Folkestone

Appendix 4D

Half yearly as at 31 December 2005

Introduced 30/6/2002.

Name of entity

Folkestone Limited

ABN or equivalent company reference	Half yearly (tick)	Preliminary final (tick)	Half year/financial year ended ('current period')
21 004 715 226	✓		31 December 2005

For announcement to the market

Extracts from this report for announcement to the market (see note 1). $A'000

Revenues from ordinary activities	Up	570%	To	$32,949 # (refer note below)
Profit (loss) from ordinary activities after tax attributable to members	Up	6%	To	$547
Profit (loss) from extraordinary items after tax attributable to members (*item 2.5(d)*)	gain (loss) of	NIL		
Net profit (loss) for the period attributable to members (*item 1.11*)	Up	6%	To	$547

Dividends (distributions)	Amount per security	Franked amount per security
Final dividend *(Preliminary final report only)* Interim dividend *(Half yearly report only)*	2.5¢	2.5¢
Previous corresponding period	2.5¢	2.5¢

+Record date for determining entitlements to the dividend, (in the case of a trust, distribution) *(see item 15.2)*	21 April 2006

Brief explanation of any of the figures reported above and short details of any bonus or cash issue or other item(s) of importance not previously released to the market:

Folkestone acquired 100% of a construction business, Access Constructions Pty Ltd, on 1 April 2005. Revenue generated by Access Constructions for the half year to 31 December 2005 was $20.869m (2004: nil)

Folkestone's Net Asset Backing per share at 31 December 2005 is 71 cents per share which includes a carrying value at cost for Access Constructions of $2.120m, compared with 73 cents at 30 June 2005 when the financial statements are restated in accordance with AIFRS.

NTA Backing at 31 December 2005 is 64 cents, compared with 66 cents at 30 June 2005 when the financial statements are restated in accordance with AIFRS. The NTA Backing calculation excludes the goodwill paid on acquisition of Access Constructions.

Earnings per security (EPS)	Current period	Previous corresponding period
Basic EPS	1.84 cents	1.8 cents
Diluted EPS	1.84 cents	1.8 cents

NTA backing	Current period	Previous corresponding period
Net tangible asset backing per +ordinary security	64¢ (see previous note)	74¢

Discontinuing Operations

(Entities must report a description of any significant activities or events relating to discontinuing operations in accordance with paragraph 16.1 (a) of AASB 134: Interim Financial Reporting, or, the details of discontinuing operations they have disclosed in their accounts in accordance with AASB 5: Discontinuing Operations (see note 17).)

Discontinuing Operations

Nil

Control gained over entities having material effect

Name of entity (or group of entities)	Not applicable
Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) since the date in the current period on which control was +acquired	$
Date from which such profit has been calculated	
Profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) for the whole of the previous corresponding period	$

Loss of control of entities having material effect

Name of entity (or group of entities)	Not applicable
Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) for the current period to the date of loss of control	$
Date to which the profit (loss) in item 14.2 has been calculated	
Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) while controlled during the whole of the previous corresponding period	$
Contribution to consolidated profit (loss) from ordinary activities and extraordinary items from sale of interest leading to loss of control	$

Dividends (in the case of a trust, distributions)

15.1	Date the dividend (distribution) is payable	12 May 2006
15.2	+Record date to determine entitlements to the dividend (distribution) (ie, on the basis of proper instruments of transfer received by 5.00 pm if +securities are not +CHESS approved, or security holding balances established by 5.00 pm or such later time permitted by SCH Business Rules if +securities are +CHESS approved)	21 April 2006

Amount per security

		Amount per security	Franked amount per security at 30% tax	Amount per security of foreign source dividend
15.4	*(Preliminary final report only)* **Final dividend:** Current year	¢	¢	¢
15.5	Previous year	¢	¢	¢
15.6	*(Half yearly and preliminary final reports)* **Interim dividend:** Current year	2.5¢	2.5¢	¢
15.7	Previous year	2.5¢	2.5¢	¢

The +dividend or distribution plans shown below are in operation.

Dividend Reinvestment Plan – discount to apply is 5%

The last date(s) for receipt of election notices for the +dividend or distribution plans	21 April 2006

Any other disclosures in relation to dividends (distributions). *(For half yearly reports, provide details in accordance with paragraph 16.2(a(ii)) of AASB 134 Interim Financial Reporting)*

No liability has been recorded for the payment of the interim dividend in the Condensed Balance Sheet. The aggregate amount of the proposed dividend, expected to be paid on 12 May 2006 is $747k, (2004- $720K).

