

# Appendix 4D

## Half-Year Report

### For the half-year ended 31 December 2010

**1. Details of the reporting period and the previous corresponding period**

Current period: 1 July 2010 to 31 December 2010  
 Prior corresponding period: 1 July 2009 to 31 December 2009

**2. Results for announcement to the market**

Key Information				\$A'000
2.1 Revenues from ordinary activities	Up	2,100%	To	\$6,490
2.2 Profit (loss) from ordinary activities after tax attributable to members	Down	1,029%	To	\$(10,160)
2.3 Net profit (loss) for the period attributable to members	Down	1,029%	To	\$(10,160)

**2.4 Dividends**

The Board has resolved not to pay an interim dividend in respect of the half-year ended 31 December 2010 and no final dividend was paid for the year ended 30 June 2010.

**2.5 Record date for determining entitlement to dividends**

Not applicable

**2.6 Brief explanation of the figures reported above**

The net loss after tax for the six months ending 31 December 2010 is \$10.16 million compared to a net loss after tax of \$0.90 million in the corresponding period in 2009.

The result for the period has been materially impacted by provisions made against the carrying values of Folkestone's respective interests in the 300 Millers Road Altona and Donnybrook Road Mickleham projects. The assessment of the carrying values of the interests in these projects was made with reference to external formal valuations commissioned by the Board.

The total value of these non-cash provision items is \$9.68 million, of which \$2.28 million relates to 300 Millers Road Altona and \$7.40 million relates to Donnybrook Road Mickleham.

Legal and accounting expenses associated with evaluating the EREP acquisition and the associated prospective capital raising has impacted the net loss after tax by \$0.28m.

Please refer to the attached Half-Year Report for further information

**3. Net tangible asset backing per ordinary security**

Security	Current period	Previous corresponding period
Ordinary shares	16.8c	33.2c

Shares on issue at reporting date	Current period	Previous corresponding period
Ordinary shares	99,699,228	86,468,024

**4. Control gained or lost over entities in the financial year**  
Not applicable

**5. Dividend details**  
Not applicable

**6. Dividend or distribution reinvestment plan details**  
Not applicable

**7. Details of associates and joint venture entities**

Name	Ownership interest %	
	Current period	Previous corresponding period
Folkestone (Bayside) Pty Ltd	20%	20%
Folkestone Docklands Unit Trust	50%	50%

**8. Applicable accounting standards for foreign entities**  
Not applicable

**9. Statement if accounts are subject to audit dispute or qualification**  
The half-year report has been subject to review, and is not subject to audit dispute or qualification.

**Folkestone Limited**  
**ABN 21 004 715 226**

**Half Year Report**  
**31 December 2010**

# Contents

	<i>Page</i>
• Directors' Report	1
• Auditor's Independence Declaration	5
• Independent Auditor's Review Report	6
• Director's Declaration	8
• Condensed Consolidated Statement of Comprehensive Income	9
• Condensed Consolidated Statement of Financial Position	10
• Condensed Consolidated Statement of Changes in Equity	11
• Condensed Consolidated Cash Flow Statement	12
• Notes to the Condensed Consolidated Financial Statements	13

# Folkestone Limited

## Directors' Report

### For the half-year ended 31 December 2010

The directors' present their report together with the financial report of Folkestone Limited ('the Company') and of the consolidated entity, being the Company and its controlled entities, for the half-year ended 31 December 2010 and the auditor's report thereon. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

#### Directors

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

- ❑ ATL Maitland (BCom, FAICD, FAIM, SF Fin) (Chairman)
- ❑ MW Parkinson CBE (MA, MBA (Stanford), FAICD)
- ❑ KH Denning AM, JP (BEC, AAPI (Val), AAIB)
- ❑ G J Paramor (FAPI, FAICD, FRICS)
- ❑ AH Gurner (BA, FAICD)

Mr O Guglielmi (BBus, CPA) resigned as Managing Director & Chief Executive Officer on 6 December 2010.

