



Folkestone

ANNUAL REPORT 30 JUNE 2005

Folkestone Limited ACN 004 715 226



700 Collins Street, Docklands
530 Lonsdale Street, Melbourne
Wheat Restaurant, Lonsdale Street

Opposite page:
Toyota sites, Port Melbourne



	Page
Chairman's Report	2
Financial Highlights	3
Review of Operations	4
Key Personnel	14
Directors' Report	15
Auditors Independence Declaration	25
Corporate Governance Statement	26
Financial Report	30
Directors' Declaration	67
Independent Audit Report to the members	68
Shareholder Information	70
Company Particulars	71

The past year was more challenging than we had expected with a noticeable slow down in activity in the second half. Two of our major development projects contributed a less than satisfactory return in the past 12 months. The planning issues including consequent redesigns for Jolimont Square, East Melbourne resulted in this project running many months behind schedule with a consequent impact on costs and delayed revenue recognition. The refurbishment of 528-530 Lonsdale Street has gone through a number of iterations as we sought to find an approach that resonated with the requirements of a specialized market segment. The diminution in the value of these two projects has been recognized in the year's accounts.

Having recognised these issues and advised our shareholders and the market, the company has moved forward and looks with greater confidence to the coming year. The East Melbourne project is now making considerable progress and sales have picked up. With construction activity gaining momentum, certainty of final delivery is helping our marketing efforts and the level of inquiry is encouraging.

In the case of 528-530 Lonsdale Street, the building now has significant tenants/owners installed. The ground floor retail space is well established and has brought activity to the building that will assist in the disposal of the remaining floors.


The completion of 700 Collins Street was a major achievement during 2004-05 and the end product is a building we can rightly be very proud of. It is testament to the high level skills of our staff that this significant structure was conceived by Folkestone and taken through every stage, including a highly structured financial arrangement, that together with our joint development partner, Leighton Properties, resulted in the delivery of one of the larger office projects to be completed in Victoria in the last 18 months.

An important development during the year was the acquisition of Access Constructions Pty Ltd. We had formed a close and beneficial working relationship with its owner Peter Herschell while developing the Wellington Road Business Park. Our appreciation of the quality management team that Peter had developed increased our confidence in the company and as it met our strategic requirement of diversifying Folkestone's earning streams we were pleased to be able to negotiate satisfactory arrangements for the purchase of Access Constructions. We welcome the management and staff to the Folkestone Group and are enjoying working with them.

As I noted last year, it is inevitable that profits will vary from one accounting period to the next, and while our expectations were not met this past year the directors believe the outlook remains satisfactory and have approved a final dividend payment of 3.5 cents, the same as last year, making a total dividend payment for the year of 6.0 cents, fully franked.

The introduction of International Financial Reporting Standards ("IFRS") from 1 July 2005 has the potential to further increase earnings volatility, especially in relation to revenue and profit from our residential activities. Under IFRS, revenue and profit arising from residential development will only be recognised following sale settlement. Consequently the Board's use of dividends to smooth earnings volatility is even more important and confirms our need to take the next steps in our strategy of having a more diversified earnings base.

The Directors join me in thanking the staff and management team for their diligent work during a less than propitious year as the property cycle slowed.



ALISTER MAITLAND

FINANCIAL HIGHLIGHTS

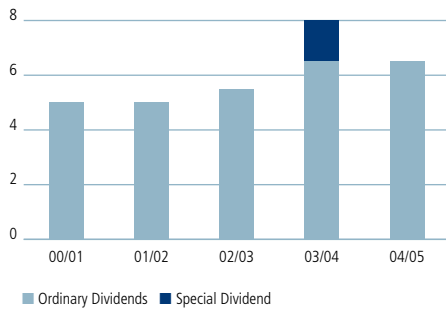
	2005 \$'000	2004 \$'000	2003 \$'000	2002 \$'000	2001 \$'000
Profit from ordinary activities before individually significant items	1,525	5,748	1,654	2,171	1,898
Writedown of property asset to recoverable amount	(78)	-	(141)	-	-
Amortisation of goodwill	(26)	-	-	-	-
Income Tax Expense	(451)	(1,742)	(387)	(548)	(276)
Profit from ordinary activities after income tax expense	970	4,006	1,126	1,623	1,622

STATISTICAL DATA

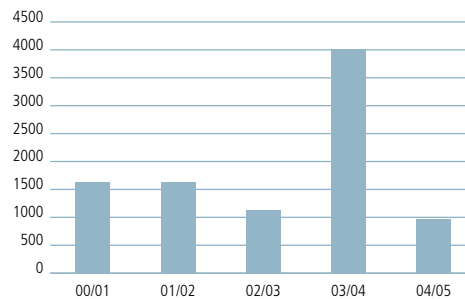
Ordinary Shares on issue - year end ('000)	29,668	28,329	22,160	21,914	21,646
Basic Earnings per ordinary share (cents)	3.3	15.0	5.1	7.5	7.6
Dividend rate on fully paid shares (cents)	6.0	6.0	5.5	5.0	5.0
Special dividend (cents)	-	1.5	-	-	-
Net assets attributable to members of the company (\$'000)	22,071	20,846	15,666	14,920	14,299
Net asset backing per ordinary share - book value (cents)	74	74	71	68	66
ASX Closing Price 30 June (cents)	58	80	60	51	60

FINANCIAL HIGHLIGHTS

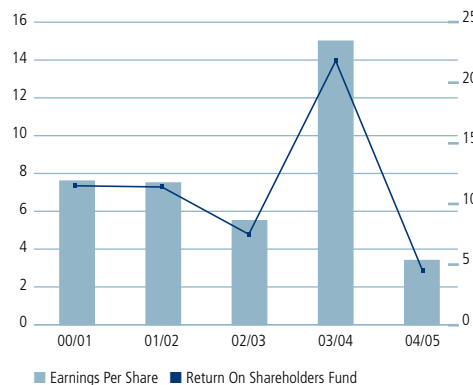
Cents **Dividends**



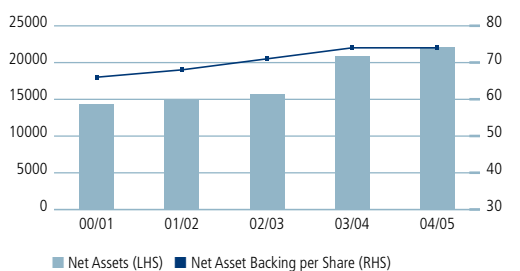
\$'000s **Net Profit after Tax**



EPS (cents) **Earnings Per Share/Return On Shareholders Fund** ROSF (%)



\$'000s **Net Assets (LHS) vs. Net Asset Backing per Share (RHS)** Cents



FINANCIAL RESULT

The year ended 30 June 2005 delivered a profit of \$970,000 after tax, (2004 : \$4,006,000).

All results included in this financial report are based on Australian Accounting Standards applicable at balance date (and not International Financial Report Standards). Comparative figures for 2004 have been amended as a result of ASIC querying the company’s accounting for equity investments. A summary of the changes arising as a result of ASIC’s enquiry are include in Notes to the Financial Statements at Note 1(y).

DIVIDENDS PAID OR RECOMMENDED

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

	\$'000
Final ordinary dividend of 3.5 cents paid on 29 October 2004 as provided for at 30 June 2004	1,002
Special dividend of 1.5 cents paid on 29 October 2004 as provided for at 30 June 2004	428
Interim ordinary dividend of 2.5 cents per share paid on 29 April 2005	738
Final ordinary dividend of 3.5 cents per share recommended by directors to be paid on 28 October 2005	1,038

DIVIDEND REINVESTMENT PLAN (“DRP”)

The DRP continues to be well accepted by shareholders with the participation rate remaining at about 12% of the issued capital. This mechanism provides an opportunity for shareholders to reinvest in the Company at a discount to the prevailing market price.

During the year the company issued 315,154 shares through the DRP, retaining approximately \$258,000.

DEVELOPMENT ACTIVITY

During the 2004-05 financial year, the company completed its flagship project, 700 Collins Street, Docklands.

This project was a joint venture between Leighton Properties Pty Ltd and Folkestone Docklands Pty Ltd (owned 50% by Folkestone Ltd and 50% by LUCRF Pty Ltd, an industry superannuation fund). The building consisted of 34,000m² of office and retail space over 17 levels including car parking.

All office space was fully leased at completion. Tenants for the office component are Medibank Private, Bureau of Meteorology and VicUrban. The sale to Cromwell Diversified Trust was settled on 13 December 2004 and the last of the tenancy fit out works were completed in April 2005.

This joint venture development performed very well for the company and has delivered fee income and profits over the last three financial years.

As at 30 June 2005 we have five projects in progress and another one about to enter the pipeline. A description and status of each these projects follows:

• **530 Lonsdale Street, Melbourne**

Formerly the headquarters of AWB Limited, this building was acquired in April 2004. Consisting of eight levels plus basement for 14 cars, the building has undergone a major refurbishment and is being marketed as offices for the legal profession.

At balance date, approximately 40% of the building had been sold including all of the ground floor retail.

Our initial concept of strata titled barrister chambers was based on market research and, in particular, direct feedback from barristers suggesting there was significant demand for ‘own your own’ chambers. Our marketing campaign was pitched accordingly and, whilst there was a reasonable level of enquiry, actual sales did not eventuate. This has prompted the company to pursue a wider market (e.g. solicitors) as potential lessees or purchasers.



melbourne

jolimont





• **'Jolimont Square'**
Wellington Parade South, East Melbourne

The project consists of 18 new terrace houses and three existing period homes. The terrace houses range in size from 210m² to 340m² and are over two and three levels. Construction works commenced in April 2005 and are scheduled for completion in two stages in the first half of 2006. Sales to balance date include two of the period homes, four of the house sites and two of the terrace houses under construction. Now that construction activity is underway, the level of sales enquiry has picked up considerably and we anticipate securing further sales shortly.

Jolimont
 square

REVIEW OF OPERATIONS

• **Toyota Business Park, Corner Bertie and Fennel Streets, Port Melbourne**

This development site was acquired in joint venture with MAB Corporation Pty Ltd. The development proposed for this site includes a new office and warehouse development for Fuji Xerox of approximately 4,116m² and four smaller office / showroom / warehouse buildings. The Fuji Xerox building was pre-sold on a yield of 7.25% which resulted in a sale price of \$7.0m. A planning permit for the Fuji Xerox building has been issued and the permit for the remainder of the site should issue shortly. Construction by Access Constructions is due to commence in September, with completion in May 2006.



port melbourne

• **Toyota Business Park, Bertie and Bridge Streets, Port Melbourne**

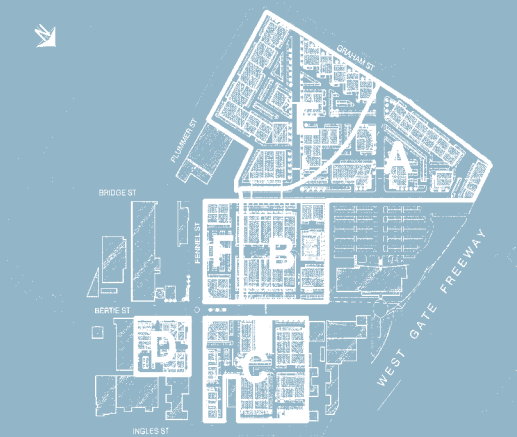
This 2.84 hectare site is adjacent to Toyota’s Head Office and approximately 150 metres from the site mentioned above. The property has been acquired by Macquarie Goodman Industrial Trust. Folkestone, in conjunction with MAB Corporation Pty Ltd, has been granted development rights over the site for a fixed period in return for the payment of a land rental. Over that period Folkestone and MAB have exclusive rights to develop industrial office / warehouses on the site.

Initially, 7,500m² of space will be constructed in five buildings and tenants sought. Once 50% of this space has been committed, it is proposed to develop the balance of the site.