Details of aggregate share of profits (losses) of associates and joint venture entities

Group's share of associates' and joint venture entities':	Current period $A'000	Previous corresponding period - $A'000
16.1 Profit (loss) from ordinary activities before tax	288	733
16.2 Income tax on ordinary activities	-	-
16.3 Profit (loss) from ordinary activities after tax	288	733
16.4 Extraordinary items net of tax	-	-
16.5 Net profit (loss)	288	733
16.6 Adjustments	-	-
16.7 Share of net profit (loss) of associates and joint venture entities	288	733

Material interests in entities which are not controlled entities

The economic entity has an interest (that is material to it) in the following entities. *(If the interest was acquired or disposed of during either the current or previous corresponding period, indicate date of acquisition ("from dd/mm/yy") or disposal ("to dd/mm/yy").)*

Name of entity	Percentage of ownership interest held at end of period or date of disposal		Contribution to net profit (loss) (*item 1.9*)	
17.1 Equity accounted associates and joint venture entities	Current period	Previous corresponding period	Current period $A'000	Previous corresponding period - $A'000
Wellington Road Property Trust	50%	50%	-	14
Folkestone (PMD) Pty Ltd & MabportD Pty Ltd Joint Venture	50%	-	143	-
Folkestone Docklands Unit Trust	50%	50%	145	719
17.2 Total			288	733
17.3 Other material interests				
17.4 Total			288	733

Issued and quoted securities at end of current period

(Description must include rate of interest and any redemption or conversion rights together with prices and dates)

	Category of +securities	Total number	Number quoted	Issue price per security (cents)	Amount paid up per security (cents)
18.1	**Preference +securities** *(description)*				
18.2	Changes during current period (a) Increases through issues (b) Decreases through returns of capital, buybacks, redemptions				
18.3	**+Ordinary securities**	29,876,205	29,876,205		
18.4	Changes during current period (a) Increases through issues	207,868	207,868	60	60
	(b) Decreases through returns of capital, buybacks				
18.5	**+Convertible debt securities** *(description and conversion factor)*				
18.6	Changes during current period (a) Increases through issues (b) Decreases through securities matured, converted				
18.7	**Options** *(description and conversion factor)*			*Exercise price*	*Expiry date (if any)*
	Outstanding	Nil	Nil	-	
18.8	Issued during current period	Nil	Nil		
18.9	Exercised during current period	Nil	Nil		
18.10	Expired during current period	Nil	Nil		
18.11 18.12	**Debentures** *(description)* Changes during current period (a) Increases through issues (b) Decreases through securities matured, converted				
18.13 18.14	**Unsecured notes** *(description)* Changes during current period (a) Increases through issues (b) Decreases through securities matured, converted				

Comments by directors

(Comments on the following matters are required by ASX or, in relation to the half yearly report, by *AASB 134: Interim Financial Reporting*. The comments do not take the place of the directors' report and statement (as required by the Corporations Act) and may be incorporated into the directors' report and statement. For both half yearly and preliminary final reports, if there are no comments in a section, state NIL. If there is insufficient space to comment, attach notes to this report.)

Basis of financial report preparation

19.1 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 134: Interim Financial Reporting, Urgent Issues Group Interpretations 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 2005 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.

19.2 Material factors affecting the revenues and expenses of the economic entity for the current period. In a half yearly report, provide explanatory comments about any seasonal or irregular factors affecting operations.

Folkestone acquired 100% of a construction business, Access Constructions Pty Ltd on 1 April 2005. Items in the financial statements for the half year ended 31 December 2005 include revenue ($20.869m) and expenditure ($18.961m) generated by Access Constructions Pty Ltd. The comparative figures for the Condensed Income Statement do not include revenue and expenditure generated by Access Constructions Pty Ltd as it was not part of the consolidated group at 31 December 2004.

19.3 A description of each event since the end of the current period which has had a material effect and which is not already reported elsewhere in this Appendix or in attachments, with financial effect quantified (if possible).

Nil

19.4 Franking credits available and prospects for paying fully or partly franked dividends for at least the next year.

$9.408m. It is anticipated that any dividends will be fully franked for the next financial year.

19.5 Unless disclosed below, the accounting policies, estimation methods and measurement bases used in this report are the same as those used in the last annual report. Any changes in accounting policies, estimation methods and measurement bases since the last annual report are disclosed as follows. (Disclose changes and differences in the half yearly report in accordance with *AASB 134: Interim Financial Reporting*. Disclose changes in accounting policies in the preliminary final report in accordance with *AASB 101: Presentation of Financial Statements*).

As this is the first interim financial report prepared under Australian equivalents to IFRS, the accounting policies applied are inconsistent with those applied in the 30 June 2005 annual report as this report was presented under previous Australian GAAP. Accordingly, a summary of the significant accounting policies under Australian equivalents to IFRS has been included in Note 1 of the Half Year Report. A reconciliation of equity and profit and loss between previous GAAP and Australian equivalents to IFRS has been prepared per Note 7 of the Half Year Report.

19.6 Revisions in estimates of amounts reported in previous interim periods. For half yearly reports the nature and amount of revisions in estimates of amounts reported in previous +annual reports if those revisions have a material effect in this half year.