#### FINANCIAL RESULTS

The net loss after tax for the six months ending 31 December 2010 is \$10.16 million compared to a net loss after tax of \$0.90 million in the corresponding period in 2009.

The result includes \$9.68 million of non-cash provision items relating to the impairment of carrying values of interests in current development projects. Of this \$9.68 million provision, \$2.28 million relates to the project at 300 Millers Road Altona whilst \$7.40 million relates to the project at Donnybrook Road Mickleham. The review of carrying value of interests in current development projects is detailed further below.

Legal and accounting expenses associated with evaluating the EREP acquisition and the associated prospective capital raising has impacted the net loss after tax by \$0.28m.

#### REVIEW OF CARRYING VALUE OF INTERESTS IN CURRENT DEVELOPMENT PROJECTS

The result for the period has been materially impacted by provisions made against the carrying values of Folkestone's respective interests in the 300 Millers Road Altona and Donnybrook Road Mickleham projects. The assessment of the carrying values of the interests in these projects was made with reference to external formal valuations of Folkestone's interests in these projects commissioned by the Board and completed by CB Richard Ellis. Although the Board's usual practice is to call for updated valuations when it reports to shareholders, the present circumstance where the Company is proposing to undertake a significant recapitalisation process is far from usual and it was felt that shareholders should be aware of the most recent net tangible asset figure on which, along with the prevailing volume weighted average price of Folkestone's shares traded on the ASX, any proposed capital raising would be expected to be largely based.

It should be noted however that in preparing their valuation reports, CB Richard Ellis made several important economic observations about the local property markets including:

- In relation to the valuation reports for Folkestone's interest in both the Altona & Mickleham properties the following comments were made by CB Richard Ellis;
  - *"Direct market sales evidence in 2008 and 2009 indicated a clear softening in investment parameters following a severe deterioration in economic conditions and the collapse of credit and equity markets. However, recent economic data is indicating that Australia has performed relatively strongly by comparison to its European and North American peers, and that in fact we may have already passed the bottom of the current economic cycle. Despite the renewed optimism, investors remain cautious. We anticipate sentiment will continue to improve in 2011 with any improvements in the property market gradual rather than explosive. We note however that market confidence*

# Folkestone Limited

## Directors' Report

### For the half-year ended 31 December 2010

- *could be quickly ended by sudden and unforeseen economic events both nationally and internationally, and therefore banks will continue to focus closely on their loan portfolio's and lending conditions will remain tight."*
  - *"The industrial property landscape is looking positive for developers who control sites. With finance on speculative projects difficult to obtain, the trigger for construction is more than likely to be the security of a tenant signing a lease for the completed project."*
  - In terms of "Market Commentary" the CB Richard Ellis, Mickleham report notes examples of "limited sales evidence most of which is historical".
- In relation to the valuation report for Folkestone's interest in the Altona property the following comments were made by CB Richard Ellis;
    - *"Given changed market conditions post the GFC, demand for non-income producing development sites has been subdued. This is further compounded by the major Banks having reduced their appetite for the funding of such real estate assets. As a consequence, real estate values for this asset class will be viewed in years to come as being at the "trough" of the cycle. Over time most market observers would perceive land value escalation could occur."*
  - More specifically in relation to Folkestone's 20% interest in Donnybrook Road Mickleham further correspondence from CB Richard Ellis dated 24 January 2011 noted:
    - *"Smaller based companies are usually excluded from such strategic assets. Notwithstanding this, with a 20% shareholding interest, influence in the ultimate development is limited"*
    - *"Benefits of being associated with one of Australia's largest superannuation companies well experienced in property holdings and financial backing to take the project through to the end development. Notwithstanding the latter, potential partial interest purchasers may perceive the Shareholders Agreement as being a complex document one which may dilute their interest in acquisition"*
    - *"Most observers would acknowledge the tremendous residential growth of the northern corridor stimulated by ever increasing population growth and demand for home ownership in metropolitan Melbourne. As a result there is a degree of comfort around future growth prospects."*

#### ASSET BACKING

As a result of the provisions made against the carrying value of interests in current development projects, net tangible asset backing was 16.8 cents per share at 31 December 2010 compared with 27.0 cents per share at 30 June 2010.

