

**Freshtel Holdings Limited  
(ACN 111 460 121)**

**Renounceable Rights Issue of 1 Share for every 1 Share**

**At an issue price of 0.375 cents (\$0.00375) per New Share**

**to raise up to \$1,592,221**

**Offer Document**

**This Offer Document is not a prospectus**

It does not contain all of the information that an investor would find in a prospectus or which may be required in order to make an informed investment decision regarding, or about the rights attaching to, the New Shares offered under this Offer Document.

**This document is important and requires your immediate attention.**

It should be read in its entirety. If you do not understand its content or are in doubt as to the course you should follow, you should consult your stockbroker or professional adviser without delay.

This Offer opens on 11 May 2010 and closes at 5:00 pm AEST on 25 May 2010.

Valid acceptances must be received before that time.

Please read the instructions in this document and on the accompanying Entitlement and Acceptance Form regarding the acceptance of your Entitlement.

## Corporate Directory

### **Company**

Freshtel Holdings Limited  
ACN 111 460 121  
Level 1, 121-127 High Street  
Prahran VIC 3181

Telephone: 03 9095 2000  
Facsimile: 03 9510 2480  
Website: [www.freshtel.net.au](http://www.freshtel.net.au)

### **Directors**

Dr Allan Sullivan  
Andy Dewhurst  
Ken Carr

### **Company Secretary**

David Sims

### **Auditor**

BDO Audit (NSW-VIC) Pty Limited  
ACN 114 673 540  
The Rialto, 525 Collins Street  
Melbourne VIC 3000

Telephone: (03) 8320 2222  
Facsimile: (03) 8320 2200  
Website: [www.bdo.com.au](http://www.bdo.com.au)

### **Solicitors to the Offer**

Watson Mangioni Lawyers Pty Limited  
ABN 56 120 091 394  
Level 13, 50 Carrington Street  
Sydney NSW 2000

Telephone: (02) 9262 6666  
Facsimile: (02) 9262 2626  
Website: [www.wmlaw.com.au](http://www.wmlaw.com.au)

### **Registry**

Computershare Investor Services Pty Limited  
ACN 078 279 277  
Yarra Falls, 452 Johnston Street  
Abbotsford VIC 3067

Telephone: 1300 787 272 (within Australia)  
+61 3 9415 4803 (outside Australia)  
Website: [www.computershare.com.au](http://www.computershare.com.au)

## Important Dates

Event	Date
Announcement of Offer and Placement	22 April 2010
Lodgement Date – Offer Document, Appendix 3B and cleansing notice lodged with ASX	22 April 2010
Despatch of Appendix 3B to Shareholders	27 April 2010
<i>Ex Date</i> – The date on which Existing Shares commence trading without the Entitlement to participate in the Offer	29 April 2010
Rights trading begins	29 April 2010
Record Date – The date for determining Entitlements of Eligible Shareholders to participate in the Offer (7.00pm AEST)	5 May 2010
Offer Document sent to Shareholders – Anticipated despatch of Offer Document and Entitlement and Acceptance Forms – Offer opens	By 11 May 2010
Rights trading ends	18 May 2010
Closing Date – The last day for receipt of Entitlement and Acceptance Forms (5.00pm AEST)	25 May 2010
Allotment Date – Allotment of New Shares under the Offer	31 May 2010
Despatch Date – Anticipated despatch of holding statements for New Shares	2 June 2010
Expected commencement of normal trading in New Shares on ASX	3 June 2010

The above dates and times are indicative only. All times and dates are a reference to Sydney time. Freshtel reserves the right to vary any of the above dates and times, including closing the Offer early or extending it subject to the Corporations Act, ASX Listing Rules and other applicable laws.

### Key Offer statistics

Issue Price per New Share	0.375 cents (\$0.00375)
Total number of New Shares available under the Offer	424,592,354
Maximum total Shares on issue following the Offer <sup>1</sup>	849,184,708
Maximum total proceeds of the Offer (before expenses of the Offer)	\$1,592,221

Notes:

1. Includes Shares to be issued under the Placement announced on 22 April 2010.

## Key Issues

Question	Answer	Where to find more information
<b>Who is the issuer?</b>	Freshtel Holdings Limited	Section 1.1
<b>What is the Offer?</b>	<p>Renounceable rights issue and shortfall offer to raise approximately \$1,592,221 (before expenses of the Offer).</p> <p>Eligible Shareholders may apply for all or part of their Entitlement under the Rights Offer and may also apply for additional Shares under the Shortfall Offer.</p> <p>Eligible Shareholders may also trade their Entitlements on ASX during the Rights trading period.</p>	Section 1.2
<b>What are the terms of the Rights Offer?</b>	<p>1 New Share for each 1 Existing Share at an issue price of 0.375 cents per New Share (\$0.00375 per New Share).</p> <p>If an Eligible Shareholder becomes entitled to a fraction of a Share, the entitlement will be rounded up to the nearest whole number.</p>	Section 1.3
<b>What are the terms of the Shortfall Offer?</b>	<p>Eligible Shareholders who take up their Entitlement in full also have the ability to apply for Shortfall Shares, by completing the Entitlement and Acceptance Form and paying the additional Application Monies.</p> <p>You may apply for any number of additional New Shares subject to a maximum application to take your voting power in Freshtel to the maximum limit permitted under the takeover provisions of the Corporations Act (generally being 20%).</p> <p>If the Shortfall Offer is over-subscribed, applications will be scaled back pro-rata to the Shareholding of Eligible Shareholders applying for the Shortfall Shares as at the Record Date.</p> <p>There can be no certainty that there will be a Shortfall or that Eligible Shareholders will receive the number of additional New Shares applied for under the Shortfall Offer.</p>	Section 1.4
<b>What is the status of the New Shares?</b>	New Shares rank equally in all respects with Existing Shares from their date of issue.	Section 1.6
<b>How will proceeds be applied?</b>	Net proceeds of the Offer will be used to provide working capital, reduce existing debt and to position the Company for possible acquisition of interests in new projects. From the proceeds of the Rights Issue, \$326,985 will be applied towards retiring part of the unsecured component of the debt provided by Custodial Capital Management Pty Limited.	Section 3.5
<b>Who can invest?</b>	Eligible Shareholders of Freshtel as at 7:00 pm AEST on the Record Date (5 May 2010).	Section 1.3
<b>What are the potential significant risks?</b>	<p>Eligible Shareholders of Freshtel are exposed to the following specific risks in acquiring and holding Shares:</p> <ul style="list-style-type: none"> <li>• Successful raising – gross proceeds raised under the Offer in excess of \$1,100,000 will provide Freshtel with working capital to continue as a going concern and to position it for possible acquisitions of interests in new projects.</li> </ul> <p>If Freshtel receives valid Applications under the Offer raising gross proceeds of less than \$1,100,000 but greater than \$900,000, it will have sufficient working capital to continue as a going concern until at least 31 December 2010 but will need to:</p>	Sections 4, 3.2, and 3.6

