

Folkestone

NOTICE OF ANNUAL GENERAL MEETING FOLKESTONE LIMITED

ABN 21 004 715 226

The forty first Annual General Meeting of **FOLKESTONE LIMITED** will be held in the Company's offices located at Level 24, 360 Collins Street Melbourne on Thursday, 16 October 2008 commencing at 11.30 am.

Agenda

Financial Statements

1. To consider the Directors' Report, Financial Statements and Independent Audit Report for the year ended 30 June 2008.

Unless the Company's Share Registry has been notified otherwise, shareholders will not be sent a hard copy of the Annual Report. All shareholders can view the Annual Report, which contains the Financial Report for the year ended 30 June 2008 on the website of the Company (www.folkestone.com.au), under Investor Centre/Annual Reports.

Election of Directors

To consider and, if thought fit, to pass the following as ordinary resolutions:

2. "That Mr Michael Parkinson, a Director retiring from office by rotation in accordance with Rule 58 of the Constitution, being eligible, is re-elected as a Director of the Company."

In addition to the above, Mr Bruce Kean has notified the Board that he will be resigning from office in Accordance with Rule 56 of the Constitution with effect from 16 October 2008.

Adoption of the Remuneration Report

To consider and, if thought fit, to pass the following as an advisory resolution:

3. To adopt the Remuneration Report for the financial year ended 30 June 2008. Please see the attached Explanatory Notes.

(Note that the vote on this item is advisory only and does not bind the Directors of the Company.)

Performance Rights

To consider and, if thought fit, to pass the following as an ordinary resolution:

4. "That the grant of certain Performance Rights to Mr Oscar Guglielmi, Managing Director and Chief Executive Officer of the Company, under the terms of his Employment Contract with the Company (as set out in the Explanatory Notes to this Notice of Meeting), be approved for all purposes including for the purpose of ASX Listing Rule 10.14."

The Company will disregard any votes cast on this Resolution by Mr Oscar Guglielmi and any associate of Mr Oscar Guglielmi. However, the Company need not disregard the vote if:

- It is cast by Mr Guglielmi as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- It is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

By Order of the Board



Scott Martin
Company Secretary
16 September 2008

Proxies

If you are unable to attend and vote at the meeting and wish to appoint a person who is attending as your proxy, please complete the enclosed proxy form. This form must be received by the Company by 11.30am on Tuesday, 14 October 2008.

The completed proxy form may be:

- mailed to Link Market Services Limited, Locked Bag A14, Sydney South, NSW 1235 or
- faxed to 61-2-9287-0309.

A member entitled to attend and vote is entitled to appoint not more than two proxies. Where more than one proxy is appointed, each proxy must be appointed to represent a specific proportion of the members voting rights. A proxy need not be a member of the Company.

Explanatory Notes on Resolutions

Resolution 2 – Re-election of Michael Parkinson

Michael W Parkinson (65)
CBE, MA, MBA (Stanford), FAICD

Michael was appointed as a Non-Executive Director in December 2005 and is a member of the Audit and Risk Management and Remuneration Committees. Michael was a non-executive director of IOOF Holdings Ltd and its predecessor, IOOF Ltd, from 1996 to 2005. For the past 20 years, Michael has operated his own corporate advisory business specialising in investment opportunities. Michael is also a director of Singhi Advisors Limited.

Resolution 3 – Adoption of Remuneration Report

The Directors' Report for the year ended 30 June 2008 contains a Remuneration Report which sets out the policy for the remuneration of the directors of the Company and specified executives of the Company.

The Corporations Act requires that a resolution be put to the vote that the Remuneration Report be adopted. The Corporations Act expressly provides that the vote is advisory only and does not bind the directors or the Company.

Shareholders attending the AGM will be given an opportunity to ask questions about, or make comments on the Remuneration Report.

Resolution 4 – Performance Rights

On 26 August 2006 the Company entered into an employment agreement with Mr Oscar Guglielmi, appointing him to the position of Managing Director and Chief Executive Officer of the Company.

The employment agreement provides that subject to the approval of the members of the Company, Mr Guglielmi is eligible to earn certain bonuses and to be granted certain Performance Rights on the satisfaction of performance targets set by the Board. The eligibility of Mr Guglielmi to earn the bonuses and Performance Rights are subject to the Executive Bonus Scheme approved by shareholders at the Annual General Meeting of the Company held on 25 October 2006. The terms of the Executive Bonus Scheme are summarised in the Annual Report.

