

**Folkestone Limited**

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26 August 2009

Dear Shareholder,

**RENOUNCEABLE RIGHTS ISSUE AND SHAREHOLDER UPDATE**

On behalf of the Board of Folkestone Limited, I am pleased to inform you that the Company is conducting a renounceable rights issue on a **2 for 1** basis (with the ability of shareholders to apply for oversubscriptions) at **15 cents** per share to raise approximately \$9.5 million before costs assuming the issue is fully subscribed. This is at a discount of approximately 45% to the price of shares last traded (27 cents) and a 78% discount to book NTA (68 cents) as at 30 June 2009.

Patersons Securities Limited has underwritten the Entitlement Offer to \$8.2 million and the Directors' have reserved the right to place any shortfall following the completion of the Entitlement Offer. The Company's Directors intend to take up their full entitlements and some have elected to sub-underwrite their respective entitlements.

This letter also provides an update of the Company's activities and results, the sale of the Access Constructions business and the Company's strategy moving forward.

A copy of the Company's Presentation issued to ASX today in relation to these matters is also enclosed for your information.

**1. Full Year Results**

Folkestone Limited has announced an operating loss after tax for the year ended 30 June 2009 of \$3.7m compared to a net profit after tax of \$3.1m for the corresponding period in 2008.

The result for the full year has been impacted by the following material items:

- Provisions made against the carrying value of inventories relating to our projects at toyotagreen Port Melbourne and 300 Millers Road Altona; and
- In respect of Access Constructions, an impairment of the goodwill paid on acquisition in March 2005 as well as a favourable one-off settlement of the copyright infringement claim which was disclosed in the Half Year Report.

The net effect on profit of these material items was (\$5.6)m, of which over (\$5.0)m related to non-cash items. As foreshadowed in the Half Year Report, the Board has resolved not to pay a dividend in respect of the year ended 30 June 2009.

A copy of the audited results was released to the ASX on Wednesday 19 August 2009.

**2. Strategy moving forward**

The significant deterioration in financial and property markets over the past 12 months has required Folkestone to re-assess its strategic direction. The market has particularly changed for property developers in terms of access to debt capital and joint ventures.

The combination of tightening credit markets and a very small capital base has restricted Folkestone's ability to build a diversified portfolio of development projects capable of delivering consistent earnings for shareholders.

The Board has therefore undertaken a detailed review of the company's strategic direction over the past few months in conjunction with external advisors.

Folkestone believes demand exists within the listed investment market for a mid scale, lowly geared property company which provides shareholders with reliable and transparent earnings and distributions. Folkestone is focused on transitioning from pure property development and construction activities to become a company with these attributes over the next 12 months.

Following the review, it has been determined that the strategic direction of Folkestone will be to:

- Lock in inherent value of existing assets by:
  - Ensuring that the company has an equity base sufficient to meet its commitments under existing projects
  - Undertaking an orderly sell through of existing development projects in a manner and a timeframe which retains and maximizes the value of Folkestone's investment;
- Transition into a mid scale, lowly geared property company which provides shareholders with reliable and transparent earnings in an orderly fashion over the next 12 months enabling the company to:
  - Increase its scale so that it can attract Institutional Investors and ensure that shareholder returns are not eroded through corporate costs. This is likely to be achieved through merger with or integration of an existing portfolio ; and
  - Position the company with a portfolio of income producing property assets;
- To the extent that it does not re-invest capital released from the realisation of development assets into new assets distribute the returns or buy back capital as appropriate.

In working through and realising its existing developments, Folkestone will position itself to achieve incremental returns should property markets recover further during the work out period and to take advantage of opportunistic acquisitions as they present.

### **3. Sale of Access Constructions**

Access Constructions result for the year ended 30 June 2009 was an after-tax profit of \$1.515m compared with \$1.380m last year. This was positively impacted by a one off settlement of the copyright infringement claim disclosed in the 2008 Annual Report. The result for the second half was a loss of \$0.103m having been impacted by declining work flow. This trend has continued into the new financial year and the outlook for the next 12 months remains challenging.

Given this position and consistent with the new strategic direction of the company and the changing economic environment, Folkestone has decided to exit its equity investment in the Access Constructions business. This has been executed by way of a Management Buy Out signed on 19 August 2009 but with effect from 1 July 2009. The net effect of the sale of the business including the write-off of goodwill was \$2.255m against book value. This was reflected in the 2009 financial statements.