Question	Answer	Where to find more information
	<ul style="list-style-type: none"> <li>○ implement further cost reduction programs;</li> <li>○ have financial performance improve such that Freshtel reaches a breakeven position;</li> <li>○ raise additional capital; or</li> <li>○ enter into a transaction that provides sufficient earnings and/or additional capital,</li> </ul> <p>to be able to continue as a going concern beyond that date.</p> <p>If Freshtel does not receive valid Applications under the Offer raising gross proceeds of at least \$400,000 and is unable to implement or undertake any of the above measures by 30 June 2010, there is a real risk that the Company will cease trading after that date and may be placed into administration or may be delisted from the ASX. Any gross proceeds raised under the Offer above \$400,000 but below \$900,000 will extend the time frame in which to implement any of the above measures from 30 June 2010 to at the latest, 31 December 2010, depending on the level of gross proceeds raised.</p> <p>However, Freshtel has received confirmation of commitments of at least 254,755,413 New Shares under the Offer raising gross proceeds of \$955,332 and therefore expects that it will be able to raise the minimum \$900,000 required for Freshtel to continue as a going concern until at least 31 December 2010. In the event that these commitments are not honoured, there is a real risk the company may not raise the minimum \$900,000 required, may cease trading and may be placed into administration.</p> <ul style="list-style-type: none"> <li>● As disclosed to the market on 12 April 2010, Freshtel is currently a party to legal proceedings commenced by Newport Capital Group Pty Limited for a claim of \$525,546.68 in relation to an engagement contract. Freshtel is vigorously defending the proceedings however there is a risk it may not be successful.</li> <li>● Telecommunications industry - Freshtel's financial performance is sensitive to the level of activity and demand in the telecommunications industry. This level of activity and demand can be sensitive to a number of factors beyond Freshtel's control.</li> <li>● Competition - Increased competition in the telecommunications industry could result in price reductions, reduced operating margins and loss of market share.</li> <li>● Reliance on third parties – The restructuring of Freshtel's business to significantly reduce costs means that Freshtel is now dependent on third party sales channels to secure retail VoIP and commercial PBX customers.</li> <li>● Access to funding - Freshtel's ability to operate and to expand its business via acquiring interests in new projects is contingent on it be able to obtain sufficient funding on an ongoing basis. The Rights Offer will provide funding required in the short term but additional funding may be required in the future.</li> </ul> <p>For details of general risks, see Section 4.</p>	

Question	Answer	Where to find more information
<b>Is there a minimum subscription?</b>	There is no minimum subscription. Freshtel has received confirmation from existing investors and participants in the Placement that these investors will take up their Entitlements in full sufficient to raise gross proceeds of \$955,332.	Section 1.9
<b>Is the Offer underwritten?</b>	The Offer is not underwritten.	Section 1.5
<b>What are my alternatives?</b>	<p>You may either:</p> <ul style="list-style-type: none"> <li>• take up all or part of your Entitlement;</li> <li>• sell your Rights in full or in part on ASX;</li> <li>• transfer all or part of your Rights to another person other than via ASX;</li> <li>• do nothing and allow all of the New Shares representing your Entitlement to lapse.</li> </ul> <p>You may also apply for New Shares in excess of your Entitlement under the Shortfall Offer.</p>	Section 2
<b>How do I exercise my Rights?</b>	If you are an Eligible Shareholder and you wish to subscribe for all or some of the New Shares making up your Entitlement (and if you wish to apply for additional New Shares), you must complete the Entitlement and Acceptance Form accompanying this Offer Document and forward it with your application monies to the Share Registry before the Closing Date.	Section 2.3
<b>Can I transfer my Rights?</b>	<p>Yes, you can transfer some or all of your Rights on ASX. If you wish to do this, you should contact your stock broker.</p> <p>You may also transfer some or all of your Rights to another person other than on ASX. To do this, you must complete a Renunciation and Transfer Form which can be obtained from Freshtel and the Entitlement and Acceptance Form.</p>	Section 2.6
<b>Will the directors of Freshtel be taking up their Entitlements?</b>	Yes. The directors of Freshtel (and their related entities) intend to take up their Entitlements in full.	Section 3.2
<b>What are the expenses payable by Freshtel?</b>	The total expenses of the Offer are expected to be approximately \$80,000 (exclusive of GST)	Section 5.1
<b>How can further information be obtained?</b>	If you require advice as to whether to accept your Entitlement, you should seek professional advice from your legal, investment or other professional adviser.	Section 1.14

## Important Information

This Offer Document is dated 22 April 2010. This Offer Document was prepared by Freshtel Holdings Limited (**Freshtel**).

In the event that all New Shares are not subscribed under this Offer, Freshtel reserves the right to place the Shortfall in accordance with the Shortfall Offer.

Freshtel will apply for admission of the New Shares to quotation on ASX within 7 days after the date of this Offer Document. The fact that ASX may grant official quotation of the New Shares is not to be taken in any way as an indication of the merits of Freshtel or the New Shares.

### **This Offer Document is not a prospectus**

This Offer Document is given under Section 708AA(2)(f) of the Corporations Act. It is not a prospectus and it does not contain all of the information that an investor would find in a prospectus or which may be required to make an informed investment decision regarding, or about the rights attaching to, the New Shares offered by this Offer Document. It has not been and will not be lodged with ASIC. ASIC and its officers take no responsibility for the content of this Offer Document or for the merits of the investment to which this Offer relates.

### **As an Eligible Shareholder of Freshtel this Offer Document is important and requires your immediate attention.**

You should read the entire Offer Document before deciding whether to invest in the New Shares. Please carefully read the instructions on the accompanying Entitlement and Acceptance Form regarding the acceptance of your Entitlement under the Offer. If you have any questions regarding your Entitlement or the Offer, please contact your legal, investment or other professional adviser.

### **No cooling off rights**

Cooling off rights do not apply to an investment in New Shares. You cannot withdraw the application once it has been accepted. Further, Entitlements cannot be traded on the ASX or any other exchange, nor can they be privately transferred.

### **Professional advice**

The information in this Offer Document is not financial product advice and does not take into account your investment objectives, financial situation or particular needs. It is important that you read this Offer in its entirety before deciding whether to take up your Entitlement to New Shares. In particular, you should consider the risk factors that could affect the performance of Freshtel, some of which are outlined in Section 4. You should carefully consider these factors in light of your personal circumstances (including financial and taxation issues) and seek professional guidance before deciding whether to take up your Entitlement. If you have any questions you should seek professional advice from your legal, investment or other professional adviser.

### **Foreign jurisdictions**

The distribution of this Offer in jurisdictions outside Australia or New Zealand may be restricted by law and persons who come into possession of this Offer outside Australia or New Zealand should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

This Offer does not constitute an offer or invitation in any place outside Australia or New Zealand where, or to any person to whom, it would be unlawful to make such an offer or invitation. No action has been taken to register or qualify the New Shares or to otherwise permit an offering of the New Shares outside Australia.

**WARNING:** This document has not been, and will not be, authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the "SFO"). No action has been taken in Hong Kong to authorize this document or to permit the distribution of this document or any documents issued in connection with it. Accordingly, the New Shares have not been and will not be offered or sold in Hong Kong by means of any document, other than to "professional investors" (as defined in the SFO). No advertisement, invitation or document relating to the New Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the New Shares which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors (as defined in the SFO and any rules made under that ordinance).

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

**No Guarantee**

Neither Freshtel nor any other party makes any representation or gives any guarantee or assurance:

- (a) as to the performance or success of Freshtel;
- (b) the rate of income or capital growth from Freshtel; or
- (c) that there will be no capital loss or particular taxation consequence of investing in Freshtel.

An investment in Freshtel does not represent a deposit or any other type of liability of the above parties. An investment in Freshtel is subject to investment risk. These risks are discussed in Section 4.

Investors should note that the past share price performance of Freshtel provides no guidance as to its future share price performance.

