

Appendix 4E

Preliminary final report Period ending 30 June 2007

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')

30 June 2007

For announcement to the market

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

\$A'000

Revenues from ordinary activities	Down	4%	to	81,035
Profit (loss) from ordinary activities after tax attributable to members	Up	135%	to	4,305
Net profit (loss) for the period attributable to members (item 1.11)	Up	135%	to	4,4305
Dividends (distributions)	Amount per security		Franked amount per security	
Final dividend	4.0¢		4.0 ¢	
Previous Corresponding Period	3.5¢		3.5 ¢	
Special Dividend	1.5¢		1.5¢	
Previous Corresponding Period	n/a		n/a	
Record Date (for both Final & Special Dividends)	18 September 2007			
Brief Explanation of any figures reported above.				
NTA Backing at 30 June 2007 is 75 cents, compared with 66 cents at 30 June 2006. The NTA Backing calculation excludes the goodwill paid on acquisition of Access Constructions.				
For further information in relation to the figures reported above, please refer to the attached Audited Financial Report.				

DIVIDENDS

Date the dividend is payable

2 October 2007

+Record date to determine entitlements to the dividend (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)

18
September 2007

If it is a final dividend, has it been declared?

YES

DIVIDENDS PER SECURITY

	Amount per security	Franked amount per security at 30% tax	Amount per security of foreign source dividend
Final dividend: Current year	4.0¢	4.0¢	-
Previous year	3.5¢	3.5¢	-
Special dividend: Current year	1.5¢	1.5¢	-
Previous year	-	-	-
<i>(Half yearly and preliminary final reports)</i>			
Interim dividend: Current year	-	-	-
Previous year	-	-	-

TOTAL DIVIDEND (DISTRIBUTION) PER SECURITY (INTERIM PLUS FINAL)

	Current year	Previous year
Ordinary securities	8.0¢	6.0¢

The dividend reinvestment plan will apply to the final dividend with a 2.5% discount to apply. Closing date for election to participate in the DRP is 18 September 2007.

NTA backing

	Current period	Previous corresponding Period
Net tangible asset backing per ordinary security	75 Cents	66 Cents

PRELIMINARY FINAL REPORT

Refer to the attached Audited Financial Report.



Scott N Martin
Company Secretary
 17 August 2007

Folkestone Limited and its controlled entities
Chairman's Report
For the year ended 30 June 2007

It is pleasing to report that the repositioning of Folkestone made considerable progress during the year under review.

In the year to June 2007, Folkestone recorded an after tax profit of \$4.3 million. The directors have declared a final dividend of 4 cents per share and a special dividend of 1.5 cents per share in recognition of the very strong performance. This makes a total return of 8 cents per share compared to 6 cents per share last year.

During the year, the company successfully set about implementing the strategies outlined to shareholders at last year's annual general meeting. In particular that Folkestone seeks to identify and control parcels of land that can support multi-year development programs and to co-invest with like-minded investors in such developments.

We have recruited a new management team, led by our Managing Director, Oscar Guglielmi, who has positioned the company for long term growth, with the objective of containing the high level of profit volatility that occurs in this industry.

As it turned out, the company was able to report a profit result for 2006-07 considerably ahead of expectations. A major contributor to this result was the sale of the Altona land at the end of June 2007. A major uplift in prices due to strong demand enabled us to realize our targeted return sooner than anticipated notwithstanding the relatively short period for which we owned the property. Whilst it is the company's strategy to acquire parcels of land for multi-year development, where it is in shareholders' interests to do so, these parcels may be sold where target returns are realisable earlier than anticipated.

It is equally pleasing to report that our subsidiary, Access Constructions, had another very good year and remained a steady profit contributor to the overall results. Access Constructions continue to win new business and fulfills a valuable role in providing depth to the ranges of services offered by the group.

Folkestone has secured interests in medium term and long term projects that provide a strong future workbook. The company is targeting similar opportunities in order to establish a diversified portfolio of future development projects. The staged release of these larger scale projects should provide greater stability to the company's financial performance.

The company continues to add considerable value to its assets through its activities. The goodwill in Access Constructions is rising with increased activity and higher profits and there is an uplift in property values as we move our land through the development process and with rising demand for similar properties. However, these assets are only recognized in the accounts at book value and it is the view of the Board that our published net tangible asset backing of 75 cents per share significantly understates the real value of the company's' assets.

The outlook for the property industry in Victoria for 2007-08 remains sound, on the back of favourable economic conditions in Australia, with plenty of opportunities becoming available to the company. Current uncertainty in financial markets is being closely monitored but at this stage is considered unlikely to have a significant impact on the company's operations.

The directors join me in thanking all staff and management in lifting the performance of the company and improving the total return to shareholders.



Alister Maitland

Melbourne
17 August 2007

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Folkestone Limited
ABN 21 004 715 226

Annual report
30 June 2007

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COMPANY PARTICULARS – FOLKESTONE LIMITED

Directors

Alister TL Maitland (*Chairman*)
Oscar Guglielmi (*Managing Director*)
Bruce R Kean AM
David CJ Scarf (retired 21 June 2007)
Michael W Parkinson CBE
Kaye H Denning AM (appointed 22 June 2007)

Chief Financial Officer & Company Secretary

Scott N Martin

Registered Office

Level 24
360 Collins Street
Melbourne Victoria 3000

Principal Places of Business

Folkestone Ltd
Level 24
360 Collins Street
Melbourne Victoria 3000

Access Constructions Pty Ltd
Suite 8
14 Lionel Road
Mt Waverley Victoria 3149

Share Register

Link Market Services Ltd
333 Collins Street
Melbourne Victoria 3000

Auditor

Deloitte Touche Tohmatsu
180 Lonsdale Street
Melbourne Victoria 3000

Stock Exchange Listing

Folkestone Ltd shares are listed on the Australian Stock Exchange. The ASX code is FLK.

Notice of Annual General Meeting

The Annual General Meeting of Folkestone Limited will be held in the company's offices at Level 24, 360 Collins Street on 11 October 2007 commencing at 11.30 am. A formal notice of meeting is attached.

Website Address

www.folkestone.com.au

Folkestone Limited and its controlled entities

Chairman's Report

For the year ended 30 June 2007

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The outlook for the property industry in Victoria for 2007-08 remains sound, on the back of favourable economic conditions in Australia, with plenty of opportunities becoming available to the company. Current uncertainty in financial markets is being closely monitored but at this stage is considered unlikely to have a significant impact on the company's operations.

The directors join me in thanking all staff and management in lifting the performance of the company and improving the total return to shareholders.

Folkestone Limited and its controlled entities
Financial Highlights
For the year ended 30 June 2007

	2007	A-IFRS 2006	2005	AUST GAAP	
	\$'000	\$'000	\$'000	2004	2003
				\$'000	\$'000
Profit from ordinary activities before individually significant items	6,656	2,635	650	5,748	1,513
Income tax expense	(2,066)	(804)	(212)	(1,742)	(387)
Profit attributable to minority equity interest	(285)	-	-	-	-
Profit from ordinary activities attributable to members of the parent entity	4,305	1,831	438	4,006	1,126

STATISTICAL DATA

Ordinary shares on issue - year end ('000)	30,427	30,041	29,668	28,329	22,160
Basic earnings per ordinary share (cents)	14.2	6.1	1.5	15.0	5.1
Dividend rate on fully paid shares (cents)	6.5	6.0	6.0	6.0	5.5
Special dividend (cents)	1.5	-	-	1.5	-
Net assets attributable to members of the company (\$'000)	24,911	21,797	21,539	20,846	15,666
Net asset backing per ordinary share - book value (cents)	82	73	73	74	71
Net tangible asset backing per ordinary share - book value (cents)	75	66	66	74	71
ASX Closing Price 30 June (cents)	80	55	58	80	60

Folkestone Limited and its controlled entities

Review of Operations

For the year ended 30 June 2007

ABOUT FOLKESTONE

Folkestone Ltd is a Melbourne based developer of industrial, commercial and residential property. It listed on the Australian Stock Exchange as an independent company in 2000.

Over many years, we have added to the fabric of Melbourne with a large number of developments including 530 Collins St, Medibank Head Office at 700 Collins St, Hilton Hotel and a multi-level car park at Melbourne Airport as well as numerous warehouse, industrial, commercial and apartment projects throughout the suburbs.

Folkestone Ltd operates through two divisions; Folkestone Developments and Access Constructions. These operations create value throughout the development process, from land acquisition, through planning and approvals, financing, construction, marketing and sales. The company's objective at all times, is to deliver high quality products that meet the needs of purchasers, owner/occupiers and tenants.

FULL YEAR PROFIT RESULT AND DIVIDEND ANNOUNCEMENT

Net profit attributable to members of the parent entity for 2006-07 was \$4.3 million and compares with \$1.8 million for the previous year. Earnings per share in 2006-07 of 14.2 cents compares with 6.1 cents previously. A final dividend of 4 cents per share has been declared, together with a special dividend of 1.5 cents per share in recognition of the strong performance. This makes a total return of 8 cents per share compared with 6 cents per share last year.

The 2006-07 profit result was materially impacted by the contribution from the sale of the Altona property in June 2007.

Access Constructions' contribution for the year was \$3.261m, similar to the previous year reflecting continued high levels of activity.

DIVIDENDS PAID OR RECOMMENDED

Dividends paid or declared for payment during the year are as follows:

	\$000's
Final ordinary dividend of 3.5 cents paid on 23 October 2006	1,051
Interim ordinary dividend of 2.5 cents per share paid on 3 April 2007	758
Final ordinary dividend of 4 cents per share recommended by directors to be paid on 2 October 2007	1,217
Special dividend of 1.5 cents per share recommended by directors to be paid on 2 October 2007	456

DIVIDEND REINVESTMENT PLAN ("DRP")

The DRP continues to be well accepted by shareholders. This mechanism provides an opportunity for shareholders to reinvest in the Company at a discount to the prevailing market price. The directors have resolved that the discount to apply to the final dividend and special dividend proposed will be 2.5%.

During the year the company issued 386,645 shares through the DRP, retaining approximately \$270,000.

FINANCIAL CONDITIONS

The company has adequate cash reserves, credit facilities and future anticipated cash inflows to fund current overheads, development projects and committed expenditure on future acquisitions. Indeed, it will be well placed to take advantage of the opportunities which may present themselves as a result of any upward movement in interest rates which have been recently flagged.

The company and the consolidated entity do not currently issue any debt instruments. All debt incurred by Folkestone and its associated entities is project specific. Interest rates have remained relatively stable over the year, thus having no impact on the viability of our projects.

Information in relation to cash flows from operations can be obtained by reviewing the Cash Flow Statement on page 26 and the associated notes.

Folkestone Limited and its controlled entities

Review of Operations

For the year ended 30 June 2007

DEVELOPMENT DIVISION

At the 2006 AGM, management stated that its objective is to achieve annual growth in earnings per share and to remove earnings volatility. It also articulated strategies to achieve this objective would be to identify and control parcels of land that will support multi-year development programs and to co-invest with like-minded investors in the development.

This strategy enables Folkestone to:

- Generate recurring fee income as it manages the project through the various stages of the development process
- Produce development profits by co-investing in the development
- Leverage its purchasing power to build a diversified portfolio of projects thereby enhancing its earnings and reducing its risk profile.

During 2007, the development division was very active with the following acquisitions being secured:

- September 2006, 720-808 Kororoit Creek Rd, Altona
- December 2006, Donnybrook Rd, Mickleham
- January 2007, 108 Ocean Beach Rd, Sorrento
- June 2007, 169 Noone St, Clifton Hill

720-808 Kororoit Creek Rd, Altona

This property was acquired in a 50:50 joint venture with the AMP Capital Investors' managed Select Property Portfolio Fund No:2 ("SPP No:2"). Located in the tightly held established industrial area of Altona, the property has excellent links to Melbourne road transport infrastructure with a 4-way interchange with the Princes Freeway 2 kilometres to the west of the site. During the reporting period Folkestone, in its role as development manager for the joint venture, worked closely with local, state and federal government authorities designing an acceptable industrial land sub-division. Initial marketing of the proposed sub-division was well received especially from the owner/occupier market. Whilst it was the intention to develop the property, strong market demand enabled the joint venture to realise its targeted returns much earlier than anticipated through the sale of the whole site in June 2007.

Donnybrook Rd, Mickleham

In December 2006 Folkestone acquired 320 hectares of future industrial land at 135, 225 & 285 Donnybrook Rd, Mickleham in a 20:80 joint venture with SPP No:2. Folkestone is the development manager for the joint venture. Located within the Urban Growth Boundary, the land enjoys excellent links to Melbourne's road transport infrastructure in particular the Hume Highway and Craigieburn bypass.

With the support of local and state governments, the joint venture is in the process of re-zoning the land to ensure that adequate long term supply of industrial land to Melbourne's rapidly expanding Northern corridor is maintained.

108 Ocean Beach Rd, Sorrento

In January 2007, Folkestone acquired a 1486m² site in the main retail strip of Sorrento. The site will be developed into a 2100m² retail complex, anchored by a 1695m² Coles Supermarket and 206m² Liquorland outlet and will contain 3 other speciality retail tenancies. Access Constructions commenced construction of the development in July 2007 with completion currently targeted for the first quarter of the 2009 financial year. The property has been sold on a turn-key arrangement to a private investor.

"Parcel B" - toyotagreen Business Park, Port Melbourne

Parcel B is a joint venture between Folkestone, MAB Corporation and Goodman International and forms part of the toyotagreen Business Park. Stage 1, comprising five units, is now fully constructed and 2 units have been leased to date. Construction of Stage 2, comprising three units (Units 6-8) totalling approximately 4,500m² and a multi deck car park was completed during the reporting period by Access Constructions, with Ericsson taking occupation of Unit 6 (2985m²) in May 2007. Marketing of the remaining six units is continuing. A further five units totalling approximately 6,500m² are to be constructed in the third and final stage which is yet to commence.

169 Noone Street, Clifton Hill

In June 2007 Folkestone, in a 50:50 joint venture with SPP No:2, acquired a 1.13 hectare parcel of land at 169 Noone Street in the inner Melbourne suburb of Clifton Hill. Folkestone has been appointed development manager by the joint venture.

The land was recently rezoned from industrial to mixed use and has a planning permit for 100 residential dwellings comprising 60 townhouses and 40 apartments. The property is located approximately 3.5kms from the Melbourne CBD, and is well serviced by public transport, retail, entertainment and educational facilities and adjoins the Yarra Bend parklands near Dights Falls.

