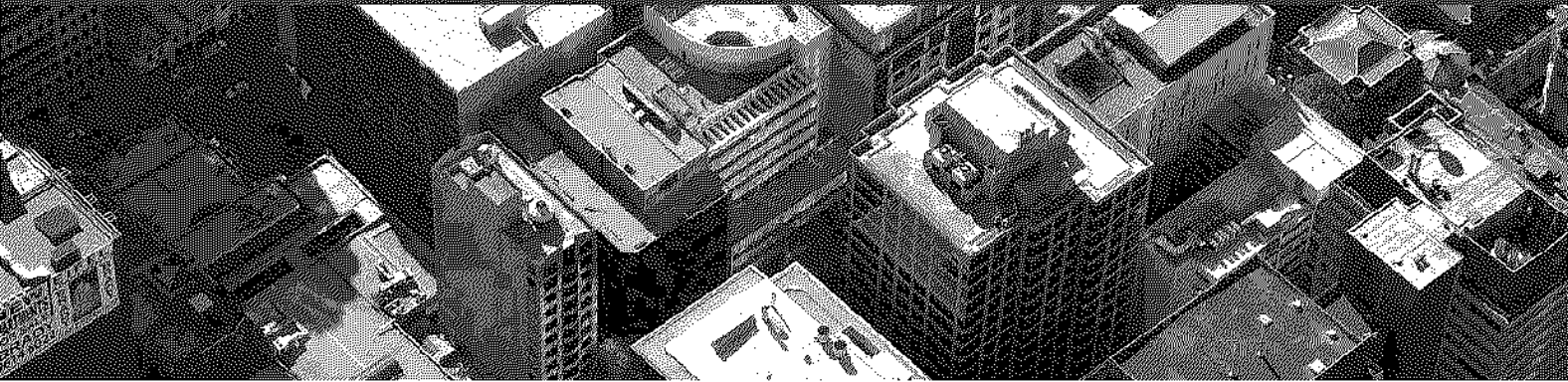


Folkestone

SHAREHOLDER UPDATE FEBRUARY 2007



Half yearly result and dividend announcement

Summary:

	31 Dec 2006 \$'000s	31 Dec 2005 \$'000s
Revenue	47,417	32,949
Operating profit before income tax	827	793
Net profit after tax and minority interest	495	547
Earnings per share (cents)	1.64	1.84
Interim dividend (cents per share)	2.5	2.5
Net tangible asset backing per ordinary share (cents)	64	64

Net profit after tax for the six months ended 31 December 2006 was \$495K compared with \$547K for the previous corresponding period. As foreshadowed at our AGM, the half year result was impacted by a \$0.97 million pre-tax loss relating to the sale of the last two remaining strata floors at 530 Lonsdale Street, Melbourne.

Earnings per share was 1.64 cents per share compared with 1.84 for the corresponding period last year and net tangible asset backing was steady at 64 cents per share.

An interim dividend of 2.5 cents per share has been declared in respect of the half-year. The dividend will have a record date of 19 March 2007 and will be paid on 3 April 2007. Shareholders will be able to participate in the company's Dividend Re-Investment Plan which offers a 5% discount.

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ESTATE
Industrylink

Inner West industrial land | 720-808 Kororoit Creek Road, Altona



Review of Operations

PROPERTY DEVELOPMENT

The remaining four terrace houses at 'Jolimont Square' were sold during the half-year with two settled prior to Christmas. The other two are due to settle in the first quarter of 2007, which will mark the completion of this project.

Development of Parcel B (Bertie & Bridge Streets, Port Melbourne) at the toyotagreen Business Park in Port Melbourne continues with Stage 1, comprising five units, now fully constructed. To date one unit, Unit 5, has been leased from August 2006. Three of the remaining four units have been recently secured under a Heads of Agreement with the lease expected to commence in May 2007.

Construction of Stage 2, comprising three units totalling approximately 4,500m² and a multi-deck car park, was one third complete at balance date. Ericsson has signed an agreement to lease Unit 6 (2985 m²) which is due to commence in May 2007. Site planning for Stage 3, comprising a further five units totalling approximately 6,500 m², is underway and construction is expected to commence later in 2007.

CONSTRUCTION DIVISION

Access Constructions Pty Ltd experienced another strong half-year to 31 December 2006 with a pre-tax contribution of \$1.960m compared with \$1.908m last half year. The value of uncompleted work on hand at 31 December 2006 was approximately \$24.5 million. Directors believe that the consistent earnings being delivered by Access would justify a market valuation of the business substantially in excess of the current carrying value of the investment in the parent company's financial statements.