**No representations other than in this Offer Document**

No person is authorised to give any information or make any representation in connection with the Offer which is not contained in this Offer Document. Any information or representation not contained in this Offer Document may not be relied on as having been authorised by Freshtel.

**Future performance**

Except as required by law, and only to the extent so required, neither Freshtel nor any other person warrants or guarantees the future performance of Freshtel or any return on any investment made pursuant to this Offer Document.

**Privacy**

By filling out the Entitlement and Acceptance Form to apply for New Shares, you are providing information to Freshtel (directly and/or via the Share Registry) that may constitute personal information for the purposes of the Privacy Act 1988 (Cth). Freshtel (and the Share Registry on its behalf) collects, holds and uses personal information provided on an Entitlement and Acceptance Form in order to assess your application and administer your holding of Shares.

If you do not provide the information requested in the Entitlement and Acceptance Form, Freshtel and the Share Registry may not be able to process or accept the form.

Access to your personal information may be provided to other companies within the Freshtel group and to Freshtel's agents and service providers on the basis that they deal with such information in accordance with this privacy disclosure statement. You have a right to request access to the personal information that Freshtel holds about you subject to certain exemptions under law. A fee may be charged for access. Access requests must be made in writing to Freshtel's share registrar:

Computershare Investor Services Pty Limited  
GPO Box 52  
Melbourne VIC 8060

**Defined terms and conditions**

Certain terms and abbreviations used in this Offer Document are defined in the Glossary in Section 6.

References to **Australian dollars** or **\$** are references to the lawful currency of Australia. Any discrepancies between the totals and the sum of all the individual components in the tables contained in this Offer Document are due to rounding.



22 April 2010

Dear Shareholder

On behalf of Freshtel Holdings Limited, I am pleased to offer you the opportunity to participate in the Offer.

Freshtel has undergone significant changes and restructuring over the past 12 months to significantly reduce the company's cash deficit and enable the company to continue to operate. The recent restructuring has set the platform to support the business in 2010. This has included:

- upgrading its VoIP platform with the addition of a software licence from a local company, Cloudware;
- terminating VoIP calls for its retail customer base and for Vixtel Pty Limited's commercial PBX customer base;
- removing all permanent staff and now outsourcing all services, website management, billing, call centre management, back office hardware support, customer support and reporting to Vixtel Pty Limited;
- reaching agreements for the marketing of an end-to-end PBX solution to businesses based on the new platform; and
- reaching agreement with Tesco in the UK to terminate the service agreement under which Freshtel provides services to Tesco, allowing a reduction of costs of the business.

These steps have allowed Freshtel to reduce its operating expenses to position the company well to service and continue to move with the VoIP market. Freshtel is now reliant on third party sales channels to secure retail VoIP and commercial PBX customers. If these third party channels are able to grow the customer base then Freshtel's revenues will grow. Conversely, if the customer base shrinks, revenues will decline.

In achieving the changes in the business, Freshtel has drawn down on the \$1 million loan facility provided by Custodial Capital Management Pty Limited. The facility is currently drawn as follows:

- a) A secured loan of \$35,000, by way of a fixed charge in favour of CCM over assets located at Freshtel's UK data centre; and
- b) An unsecured loan of \$815,000.

CCM is also the largest shareholder in Freshtel, having voting power of 23.6% at the date of this Offer Document.

On 12 April 2010, Freshtel also provided an update to the market advising that the ATO has accepted and processed the Company's claim for R&D tax refunds to the value of \$364,326.90 which is expected to be received in the next 2 weeks from this date. Freshtel also announced that it is party to legal proceedings commenced by Newport Capital Pty Ltd ("Newport") seeking success fees of \$525,546.88 which Newport alleges is owing pursuant to an engagement contract. As set out in the announcement, Freshtel disputes that the amount claimed or any amount at all is payable and is vigorously defending the proceedings.

As foreshadowed in previous announcements, Freshtel is seeking to raise approximately \$1.8 million (before costs and expenses) to pay down the Custodial Capital Management Pty Limited loan, provide working capital to support the business in 2010 and to position the Company for possible acquisition of interests in new projects.

To achieve this capital raising, Freshtel has undertaken a placement of 55,172,752 Shares to raise approximately \$206,897. It is now undertaking a renounceable rights issue of 1 New Share for every 1 Existing Share held to raise a further \$1.59 million. The issue price of each new Share is 0.375 cents, representing a discount of 46.4% to the last price at which Shares traded on ASX on 20 April 2010, before the announcement of this Offer.

If fully subscribed, the Offer will result in the issue of a maximum of 424,592,354 New Shares raising approximately \$1,592,221 before expenses of the Offer. The Offer is not underwritten.

The proceeds raised from the Offer will be used to provide working capital, reduce debt and to position the Company for possible acquisitions of interests in new projects. In order to reduce interest costs, \$326,985 of the gross proceeds raised under the Offer will be applied towards retiring part of the unsecured debt provided by Custodial Capital Management Pty Limited.

Eligible Shareholders may apply for all or part of their Entitlement under the Rights Offer and may also apply for additional Shares under the Shortfall Offer. You may apply for any number of additional New Shares subject to a maximum application to take your voting power in Freshtel to the maximum limit permitted under the takeover provisions of the Corporations Act (generally being 20%). To participate in the Shortfall Offer, you must apply at the same time as you apply for your Entitlement under the Rights Offer.

In the event that there is a shortfall in applications for New Shares under the Rights Offer, Eligible Shareholders who have taken up their Entitlement in full and have applied for additional New Shares in the Shortfall Offer will be allocated additional Shares. In the event of oversubscription for this Shortfall, applications will be scaled back pro-rata to holdings of Shares on the Record Date. See Section 1.4 for details.

I commend this Offer to you and thank you for your continued support of Freshtel.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Allan Sullivan', with a stylized flourish at the end.

**Dr Allan Sullivan**  
**Chairman**  
**Freshtel Holdings Limited**

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## **1. Details of the Offer**

### **1.1 Description of the issuer**

Freshtel Holdings Limited is the issuer of New Shares under this Offer Document.

### **1.2 Description of the Offer**

The Offer consists of a total of 424,592,354 New Shares to be offered by Freshtel by way of a renounceable rights issue and the Shortfall Offer to raise up to approximately \$1,592,221 (before expenses of the Offer). This takes the form of a 1 for 1 rights offer together with a right to apply for additional New Shares to meet the shortfall in applications under the Rights Offer (if any). Shares issued under the Placement announced on 22 April 2010 will participate in the Rights Offer.

The Offer is explained in more detail in this Section 1.

### **1.3 Rights Offer**

If you are an Eligible Shareholder, you are being offered an Entitlement to acquire 1 New Share for every 1 Existing Share held as at the Record Date.

The Issue Price per New Share is 0.375 cents (\$0.00375).

The Entitlements are renounceable, meaning Eligible Shareholders who do not wish to take up all or part of their Entitlement may choose to sell or transfer their Rights. You also have the opportunity to subscribe for all, part or none of your Entitlement to New Shares.

Your Entitlement is set out on the accompanying personalised Entitlement and Acceptance Form. If you have more than one holding of Shares, you will be sent more than one personalised Entitlement and Acceptance Form and you will have separate Entitlements for each holding.

Holders of options issued by Freshtel may participate in the Offer if they exercise their options and are on the share register of Freshtel as the holder of Share on the Record Date.

