

3 March 2011

## CORRECTION OF INACCURACIES AND MISREPRESENTATIONS IN RELATION TO EREP PROPOSAL

Please find attached a letter Greg Paramor and Hugh Gurner which has been sent today requesting the Company release it immediately to the market.

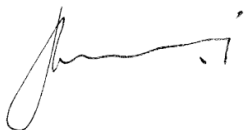
The Equity Real Estate Partners Proposal ("EREP Proposal") has been presented to Folkestone Shareholders so they can decide whether to adopt a new strategy for Folkestone.

Unfortunately we are now concerned that there is a risk that Shareholders will be denied the opportunity to make an informed decision as a result of being misled by inaccuracies and misrepresentations in information sent to them by the long-time shareholders backing the Bell Potter Proposal - Thorney Holdings Pty Ltd ("Thorney") and Wilbow Group Pty Ltd ("Wilbow"). The purpose of this letter is to address material errors in that information.

**It is important to note that all Folkestone shareholders will be given the opportunity to vote on every part of the EREP Proposal. Shareholders do not get to vote on any part of the Bell Potter Proposal. In fact, the Bell Potter Proposal is vague or silent on many key issues including who will manage Folkestone, who will be on its Board and what the strategy will be to restore shareholder value.**

Thank you to the many shareholders who have voted in favour of the EREP Proposal. Please be advised that you do not need to take any further action – your vote remains valid. For those shareholders who have yet to vote or now wish to vote in favour of the EREP Proposal you can vote on line at [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au) or lodge a new proxy form with the registry by 2pm 7 March 2011.

Kind regards



Greg Paramor  
Principal



Adrian Harrington  
Principal



Jonathan Sweeney  
Principal

3<sup>rd</sup> March 2011

Dear Shareholder

### **CORRECTION OF INACCURACIES AND MISREPRESENTATIONS**

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### **THE FACTS**

<b>ISSUE</b>	<b>WILBOW LETTER</b>	<b>THORNEY LETTER</b>	<b>THE FACTS (AS ALREADY KNOWN BY THE MARKET AS A RESULT OF PREVIOUS RELEASES INCLUDING THE NOTICE OF MEETING AND EXPLANATORY MEMORANDUM)</b>
<b>WHO IS EREP?</b>		“What is EREP?”	EREP is a specialist real estate business established by Greg Paramor, Adrian Harrington and Jonathan Sweeney, who have extensive experience in real estate investment, development, funds management and financial services. The background, experience and track record of EREP and its Principals was clearly set-out in the Notice of Meeting and Explanatory Memorandum issued to all Folkestone Shareholders on 10 January 2011.
<b>CHAIRMAN AND INDEPENDENT DIRECTOR RECOMMENDATION</b>		“Follow the Chairman and Independent Directors’ Recommendation’	This implies that there is a third Independent Director in addition to the Chairman – Alister Maitland – and Independent Director – Michael Parkinson. Ms Kaye Denning was the third Independent Director, however she resigned on 10 February 2011.
<b>LOAN TO EREP PRINCIPALS</b>	“\$5M effectively interest free and effectively nonrecourse loan from FLK”	No mention	There is <b>NO</b> loan.

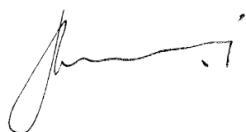
<p><b>PURCHASE PRICE OF EREP</b></p>	<p>“to buy EREP for what originally started at \$3M with the consideration to be in shares”</p>	<p>“shareholders being asked to pay \$1.0 million...at least 8.3m shares or over 8% of Folkestone”</p>	<p>EREP will be purchased for \$1.0 million in Folkestone shares subject to successfully raising \$20 million in new capital. This represents no more than 3% of the market capitalisation after the minimum capital raising. The purchase price was the result of an arm’s length negotiation with the existing Folkestone Board.</p>
<p><b>ROLE OF GREG PARAMOR UNDER THE EREP PROPOSAL</b></p>	<p>“Greg Paramor is designated as Executive Chairman”</p>	<p>No mention</p>	<p>Greg Paramor will be Managing Director <b>NOT</b> Executive Chairman as advised to Folkestone Shareholders on 21 February 2011. The Board will have a majority of independent directors with Garry Sladden as Independent Non-executive Chairman. This is best practice corporate governance.</p>
<p><b>ASSETS OF EREP</b></p>	<p>“It has minimal assets with the main one seeming to be a Financial Services Licence and that lost approx \$400K in the most recent financial year.”</p>	<p>“a company with accumulated losses of \$1.0 million” and “sizeable management and corporate overheads, including a Sydney office, estimated to cost between \$2.0 and \$3.0 million per annum to operate.”</p>	<p>EREP is a fully licensed funds manager with existing funds under management and a team of seven people, <b>all experienced and capable of immediately running and extracting maximum value from Folkestone’s assets.</b> EREP intends to undertake further property developments and grow a funds management business. EREP’s overheads are substantially less than \$2.0 million per annum.</p> <p>The Bell Potter Proposal has <b>not</b> disclosed what it would cost to replenish the board and management team, the calibre of people who will fill these positions and what overheads would be incurred in running Folkestone. Also, given Folkestone currently does not have a CEO or any full-time property and development staff, there is no overlap in management costs if the EREP Proposal is approved by Shareholders.</p>

