Half Year Report – 31 December 2004

Folkestone Limited

A.C.N. 004 715 226

HALF YEAR REPORT - 31 DECEMBER 2004

CONTENTS

DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of Folkestone Limited and the entities it controlled at the end of, or during, the half year ended 31 December 2004.

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 *(Chairman)*
- AR Davison *(Managing Director)*
- BR Kean
- DCJ Scarf

Review of Operations

Financial Results
The profit after tax for the six months ending 31 December 2004 is $515,000 a significant decrease to the corresponding period in 2003 of $2,105,000. This represents a basic earnings per share of 1.8 cents.

For Folkestone, half year comparisons are not particularly relevant because of the lumpy nature of our earnings. In this financial year, the majority of our revenue and earnings are budgeted to occur in the second half.

Expectations for full year earnings per share remain as previously advised in the vicinity of 8 cents.

Outlook
The outlook for the remainder of this year and the following financial year is positive and the Company's current forecasts indicate that EPS should increase in the 2006 Financial Year based on the existing project workbook and projects in the pipeline.

Dividends
The Board has resolved to maintain the interim dividend at 2.5 cents per Ordinary Share, fully franked. This will be paid on 29 April 2005. The record date will be 8 April 2005.

Last financial year's final dividend of 3.5 cents plus the special dividend of 1.5 cents per share was paid on 29 October 2004. Participation in the Dividend Reinvestment Plan is about 11%, which has remained relatively static since inception.

Developments
There were two significant contributors to profit in the half year ended 31 December 2005 for the Company. These were the development at 700 Collins Street, Docklands, which despite being completed late has delivered significant profits and fees to the Company over this and the past two financial years and 528 Lonsdale Street, Melbourne, the Company's strata office development aimed at barristers.

700 Collins Street's sale settlement to Cromwell Diversified Property Trust occurred in December 2004. At the time of settlement there were some building items requiring completion, rectification of a number of defects and some tenant fitout items that required design and completion. These items are currently being addressed by the builder, Leighton Contractors Pty Ltd and should be completed within the next 4-6 weeks.

DIRECTORS' REPORT (Continued)

528 Lonsdale Street, Melbourne was acquired by the Company in the previous financial year and is in the process of being converted to barrister chambers. The top two floors were simultaneously sold at acquisition and the retail space on the ground floor has been sold. The remaining floors within the building are being differentiated, with one floor being available for individual chamber leasing, two floors for separate chamber strata sales and another two floors being left as whole floor stratas. Purchaser interest is strong and with the building due to be completed within the next two months, this interest should be converted to sales.

In the June 2004 Annual Accounts we indicated that we were seeking damages from Hansen Yuncken in relation to the late delivery of The Hub Apartments at 242 Glenhuntly Road, Elsternwick. This matter has now been resolved with a payment being received from the Builder.

Jolimont Square, East Melbourne continued to experience planning issues, the latest of which relates to the placement of airconditioning plant on the roof. This dispute is due to go before a VCAT hearing on 28 February 2005. We have prepared an alternative option for VCAT to consider and anticipate a decision shortly after the hearing. Probuild Constructions has been appointed as the builder, civil works have been completed and site established in anticipation of a favourable hearing outcome. Finance has been arranged and pending construction commencement, draw downs will follow.

Miles Street, Mulgrave, an 1,800 m^2 office refurbishment undertaken by Folkestone in 2004 remains available for lease. Interest to date has been slow, but the Company is optimistic that a tenant will be found shortly for this development.

New Business

In the June 2004 Annual Accounts, we indicated that we had been selected as preferred developer over a large tract of industrial land. In January 2004 we exchanged contracts of sale for an industrial site in Port Melbourne. This site has been acquired jointly with another developer. This acquisition represents only a small portion of the total land offered for sale and further details will be released once the contracts of sale and development agreements have been finalised and executed in late February / early March 2005.

There are several other development opportunities being evaluated by the Company and more announcements are expected shortly. Projects range from retail and residential in regional Victoria to suburban commercial / industrial as well as another major office development in the Docklands precinct.

Cash Position

The Company currently holds significant cash reserves which have arisen from the sale settlement of 700 Collins Street, Docklands. Folkestone is well placed to fund current and future acquisitions.

2004 Annual Accounts

In November 2004, Folkestone's 2004 Annual Accounts were subjected to a review by the Australian Investments and Security Commission ("ASIC") who noted that an classification error existed in relation to the disclosure of the Company's equity investments. The changes do not affect either the net profit or the net assets of the parent or the consolidated entity.