Several submissions for tenants have been prepared. However, at the time of writing no firm commitments have been made.



PRECINCT PLAN





mulgrave

- **21-29 Miles Street, Mulgrave.**

Refurbishment of this property was completed in 2004. It consists of 1,725 m² of office space plus 65 car spaces and since completion has been marketed for lease and/or sale without success. Enquiry levels remain slow and we are now looking at the alternative of subdividing the property into small strata offices.

In addition to the above projects, we are well advanced on a retail and residential development in regional Victoria. This project when completed will have an end value of \$13 million. Further details will be released to the market when contracts are in place.

The forward workbook at approximately \$73m is slightly more than at the same time last year but ideally should be higher than it is. New opportunities are constantly being evaluated but project viability is difficult to establish in the current market.

Construction Activity

On 31 March 2005, the Company acquired Access Constructions Pty Ltd, a design and construct builder specialising in industrial and low rise commercial projects within Victoria.

Access Constructions has been operating for approximately 15 years under the ownership of Mr Peter Herschell. Current expectations are that it will be an excellent contributor to Folkestone's overall group profit, with turnover historically ranging between \$17-20 million per annum.

At the time of acquisition there were 10 projects in progress which have either been completed or are to be completed over the next six to eight months. Since acquisition further construction contracts have been secured and at present there are 10 projects at various stages of design or construction.

Mr Tony Cariss (formerly General Manager of Access) has been appointed Managing Director, Mr Glen Bowen (General Manager Construction) will be focusing on construction delivery and Mr Ed Schonfeldt (Business Development Manager) on marketing and business development. In addition to these three key executives, there is a team of 25 employees providing technical and administration support.

Projects currently under way vary from a major logistics warehouse to fitouts of existing office/warehouses.

At balance date, Access had a forward work book in excess of \$25 million across the ten projects. The projects vary in size from \$250,000 to \$12.6 million and are located across metropolitan Melbourne. Primarily all contracts are for industrial facilities with the exception of an extension to a car showroom and office facility and a unit showroom facility.

Access' current client list is extensive and includes ING, Blue Star Logistics, Patterson Cheney and Wettenhalls Transport as well as Folkestone and MAB Corporation in its joint venture in Port Melbourne.



access



IFRS Impact

From 01 July 2005, the Folkestone Group will be subject to Australian International Financial Reporting Standards ("AIFRS). AIFRS will impact Folkestone's results in the 2005/06 financial year as follows:

- Any emerging profit and revenue on residential sales taken up by the economic entity will need to be reversed with profit being realised only when settlement has occurred.
- Amortisation of goodwill to date is to be reversed and each year the goodwill carrying value has to be impairment tested.

Details of the impact of adoption of AIFRS is disclosed in the Financial Report Note 1(y).

Financial Position

During the year the Company issued the following shares:

- 753,864 Ordinary Shares (\$600,000) in part payment for Access Constructions Pty Ltd;
- 315,189 Ordinary Shares (\$255,406) through the dividend reinvestment plan; and
- 270,000 Ordinary Shares (\$148,500) through the exercise of options.

Access Constructions is now delivering regular monthly profits which assist in reducing the volatility in Folkestone's earnings stream.

Cash reserves while significant at balance date will diminish during the coming months given equity requirements for existing projects and dividend payments. Cash inflow will occur once further sales are settled at both 530 Lonsdale Street, Melbourne and Miles Street, Mulgrave is sold. We do not anticipate any cash flowing from Jolimont Square, East Melbourne until mid 2006 following construction completion.

Financial Conditions

The company and the economic entity do not issue any debt instruments. Any debt incurred by the Group is project specific. Interest rates have remained 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 Statement of Cash Flows on page 34 and the associated notes.

Corporate Strategy

Folkestone's core business continues to be the development and sale of property projects with a focus on selected markets within the commercial, industrial and residential sectors.

As we foreshadowed at last year's Annual General Meeting, the Company's strategic plan is to diversify its earnings base by creating new business units within the property/construction industry so that over time Folkestone becomes less reliant on profits from development projects. The first step in the implementation of this plan was the acquisition of Access Constructions Pty Ltd. It provides us with an alternative earnings stream and one which produces regular profits. It also means our operations are more vertically integrated and this will help make Folkestone more competitive in its development business with respect to commercial and industrial.

The next step is to go up upstream in the value chain by acquiring or creating a business involved in funds management and property investment.

Our aim is to create a multi-platform property group with a diversity of income sourced from construction, development, funds management and property investment.



REVIEW OF OPERATIONS



docklands

KEY PERSONNEL

folkestone



Mischa Leonard
Chief Financial Officer
and Company Secretary



Simon Lowe
Senior Development Manager



Natalie Ford-Dundee
Project Manager



Tom Shelton
Development Manager

access



Tony Cariss
Managing Director



Glen Bowen
General Manager
Construction



Ed Schonfeldt
Business Development
Manager



directors'
report

Your directors present their report on the consolidated entity consisting of Folkestone Limited and the entities it controlled at the end of, or during, the year ended 30 June 2005.

Directors

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

- ATL Maitland
- AR Davison
- BR Kean (AM)
- DCJ Scarf

Company Secretary

The following person held the position of Company Secretary at the end of the financial year: Mischa Leonard (42), Bachelor of Business (Accounting), Graduate Diploma (Finance), Certified Practising Accountant and Fellow Chartered Institute of Secretaries, has been employed by Folkestone Ltd for ten (10) years, performing the role initially of financial controller and company secretary and since 2002 the role of chief financial officer and company secretary for all the group's activities.

Principal Activities

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

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

The following significant changes in the nature of the principal activities occurred during the financial year:

- the economic entity sold its last investment property, and
- with the purchase of Access Constructions Pty Ltd, the economic entity commenced designing and constructing industrial and low rise commercial suburban buildings.

Dividends

Dividends paid to members during the financial year were as follows:

	2005 \$'000	2004 \$'000
Interim Ordinary dividend for the year ended 30 June 2005 of 2.5 cents (2004 – 2.5 cents) per fully paid share paid 29 April 2005	738	705
Final Ordinary dividend for the year ended 30 June 2004 of 3.5 cents (2003 – 3.3 cents) per fully paid share paid on 29 October 2004	1,002	736
Special dividend of 1.5 cents per share paid on 29 October 2004	428	-
Total dividends paid in respect of the year	2,168	1,441

In addition to the above dividends, the directors declared on 25 August 2005 the payment of a final ordinary dividend of \$1,038,000 (3.5 cents per fully paid share fully franked).

Review of Operations

A review of the Folkestone Group's operations and activities is contained on pages 4 to 13.

Earnings per Share

	2005 Cents	2004 Cents
Basic earnings per share	3.4	15.0
Diluted earnings per share	3.4	14.9

Significant Changes in the State of Affairs

The following significant changes in the state of affairs of the parent entity occurred during the financial year:

1. On 31 March 2005, Folkestone Ltd issued 753,864 ordinary shares as part payment for Access Constructions Pty Ltd. A cash payment of \$1,000,000 was also made. Access Constructions Pty Ltd is now a wholly owned subsidiary of Folkestone Ltd.
2. During the year, approximately 315,000 (\$258,000) shares were issued pursuant to the dividend reinvestment plan.
3. Options were exercised over 270,000 ordinary shares raising \$148,500.

After Balance Date Events

Since 30 June 2005 the following has occurred:

- The mezzanine office at 530 Lonsdale Street, Melbourne has been sold;
- An offer has been received for a new terrace home at Jolimont Square, East Melbourne which has been accepted and contracts are being prepared for execution.

Likely Developments and Expected Results of Operations

Except for the matters discussed above, no other matter or circumstance has arisen since 30 June 2005 that has significantly affected, or may significantly affect:

- a) the economic entity's operations in future financial years; or
- b) the results of those operations in future financial years; or
- c) the economic entity's state of affairs in future financial years.

Further information to those matters disclosed above on likely developments in the operations of the economic entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the economic entity.

Environmental Regulation

The economic entity complies with all relevant State and Commonwealth legislation and regulations in respect to environmental matters. Regular Board reporting on a project by project basis occurs in relation to development activities. Access Constructions Pty Ltd complies with all statutory obligations relevant to its construction activities.

Occupation Health and Safety Regulations

The economic entity complies with all relevant legislation and regulations in respect of occupation health and safety matters and regularly reports to the relevant Board.



Alister TL Maitland (64)
Chairman Non Executive

Qualifications

Bachelor of Commerce (Wellington NZ), Fellow Australian Institute of Company Directors, Fellow Australian Institute of Management, Fellow Australian Institute of Banking

Experience

Appointed Chairman 1999. Board member since 1998. Executive Director ANZ Banking Group 1992 to 1997, Chairman Eastern Health Network, Director of Pengurusan Danaharta Nasional Berhad (Malaysia)

Interests in Shares

273,860 of Ordinary Shares of Folkestone Ltd

Special Responsibilities

Mr Maitland is a member of the Audit Committee and Chairman of the Remuneration Committee

Directorships held in other listed entities

Director of Ballarat Goldfields NL (since July 2005)

Assessment of Independence

The Board has determined that Alister Maitland is an independent director for the purposes of ASX Best Practice Recommendations



Bruce R Kean AM (72)
Director Non Executive

Qualifications

Dip. Chemical Engineering; Fellow Institution of Engineers Australia; Fellow Australian Institute of Company Directors; Fellow Australian Academy of Technological Sciences and Engineering; Fellow Royal Society for Arts Manufacturing and Commerce

Experience

Board member since 2000. Chief Executive and Managing Director Boral Ltd 1987 to 1994; Director AMP Ltd 1989 to 2000; Director Australian Submarine Corporation 1995 to 2002; Director Pirelli Cables (Australia) Ltd 1994 to 2000; Director Capral Aluminium Ltd 1995 to 2001; Director Bank of Tokyo-Mitsubishi Australia Ltd 1994 to 1998; Chairman Committee for the Economic Development of Australia 1994 to 2002; Chairman Mental Health Research Institute from 1998 and Director Neuroscience Victoria from 2004

Interests in Shares

17,143 Ordinary Shares of Folkestone Ltd

Special Responsibilities

Mr Kean is Chairman of the Audit Committee and a member of the Remuneration Committee

Directorships held in other listed entities

Nil

Assessment of Independence

The Board has determined that Bruce Kean is an independent director for the purposes of ASX Best Practice Recommendations



David CJ Scarf (56)

Director Non Executive

Qualifications

Bachelor of Economics (Sydney)

Experience

Board member since 1991. Executive Chairman Corporate Apparel Group Pty Ltd, Managing Director Pacific Counties Corporation Pty Ltd

Interests in Shares

322,870 Ordinary Shares of Folkestone Ltd

Special Responsibilities

Mr Scarf is a member of the Audit and Remuneration Committees

Directorships held in other listed entities

Nil

Assessment of Independence

The Board has determined that David Scarf is an independent director for the purposes of ASX Best Practice Recommendations



Allan R Davison (56)

Managing Director (Executive)

Qualifications

Bachelor of Building (Melbourne), Associate Australian Property Institute

Experience

Board member since 1998. Chief Executive Officer 1996 to 1998. Over 30 years property development including commercial, industrial, retail and residential. Chairman Property Programs Advisory Committee RMIT University

Interests in Shares

1,384,031 Ordinary Shares of Folkestone Ltd

Special Responsibilities

Responsibilities include Folkestone's development activities and Chairman Access Constructions Pty Ltd

Directorships held in other listed entities

Nil

Remuneration Report

This report details the nature and amount of remuneration for each director of Folkestone Ltd and for executives receiving the highest remuneration.

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 reward governance practise:

- 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 complementary to the reward strategy of the organisation, having regard to the size of the Group.

Alignment to shareholders' interests:

- has economic profit as a core component of plan design;
- focuses on sustained growth and delivering consistent return on assets; and
- attracts and retains 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. Shares, if given to directors and executives, are valued as the difference between the market price of those shares and the amount paid by the director or executive.

