

Appendix 4D

Half yearly as at 31 December 2006

Introduced 30/6/2002.

Name of entity

Folkestone Limited

ABN or equivalent company reference

21 004 715 226

Half yearly (tick)

Preliminary final (tick)

Half year/financial year ended ('current period')

31 December 2006

For announcement to the market

Extracts from this report for announcement to the market (see note 1).

\$A'000

Revenues from ordinary activities	Up	43%	To	\$47,417
Profit (loss) from ordinary activities after tax attributable to members	Down	9.5%	To	\$495
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)	Down	9.5%	To	\$495
Dividends (distributions)		Amount per security		Franked amount per security
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)	19 March 2007			
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:				
NTA Backing at 31 December 2006 is 64 cents, compared with 66 cents at 30 June 2006 The NTA Backing calculation excludes the goodwill paid on acquisition of Access Constructions.				

Earnings per security (EPS)	Current period	Previous corresponding period
Basic EPS	1.64 cents	1.84 cents
Diluted EPS	1.64 cents	1.84 cents

NTA backing	Current period	Previous corresponding period
Net tangible asset backing per +ordinary security	64¢ (see previous note)	66¢

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 3 April 2007

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 ⁺CHES approved, or security holding balances established by 5.00 pm or such later time permitted by SCH Business Rules if ⁺securities are ⁺CHES approved) 19 March 2007

Amount per security

		Amount per security	Franked amount per security at 30% tax (see note 4)	Amount per security of foreign source dividend
15.4	<i>(Preliminary final report only)</i> Final dividend: Current year	¢	¢	¢
15.5	Previous year	¢	¢	¢
15.6	<i>(Half yearly and preliminary final reports)</i> 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

19 March 2007

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 Consolidated Balance Sheet. The aggregate amount of the proposed dividend, expected to be paid on 3 April 2007 is \$757k, (2005- \$747K).

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	1	288
16.2 Income tax on ordinary activities	-	-
16.3 Profit (loss) from ordinary activities after tax	1	288
16.4 Extraordinary items net of tax	-	-
16.5 Net profit (loss)	1	288
16.6 Adjustments	-	-
16.7 Share of net profit (loss) of associates and joint venture entities	1	288

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)	
	Current period	Previous corresponding period	Current period \$A'000	Previous corresponding period - \$A'000
17.1 Equity accounted associates and joint venture entities				
Folkestone (Bayside) Pty Ltd	20%	-	-	-
Folkestone Docklands Unit Trust	50%	50%	1	145
17.2 Total			1	145
17.3 Other material interests				
17.4 Total			1	145

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)	Nil	Nil		
18.2 Changes during current period (a) Increases through issues (b) Decreases through returns of capital, buybacks, redemptions	Nil	Nil		
18.3 ⁺Ordinary securities	30,290,318	30,290,318		
18.4 Changes during current period (a) Increases through issues (b) Decreases through returns of capital, buybacks	249,671	249,671	63	63
18.5 ⁺Convertible debt securities (description and conversion factor)	Nil	Nil		
18.6 Changes during current period (a) Increases through issues (b) Decreases through securities matured, converted	Nil	Nil		
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 Debentures (description)	Nil	Nil		
18.12 Changes during current period (a) Increases through issues (b) Decreases through securities matured, converted				
18.13 Unsecured notes (description)	Nil	Nil		
18.14 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 financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS34 "Interim Financial Reporting". The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2006 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.

Nil

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.

\$9.019m. 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*).

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2006 annual financial report for the financial year ended 30 June 2006, other than as detailed below.

Adoption of new and revised accounting standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2006. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group's accounting policies in the following areas that have affected the amounts reported for the current or prior years:

- Investments as "at fair value through profit or loss" (AASB 2005-04 "Amendments to Australian Accounting Standards");
- Financial guarantee contracts (AASB 5005-09 "Amendments to Australian Accounting Standards");
- Business Combinations (AASB 2005-6 "Amendments to Australian Accounting Standards").

