

**Folkestone Limited**  
**ABN 21 004 715 226**

**Half Year Report**  
**31 December 2007**

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**Folkestone Limited**  
**Directors' Report**  
**For the half-year ended 31 December 2007**

The directors' present their report together with the financial report of Folkestone Limited ('the Company') and of the consolidated entity, being the Company and its controlled entities, for the half-year ended 31 December 2007 and the auditor's report thereon.

**Directors**

The following persons were directors of Folkestone Limited during the whole of the half-year and up to the date of this report:

- ❑ ATL Maitland (*BCom, FAICD, FAIM, SF Fin*) (Chairman)
- ❑ O Guglielmi (*BBus, CPA*) (Managing Director & Chief Executive Officer)
- ❑ BR Kean AM (*Dip ChemEng, FIE Aust, FTS, FAICD*)
- ❑ MW Parkinson CBE (*MA, MBA (Stanford), FAICD*)
- ❑ KH Denning AM (*BEC, AAPI (Val), AAIB, JB*)

**Financial Results**

The net profit after tax for the six months ending 31 December 2007 is \$1.883 million compared to \$0.495 million in the corresponding period in 2006. This represents a basic earnings per share of 6.14 cents, compared with 1.64 cents in the corresponding period in 2006.

**Dividends**

The Board has resolved to pay an interim dividend at 3 cents per ordinary share, fully franked. The dividend will have a record date of 25 February 2008 and will be paid on 11 March 2008. Shareholders will be able to participate in the company's Dividend Re-Investment Plan. The directors have resolved that the discount to apply to the interim dividend will be 2.5%.

**Cash Position**

The company has adequate cash reserves, bank lines of credit and future anticipated cash inflows to fund current overheads and committed expenditure.

**Asset Backing**

Net tangible asset backing was 77 cents per share at 31 December 2007 compared with 75 cents at 30 June 2007. The net tangible asset backing does not include intangibles such as the market value of Access Constructions and current projects under development which in the opinion of the directors are significant.

**REVIEW OF OPERATIONS**

**Development Division**

***Projects under development***

**135, 225 & 285 Donnybrook Rd, Mickleham**

In December 2007, the Victorian Minister for Planning authorised the public exhibition of amendment C98 to the City of Hume Planning Scheme detailing the proposed re-zoning of the land from Farming to Business 3.

**Folkestone Limited**  
**Directors' Report**  
**For the half-year ended 31 December 2007**

**REVIEW OF OPERATIONS, Development Division, *PROJECTS UNDER DEVELOPMENT CONTINUED***

**169 Noone Street, Clifton Hill**

Since last reporting date, considerable progress has been made with our residential development at Noone Street, Clifton Hill. Demolition of the existing buildings on site has almost been completed and site clean-up is in progress.

Preparation for sales and marketing activity has commenced with the site now known as The Terraces Clifton Hill. The joint venture anticipates sales and marketing to commence in the second quarter of the 2008 calendar year with construction to commence in the first half of the 2009 calendar year.

**Other Projects**

The warehouse/office/showroom development at Parcel B of *toyotagreen Business Park* in *Port Melbourne* has continued with a further three units leased since last reporting date. Sharp Australia were signed to a 7 year lease for Unit 4 and the National Measurement Institute (part of the Department of Innovation, Industry, Science and Research of the Australian Federal Government) signed a 15 year lease for Units 1 & 2.

With only three constructed units available for lease at reporting date, the joint venture has commenced documentation of Stage 3 (five units – 6,500m<sup>2</sup>) with a view to begin construction in March 2008. Access Constructions has been appointed as the builder for the final stage.

Construction of the *Ocean Beach Road* development in *Sorrento* is also continuing with targeted completion due in the second half of the 2008 calendar year.

***New Acquisitions***

The company acquired one new development site in the current reporting period: 300 Millers Road in Altona. The 14.89 hectare site is zoned Industrial 3 and offers immediate re-development potential for a range of options which include a mix of showroom/restricted retail and industrial uses. The site was acquired in a 50/50 joint venture with the AMP Capital Investors' Managed Select Property Portfolio Fund No. 2.