The amending information is contained in Note 8 to the accounts. The amendments do not affect the 2003 comparative information.

Net Asset Backing

Net asset backing per share is 75 cents as at 31 December 2004 (previously 74 cents).

DIRECTORS' REPORT (Continued)

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

A copy of the independence declaration by the auditor under section 307C is reproduced below:

DECLARATION OF INDEPENDENCE BY BDO TO THE DIRECTORS OF FOLKESTONE LIMITED

To the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of this Act in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

BDO
BDO
Chartered Accountants

RDD Collie
Partner
Melbourne
18 February 2005

This report is signed in accordance with a resolution of the Board of Directors.

ATL Maitland
Chairman

AR Davison
Managing Director

Melbourne
18 February 2005

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE FOR THE HALF YEAR ENDED 31 DECEMBER 2004

	Notes	Consolidated	
		31 December 2004 $'000	31 December 2003 $'000
Revenue from Ordinary Activities	2	**4,919**	2,419
Share of net profits of associates accounted for using the equity method		**733**	3,700
Development expenses		**(3,999)**	(2,322)
Employee benefits expense		**(564)**	(503)
Depreciation and amortisation expenses		**(25)**	(26)
Borrowing costs expense		**(2)**	(9)
Other expenses from ordinary activities		**(324)**	(252)
Profit from Ordinary Activities before income tax expense		**738**	3,007
Income tax expense		**(223)**	(902)
Profit from Ordinary Activities after income tax expense		**515**	2,105
Net profit attributable to outside equity interest		**-**	-
Net profit attributable to members of Folkestone Limited		**515**	2,105
Total changes in equity other than those resulting from transactions with owners as owners		**515**	2,105
Basic earnings per share (cents)		**1.8**	8.5
Diluted earnings per share (cents)		**1.8**	8.5

The above Consolidated Statement of Financial Performance should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2004

	Consolidated 31 December 2004 $'000	30 June 2004 $'000
CURRENT ASSETS		
Cash Assets	**5,601**	2,046
Receivables	**4,343**	7,854
Inventories	**18,517**	14,758
Investments accounted for using the equity method	**-**	4,151
Other	**26**	-
TOTAL CURRENT ASSETS	**28,487**	28,809
NON-CURRENT ASSETS		
Inventories	**14,995**	12,194
Other financial assets	**6**	-
Plant and equipment	**85**	107
Deferred tax assets	**94**	265
TOTAL NON-CURRENT ASSETS	**15,180**	12,566
TOTAL ASSETS	**43,667**	41,375
CURRENT LIABILITIES		
Payables	**3,007**	1,214
Interest bearing liabilities	**18,760**	15,918
Current tax liabilities	**33**	1,767
Provisions	**55**	1,493
TOTAL CURRENT LIABILITIES	**21,855**	20,392
NON-CURRENT LIABILITIES		
Provisions	**136**	137
TOTAL NON-CURRENT LIABILITIES	**136**	137
TOTAL LIABILITIES	**21,991**	20,529
NET ASSETS	**21,676**	20,846
EQUITY		
Contributed equity	**17,332**	17,016
Retained profits	**4,344**	3,830
TOTAL EQUITY	**21,676**	20,846

The above Consolidated Statements of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2004

	Consolidated 31 December 2004 $'000 Inflows/ (Outflows)	31 December 2003 $'000 Inflows/ (Outflows)
Cash flows from operating activities		
Receipts from customers (including GST)	**3,112**	7,803
Payments to suppliers and employees (including GST)	**(6,172)**	(8,605)
	(3,060)	(802)
Interest received	**74**	37
Borrowing costs	**(2)**	(9)
Trust Distributions from Associate Entities	**2,353**	430
Taxes Paid	**(1,785)**	(97)
Net cash used in operating activities	**(2,420)**	(441)
Cash flows from investing activities		
Payments for investments	**(6)**	(8)
Payments for property, plant and equipment	**(4)**	(44)
Proceeds from sale of property investments	**4,151**	-
Repayment of loans by related parties	**-**	900
Net cash provided by investing activities	**4,141**	848
Cash flows from financing activities		
Proceeds from issue of shares	**315**	3,917
Dividends paid	**(1,430)**	(735)
Proceeds from borrowings	**3,079**	1,821
Repayment of borrowings	**(130)**	(3,156)
Net cash provided by financing activities	**1,834**	1,847
Net increase in cash held	**3,555**	2,254
Cash at beginning of reporting period	**2,046**	109
Cash at end of reporting period	**5,601**	2,363

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION OF HALF YEAR FINANCIAL REPORT

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standard AASB 1029: Interim Financial Reporting, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2004 and any public announcements made by Folkestone Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The accounting policies have been consistently applied by the entities in the economic entity and are consistent with those applied in the 30 June 2004 annual report.