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 \$200,000). Fees for non-executive directors are not linked to the performance of the economic entity. However, to align directors' interests with shareholder interest, the directors are encouraged to hold shares in the company.

The Chairman receives carparking and partial 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 directors appointed after that date. Mr David Scarf is entitled to a retirement allowance, having been appointed in 1991. This is fixed at \$52,800 and is fully provided for in the Company's accounts.

Performance Based Remuneration

The executive pay and reward framework has two components:

- base pay, benefits and superannuation; and
- short-term 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.

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 executives is reviewed annually to ensure that total remuneration is competitive with the market.

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.

Executive Short-term incentives – Folkestone

Should the company achieve a pre-determined return on shareholders' funds target set by the Board then a pool of short-term incentive (STI) payments is available for Folkestone executives for allocation during the annual review. Cash incentives (bonuses) are payable within 6 months of the end of each year. Using a return on shareholders' funds target ensures that variable reward is only available when value has been created for shareholders over and above a hurdle rate. The incentive pool is leveraged for performance above the threshold to provide an incentive for executive out-performance.

The Board approves the appropriate STI target on the recommendation of the Managing Director and the Remuneration Committee. The Managing Director in consultation with the Chairman, allocate incentives depending on the accountabilities of the role and impact on organisation performance.

Executive Short-term incentives – Access Constructions

Certain executives of Access Constructions are on an STI program 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 the employment contracts. The STI program was in place prior to acquisition by Folkestone and encourages employees to deliver profits on an annual basis.

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.

Details of Remuneration For the year ended 30 June 2005

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

Specified executives are those executives with authority for the strategic direction and management of the consolidated entity. Apart from Mr Allan Davison, Managing Director, Mr Mischa Leonard, Chief Financial Officer and Company Secretary, was a specified executive of the economic entity while Mr Tony Cariss, Managing Director of Access Constructions Pty Ltd is also a specified executive in relation to Access Constructions Pty Ltd.

Name	Total	Salary & Fees	Bonus ²	Other Benefits	Superannuation Contributions	Options
	\$	\$	\$	\$	\$	\$
Directors						
Alister TL Maitland – Chairman	68,733	55,046	-	8,733	4,954	-
Bruce R Kean	40,000	40,000	-	-	-	-
David CJ Scarf	40,000	36,697	-	-	3,303	-
Allan R Davison – Managing	278,359	183,800	-	10,559	84,000	-
Total	427,092	315,543	-	19,292	92,257	-
Specified Executives						
Mischa J Leonard	194,619	170,140	-	11,279	13,200	-
Tony S Cariss ¹	105,010	30,963	67,510	3,750	2,787	-
Total	299,629	201,103	67,510	15,029	15,987	-

¹ Commenced 1 April 2005

² Relates to period ending 30 June 2005 – payable March 2006

Employment contracts of directors and senior executives

All staff are permanent employees of either Folkestone Limited or Access Constructions Pty Ltd.

Three employees of Access Constructions (including Mr Tony Cariss) have their employment conditions formalised in contracts of employment. These contracts are initially to 31 December 2006 and stipulate a three month resignation period. The Company may terminate an employment contact 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.

Options Issued as part of Remuneration for the year ended 30 June 2005

There have been no options over unissued ordinary shares of Folkestone Limited granted during or since the end of the financial year to any of the directors, specified executives or employees of the company and economic entity. No share based compensation or remuneration applied during the year ended 30 June 2005.

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 2005, and the number of meetings attended by each director were:

Meetings of Directors	Full Meeting of Directors	Audit Committee	Remuneration Committee
Number of meetings held	13	3	1
Number of meetings attended by:			
Alister TL Maitland (Chairman)	13	3	1
Bruce R Kean	13	3	1
David CJ Scarf	12	3	1
Allan R Davison (Managing Director)	13	*	*

*Not a member of the relevant committee

Options

At the date of this report, there are no options over Ordinary Shares outstanding.

During the year ended 30 June 2005, the following Ordinary Shares of Folkestone Ltd were issued on the exercise of options granted. No further shares have been issued since that date. No amounts are unpaid on any of the shares.

Grant Date	Exercise Date	Exercise Price	No of Shares Issued
23 December 1999	07 October 2004	\$0.55	270,000

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issues of any other body corporate.

Insurance of Officers

During the financial year ended 30 June 2005, Folkestone Limited paid a premium of \$17,205 (2004 – \$17,255) 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.

Proceedings on Behalf of the Company

The Group currently has arbitration in relation to a claim by Maxim Electrical Pty Ltd relating to delays experienced by Maxim at 242 Glenhuntly Road Elsternwick. There are no other claims or proceedings on behalf of the Group.

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 (BDO) for audit and non-audit services provided during the year are set out below.

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 disclosed below 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.

	2005	Consolidated 2004
	\$	\$
During the year the following non audit services were paid to the external auditor of the parent entity and its related practices:		
Taxation Services		
Fees paid to BDO Chartered Accountants (2004 PricewaterhouseCoopers):		
Tax compliance services, including review of company income tax returns and tax consolidation issues	19,200	14,550

Independent Accountants Review

Last year, the Company undertook to review its accounting systems and procedures, as well as investigate the impact of the introduction of International Financial Reporting Standards. This review has commenced, however was delayed to allow for the acquisition of Access Constructions Pty Ltd. Danby Bland Provan, Chartered Accountants, should complete the review during this financial year.

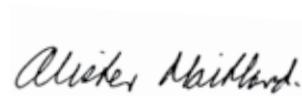
Auditor's Independence declaration

The auditor's independence declaration for the year ended 30 June 2005 has been received and is found on page 25 of the Directors' 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



Allan Davison
Managing Director
26 August 2005



Chartered Accountants

563 Bourke Street Melbourne 3000
DX 30937 Stock Exchange Melbourne
Telephone (03) 9615 8500
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Email: bdomel@bdomel.com.au
www.bdo.com.au

AUDITOR'S INDEPENDENCE DECLARATION

Auditor's Independence Declaration

I declare that, to the best of my knowledge and belief during the year ended 30 June 2005, there have been:

- (a) No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (b) No contraventions of any applicable code of professional conduct in relation to the audit.

Robert DD Collie
Partner
BDO

Melbourne

26 August 2005

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 in March 2003. This has subsequently been updated in July 2004 and August 2005.

The company's framework is largely consistent with the ASX's recommendations, exceeded them in some areas and, due to the size of the organisation, 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.

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 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.

1. 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 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.

2. 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.

To assist in the execution of its responsibilities the board has an Audit Committee 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 an 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.

3. 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 incursion 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, and required 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).

4. 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.

5. 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 shortly thereafter on the Company's website. 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.

There is no formal Policy other than to promote and ensure active compliance with the requirements of ASIC and the ASX.

6. 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.

7. Recognise and Manage Risk:

The board identifies and establishes processes to manage the principle 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 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. Actions are taken to measure and minimise the impact of change on the company's overall performance. 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 will assist in the risk minimisation process.

Whilst there is no formal Risk Management Policy, the culture and processes of the company are focused on the identification and management of risk through regular board reporting and exception reporting in between. This culture has also been embraced by Access Constructions Pty Ltd.

8. Encourage Enhanced Performance:

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

Directors were initially 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 formal review of the board's performance was conducted during the year. The contributions of all directors is considered to be of a high level and adequate to discharge their duties in full.

9. Remunerate Fairly and Responsibly:

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 company's financial statements.

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 \$200,000. Details are disclosed in full in the company's financial statements.

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 company's financial statements. There are no loans outstanding at the present time nor were there any loans outstanding during the financial year just concluded.

Share options were previously granted to certain executives and non-executive directors. Details of these are fully disclosed in the financial statements of the company. The board has not issued any options during the period under review nor are there any outstanding options over the Company's shares.

A non-executive director appointed prior to 1998 (Mr. David Scarf) is 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 net present value of this entitlement benefit is included as a liability in the Statement of Financial Position.

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

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.

10. 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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financial report

CONTENTS	Page
Financial Report	
Statements of Financial Performance	32
Statements of Financial Position	33
Statements of Cash Flows	34
Notes to the Financial Statements	35
Directors' Declaration	67
Independent Audit Report to the members	68

This Financial Report covers both Folkestone Ltd as an individual entity and the consolidated 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 consolidated entity's operations and its principal activities is included in the Review of Operations on pages 4 to 13 and within the Directors' Report on pages 16 to 25.

STATEMENTS OF FINANCIAL PERFORMANCE AS AT 30 JUNE 2005

	Note	Economic Entity		Parent Entity	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Revenue from Ordinary Activities	2	27,421	20,499	5,373	8,518
Development expenses	3	(14,683)	(17,468)	-	(207)
Construction expenses	3	(5,659)	-	-	-
Carrying amount of investment redeemed	3	(4,151)	-	(4,151)	-
Employee benefits expense		(1,541)	(1,536)	(1,096)	(1,536)
Depreciation and amortisation expense	3	(79)	(54)	(46)	(54)
Borrowing costs expense	3	(2)	(46)	(2)	(46)
Other expenses from ordinary activities		(652)	(979)	(643)	(1,053)
Writedown of property assets to recoverable amount		(78)	-	-	-
Shares of net profits of associates and joint ventures accounted for using the equity method	27	845	5,332	-	-
Profit/(loss) from ordinary activities before income tax expense		1,421	5,748	(565)	5,622
Income tax expense relating to ordinary activities	4	(451)	(1,742)	(328)	(1,779)
Profit/(loss) from ordinary activities after related income tax expense		970	4,006	(893)	3,843
Net profit/(loss) attributable to members of Folkestone Limited		970	4,006	(893)	3,843
Net decrease in asset revaluation reserve	23(a)	-	-	(675)	-
Net increase in asset realisation reserve	23(a)	-	-	675	-
Total revenues, expenses and valuation adjustments attributable to members of Folkestone Limited recognized directly in equity		-	-	-	-
Total changes in equity other than those resulting from transactions with owners as owners	24	970	4,006	(893)	3,843
Basic Earnings per Share (cents per share)	39	3.4	15.0		
Diluted Earnings per Share (cents per share)	39	3.4	14.9		

The above statements of financial performance should be read in conjunction with the accompanying notes.

STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2005

	Note	Economic Entity		Parent Entity	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
CURRENT ASSETS					
Cash assets	5	5,317	2,046	3,396	2,022
Receivables	6	10,724	7,854	14,676	18,023
Inventories	7	26,874	14,758	-	-
Investments accounted for using equity method	8	-	4,151	-	-
Other financial assets	9	-	-	-	4,151
Other	10	80	-	20	-
TOTAL CURRENT ASSETS		42,995	28,809	18,092	24,196
NON CURRENT ASSETS					
Inventories	11	45	12,194	45	-
Other financial assets	12	-	-	5,754	3,706
Plant and equipment	13	251	107	73	107
Deferred tax assets	14	218	265	123	242
Intangible assets	15	2,022	-	-	-
TOTAL NON CURRENT ASSETS		2,536	12,566	5,995	4,055
TOTAL ASSETS		45,531	41,375	24,087	28,251
CURRENT LIABILITIES					
Payables	16	6,176	1,214	952	1,187
Interest bearing liabilities	17	16,529	15,918	-	130
Current tax liabilities	18	306	1,767	86	1,793
Provisions	19	173	1,493	73	1,493
TOTAL CURRENT LIABILITIES		23,184	20,392	1,111	4,603
NON CURRENT LIABILITIES					
Non Interest Bearing Liabilities	20	-	-	5,514	5,561
Provisions	21	276	137	150	137
TOTAL NON CURRENT LIABILITIES		276	137	5,664	5,698
TOTAL LIABILITIES		23,460	20,529	6,775	10,301
NET ASSETS		22,071	20,846	17,312	17,950
EQUITY					
Contributed equity	22(a)	18,023	17,016	18,023	17,016
Reserves	23(a)	-	-	675	675
Retained profits/(accumulated losses)	23(b)	4,048	3,830	(1,386)	259
TOTAL EQUITY	24	22,071	20,846	17,312	17,950

The above statements of financial position should be read in conjunction with the accompanying notes.