The impact of the adoption of these new and revised accounting standards on the Group's accounting policies is detailed below:

Limitation of ability to designate financial assets and financial liabilities through profit or loss

The AASB released AASB 2005-4 'Amendments to Australian Accounting Standards' in June 2005. AASB 2005-4 amends AASB 139 'Financial Instruments: Recognition and Measurement' by limiting the ability of entities to designate any financial asset or financial liability as "at fair value through profit or loss"

Financial assets that can no longer be designated as "at fair value through profit or loss" shall be classified into either loans and receivables, held to maturity investments or available for sale investments, as appropriate, and measure at amortised cost or at fair value with changes in fair value recognized in equity, depending on classification. Financial liabilities that can no longer be designated as "at fair value through profit or loss" shall be classified as 'other' financial liabilities and measured at amortised cost. Although ordinarily the designation of a financial asset as available for sale is made on initial recognition, the transitional provisions of the Standard allow such designation to be made on the date of de-designation (1 July 2005).

The changes introduced by AASB 2005-4 are applied by the Group with effect from the beginning of the comparative reporting period presented in this financial report (i.e with effect from 1 July 2005). Financial assets and financial liabilities designated by the Group as "at fair value through profit or loss" continue to meet the revised designation rules and, accordingly, the application of these amendments has no impact on the financial statements.

Accounting for financial guarantee contracts

The AASB released AASB 2005-9 'Amendments to Australian Accounting Standards' in September 2005. AASB 2005-9 amends AASB 139 'Financial Instruments: Recognition and Measurement' to require certain financial guarantee contracts to be recognized in accordance with AASB 139 and measured initially at their fair values, and subsequently measured at the higher of the amount recognized as a provision and the amount initially recognized less cumulative amortization in accordance with the Group's revenue recognition policies.

The changes introduced by AASB 2005-9 are applied by the Group with effect from the beginning of the comparative reporting period presented in this financial report (i.e with effect from 1 July 2005). The Group is a party to a financial guarantee contract where an entity in the Group has provided a financial guarantee to a third party in respect of an entity external to the Folkestone Group. The application of these amendments results in such financial guarantee contracts now being recognized and measured at the higher of the best estimate of the expenditure required to settle the obligation and the amount initially recognized less, where appropriate, cumulative amortization.

There is no impact to the consolidated financial statements at the beginning of the comparative period as a result of this change in accounting policy. Profit for the half-year ended 31 December 2005 is the same under the new policy and financial liabilities as at 31 December 2005 were the same as was reported in the 2005 half-year financial report. There is no impact on the profits for the half-year ended 31 December 2006 under the new accounting policy as a result of movements in the fair value of the financial liabilities recognized.

Accounting for business combinations involving entities or businesses under common control

The AASB released AASB 2005-6 'Amendments to Australian Accounting Standards' in June 2006. AASB 2005-6 amends AASB 3 'Business Combinations' by removing business combinations involving entities or business under common control from its scope. The effect of the scope amendment is that there is no longer any explicit guidance under Accounting Standards as to how to account for these types of business combinations.

Due to the requirements of AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' permitting the non-restatement of pre-transition business combinations, the amendment has no effect on the financial statements of the company or Group for the current or prior reporting periods. However, future transactions

involving entities under common control will be affected because the entity will effectively have an accounting policy choice as to how to account for these transactions.

A number of accounting policy choices are available to the Consolidated Entity for the accounting of business combinations involving entities or businesses under common control. The Consolidated Entity has not yet experienced such business combinations and consequently has not yet decided on the accounting policy that will be adopted.

- 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 Limited
ABN 21 004 715 226

Half Year Report
31 December 2006

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Folkestone Limited
Directors' Report
For the half-year ended 31 December 2006

The directors present their report together with the financial report of Folkestone Limited ('the Company') and of the consolidated entity, being the Company and its controlled entities, for the half-year ended 31 December 2006 and the auditor's report thereon.