This will be a two to three year project targeted to meet the strong demand for well located inner-suburban residential product. Initial sales are targeted for the June 2008 quarter.

Folkestone Limited and its controlled entities
Review of Operations
For the year ended 30 June 2007

DEVELOPMENT DIVISION (CONTINUED)

Other Projects

As stated in the half year announcement, the current result was impacted by a \$0.97 million pre-tax loss relating to the completion of the 530 Lonsdale Street Melbourne project in December 2006. The residential project at "Jolimont Square" was also completed during the year with only one terrace house left to settle and defect rectification at the time of writing this report.

CONSTRUCTION DIVISION

Access Constructions is one of Victoria's leading builders of industrial and low-rise commercial property. As a design and construction specialist, the company works closely with its clients to deliver tailor made solutions. In recent years, Access has won multiple awards recognising the quality of its work.

Since joining the Folkestone group in 2005, annual turnover has grown from under \$20 million to approximately \$50 million. In 2006-07, which was a record year, 13 projects were completed and another 9 were commenced. As at 30 June 2007, the forward order book stood at \$41 million. Repeat business with established clients has been a feature of Access' workbook for many years, and a key driver of the strong growth over the past two years. In 2006-7, work was undertaken for long term clients including ING and Patterson Cheney.

Folkestone Limited and its controlled entities
Directors' Report
For the year ended 30 June 2007

The directors present their report together with the financial report of Folkestone Limited ('the Company') and of the consolidated entity, being the Company and its controlled entities, for the financial year ended 30 June 2007 and the auditor's report thereon.

DIRECTORS

The following persons were directors of Folkestone Limited during the whole of the 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*)
- MW Parkinson CBE (*MA, MBA, FAICD*)

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

Mr David Scarf, BEcon, retired from the Board of Directors on 21 June 2007.

Ms Kaye Dening AM, BEc was appointed as a Director of the company on 22 June 2007 and continues in office to the date of this report.

COMPANY SECRETARY

The following person held the position of Company Secretary at the end of the financial year:

Scott Martin, *BComm, CA*, was appointed to Folkestone Ltd in December 2005, as Company Secretary and Chief Financial Officer for all the group's activities.

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the financial year were:

- a) property development (including project management); and
- b) design and construction of industrial and commercial premises.

There were no significant changes in the nature of the activities of the consolidated entity during the year.

DIVIDENDS

Dividends paid to members during the year were as follows:

	2007	2006
	\$'000	\$'000
Final ordinary dividend for the year ended 30 June 2006 of 3.5 cents (2005 – 3.5 cents) per fully paid share paid on 23 October 2006	1,051	1,038
Interim ordinary dividend for the year ended 30 June 2007 of 2.5 cents (2006 – 2.5 cents) per fully paid share paid on 3 April 2007	758	747
Total dividends paid in the year	1,809	1,785

In addition to the above dividends, the directors declared on 17 August 2007 the payment of a final ordinary dividend of \$1,217,000 (4 cents per fully paid share) fully franked and a special dividend of \$456,000 (1.5 cents per fully paid share) fully franked. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 30 June 2007 and will be recognised in subsequent financial reports.

Dividends declared as paid during the year were fully franked at the rate of 30 per cent.

Folkestone Limited and its controlled entities
Directors' Report
For the year ended 30 June 2007

REVIEW OF OPERATIONS

A review of the Folkestone Group's operations and activities is contained on pages 2 to 4.

EARNINGS PER SHARE

	Note	2007 Cents	2006 Cents
Basic Earnings per share	8	14.2	6.1
Diluted Earnings per share	8	13.5	6.1

AFTER BALANCE DATE EVENTS

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS:

Between the end of the financial year and the date of this report there has not been any item, transaction or event of a material and unusual nature that, in the opinion of the directors of the Company, is likely to significantly affect the operations, the results of those operations, or state of affairs of the consolidated entity, in future financial years which has not been previously disclosed.

Further information to those matters already disclosed on likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years has not been included in this report where disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

ENVIRONMENTAL REGULATION

The consolidated entity complies with all relevant State and Commonwealth legislation and regulations regarding environmental matters. Regular board reporting on a project by project basis occurs in relation to development activities. Both Folkestone Ltd and Access Constructions Pty Ltd complies with all statutory obligations relevant to their activities. Systems and processes are in place to identify, resolve and monitor any issues that may arise.

OCCUPATION HEALTH AND SAFETY REGULATIONS

The consolidated entity complies with all relevant legislation and regulations in respect of occupational health and safety matters and regularly reports to the relevant Board. Systems and processes are in place to identify, resolve and monitor OH&S issues that may arise including extensive staff training.

Folkestone Limited and its controlled entities
Directors' Report
For the year ended 30 June 2007

DIRECTOR PROFILES

Alister TL Maitland (66)

BCom, FAICD, FAIM, SF Fin

Chairman

Alister was appointed a Non-Executive Director of Folkestone in 1998 and has held the position of Chairman since January 1999. He is also Chairman of the Remuneration Committee and a member of the Risk Management and Audit Committees. He is a former Executive Director of the ANZ Banking Group Ltd. His current positions include Chairman of Eastern Health Network, Chairman of Sterling Biofuels Ltd and Non-Executive Director of Lihir Gold Ltd.

Oscar Guglielmi (47)

CPA

Managing Director & Chief Executive Officer

Oscar joined Folkestone in August 2006. He has extensive experience in the property industry, having held senior managerial positions with substantial property organisations whose operations have involved property development and investment across Australia.

Bruce R Kean (74)

AM, FIE Aust, FTS, FAICD

Non Executive Director

Bruce was appointed a Non-Executive Director in March 2000 just prior to Folkestone's ASX listing and is the Chairman of the Risk Management and Audit Committees and also a member of the Remuneration Committee. Bruce is a former Chief Executive and Director of Boral Ltd and is currently Chairman of the Mental Health Research Institute and a Director of Neuroscience Victoria.

Michael W Parkinson (64)

CBE, MA, MBA (Stanford), FAICD

Non Executive Director

Michael was appointed as a Non-Executive Director in December 2005 and is a member of the Risk Management, Audit and Remuneration Committees. Michael is a former non-executive director of IOOF Holdings Ltd and its predecessor, IOOF Ltd, from 1996 to 2005. For the past 20 years, Michael has operated his own corporate advisory business specialising in investment opportunities.

Kaye H Dening (62)

AM, BEc, AAPI (Val), AAIB, JP

Non Executive Director

Kaye was appointed as a Non-Executive Director on 22 June 2007 and is a member of the Risk Management, Audit and Remuneration Committees. Kaye has a long history of involvement in the construction and property development industries as CEO of Dening Group and has worked with Stockland Limited, ComLand Limited and NSW Government Landcom.

David CJ Scarf (58)

BEcon

Non Executive Director

David retired as a Non-Executive Director on 21 June 2007, having been a board member since 1991. David was a member of the Risk Management, Audit and Remuneration Committees.

The Board has determined that all Non-Executive Directors are independent directors for the purposes of ASX Best Practice Recommendations.

REMUNERATION REPORT

This report details the nature and amount of remuneration for each director of Folkestone Ltd and for key management personnel receiving the highest remuneration. Remuneration of directors and key management personnel is referred to as compensation as defined in AASB 124 'Related Party Disclosures'.

Folkestone Limited and its controlled entities
Directors' Report
For the year ended 30 June 2007

REMUNERATION REPORT (CONTINUED)

Remuneration Policy

The objective of the company's executive reward framework is to ensure that reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good governance reward practice:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation;
- transparency; and
- capital management.

The company has structured an executive remuneration framework that is market competitive and reflects the reward strategy of the organisation, having regard to the size of the Group.

Alignment to shareholders' interests:

- has profit as a core component of plan design;
- focuses on sustained growth and delivering consistent return on assets; and
- is focused on attracting and retaining high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience;
- reflects competitive reward for contribution to shareholder growth;
- provides a clear structure for earning rewards; and
- provides recognition for contribution.

The managing director and executives receive a superannuation guarantee contribution as required by legislation and do not receive any other retirement benefits.

All remuneration paid to directors and executives is valued at the cost to the company and expensed.

Non Executive Remuneration

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The remuneration committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting (currently \$400,000). To align directors' interests with shareholder interest, the directors are encouraged to hold shares in the company. Details of directors' interests in shares and rights over shares of the company as at the date of this report are contained in Note 5 to the accounts on pages 36 to 39.

The Chairman receives carparking and use of an office, with the company meeting the cost of the fringe benefits tax.

Retirement Allowances for Directors

In January 1998 the Board resolved to remove retirement allowances for any new non-executive director appointments after that date. Mr David Scarf was entitled to a retirement allowance, having been appointed in 1991. Upon his retirement from the Board of Directors on 21 June 2007 an amount of \$52,800 was paid to Mr Scarf which had previously been provided for in the Company's accounts.

Performance Based Remuneration

The executive pay and reward framework has two components:

- base pay, benefits and superannuation;
- performance incentives;

The combination of these comprises the executive's total remuneration. No remuneration is received by any executive where they act on behalf of the company in relation to joint venture, subsidiary or associate entity activities.

Folkestone Limited and its controlled entities
Directors' Report
For the year ended 30 June 2007

REMUNERATION REPORT (CONTINUED)

Executive Base Pay

Structured as a total employment cost package that may be delivered as a mix of cash and benefits at the executives' discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and benefits. External remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. Base pay for both specified executives and other executives is reviewed annually to ensure that total remuneration is competitive with the market.

It is the consolidated entity's policy that contracts of employment for senior executives other than those disclosed in this report be unlimited in term but capable of termination on three months notice and that the consolidated entity retains the right to terminate the contract immediately, by making payment equal to three months pay in lieu of notice.

Benefits

Executives receive carparking, motor vehicle expenses and professional membership fees. The Company meets the cost of the fringe benefits tax applicable to these benefits.

Superannuation

The company does not operate its own superannuation fund and contributes to complying superannuation funds as directed by the executives in compliance with relevant legislation.

Service Agreement and Contract Details for CEO of Folkestone Ltd

The service contract for Mr Oscar Guglielmi is for a term of 5 years commencing on 28 August 2006 and allows for specified payouts which were approved at the 2006 AGM, a summary of which is provided below.

If Mr Guglielmi's employment is terminated without cause, he will receive the following payments:

- In the period of employment to 30 June 2008, an amount of \$500,000, plus any unvested Performance Rights to which Mr Guglielmi is entitled will vest immediately.
- In the remaining period of employment by providing compensation equal to 25% of Mr Guglielmi's total remuneration package, plus any unvested Performance Rights to which Mr Guglielmi is entitled will vest immediately.

If Mr Guglielmi's employment is terminated as a result of him being incapacitated by illness or injury of any kind which prevents him from performing his duties for a period of 3 consecutive months or any periods aggregating 3 months in any period of 12 months during the period of the employment, he is entitled to one year of his total remuneration package plus any unvested performance rights to which Mr Guglielmi is entitled will vest immediately.

Employment contracts executives of Access Constructions

The management team of Access Constructions (including the Managing Director Mr Tony Cariss) have their employment conditions formalised in contracts of employment. These original contracts were initially to 31 December 2006 and stipulated a three month resignation period. The contracts have been rolled forward for a further term of 3 years on the same terms and conditions. The Company may terminate an employment contract without cause by paying the outstanding amount under the contract. In the instance of serious misconduct the Company may terminate employment at any time. No termination payments are due on resignation or dismissal for serious misconduct.

Executive Bonus Scheme - Folkestone Developments

The Executive Bonus Scheme is offered to senior executives as determined by the Board from time to time.

The scheme rewards a senior executive's performance against targets set by the Board. Where targets are satisfied, success is rewarded through the payment of a cash bonus or the grant of specified Performance Rights determined by the Board (or a combination of both).

The targets are determined by the Board and are set on the basis that the senior executive will have a combination of short and long term incentives.

Short Term Incentives

Short term incentives ('STI') are generally paid in cash and measured against the achievement of performance generally described in the annual budget of the company, subsidiary of the company or relevant section of the company or subsidiary of the company (as applicable to the senior executive's responsibilities).

Folkestone Limited and its controlled entities
Directors' Report
For the year ended 30 June 2007

REMUNERATION REPORT (CONTINUED)

Executive Bonus Scheme - Folkestone Developments continued

These targets may include goals set to achieving defined:

- after tax profits;
- returns on shareholder funds;
- pre tax contributions (from divisions of the company or a subsidiary of the company);
- profit measures of projects such as internal rate of return and margins;
- management of compliance with policies concerning OH&S, environmental and human resources.

Incentives set for the achievement of short term targets will not exceed the value of the base salary of the relevant senior executive in one year.

Long Term Incentives - Performance Rights

In October 2006 the Company revised the Executive Bonus Scheme (the "Plan") to provide additional incentives for executives to reach targets set by the Board. The Plan provides for the CEO and executives to receive grants for performance rights over ordinary shares. A performance right is a conditional right to be granted ordinary shares in the capital of the company for nil consideration and at a zero exercise price after a prescribed vesting period determined by the Board and approved by shareholders. The performance rights are exercisable subject to the satisfaction of set performance criteria. The satisfaction or otherwise of targets will generally be determined by the Board following receipt of the audited accounts of the company for the financial year to which the target related. The Board reserves the right to issue a lesser number of Performance Rights if the senior executive fails to achieve any stated target by a small margin for acceptable reasons. In the event that the Board determines that a target is satisfied, the vesting period will commence with effect from 30 June in the financial year to which the target related and the performance right vests on the 10th business day following the 2 year vesting period which commences at the end of the financial year to which the target related. The performance rights may then be exercised by the executive within 5 business days of the vesting date by notice in writing to the company. In the event that a performance right is not exercised within this period, it will lapse. It is a condition that the employee must remain a full time employee until the time that the performance right vests.