The half-year report does not include full disclosures of the type normally included in an annual financial report.

2. GROSS REVENUE FROM ACTIVITIES

	Half Year	
	2004 $'000	2003 $'000
Folkestone Limited and its controlled entities derive significant profits from its joint venture activities which are accounted for as "Share of Net Profits of Associates Accounted for using the Equity Method". The Group's share of revenues from its joint venture activities for the period ended 31 December that are not reflected in the accounts are:	**3,366**	20,323
Revenue from Ordinary Activities	**4,919**	2,419
Gross Revenue	**8,285**	22,742

3. DIVIDENDS

	2004 $'000	2003 $'000
Ordinary Shares		
Dividends paid or provided for during half year (including Special Dividend of 1.5 cents per Ordinary Share)	**1,430**	735
Dividends not recognised at the end of half-year		
Since the end of half-year the directors have recommended the payment of an interim dividend of 2.5 cents per fully paid ordinary share, franked at 30%. The aggregate amount of the proposed interim dividend is expected to be paid on 29 April 2005 out of retained profits at 31 December 2004, but not recognised as a liability at the end of the half-year is:	**720**	704

4. EQUITY SECURITIES ISSUED

	Half Year		Half Year	
	2004 Shares	2003 Shares	**2004 $'000**	2003 $'000
Issues of Ordinary Shares during the half year				
Exercise of options issued under the Folkestone Ltd Employee Option Scheme	**270,000**	148,485	**149**	80
Issue of additional shares	**-**	5,752,570	**-**	4,026
Dividend Reinvestment Plan issues	**196,458**	96,996	**167**	72
	466,458	5,998,051	**316**	4,178

5. CONTINGENT LIABILITIES

During the six months ended 31 December,2004 the dispute with Hansen Yuncken in relation to the late delivery of The Hub Apartments at 242 Glenhuntly Road, Elsternwick, was settled. Remaining contingent liabilities consist of parent entity guarantees in favour of financial institutions to secure project development financings.

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION

31 December 2004	Project Development $'000	Property Investments $'000	Intersegment Eliminations/ Unallocated $'000	Consolidated $'000
Sales to external parties	4,754	-	-	
Revenue from joint ventures	733	-	-	
Other Revenue	21	-	74	95
Total Segment Revenue	5,508	-	74	5,582
Segment Result	668	(4)	74	738
Income Tax (Expense)/Benefit				(223)
Net Profit				515
Segment Assets	37,862	-	-	37,862
Unallocated Assets	-	-	5,805	5,805
Total Assets	37,862	-	5,805	43,667
Segment Liabilities	21,767	-	-	21,767
Unallocated Liabilities	-	-	224	224
Total Liabilities	21,767	-	224	21,991
Net Cash Flow Operating Activities	(703)	(4)	(1,713)*	(2,420)
31 December 2003				
Sales to external parties	2,240	132	-	2,372
Revenue from joint ventures	3,700	-	-	3,700
Other Revenue	10	-	37	47
Total Segment Revenue	5,950	132	37	6,119
Segment Result	2,942	28	37	3,007
Income Tax (Expense)/Benefit				(902)
Net Profit				2,105
Segment Assets	36,860	2,530	-	39,390
Unallocated Assets	-	-	2,640	2,640
Total Assets	36,860	2,530	2,640	42,030
Segment Liabilities	19,684	1	-	19,685
Unallocated Liabilities	-	-	1,392	1,392
Total Liabilities	19,684	1	1,392	21,077
Net Cash Flow Operating Activities	(474)	102	(69)*	(441)

* Includes income taxation payment

NOTES TO THE FINANCIAL STATEMENTS

7. EVENTS SUBSEQUENT TO REPORTING DATE

As noted in the Directors' Report, the Company has exchanged contracts of sale to acquire an industrial site in Port Melbourne. This site has been acquired jointly with another developer and forms part of a larger site being sold. Further details will be released once the contracts of sale and development agreements have been finalised and executed in late February / early March 2005.