Directors

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

- ATL Maitland (*BCom, FAICD, FAIM, SF Fin*) (Chairman)
- BR Kean AM (*Dip ChemEng, FIE Aust, FTS, FAICD*)
- DCJ Scarf (*BEcon*)
- MW Parkinson CBE (*MA, MBA (Stanford), FAICD*)

Mr Allan Davison (*BBldg, AAPI*) was the Managing Director and he retired from this position on 3 July 2006.

Mr Oscar Guglielmi was appointed as a Chief Executive Officer and Managing Director of the company on 28 August 2006 and continues in office to the date of this report.

Financial Results

The net profit after tax for the six months ending 31 December 2006 is \$495 thousand compared to \$547 thousand in the corresponding period in 2005. This represents a basic earnings per share of 1.64 cents, compared with 1.84 cents in the corresponding period in 2005.

Dividends

The Board has resolved to maintain the interim dividend at 2.5 cents per ordinary share, fully franked. 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.

Cash Position

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

Asset Backing

Net tangible asset backing was steady at 64 cents per share.

REVIEW OF OPERATIONS

Development division

Projects under development

As foreshadowed at the AGM, the development division's performance for the half year was impacted by a \$970 thousand pre-tax loss relating to the sale of the remaining two strata levels at our 530 Lonsdale Street project.

The remaining four terrace houses at 'Jolimont Square' were sold during the half-year with two settled prior to Christmas and the other two 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 which commenced in 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.

Folkestone Limited
Directors' Report
For the half-year ended 31 December 2006

Construction of Stage 2, comprising three units 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, is underway and construction is expected to commence later in 2007.

New Acquisitions

The company has acquired three new developments sites in the current half-year

- 720-808 Kororoit Creek Rd, Altona
- 135, 225 & 285 Donnybrook Rd, Mickleham
- 108 Ocean Beach Rd, Sorrento

Further details on these acquisitions can be found in the shareholder update.

In respect of the Altona project, whilst not recognised in the financial statements, the directors believe its value has increased due to the strong demand for industrial land and 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.

Construction division

Access Constructions Pty Ltd had 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 justifies a market valuation of the business substantially in excess of the current carrying value of the investment in the parent company's financial statements.

Company strategy

At the company's 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 as a partner in the development. The strategy will enable the company to generate recurring fee income through the project planning, approval, pre-development and development phases of the project in addition to its share of the development profits of the project. 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.

Further details on the company's strategy can be found in the shareholder update.

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 provide a platform for sustainable earnings growth.

ROUNDING OF AMOUNTS TO NEAREST THOUSAND DOLLARS

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

AUDITOR'S INDEPENDENCE DECLARATION

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

Folkestone Limited
Directors' Report
For the half-year ended 31 December 2006

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

On behalf of the Directors



ATL Maitland
Chairman

Melbourne

21 February 2007



O Guglielmi
Managing Director &
Chief Executive Officer

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

21 February 2007

Dear Board Members

Independence Declaration to the directors of Folkestone Limited

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

As lead audit partner for the review of the financial statements of Folkestone Limited for the half-year ended 31 December 2006, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



R D D Collie
Partner
Chartered Accountants

Folkestone Limited
Condensed consolidated income statement
For the half-year ended 31 December 2006

	Consolidated	
	Half-year ended 31 December 2006	Half-year ended 31 December 2005
	\$000	\$000
Revenue	47,417	32,949
Changes in inventories of finished goods and work in progress	-	43
Development expenses	(16,020)	(12,531)
Construction expenses	(27,347)	(17,067)
Impairment of investment in associate	(160)	-
Employee benefits expense	(2,536)	(2,285)
Depreciation and amortisation expense	(38)	(51)
Rental expense on operating leases	(130)	(132)
Other expenses	(355)	(420)
Finance costs	(5)	(1)
Share of net profits of associates and joint ventures	1	288
Profit before income tax	<u>827</u>	793
Income tax expense	(299)	(246)
Profit from continuing operations	<u>528</u>	547
Profit for the half-year	<u>528</u>	547
Attributable to:		
Equity holders of the parent	495	547
Minority Interest	33	-
	<u>528</u>	547
Overall Operations		
Basic earnings per share (cents per share)	1.64	1.84
Diluted earnings per share (cents per share)	1.64	1.84

The above condensed consolidated income statement is to be read in conjunction with the notes of the financial statements set out on pages 9 to 13.