#### FINANCIAL & CASH POSITION

The Company continues to monitor its cash position closely to ensure it has sufficient liquidity to fulfil its commitments. Folkestone is in compliance with its debt covenants in respect of each joint venture debt facility.

The following material items have the ability to impact the Company's cash position over the coming 12 months:

- The Company proceeding with either of the recapitalisation proposals currently being assessed by the Board.
- The senior debt facility on the 300 Millers Road Altona facility expires on 30 November 2011. Folkestone's 50% share of this facility is \$4.150 million. Folkestone Limited has provided a guarantee in favour of St George Bank in relation to this loan facility. Please refer to Note 7 for further information.
- The senior debt facility on the Donnybrook Road Mickleham facility expires on 21 December 2011. Folkestone's 20% share of this facility is \$8.650 million. The guarantee previously provided by Folkestone in

# **Folkestone Limited**

## **Directors' Report**

### **For the half-year ended 31 December 2010**

favour of Capital Finance Australia Limited in relation to this loan facility has lapsed and in consequence the loan is now non-recourse. Please refer to Note 7 for further information.

- Proceeds to be received from the completion and settlement of properties at Noone Street Clifton Hill.
- Current cash balances are approximately \$2.2m and ongoing operational expenses are running at approximately \$0.1m per month.

Please refer to Note 1 for further disclosure relating to the financial and cash position and the going concern assumptions as they relate to the preparation of the Half-Year Report.

#### **REVIEW OF OPERATIONS**

##### **135, 225 & 285 Donnybrook Rd, Mickleham**

Donnybrook Road is a 320 hectare site, zoned for business and located within the Urban Growth Boundary of Victoria. The site enjoys excellent links to Melbourne's road transport infrastructure in particular the Hume Highway and Craigieburn bypass.

The final land payment to the vendor was made on 21 December 2010. The joint venture is currently undertaking works to bring infrastructure services to the site to ensure the site is able to capitalise on any demand for employment land in the northern growth corridor.

The debt facility expires on 21 December 2011.

##### **169 Noone Street, Clifton Hill**

Noone Street is a 103 residential dwelling project comprising 58 townhouses and 45 apartments located 3.1 kilometres northeast of the Melbourne CBD. Pre-sales totalling \$53.4m have been signed to date representing over 95% of the total project revenue. The development is being completed on a staged basis with two of the seven stages, together with the sale of a super-lot, having been completed and settled. Construction activity on the remaining five stages is underway and is on schedule to be completed in early 2012. The debt facility associated with this project was refinanced during the 2010 financial year and now matures in December 2011.

##### **300 Millers Road, Altona**

Millers Road is a 13 hectare parcel of land with an industrial 3 zoning and a permit to develop a 36,693sqm bulky goods retail complex. The site is located approximately 11 kilometres from the Melbourne CBD and 2.5 kilometres from the Westgate Freeway and Western Ring Road.

Following the global financial crisis, the site was put to the market in November 2009 via an expression of interest campaign however no buyer was secured. Since this time, the joint venture has continued to field enquiries for the property, however no sale has been concluded.

The proposed tenants for the bulky goods complex remain interested in the site and market conditions are slowly improving.

The debt facility was recently extended to 30 November 2011.

#### **OUTLOOK**

In August 2009, Folkestone announced that it would pursue an orderly sell down of existing projects in a manner and within a timeframe that would maximise Shareholder returns whilst pursuing opportunities to transition into a larger listed real estate development, investment and funds management company. The stated timeframe for completing the orderly sell through of existing projects was December 2011.