**Construction division**

Access Constructions Pty Ltd's result for the half-year to 31 December 2007 reflected a pre-tax contribution of \$0.799m compared with \$1.960m last half year. The half year result reflects timing delays on a number of larger projects. However, these delays are expected to be made up in the second half of the year and the budgeted turnover for the full year is expected to be at a similar level to that of last year.

The value of uncompleted work on hand at 31 December 2007 was approximately \$69 million with a number of large projects recently secured.

**Outlook**

As noted by the Chairman at the company's AGM in October 2007, both equity and credit markets have been volatile in recent months following the collapse of sub-prime mortgages in the United States. Whilst the outlook for the Victorian property market remains firm, despite the current high interest rate environment, the company is aware that official policy from the Reserve Bank is to seek a slowing of inflation and its consequent impact on economic activity.

Throughout this market volatility, Folkestone's position has remained strong. Folkestone has cash reserves and secure medium term, project specific, debt facilities and the ability to stage development which, in the opinion of directors, will assist the company to maintain a consistent level of earnings.

**Folkestone Limited**  
**Directors' Report**  
**For the half-year ended 31 December 2007**

**ROUNDING OF AMOUNTS TO NEAREST THOUSAND DOLLARS**

The economic entity has applied the relief available to it in ASIC Class Order 98/100 and accordingly certain amounts in the financial report and the directors' report have been rounded off to the nearest \$1,000.

**AUDITOR'S INDEPENDENCE DECLARATION**

The auditor's independence declaration is included on page 4 of the half-year report.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the Directors

ATL Maitland  
Chairman

O Guglielmi  
Managing Director & Chief Executive Officer

Melbourne

7 February 2008

**Folkestone Limited**  
**Auditor's Independence Declaration**  
**For the half-year ended 31 December 2007**

**AUDITOR'S INDEPENDENCE DECLARATION TO THE MEMBERS OF FOLKESTONE LIMITED**

The Board of Directors  
Folkestone Limited  
Level 24  
360 Collins Street  
Melbourne VIC 3000

21 February 2008

Dear Sirs,

TO BE INSERTED

**FOLKESTONE LIMITED**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Folkestone Limited.

As lead audit partner for the review of the financial statements of Folkestone Limited for the half-year ended 31 December 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

The auditor's independence requirements of the Corporations Act 2001 in relation to the review; and

Any applicable code of professional conduct in relation to the review.

Yours sincerely  
Deloitte Touche Tohmatsu

R D D Collie  
Partner  
Chartered Accountants

Melbourne, 21 February 2008

**Folkestone Limited**  
**Condensed consolidated income statement**  
**For the half-year ended 31 December 2007**

	<b>Consolidated</b>	
	<b>Half-year ended 31 December 2007</b>	<b>Half-year ended 31 December 2006</b>
	<b>\$000</b>	<b>\$000</b>
Revenue	23,841	47,417
Development expenses	(628)	(16,020)
Construction expenses	(17,073)	(27,347)
Employee benefits expense	(2,236)	(2,536)
Depreciation and amortisation expense	(56)	(38)
Consultants expense	(37)	(36)
Rental expense on operating leases	(132)	(130)
Other expenses	(562)	(479)
Finance costs	(21)	(5)
Share of net profits of associates and joint ventures	-	1
Profit before income tax	<b>3,096</b>	827
Income tax expense	<b>(929)</b>	(299)
Profit from continuing operations	<b>2,167</b>	528
Profit for the half-year	<b>2,167</b>	528
Profit attributable to minority equity interest	<b>284</b>	33
Profit attributable to member of the parent entity	<b>1,883</b>	495
	<b>2,167</b>	528
<b>Overall Operations</b>		
Basic earnings per share (cents per share)	<b>6.14</b>	1.64
Diluted earnings per share (cents per share)	<b>5.11</b>	1.64

The above condensed consolidated income statement is to be read in conjunction with the notes of the financial statements set out on pages 9 to 12.