Folkestone Limited
Condensed consolidated balance sheet
as at 31 December 2006

	Consolidated	
	31 December 2006	30 June 2006
	\$000	\$000
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	13,118	6,518
Trade and other receivables	8,779	9,866
Inventories	20,356	11,928
Current tax asset	194	-
Other current assets	50	798
TOTAL CURRENT ASSETS	42,497	29,110
NON-CURRENT ASSETS		
Investment accounted for using the equity method	11	-
Property, plant and equipment	250	220
Deferred tax assets	549	210
Goodwill	2,120	2,120
TOTAL NON-CURRENT ASSETS	2,930	2,550
TOTAL ASSETS	45,427	31,660
CURRENT LIABILITIES		
Trade and other payables	23,646	4,702
Borrowings	15	4,308
Current tax liabilities	24	174
Provisions	134	497
TOTAL CURRENT LIABILITIES	23,819	9,681
NON-CURRENT LIABILITIES		
Borrowings	16	23
Provisions	161	159
TOTAL NON-CURRENT LIABILITIES	177	182
TOTAL LIABILITIES	23,996	9,863
NET ASSETS	21,431	21,797
EQUITY		
Issued capital	18,392	18,235
Retained earnings	3,006	3,562
Parent entity interest	21,398	21,797
Minority interest	33	-
TOTAL EQUITY	21,431	21,797

The above condensed consolidated balance sheet is to be read in conjunction with the notes of the financial statements set out on pages 9 to 13.

Folkestone Limited
Condensed consolidated statement of changes in equity
For the half-year ended 31 December 2006

	Issued Capital	Retained Earnings	Attributable to holders of the parent	Minority Interest	Total
CONSOLIDATED	\$000	\$000	\$000	\$000	\$000
Balance at 1 July 2005	18,023	3,516	21,539	-	21,539
Profit for the period	-	547	547	-	547
Total recognised income and expense	-	547	547	-	547
Issue of share capital	125	-	125	-	125
Dividends paid	-	(1,039)	(1,039)	-	(1,039)
Balance at 31 December 2005	18,148	3,024	21,172	-	21,172
Profit for the period	-	1,284	1,284	-	1,284
Total recognised income and expense	-	1,284	1,284	-	1,284
Issue of share capital	87	-	87	-	87
Dividends paid	-	(746)	(746)	-	(746)
Balance at 30 June 2006	18,235	3,562	21,797	-	21,797
Profit for the period	-	495	495	33	528
Total recognised income and expense	-	495	495	33	528
Issue of share capital	157	-	157	-	157
Dividends paid	-	(1,051)	(1,051)	-	(1,051)
Balance at 31 December 2006	18,392	3,006	21,398	33	21,431

The above condensed consolidated statement of changes in equity is to be read in conjunction with the notes of the financial statements set out on pages 9 to 13.

Folkestone Limited
Condensed consolidated cash flow statement
For the half-year ended 31 December 2006