Nil.

19.7 Changes in contingent liabilities or assets. For half yearly reports, changes in contingent liabilities and contingent assets since the last + annual report.

Refer to Note 5 – Half Year Report.

Folkestone

Half Year Report – 31 December 2005

Folkestone Limited

A.C.N. 004 715 226

HALF YEAR REPORT - 31 DECEMBER 2005

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 2005.

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, FAIB) *(Chairman)*
- AR Davison (BBldg, AAPI) *(Managing Director)*
- BR Kean (AM, Dip ChemEng, FIE Aust, FTS, FAICD)
- DCJ Scarf (BEcon)

Mr Michael Parkinson (CBE, MA, MBA (Stanford), FAICD) was appointed as a director of the company on 19 December 2005 and continues in office to the date of this report.

Financial Results
The profit after tax for the six months ending 31 December 2005 is $547,000 a slight increase to the corresponding period in 2004 of $515,000. This represents a basic earnings per share of 1.84 cents.

Dividends
The Board has resolved to maintain the interim dividend at 2.5 cents per ordinary share, fully franked. This will be paid on 12 May 2006 with a record date of 21 April 2006.

Cash Position
The company has adequate cash reserves, bank lines of credit and future anticipated cash inflows to fund current overheads, developments projects and committed expenditure on future acquisitions.

Asset Backing
Net Asset Backing per share is 71 cents at 31 December 2005, compared with 73 cents at 30 June 2005, when the financial statements are restated in accordance with AIFRSs. The major factor contributing to the reduction in Net Asset Backing was the difference between the final dividend paid in respect of the 2005 financial year and the net profit after tax for the half year ended 31 December 2005.

Net tangible asset backing per share is 64 cents at 31 December 2005, compared with 66 cents at 30 June 2005 when the financial statements are restated in accordance with AIFRSs, which excludes the goodwill paid on acquisition of Access Constructions Pty Ltd.

The Net Asset Backing per share is a more accurate analysis of the group's position as it includes a the carrying value for Access Constructions Pty Ltd at cost ($2.120m), which is conservative given Access' current financial performance.

Adoption of Australian Equivalents to IFRS
This interim financial report has been prepared under Australian equivalents to IFRS ('AIFRSs'). A reconciliation of differences between previous GAAP and AIFRSs has been included in Note 7 of this report.

In summary, the adjustments required to the accounts to comply with AIFRSs have been:
i) Reversal of Goodwill previously amortised ($26k) under AGAAP but is no longer amortised under AASB 3: Business Combinations. This results in a positive impact on retained earnings for the AIFRSs year ended 30 June 2005.

(ii) Reversal of residential sales and profit recognised at 30 June 2005. Under AIFRSs, revenue and profit on residential sales is not recognised until sale settlement. At 30 June 2005, a profit of $797k on residential sales not settled had been taken up, and has had a negative impact on retained earnings for the AIFRSs year ended 30 June 2005.

(iii) The tax effect ($239k) of the AIFRS adjustments noted above.

DIRECTORS' REPORT (Continued)
Review of Operations

Development Division
Earnings for the half year from property development were adversely affected by the continued poor performance of the Lonsdale Street project. At December 31, 2005 this project was 82% sold but prices achieved to date have been considerably less than expected. Our original strategy was to sell strata office suites to the legal profession but the market for this product proved to be very thin. Instead, the demand has come from whole floor occupiers but, at a lower overall price per square metre.

Other contributions to earnings came from partial take-up of profits on the 'Jolimont Square' residential project and 50 Bertie Street, Port Melbourne, part of the 'toyotagreen' business park.

Construction of the 'Jolimont Square' residential development is on schedule and dwelling completions will occur in stages during April / May 2006. Sales to date total 42% and two settlements have already occurred. Interest in the project from prospective buyers has been good. We expect this interest to increase as the project nears completion and potential buyers can see the quality of the finished product. Under AIFRSs, profits on residential projects can only be realised on settlement in contrast to GAAP which allowed profits on residential projects to be recorded at contract signing.

In November 2005 the 'toyotagreen' business park in Port Melbourne was formally launched and the market's response has been encouraging with solid interest from a number of prospective tenants. Construction on the first parcel, 50 Bertie Street, is well advanced and scheduled for completion in June 2006. 55% of this space was pre-committed to Fuji Xerox prior to commencement. Stage 1 of the second parcel (155 Bertie Street) is also under construction and comprises five office /showroom /warehouse buildings. We have signed a Heads of Agreement with a lessee on the first of these buildings.

Access Constructions Pty Ltd
Access Constructions Pty Ltd was the major contributor to group profit with all projects performing at or above budget. Turnover for the half year was $21m which is substantially higher than levels previously achieved by Access.

The largest job under construction is a warehouse complex at Somerton for Bluestar Logistics totalling 31,000 square metres in roofed area.