### **4. Renounceable Rights Issue**

The Company is conducting a rights issue at a price of 15 cents per share on the basis of 2 shares for every 1 share held with the ability of shareholders to apply for over-subscriptions. The issue will raise approximately \$9.5 million before costs assuming the issue is fully subscribed. Patersons Securities Limited has underwritten the Entitlement Offer to \$8.2 million and the Directors' have reserved the right to place any shortfall following the completion of the Entitlement Offer. The Company's Directors intend to take up their full entitlements. Acceptances are expected to close on 30 September 2009.

The Company intends to use the funds to:

- Partly or fully de-gear the Millers Road Altona project;
- Enable the company to meet its obligations in respect of the Donnybrook Road Mickleham project;
- Meet working capital requirements over the timeframe (2.5 years) to complete the realisation of the existing projects.

Your right to subscribe for shares at 15 cents per share provides value to you to the extent to which the share price exceeds that price. The share price closed at 27 cents per share on 19 August 2009 (being the last day of trading prior to the issue of this letter), and hence the issue is priced at a 45% discount and a 78% discount to book NTA (68 cents) as at 30 June 2009. You should decide whether or not to accept the offer, in whole or in part, to subscribe for shares at 15 cents per share. You may choose to sell all or part of your rights. If you take no action you will forego any value that your entitlement provides to you.

Rights trading will occur and a personalized Entitlement and Acceptance Form will be sent to eligible shareholders in accordance with the following indicative timetable:

Rights trading commences	28 August 2009
Record Date	3 September 2009
Entitlement and Acceptance Form sent	7 September 2009
Rights trading ends	23 September 2009
Closing Date of Issue	30 September 2009
Issue of shares	7 October 2009
Dispatch of holding statements	8 October 2009

You will be invited to apply for any oversubscriptions that may arise in addition to your entitlement. If there are excess oversubscription applications, the Company will determine an appropriate allocation policy in conjunction with the underwriter. The Entitlement and Acceptance form will contain details of how to sell your rights or alternatively how to subscribe. If you wish to sell your rights prior to receipt of the form then you should contact your broker.

The offer is to be made to Australian and New Zealand shareholders, and no prospectus for the offer documentation is required nor is any shareholder approval required for the issue. Your directors intend to take up their respective entitlements. Any entitlements of the small number of overseas shareholders will be sold in accordance with regulatory requirements

Patersons Securities Limited has underwritten the Entitlement Offer to \$8.2 million. It may terminate its underwriting obligations in circumstances typically found in underwriting agreements of this nature. The Underwriter may also terminate if either the All Ordinaries Index or the All Industrial Index drops by 10% or more from the level as at close of trading yesterday. This also includes if on any 3 consecutive days where a trade in the Company's shares occurs and 30,000 or more shares trade on each of those days at a price less than 15 cents.

The rights issue if all entitlements are accepted by shareholders to the full extent will not result in any change to the control of the Company. If all entitlements under the rights issue are not accepted to the full extent then the shareholding interest of non-participating shareholders will be diluted. Shareholders may apply for oversubscriptions and the percentage interests of shareholders who receive shares by way of oversubscriptions will increase. Shareholders may sell their rights under the rights issue and those persons who receive shares through the acquisition of rights under the rights issue will also increase their interest in the Company.

Based on advice from the underwriter having regard to sub-underwriting commitments received and based on indications from major existing shareholders regarding their expected acceptances, if no other shareholders take up their entitlements under the issue, neither the underwriter nor any sub-underwriters will hold an interest in the Company of more than 20%.

The Company is to pay the underwriter a management fee of \$60,000, a selling fee of 1% of the amount raised under the rights issued, an underwriting commission equal to 5% of the dollar amount being underwritten, and GST. The Company must also reimburse the underwriter for all reasonable expenses incurred by it in connection with the rights issue. The underwriter is responsible for paying sub-underwriting fees to any sub-underwriters.

I look forward to your participation in this issue and the future of your Company.

Yours sincerely

A handwritten signature in black ink, appearing to read "Alister Maitland". The signature is written in a cursive, flowing style.

**Alister T L Maitland**

Chairman