	Consolidated	
	Half-year ended 31 December 2006 \$000	Half-year ended 31 December 2005 \$000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	53,362	34,375
Payments to suppliers and employees	(38,591)	(36,246)
Trust distributions from associate entities	170	200
Interest received	250	114
Finance costs	(5)	(4)
Other taxes paid	(1,387)	39
Income tax paid	(980)	(483)
Net cash provided by (used in) operating activities	<u>12,819</u>	<u>(2,005)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	-	31
Purchase of property, plant and equipment	(70)	(57)
Loans from (provided to) associated entities	(785)	125
Payment for investment in associate	(170)	-
Net cash provided by (used in) investing activities	<u>(1,025)</u>	<u>99</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	-	5,795
Repayment of borrowings	(4,300)	(3,935)
Dividends paid to members of the parent entity	(1,051)	(1,039)
Proceeds from issue of shares	157	125
Net cash provided by (used in) financing activities	<u>(5,194)</u>	<u>946</u>
Net increase (decrease) in cash held	<u>6,600</u>	<u>(960)</u>
Cash and cash equivalents at beginning of financial year	<u>6,518</u>	<u>5,317</u>
Cash and cash equivalents at end of financial year	<u>13,118</u>	<u>4,357</u>

The above condensed consolidated cash flow statement is to be read in conjunction with the notes of the financial statements set out on pages 9 to 13.

Folkestone Limited
Notes to the condensed consolidated financial statements
For the half-year ended 31 December 2006

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Basis of Preparation

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

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

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2006 annual financial report for the financial year ended 30 June 2006, other than as detailed below.

Adoption of new and revised accounting standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2006. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group's accounting policies in the following areas that have affected the amounts reported for the current or prior years:

- Investments as "at fair value through profit or loss" (AASB 2005-04 "Amendments to Australian Accounting Standards");
- Financial guarantee contracts (AASB 2005-09 "Amendments to Australian Accounting Standards");
- Business combinations (AASB 2005-6 "Amendments to Australian Accounting Standards").

The impact of the adoption of these new and revised accounting standards on the Group's accounting policies is detailed below:

Limitation of ability to designate financial assets and financial liabilities through profit or loss

The AASB released AASB 2005-4 'Amendments to Australian Accounting Standards' in June 2005. AASB 2005-4 amends AASB 139 'Financial Instruments: Recognition and Measurement' by limiting the ability of entities to designate any financial asset or financial liability as 'at fair value through profit or loss'

Financial assets that can no longer be designated as 'at fair value through profit or loss' shall be classified into either loans and receivables, held to maturity investments or available for sale investments, as appropriate, and measured at amortised cost or at fair value with changes in fair value recognized in equity, depending on classification. Financial liabilities that can no longer be designated as "at fair value through profit or loss" shall be classified as 'other' financial liabilities and measured at amortised cost. Although ordinarily the designation of a financial asset as available for sale is made on initial recognition, the transitional provisions of the Standard allow such designation to be made on the date of de-designation (1 July 2005).

Folkestone Limited
Notes to the condensed consolidated financial statements
For the half-year ended 31 December 2006

The changes introduced by AASB 2005-4 are applied by the Group with effect from the beginning of the comparative reporting period presented in this financial report (i.e with effect from 1 July 2005). Financial assets and financial liabilities designated by the Group as "at fair value through profit or loss" continue to meet the revised designation rules and, accordingly, the application of these amendments has no impact on the financial statements.

Accounting for financial guarantee contracts

The AASB released AASB 2005-9 'Amendments to Australian Accounting Standards' in September 2005. AASB 2005-9 amends AASB 139 'Financial Instruments: Recognition and Measurement' to require certain financial guarantee contracts to be recognized in accordance with AASB 139 and measured initially at their fair values, and subsequently measured at the higher of the amount recognized as a provision and the amount initially recognized less cumulative amortization in accordance with the Group's revenue recognition policies.

The changes introduced by AASB 2005-9 are applied by the Group with effect from the beginning of the comparative reporting period presented in this financial report (i.e with effect from 1 July 2005). The Group is a party to a financial guarantee contract where an entity in the Group has provided a financial guarantee to a third party in respect of an entity external to the Folkestone Group. The application of these amendments results in such financial guarantee contracts now being recognized and measured at the higher of the best estimate of the expenditure required to settle the obligation and the amount initially recognized less, where appropriate, cumulative amortization.