Outlook
The development division has six current projects and a forward workbook of $80m. In the half year to June 2006, profit contributions are expected from Jolimont Square, 50 Bertie Street and 155 Bertie Street. As always, timing of sales and profit recognition is difficult to predict accurately.

At December 31, 2005, Access Constructions Pty Ltd had 12 current projects, seven of which were under construction. Its forward workbook was $40m which represents approximately 12 months turnover. Since balance date the company has been actively tendering for work and is close to finalising several new contracts.

The second half of this year should see full year earnings per share exceed the previous full year figure of 3.3 cents per share.

We expect the improving trend to continue into the full year of 2007 and are budgeting for full year earnings per share to be around 8-10 cents.

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.

DIRECTORS' REPORT (Continued)

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 the Corporations Act in relation to the review; and
- any applicable code of professional conduct in relation to the review.

BDO

BDO
Chartered Accountants

R D D COLLIE
Partner

Melbourne 10th March, 2006

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

ATL Maitland
Chairman

AR Davison
Managing Director

Melbourne
10 March 2006

CONDENSED INCOME STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

	Notes	Consolidated Entity	
		31 December 2005 $'000	31 December 2004 $'000
Revenue	8	32,949	4,919
Changes in inventories of finished goods and work in progress		43	-
Development expenses		(12,531)	(3,999)
Construction expenses	8	(17,067)	-
Employee benefits expense		(2,285)	(564)
Depreciation and amortisation expense		(51)	(25)
Finance costs		(1)	(2)
Other expenses		(552)	(324)
Share of net profits of associates		288	733
Profit before income tax expense		793	738
Income tax expense		(246)	(223)
Profit after income tax		547	515
Net profit for the half year		547	515
Profit attributable to minority equity interest		-	-
Net profit attributable to members of Folkestone Limited		547	515
		Cents	Cents
Basic earnings per share		1.84	1.8
Diluted earnings per share		1.84	1.8

The above Condensed Income Statement should be read in conjunction with the accompanying notes.

CONDENSED BALANCE SHEET AS AT 31 DECEMBER 2005

	Note	Consolidated Entity 31 December 2005 $'000	30 June 2005 $'000
CURRENT ASSETS			
Cash and cash equivalents		4,357	5,317
Trade and other receivables		10,665	9,927
Inventories		26,876	26,874
Current tax asset		146	-
Other current assets		109	80
Total Current Assets		42,153	42,198
NON-CURRENT ASSETS			
Inventories		-	45
Property, plant and equipment		227	251
Deferred tax assets		241	457
Intangible assets		2,120	2,048
Total Non-Current Assets		2,588	2,801
TOTAL ASSETS		44,741	44,999
CURRENT LIABILITIES			
Trade and other payables		4,789	6,176
Short term borrowings		18,390	16,529
Current tax liabilities		-	306
Short term provisions		127	173
Total Current Liabilities		23,306	23,184
NON-CURRENT LIABILITIES			
Long term provisions		263	276
Total Non-Current Liabilities		263	276
TOTAL LIABILITIES		23,569	23,460
NET ASSETS		21,172	21,539
EQUITY			
Issued capital		18,148	18,023
Retained earnings		3,024	3,516
Parent entity interest		21,172	21,539
Minority equity interest		-	-
TOTAL EQUITY		21,172	21,539

The above Condensed Balance Sheet should be read in conjunction with the accompanying notes.

CONDENSED CASH FLOW STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

	Note	Consolidated Entity 31 December 2005 $'000	31 December 2004 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	8	**34,375**	3,112
Payments to suppliers and employees	8	**(36,121)**	(6,172)
Interest received		**114**	74
Finance costs paid		**(4)**	(2)
Trust distributions from associate entities		**200**	2,353
Income taxes paid		**(444)**	(1,785)
Net cash used in operating activities		**(1,880)**	(2,420)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		**(57)**	(4)
Payments for investments		**-**	(6)
Proceeds from sale of property investments		**-**	4,151
Proceeds from sale of equipment		**31**	-
Net cash (used in)/provided by investing activities		**(26)**	4,141
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**125**	315
Proceeds from borrowings		**5,795**	3,079
Repayment of borrowings		**(3,935)**	(130)
Dividends paid		**(1,039)**	(1,430)
Net cash provided by financing activities		**946**	1,834
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS HELD		**(960)**	3,555
Cash and cash equivalents at beginning of period		**5,317**	2,046
NET CASH AND CASH EQUIVALENTS AT END OF PERIOD		**4,357**	5,601

The above Condensed Cash Flow Statement should be read in conjunction with the accompanying notes

CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

CONSOLIDATED	Issued Capital $'000	Retained Earnings $'000	Other Reserves $'000	Total $'000	Minority Interest $'000	Total Equity $'000
Balance at 1 July 2004	17,016	3,830	-	20,846	-	20,846
Profit for the period	-	515	-	515	-	515
Issue of share capital	316	-	-	316	-	316
Balance at 31 December 2004	**17,332**	**4,345**	**-**	**21,677**	**- -**	**21,677**
Profit for the period	-	455	-	455	-	455
Issue of share capital	691	-	-	691	-	691
Dividends paid	-	(752)	-	(752)	-	(752)
Reversal of profits emerging from residential sales	-	(797)	-	(797)	-	(797)
Reversal of amortisation of goodwill	-	26	-	26	-	26
Tax effect of reversal of profits emerging from residential sales	-	239	-	239	-	239
Balance at 30 June 2005	**18,023**	**3,516**	**-**	**21,539**	**-**	**21,539**
Issue of share capital	125	-	-	125	-	125
Profit for the period	-	547	-	547	-	547
Dividends paid	-	(1,039)	-	(1,039)	-	(1,039)
Balance at 31 December 2005	**18,148**	**3,024**	**-**	**21,172**	**-**	**21,172**

The above Condensed Statement of Changes in Equity should be read in conjunction with the accompanying notes

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

NOTE 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 134: Interim Financial Reporting, Urgent Issues Group Interpretations 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 2005 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.

As this is the first interim financial report prepared under Australian equivalents to IFRS, the accounting policies applied are inconsistent with those applied in the 30 June 2005 annual report as this report was presented under previous Australian GAAP. Accordingly, a summary of the significant accounting policies under Australian equivalents to IFRS has been included below. A reconciliation of equity and profit and loss between previous GAAP and Australian equivalents to IFRS has been prepared per Note 7.

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

Accounting Policies

(a) Principles of Consolidation

A controlled entity is any entity Folkestone Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

(b) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

NOTE 1. BASIS OF PREPARATION OF HALF YEAR FINANCIAL REPORT continued

(b) Income Tax continued

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Folkestone Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. Folkestone Limited is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group. The group notified the Australian Taxation Office on 1 July 2002 that it had formed an income tax consolidated group to apply from 1 July 2002. The tax consolidated group has entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

(c) Inventories

i) Developments in Progress

Developments in progress are stated at the aggregate of contract costs incurred to date plus recognised profits less recognised losses. If there are contracts where progress billings exceed the aggregate costs incurred plus profits less losses, the net amounts are presented under other liabilities. Contract costs include all costs directly related to specific contracts, costs that are specifically chargeable to the customer under the terms of the contract and an allocation of overhead expenses incurred in connection with the economic entity's development activities in general.

ii) Land Held for Resale/Capitalisation of Finance Costs

Land held for resale is stated at the lower of cost and net realisable value. Cost includes the cost of acquisition, finance costs and holding costs until completion of the development. When the development is completed, finance costs and other holding charges are capitalised for a period to allow for the letting of the property prior to sale. Any income received in relation to the property in this period reduces the cost base of the asset.

Finance costs included in the cost of land held for resale are those costs that would have been avoided if the expenditure on the acquisition of the development of the land had not been made. Finance costs incurred while active development is interrupted for extended periods are recognised as expenses.

(d) Construction Contracts and Work in Progress

Construction work in progress is valued at cost, plus profit recognised to date less any provision for anticipated future losses. Cost includes both variable and fixed costs relating to specific contracts, and those costs that are attributable to the contract activity in general and that can be allocated on a reasonable basis.

Construction profits are recognised on the stage of completion basis and measured using the proportion of costs incurred to date as compared to expected actual costs. Where losses are anticipated they are provided for in full.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

NOTE 1. BASIS OF PREPARATION OF HALF YEAR FINANCIAL REPORT continued

(d) Construction Contracts and Work in Progress continued

Construction revenue has been recognised on the basis of the terms of the contract adjusted for any variations or claims allowable under the contract.

(e) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets' employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

(f) Depreciation on plant and equipment

Depreciation is charged in respect of mechanical plant, equipment and moveable fittings, and is calculated on either the reducing balance method or the prime cost method from the date of acquisition at various rates so as to write off the cost of these assets over their expected useful lives. The expected useful life of mechanical plant, equipment and moveable fittings is five to ten years. Depreciation rates applied by the economic entity align to those issued by the Australian Taxation Office.

(g) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the economic entity are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over their estimated useful lives.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

NOTE 1. BASIS OF PREPARATION OF HALF YEAR FINANCIAL REPORT continued

(g) Leases continued

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(h) Impairment of Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(i) Investments in Associates

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting. The equity method of accounting recognised group's share of post-acquisition reserves of its associates.

(j) Interests in Joint Ventures

The economic entity's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the consolidated Income Statement and Balance Sheet.

The economic entity's interests in joint venture entities are brought to account using the equity method of accounting in the consolidated financial statements. The parent entity's interests in joint venture entities are brought to account using the cost method.

(k) Investment Properties

Initially, investment properties are measured at cost including transaction costs.