### **1.4 Shortfall Offer**

In addition to applying for their Entitlement, Eligible Shareholders may apply for additional New Shares out of any Shortfall. Application may be made for these New Shares at the same time as applying for Entitlements under the Rights Offer by completing the relevant box in the Entitlement and Acceptance Form and including the appropriate Application Monies. However, Shortfall Shares will only be allocated after all Entitlements under the Rights Offer (including any Rights traded) have been exercised or have lapsed.

Eligible Shareholders may apply for any further number of New Shares out of the Shortfall, provided that the voting power of the applicant in Freshtel will not exceed the maximum limit permitted under the takeover provisions of the Corporations Act as a result of the issue of those additional New Shares. If any Eligible Shareholder's voting power will exceed this limit, the number of New Shares to be issued under the Shortfall Offer to that shareholder will be reduced.

If there is no Shortfall, the Application Monies relating to the Shortfall will be returned to Eligible Shareholders as soon as practicable following the Closing Date without interest.

If applications from Eligible Shareholders under the Shortfall Offer exceed the Shortfall, those applications will be scaled back pro-rata in proportion to each applicant's shareholding as at the Record Date, and the number of New Shares produced from that scaling back will be issued.

If scaling back occurs, Application Monies relating to New Shares applied for but not issued will be returned to Shareholders as soon as practicable following the Closing Date without any interest.

There can be no certainty that there will be a Shortfall or that Eligible Shareholders will receive the number of additional New Shares applied for under the Shortfall Offer.

### **1.5 Offer not underwritten**

The Offer and the Shortfall Offer is not underwritten. Any Entitlements that are not taken up by Eligible Shareholders by the end of the Offer Period will lapse.

The directors of Freshtel reserve the right to place the Shortfall not taken up under the Offer and the Shortfall Offer in their discretion following close of the Offer Period. Under exception 3 of ASX Listing Rule 7.2, any Shares so issued by Freshtel within 3 months after close of the Offer Period will not require shareholder approval under ASX Listing Rule 7.1 and will not reduce the 15% per annum capacity allowed by ASX Listing Rule 7.1 for Freshtel to issue Shares without shareholder approval.

### **1.6 Ranking of New Shares**

The New Shares will be fully paid and rank equally in all respects with Existing Shares from their date of issue.

### **1.7 Allotment**

Freshtel expects to allot all New Shares on 31 May 2010.

### **1.8 Application Monies**

Until the time of allotment of New Shares, Freshtel will hold all Application Monies in relation to those New Shares in a purpose specific bank account. Interest earned on any Application Monies (whether or not allotment takes place) will remain the property of Freshtel. Application will be made to ASX for quotation of the New Shares to be issued under the Offer within 7 days of the date of this Offer Document. If application is not so made or if quotation of the New Shares is not granted by ASX within 3 months of the date of this Offer, any allotment of New Shares in response to an application made under this Offer will be void, and all Application Monies received will be returned without interest.

### **1.9 No minimum subscription**

There is no minimum subscription for the Offer. The Offer is not underwritten. If Freshtel does not raise the total funds contemplated by the Offer, it will apply the funds raised firstly towards costs of the Offer and then to reducing the debt to CCM, with the balance towards providing working capital and the possible acquisition of interests in new projects. See Section 3.6 for further details of consequences of the Offer not being fully subscribed.

### **1.10 Rights trading**

Rights are renounceable which means that Eligible Shareholders who do not wish to take up all or part of their Entitlement may choose to sell their Rights on ASX. Information on how Rights may be sold on ASX is set out in Section 2.5.

You may also transfer all or some of your Rights to another person other than on ASX. Details of how you may effect this transfer are found in Section 2.6.

Any portion of your Entitlement that you decide not to accept and that you do not trade, will lapse and will become part of the Shortfall.

### **1.11 Foreign Shareholders**

This Offer is made only to Shareholders with a registered address in Australia or New Zealand or such other place in which, or to any person to whom, it would be lawful to make such an offer.

Freshtel is of the view that it is unreasonable to make the Offer to other overseas Shareholders (**Foreign Shareholders**) having regard to:

- the number of Foreign Shareholders;
- the number and value of New Shares that would be offered to Foreign Shareholders; and
- the cost of complying with overseas legal requirements.

This Offer does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer. Freshtel is not required to make offers under this Offer to Foreign Shareholders. Where this Offer has been despatched to Shareholders domiciled outside Australia or New Zealand and where the country's securities code and/or legislation prohibits or restricts in any way the making of the offers contemplated by this Offer, this Offer is provided for information purposes only.

Shareholders resident in Australia or New Zealand holding Shares on behalf of persons who are resident overseas are responsible for ensuring that taking up Entitlements under the Offer does not breach regulations in the relevant overseas jurisdiction.

Return of a duly completed Entitlement and Acceptance Form will be taken by Freshtel to constitute a representation that there has been no breach of such regulations.

The offer contained in this Offer to Shareholders with registered addresses in New Zealand is made in reliance on the Security Act (Overseas Companies) Exemption Notice 2002 (New Zealand). Members of the public in New Zealand who are not Shareholders on the Record Date are not entitled to apply for any New Shares.

Freshtel will offer the Rights which would otherwise have been offered to Foreign Shareholders to the Nominee. If there is a viable market in the Rights and a premium over the expenses of the sale can be obtained, the Nominee will sell the Rights. Any sale will be at prices and otherwise in the manner determined by the Nominee in its sole discretion.

Freshtel and the Nominee will not be liable for any failure to sell the Rights or to sell the Rights at any particular price. The proceeds of the sale of the Rights will be distributed to Foreign Shareholders for whose benefit the Rights are sold in proportion to their Entitlements (after deducting costs). If there is no viable market for the Rights, the Entitlement of Foreign Shareholders will be allowed to lapse.

#### **1.12 Market price of Shares**

The latest recorded price at which Shares traded on ASX on 20 April 2010 (being the last trading day before the announcement of the Offer) was 0.7 cents.

The highest and lowest prices at which Shares traded on ASX during the 3 months prior to the announcement of the Offer were 0.9 cents and 0.5 cents respectively. The volume-weighted average price at which Shares traded on ASX in this period was 0.673 cents.

#### **1.13 Taxation**

The taxation consequences of investing in the New Shares will depend on your particular circumstances. It is your responsibility, as a potential investor, to make your own enquiries concerning the taxation consequences of an investment in Freshtel. See Section 5.4 for a general discussion of taxation issues. If you are in doubt as to the consequences of an investment, you should consult with your taxation or other professional adviser before investing.

#### **1.14 Enquiries**

If you require advice as to whether to accept your Entitlement, you should seek professional advice from your legal, investment or other professional adviser.

## 2. Action required by Eligible Shareholders

Your Entitlement is shown on the accompanying Entitlement and Acceptance Form. Before taking any action in relation to the Offer, you should read this Offer Document in its entirety, and seek professional advice from your accountant, stockbroker, lawyer or other professional adviser. You may:

- take up all or part of your Entitlement and you may apply for additional New Shares in excess of your Entitlement;
- sell your Rights in full or in part on ASX;
- transfer all or part of your Rights to another person other than via ASX; or
- do nothing and allow your Entitlement to lapse.

### 2.1 What happens if I accept my full Entitlement?

If you take up your full Entitlement under the Rights Offer, you will not have your shareholding in Freshtel diluted by the Offer.

### 2.2 What happens if I do not accept my full Entitlement?

If you do not take up your full Entitlement, your proportional shareholding in Freshtel will be diluted.