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2005

	Note	Economic Entity		Parent Entity	
		2005	2004	2005	2004
		\$'000	\$'000	\$'000	\$'000
		Inflows	Inflows	Inflows	Inflows
		(Outflows)	(Outflows)	(Outflows)	(Outflows)
		\$'000	\$'000	\$'000	\$'000
Cash Flows from Operating Activities					
Receipts from customers (inclusive of GST)		13,877	28,366	3,708	5,716
Payments to suppliers and employees (inclusive of GST)		(16,723)	(36,732)	(3,604)	(5,972)
		(2,846)	(8,366)	104	(256)
Dividends received		-	-	-	2,703
Interest received		184	81	160	38
Borrowing costs		(2)	(46)	(2)	(46)
Associate Distributions		5,865	430	5,865	430
Income Taxes paid		(1,864)	(496)	(1,859)	(483)
Net Cash Inflow/(Outflow) from Operating Activities	37	1,337	(8,397)	4,268	2,386
Cash Flows from Investing Activities					
Payments for investment in associates		-	(51)	-	(51)
Payments for plant and equipment		(17)	(45)	(13)	(45)
Payments for subsidiaries		(1,048)	-	(1,048)	-
Loans from/(to) associates		-	900	-	900
Repayment of loans by/(to) related parties		-	-	(4,091)	(3,925)
Proceeds from redemption of investments		4,151	-	4,151	-
Net Cash Inflow/(Outflow) from Investing Activities		3,086	804	(1,001)	(3,121)
Cash Flows from Financing Activities					
Proceeds from issue of shares		147	3,872	147	3,872
Proceeds from borrowings		6,895	19,802	-	-
Repayment of borrowings		(6,154)	(12,992)	-	-
Dividends paid		(1,910)	(1,282)	(1,910)	(1,282)
Net Cash Inflow/(Outflow) from Financing Activities		(1,022)	9,400	(1,763)	2,590
Net Increase in Cash Held		3,401	1,807	1,504	1,855
Cash at the beginning of the financial year		1,916	109	1,892	37
Cash at the End of the Financial Year	5	5,317	1,916	3,396	1,892
Financing arrangements	17				

The above statements of cash flows should be read in conjunction with the accompanying notes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. The financial report covers the economic entity of Folkestone Limited and controlled entities, and Folkestone Limited as an individual parent entity. Folkestone Limited is a listed public company, incorporated and domiciled in Australia. The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

a) Principles of Consolidation

A controlled entity is any entity controlled by Folkestone Limited. Control exists where Folkestone Limited has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with Folkestone Limited to achieve the objectives of Folkestone Limited. A list of controlled entities is contained in Note 28 to the financial statements.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

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

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

Investments in associates are accounted for in the consolidated financial statements using the equity method. Under this method, the economic entity's share of post acquisition profits or losses of associates is recognised as revenue in the consolidated statements of financial performance, and its share of movements in reserves is recognised in consolidated reserves. The cumulative post acquisition movements are adjusted against the cost of the investment. Associates are those entities over which the economic entity exercises significant influence, but not control.

b) Income Tax

The economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

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

Folkestone Ltd and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the Tax Consolidation System from 1 July 2002. Folkestone Ltd is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group. The tax consolidated group has entered a tax sharing agreement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Acquisitions of Assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their market price as at the acquisition date. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of the acquisition. The discount rate used is the incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Where an entity or operation is acquired and the fair value of the identifiable net assets acquired, including any liability for restructuring costs, exceeds the cost of acquisition, the difference, representing a discount on acquisition, is accounted for by reducing proportionately the fair values of the non-monetary assets acquired until the discount is eliminated. Where, after reducing to zero the recorded amounts of the non-monetary assets acquired, a discount balance remains it is recognised as revenue in the statement of financial performance.

d) Revenue Recognition

Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised for the major business activities as follows:

(i) Land Subdivision

Revenue is recognised where there is a signed unconditional contract of sale.

(ii) Project Development

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

Where the outcome of a project cannot be reliably estimated, contract costs are recognised as an expense as incurred, and where it is probable that the costs will be recovered, revenue is recognised to the extent of costs incurred.

(iii) Construction

Revenue from the rendering of construction services is recognised upon the delivery of the service to the customer.

e) Receivables

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

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

f) Inventories

(i) Developments in Progress

Developments in progress are stated at the aggregate of contract costs incurred to date plus recognised profits less recognised losses. If there are contracts where progress billings exceed the aggregate costs incurred plus profits less losses, the net amounts are presented under other liabilities.

Contract costs include all costs directly related to specific contracts, costs that are specifically chargeable to the customer under the terms of the contract and an allocation of overhead expenses incurred in connection with the economic entity's development activities in general.

(ii) Land Held for Resale/Capitalisation of Borrowing Costs

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

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

g) Construction Contracts

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 total 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.

h) Recoverable Amount of Non-Current Assets

The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal.

Where the carrying amount of a non current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. Where net cash inflows are derived from a group of assets working together, recoverable amount is determined on the basis of the relevant group of assets. The decrement in the carrying amount is recognised as an expense in the net profit or loss in the reporting period in which the recoverable amount write-down occurs.

The expected net cash flows included in determining recoverable amounts of non-current assets are discounted to their present values using a market-determined, risk-adjusted discount rate.

i) Investment properties

Investment properties are initially recorded at cost. Costs incurred subsequent to initial acquisitions are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the economic entity.

Investment properties are maintained at a high standard and, as permitted by accounting standards, the properties are not depreciated.

Rental revenue from the leasing of investment properties is recognised in the statement of financial performance in the periods in which it is receivable, as this represents the pattern of service rendered through the provision of the properties.

j) Investments

Interests in unlisted securities, other than controlled entities and associates in the consolidated financial statements, are brought to account at cost and dividend income is recognised in the statements of financial performance when receivable. Controlled entities and associates are accounted for in the consolidated financial statements as set out in Note 1(a).

k) Plant and Equipment

Each class of plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and is measured on a cost basis.

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Depreciation on plant and equipment

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

m) 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 statements of financial performance and financial position. Details of the economic entity's interests are shown in Note 29.

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.

n) Leasehold Improvements

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the economic entity, whichever is the shorter.

o) Intangibles

Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Both purchased goodwill and goodwill on consolidation are amortised on a straight line basis over the period of 20 years. The balances are reviewed annually and any balance representing future benefits for which the realisation is considered to be no longer probable are written off.

p) Non Current Assets constructed by the Economic entity

The cost of non current assets constructed by the economic entity includes the cost of all materials used in construction, direct labour on the project, borrowing costs incurred during construction and an appropriate proportion of variable and fixed overheads.

Borrowing costs included in the cost of non current assets are those costs that would have been avoided if the expenditure on the construction of the asset had not been made. Borrowing costs incurred while active construction is interrupted for extended periods are recognised as expenses.

q) Trade and Other Creditors

These amounts represent liabilities for goods and services provided to the economic entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

r) Interest Bearing Liabilities

Loans are carried at their principal amounts which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and is recorded as part of other creditors.

s) Employee Benefits

(i) Wages and Salaries and Annual Leave

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

(ii) Long Service Leave

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

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

(iii) Profit Sharing and Bonus Plans

A liability for 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 benefit;
- the amounts to be paid are determined before the time of completion of the financial report; or
- past practice gives clear evidence of the amount of the obligation.

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

(iv) Superannuation

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

Superannuation includes amounts required to comply with the Superannuation Guarantee Legislation and any salary sacrificed amounts.

(v) Employee Benefit On-costs

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

(vi) Directors Retirement Benefits

A liability for Directors' Retirement Benefits is recognised and is measured as the present value of expected future payments to be made to Directors upon their retirement. Consideration is given to expected future directors fees and period of service. Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows. This scheme applies only to those directors appointed prior to January 1998. Directors appointed after that date do not participate in this scheme.

t) Borrowing Costs

Borrowing costs are recognised as expenses in the period in which they are incurred, except where they are included in the costs of qualifying assets – refer Note 1(f) and 1(k).

Borrowing costs include:

- interest on bank overdrafts and short-term and long-term borrowings;
- amortisation of discounts or premiums relating to borrowings; and
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings.

u) Cash

For purposes of the statements of cash flow, cash includes deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

v) Earnings per Share**(i) Basic Earnings per Share**

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

(ii) Diluted Earnings per Share

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

w) Rounding of Amounts

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

x) International Financial Reporting Standards (IFRS)

The Group is preparing and managing the transition to Australian Equivalents to International Financial Reporting Standards (AIFRS) effective for the financial years commencing from 1 January 2005. The adoption of AIFRS will be reflected in the economic entity's and the parent entity's financial statements for the year ending 30 June 2006. On first time adoption of AIFRS, comparatives for the financial year ended 30 June 2005 are required to be restated. The majority of the AIFRS transitional adjustments will be made retrospectively against retained earnings at 1 July 2004.

The economic entity's management, with the assistance of external consultants, has assessed the significance of the expected changes and is preparing for their implementation. The Audit Committee and management is overseeing and managing the economic entity's transition to AIFRS. The impact of the alternative treatments and elections under AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable.

The directors are of the opinion that the key material differences in the economic entity's accounting policies on conversion to AIFRS and the financial effect of these differences, where known, are as follows. Users of the financial statements should note, however, that the amounts disclosed could change if there are any amendments by standard-setters to the current AIFRS or interpretation of the AIFRS requirements changes from the continuing work of the economic entity's AIFRS committee.

(i) Impairment of Assets

Under AASB 136: Impairment of Assets, the recoverable amount of an asset is determined as the higher of fair value less costs to sell, and value in use. In determining value in use, projected future cash flows are discounted using a risk adjusted pre-tax discount rate and impairment is assessed for the individual asset or at the 'cash generating unit' level. A 'cash generating unit' is determined as the smallest group of assets that generates cash flows that are largely independent of the cash inflows from other assets or groups of assets. The current policy is to determine the recoverable amount of an asset on the basis of undiscounted net cash flows that will be received from the asset's use and subsequent disposal. It

is likely that this change in accounting policy may lead to impairments being recognised more often.

The economic entity has reassessed its impairment testing policy and tested all assets for impairment as at 1 July 2005. Initial investigations indicate that all assets are carried at fair value and no adjustments will be required. However, if economic conditions alter adversely in subsequent periods, each class of asset will require reassessment.

(ii) Goodwill on Consolidation

Under AASB 3: Business Combinations, goodwill is capitalised to the statement of financial position and subjected to an annual impairment test. Amortisation of goodwill is prohibited. Current accounting policy of the entity is to amortise goodwill on a straight-line basis over a period of 20 years.

Impairment testing as at 1 July 2005 confirmed no impairment of the \$2,048,000 goodwill less accumulated amortisation of \$26,000 as disclosed in the economic entity's financial statements at 30 June 2005. The previously amortised goodwill of \$26,000 will, therefore, be reversed resulting in a corresponding increase of \$26,000 in retained earnings at 1 July 2004 and an increase in profit amounting to \$26,000 for the year ended 30 June 2005.

(iii) Revenue and Profit Recognition

Under IFRS, revenue and profit on residential sales is not recognised until sale settlement.. This changes the current accounting treatment whereby both revenue and profit have been taken up based on percentage sold and percentage of development completed. There will be no change to the accounting treatment for our non residential development activities.

(iv) Non-current Investments

Under AASB 139: Financial Instruments: Recognition and Measurement, financial assets are required to be classified into four categories, which determines the accounting treatment of the item. The categories and various treatments are:

- held to maturity, measured at amortised cost;
- held for trading, measured at fair value with unrealised gains or losses charged to the profit and loss;
- loans and receivables, measured at amortised cost; and
- available for sale instruments, measured at fair value with unrealised gains or losses taken to equity.