Highlights and achievements during the period

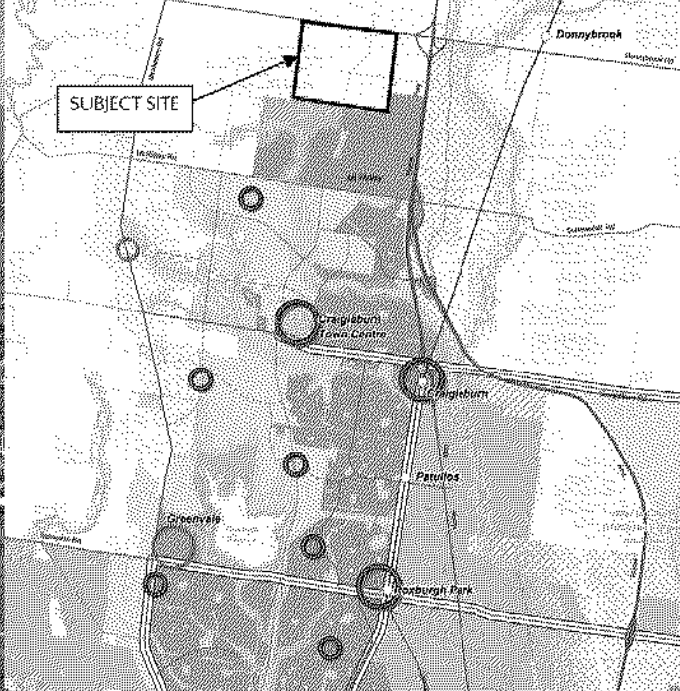
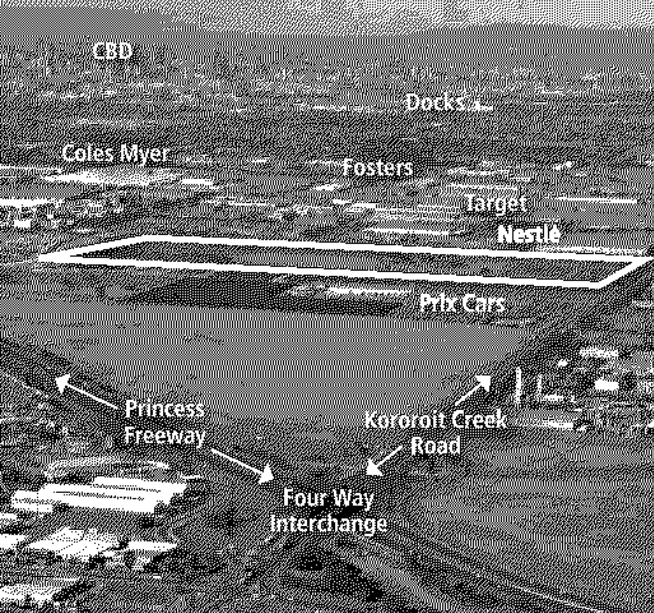
At the 2006 AGM, the company outlined that its strategy would be to identify and control parcels of land that can support multi-year development programs and to co-invest with like – minded investors in the development. The strategy will enable the company to generate recurring fee income through the planning, approval, pre-development and development phases of the project in addition to its share of the development profits of the project.

In response to this strategic repositioning, Folkestone undertook the following acquisitions during the period under review:

ACQUISITION OF 720-808 KOROROIT CREEK ROAD, ALTONA

In September 2006 Folkestone acquired 52 hectares of serviced industrial zoned land at 720 – 808 Kororoit Road, Altona. The acquisition was made in a 50:50 joint venture with the AMP Capital Investor's managed Select Property Portfolio Fund No:2. The property is located in the tightly held established industrial area of Altona and enjoys excellent links to Melbourne's road transport infrastructure, with a 4 way interchange with Princess Freeway 2 kms to the west of the site. Folkestone has been appointed as Development Manager for the project by the joint venture.

The Altona project, known as Industrylink Estate, is a three to four year development and the company will shortly lodge a planning application with the Hobsons Bay City Council. Subdivision and infrastructure construction is expected to commence in the third quarter of 2007 with the first lots anticipated to be available for sale in the first half of calendar 2008.



Above: Industrylink Estate,
720-808 Kororoit Creek Road, Altona

Above Right: Donnybrook Road, Mickleham

Below: 108 Beach Road, Sorrento



While not recognised in the financial statements, Folkestone believes the value of this project has increased due to the strong demand for industrial land and the scarcity of large parcels of land in the locality. It is also believed that the value of the land will be further enhanced through the planning process.