### 2.3 How do I accept all, or part, of my Entitlement?

You may accept your Entitlement following the despatch of this Offer Document (expected to be by 11 May 2010). Freshtel will accept applications until the Closing Date.

If you decide to take up all or part of your Entitlement, or apply for additional New Shares, please complete and return the Entitlement and Acceptance Form with the requisite Application Monies OR pay your Application Monies via BPAY® by following the instructions set out on the Entitlement and Acceptance Form. Freshtel will treat you as applying for as many New Shares as your payment will pay for in full.

The relevant Entitlement and Acceptance Form must be accompanied by cheque, bank draft or money order in Australian dollars drawn on an Australian branch of an Australian bank for the Issue Price of the New Shares for which application is made. All cheques must be made payable to "Freshtel Holdings Limited – Rights Offer Account" and crossed "Not Negotiable". Do not forward cash. Receipts for Application Monies will not be issued.

If you are paying by BPAY®, please make sure to use the specific Biller Code and unique Customer Reference Number (CRN) on your personalised Entitlement and Acceptance Form. If you receive more than one personalised Entitlement and Acceptance Form, please only use the CRN specific to the Entitlement on that Form. If you inadvertently use the same CRN for more than one of your Entitlements, you will be deemed to have applied only for additional New Shares on the Entitlement to which that CRN applies. If you are paying by BPAY® payment, you do not need to mail the personalised Entitlement and Acceptance Form.

It is your responsibility to ensure that your BPAY® payment is received by the share registry by no later than 5:00pm (AEST) on 25 May 2010 (subject to variation). You should be aware that your financial institution may implement earlier cut-off times with regards to electronic payment, and you should therefore take this into consideration when making payment.

Completed Entitlement and Acceptance Forms and accompanying cheques must be returned to the following address and received no later than 5.00 pm (AEST) on 25 May 2010.

Computershare Investor Services  
GPO Box 505  
Melbourne VIC 8060

A reply paid envelope is enclosed for your convenience. If mailed in Australia, no postage stamp is required.

You should read this Offer Document in its entirety before deciding to complete and lodge your Entitlement and Acceptance Form.

## **2.4 How do I accept the Shortfall Offer?**

To participate in the Shortfall Offer, you must accept your full Entitlement in the manner outlined in Section 2.3. You must also mark on your Entitlement and Acceptance Form the number of additional New Shares for which you wish to apply under the Shortfall Offer and include Application Monies for those additional New Shares. You must then include the Application Monies and return the relevant Entitlement and Acceptance Forms in the manner outlined in Section 2.3.

Shortfall Shares will only be allocated after all Entitlements under the Rights Offer (including any Rights that have traded) have been exercised or have lapsed.

## **2.5 Sell your Rights in full or part on ASX**

If you are an Eligible Shareholder and wish to sell some or all of your Rights on ASX, please contact your stockbroker as soon as possible.

You can trade Rights on ASX from 29 April 2010. Rights trading on ASX closes, and all trading of Rights must be effected by, 5pm on 18 May 2010.

## **2.6 Transfer all or part of your Rights to another person other than on ASX**

If you wish to transfer all or part of your Entitlement to a person other than by trading on ASX, you must complete and forward:

- a Renunciation and Transfer Form (obtainable from Freshtel);
- your Entitlement and Acceptance Form; and
- the transferee's cheque or bank draft for the Application Monies,

to the Registry at:

Computershare Investor Services  
GPO Box 505  
Melbourne VIC 8060

by 5pm on the Closing Date.

You may transfer all or part of your Entitlement to another person in this manner.

If you are an Eligible Shareholder on the CHESS sub-register, you must contact your sponsoring broker to effect the transfer. The Registry is unable to transfer Rights either to or from a CHESS holding.

If the Registry receives both a completed Renunciation and Transfer Form and a completed Entitlement and Acceptance Form in favour of the same Shareholder in respect of the same Rights, the Renunciation and Transfer Form will be given effect in priority to the acceptance.

## **2.7 Acceptance of applications under the Offer**

Completing and lodging an Entitlement and Acceptance Form for the Offer is an offer by you to Freshtel to subscribe for the number of New Shares specified in the Entitlement and Acceptance Form at the Issue Price on the terms and conditions set out in this Offer and the Entitlement and Acceptance Form.

An application may be accepted in respect of the full amount, or any amount less than that specified in the Entitlement and Acceptance Form, without further notice to the relevant Eligible Shareholder. Acceptance of an application will give rise to a binding contract with acceptance to take place after the quotation of the New Shares on ASX.

No stamp duty, brokerage or commission is payable by applicants.



### 3. Purpose and effect of the Offer

#### 3.1 Overview

If the Rights Issue is fully subscribed:

- the New Shares issued pursuant to the Rights Issue will constitute 50% of the total number of issued Shares immediately after the allotment of the New Shares (and after the allotment of shares under the Placement); and
- the total number of Shares on issue after the Issue (and Placement) will be 849,184,708.

The Rights Issue will provide Freshtel with net proceeds of up to approximately \$1,512,221 after issue expenses of approximately \$80,000. Please refer to Section 3.7 for further information regarding the effect of the Rights Issue on the capital structure.

#### 3.2 Commitments

The Directors have received confirmation from each of Custodial Capital Management Pty Limited (**CCM**), other major Shareholders and the subscribers for Shares under the Placement, that they will take up their full Entitlement under the Offer. They are also entitled to take up New Shares under the Shortfall Offer subject to the maximum application to take the relevant applicant's voting power to the maximum limit permitted under the takeover provisions of the Corporations Act. The Directors (and their related entities) have also indicated that they will take up their Entitlements in full.

Accordingly, the Directors anticipate that Applications will be received for at least 254,755,413 New Shares under the Rights Offer representing 60% of the New Shares offered, raising gross proceeds of \$955,332.

In addition, subscribers under the Placement, CCM, other major Shareholders and the Directors are able to participate in the Shortfall Offer, to the extent their respective voting power does not exceed the maximum limit permitted under the takeover provisions of the Corporations Act as a result of the issue of those additional New Shares.

#### 3.3 Directors' Interests

The Shares held by the Directors (and their related entities) in Freshtel as at the date of this Offer Document and that will to be held on completion of the Offer are as follows:

	Current number of Shares	Entitlement to Shares under the Offer	Number of Shares following the Offer <sup>1</sup>
Andy Dewhurst	892,400	892,400	1,784,800
Allan Sullivan	1,000,000	1,000,000	2,000,000
Ken Carr	-	-	-

<sup>1</sup> Assuming there is no change in holdings of Directors (and their related entities) since the date of this Offer Document.

Directors are not entitled to participate in the Shortfall Offer.

#### 3.4 Custodial Capital Management Pty Limited

Custodian Capital Management Pty Limited (**CCM**) is the largest shareholder in Freshtel, having voting power of 23.6% at the date of this Offer Document.

CCM is also a lender to Freshtel. CCM entered into a loan facility with Freshtel on 14 October 2009 (**Loan Facility**). Freshtel has drawn down \$850,000 under the Loan Facility, which is repayable by 31 August 2011.

Under the Loan Facility, CCM is entitled to use debt owed to it under the Loan Facility to subscribe for equity under any rights issue conducted by Freshtel and to reduce the facility loan amount by the amount raised by Freshtel by any capital raising.