**Folkestone Limited**  
**Condensed consolidated balance sheet**  
as at 31 December 2007

	Consolidated	
	31 December 2007	30 June 2007
	\$000	\$000
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	10,358	12,466
Trade and other receivables	4,084	20,092
Inventories	27,865	14,089
Other current assets	38	19
<b>TOTAL CURRENT ASSETS</b>	<b>42,345</b>	<b>46,666</b>
<b>NON-CURRENT ASSETS</b>		
Shares in associated entities	1,312	1,079
Property, plant and equipment	249	236
Deferred tax assets	670	205
Goodwill	2,120	2,120
<b>TOTAL NON-CURRENT ASSETS</b>	<b>4,351</b>	<b>3,640</b>
<b>TOTAL ASSETS</b>	<b>46,696</b>	<b>50,306</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	6,977	20,828
Short-term borrowings	11,255	2,957
Current tax liabilities	1,950	946
Short- term provisions	541	570
<b>TOTAL CURRENT LIABILITIES</b>	<b>20,723</b>	<b>25,301</b>
<b>NON-CURRENT LIABILITIES</b>		
Long-term borrowings	-	12
Other long-term provisions	55	82
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>55</b>	<b>94</b>
<b>TOTAL LIABILITIES</b>	<b>20,778</b>	<b>25,395</b>
<b>NET ASSETS</b>	<b>25,918</b>	<b>24,911</b>
<b>EQUITY</b>		
Issued capital	18,934	18,505
Reserves	147	63
Retained earnings	6,268	6,058
Parent interest	25,349	24,626
Minority interest	569	285
<b>TOTAL EQUITY</b>	<b>25,918</b>	<b>24,911</b>

The above condensed consolidated balance sheet is to be read in conjunction with the notes of the financial statements set out on pages 9 to 12.



**Folkestone Limited**  
**Condensed consolidated statement of changes in equity**  
For the half-year ended 31 December 2007

	<b>Issued Capital</b>	<b>Retained Earnings</b>	<b>Reserves</b>	<b>Attributable to holders of the parent</b>	<b>Minority Interest</b>	<b>Total</b>
<b>CONSOLIDATED</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Balance at 1 July 2006</b>	18,235	3,562	-	21,797	-	21,797
Profit for the period	-	495	-	495	33	528
Total recognised income and expense	-	495	-	495	33	528
Issue of share capital	157	-	-	157	-	157
Dividends paid	-	(1,051)	-	(1,051)	-	(1,051)
<b>Balance at 31 December 2006</b>	<b>18,392</b>	<b>3,006</b>	<b>-</b>	<b>21,398</b>	<b>33</b>	<b>21,431</b>
<b>Balance at 1 July 2007</b>	<b>18,505</b>	<b>6,058</b>	<b>63</b>	<b>24,626</b>	<b>285</b>	<b>24,911</b>
Profit for the period	-	1,883	-	1,883	284	2,167
Total recognised income and expense	-	1,883	-	1,883	284	2,167
Issue of share capital	429	-	-	429	-	429
Issue of performance rights	-	-	84	84	-	84
Dividends paid	-	(1,673)	-	(1,673)	-	(1,673)
<b>Balance at 31 December 2007</b>	<b>18,934</b>	<b>6,268</b>	<b>147</b>	<b>25,349</b>	<b>569</b>	<b>25,918</b>

The above condensed consolidated statement of changes in equity is to be read in conjunction with the notes of the financial statements set out on pages 9 to 12.

**Folkestone Limited**  
**Condensed consolidated cash flow statement**  
**For the half-year ended 31 December 2007**

	Consolidated	
	Half-year ended 31 December 2007 \$000	Half-year ended 31 December 2006 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	39,832	48,623
Payments to suppliers and employees	(48,698)	(35,239)
Trust distributions from associate entities	-	170
Interest received	428	250
Finance costs	(21)	(5)
Income tax paid	(390)	(980)
Net cash provided by (used in) operating activities	<u>(8,849)</u>	<u>12,819</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(67)	(70)
Loans from (provided to) associated entities	-	(785)
Payment for investment in associate	(234)	(170)
Net cash provided by (used in) investing activities	<u>(301)</u>	<u>(1,025)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings	8,987	-
Repayment of borrowings	(701)	(4,300)
Dividends paid to members of the parent entity	(1,673)	(1,051)
Proceeds from issue of shares	429	157
Net cash provided by (used in) financing activities	<u>7,042</u>	<u>(5,194)</u>
Net increase (decrease) in cash held	<u>(2,108)</u>	6,600
Cash and cash equivalents at beginning of financial year	<u>12,466</u>	6,518
Cash and cash equivalents at end of financial year	<u>10,358</u>	<u>13,118</u>

The above condensed consolidated cash flow statement is to be read in conjunction with the notes of the financial statements set out on pages 9 to 12.