Mr Oscar Guglielmi, CEO, was granted performance rights under the Plan (approved at the Annual General Meeting on 26 October 2006), which are summarised below:

Financial Year	Issued to	Performance criteria	Entitlement	Status	Vesting Date
Ongoing	Oscar Guglielmi	<ol style="list-style-type: none"> 1. Execution and completion of a new corporate acquisition with a value between \$2,000,000 and \$10,000,000 2. Execution and completion of a new corporate acquisition with a value between \$10,000,000 and \$25,000,000 together with associated fund raising requirements 	<p>Up to 100,000 Performance Rights (as determined by the Board)</p> <p>Up to 200,000 Performance Rights (as determined by the Board)</p>	<p>Not achieved in 2007</p> <p>Not achieved in 2007</p>	<p>N/A</p> <p>N/A</p>
2006-2007	Oscar Guglielmi	<ol style="list-style-type: none"> 3. Earnings per share exceeds \$0.12 for the financial year 4. TSR ranging exceeds the 50th percentile in the ASX Real Estate Management and Development Listing (excluding Australand and Lendlease) as published in the Australian Financial Review 	<p>Up to 100,000 Performance Rights (as determined by the Board)</p> <p>Up to 100,000 Performance Rights (as determined by the Board)</p>	<p>Achieved</p> <p>Achieved</p>	<p>14 July 2009</p> <p>14 July 2009</p>

No other key management personnel were granted performance rights during the period.

The Board's policy in respect of the accounting treatment of performance rights is to engage the services of an independent expert to calculate the fair value of performance rights at the date of grant using an appropriate valuation model. The board has resolved to adopt the fair value calculation as the cost basis for issuing the rights and to shares on vesting of any rights awarded.

The fair value of performance rights is recognised as an expense on a straight line basis over the life of the right. The life of tranche 1 & 2 rights has been determined to be 5 years, which represents the term of the CEO's employment contract, as the performance criteria in respect of these tranches could occur at any time during the life of the contract. The life of tranches 3 & 4 rights is 3 years and the fair value is being expensed on a straight line basis over the 2007, 2008 and 2009 financial years.

Folkestone Limited and its controlled entities
Directors' Report
For the year ended 30 June 2007

REMUNERATION REPORT (CONTINUED)

Executive incentives – Access Constructions

Certain executives of Access Constructions are on an STI programme which is directly linked to profitability of the operation. Cash incentives (bonuses) are payable within 3 months of the end of each calendar year in accordance with their employment contracts. The STI programme was in place prior to acquisition by Folkestone and encourages employees to deliver profits on an annual basis. The original STI programme expired on 31 December 2006 and has been rolled forward on the same terms and conditions for a further term of 3 years.

All remuneration packages, including STI performance bonuses, are set at levels that are intended to attract and retain executives capable of managing the economic entity's operations.

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Folkestone Limited and its controlled entities
Directors' Report
For the year ended 30 June 2007

REMUNERATION REPORT (CONTINUED)

Details of Remuneration for the year ended 30 June 2007

Details of the nature and amount of each element of the remuneration of each director of Folkestone Limited and each of the executives of the company and the economic entity receiving the highest remuneration are set out in the following table.

Executives are those employees with authority for the strategic direction and management of the consolidated entity. Apart from Mr Oscar Guglielmi, Managing Director, the other executive of the company was Mr Scott Martin, Chief Financial Officer and Company Secretary. Mr Tony Cariss, Managing Director of Access Constructions Pty Ltd is also an executive in relation to Access Constructions Pty Ltd. Mr Simon Lowe resigned from the company on 8 December 2006.

		Short Term			Post Employment Benefits	Share Based Payment	Total \$	S300A (1)(e)(i) Proportion of remuneration performance related %
		Salary & fees \$	STI cash bonus \$(A)	Non-monetary benefits \$	Superannuation benefits \$	Performance Rights (B)		
Directors (Non-executive)								
ATL Maitland (Chairperson)	2007	55,046	-	3,716	4,954	-	63,716	-
	2006	55,046	-	4,878	4,954	-	64,878	-
BR Kean	2007	40,000	-	-	-	-	40,000	-
	2006	40,000	-	-	-	-	40,000	-
DCJ Scarf	2007	36,697	-	-	*56,103	-	92,800	-
	2006	36,697	-	-	3,303	-	40,000	-
MW Parkinson	2007	36,697	-	-	3,303	-	40,000	-
	2006	18,348	-	-	1,652	-	20,000	-
KH Dening (appointed 22 Jun 2007)	2007	-	-	-	-	-	-	-
	2006	-	-	-	-	-	-	-
Directors (Executive)								
O Guglielmi, CEO (appointed 26 Aug 2006)	2007	219,910	80,000	4,063	29,167	63,467	396,607	36%
	2006	-	-	-	-	-	-	-
AR Davison, CEO (retired 3 Jul 2006)	2007	68,858	-	-	-	-	68,858	-
	2006	165,234	-	3,990	100,000	-	269,224	-
Executives								
SN Martin, CFO & Company Secretary	2007	155,007	15,000	-	13,896	-	183,903	8%
	2006	75,653	-	-	6,539	-	82,192	-
SJR Lowe, General Manager of Development, Folkestone Limited (resigned 8 Dec 2006)	2007	106,863	10,000	7,314	5,931	-	130,108	8%
	2006	180,550	-	6,604	13,200	-	200,354	-
MJ Leonard CFO & Company Secretary (resigned 28 Oct 2005)	2007	-	-	-	-	-	-	-
	2006	102,133	-	4,259	4,800	-	111,192	-
AS Cariss, Managing Director, Access Constructions	2007	101,148	781,766	15,000	54,900	-	952,814	82%
	2006	119,072	540,218	14,423	11,709	-	685,422	79%
Total compensation: key management personnel (consolidated)	2007	820,226	886,766	30,093	168,254	63,467	1,968,806	50%
	2006	792,733	540,218	34,154	146,157	-	1,513,262	36%
Total compensation: key management personnel (company)	2007	719,078	105,000	15,093	113,354	63,467	1,015,992	18%
	2006	673,661	-	19,731	134,448	-	827,840	-

A The short-term cash incentive bonus is for performance during the 2007 financial year using the criteria set out on page 9 - 11

B The accounting standards require that Performance Rights be valued at fair value on the grant date (in the case of the CEO, this is the date of shareholder approval). The fair value of performance rights granted under the Executive Performance Rights Plan is calculated at the date of grant by an independent expert using an appropriate valuation model and allocated to each reporting period evenly over the period from grant date to vesting date. The Board has resolved to adopt the fair value calculation as the cost basis for issuing the Rights and for shares on vesting of any Rights awarded. The value disclosed above is the portion of the fair value of the performance rights allocated to this reporting date. In valuing performance rights, market conditions have been taken into account in both the current and prior periods.

* This amount includes the \$52,800 paid to Mr Scarf as a retirement benefit as disclosed on page 8

Folkestone Limited and its controlled entities
Directors' Report
For the year ended 30 June 2007

REMUNERATION REPORT (CONTINUED)

Performance Rights Issued as part of Remuneration for the year ended 30 June 2007

Details on performance rights over ordinary shares in the company that were available as compensation to the CEO during the reporting period are set out in the following table.

The performance rights when allocated are at no cost to the recipients and have a nil exercise price.

Executive	Tranche	Granted during 2007	Grant date	Vested during 2007	Fair value per right at grant date	Expiry date
Oscar Guglielmi	1	100,000	25 Oct 2006	-	\$0.53	21 Jul 2012
	2	200,000	25 Oct 2006	-	\$0.53	21 Jul 2012
	3	100,000	25 Oct 2006	-	\$0.53	21 Jul 2009
	4	100,000	25 Oct 2006	-	\$0.42	21 Jul 2009

Summary of Tranches performance criteria:

1. Execute and complete a new corporate acquisition with value between A\$2.0-A\$10.0m
2. Execute and complete a new corporate acquisition with value between A\$10.0-A\$25.0m
3. Earnings per share exceed \$0.12 for the year ended 30 June 2007
4. TSR ranking that exceeds 50th percentile in S&P/ASX 200 Real Estate Index (excluding Australand and Lendlease) as at 30 June 2007

All performance rights expire on the earlier of their expiry date or termination of the individual's employment and vest two years from the date at which performance of the KPI is achieved.

The following factors and assumptions were used in determining the fair value of rights on the grant date:

Tranche	Grant Date	Expiry Date	*Fair Value per Right	Exercise Price	Price of Shares on Grant Date	Estimated Volatility	Risk free interest rate	Dividend yield
1	25 Oct 06	21 Jul 2012	\$0.53	\$0	\$0.665	32%	5.97%	8.64%
2	25 Oct 06	21 Jul 2012	\$0.53	\$0	\$0.665	32%	5.97%	8.64%
3	25 Oct 06	21 Jul 2009	\$0.53	\$0	\$0.665	32%	5.97%	8.64%
4	25 Oct 06	21 Jul 2009	\$0.42	\$0	\$0.665	32%	5.97%	8.64%

**The fair value of performance rights was calculated by an independent expert using an appropriate valuation model in accordance with applicable accounting standards.*

Each performance right entitles the holder to acquire one ordinary share in the company. All performance rights are subject to specified performance criteria and a vesting period of two years from the financial year end date in respect of the performance. The performance rights expire on the earlier of their expiry date or termination of the employee's employment.

Analysis of Share-based Payments Granted as Compensation

Details of the vesting profile of options/performance rights granted as compensation to the CEO are detailed below:

Director	Tranche	Number	Date	Status	% vested in year	Forfeited in year	Financial years to which grant vests	Value yet to vest	
								Min (A)	Max (B)
Oscar Guglielmi	1	100,000	25 Oct 2006	Not achieved in 2007	-	-	30 Jun 2013	-	53,000
	2	200,000	25 Oct 2006	Not achieved in 2007	-	-	30 Jun 2013	-	106,000
	3	100,000	25 Oct 2006	Achieved	-	-	30 Jun 2010	53,000	53,000
	4	100,000	25 Oct 2006	Achieved	-	-	30 Jun 2010	42,000	42,000
		500,000						95,000	254,000

A The minimum value of performance rights yet to vest in respect of Tranches 1 & 2 is \$nil as the performance criteria may not be met and consequently the performance rights may not vest. The minimum value in respect of Tranches 3 & 4 is as stated above as the target has been achieved and reflects the fair value of the performance rights.

B The maximum value of Tranches 1 & 2 performance rights yet to vest is the fair value of those rights as the performance criteria may be achieved in future periods. The maximum value in respect of Tranches 3 & 4 is as stated above as the target has been achieved reflecting the fair value of the performance rights.

Folkestone Limited and its controlled entities
Directors' Report
For the year ended 30 June 2007

REMUNERATION REPORT (CONTINUED)

Analysis of movements in performance rights and options during the year

The movement during the reporting period, by value, of options and performance rights over ordinary shares in the company held by each company director and each of the named company executives and relevant group executives is detailed below:

	Opening Balance	Granted in Year (i) (ii)	Vested in Year (iii)	Forfeited in Year (iv)	Closing Balance
Directors					
Oscar Guglielmi					
Number of Rights	-	500,000	-	-	500,000
Value of Rights \$	-	254,000	-	-	254,000

- (i) The number of performance rights is the maximum number of performance rights approved for issue during the reporting period.
(ii) The value of performance rights granted in year is their fair value at grant date.
(iii) The value of performance rights exercised during the year is calculated as the fair value at grant date of those rights exercised during the period. No performance rights were available for exercise during the year.
(iv) The value of the performance rights that lapsed during the year represents the benefit foregone and is calculated at the date the performance rights lapsed using their fair value at grant date. No performance rights were forfeited during the year.

No options have been issued or are on issue.

MEETINGS OF DIRECTORS

The number of meetings of the company's Board of Directors and each Board Committee held during the year ended 30 June 2007, and the number of meetings attended by each director were as follows:

Meetings of Directors	Full Meeting of Directors	Audit Committee	Remuneration Committee
Number of meetings held	15	7	3
Number of meetings attended by:			
Alister TL Maitland (<i>Chairman</i>)	15	7	3
Bruce R Kean	15	7	3
David CJ Scarf	13	6	2
Michael W Parkinson	15	7	3
Oscar Guglielmi (<i>Managing Director</i>) \emptyset	11	*	*
Kaye H Dening	#	#	#

* not a member of the relevant committee

is a member of the committee, but meeting was held prior to her commencement

\emptyset 11 Directors meeting were held since Mr Guglielmi's appointment

INDEMNIFICATION OF OFFICERS AND AUDITORS

During the financial year ended 30 June 2007, Folkestone Limited paid a premium of \$13,320 plus GST (2006 - \$18,755) to insure each of the directors and executives of the company and related bodies corporate. The liabilities insured include legal costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the economic entity. The company has not otherwise, during or since the financial year, indemnified or agreed to indemnify the auditor of the company or of any related body corporate against a liability incurred as the auditor.

PROCEEDINGS ON BEHALF OF THE COMPANY

There are currently no proceedings on behalf of the company.

Folkestone Limited and its controlled entities
Directors' Report
For the year ended 30 June 2007

NON-AUDIT SERVICES

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the economic entity are important.

Details of the amounts paid to the auditor Deloitte Touche Tohmatsu for audit and non-audit services provided during the year are set out in Note 6 to the financial statements on page 39.

The Board of Directors, in accordance with the advice from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services provided did not compromise the external auditor independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not impact the integrity and objectivity of the auditor; and
- the nature of the services provided does not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and GoA's Professional Statement F1: Professional Independence.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 30 June 2007 has been received and is found on page 16 of the Annual Report.

ROUNDING OF AMOUNTS TO NEAREST THOUSAND DOLLARS

The company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities & Investments Commission, relating to "rounding off" of amounts in the Directors' Report. Amounts, in accordance with that Class Order, in the financial report and Directors' Report have been rounded off to the nearest thousand dollars or in certain cases to the nearest dollar.

This report is made in accordance with a resolution of the directors.



Alister Maitland
Chairman

Melbourne
17 August 2007



Oscar Guglielmi
Director

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

17 August 2007

Dear Board Members

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 audit of the financial statements of Folkestone Limited for the financial year ended 30 June 2007, 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 audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Robert D D Collie

Robert D D Collie
Partner
Chartered Accountant

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Folkestone Limited and its controlled entities Corporate Governance Statement For the year ended 30 June 2007

Folkestone Limited (the company) and the board are committed to achieving and demonstrating high standards of corporate governance. An initial review of the company's corporate governance framework was completed in July 2003 in light of the best practice recommendations released by the Australian Stock Exchange Corporate Governance Council ('Council') in March 2003 and is reviewed on an annual basis by the company. The Council has recently released a second edition of the Corporate Governance Principles and Recommendations and the company will report against these revised Principles from 1 January 2008 onwards.

The company's framework is largely consistent with the ASX's recommendations, exceeding them in some areas and, due to the size of the organisation, finding it not practical to meet some other requirements. The company and its controlled entities together are referred to as the Group in this statement.

The relationship between the board and senior management is critical to the Group's long term success. The directors are responsible to the shareholders for the performance of the company in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed and resourced to achieve its strategic objectives.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the board to the managing director and the company secretary. These delegations are reviewed on a regular basis.

