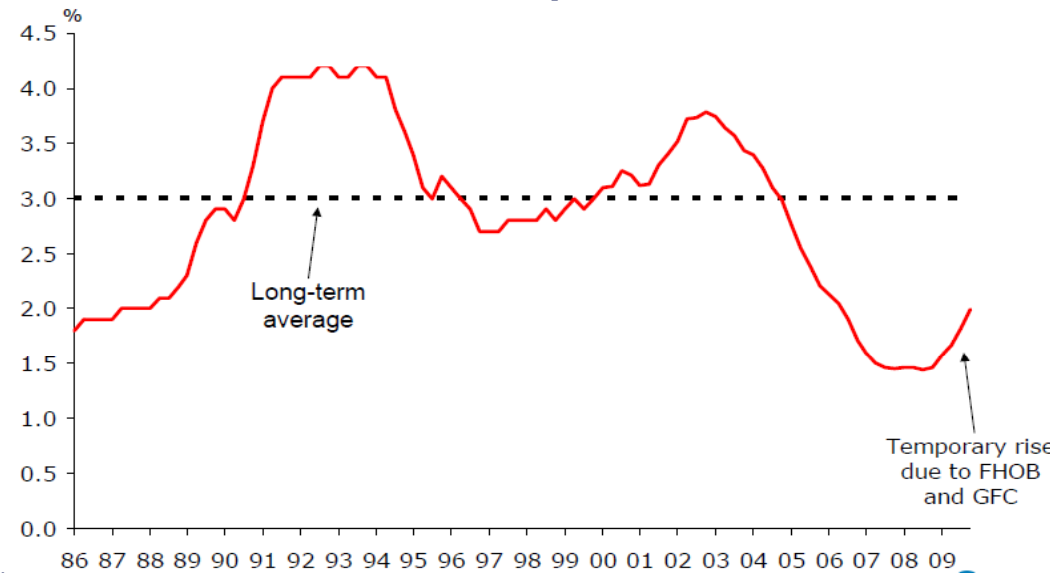
Residential – Rental Market is Strong

Capital City Vacancy Rates: December 2010



Source: SQM Research

Residential Vacancy Rate: 1986 – 2010



Source: REIA

- Vacancy rates are still at very 'tight' levels....
- and rental growth is beginning to pick up again
- Investor incentives, such as negative gearing arrangements, need to be retained and built upon

Appendix 5
Key Risks Factors

Key Risk Factors – General Market Risks

ECONOMIC RISK

- Folkestone's operating and financial performance is influenced by a variety of general economic and business conditions, including the level of inflation, interest rates, commodity prices, ability to access funding, oversupply and demand conditions and government fiscal, monetary and regulatory policies. Prolonged deterioration in these conditions, including an increase in interest rates, an increase in the cost of capital or a decrease in investor demand for real estate investments, could have a materially adverse impact on Folkestone's operating and financial performance. This risk is heightened in the current relatively difficult economic environment.

SHARE MARKET RISK

- There are risks associated with any investment in listed securities. The market price of listed securities such as the Shares is affected by numerous factors including the prevailing economic conditions, general movements in local and international stock markets, investor sentiment, interest and exchange rates, government taxation, market supply and demand and other legal, regulatory or policy changes. As a consequence, the Shares may trade on ASX at higher or lower prices than the Offer Price and may not fully reflect Folkestone's underlying net asset value.
- The value of an investment in Folkestone could decrease as well as increase and investors who decide to sell their Shares on ASX may receive less than the amount invested.

DISCOUNT TO NET ASSET VALUE

- Securities of listed investment companies may trade at a discount to their net asset value and this discount has historically fluctuated over time.

LIQUIDITY AND REALISATION RISK

- There can be no guarantee that there will be an active market in the Shares or that the price of the Shares will increase. There may be relatively few or many potential buyers or sellers of the Shares on ASX at any given time. This may increase the volatility of the market price of the Shares. It may also affect the prevailing market price at which Shareholders are able to sell their Shares. This may result in Shareholders receiving a market price for their Shares that is less than the price that Shareholders paid.

Key Risk Factors – General Market Risks

GENERAL BUSINESS RISK

- Folkestone is exposed to the same form of general business risk that applies to any entity. This includes, but is not limited to, counterparty performance risk, staff retention risk, occupational health and safety risk, taxation change risk, other regulatory change risk, dispute risk, environmental and contamination risk and insurance coverage risk.

CREDIT AND INSURANCE RISK

- Folkestone is exposed to the same form of general business risk that applies to any entity. This includes, but is not limited to, counterparty performance risk, staff retention risk, occupational health and safety risk, taxation change risk, other regulatory change risk, dispute risk, environmental and contamination risk and insurance coverage risk.

LEGISLATIVE AND REGULATORY RISK

- Legislative or regulatory changes, or the interpretation of such, may have legal, tax or accounting consequences that adversely affect Folkestone.