There is no impact to the consolidated financial statements at the beginning of the comparative period as a result of this change in accounting policy. Profit for the half-year ended 31 December 2005 is the same under the new policy and financial liabilities as at 31 December 2005 were the same as was reported in the 2005 half-year financial report. There is no impact on the profits for the half-year ended 31 December 2006 under the new accounting policy as a result of movements in the fair value of the financial liabilities recognized.

Accounting for business combinations involving entities or businesses under common control

The AASB released AASB 2005-6 'Amendments to Australian Accounting Standards' in June 2006. AASB 2005-6 amends AASB 3 'Business Combinations' by removing business combinations involving entities or business under common control from its scope. The effect of the scope amendment is that there is no longer any explicit guidance under Accounting Standards as to how to account for these types of business combinations.

Due to the requirements of AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' permitting the non-restatement of pre-transition business combinations, the amendment has no effect on the financial statements of the company or Group for the current or prior reporting periods. However, future transactions involving entities under common control will be affected because the entity will effectively have an accounting policy choice as to how to account for these transactions.

A number of accounting policy choices are available to the Consolidated Entity for the accounting of business combinations involving entities or businesses under common control. The Consolidated Entity has not yet experienced such business combinations and consequently has not yet decided on the accounting policy that will be adopted.

Folkestone Limited
Notes to the condensed consolidated financial statements
For the half-year ended 31 December 2006

NOTE 2: SEGMENT REPORTING

Primary Reporting – Business Segments

<i>In thousands of dollars</i>	Property Development		Construction		Property Investments		Eliminations/ Unallocated		Consolidated	
	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005
Total segment revenue	15,891	12,291	31,277	20,869	-	-	250	120	47,418	33,280
Intersegment Sales										
Total revenue	15,891	12,291	31,277	20,869	-	-	250	120	47,418	33,280
Share of net profit of associates included in segment revenues above									-	-
Revenue									47,418	33,280
Segment Result	(302)	(235)	1,960	1,908	-	-	-	-	1,658	1,673
Unallocated expenses									(831)	(880)
Profit before income tax									827	793

NOTE 3: DIVIDENDS

Recognised amounts	Half-Year ended 31 December	
	2006 \$000	2005 \$000
Dividends paid		
Final dividend for the year ended 30 June 2006 of 3.5 cents (2005: 3.5) cents per share paid on 23 October 2006 (2005: 28 October 2005)	1,051	1,038
	1,051	1,038

Dividends not recognised at the end of the half-year

Since the end of the half-year, the directors have recommended a payment of an interim dividend amounting to \$757 thousand representing a fully franked dividend of 2.5 cents per fully paid ordinary share (2005: \$747 thousand (2.5 cents)). The dividend has not been provided for in the half-year interim financial report.

NOTE 4: ISSUED CAPITAL

	Half-year ended 31 December 2006		Half-year ended 31 December 2005	
	Shares	\$000	Shares	\$000
Opening balance of equity securities	30,040,647	18,235	29,668,337	18,023
Shares issued during the year				
- Dividend reinvestment plan	249,671	157	207,868	125
At reporting date	30,290,318	18,392	29,876,205	18,148

Folkestone Limited
Notes to the condensed consolidated financial statements
For the half-year ended 31 December 2006