The Company now seeks approval of shareholders to the grant of Performance Rights to Mr Oscar Guglielmi under the terms of his employment agreement with the Company, relevant to the 2008-2009 financial year. Details of the Performance Rights set out in Mr Guglielmi's employment agreement and the benchmarks for entitlement, which are relevant to the 2008/2009 financial year, are as follows:

FINANCIAL YEAR	BENCHMARK	ENTITLEMENT
2008-2009	1 Earnings per share increases at more than 10% compound (2009 benchmark: 14.52 cents)	Up to 100,000 Performance Rights (as determined by the Board)
	2 TSR ranking that exceeds 70 th percentile in the ASX Real Estate Management and Development Listing (excluding Australand and Lendlease) as published in the Australian Financial Review.	Up to 100,000 Performance Rights (as determined by the Board)

The Vesting Date for the Performance Rights to which Mr Guglielmi may be entitled under his employment agreement is the 10th business day following the second anniversary of the issue of the relevant Performance Right. A Performance Right may be exercised within 5 Business Days of the vesting date by notice in writing to the Company to that effect. In the event that a Performance Right is not exercised within this period, it will lapse.

ASX Listing Rule 10.14 prohibits the acquisition of shares by a director, or associate of a director, under an employee incentive scheme without the approval of the members of the Company.

Resolution 4 seeks the approval of the members to:

- the grant of those Performance Rights relevant to the 2008-2009 Targets (as specified above), subject to the satisfaction of the benchmarks set out in the employment agreement; and
- the issue of ordinary shares in the capital of the Company pursuant to any Performance Rights so granted, on and subject to the terms of the Executive Bonus Scheme.

ASX Listing Rule 10.15A sets out the information which must be provided in a notice of meeting for the purpose of obtaining the approval of the members to an acquisition of shares to which ASX Listing Rule 10.14 applies. The information is set out below.

Importantly, ASX Listing Rule 10.15A.9 requires details as to the date by which an entity will issue the securities which must be no later than 3 years after the meeting. Given the Vesting Date for Performance Rights, it is probable that if Mr Guglielmi is granted the Performance Rights for the 2008-2009 Targets (as outlined above) and is entitled to exercise those rights on the Vesting Date, an issue of ordinary shares will occur within this 3 year period.

The issue of any ordinary shares pursuant to Performance Rights granted under any subsequent financial year targets will, as a result of the vesting period, not be issued within the 3 year period prescribed by ASX Listing Rule 10.15A.9. As a consequence, the Company is presently only seeking the approval of the members to the grant of Performance Rights (and possible acquisition of ordinary shares pursuant to same) relevant to the 2008-2009 Targets (as outlined above). The Company will seek the approval of members to the grant of Performance Rights (and possible acquisition of ordinary shares pursuant to same) relevant to subsequent financial year targets set out in the employment agreement, on an annual basis.

In the event that members do not approve the grant of any Performance Rights (and possible acquisition of ordinary shares pursuant to same) in respect of any financial year targets, the Board may determine to pay a cash bonus amount to the value of the ordinary shares the subject of a non-approved Performance Right, as an alternative.

For the purposes of ASX Listing Rule 10.15A, the following information is provided:

1. If the person is not a director, a statement of the relationship between the person and the director that requires the approval to be obtained:

Mr Guglielmi is a director of the Company.

2. The maximum number of securities that may be acquired by all persons for whom approval is required, including the formula (if one is used) for calculating the number of securities to be issued:

In the event that members approve the grant of Performance Rights (and possible acquisition of ordinary shares pursuant to same) to Mr Guglielmi relevant to the 2008-2009 Targets (as outlined above), and Mr Guglielmi achieves all performance targets and is eligible to exercise the Performance Rights, the maximum number of ordinary shares that may be issued pursuant to the valid exercise of the Performance Rights is 200,000 ordinary shares.

3. The price (including a statement whether the price will be, or be based on, the market price), or the formula for calculating the price, for each security to be acquired under the scheme:

A Performance Right is a conditional right to be granted ordinary shares in the capital of the Company at a zero exercise price.

4. The names of all persons referred to in rule 10.14 who received securities under the scheme since the last approval, the number of securities received and the acquisition price for each security:

Mr Guglielmi is the only person to whom rule 10.14 applies that has received Performance Rights under the Executive Bonus Scheme.