TAXATION RISK

- Changes in income tax, capital gains tax, GST or stamp duty legislation, case law, rulings and determinations issued by the Australian Commissioner of Taxation and other tax authorities, particularly in regard to investment in income-producing real estate, may adversely affect Folkestone's profitability and cash flow, as well as the tax treatment of returns received by Shareholders.

Key Risk Factors – Folkestone Specific Risks

PIPELINE RISK

- The performance of Folkestone is to a large extent dependent on the ability of the senior management team to identify and source suitable investment opportunities. Such opportunities are subject to market conditions and other factors outside the control of the senior management team. Failure to deploy the funds raised under the Offer in suitable investment opportunities will adversely affect returns available to Shareholders.

KEY PERSONNEL RISK

- Folkestone's business strategy will be implemented by the Board and the management team led by Greg Paramor, Ben Dodwell, Adrian Harrington and Jonathan Sweeney. It is anticipated that this will provide Folkestone with an exposure to an extensive network of relationships within the real estate industry and capital markets. Folkestone's success will depend in a large part on the judgment and performance of the Board and senior management team. The loss of services of any of these key personnel could have a material adverse impact on the Company's ability to successfully implement Folkestone's business strategy. The senior management team's employment terms provide them with the ability to give 6 months' notice of resignation and are subject to a further 6 months non-compete clause.

FINANCIAL AND INTEREST RATE RISK

- Folkestone may use leverage to maintain an optimal capital structure for each of its investments. The use of leverage may enhance returns and enable a broader range of investments to be made. However, it will increase the exposure of Folkestone to financial and interest rate risk. These risks may result in the negative performance of investments and a reduction in the underlying value of Folkestone and its Shares. As such, neither the achievement of the investment objectives as stated nor the return of capital to Shareholders can be guaranteed.
- Specifically, Folkestone is exposed to risks relating to the refinancing of existing debt facilities including Millers Road, Donnybrook Road and Noone Street project debt maturing in November 2011, December 2011 and December 2011 respectively, and the Company may experience some difficulty in refinancing some or all of its debt facilities maturing in the short term the coming years. The terms on which they are refinanced may also be less favourable than at present. Folkestone has various covenants in relation to its debt facilities. Factors such as falls in asset values and the inability to achieve timely asset sales at prices acceptable to Folkestone could lead to a breach in debt covenants and in such an event Folkestone's lenders may require their loans to be repaid immediately.

Key Risk Factors – Folkestone Specific Risks

REAL ESTATE MARKET RISK

- Folkestone's asset values and earnings are subject to real estate market conditions. Increases in supply or falls in demand in any of the sectors of the real estate market in which Folkestone operates can influence the acquisition of sites, the timing and value of the Company's sales and the carrying value of projects and any income producing assets as well as earnings. A downturn in the real estate markets due to deterioration in the economic climate could result in reduced asset values and earnings, as could a decline in sales. Changes in market conditions for properties, including vacancy rates, incentive levels and rental rates may impact on any proceeds received from the Company's assets.
- Market sentiment may be influenced by media commentary and observations by industry analysts which has a significant influence on the confidence of and the propensity of purchasers to buy properties. Perception may have a larger short term influence on project enquiry levels and rates of sale than medium term factors such as the likelihood of oversupply or undersupply in some market segments. Although rates of sale may not have a significant influence on the profitability of individual projects in the medium / long term, a decline in market sentiment which reduces rates of sales could adversely influence the amount of profit that can be brought to account in a particular financial period and can impact on Folkestone's liquidity.
- Real estate specific factors which might impact on asset values and future earnings include the following:
 - environmental issues (e.g. site contamination or asbestos), changes to government regulations relating to real estate, land resumptions and major infrastructure developments;
 - any failure to deliver on or to effectively execute Folkestone's stated strategy or a failure to redefine the strategy to meet changing market conditions;
 - an increase in capitalisation rates considered appropriate by professional valuers in response to changed market conditions;
 - changes in the conditions of town planning consents applicable to Folkestone projects as a consequence of the unpredictable nature of council policies;
 - variances in the cost of development as a consequence of the imposition of levies by state and local government agencies;
 - a failure of a significant portion of purchasers to settle on development projects;
 - the activities of resident action groups; and
 - land resumptions for roads and major infrastructure, which cannot be adequately offset by the amount of compensation eventually paid.

Key Risk Factors – Folkestone Specific Risks

DEVELOPMENT RISK

- Part of Folkestone's business is to identify, analyse and invest in development projects which have a number of inherent risks in addition to those associated with real estate generally including:
 - a risk that appropriate planning consents are not obtained or, if obtained, are not properly adhered to;
 - a risk that development costs escalate beyond those originally anticipated;
 - a risk of project delays due to factors beyond the control of Folkestone;
 - a risk that any real estate development manager and / or subcontractor appointed to implement a development project does not perform their role to a satisfactory standard or acts or fails to act in breach of contract;
 - a risk that competing real estate development projects adversely affect the overall return achieved by a real estate development project undertaken by Folkestone because they provide competitive alternatives for potential purchasers and potential lessees;
 - a risk that the property does not sell;
 - a risk that market conditions change during any development; and
- Although some of these risks can be mitigated, it is not possible to remove entirely the risks inherent in development projects.