In addition to indicating to Freshtel that it will take up its Entitlement under the Offer in full, CCM has agreed with Freshtel to waive these rights, such that it will pay cash for its Entitlement. However, Freshtel has agreed with CCM that \$326,985 of the proceeds raised under the Rights Issue will be applied towards reducing the debt owed to CCM. The Company has also granted to CCM a fixed charge over certain assets located at Freshtel's UK data centre, worth approximately \$35,000, to secure part of the Loan Facility.

The Company and CCM have also agreed, subject to relevant Shareholder approval, that a further \$200,000 of the current debt owed by Freshtel under the Loan Facility will be used to subscribe for Shares at the same issue price as under the Rights Offer, subject to shareholder approval. Given CCM's shareholding and the prohibition against acquiring an interest greater than 20% of the voting shares of a listed company, Shareholder approval under section 611 exception 7 of the Corporations Act will be required to effect this. CCM currently holds 87,196,041 Shares, representing 23.6% of the issued capital of Freshtel. Accordingly Freshtel will convene a Shareholders' meeting to consider a resolution for the conversion of CCM's debt to equity in the Company. CCM and its associates may not vote on this resolution.

### 3.5 Use of Funds

The proceeds raised from the Offer will be used to reduce existing debt to CCM, provide working capital for the Company to support the business and will position the Company for possible acquisitions of interests in new projects.

The Directors anticipate that Applications in respect of at least 60% of all Entitlements will be taken up. See Section 3.2 for details.

Set out below is a table illustrating the proposed use of funds raised under the Offer, based on the assumption that the Offer is fully subscribed, the Company receives Applications for 75% of the New Shares offered and the Company receives Applications for 60% of the New Shares offered (representing the number of New Shares to be taken up if all parties who have indicated that they will take up their full entitlement in fact do so):

	60% Subscribed (\$)	75% Subscribed (\$)	Fully Subscribed (\$)
Repayment of principal to CCM	326,985	326,985	326,985
Working Capital	548,347	787,181	1,185,236
Costs of the Offer	80,000	80,000	80,000
Total	955,332	1,194,166	1,592,221

### 3.6 Consequences of Offer not being fully subscribed

If Freshtel does not receive valid Applications under the Offer for the full amount the subject of this Offer Document, the Directors may seek to place Shares to investors at their discretion.

*Gross proceeds raised over \$1,100,000*

Gross proceeds raised under the Offer in excess of \$1,100,000 will provide Freshtel with working capital to continue as a going concern, reduce existing debt and to position it for possible acquisitions of interests in new projects.

*Gross proceeds raised between \$900,000 and \$1,100,000*

If Freshtel receives valid Applications under the Offer raising gross proceeds of less than \$1,100,000 but greater than \$900,000, it will have sufficient working capital to continue as a going concern until at least 31 December 2010 but will need to:

- a) implement further cost reduction programs;
- b) have financial performance improve such that Freshtel reaches a breakeven position;
- c) raise additional capital; or
- d) enter into a transaction that provides sufficient earnings and/or additional capital.

to be able to continue as a going concern beyond that date.

*Gross proceeds raised under \$900,000*

If Freshtel does not receive valid Applications under the Offer raising gross proceeds of at least \$400,000 and is unable to:

- a) implement further cost reduction programs;
- b) have financial performance improve such that Freshtel reaches a breakeven position;
- c) raise additional capital; or
- d) enter into a transaction provides sufficient earnings and/or additional capital,

by 30 June 2010, there is a real risk that the Company will cease trading after that date and may be placed into administration or may be delisted from the ASX. Any gross proceeds raised under the Offer above \$400,000 but below \$900,000 will extend the time frame in which to conduct any of the above measures from 30 June 2010 to, at the latest, 31 December 2010, depending on the level of gross proceeds raised.

However, as set out in Section 3.2, Freshtel believes it will raise at least \$955,332 under the Offer based on commitments given by subscribers under the Placement, other major Shareholders, CCM and the Directors and therefore expects that it will be able to raise the minimum \$900,000 required for Freshtel to continue as a going concern to at least 31 December 2010.

**3.7 Impact on Freshtel's capital structure**

The table below shows the current structure of Freshtel and the capital structure on completion of the Offer based on the assumption that the Offer is fully subscribed, the Company receives Applications for 75% of the New Shares offered and the Company receives Applications for 60% of the New Shares offered (representing the number of New Shares to be taken up if all parties who have indicated that they will take up their full Entitlement in fact do so):

	<b>60% Subscribed</b>	<b>75% Subscribed</b>	<b>Fully Subscribed</b>
Opening balance <sup>1</sup>	424,592,354	424,592,354	424,592,354
New Shares	254,755,413	318,444,266	424,592,354
Percentage of post-Offer Shares <sup>1</sup>	38%	42%	50%
Total immediately after Offer	679,347,767	743,036,620	849,184,708

<sup>1</sup> 55,172,752 Shares offered under the Placement are expected to be issued on 27 April 2010.

### **3.8 Impact on control**

If all Eligible Shareholders on the Record Date take up their Entitlement under the Offer, then the Offer will have no effect on the control of the Company.

Subscribers under the Placement, CCM, other major Shareholders and the Directors have indicated that they will take up their full Entitlements under the Offer.

As at the date of this Offer Document, the voting power of the largest Shareholder in Freshtel, CCM, is 23.6%. After issue of the Placement shares, its voting power will be 20.5%. CCM has indicated to Freshtel that it will take up all of its Entitlement under the Rights Issue. If no other Eligible Shareholder, except for those major Shareholders mentioned above, subscribers under the Placement and the Directors, take up their Entitlement and none of the Shortfall Shares are placed, its voting power in Freshtel would increase to 29.1%.

Each of the subscribers under the Placement has indicated to Freshtel that it will take up all of its Entitlement under the Rights Issue. If no other Eligible Shareholder, except for those major Shareholders mentioned above, CCM and the Directors, take up their Entitlement and none of the Shortfall Shares are placed, the voting power of the subscribers under the Placement in Freshtel would increase to 18.4%. On completion of the Placement, the voting power of the subscribers under the Placement will be 15%. The Company has no reason to believe that these subscribers are associates of each other or otherwise will have a relevant interest in each other's Shares.

### **3.9 Pro forma balance sheet**

Set out below is a pro forma balance sheet of Freshtel on successful completion of the Offer, under three scenarios, assuming the Offer is 60% subscribed, 75% subscribed and fully subscribed. It is based on Freshtel's balance sheet as at 31 March 2010 which has been prepared by management of Freshtel.

The pro forma balance sheet reflects the impact of the Offer and all transaction costs as if they had all occurred on 31 March 2010 and:

- includes gross proceeds of the Placement and Rights Issue from which the current estimate of total transaction costs of \$80,000 have been deducted to derive an amount for net proceeds raised; and
- allows for the issue of 55,172,752 Shares under the Placement and up to 424,592,354 New Shares under the Offer at an issue price of 0.375 cents.