NOTE: 5: CONTINGENT LIABILITIES

- a) Folkestone Limited has guaranteed the performance of certain controlled entities in relation to development agreements. These include:
- Folkestone (Bayside) Pty Ltd - Folkestone Limited owns 20% of the share capital of Folkestone (Bayside) Pty Ltd and has provided a guarantee in favour of Capital Finance Australia Limited in relation to a loan facility for \$43.250m (drawn \$4.250m) for the acquisition of Donnybrook Rd, Mickleham. The guarantee provided is several from the other shareholder of Folkestone (Bayside) Pty Ltd and is limited to 20% of the loan facility only.
 - Access Constructions Pty Ltd - Folkestone Limited has provided a parent company guarantee in favour of ING Industrial Custodian Pty Ltd in relation to the due and punctual performance by Access Constructions Pty Ltd of its obligations under the design and construct contracts with ING Industrial Custodian Pty Ltd for the following projects:
 - Park West Industrial Estate Café (construction completed, defects liability period expiring on in June 2007)
 - Abaris Printing, Stage 1 (construction completed, defects liability period expiring in July 2007)
 - Parkwest: SignorIno Tiles Warehouse and Building B (construction in progress)
 - Bertie Bridge Pty Ltd – Folkestone Limited owns 75% of the share capital in Bertie Bridge Pty Ltd. Folkestone Limited has provided a several guarantee in favour of Trust Company of Australia Limited in relation to the due and punctual performance by Bertie Bridge Pty Ltd of its obligations under the Development Agreement for Toyota Business Park (Block B).
 - Bertie Bridge Pty Ltd - Folkestone Limited owns 75% of the share capital in Bertie Bridge Pty Ltd. Folkestone Limited has provided a several guarantee in favour of Ericsson Australia Pty in relation to the due and punctual performance by Bertie Bridge Pty Ltd of its obligations under the Agreement for Lease of 6/153 Bertie Street, Port Melbourne.
 - Kororoit Creek Road Pty Ltd – Folkestone Limited owns 50% of the share capital in Kororoit Creek Road Pty Ltd. Folkestone Limited has provided a guarantee in favour of Dow Chemical (Australia) Limited in relation to the due and punctual performance by Kororoit Creek Road Pty Ltd of its obligations under the Contract of Sale for 720 Kororoit Creek Road, Altona, Victoria.

Guarantees previously provided in relation to loan facilities provided by St George Bank to Folkestone EMT Pty Ltd and Folkestone Developments Pty Ltd are no longer contingent liabilities as the loan facilities have been fully repaid by the applicable controlled entities in the current period.

- b) Folkestone Limited has obtained from the ANZ Banking Group Ltd bank guarantees totalling \$25 thousand. These guarantees have been cash securitised.
- c) Access Constructions Pty Ltd has a \$4m surety bond facility with QBE Insurance. As at balance date, QBE had issued \$1.6m in surety bonds to clients of Access Constructions. The surety bond facility expires on 30 November 2007 and is able to be reviewed for a further period of 12 months annually.

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

Folkestone Limited
Notes to the condensed consolidated financial statements
For the half-year ended 31 December 2006

NOTE: 5: CONTINGENT LIABILITIES CONTINUED

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

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

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.

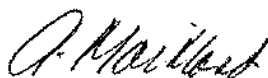
Folkestone Limited
Directors' Declaration
For the half-year ended 31 December 2006

Directors' Declaration

The directors of Folkestone Limited ('the company') declare that:

- (a) the financial statements, comprising the Condensed consolidated income statement, condensed consolidated balance sheet, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement and accompanying notes are in accordance with the Corporations Act 2001, and:
 - (i) give a true and fair view of the financial position of the economic entity as at 31 December 2006 and of their performance for the half-year ended on that date; and
 - (ii) comply with Australian Accounting Standards and the Corporations Regulations 2001; and
- (b) the Chief Executive Officer and Chief Financial Officer have declared that:
 - (i) the financial records of the company for the half-year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - (ii) the financial statements and notes for the half-year comply with the Accounting Standards; and
 - (iii) the financial statements and notes for the half-year give a true and fair view.
- (c) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay their 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
Director



O Guglielmi
Director

Melbourne
21 February 2007

Independent Auditor's Review Report to the members of Folkestone Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Folkestone Limited, which comprises the condensed consolidated balance sheet as at 31 December 2006, and the condensed consolidated income statement, condensed consolidated cash flow statement, condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and the directors' declaration 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 as set out on pages 5 to 14.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Folkestone Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

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 the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Chartered Accountants



R D D COLLIE
Partner

Melbourne, 21 February 2007

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: 
(Company Secretary)

Date: 21 February 2007

Print name: SCOTT MARTIN