The headings are those mandated by the ASX. All these practices, unless otherwise stated, were in place for the entire year. Any departures from the requirements are noted in italics.

Lay Solid Foundations for Management and Oversight:

The business of Folkestone Limited is controlled by the directors who may exercise all of the powers that the company's Constitution, the Corporations Act 2001, the Australian Stock Exchange (ASX) or the ASX Listing Rules do not require to be exercised by the company in General Meeting.

BOARD CHARTER

- Review and approve Corporate strategies, business plans and budgets.
- Ensure that risk management and compliance systems are effective.
- Setting the company's overall remuneration framework and assessing the performance of, and compensation for senior management.
- Enhancing and protecting the reputation of the company.
- Reporting to shareholders.

The board delegates the executive management of the company to the managing director with regular reporting to the board and operating within approved budgets. Some matters are delegated jointly to the chairman and the managing director to act on between board meetings.

The company secretary reports directly to the board. Between meetings the secretary is required to keep the chairman fully informed. The application of the company seal requires the signature of the secretary and a director or two directors together. The board reviews and ratifies the use of the company seal at its next meeting.

The Constitution provides for a minimum of three and a maximum of ten directors.

At the Annual General Meeting, one third (by number) of the directors, other than the managing director must retire by rotation. Retiring directors may offer themselves for re-election to the board at the Annual General Meeting. The Constitution provides that nominations can also be made by a shareholder by lodging a nomination, signed by the nominee, with the secretary not less than 30 and not more than 40 business days before the Annual General Meeting.

Structure the Board to Add Value:

Details of the directors' backgrounds and experience are set out in the Directors' Report. The board believes that all non-executive directors are independent and provide an adequate range of skills in relation to the size, geographic concentration and the business of the company.

Folkestone Limited and its controlled entities
Corporate Governance Statement
For the year ended 30 June 2007

To assist in the execution of its responsibilities the board has a Risk Management, an Audit and a Remuneration Committee. (See Items 4 and 9). ***In view of the small size and stability of the Board it is not considered necessary to have a Nomination Committee. Should a Nomination Committee be required, all non executive directors would form this committee.***

Directors have the right to obtain independent advice, at the company's expense, on any matters that they consider important. Before exercising this right they are required to discuss the issue with the chairman and seek his consent which will not be unreasonably withheld.

Promote Ethical and Responsible Decision Making:

The company requires high ethical standards and integrity in all its dealings. In particular directors and management are expected to actively and fully comply with all Laws and Regulations. Fair dealing with the company's suppliers, advisors, customers, employees and competitors is expected at all levels of the group.

Comprehensive systems are in place to ensure the protection and proper use of the company's assets. Policies are in place covering the acquisition and use of assets and the incurring of expenses as well as reporting of unethical or unfair trading.

Policies and procedures are also in place to ensure that confidentiality of information is maintained and that both actual and potential conflicts of interest are identified and managed.

Directors and management are well aware of their obligation to comply with the Law in regard to trading in the company's shares so as not to take advantage of property, information or position, or opportunities from these, for personal gain or to compete with the company.

SHARE TRADING POLICY

Directors and Senior Management are prohibited from dealing in the company's shares

- 45 days prior to the release of the company's half-year and annual results to the ASX (except where a prospectus has been issued).
- At any time whilst in possession of price sensitive information.
- All trades must be advised to the chairman before dealing and confirmed afterwards (except for dividend reinvestment plans and new issues).

Safeguard Integrity in Financial Reporting:

The company ensures the truthful and factual presentation of its financial position through systems of authorisation, reporting and review.

External Auditors are appointed by shareholders and the board takes steps to ensure that there are no actual or potential conflicts of interest in any additional work they are requested to do. In general, such additional work is confined to advice on taxation matters and in providing accounting advice in the normal course of business.

The board has established an Audit Committee which, in view of the small size of the board, comprises all the independent, non-executive directors. The Chair of the committee is required to be a different person to the Chair of the Company. The members of the Audit Committee are appropriately experienced and qualified. Details of the members of the Audit Committee and meetings held during the year are disclosed in the Directors' Report.

The managing director and chief financial officer provide a letter of representation in regard to both the half-year and annual accounts. In addition, both executives provide a statement advising compliance with ASX Principles 4 and 7, dealing with the integrity of the accounts and risk management. The representation includes a statement that the information from which the accounts are prepared is accurate, complete and truthful as well as being in accordance with all appropriate standards and regulations. They also acknowledge their role in the prevention and detection of fraud and error.

AUDIT COMMITTEE CHARTER

The responsibilities of the Audit Committee include:

- Reviewing the financial reports.
- Monitoring compliance with internal management and financial control systems.
- Reviewing the scope of activities, performance and remuneration of the external auditors.
- Ensuring that any deficiencies identified are subject to prompt remedial action by management.
- Monitoring compliance with the Corporations Act, ASX and related reporting requirements.
- Identifying and monitoring the risks inherent in the Company's business activities

Make Timely and Balanced Disclosure:

The company promotes timely and balanced disclosure of all material matters to ensure a fully informed market. The company's systems ensure that all such matters are brought to the board's attention promptly. Where there is legal restraint or where immediate disclosure would compromise the company's interests, the directors may limit the extent of the disclosure. Where appropriate the Directors seek external advice to ensure that announcements do not omit any material information.

In order to ensure that all market participants are equally and fully informed there are embargos on all media and analysts contacts in the period 30 days prior to the release of half-yearly and annual financial reports.

All information released to the ASX is posted on the Company's website shortly thereafter. Any information provided to analysts during briefings or presentations to shareholders or the Annual General Meeting is also released to the ASX and displayed on the website.

Respect the Rights of Shareholders:

The board ensures that shareholders are fully informed of major developments affecting the company's affairs and encourages full participation by shareholders at General Meetings and in the election of directors.

All announcements to the ASX are posted on the company's own website (www.folkestone.com.au) which also contains up to date information on all projects, annual reports, news and other corporate information.

The External Auditor attends the Annual General Meeting and shareholders are invited to address questions to the Audit Partner.

Recognise and Manage Risk:

The board identifies and establishes processes to manage the significant operating, financial and regulatory risks through the formal adoption of a medium term Strategic Plan (3 to 5 years), annual business plans and budgets. The principal risk of the company is project development risk for the development division which is assessed on a comprehensive basis before commencement and regularly thereafter. Deviations from the planned outcomes together with forecasts of profitability and cash flows are reviewed monthly at Board meetings. Design and construction risk is managed by ensuring that adequately trained professional persons are engaged throughout the delivery process which is monitored regularly.

Given the small size of the Group and the inability to fully separate accounting roles between employees, the Board has adopted a policy to periodically conduct an independent review of its accounting systems and processes by an accounting organisation not aligned to the Auditor. This independent review coupled with the comprehensive nature of the monthly reporting systems assists in the risk minimisation process.

The company has a Risk Management Sub-Committee within the Audit Committee. The Risk Management Committee, in conjunction with management, has formulated a formal Risk Management Policy. The Risk Management Policy formalises the current culture and processes of the company which is focused on the identification and management of risk through regular board reporting and exception reporting in between.

Encourage Enhanced Performance:

Directors and management are encouraged to participate in continuing education activities to enhance their skills and knowledge.

Folkestone Limited and its controlled entities
Corporate Governance Statement
For the year ended 30 June 2007

Directors are invited to join the board on the basis of their experience and skills in relation to the company's activities. The board is fully appraised on an ongoing basis with the operations of the company and all members are fully conversant with both the business of the company and the environment in which it operates.

Measures of performance are regularly reviewed, including that of individual officers. The Board does not have specific requirements in relation to age limits, tenure or criteria for independence for the directors. However, each of these factors are considered during the board's review of its performance annually. Statements in relation to independence of each of the directors are included with the Directors' Report.

No external review of the board's performance was conducted during the year, however the Board reviewed its operations and effectiveness, including the contribution made by all members, appropriateness of agenda's and times spent at meetings. The contributions of all directors is considered to be of a high level and adequate to discharge their duties in full.

Remunerate Fairly and Responsibly:

REMUNERATION COMMITTEE CHARTER

The functions and responsibilities include:

- Reviewing the performance of the CEO and senior executives.
- Reviewing and recommending to the board the remuneration packages of the CEO and senior executives.
- Recommending the company's remuneration policy.
- Reviewing and recommending non-executive Directors fees.

The board has established a Remuneration Committee which, in view of the small size of the board, consists of all non-executive directors. The company chairman is the Committee Chair. Executive remuneration and other terms of employment are reviewed annually having regard to performance goals set at the start of the year, relevant comparative information and independent advice.

Senior staff are remunerated on the basis of packages which comprise a base salary plus performance bonuses. Salary sacrifice provisions apply within the limits allowed by taxation law. Overall packages are set at levels that are intended to retain and attract executives who are capable of managing the consolidated entities operations. Details are fully disclosed in the remuneration report contained in the Directors Report.

The company does not operate its own superannuation fund and contributions are made to complying funds on the instructions of directors and employees and in compliance with the relevant legislation.

Fees for non-executive directors are determined by the board within the maximum limits approved by shareholders. The limit is currently set at \$400,000. Details are disclosed in full in the remuneration report contained in the Directors Report.

The board has the power to approve loans to executives at commercial rates if the need arises. Any such loans would be fully disclosed in the remuneration report contained in the Directors Report and the financial statements of the company. There are no loans outstanding at the present time nor were there any loans outstanding during the financial year just concluded.

The Board has revised the Executive Bonus Scheme to allow the issue of performance rights to executives. Details of these are fully disclosed in the Remuneration Report contained in the Directors' Report including those performance rights granted during the current financial year.

A non-executive director appointed prior to 1998 (Mr. David Scarf) was entitled to retirement benefits in accordance with a scheme previously approved by shareholders. This scheme no longer operates for directors appointed after 1998 and entitlements at that date were frozen. The fixed value of this entitlement benefit has been included as a liability in the Balance Sheet and was paid out upon his retirement from the Board on 21 June 2007.

Details of the members of the Remuneration Committee and of meetings are included in the Directors' Report.

Folkestone Limited and its controlled entities
Corporate Governance Statement
For the year ended 30 June 2007

Recognise the Legitimate Interests of Stakeholders:

The company recognises its legal and other obligations to non-shareholder stakeholders including employees, customers, and the community as a whole. Recognition is given to the impact of natural, social, human and other forms of capital on the performance of the company.

There is no formal Policy in place which provides the separate measurement and promotion of these issues, except as required by Law or as set out above.

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Folkestone Limited and its Controlled Entities
Financial Report
For the year ended 30 June 2007

FINANCIAL REPORT

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This Financial Report covers both Folkestone Ltd as an individual entity and the economic entity consisting of Folkestone Ltd and its controlled entities.

Folkestone Ltd is a company limited by shares incorporated and domiciled in Australia. Its registered office and principal place of business is:

Folkestone Limited
Level 24
360 Collins Street
Melbourne Vic 3000

A description of the nature of the economic entity's operations and its principal activities is included in the review of operations on pages 2 to 5 and within the Directors' Report on pages 6 to 15.

Folkestone Limited and its Controlled Entities
Income Statement
For the year ended 30 June 2007

	Note	Economic Entity		Parent Entity	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
Revenue	2	81,035	84,450	3,944	8,537
Development expenses		(26,128)	(41,275)	-	(5)
Construction expenses		(41,978)	(34,972)	-	-
Impairment of investment in subsidiary		-	-	-	(1,931)
Employee benefits expense	3	(4,764)	(4,559)	(1,441)	(1,323)
Depreciation and amortisation expense		(82)	(91)	(24)	(22)
Consultants' expenses		(197)	(135)	(175)	(124)
Rental expense on operating leases		(260)	(259)	(151)	(157)
Other expenses		(964)	(633)	(697)	(381)
Finance costs		(7)	(30)	(3)	(15)
Share of net profits of associates and joint ventures	13	1	139	-	-
Profit before income tax	3	6,656	2,635	1,453	4,579
Income tax expense/(benefit)	4	(2,066)	(804)	88	(28)
Profit from continuing operations		4,590	1,831	1,541	4,551
Profit for the year		4,590	1,831	1,541	4,551
Profit attributable to minority equity interest		(285)	-	-	-
Profit attributable to members of the parent entity		4,305	1,831	1,541	4,551
Overall Operations					
Basic earnings per share (cents per share)	8	14.2	6.1		
Diluted earnings per share (cents per share)	8	13.5	6.1		
Ordinary Dividends per share (cents)		6.5	6.0		
Special Dividends per share (cents)		1.5	-		

The income statement is to be read in conjunction with the notes of the financial statements set out on pages 27 to 59.

Folkestone Limited and its Controlled Entities
Balance Sheet
For the year ended 30 June 2007

	Note	Economic Entity		Parent Entity	
		2007	2006	2007	2006
		\$000	\$000	\$000	\$000
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	9	12,466	6,518	3,406	919
Trade and other receivables	10	20,092	9,866	18,166	18,680
Inventories	11	14,089	11,928	-	262
Other current assets	12	19	798	16	16
TOTAL CURRENT ASSETS		46,666	29,110	21,588	19,877
NON-CURRENT ASSETS					
Financial assets	15	-	-	4,980	3,901
Shares in associated entities	13	1,079	-	-	-
Property, plant and equipment	17	236	220	59	66
Deferred tax assets	21	205	210	46	81
Goodwill	18	2,120	2,120	-	-
TOTAL NON-CURRENT ASSETS		3,640	2,550	5,085	4,048
TOTAL ASSETS		50,306	31,660	26,673	23,925
CURRENT LIABILITIES					
Trade and other payables	19	20,828	4,702	569	635
Short-term borrowings	20	2,957	4,308	4,776	2,604
Current tax liabilities	21	946	174	920	174
Short-term provisions	22	570	497	53	129
TOTAL CURRENT LIABILITIES		25,301	9,681	6,318	3,542
NON-CURRENT LIABILITIES					
Long-term borrowings	20	12	23	-	-
Other long-term provisions	22	82	159	-	93
TOTAL NON-CURRENT LIABILITIES		94	182	-	93
TOTAL LIABILITIES		25,395	9,863	6,318	3,635
NET ASSETS		24,911	21,797	20,355	20,290
EQUITY					
Issued capital	23	18,505	18,235	18,505	18,235
Reserves	24	63	-	63	-
Retained earnings		6,058	3,562	1,787	2,055
Parent interest		24,626	21,797	20,355	20,290
Minority equity interest		285	-	-	-
TOTAL EQUITY		24,911	21,797	20,355	20,290

The balance sheet is to be read in conjunction with the notes of the financial statements set out on pages 27 to 59.