The economic entity's financial assets comprise available for sale financial instruments. Under AASB 139:

Financial Instruments: Recognition and Measurement, the measurement of available for sale instruments at fair value differs to current accounting policy which measures non current investments at cost with an annual review by directors to ensure the carrying amounts are not in excess of the recoverable value of the instrument. The impact of the change is likely to increase the value of non current other financial assets in relation to available for sale instruments.

AASB 1 provides an election whereby the requirements of AASB 139 dealing with financial instruments are not required to be applied to the first AIFRS comparative year, and the first time adoption of this standard will apply from 1 July 2005. The economic entity has decided that it will adopt this election and will not restate comparative information for the 30 June 2005 financial year.

(v) Revenue

Under the existing revenue standard AASB 1004: Revenue, the economic entity recognised the gain or loss on disposal of non current assets on a 'gross' basis by recognising the proceeds from sale as revenue and the carrying amount of the non current asset disposed of as an expense. Under A-IFRS, the gain or loss on disposal is recognised on a 'net' basis, and is classified as income, rather than revenue. Accordingly the gross amounts will

be reclassified within next years income statement for A-IFRS reporting purposes. There is no effect on profit. Had the A-IFRS policy been applied at 30 June 2005, revenue from outside operating activities and expenses would have both decreased by \$4,151,000.

(vi) Income Tax

Currently, the economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future income tax benefit. Under AASB 112: Income Taxes, the entity will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit. No change is expected on initial adoption of IFRS.

On transition to AIFRS the estimated cumulative financial effect of the reliably known differences on the parent and economic entity's reported net profit and equity as at 30 June 2005 is summarised below. As noted above, these amounts represent management's best estimates, and could differ from actuals.

	Economic Entity	Parent Entity
	2005	2005
	\$000	\$000
Reconciliation of Net Profit		
Net profit reported under Australian Accounting Standards	970	(893)
Key transitional adjustments:		
• Reversal of profits emerging from residential sales	(768)	-
• Reversal of amortization of Goodwill	26	-
Total transitional adjustments	(742)	-
Net profit/(loss) under AIFRS	228	(893)
Reconciliation of Equity		
Total equity reported under Australian Accounting Standards	22,071	17,312
Retrospective adjustment to equity at 1 July 2004		
Recognition of tax paid/payable on emerging residential sales at 30%	230	230
Reversal of amortization of goodwill	-	-
	22,301	17,542
Increase in current year profit resulting from transition to AIFRS	(742)	-
	21,559	17,542

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

y) Other Matters

Amendment to 30 June 2004 Annual Accounts

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

Following is a summary of those changes that are required to ensure compliance with the appropriate Australian Accounting Standards. These changes have been incorporated into the 2004 comparative figures.

Parent Entity Accounts

	2004 Annual Accounts		Revised Position	
	2004 \$000's	2003 \$000's	2004 \$000's	2003 \$000's
Statement of Financial Performance				
Revenue from Ordinary Activities (excluding Share of equity accounted net profit of associates)	3,186	2,292	8,518	3,518
Share of net profit of associates accounted for using the equity method	5,332	1,226	-	-
Statement of Financial Position				
Current Assets				
Receivables	12,766	5,742	18,023	5,742
Investments accounted for using equity method	9,408	4,506	-	-
Other Financial Assets	-	-	4,151	-
Total Current Assets	24,196	12,700	24,196	8,194
Non Current Assets				
Other Financial Assets	3,706	5,706	3,706	9,857
Total Non Current Assets	4,055	16,146	4,055	20,297
Total Assets	28,251	28,846	28,251	28,846

Note 2 – Revenue

Revenue

Revenue from Operating Activities

Trust Distributions	-	-	5,332	1,226
Revenue from ordinary activities (excluding share of equity accounted net profits of associates)	3,186	2,292	8,518	3,518

Note 6 – Current Assets - Receivables

Accounts Receivable from Associated Entities	-	-	5,257	-
Total Current Assets – Receivables	12,766	5,742	18,023	5,742

Parent Entity Accounts

	2004 Annual Accounts		Revised Position	
	2004 \$000's	2003 \$000's	2004 \$000's	2003 \$000's
Note 8 – Current Assets – Other Financial Assets				
Shares in Associates (note 26)	9,408	4,506	-	4,506
Note 9a – Current Assets – Other Financial Assets (new note)				
Shares in Associated Entities – at cost	-	-	4,151	-
Note 12 – Non Current Assets – Other Financial Assets				
Shares in Associated Entities – at cost	-	-	-	4,151
Total Non Current Assets – Other Financial Assets	3,706	5,706	3,706	9,857

Consolidated Entity Accounts**Statement of Financial Position****Current Assets**

Receivables	2,597	2,826	7,854	2,826
Investments accounted for using equity method	9,408	4,506	4,151	-

Note 6 – Current Assets - Receivables

Accounts Receivable from Associated Entities	-	-	5,257	-
Total Current Assets – Receivables	2,597	2,826	7,854	2,826

Note 8 – Current Assets – Investments accounted for using the Equity Method

Shares in Associates	9,408	4,506	4,151	4,506
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Note 26 is restated as follows:

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

Each of the above trusts has a separate trustee of which Folkestone Limited owns 50% of the issued capital.

Issued capital of each trustee is \$2.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidated Entity Accounts (continued)

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

2. REVENUE

	Economic Entity		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Revenue from Operating Activities				
Revenue from Development Activities	16,242	16,925	-	-
Construction Revenue	6,546	-	-	-
Trust Distributions – Related Entities	-	-	845	5,332
Management and other fees received/receivable	173	412	183	425
Revenue from sale of investment property	-	2,829	-	-
Gross property rentals	-	232	-	-
	22,961	20,398	1,028	5,757

	Economic Entity		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Revenue from Outside Operating Activities				
Proceeds on redemption of investment in associate	4,151	-	4,151	-
Interest	187	90	164	48
Sundry income	122	11	30	9
Dividends	-	-	-	2,704
	4,460	101	4,345	2,761
Revenue from ordinary activities (excluding shares of equity accounted net profits of associates)	27,421	20,499	5,373	8,518

Folkestone Limited and its controlled entities derive significant profits from its development activities through associated entities, details of which are included as "Share of net profits of associates accounted for using the equity method" within the Statements of Financial Performance included on page 32. Folkestone's share of the revenues of the associates for the year ended 30 June 2005 was \$3.4m (2004-\$28.2m). This amount is not included in the above Revenue from Operating Activities.

3. PROFIT FROM ORDINARY ACTIVITIES

Profit from ordinary activities before income tax expense has been determined after:

(a) Expenses

Amortisation goodwill	26	-	-	-
Borrowing costs expensed ¹	2	46	2	46
Development expenses	14,683	17,468	-	207
Construction expenses	5,659	-	-	-
Depreciation – plant and equipment	53	54	46	54
Rental expense relating to operating leases	214	190	187	190
Provisions				
Employee entitlements	36	30	2	30
Directors' retirement benefits	3	4	3	4
Gain on sale of freehold land and buildings	-	251	-	-
Writeup in carrying value of subsidiaries	-	-	-	2,585

¹ These amounts relate to interest costs associated with the company's working capital facility. All interest costs associated with projects are capitalised to the project in accordance with Note 1(f).

(b) Significant Revenues and Expenses

The following significant revenue and expense items are relevant in explaining the financial performance:

Consideration on redemption of investment in associate	4,151	-	4,151	-
Carrying Amount of investment in associate redeemed	(4,151)	-	(4,151)	-
Net gain on redemption of investment in associate	-	-	-	-

4. INCOME TAX

	Economic Entity		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000

a) The income tax expenses for the financial year differs from the amount calculated on the profit/(loss).

The differences are reconciled as follows:

Profit/(loss) from ordinary activities before income tax expense	1,421	5,748	(565)	5,622
Income Tax calculated at 30% (2004 – 30%)	426	1,725	(170)	1,687
Tax effect of permanent differences:				
Non-allowable expenses	10	2	2	2
Non taxable gain	-	(75)	-	-
Under/(over) provision in previous year	-	90	-	90
Writedown of property asset to recoverable amount	15	-	-	-
Allocation of income tax expense to wholly owned subsidiaries under the tax sharing agreement	-	-	496	-
Aggregate income tax expense	451	1,742	328	1,779

b) No part of the future income tax benefit shown in Note 14 is attributable to tax losses. The directors estimate that the potential future income tax benefit at 30 June 2005 in respect of Australian tax losses not brought to account is:

	-	-	-	-
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5. CURRENT ASSETS – CASH ASSETS

	Note	Economic Entity		Parent Entity	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Cash at bank and on hand		3,028	255	1,107	231
Deposits at call		1,983	928	1,983	928
Term deposits (less than 30 days)		306	863	306	863
		5,317	2,046	3,396	2,022

Reconciliation of Cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in statement of financial position as follows:

Cash		5,317	2,046	3,396	2,022
Bank Overdraft	17	-	(130)	-	(130)
		5,317	1,916	3,396	1,892

Deposits at call

The deposits bear interest at 4.70 - 5.40% (2004 – 4.6 - 5.0%)

6. CURRENT ASSETS - RECEIVABLES

	Note	Economic Entity		Parent Entity	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Trade debtors		7,540	2,597	-	2,596
Other debtors		72	-	-	-
Amounts due from customers for construction contracts	6a)	2,642	-	-	-
Amounts receivable from associated entities		470	5,257	230	5,257
Advances to:					
Related entities	35	-	-	14,446	10,170
		10,724	7,854	14,676	18,023

a) Construction Contracts

Contract costs incurred		5,657	-	-	-
Recognised profit		889	-	-	-
		6,546	-	-	-
Less Progress billings		(3,904)	-	-	-
		2,642	-	-	-
Amounts due from customers for contract work		2,642	-	-	-
Amounts due to customers for contract work		-	-	-	-
		2,642	-	-	-
Retentions on construction contracts in progress		128	-	-	-
Progress billings and advances received and receivable on construction contracts in progress		3,904	-	-	-

7. CURRENT ASSETS – INVENTORIES

Developments in Progress – at cost		26,874	14,758	-	-
Aggregate carrying amount of inventories					
Current (as above)		26,874	14,758	-	-
Non current	11	45	12,194	45	-
		26,919	26,952	45	-

8. CURRENT ASSETS – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Other Non Traded Investments

Shares in Associated entities	27	-	4,151	-	-
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Shares in Associates

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the parent entity.

9. CURRENT ASSETS – OTHER FINANCIAL ASSETS

	Note	Economic Entity		Parent Entity	
		2005	2004	2005	2004
		\$'000	\$'000	\$'000	\$'000
Shares in associated entities - at cost	27	-	-	-	4,151

10. CURRENT ASSETS – OTHER

Other assets	55	-	-	-
Prepayments	25	-	20	-
	80	-	20	-

11. NON CURRENT ASSETS – INVENTORIES

Developments in Progress – at cost	45	12,194	45	-
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12. NON CURRENT ASSETS – OTHER FINANCIAL ASSETS

Shares in Controlled Entities	28	-	-	5,754	3,706
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13. NON CURRENT ASSETS – PLANT AND EQUIPMENT

Plant and Equipment - at cost	603	415	419	415
Less: accumulated depreciation	(352)	(308)	(346)	(308)
	251	107	73	107

Reconciliation

Carrying Amount at 1 July 2004	107		107	
Additions	18		12	
Additions through acquisition of entity	179		-	
Depreciation	3	(53)	(46)	
Carrying Amount at 30 June 2005	251		73	

14. NON CURRENT ASSETS – DEFERRED TAX ASSETS

Future income tax benefit	218	265	123	242
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15. NON CURRENT ASSETS – INTANGIBLE ASSETS

Goodwill at cost	2,048	-	-	-
Accumulated Amortisation	(26)	-	-	-
	2,022	-	-	-

Goodwill relates to the acquisition of Access Constructions Pty Ltd on 31 March 2005

16. CURRENT LIABILITIES – PAYABLES

	Note	Economic Entity		Parent Entity	
		2005	2004	2005	2004
		\$'000	\$'000	\$'000	\$'000
Trade creditors		5,577	687	745	660
Other creditors		599	527	207	527
		6,176	1,214	952	1,187

17. CURRENT LIABILITIES – INTEREST BEARING LIABILITIES**Secured**

Bank overdraft	5	-	130	-	130
Bills payable		8,542	7,946	-	-
Bank advance		7,987	7,842	-	-
		16,529	15,918	-	130

Bills payable and Bank advance are secured by mortgages over 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 Ltd. Bills mature in August 2005 and bear interest at 5.71%. (2004- 5.50-5.75%) excluding margins. Bank advances are linked to projects and bear interest at 5.79% (2004 –5.5%) excluding margins.