**Folkestone Limited**  
**Directors' Report**  
**For the half-year ended 31 December 2010**

The Noone Street residential project remains on track to be completed by January 2012, however the ability of Folkestone to achieve this timeframe for the Millers Road and Donnybrook Road projects in a manner that will maximise Shareholders returns continues to be impacted by the subdued state of the bulky goods and industrial property markets.

The current market conditions together with Folkestone's limited capital base, limited cash reserves, upcoming debt expiries, the fact that its investments include joint venture and minority interests, and lack of scale and liquidity, will continue to impact Folkestone's ability to deliver earnings growth and Share price performance in the future.

**RECAPITALISATION PROPOSAL**

As at the date of this report, the Company's securities are in voluntarily suspension on the ASX whilst it continues to consider an alternative recapitalisation proposal as announced to the ASX on 3 February 2011 and a revised EREP acquisition and capital raising proposal which has subsequently been received. It is expected that the suspension will end before the commencement of trading on Thursday 10 February 2011 at which time the Company will provide further details to the market.

**ROUNDING OF AMOUNTS TO NEAREST THOUSAND DOLLARS**

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

**AUDITOR'S INDEPENDENCE DECLARATION**

The auditor's independence declaration is included on page 5 of the half-year financial report.

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

On behalf of the Directors



ATL Maitland  
Chairman



MW Parkinson  
Director

Melbourne  
9 February 2011

The Board of Directors  
Folkestone Limited  
Suite 8, 14 Lionel Road  
Mount Waverley VIC 3149

9 February 2011

Dear Board Members,

### **Folkestone Limited**

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

As lead audit partner for the review of the financial statements of Folkestone Limited for the half-year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours faithfully

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU



Craig Bryan  
Partner  
Chartered Accountants

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

We have reviewed the accompanying half-year financial report of Folkestone Ltd, which comprises the condensed statement of financial position as at 31 December 2010, and the condensed statement of comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 8 to 19.

### *Directors' Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Folkestone Ltd's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Folkestone Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

## *Auditor's Independence Declaration*

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

## *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Folkestone Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

## *Material Uncertainty Regarding Continuation as a Going Concern*

Without qualifying our conclusion, we draw attention to Note 1 in the financial report which indicates that the debt facility associated with the Millers Road, Altona project expires in November 2011 and the debt facility associated with the Donnybrook Road, Mickleham project expires in December 2011. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU



Craig Bryan

Partner

Chartered Accountants

Melbourne, 9 February 2011

**Folkestone Limited**  
**Directors' Declaration**  
**For the half-year ended 31 December 2010**

Directors' Declaration

The directors declare that:

- (a) 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; and
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the *Corporations Act 2001*.

On behalf of the Directors



**ATL Maitland**  
Director

Melbourne  
9 February 2011



**MW Parkinson**  
Director

**Folkestone Limited**  
**Condensed consolidated statement of comprehensive income**  
**For the half-year ended 31 December 2010**

	<b>Consolidated</b>	
	<b>Half-year ended 31 December 2010 \$000</b>	<b>Half-year ended 31 December 2009 \$000</b>
<i>Continuing operations:</i>		
Revenue	6,148	111
Cost of goods sold	(5,946)	-
Gross profit	202	111
Other revenue	342	184
Employee benefits expense	(539)	(682)
Impairment of inventories	(2,282)	(410)
Consultants expense	(186)	-
Depreciation and amortisation expense	(3)	(20)
Rental expense on operating leases	(16)	(131)
Other expenses	(295)	(227)
Impairment of interest held in associated entities	(7,394)	-
Finance costs	(2)	(2)
Loss before income tax	(10,173)	(1,177)
Income tax (expense)/credit	-	333
Loss for the half-year from continuing operations	(10,173)	(844)
<i>Discontinued operations:</i>		
Profit/ (loss) from discontinued operations	14	(66)
Loss for the half year	(10,159)	(910)
Total comprehensive expense for the half year	(10,159)	(910)
Attributable to:		
Non-controlling interests	1	(10)
Owners of the parent	(10,160)	(900)
	(10,159)	(910)
<b>Earnings per share</b>		
From continuing and discontinued operations:		
Basic earnings per share (cents per share)	(10.19)	(1.58)
Diluted earnings per share (cents per share)	(10.19)	(1.58)
From continuing operations:		
Basic earnings per share (cents per share)	(10.21)	(1.46)
Diluted earnings per share (cents per share)	(10.21)	(1.46)

The above condensed consolidated statement of comprehensive income is to be read in conjunction with the notes of the financial statements set out on pages 13 to 19.