8. OTHER MATTERS

Amendment to 30 June 2004 Annual Accounts
In November 2004, Folkestone's 2004 Annual Accounts were reviewed by the Australian Securities and Investments Commission ("ASIC") who noted that a classification error existed in relation to the disclosure of its equity investments. The changes do not affect either the net profit or the net assets of the parent or the consolidated entity or the prior year comparative figures.

Following is a summary of those items amended to ensure compliance with the appropriate Australian Accounting Standards:

Parent Entity Accounts

	2004 Annual Accounts		Revised Position	
	2004 $000's	2003 $000's	2004 $000's	2003 $000's
Statement of Financial Performance				
Revenue from Ordinary Activities (excluding Share of equity accounted net profit of associates)	3,186	2,292	8,518	3,518
Share of net profit of associates accounted for using the equity method	5,332	1,226	-	-
Statement of Financial Position				
Current Assets				
Receivables	12,766	5,742	18,023	5,742
Investments accounted for using equity method	9,408	4,506	-	-
Other Financial Assets	-	-	4,151	-
Total Current Assets	24,196	12,700	24,196	8,194
Non Current Assets				
Other Financial Assets	3,706	5,706	3,706	9,857
Total Non Current Assets	4,055	16,146	4,055	20,297
Total Assets	28,251	28,846	28,251	28,846
Note 2 – Revenue				
Revenue				
Revenue from Operating Activities				
Trust Distributions	-	-	5,332	1,226
Revenue from ordinary activities (excluding share of equity accounted net profits of associates)	3,186	2,292	8,518	3,518
Note 6 – Current Assets - Receivables				
Accounts Receivable from Associated Entities	-	-	5,257	-
Total Current Assets – Receivables	12,766	5,742	18,023	5,742
Note 8 – Current Assets – Other Financial Assets				
Shares in Associates (note 26)	9,408	4,506	-	4,506
Note 9A – Current Assets – Other Financial Assets *(new note)*				
Shares in Associated Entities – at cost	-	-	4,151	-
Note 12 – Non Current Assets – Other Financial Assets				
Shares in Associated Entities – at cost	-	-	-	4,151
Total Non Current Assets – Other Financial Assets	3,706	5,706	3,706	9,857

NOTES TO THE FINANCIAL STATEMENTS

	2004 Annual Accounts 2004 $000's	2003 $000's	Revised Position 2004 $000's	2003 $000's
Consolidated Entity Accounts				
Statement of Financial Position				
Current Assets				
Receivables	2,597	2,826	7,854	2,826
Investments accounted for using equity method	9,408	4,506	4,151	-
Note 6 – Current Assets - Receivables				
Accounts Receivable from Associated Entities	-	-	5,257	-
Total Current Assets – Receivables	2,597	2,826	7,854	2,826
Note 8 – Current Assets –Investments accounted for using the Equity Method				
Shares in Associates	9,408	4,506	4,151	4,506

Note 26 is restated as follows:

Name of Trust	Principal Activity	Ownership Interest 2004 %	2003 %	Consolidated Carrying Amount 2004 $'000	2003 $'000	Parent Entity Carrying Amount 2004 $'000	2003 $'000
Wellington Road Property Trust	Property Development	**50**	50	-	355	-	355
Folkestone Docklands Unit Trust	Property Development	**50**	50	**4,151**	4,151	**4,151**	4,151
				4,151	4,506	**4,151**	4,506

Each of the above trusts has a separate trustee of which Folkestone Limited owns 50% of the issued capital. Issued capital of each trustee is $2.

	Consolidated 2004 $'000	2003 $'000
Movements in Carrying Amounts of Investments in Associates		
Carrying amount at the beginning of the financial year	**4,506**	1,174
New Capital Invested	-	3,821
Share of Operating Profits	**5,332**	925
Distribution of Profits received / receivable	**(5,687)**	(1,414)
Carrying amount at the end of the financial year	**4,151**	4,506
Results Attributable to Associates		
Profits from ordinary activities before income tax	**5,332**	925
Income tax expense	-	-
Profits from ordinary activities after income tax	**5,332**	925
Less distributions received/receivable	**(5,332)**	(1,414)
	-	(489)
Retained Profits attributable to associates at the beginning of the financial year	-	489
Retained profits attributable to associates at end of the financial year	-	-

These amendments will be fully reflected in the 2005 Annual Report.