**Folkestone Limited**  
**Notes to the condensed consolidated financial statements**  
**For the half-year ended 31 December 2007**

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES**

**Statement of Compliance**

The half-year financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting." The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

**Basis of Preparation**

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars unless otherwise noted.

The company is a company of the kind referred to in ASIC Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the half-year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2007 annual financial report for the financial year ended 30 June 2007.

**Folkestone Limited**  
**Notes to the condensed consolidated financial statements**  
**For the half-year ended 31 December 2007**

**NOTE 2: SEGMENT REPORTING**

Primary Reporting – Business Segments

In thousands of dollars	Property Development		Construction		Eliminations/ Unallocated		Consolidated	
	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
Total segment revenue	<b>4,207</b>	15,891	<b>19,373</b>	31,277	<b>261</b>	249	<b>23,841</b>	47,417
<b>Total revenue</b>	<b>4,207</b>	15,891	<b>19,373</b>	31,277	<b>261</b>	249	<b>23,841</b>	47,417
Share of net profit of associates included in segment revenues above							-	-
Revenue							<b>23,841</b>	47,417
<b>Segment Result</b>	<b>2,568</b>	(302)	<b>725</b>	1,960	-	-	<b>3,293</b>	1,658
Unallocated expenses							<b>(197)</b>	(831)
Profit before income tax							<b>3,096</b>	827

**NOTE 3: DIVIDENDS**

Recognised amounts	Half-Year ended 31 December	
	2007 \$000	2006 \$000
Dividends paid		
Final dividend for the year ended 30 June 2007 of 4 cents per share (2006: 3.5) paid on 2 October 2007 (2006: 23 October 2006)	<b>1,217</b>	1,051
Special dividend for the year ended 30 June 2007 of 1.5 cents per share (2006: Nil) paid on 2 October 2007	<b>456</b>	-
	<b>1,673</b>	1,051

**Dividends not recognised at the end of the half-year**

Since the end of the half-year, the directors have recommended a payment of an interim dividend amounting to \$929 thousand representing a fully franked dividend of 3 cents per fully paid ordinary share (2006: \$757 thousand (2.5 cents)). The dividend has not been provided for in the half-year interim financial report.

**Folkestone Limited**  
**Notes to the condensed consolidated financial statements**  
**For the half-year ended 31 December 2007**

**NOTE 4: ISSUED CAPITAL**

	Half-year ended 31 December 2007		Half-year ended 31 December 2006	
	Shares	\$000	Shares	\$000
Opening balance of equity securities	30,427,492	18,505	30,040,647	18,235
Shares issued during the year				
- Dividend reinvestment plan	529,703	429	249,671	157
<b>At reporting date</b>	<b>30,957,195</b>	<b>18,934</b>	30,290,318	18,392