<b>FRESHTEL HOLDINGS LIMITED</b>				
	<b>Reported 31/03/2010</b>	<b>Pro-forma Rights Issue @ 60%</b>	<b>Pro-forma Rights Issue @ 75%</b>	<b>Pro-forma Rights Issue @ 100%</b>
<b>Current Assets</b>				
Cash and cash equivalents	160,483	915,729	1,154,562	1,552,617
Trade and other receivables	670,063	670,063	670,063	670,063
Inventories	5,000	5,000	5,000	5,000
Other current assets	59,141	59,141	59,141	59,141
<b>Total Current Assets</b>	<b>894,686</b>	<b>1,649,932</b>	<b>1,898,765</b>	<b>2,286,821</b>
<b>Non-Current Assets</b>				
Trade and other receivables	29,791	29,791	29,791	29,791
Plant and equipment	408,336	408,336	408,336	408,336
<b>Total Non-Current Assets</b>	<b>438,127</b>	<b>438,127</b>	<b>438,127</b>	<b>438,127</b>
<b>Total Assets</b>	<b>1,332,814</b>	<b>2,088,059</b>	<b>2,326,892</b>	<b>2,724,948</b>
<b>Current Liabilities</b>				
Trade and other payables	561,930	561,930	561,930	561,930
Short-term provisions	23,914	23,914	23,914	23,914
<b>Total Current Liabilities</b>	<b>585,843</b>	<b>585,843</b>	<b>585,843</b>	<b>585,843</b>
<b>Non-Current Liabilities</b>				
Trade and other payables	-	-	-	-
Long-term borrowings	800,000	473,015	473,015	473,015
Long-term provisions	-	-	-	-
<b>Total Non-Current Liabilities</b>	<b>800,000</b>	<b>473,015</b>	<b>473,015</b>	<b>473,015</b>
<b>Total Liabilities</b>	<b>1,385,843</b>	<b>1,058,858</b>	<b>1,058,858</b>	<b>1,058,858</b>
<b>NET ASSETS</b>	<b>(53,030)</b>	<b>1,029,201</b>	<b>1,268,034</b>	<b>1,666,089</b>
<b>Equity</b>				
Contributed equity	37,058,751	38,140,981	38,379,814	38,777,870
Reserves	2,568,077	2,568,077	2,568,077	2,568,077
Accumulated losses	(39,679,857)	(39,679,857)	(39,679,857)	(39,679,857)
<b>TOTAL EQUITY</b>	<b>(53,030)</b>	<b>1,029,201</b>	<b>1,268,034</b>	<b>1,666,089</b>

The Proforma balances do not take into account any potential damages that may be awarded against Freshtel in the claim by Newport Capital Group Pty Limited referred to in Section 4.2(b).

The Proforma balances have been adjusted for:

1. Rights issue and placement proceeds, net of capital raising costs.
2. Drawdown of loan additional loan facility amounting to \$50,000 and repayment from working capital

## 4. Risk factors

### 4.1 Overview

There are a number of factors, both specific to Freshtel and of a general nature, which may affect the future operating and financial performance of Freshtel and the outcome of an investment in Freshtel. There can be no guarantees that Freshtel will achieve its stated objectives, that forecasts will be met or that forward looking statements will be realised.

This Section 4 describes certain, but not all, risks associated with an investment in Freshtel. Prior to making an investment decision, prospective investors should carefully consider the following risk factors, as well as the other information contained in this Offer or of which they are otherwise aware.

### 4.2 Risks associated with your holding of Shares

The risk associated with your holding of Shares include the following:

#### (a) *Unsuccessful raising*

Based on commitments given by subscribers under the Placement, other major Shareholders, CCM and the Directors, Freshtel believes it will raise gross proceeds of at least \$955,332 under the Offer. However in the event that any of the commitments are not honoured, there is a real risk that Freshtel may not raise the minimum \$900,000 required for it to continue as a going concern to 31 December 2010. If gross proceeds raised under the Offer are less than \$900,000 and Freshtel is unable to implement other adequate cost reduction programs or raise further capital, there is a risk that the Company will not be able to continue as a going concern and will cease trading or may be placed into administration or may delist from the ASX.

#### (b) *Proceedings against Freshtel*

As disclosed to the market on 12 April 2010, Freshtel is currently a party to legal proceedings commenced by Newport Capital Group Pty Limited (ACN 067 278 791) (**Newport**) in the District Court of New South Wales. Newport is seeking success fees of \$525,546.88 which it alleges is owing to it pursuant to an engagement contract between Freshtel and Newport executed on 29 April 2008 (as amended by a Variation to Engagement Contract dated 7 October 2008). Freshtel disputes that the amount claimed, or any amount at all, is payable and is vigorously defending the proceedings. The Directors are of the view that Freshtel can successfully defend the proceedings. However there is a risk that Freshtel may not be successful in its defence of the claim.

#### (c) *Telecommunications industry*

Freshtel's financial performance is sensitive to the level of activity and demand in the telecommunications industry. This level of activity and demand can be sensitive to a number of factors beyond Freshtel's control.

#### (d) *Competition*

Increased competition in the telecommunications industry could result in price reductions, reduced operating margins and loss of market share.

#### (e) *Reliance on Third Parties*

The restructuring of Freshtel's business to significantly reduce costs means that Freshtel is now dependent on third party sales channels to secure retail VoIP and commercial PBX customers.

#### (f) *Access to funding*

Freshtel's ability to operate and to expand its business via acquiring interests in new projects is contingent on it be able to obtain sufficient funding on an ongoing basis. The Rights Offer will provide funding required in the short term but additional funding may be required in the future.

### **4.3 General risk factors**

#### *(a) Share market conditions*

The New Shares may trade on ASX at higher or lower prices than the Issue Price following issue. There can be no guarantee that the price of the New Shares will increase.

The price at which the New Shares trade on ASX may be affected by the financial performance of Freshtel and by external factors over which Freshtel have no control. Freshtel does not warrant the future performance of New Shares or any return on investments in those securities.

#### *(b) Economic conditions*

The operating and financial performance of Freshtel is influenced by a variety of general economic and business conditions including the level of inflation, international share markets, interest rates and exchange rates, government fiscal, monetary and regulatory policies and factors peculiar to the oil and gas sector. A prolonged deterioration in general economic conditions, including an increase in interest rates or a decrease in consumer and business demand, could be expected to have a material adverse impact on Freshtel's business or financial situation.

#### *(c) Geo-political factors*

Freshtel may be affected by the impact that geo-political factors have on the various world economies or the Australian economy while on financial markets and investments generally or specifically.

#### *(d) Australian and foreign government policies and legislation*

Freshtel may be affected by changes to government policies and legislation (both in Australia and foreign jurisdictions) concerning property, the environment, superannuation, taxation and the regulation of trade practices and competition, government grants and incentive schemes.

#### *(e) Other*

Other risks factors include those normally found in conducting business, including litigation resulting from the breach of agreements or in relation to employees or contractors (through personal injuries, industrial matters or otherwise) or any other cause, including strikes, loss of service of key management or operational personnel, non-insurable risks, delay in resumption of activities after reinstatement following the occurrence of an insurable risk and other matters that may interfere with the business or trade of Freshtel.

## 5. Additional information

### 5.1 Expenses of the Offer

Expenses connected with the Offer are being borne by Freshtel. The approximate expenses of the Offer including legal fees, registry fees, printing fees and other general costs are estimated to be \$80,000 (exclusive of GST).

### 5.2 Disclosure

This Offer Document contains an Offer to subscribe for continuously quoted securities (as defined in the Corporations Act) of Freshtel and has been prepared in accordance with Section 708AA(2)(f) of the Corporations Act. In broad terms, Section 708AA relates to rights issues by certain listed companies that do not require the provision of a prospectus or other disclosure document to investors under Part 6D.2 of the Corporations Act. Accordingly, the level of disclosure in this Offer Document is significantly less than that required in a prospectus. Eligible Shareholders should therefore rely upon their own knowledge of Freshtel, refer to disclosures already made by it to ASX, and refer to their professional adviser before deciding to accept the Offer.