**Folkestone Limited**  
**Condensed consolidated statement of financial position**  
**as at 31 December 2010**

	Note	Consolidated	
		31 December 2010 \$000	30 June 2010 \$000
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		2,169	15,648
Trade and other receivables		20	46
Inventories		15,887	21,017
Shares in associated entities	6	5,480	-
Current tax assets		15	12
Other current assets		224	3
<b>TOTAL CURRENT ASSETS</b>		<b>23,795</b>	<b>36,726</b>
<b>NON-CURRENT ASSETS</b>			
Shares in associated entities	6	-	3,239
Property, plant and equipment		15	18
<b>TOTAL NON-CURRENT ASSETS</b>		<b>15</b>	<b>3,257</b>
<b>TOTAL ASSETS</b>		<b>23,810</b>	<b>39,983</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		426	1,248
Short-term borrowings		6,522	11,688
Short-term provisions		30	56
<b>TOTAL CURRENT LIABILITIES</b>		<b>6,978</b>	<b>12,992</b>
<b>TOTAL LIABILITIES</b>		<b>6,978</b>	<b>12,992</b>
<b>NET ASSETS</b>		<b>16,832</b>	<b>26,991</b>
<b>EQUITY</b>			
Issued capital	5	28,271	28,271
Reserves		383	383
Accumulated losses		(11,858)	(1,698)
Parent interest		16,796	26,956
Minority interest		36	35
<b>TOTAL EQUITY</b>		<b>16,832</b>	<b>26,991</b>

The above condensed consolidated statement of comprehensive income is to be read in conjunction with the notes of the financial statements set out on pages 13 to 19.

**Folkestone Limited**  
**Condensed consolidated statement of changes in equity**  
**For the half-year ended 31 December 2010**

	Issued Capital	Retained Earnings	Reserves	Attributable to holders of the parent	Minority Interest	Total
CONSOLIDATED	\$000	\$000	\$000	\$000	\$000	\$000
<b>Balance at 1 July 2009</b>	19,326	1,797	345	21,468	392	21,860
Loss for the period	-	(900)	-	(900)	(10)	(910)
Total comprehensive income	-	(900)	-	(900)	(10)	(910)
Issue of share capital – equity raising (note 5)	8,200	-	-	8,200	-	8,200
Share issue costs (note 5)	(681)	-	-	(681)	-	(681)
Related income tax benefit (note 5)	204	-	-	204	-	204
Issue of performance rights	-	-	67	67	-	67
<b>Balance at 31 December 2009</b>	<b>27,049</b>	<b>897</b>	<b>412</b>	<b>28,358</b>	<b>382</b>	<b>28,740</b>
<b>Balance at 1 July 2010</b>	<b>28,271</b>	<b>(1,698)</b>	<b>383</b>	<b>26,956</b>	<b>35</b>	<b>26,991</b>
Loss for the period	-	(10,160)	-	(10,160)	1	(10,159)
Total comprehensive income	-	(10,160)	-	(10,160)	1	(10,159)
<b>Balance at 31 December 2010</b>	<b>28,271</b>	<b>(11,858)</b>	<b>383</b>	<b>16,796</b>	<b>36</b>	<b>16,832</b>

The above condensed consolidated statement of changes in equity is to be read in conjunction with the notes of the financial statements set out on pages 13 to 19.