**NOTE: 5: CONTINGENT LIABILITIES**

- a) Folkestone Limited has guaranteed the performance of certain controlled entities in relation to development agreements. These include:
- Folkestone (Bayside) Pty Ltd - Folkestone Limited owns 20% of the share capital of Folkestone (Bayside) Pty Ltd and has provided a guarantee in favour of Capital Finance Australia Limited in relation to a loan facility for \$43.250m (drawn \$5.750m) for the acquisition of Donnybrook Rd, Mickleham. The guarantee provided is several from the other shareholder of Folkestone (Bayside) Pty Ltd and is limited to 20% of the loan facility only.
  - Access Constructions Pty Ltd - Folkestone Limited has provided a parent company guarantee in favour of ING Industrial Custodian Pty Ltd in relation to the due and punctual performance by Access Constructions Pty Ltd of its obligations under the design and construct contracts with ING Industrial Custodian Pty Ltd for the following projects:
    - Parkwest: Signorlno Tiles Warehouse and Building B (construction completed, defects liability period expires 20 March 2008)
  - Bertie Bridge Pty Ltd – Folkestone Limited owns 75% of the share capital in Bertie Bridge Pty Ltd. Folkestone Limited has provided a several guarantee in favour of Trust Company of Australia Limited in relation to the due and punctual performance by Bertie Bridge Pty Ltd of its obligations under the Development Agreement for Toyota Business Park (Parcel B). The guarantee provided to Ericsson Australia Pty Ltd is no longer a contingent liability as the performance has been satisfied.
  - Sorrento (Vic) Pty Ltd – Folkestone Limited owns 100% of the share capital of Sorrento (Vic) Pty Ltd and has provided a guarantee in favour of St George Bank Ltd in relation to a loan facility for \$10m (drawn nil) for the development of 108 Ocean Beach Road, Sorrento. Sorrento (Vic) Pty Ltd has obtained from St George Bank Limited, a bank guarantee for \$1,925,000. The bank guarantee secures the payment to the vendor which has been fully provided for in the financial statements.
  - Noone St Clifton Hill Pty Ltd - Folkestone Limited holds 50% of the share capital in Noone St Clifton Hill Pty Ltd. Folkestone Limited has provided a guarantee in favour of BOS International (Australia) Limited in relation to a loan facility for \$20m (drawn \$4.5m) for the development of 169 Noone Street, Clifton Hill.
- b) Access Constructions Pty Ltd has a \$4m surety bond facility with QBE Insurance. As at balance date, QBE had issued \$2.21m in surety bonds to clients of Access Constructions. The surety bond facility expired on 30 November 2007 and has been renewed for a further period of 12 months.

The maximum bond value for any one contract must not exceed 50% of the \$4m facility limit and the maximum term of each bond is 24 months plus 12 months maintenance.

**Folkestone Limited**  
**Notes to the condensed consolidated financial statements**  
**For the half-year ended 31 December 2007**

**NOTE: 5: CONTINGENT LIABILITIES CONTINUED**

The following entities within the Folkestone consolidated group have provided a Deed of Indemnity of Guarantee securing the performance of Access Constructions under the surety bond facility with QBE:

Access Constructions Pty Ltd	Folkestone Freeholds Pty Ltd
Folkestone Developments Pty Ltd	Folkestone Project Management Pty Ltd
Fenchurch Pty Ltd	Folkestone (EMT) Pty Ltd in its own right and as trustee for the Folkestone East Melbourne Trust
Folkestone (PMD) Pty Ltd	Ceres House Pty Ltd
Folkestone Limited	
Sorrento (Vic) Pty Ltd	

Each of the above contingent liabilities have been reviewed to determine whether they meet the definition of a financial guarantee contract as defined under AASB 139. The company has determined that there is no value attributable to the financial guarantees disclosed in this note due to the valuation of each property being significantly greater than the current level of borrowings in respect of each party.

No material losses are anticipated in respect of any of the above contingent liabilities.

At the date of this report, the directors are not aware of any liability in relation to the guarantees mentioned above that has not been provided for in the financial statements.

The initial application of AASB 2006-9 has not had an impact on the financial results of the company and the consolidated entity. In assessing the liability arising from the financial guarantee contracts, the following have been considered:

- probability of default under the terms of the facility agreement to which the financial guarantee contract relates
- past history of claims on financial guarantee contracts that the company has provided
- other securities that the bank holds in addition to the financial guarantee contracts
- value of primary asset securing the obligation to which the financial guarantee contract relates

Based upon these criteria, the company has assessed that the liability arising from the financial guarantee contracts is nil.

**Folkestone Limited**  
**Directors' Declaration**  
**For the half-year ended 31 December 2007**

**Directors' Declaration**

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the *Corporations Act 2001*.

On behalf of the Directors

**ATL Maitland**  
Director

**O Guglielmi**  
Director

Melbourne  
7 February 2008

**Folkestone Limited**  
**Independent Auditor's Review Report**  
For the half-year ended 31 December 2007

Independent Auditor's Review Report to the Members of Folkestone Ltd