Financing Arrangements

Unrestricted access was available at balance date to the following lines of credit:-

Total facilities

Bank Overdraft		-	1,397	-	1,397
Bank Loan facilities		36,040	21,337	-	-
		36,040	22,734	-	1,397

Used at balance date

Bank Overdraft		-	130	-	130
Bank Loan facilities		16,529	15,788	-	-
		16,529	15,918	-	130

Unused at balance date

Bank Overdraft		-	1,267	-	1,267
Bank Loan facilities		19,511	5,549	-	-
		19,511	6,816	-	1,267

Subject to continuing compliance with the loan conditions, the bank loan facilities may be drawn at any time and have a maturity not exceeding one year. The bank overdraft facility was terminated on 01 July 2004 following the sale settlement of the investment property at 1663 Centre Road, Springvale. Interest rates on all facilities are variable and are subject to market conditions.

18. CURRENT LIABILITIES – CURRENT TAX LIABILITIES

	Note	Economic Entity		Parent Entity	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Income Tax		306	1,767	86	1,793

19. CURRENT LIABILITIES – PROVISIONS

Dividends		-	1,416	-	1,416
Employee benefits		173	77	73	77
		173	1,493	73	1,493

20. NON CURRENT LIABILITIES – NON INTEREST BEARING LIABILITIES

Advances from related entities	35	-	-	5,514	5,561
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21. NON CURRENT LIABILITIES – PROVISIONS

Employee benefits		223	87	97	87
Directors' retirement benefits		53	50	53	50
		276	137	150	137

22. CONTRIBUTED EQUITY

		Parent Entity		Parent Entity	
		2005 Shares '000	2004 Shares '000	2005 Shares '000	2004 Shares '000
a) Share Capital					
Ordinary Shares – fully paid		28,329	22,160	17,016	12,985
Exercised Options	22c)	270	196	149	106
Dividend Reinvestment Plan	22d)	315	220	258	160
Share Purchase Plan	22e)	-	3,324	-	2,327
Placement	22g) & f)	754	2,429	600	1,700
Share Purchase Plan/Placement costs		-	-	-	(262)
		29,668	28,329	18,023	17,016

b) Movements in Ordinary Share capital of the company:

Date	Details	Note	Number of Shares '000	Issue Price Cents	\$'000
1 July 2003	Balance		22,160		12,985
02 September 2003	Options Exercised		24	50	12
02 September 2003	Options Exercised		100	55	55
02 September 2003	Options Exercised		8	60	5
18 September 2003	Options Exercised		16	50	8
20 October 2003	Dividend Reinvestment Plan	22d)	97	74	72
21 October 2003	Share Purchase Plan	22e)	3,324	70	2,327
21 October 2003	Placement	22f)	2,429	70	1,700
01 April 2004	Options Exercised		39	55	21
01 April 2004	Options Exercised		9	60	5
30 April 2004	Dividend Reinvestment Plan	22d)	123	71	88
Less Transaction costs arising from share issues					(262)
30 June 2004 Balance			28,329		17,016
07 October 2004	Options Exercised		270	55	149
29 October 2004	Dividend Reinvestment Plan	22d)	196	85	167
31 March 2005	Placement	22g)	754	80	600
29 April 2005	Dividend Reinvestment Plan	22d)	119	77	91
30 June 2005	Balance		29,668		18,023

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

c) Refer to Directors' Report for details on options exercised during the financial year.

d) Shares issued under Dividend Reinvestment Plan were:

Date	Number of Ordinary Shares	Discount	Price (cents)
20 October 2003	96,996	7%	74
30 April 2004	123,461	7%	71
29 October 2004	196,158	5%	85
29 April 2005	118,996	5%	77

e) 3,324,000 Ordinary Shares were issued at 70 cents under an underwritten Share Purchase Plan.

f) 2,428,570 Ordinary Shares were issued at 70 cents under an underwritten Placement.

g) 753,864 Ordinary Shares were issued at 79.59 cents (total \$600,000) as part payment for the acquisition of Access Constructions Pty Ltd.

h) During the financial year no options were granted to directors and executives of the company. There are a no options outstanding at 30 June 2005.

23. RESERVES AND RETAINED PROFITS

	Note	Economic Entity		Parent Entity	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
a) Reserves:					
Asset Revaluation Reserve		-	-	-	675
Asset Realisation Reserve		-	-	675	-
		-	-	675	675
Asset Revaluation Reserve					
Opening Balance		-	-	675	675
Transfer to Asset Realisation Reserve		-	-	(675)	-
Closing Balance		-	-	-	675
The asset revaluation reserve records revaluations of non current assets.					
Asset Realisation Reserve					
Opening Balance		-	-	-	-
Transfer from Asset Revaluation Reserve		-	-	675	-
Closing Balance		-	-	675	-
The asset realisation reserve records realised gains on sale of non current assets.					
b) Retained Profits:					
Retained Profits/(accumulated losses) at the beginning of financial year		3,830	2,681	259	(727)
Net Profit /(loss) attributable to members of Folkestone Ltd		970	4,006	(893)	3,843
Dividends provided for or paid	25	(752)	(2,857)	(752)	(2,857)
Retained profits/(accumulated losses) at the end of the financial year		4,048	3,830	(1,386)	259

Refer to Note 25 for Dividends not recognised at year end.

24. EQUITY

Total Equity at the beginning of the financial year		20,846	15,666	17,950	12,933
Total changes in equity recognised in the statement of financial performance		970	4,006	(893)	3,843
Transactions with owners as owners:					
Contribution of equity, net of transaction costs	22a)	1,007	4,031	1,007	4,031
Dividends provided for or paid	25	(752)	(2,857)	(752)	(2,857)
Total Equity at end of the financial year		22,071	20,846	17,312	17,950

25. DIVIDENDS

	Economic Entity	
	2005 \$'000	2004 \$'000
Ordinary Shares (fully franked @ 30%)		
Final dividend for the year ended 30 June 2004 of 3.5 cents (2003 – 3.3 cents) per fully paid share paid on 29 October 2004 (2003 – 15 October 2003)	992	736
Special dividend for the year ended 30 June 2004 of 1.5 cents (2003 – nil) per fully paid share paid on 29 October 2004	424	-
Underprovision for final / special dividend for the year ended 30 June 2005 (refer above)	14	-
Interim dividend for the year ended 30 June 2005 of 2.5 cents (2004 – 2.5 cents) per fully paid share paid on 29 April 2005 (2004 – 30 April 2004)	738	705
	2,168	1,441
Dividends recognised at year end as a liability (fully franked @ 30%)		
Final dividend declared by directors on 15 June 2004 for year ended 30 June 2004 of 3.5 cents (2003 – 3.3 cents) and paid on 29 October 2004	-	992
Special dividend declared by directors on 15 June 2004 of 1.5 cents (2003 – nil) and paid on 29 October 2004	-	424
Total dividends paid or provided for	2,168	2,857
Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan for the years ended 30 June 2005 and 2004 were as follows:		
Paid in Cash	1,910	1,282
Satisfied by issue of shares	258	159
	2,168	1,441

Dividends not recognised at year end

Proposed final fully franked dividend of 3.5 cents (2004: 3.5 cents) per share franked at the tax rate of 30% (2004: 30%). The aggregate amount of the proposed dividend expected to be paid on 29 October 2005 out of retained profits at 30 June 2005, but not recognised as a liability at year end, is:

	1,038	-
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Franked Dividends

The franked portions of the dividends recommended after 30 June 2005 will be franked out of existing franking credits or out of franking credits arising from the payments of income tax in the year ending 30 June 2005.

	Economic Entity		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2004 – 30%)	6,868	8,445	6,868	8,445

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the current tax liability;
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date;
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date; and
- franking credits that may be prevented from being distributed in subsequent financial years.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of controlled entities were paid as dividends.

26. FINANCIAL INSTRUMENTS

a) Interest Rate Risk Exposure

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 is as follows:

	Note	Floating Interest Rate \$'000	Fixed Interest Maturing: 1 year or less \$'000	1-5 years \$'000	Non Interest Bearing	Total \$'000
2005						
Financial Assets						
Cash and Deposits	5	3,280	306	-	1,731	5,317
Receivables	6	-	-	-	10,724	10,724
		3,280	306	-	12,455	16,041
Weighted Average Interest Rate		4.45%	5.09%	-	-	
Financial Liabilities						
Trade and Other Creditors	16	-	-	-	6,176	6,176
Interest Bearing Liabilities	17	-	16,529	-	-	16,529
		-	16,529	-	6,176	22,705
Weighted Average Interest Rate		-	8.23%	-	-	-
Net Financial Assets (Liabilities)		3,280	(16,223)	-	6,279	(6,664)
2004						
Financial Assets						
Cash and Deposits	5	1,766	25	-	255	2,046
Receivables	6	-	-	-	2,597	2,597
		1,766	25	-	2,852	4,643
Weighted Average Interest Rate		4.60%	4.95%	-	-	
Financial Liabilities						
Trade and Other Creditors	16	-	-	-	1,214	1,214
Interest Bearing Liabilities	17	130	15,788	-	-	15,918
		130	15,788	-	1,214	17,132
Weighted Average Interest Rate		10.75%	8.19%	-	-	
Net Financial Assets (Liabilities)		1,636	(15,763)	-	1,638	(12,489)

b) Credit Risk Exposure

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

c) 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.

Off Balance Sheet

The parent entity and certain controlled entities have potential financial liabilities which may arise from certain contingencies disclosed in Note 34. No material losses are anticipated in respect of any of these contingencies.

d) Net Fair Values

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

27. INVESTMENTS IN ASSOCIATES

Investments in associates are accounted for in the consolidated accounts using the equity method of accounting and are carried at cost by the parent entity. Information relating to the associates is set out below.

Name of Trust	Principal Activity	Ownership Interest		Economic Entity Carrying Amount		Parent Entity Carrying Amount	
		2005 %	2004 %	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Wellington Road Property Trust ¹	Property Development	-	50	-	-	-	-
Folkestone Docklands Unit Trust ²	Property Development	-	50	-	4,151	-	4,151
		80	80	-	-	-	-
				-	4,151	-	4,151

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

2 A class Units in the trust were redeemed during the year with only 5 \$1.00 B class units remaining on issue. Folkestone retains 4 of these B class units. These B class units are for profit sharing entitlements only. Folkestone retains 50% of the voting control and therefore is classified as an associate.