CHANGING INVESTOR DEMAND FOR REAL ESTATE INVESTMENT

- The demand for real estate as an asset class changes over time and can be influenced by general economic factors such as interest rates and stock market cycles. The demand for real estate and unlisted real estate funds to which Folkestone may launch or manage may change as investor preferences for particular sectors and asset classes change and this could adversely impact Folkestone's future earnings potential.

CAPITAL EXPENDITURE

- The risk of unforeseen capital expenditure requirements for Folkestone may impact returns to investors.

Key Risk Factors – Folkestone Specific Risks

JOINT VENTURE INTERESTS AND CO-OWNERSHIP ARRANGEMENTS

- Folkestone intends to undertake joint ventures with co-owners on asset ownership. At times, Folkestone’s objectives may conflict with its partners’ in major decisions in respect of these joint ventures and ongoing or material disagreements may adversely affect the ability to efficiently manage such assets.

DUE DILIGENCE

- Some investments may be made based on limited due diligence of publicly available information. This may increase the risk of individual investments and could lead to material adverse effects on the performance of Folkestone.

COMPETITOR RISK

- Although Folkestone targets medium-sized development opportunities which are below the minimum investment size for most large institutional developers and beyond the funding capacity of small local investors, the existence or escalation of such a competitor with similar investment horizons may affect Folkestone’s ability to obtain development rights to those opportunities, which could adversely affect Folkestone’s financial performance and Shareholder returns.

FUNDS MANAGEMENT BUSINESS

- Folkestone will look to expand EREP’s existing real estate funds management business. The ability to establish new funds will depend on the availability of suitable assets, capital and other market conditions at the time. The expansion of this business is not guaranteed.

REAL ESTATE FINANCE

- Folkestone may provide financing by way of preferred equity or mezzanine loan style investments backed by real estate assets or development projects. To the extent that the asset values fall or the development projects do not complete or provide the required returns this may have an adverse impact on the carrying value of these investments along with reduced coupon interest income.

Key Risk Factors – Folkestone Specific Risks

LIQUIDITY RISK IN RELATION TO FOLKESTONE INVESTMENTS

- Folkestone will invest in assets that are not listed on a stock exchange or for which there are only a limited number of potential investors. As a consequence, the realisable value of an asset may be less than its expected value and divestment of the asset at such a time may adversely affect Shareholder returns.

NO OPERATING HISTORY UNDER THE CURRENT BUSINESS STRATEGY

- Folkestone has no operating history under its current business strategy and investors will be subject to the risk that its implementation may be unsuccessful. As Folkestone's business strategy is opportunistic and not definitive it is not possible to independently assess the projected cash flows or discount these cash flows back to present value. There is no guarantee that Shareholder returns will be improved by Folkestone's current business strategy.
- Further, besides Scott Martin the Board and senior management team will not comprise any person with more than a one year involvement in Folkestone's business.

EREP'S INVESTMENT HISTORY

- The past investment strategies and funds management performance of EREP and the EREP Principals are not an indication of the strategy or performance of Folkestone.
- Given Folkestone's broad investment mandate and potential competition with other funds, there can be no guarantee that Folkestone will be able to replicate the investment strategies or performance history of EREP or the EREP Principals. Further, due to potential differences in overall market conditions and availability of suitable investment opportunities, the historical performance of EREP and the EREP Principals cannot be relied upon as an indication of Folkestone's future investment returns.

Key Risk Factors – Folkestone Specific Risks

DIVIDEND RISK

- It is currently considered unlikely that Folkestone will pay any dividends for a period of at least three years with any excess capital generated to be reinvested into future investment opportunities and the funds management platform. However, if Folkestone believes that this capital cannot be deployed in additional investments consistent with Folkestone's investment objectives, excess cash may be redistributed to Shareholders (including through capital distributions, Share buy-backs or a return of capital) and accordingly there is a risk that returns consistent with Folkestone's investment objectives may not be achieved.

EARNINGS VOLATILITY RISK

- Folkestone's earnings may be volatile due to the uncertain timing in relation to the Company making investments, receiving distributions (if any) from investee vehicles and realising investments.

DIVESTMENT RISK

- It is possible that a substantial amount of time may lapse before Folkestone is able to realise the value of its investments, and thus there could be a substantial delay before any dividends are paid to Shareholders. Further, the returns generated on investments depend on proceeds realised from divestments and any adverse impact to this could significantly impact returns.

INTEGRATION RISK

- Folkestone's business strategy involves the integration of businesses that have previously operated independently. There is an inherent risk that the integration of a recently acquired business may encounter unexpected challenges or issues. The process of integrating operations could, among other things, divert management's attention, interrupt or lose momentum in the activities of one or more of the businesses and could result in the loss of key personnel. Any of these outcomes could have an adverse effect on Folkestone's business, results of operations or financial condition and performance.

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Where New Shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the New Shares pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;

(ii) where no consideration is or will be given for the transfer; or

(iii) where the transfer is by operation of law.