### 5.3 Continuous Disclosure and Documents Available for Inspection

Freshtel is a disclosing entity within the meaning of the Corporations Act 2001 and is, and has for the past twelve months been, subject to regular reporting and disclosure obligations.

Freshtel believes that it has fully complied with the general and specific requirements as set forth by the ASIC and ASX in relation to continuous disclosure, which includes the provisions of Chapter 2M of the Corporations Act as they apply to Freshtel and Section 674 of the Corporations Act.

Copies of documents lodged with ASIC in relation to Freshtel may be obtained from, or inspected at, an office of the ASIC.

### 5.4 Taxation

Set out below is a summary of the Australian tax implications of the Offer for Eligible Shareholders who are residents of Australia for tax purposes and who hold their Shares as capital assets.

The summary below also does not take account of any individual circumstances of any particular Eligible Shareholder. **Eligible Shareholders should seek specific advice applicable to their own particular circumstances from their own financial or tax advisers.**

The summary below does not necessarily apply to Eligible Shareholders who hold their Shares as assets used in carrying on a business or who may carry on the business of security trading, banking or investment. The summary below does not necessarily apply to Eligible Shareholders whose Shares are held as revenue assets or trading stock. The summary below is based on the law in effect as at the date of this Information.

#### *Issue of Entitlements*

Subject to the qualifications noted above, the issue of the Entitlements will not itself result in any amount being included in the assessable income of an Eligible Shareholder.

#### *Exercise of Entitlements*

Eligible Shareholders who exercise their Entitlements and subscribe for New Shares will acquire those shares with a cost base for capital gains tax (CGT) purposes equal to the Issue Price payable by them for those shares plus any non-deductible incidental costs they incur in acquiring those shares, but will not make any capital gain or loss, or assessable income, from exercising the Entitlements or subscribing for the New Shares.



### *New Shares*

Eligible Shareholders who exercise their Entitlements will acquire New Shares. Any future distributions made in respect of those New Shares will be subject to the same taxation treatment as distributions made on Shares held in the same circumstances.

On any future disposal of New Shares, Eligible Shareholders may make a capital gain or capital loss, depending on whether the capital proceeds of that disposal are more than the cost base or less than the reduced cost base of the New Shares. The cost base of those shares is described above.

New Shares will be treated for the purposes of the CGT discount as having been acquired when the Eligible Shareholder exercised the Entitlement to subscribe for them. Accordingly, in order to benefit from the CGT discount in respect of a disposal of those shares, they must have been held for at least 12 months after those dates before the disposal occurs.

### *Other Australian taxes*

No Australian Goods and Services Tax (GST) or stamp duty is payable in respect of the grant or exercise of the Entitlements or the acquisition of New Shares.

## **5.5 Rounding of Entitlements**

Where fractions arise in the calculation of Entitlements, they will be rounded down to the nearest whole number of New Shares.

## **5.6 Disclaimer of representations**

No person is authorised to give any information, or to make any representation, in connection with the Offer that is not contained in this Offer Document.

Any information or representation that is not in this Offer Document may not be relied on as having been authorised by Freshtel or any of their related bodies corporate in connection with the Offer. Except as required by law, and only to the extent so required, none of Freshtel or any other person, warrants or guarantees the future performance of Freshtel or any return on any investment made pursuant to this Offer Document.

## **5.7 Patersons Securities Limited**

Patersons Securities Limited has given, and at the time of lodgement of this Offer Document, has not withdrawn its consent to be named as Nominee, in the form and context in which it is named.

Patersons Securities Limited has not authorised or caused the issue of this Offer Document. Patersons Securities Limited makes no express or implied representation or warranty in relation to Freshtel Holdings Limited, this Offer Document or the Offer and does not make any statement in this Offer Document, nor is any statement in it based on any statement made by Patersons Securities Limited. To the maximum extent permitted by law, Patersons Securities Limited expressly disclaims and takes no responsibility for any material in, or omission from, this Offer Document other than the reference to its name.

## 6. Glossary

<b>AEST</b>	means Australian Eastern Standard Time
<b>Application</b>	means a valid application by way of an Entitlement and Acceptance Form made to subscribe for a specified number of New Shares under the Offer.
<b>Application Monies</b>	means the monies received from applicants for New Shares in accordance with this Offer Document.
<b>ASIC</b>	means the Australian Securities and Investments Commission.
<b>ASX</b>	means the ASX Limited (ABN 98 008 624 691).
<b>ASX Listing Rules</b>	means the listing rules of ASX.
<b>Board</b>	means the board of directors of Freshtel.
<b>Business Day</b>	means a day on which ASX is open for trading.
<b>CCM</b>	means Custodial Capital Management Pty Limited (ACN 086 198 656)
<b>Closing Date</b>	means 25 May 2010.
<b>Company or Freshtel</b>	means Freshtel Holdings Limited (ACN 111 460 121).
<b>Constitution</b>	means the constitution of Freshtel as amended from time to time.
<b>Corporations Act</b>	means the Corporations Act 2001 (Cth).
<b>Directors</b>	means the directors of Freshtel.
<b>Eligible Shareholder</b>	means a person who is a Shareholder at 5.00pm (Sydney time) on the Record Date who is not a Foreign Shareholder.
<b>Entitlement</b>	means the renounceable right of an Eligible Shareholder to subscribe for New Shares under the Rights Offer.
<b>Entitlement and Acceptance Form</b>	means the personalised form attached to or accompanying this Offer Document.
<b>Existing Shares</b>	means Shares on issue immediately before the Record Date.
<b>Foreign Shareholder</b>	means a Shareholder described in Section 1.11.
<b>GST</b>	means goods and services tax.
<b>Issue Price</b>	means the issue price of 0.375 cents per New Share.
<b>New Shares</b>	means the Shares offered under this Offer Document.
<b>Nominee</b>	means Patersons Securities Limited.
<b>Offer</b>	means the Rights Offer and the Shortfall Offer.
<b>Offer Document</b>	means this document and any supplementary or replacement Offer Document in relation to this document.
<b>Offer Period</b>	means the period starting on the despatch of this Offer Document and ending at 5.00pm on the Closing Date.

<b>Placement</b>	means the placement of 55,172,752 Shares to raise \$206,897 completed on or about the date of this Offer Document.
<b>Record Date</b>	means the date for determining Entitlements under the Offer, being 5 May 2010.
<b>Renunciation and Transfer Form</b>	means the form required to be completed in order to transfer your Rights to another person, other than on ASX, and available on request from Freshtel or the Share Registry.
<b>Right</b>	means a right to subscribe for a New Share under the Rights Offer.
<b>Rights Issue</b>	means the issue of New Shares upon receipt of valid acceptances under the Rights Offer.
<b>Rights Offer</b>	means the offer of Entitlements to New Shares under this Offer Document.
<b>Share</b>	means an ordinary share in Freshtel.
<b>Share Registry</b>	means Computershare Investor Services Pty Limited (ABN 48 078 279 277)
<b>Shareholder</b>	means a holder of Shares.
<b>Shortfall</b>	means the shortfall in applications for New Shares under the Rights Offer (if any).
<b>Shortfall Offer</b>	means the offer to subscribe for New Shares in excess of a Shareholder's Entitlement as described in Section 1.4
<b>Shortfall Shares</b>	means the New Shares for which applications are not received under the Rights Offer prior to the Closing Date.