	Economic Entity	
	2005 \$'000	2004 \$'000

Movements in Carrying Amounts of Investments in Associates

Carrying amount at the beginning of the financial year	4,151	4,506
Capital Redeemed	(4,151)	-
Share of Operating Profits	845	5,332
Distribution of Profits received / receivable	(845)	(5,687)
Carrying amount at the end of the financial year	-	4,151

Results Attributable to Associates

Profits from ordinary activities before income tax	845	5,332
Income tax expense	-	-
Profits from ordinary activities after income tax	845	5,332
Less distributions received/receivable	(845)	(5,332)
	-	-

Retained Profits attributable to associates at the beginning of the financial year

Retained profits attributable to associates at end of the financial year

Share of Associates' Contingent Liabilities

Guarantees in respect of Bills of Exchange, Acceptance and Discount Facility:

St George Bank Limited

Summary of the performance and financial position of associates

The total aggregate profits, assets and liabilities of associates are:

Profits from ordinary activities	345	5,332
Assets	136	11,446
Liabilities	136	7,295

28. INVESTMENTS IN CONTROLLED ENTITIES

	Country of Incorporation	Class of Share/unit	Equity Holding		Cost of Parent Entity's Investment	
			2005 %	2004 %	2005 \$'000	2004 \$'000
Folkestone Freeholds Pty Ltd	Australia	Ordinary	100	100	550	550
Folkestone Developments Pty Ltd	Australia	Ordinary	100	100	-	-
Folkestone Project Management Pty Ltd	Australia	Ordinary	100	100	305	305
Fenchurch Pty Ltd	Australia	Ordinary	100	100	2,851	2,851
Folkestone (EMT) Pty Ltd	Australia	Ordinary	100	100	-	-
Folkestone East Melbourne Trust	Australia	Units	100	100	-	-
Folkestone (PHT) Pty Ltd	Australia	Ordinary	100	100	-	-
Ceres House Pty Ltd	Australia	Ordinary	100	100	-	-
Access Constructions Pty Ltd ¹	Australia	Ordinary	100	-	2,048	-
Folkestone (PMD) Pty Ltd ²	Australia	Ordinary	100	-	-	-
Bertie Bridge Pty Ltd ³	Australia	Ordinary	75	-	-	-
					5,754	3,706

1 On 31 March 2005, Folkestone Limited acquired Access Constructions Pty Ltd. The purchase price comprised \$600,000 in Folkestone Ltd Ordinary Shares (753,864), \$1.0m cash payment plus an earn-out of \$400,000 based on predetermined earnings. Costs associated with the acquisition totalled \$48,000. Goodwill associated with the transaction was \$2.048m at balance date and amortisation to 30 June 2005 expensed totalled \$26,000.

2 This entity was incorporated on 17 November 2004.

3 This entity was incorporated on 13 May 2005.

29. JOINT VENTURES

	Parent Entity		Economic Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
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 venture is:				
Current Assets				
Cash Assets				
Cash at bank and on hand	193	-	-	-
Receivables				
Amounts receivable from associated entities	170	-	-	-
Inventories				
Developments in progress	2,048	-	-	-
Total Current Assets	2,411	-	-	-

30. REMUNERATION OF AUDITORS

	Parent Entity		Economic Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
Remuneration of the auditor if the parent entity for:				
Auditing or reviewing the financial report	55,000	53,500	55,000	53,500
Other services (tax)	29,050	14,550	29,050	14,550
	84,050	68,050	84,050	68,050

At the AGM held on 16 October 2004, BDO replaced PricewaterhouseCoopers as auditors and tax advisers for the economic entity. In addition, BDO undertook works in relation to the acquisition of Access Constructions Pty Ltd and tax consolidation.

31. DIRECTOR AND EXECUTIVE DISCLOSURES

a) Names and positions held of Parent Entity and Specified Executives in office at any time during the financial year are:

Parent Entity Directors

Alister TL Maitland Chairman – Non-Executive
 Allan R Davison Managing Director
 Bruce R Kean Director – Non-Executive
 David Scarf Director – Non-Executive

Specified Executives

Mischa J Leonard Chief Financial Officer & Company Secretary
 Tony S Cariss Managing Director, Access Constructions Pty Ltd

b) Parent Entity Directors' Remuneration

	Primary		Post Employment		Equity	Other	Total
	Salary & Fees	Super-annuation	Bonus	Other Benefits			
	\$	\$	\$	\$	Options	\$	\$
2005							
Alister TL Maitland	55,046	4,954	-	8,733	-	-	68,733
Allan R Davison	183,800	84,000	-	10,559	-	-	278,359
Bruce R Kean	40,000	-	-	-	-	-	40,000
David Scarf	36,697	3,303	-	-	-	-	40,000
	315,543	92,257	-	19,292	-	-	427,092
2004							
Alister TL Maitland	41,284	3,716	-	5,540	-	-	50,540
Allan R Davison	176,000	84,000	139,106	8,700	-	-	407,806
Bruce R Kean	32,833	2,167	-	-	-	-	35,000
David Scarf	32,110	2,890	-	-	-	-	35,000
	282,227	92,773	139,106	14,240	-	-	528,346

The service and performance criteria set to determine remuneration are included in Note 31h).

31. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

c) Specified Executives Remuneration

	Primary		Bonus	Other Benefits	Post	Equity	Other	Total
	Salary & Fees	Super-annuation			Employment			
	\$	\$	\$	\$	Super-annuation	Options	\$	\$
2005								
Mischa J Leonard	170,140	13,200	-	11,279	-	-	-	194,619
Tony S Cariss ¹	30,963	2,787	67,510	3,750	-	-	-	105,010
	201,103	15,987	67,510	15,029	-	-	-	299,629

¹ Commenced on 01 April 2005.

² Relates to period ended 30 June 2005 – payable March 2006

2004

Mischa J Leonard	166,000	12,000	112,265	9,889	-	-	-	300,154
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The service and performance criteria set to determine remuneration are included in Note 31h)

d) Remuneration Options

No options have been granted as remuneration during the financial year. Certain executives exercised options during the year, details of which are listed below:

	Issue Date of Option	No of Options	Exercise Price (cents)	Date Exercised	First Exercise Date	Last Exercise Date
Parent Entity Directors						
Allan R Davison	23/12/1999	100,000	55	04/10/2004	23/12/2001	23/12/2004
Specified Executives						
Mischa J Leonard	23/12/1999	50,000	55	04/10/2004	23/12/2001	23/12/2004
		150,000				

All options issued were granted at the net asset backing per share at the time of issue as the Company was not ASX listed and there was not an available market for the shares.

During the year, the following executives options lapsed:

	Issue Date of Option	No of Options	Exercise Price (cents)	First Exercise Date	Last Exercise Date
Parent Entity Directors					
Allan R Davison	02/06/2000	38,609	60	02/06/2002	02/06/2005
Specified Executives					
Mischa J Leonard	02/06/2000	19,305	60	02/06/2002	02/06/2005

e) Shares issued on Exercise of Remuneration Options

The Company has not issued any remuneration options.

f) Options and Rights Holdings

No directors or specified executives hold any options or rights over Ordinary Shares of Folkestone Ltd.

g) Shareholdings

Number of shares held by parent entity directors and specified executives

	Balance 01/07/2004	Received as Remuneration	Options Exercised	Net Change Other*	Balance 30/06/3005
Parent Entity Directors					
Alister TL Maitland	273,860	-	-	-	273,860
Allan R Davison	1,284,031	-	100,000	-	1,384,031
Bruce R Kean	17,143	-	-	-	17,143
David CJ Scarf	322,870	-	-	-	322,870
Specified Executives					
Mischa J Leonard	112,938	-	50,000	(27,385)	135,553
Total	2,010,842	-	150,000	(27,385)	2,133,457

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

h) Remuneration Practices

The company's policy for determining the nature and amount of emoluments of board members and senior executives of the company is as follows:

The remuneration structure for executive officers, including executive directors, is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the company. Employment is on a continuing basis the terms of which are not expected to change in the immediate future. Upon retirement directors and specified executives are paid employee benefit entitlements accrued to date of retirement with the exception of Mr David Scarf who will be paid in addition a retirement benefit which relates to services prior to 1998 (refer Directors' Report for additional information).

The company may terminate any employee without cause by providing adequate written notice or making payment in lieu of notice based on the individual's annual salary component. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the company can terminate employment at any time.

The incentive component of remuneration differs between Folkestone and Access Constructions Pty Ltd. employees.

Executive Short-term incentives – Folkestone

Should the company achieve a pre-determined return on shareholders' funds target set by the Board then a pool of short-term incentive (STI) payments is available for Folkestone executives for allocation during the annual review. Cash incentives (bonuses) are payable within 6 months of the end of each year. Using a return on shareholders' funds target ensures that variable reward is only available when value has been created for shareholders over and above a hurdle rate. The incentive pool is leveraged for performance above the threshold to provide an incentive for executive out-performance.

The Board approves the appropriate STI target on the recommendation of the Managing Director and the Remuneration Committee. The Managing Director in consultation with the Chairman, allocate incentives depending on the accountabilities of the role and impact on organisation performance.

Executive Short-term incentives – Access Constructions

Certain employees of Access Constructions are on an STI program 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 the employment contracts. The STI program was in place prior to acquisition by Folkestone and encourages employees to deliver profits on an annual basis.

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

There has been no alteration to the terms of the bonuses paid or accrued since balance date.

32. EMPLOYEE BENEFITS

	Note	Economic Entity		Parent Entity	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
a) Employee benefit and related on-cost liabilities					
Included in Other creditors					
Current	16	152	527	-	527
Provision for Employee benefits					
Current	19	173	77	73	77
Non Current	21	223	87	97	87
Directors retirement benefits					
Non Current	21	53	50	53	50
Aggregate employee benefit and related on-cost liability		601	741	223	741
Employee numbers					
Number of employees at year end		33	8	8	8

b) Employee Share Options

Until June 2000 (prior to ASX Listing) the Company issued options to executives and directors for no consideration. The options issued were granted with an exercise price based on the prevailing net asset backing immediately prior to the granting of the options. All options issued expired five years after issue with earlier options being exercisable immediately and later options exercisable two years after granting. No options have been granted since June 2000. All options granted have been either exercised or lapsed.

c) Options Exercised

	Economic Entity		Parent Entity	
	2005 Number	2004 Number	2005 Number	2004 Number
Opening Balance	231,308	395,589	231,308	395,589
Granted during the year	-	-	-	-
Exercised during the year	(170,000)	(164,281)	(170,000)	(164,281)
Lapsed during the year	(61,308)	-	(61,308)	-
	-	231,308	-	231,308

In addition, a further 100,000 options over Ordinary Shares (2004: 31,514) were exercised at 55 cents during the year and 38,609 options lapsed which were granted to a previous executive director. These options did not expire upon employment termination.

d) Details of share options exercised during the year:

	Economic Entity		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Proceeds from shares issued:	93	90	93	90
Fair value as at issue date of shares issued during the year:	131	155	131	155

The above figures exclude options exercised by a previous executive director as mentioned in c) above.

Fair value of shares issued during the reporting period at their issue date is estimated to be the market price of shares of the parent entity on the ASX as at close of trading on the issue dates. The fair value of shares at date of issue was:

Issue Date	Fair Value (cents)	Number of Shares Issued
01/09/2003	81	132,485
06/04/2004	75	31,756
04/10/2004	91	170,000

e) Details of share options outstanding as at end of year:

There are no share options outstanding as at 30 June 2005 nor have any been granted since that date.

f) Superannuation

The company does not operate its own superannuation fund and contributions are made to superannuation funds on the instructions of directors and employees, in accordance with the Superannuation Guarantee Legislation.

g) Long Service Leave

The amounts for long service leave are measured at their present values. The following assumptions were adopted in measuring present values:

	Economic Entity		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Weighted average rates of increase in annual employee entitlements to settlement of the liabilities:	3%	5%	3%	5%
Weighted average discount rates:	5.09%	5.87%	4.87%	5.87%
Weighted average terms to settlement of the liabilities	3.58%	5 years	3.73%	5 years

33. COMMITMENTS FOR EXPENDITURE

	Economic Entity		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Lease Commitments				
Operating-Lease expenditure contracted for at the reporting date and payable:-				
Not later than one year	236	111	147	111
Later than one year but not later than five years	779	-	615	-
	1,015	111	762	111

The Group has two lease commitments:

1. Level 24, 360 Collins Street, Melbourne is for a five year term and expires on 05 September 2010. Rent is payable monthly in advance with 4% per annum fixed increases on the anniversary date. There is no option period.
2. 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.