Folkestone Limited and its Controlled Entities
Statement of Changes in Equity
For the year ended 30 June 2007

				Attributable to holders			
	Note	Issued Capital	Retained Earnings	Reserves	of the parent	Minority Interest	Total
		\$000	\$000		\$000	\$000	\$000
Economic Entity							
Balance at 1 July 2005		18,023	3,516	-	21,539	-	21,539
Profit for the year		-	1,831	-	1,831	-	1,831
Total recognised income and expense		-	1,831	-	1,831	-	1,831
Issue of share capital	23	212	-	-	212	-	212
Dividends paid	7	-	(1,785)	-	(1,785)	-	(1,785)
Balance at 30 June 2006		18,235	3,562	-	21,797	-	21,797
Profit for the year		-	4,305	-	4,305	285	4,590
Total recognised income and expense		-	4,305	-	4,305	285	4,590
Issue of share capital	23	270	-	-	270	-	270
Issue of performance rights	24	-	-	63	63	-	63
Dividends paid	7	-	(1,809)	-	(1,809)	-	(1,809)
Balance at 30 June 2007		18,505	6,058	63	24,626	285	24,911

				Attributable to holders			
	Note	Issued Capital	Retained Earnings	Reserves	of the parent	Minority Interest	Total
		\$000	\$000		\$000	\$000	\$000
Parent Entity							
Balance at 1 July 2005		18,023	(1,386)	675	17,312	-	17,312
Profit for the year		-	4,551	-	4,551	-	4,551
Total recognised income and expense		-	4,551	-	4,551	-	4,551
Transfer (to)/from reserves to retained earnings		-	675	(675)	-	-	-
Issue of share capital	23	212	-	-	212	-	212
Dividends paid	7	-	(1,785)	-	(1,785)	-	(1,785)
Balance at 30 June 2006		18,235	2,055	-	20,290	-	20,290
Profit for the year		-	1,541	-	1,541	-	1,541
Total recognised income and expense		-	1,541	-	1,541	-	1,541
Issue of share capital	23	270	-	-	270	-	270
Issue of performance rights	24	-	-	63	63	-	63
Dividends paid	7	-	(1,809)	-	(1,809)	-	(1,809)
Balance at 30 June 2007		18,505	1,787	63	20,355	-	20,355

The statement of changes in equity is to be read in conjunction with the notes of the financial statements set out on pages 27 to 59

Folkestone Limited and its Controlled Entities
Cash Flow Statement
For the year ended 30 June 2007

	Note	Economic Entity		Parent Entity	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		69,384	90,108	3,417	468
Payments to suppliers and employees		(58,716)	(74,746)	(2,527)	(2,992)
Trust distributions from associate entities		-	200	-	200
Interest received		655	268	419	72
Finance costs		(7)	(30)	(3)	(15)
Income tax paid		(1,289)	(690)	869	(690)
Net cash provided by (used in) operating activities	28	10,027	15,110	2,175	(2,957)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		1	31	1	-
Purchase of property, plant and equipment		(99)	(90)	(18)	(13)
Payment for investment in associate		(1,080)	(6)	(1,080)	(6)
Payment for subsidiary, net of cash acquired		-	(72)	-	(72)
Net cash used in investing activities		(1,178)	(137)	(1,097)	(91)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		2,250	12,385	-	-
Repayment of borrowings		(4,306)	(24,584)	-	-
Repayment of loans by controlled entities		-	-	732	2,144
Repayment of loans by associated entities		694	-	2,216	-
Dividends paid by parent entity		(1,539)	(1,573)	(1,539)	(1,573)
Net cash provided by (used in) financing activities		(2,901)	(13,772)	1,409	571
Net increase/(decrease) in cash and cash equivalents		5,948	1,201	2,487	(2,477)
Cash and cash equivalents at beginning of financial year		6,518	5,317	919	3,396
Cash and cash equivalents at end of financial year	9	12,466	6,518	3,406	919

The cash flow statement is to be read in conjunction with the notes of the financial statements set out on pages 27 to 59.

Folkestone Limited and its Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2007

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. The financial report includes the separate financial statements of the company and the consolidated financial statement of the group. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with the A-IFRS ensures that the consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards ('IFRS'). The parent entity financial statements and notes also comply with IFRS except for the disclosure requirements in IAS 32 'Financial Instruments: Disclosure and Presentation' as the Australian equivalent Accounting Standard, AASB 132 'Financial Instruments: Disclosure and Presentation' does not require such disclosures to be presented by the parent entity where its separate financial statements are presented together with the consolidated financial statements of the consolidated entity.

The financial statements were approved by the Board on 17 August 2007 and were authorised for issue.

Basis of Preparation

The financial report has 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.

In the application of The Group's accounting policies as described below, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of the Group's accounting policies that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substances of the underlying transactions or other events are reported.

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 the current annual reporting period. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group's accounting policies in the following areas but have not affected the amounts reported for the current or prior years:

- investments classified 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'); and
- rights to cash reimbursement for expenditure required to settle a provision (AASB 2005-5 'Amendments to Australian Accounting Standards').

The adoption of these new and revised Standards and Interpretations has also resulted in a change to the Group's accounting policies in relation to business combinations involving entities under common control. Such business combinations were formerly within the scope of AASB 3 'Business Combinations', but are now scoped out of that Standard by AASB 2005-6 'Amendments to Australian Accounting Standards'.

There is no impact as a result of these changes in accounting policies and there has been no impact on basic and diluted earnings per share.

Folkestone Limited and its Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2007

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Preparation (continued)

At the date of authorisation of the financial report, the following Standards and Interpretations, including those Standards and Interpretations issued by the IASB / IFRIC where an Australian equivalent has not been made by the AASB, were in issue but not yet effective:

AASB 7 'Financial Instruments: Disclosures'	Effective for annual reporting periods beginning on or after 1 January 2007
AASB 8 'Operating Segments'	Effective for annual reporting periods beginning on or after 1 January 2009
AASB 101 'Presentation of Financial Statements' – revised standard	Effective for annual reporting periods beginning on or after 1 January 2007
AASB 123 'Borrowing Costs' – revised standard	Effective for annual reporting periods beginning on or after 1 January 2009
AASB 2007-4 'Amendments to Australian Accounting Standards arising from ED 151 and other amendments'	Effective for annual reporting periods beginning on or after 1 July 2007
AASB 2007-7 'Amendments to Australian Accounting Standards'	Effective for annual reporting periods beginning on or after 1 July 2007
Interpretation 10 'Interim Financial Reporting and Impairment'	Effective for annual reporting periods beginning on or after 1 November 2006
Interpretation 11 'AASB 2 – Group and Treasury Share Transactions'	Effective for annual reporting periods beginning on or after 1 March 2007
Interpretation 12 'Service Concession Arrangements'	Effective for annual reporting periods beginning on or after 1 January 2008
IFRIC 13 'Customer Loyalty Programmes'	Effective for annual reporting periods beginning on or after 1 July 2008
IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'	Effective for annual reporting periods beginning on or after 1 January 2008

The directors note that the impact of the initial application of the Standards / Interpretations is not yet known or is not reasonably estimable. These Standards and Interpretations will be first applied in the financial report of the group that relates to the annual reporting period beginning on or after the effective date of each pronouncement.

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 recognised in accordance with AASB 139 and measured initially at their fair values, and subsequently measured at the higher of the amount recognised as a provision and the amount initially recognised less cumulative amortisation in accordance with the revenue recognition policies described in note 1(q).

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 party to a financial guarantee contract where an entity in the Group has provided a financial guarantee to a bank in respect of an entity external to the Folkestone group as described in Note 26 to the accounts.

The application of these amendments results in such financial guarantee contracts now being recognised and measured at the higher of the best estimate of the expenditure required to settle the obligation and the amount initially recognised less, where appropriate, cumulative amortisation.

The impact of this change in accounting policy in the consolidated financial statements at the beginning of the comparative period was nil and no material adjustment was required in the separate financial statements of the company to recognise the financial guarantee liability associated with its exposure under the deed of cross guarantee.

In assessing the liability arising from the financial guarantee contracts, the following have been considered:

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

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

Folkestone Limited and its Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2007

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following significant accounting policies have been adopted in the preparation and presentation of the financial report.

Accounting Policies

a) Principles of Consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries) (referred to as "the Group" in these financial statements). Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the Group. A list of subsidiaries appears in note 16 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The consolidated financial statements include the information and results of each subsidiary from the date on which the group obtains control and until such time as the group ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

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.

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.

The company and its wholly owned entities formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Folkestone Limited. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group).

Folkestone Limited and its Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2007

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

b) Income Tax continued

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax sharing agreement with the head entity. Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

c) Inventories

i) Developments in Progress

Developments in progress are stated at the aggregate of costs incurred to date. Costs include all costs directly related to specific projects. Developments in progress are valued at the lower of costs incurred and net realisable value.

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. Any income received in relation to the property prior to its sale and being ready for use 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

Where the outcome of a construction contract can be estimated reliably, 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.

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 less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment.

Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Folkestone Limited and its Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2007

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

f) Depreciation on plant and equipment

Depreciation is charged in respect of mechanical plant, equipment and moveable fittings, and is calculated on either the diminishing value method or the straight line 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.

g) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset are the company's are classified as finance leases. All other leases are classified as operating 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 on a straight line basis.

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.

Where the asset does not generate cash flows that are independent from other assets, the consolidated entity 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 consolidated financial statements by applying the equity method of accounting. The equity method of accounting recognises the group's share of post-acquisition reserves of its associates. Investments in associates are recognised at cost in the separate financial statements of the company.

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 taken up in the income statement in the period of derecognition.

Folkestone Limited and its Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2007

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

l) Intangibles

Goodwill

Goodwill is 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. Impairment testing is performed at least annually or wherever there is an indication of impairment for goodwill and intangible assets with indefinite lives.

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. The liability for annual 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.

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 9 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 sundry payables and accrued expenses and costs when the employee benefits to which they relate are recognised as liabilities.

vi) Directors Retirement Benefits

A liability for Directors' Retirement Benefits was recognised for directors who commenced prior to January 1998. Directors appointed after this date do not participate in this scheme. The liability was fixed and was fully provided for in the company's accounts and has been fully paid out during the current financial year upon the retirement of the director.

Folkestone Limited and its Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2007

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

m) Employee Benefits continued

vii) Performance Rights

The fair value of performance rights granted is recognised as an employee benefits expense with a corresponding increase in the employee performance rights reserve. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the shares at the end of the performance period and vesting period.

The fair value of performance rights granted for rights with market based performance criteria are measured using a Monte-Carlo simulation model, taking into account the terms and conditions upon which the shares were granted. The amount recognised as an expense is amortised on a straight line basis over the life of the right even if the market based performance criteria are never met and the rights never vest, except where the employee forfeits their rights due to termination of employment.

The fair value of performance rights granted for rights with non-market based performance criteria are measured using the Binomial Option Pricing Methodology which is the generally accepted approach for valuing rights which may be exercised, once vested, at any time up until expiry. The amount recognised as an expense is amortised on a straight line basis over the life of the right. If the performance criteria associated with the right is not achieved, adjustments to the value of the expense is made so that the cumulative expense recognised over the vesting period reflects the number of instruments that actually vest.

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) 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 3 months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

p) Earnings per Share

i) Basic Earnings per Share

Basic earnings per share is determined by dividing the net profit 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.

q) Revenue

Interest revenue is recognised on a proportional basis taking into account the effective 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.

1. Land Sub-division

Revenue is recognised where there is a signed unconditional contract.

2. Project Development

Where construction of a property has not substantially been completed at balance date, revenue and profit on sales are not recognised until sale settlement. Where construction of the property (practical completion) has been achieved or is substantially complete at balance date and all risk and reward has been transferred to the customer, revenue and expenses are recognised 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. 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.

3. Construction

Construction revenue has been recognised on the percentage of completion basis taking into account 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).

Folkestone Limited and its Controlled Entities
Notes to the Financial Statements
For the year ended 30 June 2007

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

r) **Receivables**

All trade receivables are recognised at the amounts receivable, as they are due for settlement no more than 30 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 uncollectable, are written off. A provision for doubtful debts is raised where some doubt as to collection of specific amounts exists.

s) **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.

t) **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.

u) **Comparative Figures**

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

v) **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.