A Performance Right is a conditional right to be granted ordinary shares in the capital of the Company at a zero exercise price.

Mr Guglielmi has received 700,000 Performance Rights prior to this date which were approved at previous general meetings of the Company.

5. The names of all persons referred to in rule 10.14 entitled to participate in the scheme:

The only Senior Executive to which rule 10.14 applies, in respect of which the Board has made a current determination, is Mr Guglielmi.

6. A voting exclusion statement:

The voting exclusion statement is contained on page 2.

7. The terms of any loan in relation to the acquisition:

Not applicable.

8. A disclosure and entitlement statement:

Details of any securities issued under the Executive Bonus Scheme will be published in each annual report of the entity relating to a period in which the securities have been issued, and that if applicable, approval for the issue of securities was obtained under ASX Listing Rule 10.14.

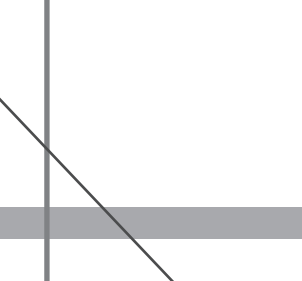
Any additional persons to whom rule 10.14 applies, who become entitled to participate in the Executive Bonus Scheme after Resolution 4 is approved and who are not named in the Notice of Meeting will not participate until approval is obtained under ASX Listing Rule 10.14.

Senior Executives not subject to ASX Listing Rule 10.14 have also been included in accordance with the Executive Bonus Scheme and any grant of performance rights to these Executives will be disclosed in the Annual Report.

9. The date by which the entity will issue the securities, which must be no later than 3 years after the meeting:

In the event that members approve the grant of Performance Rights (and possible acquisition of ordinary shares pursuant to same) to Mr Guglielmi relevant to the 2008-2009 Targets (as outlined above) and Mr Guglielmi achieves those targets and is eligible to exercise the Performance Rights at the Vesting Date, the Company will issue the ordinary shares the subject of the Performance Rights, no later than 21 July 2011.

The grant of Performance Rights to Mr Guglielmi, and potential allotment of ordinary shares pursuant to same will constitute the giving of a financial benefit to a related party of the Company, for which member approval is usually required pursuant to subsection 208(1) of the Corporations Act.



There are various exceptions to the requirement for member approval. This includes, in accordance with subsection 211(1) of the Corporations Act, where the benefit is remuneration to a related party as an officer or employee of the Company, and to give the remuneration would be reasonable given:

- the circumstances of the Company in giving the remuneration; and
- the related party's circumstances (including the responsibilities involved in the office or employment).

The Board is of the view that the exception in subsection 211(1) of the Corporations Act is relevant to the financial benefits to be granted to Mr Guglielmi under his employment agreement as they form part of his total potential remuneration package as CEO and Managing Director. The terms of the employment agreement were negotiated prior to Mr Guglielmi's commencement as CEO and Managing Director of the Company. Further, the Board believes that the financial benefits available to Mr Guglielmi under his employment agreement are commensurate with the responsibilities and performance targets expected of him.

Accordingly, the Company is not seeking the approval of members under subsection 208(1) of the Corporations Act.

ANNEXURE A

GLOSSARY OF TERMS

The following definitions apply throughout the Notice of Annual General Meeting and the accompanying Explanatory Notes, unless the context requires the contrary:

ASX means the Australian Securities Exchange.

Corporations Act means the *Corporations Act 2001* (Cth).

Executive Bonus Scheme means the employee incentive scheme offered by the Company and approved by shareholders on 25 October 2006, as described in the Annual Report.

Listing Rules means the official rules of the ASX as at the date of this Notice of Meeting.

Performance Rights means a conditional right to the issue of shares by the Company on a one for one ratio, which accrues to a Senior Executive pursuant to the Executive Bonus Scheme;

Senior Executive means any of:

- an executive director of the Company or any Subsidiary of the Company;
- a secretary of the Company or any Subsidiary of the Company;
- an officer of the Company or any Subsidiary of the Company; or
- a senior manager of the Company or any Subsidiary of the Company.

Subsidiary has the same meaning given to that term as in the Corporations Act.

Vesting Date means in relation to a Performance Right, the 10th business day following the second anniversary of the Grant Date of the relevant Performance Right.

