

19 August 2009

## **ANNOUNCEMENT OF FULL YEAR RESULT FOR THE YEAR ENDED 30 JUNE 2009**

Folkestone Limited (ASX:FLK) today 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
- 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)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 has been released simultaneously to the ASX which contain further details in relation to the company's results.

### **STRATEGIC REVIEW**

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.

## **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 and new orders. This trend has continued into the new financial year and the outlook for the next 12 months is similar to the recent months trading.

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 is reflected in the 2009 financial statements.

## **OUTLOOK**

The key economic factor impacting Folkestone's business has been the availability and cost of debt and other capital for development projects. This position has not substantially changed and Folkestone's view is that this is not likely to change over the next six months. Folkestone remains positive in respect of individual residential sales and its Clifton Hill project, however the outlook for the commercial and industrial market remains challenging.

## **For further information regarding this announcement please contact:**

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