**Folkestone Limited**  
**Condensed consolidated cash flow statement**  
**For the half-year ended 31 December 2010**

	<b>Consolidated</b>	
	<b>Half-year ended</b>	<b>Half-year ended</b>
	<b>31 December 2010</b>	<b>31 December 2009</b>
	<b>\$000</b>	<b>\$000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	5,975	1,132
Payments to suppliers and employees	(4,984)	(5,151)
Interest received	336	192
Finance costs	(2)	(2)
Income tax paid	(3)	(12)
Net cash provided by/(used in) operating activities	1,322	(3,841)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payment for investment in associate	(9,635)	(248)
Net cash used in investing activities	(9,635)	(248)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings	2,872	1,787
Repayment of borrowings	(8,038)	(1,411)
Proceeds from issue of shares	-	7,519
Net cash provided by/(used in) financing activities	(5,166)	7,895
Net (decrease)/ increase in cash held	(13,479)	3,806
Cash and cash equivalents at beginning of the period	15,648	8,707
Cash and cash equivalents at end of the period	2,169	12,513

The above condensed consolidated cash flow statement is to be read in conjunction with the notes of the financial statements set out on pages 13 to 19.

# **Folkestone Limited**

## **Notes to the condensed consolidated financial statements**

### **For the half-year ended 31 December 2010**

#### **NOTE 1. SIGNIFICANT ACCOUNTING POLICIES**

##### **Statement of Compliance**

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

##### **Basis of Preparation**

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

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

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2010 annual financial report for the financial year ended 30 June 2010.

##### **Adoption of new and revised Accounting Standards**

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period.

New and revised Standards and amendments thereof and Interpretations effective for the current reporting period that are relevant to the Group include:

- Amendments to AASB 5, 8, 101, 107, 117, 118, 136 and 139 as a consequence of AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*

AASB 2009-5 introduces amendments into Accounting Standards that are equivalent to those made by the IASB under its program of annual improvements to its standards. A number of the amendments are largely technical, clarifying particular terms, or eliminating unintended consequences. Other changes are more substantial, such as the current/non-current classification of convertible instruments, the classification of expenditures on unrecognised assets in the statement of cash flows and the classification of leases of land and buildings.

The adoption of these amendments has not resulted in any changes to the Group's accounting policies and have no effect on the amounts reported for the current or prior periods.

##### **Going Concern**

The financial report has been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

For the reasons described below, there is significant uncertainty whether the consolidated entity will continue as a going concern:

**Folkestone Limited**  
**Notes to the condensed consolidated financial statements**  
**For the half-year ended 31 December 2010**

- The fully drawn debt facility associated with the Millers Road, Altona project expires in November 2011 and the fully drawn debt facility associated with the Donnybrook Road, Mickleham project expires in December 2011.
- In the event that these projects are not realised or completed by the expiry dates of the related debt facilities, the consolidated entity, which comprises the joint venture entities, will be required to:
  - (i) renegotiate the existing debt facilities,
  - (ii) re-finance the existing facilities with other senior debt lenders,
  - (iii) raise additional capital to re-pay the facilities, or
  - (iv) some combination of the above.

Notwithstanding the above, the financial report has been prepared on a going concern basis on the basis of the following assumptions:-

- (i) the consolidated entity, comprising the joint venture entities, continuing to comply with the terms and conditions of its existing debt facilities;
- (ii) the successful completion and sale of all existing projects, including the Noone Street, Clifton Hill project;
- (iii) the ability of the consolidated entity to successfully raise additional capital; and
- (iv) the ability of the consolidated entity, comprising the joint venture entities, to either renegotiate the existing facilities with the current lenders or refinance the facilities with other senior debt lenders.

At the date of this report and having considered the above factors, the directors are confident that the consolidated entity will be successful in the above matters and that the consolidated entity will be able to continue as a going concern.

In the event that the assumptions outlined above do not occur, there is significant uncertainty whether the consolidated entity will continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

The financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

**Folkestone Limited**  
**Notes to the condensed consolidated financial statements**  
**For the half-year ended 31 December 2010**

**NOTE 2: DISCONTINUED OPERATIONS**

**Sale of Access Constructions**

As disclosed in the 2009 Annual Report, Folkestone has exited its equity investment in the Access Constructions business. This was executed by way of a Management Buy Out signed on 19 August 2009 but with effect from 1 July 2009.