NOTES TO THE FINANCIAL STATEMENTS

9. Transition to Australian Equivalents to International Financial Reporting Standards (IFRSs)

All general purpose financial reports for half-years ending on or after 31 December 2005 will be prepared in accordance with AASB 134 "Interim Financial Reporting" which requires application of Australian equivalents to International Financial Reporting Standards (IFRSs) rather than current Australian Accounting Standards.

Comparative half-year financial statements must also be prepared in accordance with Australian equivalents to IFRSs for the half-year ending 31December 2004.

(a) Managing the Transition process

At 30 June 2004, the Directors undertook to have an independent review of the accounting systems and processes by an independent accounting firm. This review is to also include a comprehensive review of the impact of IFRS on the Group.

Danby Bland Provan has been appointed to perform this role which is scheduled to commence shortly.

(b) Changes to Key Accounting Policies

At 30 June 2004 , the Company identified the following items that would impact upon the consolidated entity's existing accounting policies effective from 01 July 2005. The Company does not believe that any further accounting policies will be impacted. This will be confirmed by the comprehensive review to be undertaken by Danby Bland Provan mentioned in (a) above prior to financial year end.

(i) Income tax

Under the Australian equivalent to IAS 12 *Income Taxes*, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

This will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognised directly in equity.

(ii) Investment properties

Under the Australian equivalent to IAS 40 *Investment Property*, if investment properties are measured at fair value, net of applicable tax, gains or losses arising from changes in fair value are recognised in net profit or loss for the period in which they arise.

This will result in a change to the current accounting policy which was adopted with effect from 1 July 2003, under which investment properties are revalued to fair value and changes in fair value are recognised in the asset revaluation reserve.

(iii) Equity-based compensation benefits

Under the Australian equivalent to IFRS 2 *Share-based Payment*, equity-based compensation to employees will be recognised as an expense in respect of the services received.

This will result in a change to the current accounting policy, under which no expense is recognised for equity-based compensation.

(iv) Financial instruments

Under the Australian equivalent to IAS 32 *Financial Instruments: Disclosure and Presentation* the current classification of financial instruments issued by entities in the consolidated entity will not change.

Under the Australian equivalent to IAS 39 *Financial Instruments: Recognition and Measurement* there may be major impacts as a result of financial assets held by the consolidated entity being subject to classification as either held for trading, held-to-maturity, available for sale or loans and receivables and, depending upon classification, measured at fair value or amortised cost. The most likely accounting change is that investments in equity securities will be classified as available for sale and measured at fair value, with changes in fair value recognised directly in equity until the underlying asset is derecognised.

NOTES TO THE FINANCIAL STATEMENTS

(v) Dividends

Under the Australian Equivalent to IAS 37 , a provision for dividend is recognised at balance date only when a dividend is:

- declared - for a dividend not subject to shareholder approval
- approved - for a dividend subject to shareholder approval before the end of the financial year.

This may result in a change to the current accounting policy, where provision is made for the amount of any dividend declared, determined or publicly recommended by the directors on or before the end of the financial year.

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 1 to 12:

    (a) comply with Accounting Standard AASB 1029: Interim Financial Reporting and the Corporations Regulations; and

    (b) give a true and fair view of the economic entity's financial position as at 31 December 2004 and of its performance for the half-year ended on that date.

2. 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.

This declaration is made in accordance with a resolution of the Board of Directors.

ATL Maitland
Chairman

AR Davison
Managing Director

Melbourne
18 February 2005

INDEPENDENT REVIEW REPORT TO THE MEMBERS

Scope

We have reviewed the financial report of Folkestone Limited for the half-year ended 31 December 2004 as set out on pages 1 to 13. The company's directors are responsible for the financial report. The financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year. We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029: Interim Financial Reporting and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the company's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the company to lodge the financial report with the Australian Securities and Investments Commission/Australian Stock Exchange Limited.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Folkestone Limited is not in accordance with:

(a) the Corporations Act 2001, including:

- (i) giving a true and fair view of the company's financial position as at 31 December 2004 and of its performance for the half-year ended on that date; and

- (ii) complying with Accounting Standard AASB 1029: Interim Financial Reporting and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

BDO

BDO
Chartered Accountants

RDD Collie
Partner

Melbourne
18 February 2005