Folkestone Limited and its Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2007

NOTE 2: REVENUE

	Note	Economic Entity		Parent Entity	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
Revenue from continuing operations consisting of the following items:					
- Revenue from the sale of goods - development activities		31,623	42,426	1,502	158
- Construction revenue		48,757	41,749	-	-
- Dividends received	2a	-	-	1,960	6,457
- Interest received	2b	655	269	419	71
- Trust distributions – related entities		-	-	-	1,655
- Trust distributions – associated entities		-	-	1	139
- Management and other fees received/receivable		-	6	62	57
Total Revenue		81,035	84,450	3,944	8,537
a. Dividend revenue from:					
- wholly-owned subsidiaries		-	-	1,960	6,457
Total dividend revenue		-	-	1,960	6,457
b. Interest revenue from:					
- other persons		655	269	419	71
Total interest revenue		655	269	419	71

NOTE 3: PROFIT FOR THE YEAR

a. Expenses					
Development expenses		26,128	41,275	-	-
Construction expenses		41,978	34,972	-	-
Finance costs (external)		7	30	3	15
Depreciation – plant & equipment		82	91	24	22
<i>Provisions</i>					
- Employee entitlements		29	109	(33)	48
Impairment of investments in controlled entities		-	-	-	1,931
Rental expense on operating leases					
- minimum lease payments		260	259	151	157
b. Employee benefits expense					
Post employment benefits					
- Contribution plans		183	267	84	171
Equity settled share based payments		63	-	63	-
Other		4,518	4,292	1,294	1,152
		4,764	4,559	1,441	1,323

Folkestone Limited and its Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2007

	Note	Economic Entity		Parent Entity	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
NOTE 4: INCOME TAX EXPENSE					
a. The components of tax expense comprise:					
Current tax expense/(income)		2,068	796	(82)	20
(Over)/Under provision in respect of prior years		(2)	8	(6)	8
		2,066	804	(88)	28
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:					
Profits from operations		6,656	2,635	1,453	4,579
Income tax calculated at 30%		1,997	790	436	1,374
Add:					
- Entertainment		3	6	2	4
- Other non-allowable expenses		68	-	66	579
		71	6	68	583
Less:					
Other non-assessable income		-	-	586	1,937
Sub Total		2,068	796	(82)	20
(Over)/under provision of income tax in previous year		(2)	8	(6)	8
Income tax attributable to entity		2,066	804	(88)	28

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION

Names and positions held of economic and parent entity key management personnel in office at any time during the financial year and the comparative period were:

Key Management Person	Position
ATL Maitland	Chairman
BR Kean	Non-executive director
DCJ Scarf	Non-executive director (retired 21 June 2007)
MW Parkinson	Non-executive director
KH Denning	Non-executive director (appointed 22 June 2007)
O Guglielmi	Managing Director (appointed 28 August 2006)
SN Martin	CFO & Company Secretary
AS Cariss	Managing Director, Access Constructions Pty Ltd
SJR Lowe	General Manager Development Folkestone Limited (resigned 8 December 2006)
AR Davison	Managing Director (retired 3 July 2006)
MJ Leonard	CFO & Company Secretary (resigned 28 October 2005)

Information regarding individual directors and executives compensation is provided below:

Folkestone Limited and its Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2007

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION CONTINUED

The aggregate compensation made to directors and other members of key management personnel of the company and the group is set out below:

	Economic Entity		Parent Entity	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Short-term employee benefits	1,737,085	1,367,105	839,171	693,392
Post-employment benefits	168,254	146,157	113,354	134,448
Share-based payment	63,467	-	63,467	-
	1,968,806	1,513,262	1,015,992	827,840

Long Term Incentives - Performance Rights

In October 2006 the Company revised the Executive Bonus Scheme (the "Plan") to provide additional incentives for executives to reach targets set by the Board. The Plan provides for the CEO and executives to receive grants for performance rights over ordinary shares. A performance right is a conditional right to be granted ordinary shares in the capital of the company for nil consideration and at a zero exercise price after a prescribed vesting period determined by the Board and approved by shareholders. The performance rights are exercisable subject to the satisfaction of set performance criteria. The satisfaction or otherwise of targets will generally be determined by the Board following receipt of the audited accounts of the company for the financial year to which the target related. The Board reserves the right to issue a lesser number of Performance Rights if the senior executive fails to achieve any stated target by a small margin for acceptable reasons. In the event that the Board determines that a target is satisfied, the vesting period will commence with effect from 30 June in the financial year to which the target related and the performance right vests on the 10th business day following the 2 year vesting period which commences at the end of the financial year to which the target related. The performance rights may then be exercised by the executive within 5 business days of the vesting date by notice in writing to the company. In the event that a performance right is not exercised within this period, it will lapse. It is a condition that the employee must remain a full time employee until the time that the performance right vests.

Compensation /Performance Rights

The following performance rights were available as remuneration during the financial year. There are no options outstanding over ordinary shares outstanding.

Tranche	Grant Date	Expiry Date	Fair Value per Right	Exercise Price	Price of Shares on Grant Date	Estimated Volatility	Risk free interest rate	Dividend yield
1	25 Oct 06	21 Jul 2012	\$0.53	\$0	\$0.665	32%	5.97%	8.64%
2	25 Oct 06	21 Jul 2012	\$0.53	\$0	\$0.665	32%	5.97%	8.64%
3	25 Oct 06	21 Jul 2009	\$0.53	\$0	\$0.665	32%	5.97%	8.64%
4	25 Oct 06	21 Jul 2009	\$0.42	\$0	\$0.665	32%	5.97%	8.64%

Summary of Tranches performance criteria:

1. Execute and complete a new corporate acquisition with value between A\$2.0-A\$10.0m
2. Execute and complete a new corporate acquisition with value between A\$10.0-A\$25.0m
3. Earnings per share exceed \$0.12 for the year ended 30 June 2007
4. TSR ranking that exceeds 50th percentile in S&P/ASX 200 Real Estate Index (excluding Australand and Lendlease) as at 30 June 2007

Each performance right entitles the holder to acquire one ordinary share in the company. All performance rights are subject to specified performance criteria and a vesting period of two years from the financial year end date in respect of the performance. The performance rights expire on the earlier of their expiry date or termination of the employee's employment.

Folkestone Limited and its Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2007

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION CONTINUED

The following is a summary of the performance rights outstanding over ordinary shares.

Director	Tranche	Number	Date	Status	% vested in year	Forfeited in year	Financial years to which grant vests	Value yet to vest	
								Min (A)	Max (B)
Oscar Guglielmi	1	100,000	25 Oct 2006	Not achieved in 2007	-	-	30 Jun 2013	\$ -	\$ 53,000
	2	200,000	25 Oct 2006	Not achieved in 2007	-	-	30 Jun 2013	-	106,000
	3	100,000	25 Oct 2006	Achieved	-	-	30 Jun 2010	53,000	53,000
	4	100,000	25 Oct 2006	Achieved	-	-	30 Jun 2010	42,000	42,000
		500,000						95,000	254,000

- A The minimum value of performance rights yet to vest in respect of Tranches 1 & 2 is \$nil as the performance criteria may not be met and consequently the performance rights may not vest. The minimum value in respect of Tranches 3 & 4 is as stated above as the target has been achieved and reflects the fair value of the performance rights.
- B The maximum value of Tranches 1 & 2 performance rights yet to vest is the fair value of those rights as the performance criteria may be achieved in future periods. The maximum value in respect of Tranches 3 & 4 is as stated above as the target has been achieved reflects the fair value of the performance rights.

No other key management personnel were granted performance rights during the period

Analysis of movements in performance rights

The movement during the reporting period, by value, of options and performance rights over ordinary shares in the company held by each company director and each of the named company executives and relevant group executives is detailed below:

	Opening Balance	Awarded in Year (i) (ii)	Exercised in Year (iii)	Forfeited in Year (iv)	Closing Balance
Directors					
Oscar Guglielmi					
Number of Rights	-	500,000	-	-	500,000
Value of Rights \$	-	254,000	-	-	254,000

- (i) The number of performance rights is the maximum number of performance rights approved for issue during the reporting period.
- (ii) The value of performance rights granted in year is their fair value at grant date.
- (iii) The value of performance rights exercised during the year is calculated as the fair value at grant date of those rights exercised during the period. No performance rights were available for exercise during the year.
- (iv) The value of the performance rights that lapsed during the year represents the benefit foregone and is calculated at the date the performance rights lapsed using their fair value at grant date. No performance rights were forfeited during the year.

No options have been issued or are on issue.

Folkestone Limited and its Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2007

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION CONTINUED

Number of Shares held by Key Management Personnel

2007	Balance 1.7.2006	Received as Compen- sation	Performance Rights Exercised	Net Change Other*	Balance 30.6.2007
<i>ATL Maitland</i>	323,860	-	-	-	323,860
<i>BR Kean</i>	17,143	-	-	-	17,143
<i>DCJ Scarf (retired 21 June 2007)</i>	322,870	-	-	-	322,870
<i>MW Parkinson</i>	15,707	-	-	1,378	17,085
<i>KH Dening (appointed 22 June 2007)</i>	-	-	-	-	-
<i>O Guglielmi (appointed 28 Aug 2006)</i>	-	-	-	292,195	292,195
<i>SN Martin</i>	-	-	-	11,850	11,850
<i>SJR Lowe (resigned 8 Dec 2006)</i>	-	-	-	-	-
<i>AS Cariss</i>	-	-	-	-	-
<i>AR Davison (retired 3 July 2006)</i>	1,384,031	-	-	(1,333,113)	50,918
Total	2,063,611	-	-	(1,027,690)	1,035,921

* Net Change Other refers to shares purchased or sold during the financial year or accumulated using the Dividend Reinvestment Plan.

2006	Balance 1.7.2005	Received as Compen- sation	Performance Rights Exercised	Net Change Other*	Balance 30.6.2006
<i>ATL Maitland</i>	273,860	-	-	50,000	323,860
<i>BR Kean</i>	17,143	-	-	-	17,143
<i>DCJ Scarf</i>	322,870	-	-	-	322,870
<i>MW Parkinson</i>	-	-	-	15,707	15,707
<i>AR Davison (retired 3 July 2006)</i>	1,384,031	-	-	-	1,384,031
<i>SN Martin (appointed 12 Dec 2005)</i>	-	-	-	-	-
<i>MJ Leonard (resigned 28 Oct 2005)</i>	135,553	-	-	(117,091)	18,462
<i>SJR Lowe (resigned 8 Dec 2006)</i>	-	-	-	-	-
<i>AS Cariss</i>	-	-	-	-	-
Total	2,133,457	-	-	(51,384)	2,082,073

* Net Change Other refers to shares purchased or sold during the financial year or accumulated using the Dividend Reinvestment Plan.

NOTE 6: AUDITORS' REMUNERATION

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Remuneration of the auditor of the parent entity for:				
- auditing or reviewing the financial report	65,925	70,042	65,175	49,292
- taxation services	25,750	20,275	21,750	14,025

Folkestone Limited and its Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2007

NOTE 7: DIVIDENDS

	Economic Entity/Parent Entity	
	2007 \$000	2006 \$000
Recognised amounts		
Dividends paid		
Interim fully franked ordinary dividend of 2.5 (2006: 2.5) cents per share franked at the tax rate of 30% (2006: 30%) paid on 3 April 2007 (2006: 12 May 2006)	758	747
Final dividend for the year ended 30 June 2006 of 3.5 cents (2005: 3.5) cents per share paid on 23 October 2006 (2006: 28 October 2005)	1,051	1,038
	1,809	1,785
Dividends Proposed but not recognised as a liability		
Proposed final fully franked ordinary dividend of 4 (2006: 3.5) cents per share franked at the tax rate of 30% (2006: 30%)	1,217	1,051
Proposed special dividend of 1.5 (2006: 0) cents per share franked at the tax rate of 30% (2006: 30%)	456	-
	1,637	1,051
Franking Account		
Balance of franking account at year end	9,844	9,295
Adjusted for franking credits arising from:		
- payment of provision for income tax	920	174
Payment of proposed dividend detailed above:	(717)	(450)
	10,047	9,019

NOTE 8: EARNINGS PER SHARE

	Economic Entity	
	2007 \$000	2006 \$000
Earnings per share		
Basic EPS	14.2	6.1
Dilutive EPS	13.5	6.1

Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

Profit attributable to members of the parent entity	4,305	1,831
Earnings used in the calculation of basic EPS	4,305	1,831

	2007 No.	2006 No.
Weighted average number of ordinary shares for the purposes of basic earnings per share	30,244,727	29,829,941

Folkestone Limited and its Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2007

NOTE 8: EARNINGS PER SHARE CONTINUED

Diluted earnings per share

The earnings used in the calculation of diluted earnings per share is as follows:

	2007	2006
	\$000	\$000
Profit attributable to members of the parent entity	4,305	1,831
Expensing at cost in relation to shares deemed to be issued for no consideration in respect of employee performance rights	(191)	-
	4,114	1,831

	2007	2006
	No.	No.
Weighted average number of ordinary shares used in the calculation of basic EPS	30,244,727	29,829,941
Shares deemed to be issued for no consideration in respect of:		
Employee performance rights	339,726	-
Weighted average number of ordinary shares used in the calculation of diluted EPS	30,584,453	29,829,941

NOTE 9: CASH AND CASH EQUIVALENTS

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$000	\$000	\$000	\$000
Cash at bank and in hand	5,705	3,658	362	580
Deposits at call	6,761	2,514	3,044	49
Short-term bank deposits	-	346	-	290
	12,466	6,518	3,406	919

Reconciliation of cash

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

Cash and cash equivalents	12,466	6,518	3,406	919
	12,466	6,518	3,406	919

NOTE 10: TRADE AND OTHER RECEIVABLES

CURRENT

Trade receivables		19,505	9,225	485	224
Amounts due from customers for construction contracts	10a	584	641	-	-
Other receivables		3	-	1	-
Amounts receivable from:					
- wholly-owned subsidiaries	30	-	-	17,680	17,693
- associated companies	30	-	-	-	763
		20,092	9,866	18,166	18,680

Folkestone Limited and its Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2007

NOTE 10: TRADE AND OTHER RECEIVABLES CONTINUED

	Economic Entity		Parent Entity	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
a. Construction Contracts				
Contract costs incurred	41,978	34,972	-	-
Recognised profits	6,691	6,133	-	-
	48,669	41,105	-	-
Progress billings	(48,085)	(40,464)	-	-
Amounts due from customers for contract work	584	641	-	-
Retentions on construction contracts in progress	298	170	-	-
Progress billings and advances received and receivable on construction contracts in progress	48,085	40,464	-	-

NOTE 11: INVENTORIES

CURRENT

Developments in progress	14,089	11,928	-	262
	14,089	11,928	-	262

NOTE 12: CURRENT ASSETS – OTHER

Other assets	-	776	-	-
Prepayments	19	22	16	16
	19	798	16	16

NOTE 13: ASSOCIATED ENTITIES

Interests are held in the following associated entities

Name	Principal Activities	Country of Incorporation	Shares	Ownership Interest		Carrying amount of investment	
				2007 %	2006 %	2007 \$000	2006 \$000
Unlisted:							
Folkestone Docklands Unit Trust ⁽¹⁾	Property Development	Australia	B Class Units	80	80	10	-
Folkestone (Bayside) Pty Ltd ⁽²⁾	Property Development	Australia	Ordinary shares	20	100	1,069	-
						1,079	-

(1) Folkestone holds 170,804 of the 213,505 B Class units on issue. These B Class units are for profit sharing entitlements only. Folkestone retains 50% of the voting control and therefore is classified as an associate.

(2) Folkestone holds 1,069,002 of the 5,345,010 ordinary shares on issue. They also hold 1 B class share, however this is for profit sharing entitlements only.

Folkestone Limited and its Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2007

NOTE 13: ASSOCIATED ENTITIES CONTINUED

	Economic Entity	
	2007 \$000	2006 \$000
a. Movements during the year in equity accounted investment in associated entities		
Balance at beginning of the financial year	-	-
Add: Share of associated company's profit after income tax	1	139
Capital issued	1,080	-
Less: Distribution of profits from associated entity	(1)	(139)
Balance at end of the financial year	<u>1,079</u>	<u>-</u>
b. Equity accounted profits of associates are broken down as follows:		
Share of associate's profit before income tax expense	1	139
Share of associate's income tax expense	-	-
Share of associate's profit after income tax	<u>1</u>	<u>139</u>
c. Summarised Presentation of the economic entity's share of Aggregate Assets, Liabilities and Performance of Associates		
Current assets	12	156
Non-current assets	12,471	-
Total assets	<u>12,483</u>	<u>156</u>
Current liabilities	350	156
Non-current liabilities	11,054	-
Total liabilities	<u>11,404</u>	<u>156</u>
Net assets	<u>1,079</u>	<u>-</u>
Revenues	1	139
Profit after income tax of associates	<u>1</u>	<u>139</u>

Ownership interest in Folkestone Docklands Unit Trust was 80% of Issued B Class Units. The reporting date of Folkestone Docklands Unit Trust is 30 June 2007. This reporting date coincides with the entity's holding company.