34. CONTINGENT LIABILITIES

a) Folkestone Ltd has guaranteed the performance of certain controlled and associated entities in relation to development agreements. These include:

- Folkestone (EMT) Pty Ltd – Folkestone Limited has provided a guarantee in favour of St George Bank Limited in relation to a loan facility for \$16.1m (drawn \$6,002,452) for the development of Jolimont Square, East Melbourne.
- Folkestone Developments Pty Ltd – Folkestone Limited has provided a guarantee in favour of St George Bank Limited in relation to a loan facility for \$2,540,000 (drawn \$2,540,000) for the development of 23-29 Miles Street, Mulgrave.
- Ceres House Pty Ltd – Folkestone Limited has provided a guarantee in favour of Investec Bank (Australia) Limited in relation to a loan facility for \$13,200,000 (drawn \$7,987,153) for the development of Ceres House at 528 Lonsdale Street, Melbourne.

b) Folkestone Limited has requested the ANZ Banking Group Ltd to issue bank guarantees totalling \$275,000. These guarantees have been cash securitised. St George Bank has issued bank guarantees totalling \$31,000 which have also been cash securitised.

c) Maxim Electrical is seeking monies from Fenchurch Pty Ltd, a wholly owned subsidiary of Folkestone Limited in relation to the late delivery of 242 Glenhuntly Road, Elsternwick. This matter has been outstanding since 30 June 2003 and resolution is anticipated shortly. It is not practical to estimate the potential financial outcome of this claim but legal advice indicates that any liability that may arise will not be significant.

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.

35. RELATED PARTIES

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 28.

Transactions between Folkestone Limited and other entities in the wholly-owned group during the years ended 30 June 2005 and 2004 consisted of:

- a) loans advanced by Folkestone Limited;
- b) loans repaid to Folkestone Limited;
- c) the payment of dividends to Folkestone Limited; and
- d) transactions between Folkestone Limited and its wholly-owned Australian controlled entities under the accounting tax sharing agreement described in Note 4.

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

	Note	Economic Entity		Parent Entity	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Aggregate amounts receivable from and payable to related parties in the wholly-owned group at balance date were as follows:-					
Current receivables	6	-	-	14,446	10,170
Non-current borrowings	20	-	-	5,514	5,561

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:-

	Note	Economic Entity		Parent Entity	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Current receivables					
Associated entities	6	470	5,257	230	5,257

Ownership interests in related parties

Interests held in the following classes of related parties are set out in the following notes:

- a) Controlled Entities – Note 28, and
- b) Associates – Note 27.

36. SEGMENT INFORMATION

The economic entity activities during the year were in the property sector within Australia. Folkestone's current operations are limited to Victoria, Australia and are predominantly development based. At 30 June 2005, the Company had sold its only investment property and may replace this during the next financial year.

		Property Investments	Construction	Intersegment Eliminations/ Unallocated	Consolidated
	\$'000	\$'000	\$'000	\$'000	\$'000
2005					
Sales to external parties	16,344	-	6,546	-	22,890
Share of profits from associates	845	-	-	-	845
Other Revenue	46	-	25	309	380
Total Segment Revenue	17,235	-	6,571	309	24,115
Segment Result	730	(4)	412	283	1,421
Income Tax Expense					(451)
Net Profit					970
Segment Assets	40,320	-	4,865	-	45,185
Unallocated Assets	-	-	-	346	346
Total Assets	40,320	-	4,865	346	45,531
Segment Liabilities	18,427	-	4,727	-	23,154
Unallocated Liabilities	-	-	-	306	306
Total Liabilities	18,427	-	4,727	306	23,460
Investments in associates	-	-	-	-	-
Acquisition of property plant & equipment	-	-	184	13	197
Depreciation & amortisation expense	-	-	6	73	79
Net Cash Flow Operating Activities	(1,252)	2,541	1,732	(1,684)	1,337
2004					
Sales to external parties	16,925	3,061	-	-	19,986
Share of profits from associates	5,332	-	-	-	5,332
Other Revenue	412	-	-	101	513
Total Segment Revenue	22,669	3,061	-	101	25,831
Segment Result	5,230	417	-	101	5,748
Income Tax Expense					(1,742)
Net Profit					4,006
Segment Assets	38,410	2,593	-	-	41,003
Unallocated Assets	-	-	-	372	372
Total Assets	38,410	2,593	-	372	41,375
Segment Liabilities	17,132	-	-	-	17,132
Unallocated Liabilities	-	-	-	3,397	3,397
Total Liabilities	17,132	-	-	3,397	20,529
Investments in associates	4,151	-	-	-	4,151
Acquisition of property plant & equipment	-	-	-	45	45
Depreciation & amortisation expense	-	-	-	54	54
Net Cash Flow Operating Activities	(8,340)	404	-	(461)	(8,397)

37. CASH FLOW INFORMATION

	Economic Entity		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
a) Reconciliation of Cash Flow from Operations with Profit from Ordinary Activities after Income Tax				
Profit from ordinary activities after income tax	970	4,006	(893)	3,843
Depreciation and amortisation	79	54	46	54
Dividends declared	-	1,416	-	1,416
Share of net profits from associates not received as distributions	(237)	(5,183)	(237)	(5,183)
Net profit/loss on disposal of current assets	-	(251)	-	-
Writedown of property assets to recoverable amount	78	-	-	-
Change in operating assets and liabilities				
(Increase)/decrease in trade debtors	(7,893)	(317)	2,315	(1,363)
(Increase)/decrease in inventories/DIPs	32	273	(45)	12,274
(Increase)/decrease in future income tax benefit	54	(104)	120	(81)
(Increase)/decrease in other operating assets	5,677	493	6,260	86
(Decrease)/increase in trade creditors	5,256	(12,033)	(442)	(11,934)
Increase/(Decrease) in provision for income taxes	(1,741)	1,271	(1,706)	1,296
(Decrease)/increase in other operating liabilities	257	527	257	527
(Decrease)/increase in other provisions	(1,195)	1,451	(1,407)	1,451
Net Cash inflow/(outflow) from operating activities	1,337	(8,397)	4,268	2,386

b) Acquisition of Entities

During the year 100% of Access Constructions Pty Ltd was acquired.

Details of this transaction are:

Purchase consideration (including costs)	2,048	-	2,048	-
Cash consideration	1,448	-	1,448	-
Amount due under contract of sale	400	-	400	-
Cash outflow/inflow	1,048	-	1,048	-
Assets and liabilities held at acquisition date:				
Receivables	-	-	-	-
Inventories	-	-	-	-
Property, plant and equipment	179	-	-	-
Employee liabilities	(179)	-	-	-
	-	-	-	-
Goodwill on consolidation	2,048	-	-	-
Outside equity interests in acquisitions	-	-	-	-
	2,048	-	-	-

c) Non-cash Financing and Investing Activities

Share Issue

753,864 Ordinary Shares were issued at \$79.59 cents (total \$600,000) as part of the consideration for the purchase of Access Constructions Pty Ltd

38. EVENTS OCCURRING AFTER BALANCE DATE

Since 30 June 2005 the following has occurred:

- The mezzanine office at 528 Lonsdale Street, Melbourne has been sold.
- An offer has been received for a new terrace home at Jolimont Square, East Melbourne which has been accepted and contracts are being prepared for execution..

39. EARNINGS PER SHARE

	Economic Entity	
	2005 cents	2004 cents
Earnings per share		
Basic earnings per share	3.4	15.0
Diluted earnings per share	3.4	14.9
<i>Weighted average number of shares used as the denominator</i>		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share and alternative basic earnings per share	28,865,349	26,639,276
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share and alternative diluted earnings per share	28,865,349	27,010,206
<i>Reconciliations of Earnings to Net Profit</i>		
Basic and alternative basic earnings per share		
Net profit	970	4,006
Interest revenue associated with diluted potential ordinary shares	-	9
Earnings used in calculating diluted earnings per share	970	4,015

Options

There are no options over Ordinary Shares on issue.

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 30 to 66 are in accordance with the Corporations Act 2001 and:
 - a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - b) give a true and fair view of the financial position as at 30 June 2005 and of the performance for the year ended on that date of the company and economic entity;
2. the Managing Director and Chief Financial Officer have each declared that:
 - a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - c) the financial statements and notes for the financial year give a true and fair view.
3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

At the date of this declaration, there are reasonable grounds to believe that the companies which are party to this deed of cross guarantee will be able to meet any obligations or liabilities to which they are, or may become subject to, by virtue of the deed.

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



Alister Maitland
Chairman



Allan Davison
Managing Director

Melbourne
26 August 2005



Chartered Accountants

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Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Folkestone Limited (the company) and Folkestone Limited (the economic entity), for the year ended 30 June 2005. The economic entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the economic entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

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

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration set out on page 25 of the financial report has not changed as at the date of providing our audit opinion.

Audit Opinion

In our opinion, the financial report of Folkestone Limited is in accordance with:

- a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and economic entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.



Robert DD Collie

Partner
BDO

Melbourne

26 August 2005

The shareholder information set out below was applicable as at 21 August 2005:

a) Distribution of Equity Securities

Analysis of number of equity security holders by size of holding

Ordinary Shares			
1	-	1,000	48
1,001	-	5,000	161
5,001	-	10,000	162
10,001	-	100,000	383
100,001	and	Over	33
			787

There were 30 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
Thorney Holdings Pty Ltd	5,949,104	20.05
Kingsley Developments Pty Ltd	2,970,247	10.01
JP Morgan Nominees Australia Ltd	1,476,285	4.98
A & V Davison (Davison Superfund)	781,888	2.64
Longstaff Holdings Pty Ltd	753,864	2.54
AR Davison	602,143	2.03
BP Jones	515,581	1.74
Davwall Pty Ltd	322,870	1.09
DCL Gibbs	301,299	1.02
Melbourne Newsboys Club	300,000	1.01
JM Daniels	278,408	0.94
San Michele Group Investments Ltd	250,545	0.84
Abacus Group Holdings Ltd	211,860	0.71
Tribune Securities Pty Ltd	188,962	0.64
Mirlex Pty Ltd	178,976	0.60
DG & MJ Wade	164,140	0.55
United Portfolio Holdings Pty Ltd	158,437	0.53
CF Gibbs	158,293	0.53
AT Maitland	157,089	0.53
Memo Holdings Pty Ltd	153,452	0.52
	15,873,443	53.50

c) Substantial Holders

Substantial holders in the company are set out below

	Number Held	Percentage %
Thorney Holdings Pty Ltd	5,949,104	20.05
Kingsley Developments Pty Ltd	2,970,247	10.01

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.

Directors	<p>Alister TL Maitland (Chairman) Allan R Davison (Managing Director) Bruce R Kean AM David CJ Scarf</p>
Chief Financial Officer & Company Secretary	<p>Mischa J Leonard</p>
Registered Office	<p>Level 24 360 Collins Street Melbourne Victoria 3000</p>
Principal Places of Business	<p>Folkestone Ltd Level 24 360 Collins Street Melbourne Victoria 3000 www.folkestone.com.au</p> <p>Access Constructions Pty Ltd Suite 8 14 Lionel Road Mt Waverley Victoria 3149 www.accessconstructions.com.au</p>
Share Register	<p>Link Market Services Ltd (formerly ASX Perpetual Registrars Ltd) 333 Collins Street Melbourne Victoria 3000</p>
Auditor	<p>BDO 563 Bourke Street Melbourne Victoria 3000</p>
Stock Exchange Listing	<p>Folkestone Ltd shares are listed on the Australian Stock Exchange. The ASX code is FLK.</p>
Notice of Annual General Meeting	<p>The Annual General Meeting of Folkestone Limited will be held in the company's offices at Level 24, 360 Collins Street on 10 November 2005 commencing at 11.00 am. A formal notice of meeting is attached.</p>

Folkestone

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