Subsequent to initial recognition investment properties are stated at fair value.

Gains or losses arising from the changes in the fair values of investment properties are included in the income statement in the period in which they arise.

Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal.

Any gains or losses on the derecognition of an investment property are recognised in the income statement in the period of derecognition.

(l) Intangibles

Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

NOTE 1. BASIS OF PREPARATION OF HALF YEAR FINANCIAL REPORT continued

(m) Employee Benefits

i) Wages and Salaries and Annual Leave

Liabilities for wages and salaries and annual leave are recognised and are measured at the amount expected to be paid when the liabilities are settled plus related on costs.

ii) Long Service Leave

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with i) above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

iii) Profit Sharing and Bonus Plans

A liability of employee benefits in the form of profit sharing is recognised in other creditors when one of the following conditions is met:

- There are formal terms in the plan for determining the amount of the benefit;
- The amounts to be paid are determined before the time of completion of the financial report; or
- Past practice gives clear evidence of the amount of the obligation.

Liabilities for profit sharing are expected to be settled within 6 months and are measured at the amounts expected to be paid when they are settled.

iv) Superannuation

The Group effects contributions on behalf of directors and employees to superannuation funds in accordance with the Superannuation Guarantee Legislation and these are charged as expenses when incurred. Superannuation includes amounts required to comply with the Superannuation Guarantee Legislation and any salary sacrificed amounts.

v) Employee Benefit On-costs

Employee benefit on-costs, including payroll tax, are recognised and included in employee benefits liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

vi) Directors Retirement Benefits

A liability for Directors' Retirement Benefits is recognised and is measured as the present value of expected future payments to be made to Directors upon their retirement. Consideration is given to expected future directors' fees and period of service. Expected future payments are discounted using interest rates on national government securities with terms to maturity that match, as closely as possible, the estimated future cash flows.

This scheme applies only to those directors appointed prior to January 1998. Directors appointed after this date do not participate in this scheme.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

NOTE 1. BASIS OF PREPARATION OF HALF YEAR FINANCIAL REPORT continued

(n) Provisions
Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(o) Debt Defeasance
Where assets are given up to extinguish the principal repayments and all future interest payments of a debt any differences in the carrying values of assets foregone and the liability extinguished are brought to account in the profit from ordinary activities. Costs incurred in establishing the defeasance are expensed in the period that the defeasance occurs.

Where only part of a debt is extinguished the interest payments and principal repayments are defeased proportionately and a liability recognised for the net present value of the remaining future interest and principal repayments. The discount factor applied is the implicit rate in the original debt.

In all cases where defeasance occurs, it is highly unlikely that the company will again be required to pay any part of the debt or meet any guarantees or indemnities associated with the debt.

(p) Cash and Cash Equivalents
Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 12 months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

(q) Earnings per Share

i) Basic Earnings per Share
Basic earnings per share is determined by dividing the net profit after income tax attributable to members of the company by the weighted average number of Ordinary Shares outstanding during the financial year, adjusted for bonus elements (if any) in Ordinary Shares issued during the year.

(ii) Diluted Earnings per Share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential Ordinary Shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential Ordinary Shares.

(r) Revenue
Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

i) Land Sub-division
Revenue is recognised where there is a signed unconditional contract

ii) Project Development
a) Residential Property
Revenue and profit on residential sales is not recognised until sale settlement

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

NOTE 1. BASIS OF PREPARATION OF HALF YEAR FINANCIAL REPORT continued

(r) Revenue continued

ii) Project Development continued
b) Non-residential Property
Revenue and expenses are recognised in accordance with the percentage of completion method where there is a signed unconditional contract of sale unless the outcome of the contract cannot be reliably estimated. A signed construction agreement is also required. The percentage of completion method is measured by reference to development costs incurred to date as a percentage of estimated total costs for each development. Where it is probable that a loss will arise from a project, the excess of total costs over revenue is recognised as an expense immediately.

iii) Construction
Construction revenue has been recognised on the basis of the terms of the contract adjusted for any variations or claims allowable under the contract.

All revenue is stated net of the amount of goods and services tax (GST).

(s) Receivables
All trade receivables are recognised at the amounts receivable, as they are due for settlement no more than 90 days from the date of recognition for land development and resale receivables, and no more than 30 days for other receivables.

Collectability of trade receivables is reviewed on an ongoing basis. Debts, which are known to be uncollectible, are written off. A provision for doubtful debts is raised where some doubt as to collection exists and in any event where the receivable is more than 90 days overdue.

(t) Finance Costs
Finance costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other finance costs are recognised in the period in which they are incurred.

(u) Goods and Services Tax (GST)
Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

v) Comparative Figures
When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(w) Rounding of Amounts
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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

NOTE 1. BASIS OF PREPARATION OF HALF YEAR FINANCIAL REPORT continued

(x) Critical accounting estimates and judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Key estimates — Impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

No impairment has been recognised in respect of goodwill for the half year ended 31 December 2005 based upon analysis of the projection of future discounted net cash flows from cash generating units. Based upon this analysis, no impairment is expected at 30 June 2006.