Ownership interest in Folkestone (Bayside) Pty Ltd was 20% of issued ordinary units. The reporting date of Folkestone (Bayside) Pty Ltd is 30 June 2007. This reporting date coincides with the entity's holding company.

Folkestone Limited and its Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2007

NOTE 14: JOINT VENTURES

Economic Entity

2007 **2006**
\$000 **\$000**

a. Interest in Joint Venture Operations

- i) A controlled entity, Folkestone (PMD) Pty Ltd has a 50% interest with a subsidiary of MAB Corporation Pty Ltd, in the development of a site on the corner of Bertie and Fennel Street, Port Melbourne.

The economic entity's share of assets employed in the joint venture is:

CURRENT ASSETS

Cash at bank and on hand	60	2,862
Amounts receivable from associated entities	73	21
Inventories – developments in progress	-	48
Total current assets	133	2,931

NON-CURRENT ASSETS

Total non-current assets	-	-
Share of total assets of joint venture	133	2,931
Net interest in joint venture	(50)	1,296

- ii) A controlled entity, Folkestone No:1 Pty Ltd has a 50% interest with the Select Property Portfolio Fund No:2 Ltd, in Kororoit Creek Road, Altona.

The economic entity's share of assets employed in the joint venture is:

CURRENT ASSETS

Cash at bank and on hand	2,601	-
Trade debtors	18,795	-
Total current assets	21,396	-

NON-CURRENT ASSETS

Total non-current assets	-	-
Share of total assets of joint venture	21,396	-
Net interest in joint venture	8,428	-

- iii) A controlled entity, Folkestone No:4 Pty Ltd has a 50% interest with the Select Property Portfolio Fund No:2 Ltd, in the development of a site in Noone Street, Clifton Hill.

The economic entity's share of assets employed in the joint venture is:

CURRENT ASSETS

Cash at bank and on hand	750	-
Inventories – developments in progress	5,863	-
Other current assets	1,258	-
Total current assets	7,871	-

NON-CURRENT ASSETS

Total non-current assets	-	-
Share of total assets of joint venture	7,871	-
Net interest in joint venture	5,540	-

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Folkestone Limited and its Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2007

NOTE 15: OTHER NON-CURRENT FINANCIAL ASSETS

	Economic Entity		Parent Entity	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Shares in controlled entities at cost	-	-	3,901	3,901
Shares in associated entities at cost	-	-	1,079	-
	-	-	4,980	3,901

All shares in controlled entities are reflected at cost. Non-current financial assets comprise investments in the ordinary issued capital of various controlled entities. There are no fixed returns or fixed maturity dates attached to these investments.

NOTE 16: CONTROLLED ENTITIES

a. Controlled Entities Consolidated

	Country of Incorporation	Percentage Owned (%)*	
		2007	2006
Parent Entity:			
Folkestone Limited	Australia		
<u>Subsidiaries of Folkestone Limited:</u>			
Folkestone Freeholds Pty Ltd	Australia	100	100
Folkestone Developments Pty Ltd	Australia	100	100
Folkestone Project Management Pty Ltd	Australia	100	100
Fenchurch Pty Ltd	Australia	100	100
Folkestone (EMT) Pty Ltd	Australia	100	100
Folkestone East Melbourne Trust	Australia	100	100
Ceres House Pty Ltd	Australia	100	100
Access Constructions Pty Ltd	Australia	100	100
Folkestone (PMD) Pty Ltd	Australia	100	100
Bertie Bridge Pty Ltd	Australia	75	75
Sorrento (VIC) Pty Ltd	Australia	100	100
Folkestone (Bayside) Pty Ltd	Australia	100	100
Folkestone No. 1 Pty Ltd	Australia	100	-
Folkestone No. 2 Pty Ltd	Australia	100	-
Folkestone No. 3 Pty Ltd	Australia	100	-
Folkestone No. 4 Pty Ltd	Australia	100	-

* Percentage of voting power is in proportion to ownership

Folkestone Limited and its Controlled Entities
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NOTE 16: CONTROLLED ENTITIES CONTINUED

b Acquisition of Controlled Entities

The following entities were incorporated during the year and Folkestone Limited owns 100% of the issued shares

	Date of Incorporation
Folkestone No:1 Pty Ltd	2 August 2006
Folkestone No:2 Pty Ltd	9 November 2006
Folkestone No:3 Pty Ltd	9 November 2006
Folkestone No:4 Pty Ltd	10 May 2007

c. Disposal of Controlled Entities

On 19 December 2006 80% of the share capital in Folkestone (Bayside) Pty Ltd was issued to SPP No:2 (Donnybrook) Pty Ltd and as such was no longer part of the consolidated group.

NOTE 17: PROPERTY, PLANT AND EQUIPMENT

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$000	\$000	\$000	\$000
PLANT AND EQUIPMENT				
Plant and equipment:				
At cost	721	656	417	434
Accumulated depreciation	(485)	(436)	(358)	(368)
Total Property, Plant and Equipment	236	220	59	66

a. Movements in Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$000	\$000	\$000	\$000
Opening balance of plant & equipment at cost	656	603	434	419
Opening balance of accumulated depreciation	(436)	(352)	(358)	(346)
Additions	99	91	18	15
Disposals	(1)	(31)	(1)	-
Depreciation expense	(82)	(91)	(24)	(22)
Carrying amount at the end of year	236	220	59	66

Aggregate depreciation allocated during the year is recognised as an expense and disclosed in Note 3 to the financial statements.

No impairment loss is recognised in the income statement in respect of property, plant and equipment.

Folkestone Limited and its Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2007

NOTE 18: GOODWILL

	Economic Entity		Parent Entity	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Goodwill				
At cost	2,120	2,120	-	-
Total goodwill	2,120	2,120	-	-

Goodwill

Balance at the beginning of year	2,120	2,048	-	-
Additions	-	72	-	-
Balance at the end of year	2,120	2,120	-	-

Goodwill relates to the acquisition of Access Constructions Pty Ltd on 31 March 2005. For the purpose of impairment testing, goodwill is allocated to the cash generating unit consisting of Access Constructions Pty Ltd. No impairment loss has been recognised in respect of goodwill for the year ended 30 June 2007 based upon analysis of the future discounted net cash flows of Access Constructions.

Future revenues and costs have been forecast on the basis of historical data and the budgets set in the company's business plan to 2010. A 7% growth rate has been applied to revenue and direct costs forecasts. An escalation of 4% has been used for overheads. A 15% discount rate has been used when calculating discounted net cash flows.

There has been no change in the key assumptions disclosed from the prior financial year in respect of assessing the impairment of goodwill.

NOTE 19: TRADE AND OTHER PAYABLES

	Note	Economic Entity		Parent Entity	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
Trade payables		4,737	1,772	415	480
Sundry payables and accrued expenses		16,091	2,930	154	155
		20,828	4,702	569	635

NOTE 20: BORROWINGS

		Economic Entity		Parent Entity	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
CURRENT					
Unsecured liabilities					
Advances from associated entities	30	694	-	1,453	-
Advances from related entities	30	-	-	3,323	2,604
		694	-	4,776	2,604

Folkestone Limited and its Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2007

NOTE 20: BORROWINGS CONTINUED

	Note	Economic Entity		Parent Entity	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
Secured liabilities					
Bills payable	20a,c	2,250	4,293	-	-
Hire purchase liability	25a	13	15	-	-
		2,263	4,308	-	-
		2,957	4,308	4,776	2,604

NON-CURRENT

Secured liabilities					
Hire purchase liability	25a	12	23	-	-
		12	23	-	-

a. Total current and non-current secured liabilities:

Bills payable		2,250	4,293	-	-
Hire purchase liability		25	38	-	-
		2,275	4,331	-	-

b. The carrying amounts of non-current assets pledged as security are:

Bills payable are secured by freehold land and buildings (developments in progress) in Australia and a mortgage debenture over the assets of the borrowing entity. A guarantee is also provided by Folkestone Limited.

	5,863	11,928	-
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The hire purchase liabilities are secured by a registered mortgage over the assets to which they relate

	29	41	-
--	-----------	----	---

	5,892	11,969	-
--	--------------	--------	---

c. Bills Payable

Bills when drawn bear interest at 6.45%-6.63% (2006:5.78%-5.79%) excluding margins. The total bill facility available at 30 June 2007 was \$18,000,000 and subject to continuing compliance with the facility conditions, the bill facilities may be drawn at any time and have an expiry in line with each specific project. Bill facilities are specific to each project and as new projects are secured further bill facilities will be acquired.

Folkestone Limited and its Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2007

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$000	\$000	\$000	\$000

NOTE 21: TAX

a. Liabilities

CURRENT

Income tax

	946	174	920	174
	946	174	920	174

b. Assets

NON-CURRENT

Deferred tax assets/(liability):

Provisions

Accrued income

	670	1,857	46	81
	(465)	(1,647)	-	-
	205	210	46	81

c. Reconciliations

i Gross Movements

The overall movement in the deferred tax asset account is as follows:

Opening balance

Movement for the year

Closing balance

	210	457	81	123
	(5)	(247)	(35)	(42)
	205	210	46	81

ii Deferred Tax Assets

The movement in deferred tax assets for each temporary difference during the year is as follows:

Provisions

Opening balance

Credited/(charged) to the income statement

Closing balance

	1,857	218	81	123
	(1,187)	1,639	(35)	(42)
	670	1,857	46	81

Accrued Income

Opening balance

Credited/(charged) to the income statement

Closing balance

	(1,647)	-	-	-
	1,182	(1,647)	-	-
	(465)	(1,647)	-	-

Other

Opening balance

Credited/(charged) to the income statement

Closing balance

	-	239	-	-
	-	(239)	-	-
	-	-	-	-
	205	210	46	81

Folkestone Limited and its Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2007

	Economic Entity		Parent Entity	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
NOTE 22: PROVISIONS				
Current				
Employee benefits				
Opening balance	298	173	129	73
Additional provision	308	200	83	75
Transfer from non-current provision	-	131	-	61
Amounts used	(402)	(206)	(159)	(80)
Total	204	298	53	129
Future losses on developments in progress				
Opening balance	199	-	-	-
Additional provision	366	199	-	-
Amounts used	(199)	-	-	-
Total	366	199	-	-
Total Current Provisions	570	497	53	129
Non-Current				
Employee benefits				
Opening balance	159	276	93	150
Additional provision	16	47	-	37
Transfer to current provisions	-	(131)	-	(61)
Amounts written back to P&L	(26)	-	(26)	-
Amounts used	(67)	(33)	(67)	(33)
Total Non-Current Provisions	82	159	-	93
Analysis of Total Provisions				
Current	570	497	53	129
Non-current	82	159	-	93
	652	656	53	222

NOTE 23: ISSUED CAPITAL

	Economic Entity		Parent Entity	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
30,427,492 (2006: 30,040,647) fully paid ordinary shares of no par value	18,505	18,235	18,505	18,235
	18,505	18,235	18,505	18,235

Folkestone Limited and its Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2007

NOTE 23: ISSUED CAPITAL CONTINUED

	2007		2006	
	Shares (thousand)	\$000	Shares (thousand)	\$000
a. Ordinary shares				
At the beginning of reporting period	30,041	18,235	29,668	18,023
Shares issued during the year				
- Exercised options	-	-	-	-
- Dividend reinvestment plan	386	270	373	212
- Placement	-	-	-	-
At reporting date	30,427	18,505	30,041	18,235

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

b. Performance Rights

The following performance rights were available as remuneration during the financial year.

Executive	Tranche	Granted during 2007	Grant date	Vested during 2007	Fair value per right at grant date	Expiry date
Oscar Guglielmi	1	100,000	25 Oct 2006	-	\$0.53	21 Jul 2012
	2	200,000	25 Oct 2006	-	\$0.53	21 Jul 2012
	3	100,000	25 Oct 2006	-	\$0.53	21 Jul 2009
	4	100,000	25 Oct 2006	-	\$0.42	21 Jul 2009

All performance rights expire on the earlier of their expiry date or termination of the individual's employment and vest two years from the date at which performance of KPI is achieved.

The following is a summary of performance rights outstanding over ordinary shares:

Director	Tranche	Number	Date	Status	% vested in year	Forfeited in year	Financial years to which grant vests	Value yet to vest	
								Min (A)	Max (B)
Oscar Guglielmi	1	100,000	25 Oct 2006	Not achieved in 2007	-	-	30 Jun 2013	-	53,000
	2	200,000	25 Oct 2006	Not achieved in 2007	-	-	30 Jun 2013	-	106,000
	3	100,000	25 Oct 2006	Achieved	-	-	30 Jun 2010	53,000	53,000
	4	100,000	25 Oct 2006	Achieved	-	-	30 Jun 2010	42,000	42,000
		500,000						95,000	254,000

- A The minimum value of performance rights yet to vest in respect of Tranches 1 & 2 is \$nil as the performance criteria may not be met and consequently the performance rights may not vest. The minimum value in respect of Tranches 3 & 4 is as stated above as the target has been achieved and reflects the fair value of the performance rights.
- B The maximum value of Tranches 1 & 2 performance rights yet to vest is the fair value of those rights as the performance criteria may be achieved in future periods. The maximum value in respect of Tranches 3 & 4 is as stated above as the target has been achieved reflects the fair value of the performance rights.

No other key management personnel were granted performance rights during the period

Folkestone Limited and its Controlled Entities
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NOTE 24: RESERVES

	Economic Entity		Parent Entity	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Employee Performance Rights Reserve	63	-	63	-
	63	-	63	-

The employee performance rights reserve records the amount expensed in respect of performance rights granted.