<p><b>CHANGE IN CONTROL OF FOLKESTONE</b></p>	<p>“The recent media comment (sic) has suggested that the Bell Potter Proposal would result in ‘control’ of FLK changing. I don’t understand why this should be the case in a proposal which permits all shareholders to participate.”</p>	<p>“How much of FLK will be controlled by principals of EREP and their associates after completion of the capital raising?”</p>	<p>The Bell Potter Proposal states that Wilbow has agreed to take up their entitlement (10.7%) and Thorney to underwrite \$10 million in addition to its current holding of 11.64%. For the record, the last rights issue in 2009 suffered a 60% shortfall, and <b>we expect a significant shortfall to occur under the Bell Potter Proposal</b>. As such, the Wilbow/Thorney camp could own more than 35% of Folkestone. Wilbow and Thorney have never denied this could occur.</p> <p><b>EREP has already announced to Shareholders that there will be no change in control under the EREP Proposal.</b> The EREP Principals currently own approximately 6.4% of Folkestone. EREP Principals will receive \$1 million in shares for the acquisition of EREP. In addition, EREP Principals <u>may</u> subscribe for more shares but only under the same terms as other Shareholders up to \$4.8 million (as stated in Resolution 10 of the Notice of Meeting). For example, based on a capital raising the same size as proposed under the Bell Potter Proposal (i.e. \$25m), EREP Principals could potentially own approximately 17% of the larger Folkestone confirming there is no risk of control passing to the EREP Principals.</p>
<p><b>DILUTION</b></p>	<p>“The Bell Potter Proposal gives EVERY shareholder the opportunity to participate in the capital raising and not dilute their shareholding.”</p>	<p>“How will existing shareholders be treated [under the EREP proposal]?”</p> <p>“[Under the Bell Potter Proposal] no dilution for existing shareholders whom participate in the pro-rata rights issue”</p>	<p>It has already been publicly announced to Shareholders that a key component of the capital raised under the EREP Proposal will be via a pro rata offer to existing Shareholders. <b>A pro rata offer is akin to a rights issue.</b></p> <p>The balance to be raised by a public offer and placement is designed to reinvigorate the register so there is a wider spread of investors and increased liquidity in the stock.</p>

<p><b>FINANCIAL CERTAINTY OF CAPITAL RAISING</b></p>	<p>“The Bell Potter Proposal also brings certainty of additional capital because it is underwritten.”</p>	<p>“Bell Potter Proposal – Financial Certainty – Underwriting in Place” and “EREP Proposal - financially uncertain – no underwriting”</p>	<p><b>The EREP Proposal provides financial certainty.</b> It is backed by Macquarie Capital Advisers, Moelis and BG Capital as financial advisers. Furthermore EREP has received market support with a significant number of enquiries about participating in the equity raising from a number of well-known stockbroking firms, institutions and retail investors. As the EREP Proposal is subject to Shareholder approval, commonsense dictates that a formal underwriting agreement can only be entered into by the new Folkestone Board once the EREP Proposal is approved.</p>
<p><b>EREP COSTS</b></p>	<p>“Is FLK expected to reimburse EREP for costs they have expended on FLK? If so why? Are these costs in the order of \$400K +?”</p>	<p>“FLK Shareholders will be liable for substantial accrued legal and other costs inside EREP, estimated to be well in excess of the stated \$400,000.”</p>	<p>EREP has executed a Share Sale Agreement with Folkestone that was agreed by the Folkestone Board. The Sale Agreement caps all EREP costs at \$577,000. These costs consist of legal fees for assisting in issuing the Notice of Meeting and Explanatory Memorandum for Folkestone (\$150,000), the set up costs for the Folkestone employee incentive plans (\$45,000), prepayment of EREP office setup costs and lease commitments (\$300,000) which becomes an asset of Folkestone, prepaid insurance costs necessary to run a real estate investment management business (\$72,000) and \$10,500 in other costs. <b>All of these costs are for the benefit and use by Folkestone.</b></p> <p>The Bell Potter Proposal does not state what costs will be incurred in implementing its strategy including recruiting, retaining and incentivising its management team, and the inevitable costs of moving to new premises in April 2011 when the current Folkestone lease expires.</p>

<p><b>THE FUTURE BOARD COMPOSITION UNDER THE BELL POTTER PROPOSAL</b></p>	<p>“F. The Board needs to be refreshed and I understand that this view is shared by the existing independent directors. I understand that if the resolutions to approve the EREP Proposal fail and the Bell Potter Proposal proceeds, they will resign. G. I do understand that a prominent Melbourne solicitor and experienced public company director has been approached to be the Independent Chair if the Bell Potter proposal succeeds.”</p>	<p>No mention</p>	<p>There has been no public announcement by the independent directors of their intention to resign.  There has been no public announcement regarding the identity and experience of any new ‘independent directors’ other than Mr Bowness.</p>
<p><b>FAIR AND REASONABLE OUTCOME FOR SHAREHOLDERS</b></p>	<p>“I simply don’t consider the current EREP Proposal delivers a fair and reasonable outcome to FLK shareholders.”</p>	<p>No mention</p>	<p>The Folkestone Board including the Chairman and the Independent Directors recommended the EREP Proposal to Shareholders in the Notice of Meeting dated 10 January 2011. They based their recommendation on the report commissioned by the Board from a major accounting firm. One might ask, is it fair or reasonable that the Bell Potter Proposal is not subject to a vote of Shareholders.</p>

Yours faithfully



Greg Paramor  
Director Folkestone



Hugh Gurner  
Director Folkestone