NOTE 2. SEGMENT INFORMATION

Primary reporting – business segments

	Project Development $'000	Construction $'000	Property Investment	Intersegment Eliminations/ unallocated $'000	Consolidated $'000
Half-year ended 31 December 2005					
Total segment revenue	12,291	20,869	-	120	33,280
Intersegment sales	-	-	-	-	-
Total sales revenue	12,291	20,869	-	120	33,280
Share of net profits of associates included in segment revenues above					-
Revenue					33,280
Segment result	(235)	1,908	-	-	1,673
Unallocated expenses					(880)
Profit before income tax					793
Half-year ended 31 December 2004					
Total segment revenue	5,508	-	-	144	5,652
Intersegment sales	-	-	-	-	-
Total sales revenue	5,508	-	-	144	5,652
Share of net profits of associates included in segment revenues above					-
Revenue					5,652
Segment result	668	-	(4)	74	738
Unallocated expenses					-
Profit before income tax					738

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

NOTE 3. DIVIDENDS

	Half Year 2005 $'000	2004 $'000
Ordinary Shares		
Dividends paid for during the half-year – ordinary final	1,039	1,006
Dividends paid for during the half-year – special	-	424
	1,039	1,430

Dividends not recognised at the end of the half-year
Since the end of the half-year, the directors have recommended payment of an interim dividend amounting to $746,905 representing a fully franked dividend of 2.5 cents per fully paid ordinary share (2004: $738,735 (2.5 cents)). The dividend has not been provided for in the half-year interim financial report.

NOTE 4. EQUITY SECURITIES ISSUED

	Half Year 2005 Shares	2004 Shares	Half Year 2005 $'000	2004 $'000
Opening balance of equity securities	29,668,337	28,329,019	18,023	17,016
Issues of Ordinary Shares During the Half-Year				
Exercise of options under the Folkestone Limited Employee Option Plan	-	270,000	-	149
Issue of shares under the Folkestone Limited Dividend Re-investment Plan	207,868	196,158	125	167
	29,876,205	28,795,177	18,148	17,332

NOTE 5. CONTINGENT LIABILITIES

a) Folkestone Limited has guaranteed the performance of certain controlled entities in relation to development agreements. These include

i) Folkestone EMT Pty Ltd - Folkestone Limited has provided a guarantee in favour of St George Bank Limited in relation to a loan facility for $18.030m (drawn $7.521m) for the development of Jolimont Square, East Melbourne.

ii) Folkestone Developments Pty Ltd - Folkestone Limited has provided a guarantee in favour of St George Bank Limited in relation to a loan facility for $2.540m (drawn $2.540m) for the development of 23-29 Miles Street, Mulgrave.

iii) Ceres House Pty Ltd - Folkestone Limited has provided a guarantee in favour of Investec Bank (Australia) Limited in relation to a loan facility for $7.575m (drawn $6.565m) for the development of Ceres House at 528 Lonsdale Street, Melbourne.

iv) Access Constructions Pty Ltd 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 contract with ING Industrial Custodian Pty Ltd.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

NOTE 5. CONTINGENT LIABILITIES continued

b) Folkestone Limited has obtained from the ANZ Banking Group Ltd bank guarantees totalling $275,000. These guarantees have been cash securitised. Access Constructions Pty Ltd, a wholly owned subsidiary of Folkestone Limited, has obtained from St George Bank Limited bank guarantees totalling $122,226. These guarantees have also been cash securitised.

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.

NOTE 6. FUTURE COMMITMENTS

Folkestone Limited has entered into a contract of sale for the purchase of land which is subject to a planning permit being issued. Subject to the planning permit being issued, settlement is expected to take place in July 2006.

NOTE 7. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL REPORTING STANDARDS ("AIFRSs")

(a) **AASB 1 Transitional Exemptions**
The group has elected to use the following transitional exemptions allowed by AASB 1: First-Time Adoption of Australian Equivalents to International Financial Reporting Standards:

Financial Instruments
AASB 139: Financial Instruments has not been applied retrospectively and the comparative information for the corresponding period has not been restated.