NOTE 25: CAPITAL AND LEASING COMMITMENTS

a. Hire Purchase Commitments

- not later than 12 months	13	15	-	-
- between 12 months and 3 years	12	23	-	-
Total Hire Purchase Commitments	25	38	-	-

b. Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements

Payable - minimum lease payments

- not later than 12 months	185	202	115	111
- between 12 months and 5 years	266	452	266	302
	451	654	381	413

The Group has three lease commitments:

- Level 24, 360 Collins Street, Melbourne is for a five year term and expires on 5 September 2010. Rent is payable monthly in advance with 4% per annum fixed increases on the anniversary date. There is no option period.
- Suite 8, 14 Lionel Road, Mount Waverley is for a 3 year term and expires on 31 March 2008. Rent is payable monthly in advance with 3.5% per annum fixed increases on the anniversary date. The lease provides for two three year option periods.
- A Samsung Office Serv 100 telephone system is leased for a four year term and expires on 19 May 2010. The lease payments are payable monthly in advance.

The Group has hire purchase commitments as follows:

- Access Constructions have purchased two motor vehicles under hire purchase agreements. The hire purchase agreements commenced in December 2006 and each run for a term of 3 years. The hire purchase payments are paid monthly in arrears.

NOTE: 26: 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:

Folkestone Limited and its Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2007

NOTE: 26: CONTINGENT LIABILITIES CONTINUED

- Abaris Printing, Stage 1 (construction completed, defects liability period expiring in July 2007)
- Parkwest: Signorlno Tiles Warehouse and Building B (construction completed, defects liability period expires 20 March 2008)

- Bertie Bridge Pty Ltd – Folkestone Limited owns 75% of the share capital in Bertie Bridge Pty Ltd. Folkestone Limited has provided a several guarantee in favour of Trust Company of Australia Limited in relation to the due and punctual performance by Bertie Bridge Pty Ltd of its obligations under the Development Agreement for Toyota Business Park (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 Ltd 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. Construction of the building was completed in May 2007 at which time Ericsson Australia took occupation.
- 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.
- Sorrento (Vic) Pty Ltd – Folkestone Limited owns 100% of the share capital of Sorrento (Vic) Pty Ltd and has provided a guarantee in favour of St George Bank Ltd in relation to a loan facility for \$8m (drawn nil) for the development of 108 Ocean Beach Road, Sorrento. Sorrento (Vic) Pty Ltd has obtained from St George Bank Limited, a bank guarantee for \$1,925,000.. The bank guarantee secures the payment to the vendor which has been fully provided for in the financial statements.
- Noone St Clifton Hill Pty Ltd - Folkestone Limited holds 50% of the share capital in Noone St Clifton Hill Pty Ltd. Folkestone Limited has provided a guarantee in favour of BOS International (Australia) Limited in relation to a loan facility for \$20m (drawn \$14.5m) for the development of 169 Noone Street, Clifton Hill.

- b) Access Constructions Pty Ltd has a \$4m surety bond facility with QBE Insurance. As at balance date, QBE had issued \$1.968m 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.

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

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

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

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

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

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

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

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

Folkestone Limited and its Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2007

NOTE 27: SEGMENT REPORTING

Primary Reporting – Business Segments

	Project Development		Construction		Eliminations/ Unallocated		Consolidated	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Revenue from external customers:								
Sales	31,623	42,427	48,757	41,749	-	-	80,380	84,176
Other revenue	33	71	263	125	359	78	655	274
Total revenue from external customers	31,656	42,498	49,020	41,874	359	78	81,035	84,450
Inter-segment revenue	-	-	-	-	-	-	-	-
Total revenue	31,656	42,498	49,020	41,874	359	78	81,035	84,450
Segment result	3,813	(31)	3,261	3,217	(417)	(551)	6,656	2,635
Income tax expense							(2,066)	(804)
Profit for the period							4,590	1,831
Segment assets	37,581	23,894	8,708	4,334	-	-	46,289	28,228
Unallocated assets		-		-	4,017	3,432	4,017	3,432
Total assets	37,581	23,894	8,708	4,334	4,017	3,432	50,306	31,660
Segment liabilities	17,229	5,581	5,172	3,251	-	-	22,401	8,832
Unallocated liabilities		-	-	-	2,994	1,031	2,994	1,031
Total liabilities	17,229	5,581	5,172	3,251	2,994	1,031	25,395	9,863
Capital expenditure	-	-	80	77	18	14	98	91
Depreciation and amortisation	-	-	58	70	24	21	82	91
Investment in associates	1,079	-	-	-	-	-	1,079	-

Accounting Policies

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of payables, employee benefits, accrued expenses, provisions and borrowings.

Intersegment Transfers

Segment revenues, expenses and results include transfers between segments. The prices charged on intersegment transactions are the same as those charged for similar goods to parties outside of the economic entity at an arm's length. These transfers are eliminated on consolidation.

Business segments

The economic entity has the following two business segments:

- Project Development
- Construction

Folkestone Limited and its Controlled Entities
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NOTE 28: NOTES TO THE CASH FLOW STATEMENT

	Economic Entity		Parent Entity	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
a. Reconciliation of profit for the period to net cash flows from operations				
Profit after income tax	4,590	1,831	1,541	4,551
Non-cash flows in profit				
Amortisation & depreciation	82	91	24	22
Write-downs to recoverable amount	-	164	-	1,931
Expensing of performance rights	63	-	63	-
Inter-company dividends and distributions	-	-	-	(7,824)
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
(Increase)/decrease in trade and other receivables	(10,226)	62	(262)	6
(Increase)/decrease in other operating assets	779	(766)	-	4
(Increase)/decrease in inventories	(2,161)	14,992	262	(216)
Increase/(decrease) in trade and other payables	16,126	(1,418)	(66)	(768)
Increase/(decrease) in income taxes payable	772	132	746	(701)
(Increase)/decrease in deferred tax assets	6	(19)	36	39
Increase/(decrease) in provisions	(4)	41	(169)	(1)
Net cash from operations	10,027	15,110	2,175	(2,957)
b. Credit Standby Arrangements with Banks				
Bank Loan Facilities	18,000	10,073	-	-
Amount utilised	(2,250)	(4,293)	-	-
	15,750	5,780	-	-

The major facilities are summarised as follows:

Bill facility

Bills when drawn bear interest at 6.45%-6.63% (2006: 5.78%-5.79%) excluding margins. The total bill facility available at 30 June 2007 was \$18,000,000 and subject to continuing compliance with the facility conditions, the bill facilities may be drawn at any time and have an expiry in line with each specific project. Bill facilities are specific to each project and as new projects are secured, further bill facilities will be acquired.

The bill facility is expected to reduce as settlement of current projects takes place during the year but may increase with new projects.

NOTE 29: EVENTS AFTER BALANCE DATE

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in future financial years.

Folkestone Limited and its Controlled Entities
Notes to the Consolidated Financial Statements
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NOTE 30: RELATED PARTY TRANSACTIONS

Controlling Entity

The ultimate controlling entity is Folkestone Limited (incorporated in Victoria, Australia).

Wholly-owned Group

The wholly-owned group consists of Folkestone Limited and its wholly-owned controlled entities. Ownership interests in these controlled entities are set out in Note 16.

Transactions between Folkestone Limited and other entities in the wholly-owned group during the years ended 30 June 2007 and 2006 consisted of:

- a) loans advanced by Folkestone Limited;
- b) loans repaid to Folkestone Limited;
- c) the payment of dividends and distributions to Folkestone Limited; and
- d) transactions between Folkestone Limited and its wholly-owned Australian controlled entities under the accounting tax funding agreement described in Note 1(b).

No interest has been charged on loans made by/to Folkestone Limited to/from its wholly owned subsidiaries and there are no fixed terms for the repayment of these loans as they are at call.

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Aggregate amounts receivable from and payable to related parties in the wholly-owned group at balance date were as follows:				
Current receivables	-	-	17,679,695	17,692,790
Current borrowings	-	-	3,322,958	2,603,984

The above transactions between the parent entity and its controlled entities consist of funds transferred for day to day financing and investment of surplus funds which result in inter-entity receivables and payables. Such balances are unsecured and interest free.

Other Related Parties

Aggregate amounts receivable from, and payable to, each class of other related parties at balance date:-

Current receivables:

Associated entities	-	-	-	763,528
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Current borrowings:

Associated entities	694,468	-	1,452,512	-
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Transactions with Directors

No transactions with directors occurred during the period other than those disclosed in Note 5.

Folkestone Limited and its Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2007

NOTE 31: FINANCIAL INSTRUMENTS

a. Financial Risk Management

The group's financial instruments consist mainly of deposits with banks, short-term investments, accounts receivable and payable, loans to and from subsidiaries, bills and leases.

The main purpose of non-derivative financial instruments is to raise finance for group operations.

i Financial Risks

The main risks the group is exposed to through its financial instruments are interest rate risk, credit risk and liquidity risk.

b. Financial Instruments

i Interest Rate Risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, are as follows:

Folkestone Limited and its Controlled Entities
Notes to the Consolidated Financial Statements
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NOTE 31: FINANCIAL INSTRUMENTS CONTINUED

2007		Fixed Interest Maturing				
	Note	Floating Interest Rate \$'000	1 year or less \$'000	Greater than 1 year	Non Interest Bearing \$'000	Total \$'000
<u>Financial Assets</u>						
Cash and Deposits	9	11,689	-	-	777	12,466
Receivables	10	-	-	-	20,092	20,092
		11,689	-	-	20,869	32,558
Weighted Average Interest Rate		5.4%	-	-	-	-
<u>Financial Liabilities</u>						
Trade and other payables	19	-	-	-	20,828	20,828
Borrowings	20	-	2,263	12	694	2,969
		-	2,263	12	21,552	23,797
Weighted Average Interest Rate		-	7.30%	8.95%	-	-
Net Financial Assets (Liabilities)		11,689	(2,263)	(12)	(683)	8,761
2006						
		Fixed Interest Maturing				
	Note	Floating Interest Rate \$'000	1 year or less \$'000	Greater than 1 year	Non Interest Bearing \$'000	Total \$'000
<u>Financial Assets</u>						
Cash and Deposits	9	6,126	346	-	46	6,518
Receivables	10	-	-	-	9,866	9,866
		6,126	346	-	9,912	16,384
Weighted Average Interest Rate		4.75%	5.22%	-	-	-
<u>Financial Liabilities</u>						
Trade and other payables	19	-	-	-	4,702	4,702
Borrowings	20	-	4,308	23	-	4,331
		-	4,308	23	4,702	9,033
Weighted Average Interest Rate		-	8.14%	8.95%	-	-
Net Financial Assets (Liabilities)		6,126	(3,962)	(23)	5,210	7,351

Folkestone Limited and its Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2007

NOTE 31: FINANCIAL INSTRUMENTS CONTINUED

ii) Credit Risk Exposure

The credit risk on financial assets of the economic entity which have been recognised on the balance sheet is generally the carrying amount, net of any provisions for doubtful debts.

iii) Liquidity Risk Management

The consolidated entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

iv) Net Fair Value of Financial Assets and Liabilities

On Balance Sheet

The net fair value of cash and cash equivalents and non interest bearing monetary financial assets and financial liabilities approximates their carrying value.

v) Net Fair Values

There is no material difference between the carrying amounts and the net fair values of financial assets and liabilities.

Sensitivity analysis

In managing interest rate risks the consolidated entity aims to reduce the impact of short-term fluctuations on the consolidated entity's earnings. Over the longer-term, however, permanent changes in interest rates would have an impact on consolidated earnings.

At 30 June 2007, it is estimated that the impact of a general increase of one percentage point in interest rates would not have had a material effect on the consolidated entity's profit before tax due to the low levels of financial assets and financial liabilities outstanding during the year.

Directors' Declaration

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

- (a) the financial statements and notes set out on pages 22 to 59, are in accordance with the Corporations Act 2001, and:
 - (i) give a true and fair view of the financial position of the company and the economic entity as at 30 June 2007 and of their performance for the financial 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 financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - (ii) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - (iii) the financial statements and notes for the financial year give a true and fair view.
- (c) in the directors' opinion, there are reasonable grounds to believe that the company and the controlled entities identified in Note 16 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

Melbourne
17 August 2007



O Guglielmi
Director

Independent Auditor's Report to the Members of Folkestone Limited

We have audited the accompanying financial report of Folkestone Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 23 to 60.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the 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. In note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the consolidated financial statements and notes comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Deloitte.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

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

Auditor's Opinion

In our opinion:

- (a) the financial report of Folkestone Limited is in accordance with the *Corporations Act 2001* including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Robert D D Collie
Robert D D Collie
Partner
Chartered Accountants
Melbourne, 17 August 2007

ASX Additional information

The shareholder information set out below was applicable as at 17 August 2007:

A Distribution of Equity Securities

Analysis of number of equity security holders by size of holding

			Ordinary Shares
	1	-	1,000
	1,001	-	5,000
	5,001	-	10,000
	10,001	-	100,000
	100,001	and	Over
			<u>67</u>
			<u>159</u>
			<u>154</u>
			<u>370</u>
			<u>41</u>
			<u><u>791</u></u>

There were 31 holders of less than a marketable parcel of ordinary shares

B Equity Security Holders

Twenty Largest quoted Equity Security Holders

	Ordinary Shares	
	Number Held	% of issued Shares
ANZ Nominees Ltd	6,033,958	19.83
Kingsley Developments Pty Ltd	2,970,247	9.76
Herzog Family Super Fund A/c	1,273,000	4.18
Wilbow Pty Ltd	926,396	3.04
Mr Benjamin Paul Jones	515,581	1.69
Tesset Pty Ltd	500,000	1.64
ATL Maitland	323,860	1.06
Davwall Pty Ltd	322,870	1.06
Mr David Charles Leslie Gibbs	301,299	0.99
Melbourne Newsboys Club	300,000	0.99
O Guglielmi	292,195	0.96
The Private Fiduciary Corporation	261,815	0.86
Mr Douglas & Mrs Daisy Wade	238,886	0.79
Marlton Investments Pty Ltd	225,000	0.74
Mr Peter Howells	217,961	0.72
Abacus Group Holdings Ltd	211,860	0.70
Mr Peter & Mrs Ann Lovas	195,793	0.64
Tribune Securities Pty Ltd	188,962	0.62
Mr Jonathan Martin Daniels	183,336	0.60
Mirlex Pty Ltd	178,911	0.59
	<u>15,661,930</u>	<u>51.46</u>

C Substantial Holders

Substantial holders in the company are set out below

	Number Held	Percentage %
Thorney Holdings Pty Ltd	6,033,958	19.83
Kingsley Developments Pty Ltd	2,970,247	9.76

D Voting Rights

Ordinary Shares

On a show of hands every member present in person or by proxy shall have one vote and upon a poll each share shall have one vote.