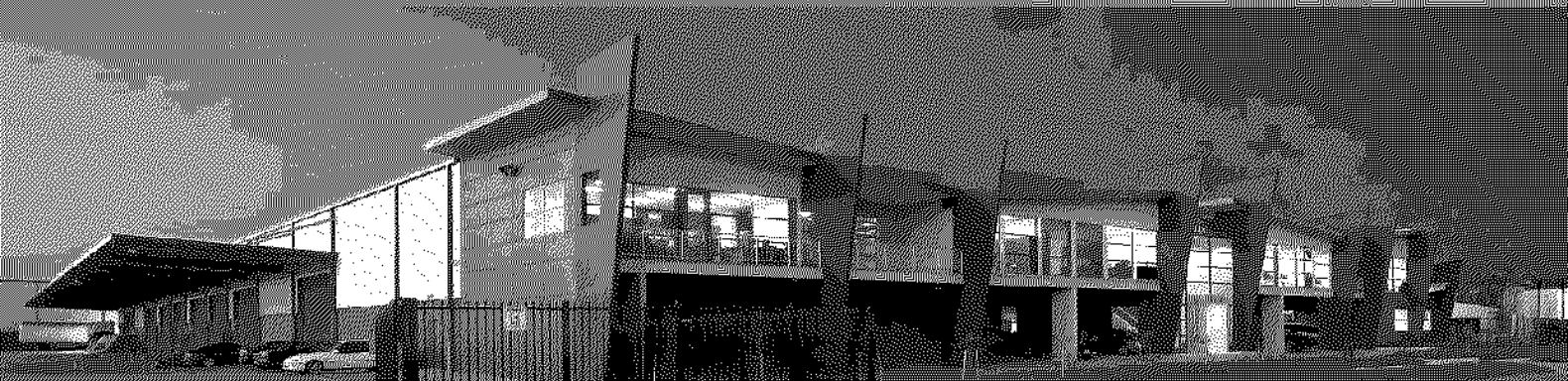
Similar factors will also impact the future value up-lift of Folkestone's other major acquisition, Donnybrook Road Mickleham which is detailed below.

ACQUISITION OF DONNYBROOK ROAD, MICKLEHAM

In December 2006 Folkestone acquired 320 hectares of future industrial land at 135, 225 & 285 Donnybrook Road, Mickleham. The acquisition was made in joint venture with the AMP Capital Investor's managed Select Property Portfolio Fund No:2 ("SPP2") with Folkestone holding 20% and SPP2 80%. Folkestone has been appointed Development Manager by the joint venture. The land is located within the Urban Growth Boundary and enjoys excellent links to Melbourne's road transport infrastructure, in particular the Hume Highway and Craigieburn Bypass and is strategically positioned to participate in the rapidly growing northern corridor of Melbourne.

ACQUISITION OF 108 OCEAN BEACH ROAD, SORRENTO

In January 2007 Folkestone acquired a 1486 m² site in the main retail strip of Sorrento, a popular tourist destination on the Mornington Peninsula in Victoria. The site will be developed during the 2008 financial year into a 2100 m² retail complex, anchored by a 1,695m² Coles supermarket, a 206m² Liquorland outlet and three other speciality retail tenancies.



Outlook for the current six months and profit guidance

COMPANY STRATEGY

Folkestone is in a period of transition as it builds a sustainable development pipeline flowing from long term project initiatives. This is being achieved by partnering with some of the biggest names in the property sector including AMP and Macquarie Goodman enabling Folkestone to develop a portfolio of larger scale projects. Whilst recurring fee income is starting to flow, the full impact of the company's strategies will progressively emerge over the next eighteen months. Fee income is intended to become a major profit contributor and will reduce the volatility that has been a feature of Folkestone's performance in recent years.

In the Altona and Mickleham properties, Folkestone has secured interests in a medium term (Altona) and long term (Mickleham) project which provide a strong future work-book of industrial land. Folkestone is targeting similar opportunities across the other major property markets (residential, retirement, retail and commercial) in order to establish a diversified portfolio of future development projects. The capacity of Folkestone to add value and hence the potential rewards, are much greater with these larger scale projects due to their size, location and strategic positioning.

The staged release of these larger scale projects will ensure that the development pipeline remains full providing greater stability to the company's financial performance.

The company's construction arm, Access Constructions remains integral to maximising growth. In particular, Access is exceptionally well placed to secure design

and construct opportunities from Folkestone's major industrial projects, in addition to their existing customer base, thereby driving its own growth.

EARNINGS OUTLOOK

The Directors' expectation for current year earnings remains unchanged with a similar full year result expected to that of last year. The Board is confident that the strategy being implemented will greatly reduce the volatility of its earnings and provide a platform for sustainable earnings growth.

Company Particulars

Trading Name:	Folkestone Limited
ASX Code:	FLK
Directors:	Alister TL Maitland (Chairman) Oscar Guglielmi (Managing Director & CEO) Bruce R Kean AM David CJ Scarf Michael W Parkinson CBE
Chief Financial Officer & Company Secretary:	Scott N Martin
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