(b) **Reconciliation of total equity presented under AGAAP to that under AIFRSs**
The impact of adopting AIFRSs on the total equity as reported under Australian Accounting Standards applicable before 1 January 2005 ("AGAAP") is as follows:

	Notes	Consolidated Entity 30 Jun 05 $'000	31 Dec 04 $'000	01 Jul 04 $'000
Total equity under AGAAP		22,071	21,677	20,846
Reversal of goodwill amortisation	(i)	26	-	-
Reversal of profits emerging from residential sales	(ii)	(797)	-	-
Tax effect of above		239	-	-
Total equity under AIFRSs		21,539	21,677	20,846

(c) **Reconciliation of retained earnings presented under AGAAP to that under AIFRSs**
The impact of adopting AIFRSs on the retained earnings as reported under Australian Accounting Standards applicable before 1 January 2005 ("AGAAP") is as follows:

	Notes	Consolidated Entity 30 Jun 05 $'000	31 Dec 04 $'000	01 Jul 04 $'000
Total retained earnings (accumulated losses) under AGAAP		4,048	4,345	3,830
Reversal of goodwill amortisation	(i)	26	-	-
Reversal of profits emerging from residential sales	(ii)	(797)	-	-
Tax effect of above		239	-	-
Retained earnings (accumulated losses) under AIFRSs		3,516	4,345	3,830

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

NOTE 7. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL REPORTING STANDARDS ("AIFRSs") continued

(d) Reconciliation of profit after tax presented under AGAAP to that under AIFRSs

The impact of adopting AIFRSs on the profit as reported under Australian Accounting Standards applicable before 1 January 2005 ("AGAAP") is as follows:

		Consolidated Entity	
	Notes	Year ended 30 Jun 05 $'000	Half-year ended 31 Dec 04 $'000
Profit after tax as previously reported		970	515
Reversal of goodwill amortisation	(i)	26	-
Reversal of profits emerging from residential sales	(ii)	(797)	-
Tax effect of above		239	-
Profit after tax under AIFRSs		438	515

Notes

(i) Goodwill was amortised under AGAAP but is no longer amortised under AASB 3: Business Combinations. This results in a positive impact on profit and retained earnings for the AIFRSs year ended 30 June 2005.

(ii) Under AIFRS, revenue and profit on residential sales is not recognised until sale settlement. At 30 June 2005, a profit of $797k on residential sales not settled had been accounted for.

NOTE 8. IMPACT OF ACQUISITION OF ACCESS CONSTRUCTIONS PTY LTD ON HALF-YEAR REPORT

Folkestone acquired 100% of a construction business, Access Constructions Pty Ltd on 1 April 2005. Items in the financial statements for the half year ended 31 December 2005 include revenue and expenditure generated by Access Constructions Pty Ltd. The comparative figures for the Condensed Income Statement and Condensed Cash Flow Statement do not include revenue and expenditure generated by Access Constructions Pty Ltd as it was not part of the consolidated group at 31 December 2004.

NOTE 9. ROUNDING OF AMOUNTS

The economic entity satisfies the requirements of 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.

DECLARATION BY DIRECTORS

The directors of the company declare that:

1. The financial statements, comprising the Condensed Consolidated Income Statement, Balance Sheet, Statement of Cash Flows and Statement of Changes in Equity and accompanying notes, are in accordance with the Corporations Act 2001 and:

   (a) Comply with Accounting Standards and the Corporations Regulations 2001; and

   (b) Give a true and fair view of the consolidated entity's financial position as at 31 December 2005 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 and is signed for and on behalf of the directors by:

ATL Maitland
Chairman

AR Davison
Managing Director

MELBOURNE
10 March 2006

BDO

Chartered Accountants

563 Bourke Street Melbourne 3000
DX 30937 Stock Exchange Melbourne
Tel: (61 3) 9615 8500
Fax: (61 3) 9615 8700
Email: bdomel@bdomel.com.au
www.bdo.com.au

INDEPENDENT REVIEW REPORT

To the members of Folkestone Limited

Scope

We have reviewed the financial report comprising the Income Statement, Balance Sheet, Cash Flow Statement, Statement of Changes in Equity, accompanying notes and Directors' Declaration of Folkestone Limited for the half-year ended 31 December 2005. 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 134: Interim Financial Reporting, other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the disclosing entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the disclosing entity to lodge the financial report with the Australian Securities & Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the consolidated entity's 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.

Independence

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

The independence declaration given to the directors in accordance with section 307C would be in the same terms if it had been given at the date of this report.

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 consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and

  (ii) complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

BDO

BDO
Chartered Accountants

R D D COLLIE
Partner

Melbourne, 10 March, 2006

Compliance statement

1 This report has been prepared in accordance with AASB Standards, which includes equivalents to AIFRSs, other AASB authoritative pronouncements and Urgent Issues Group Consensus Views or other standards acceptable to ASX.

2 This report, and the accounts upon which the report is based (if separate), use the same accounting policies.

3 This report does give a true and fair view of the matters disclosed.

4 This report is based on +accounts to which one of the following applies.
(Tick one)

☐	The accounts have been audited.	☒	The accounts have been subject to review.
☐	The accounts are in the process of being audited or subject to review.	☐	The +accounts have *not* yet been audited or reviewed.

5 A copy of the audit review is attached.

6 The entity has a formally constituted audit committee.

Sign here: Martin (Company Secretary) Date: 10 March 2006

Print name: SCOTT MARTIN