The results of the discontinued operations which are included in the statement of comprehensive income for the period ended 31 December 2010 are as follows:

	<b>31 Dec 2010</b>	31 Dec 2009
	<b>\$000</b>	\$000
<b>Profit/(loss) from discontinued operations</b>		
Revenue	47	149
Expenses	(33)	(244)
Profit/(loss) before tax	14	(95)
Income tax credit/(expense)	-	29
Net profit/(loss) from discontinued operations after income tax	14	(66)

**Folkestone Limited**  
**Notes to the condensed consolidated financial statements**  
**For the half-year ended 31 December 2010**

**NOTE 3: SEGMENT REPORTING**

**Business Segments**

The economic entity's sole reportable segment under AASB 8 is Property Development.

	Revenue		Segment Profit	
	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
	\$000	\$000	\$000	\$000
<b>Continuing operations</b>				
Property development	6,148	111	(9,474)	(299)
	<u>6,148</u>	<u>111</u>	<u>(9,474)</u>	<u>(299)</u>
Other revenue			342	184
Administration costs			(1,041)	(1,062)
Loss before tax			<u>(10,173)</u>	<u>(1,177)</u>
<b>Discontinued operations</b>				
Construction	47	149	47	(30)
	<u>47</u>	<u>149</u>	<u>47</u>	<u>(30)</u>
Administration costs			(33)	(65)
Profit/(loss) before income tax			<u>14</u>	<u>(95)</u>
Income tax benefit/(expense) (continuing and discontinued operations)			-	362
Consolidated segment revenue and profit for the period	<u>6,195</u>	<u>260</u>	<u>(10,159)</u>	<u>(910)</u>

**NOTE 4: RESULTS FOR THE PERIOD**

The result for the period has been materially impacted by provisions made against the carrying values of Folkestone's respective interests in the 300 Millers Road Altona and Donnybrook Road Mickleham projects. The assessment of the carrying values of the interests in these projects was made with reference to external formal valuations of Folkestone's interests in these projects commissioned by the Board and completed by CB Richard Ellis.

The total value of these non-cash provision items is \$9.68 million, of which \$2.28 million relates to 300 Millers Road Altona and \$7.40 million relates to Donnybrook Road Mickleham.

Legal and accounting expenses associated with evaluating the EREP acquisition and the associated prospective capital raising has impacted the net loss after tax by \$0.28m.

**Folkestone Limited**  
**Notes to the condensed consolidated financial statements**  
**For the half-year ended 31 December 2010**

**NOTE 5: ISSUED CAPITAL**

	Half-year ended 31 December 2010		Half-year ended 31 December 2009	
	Shares	\$000	Shares	\$000
Opening balance of equity securities	99,438,228	28,271	31,438,857	19,326
Shares issued during the year				
- Issue of Performance Rights	261,000	-	362,500	-
- Equity raising (a)	-	-	54,666,667	8,200
Less: share issue costs	-	-	-	(681)
Add: related income tax benefit	-	-	-	204
<b>At reporting date</b>	<b>99,699,228</b>	<b>28,271</b>	<b>86,468,024</b>	<b>27,049</b>

(a) On 26 August 2009, Folkestone announced a 2 for 1 renounceable rights offer to shareholders at an issue price of 15 cents per share, which represented a discount of approximately 45% to the closing price on 25 August 2009. The equity raising was completed on 8 October 2009 and resulted in 54,666,667 new ordinary shares being issued, resulting in cash proceeds of \$8.2m. Costs associated with the equity raising were \$0.681m, resulting in net cash proceeds of \$7.519m.

**NOTE 6: SHARES IN ASSOCIATED ENTITIES**

Interests are held in the following associated entities

Name	Principal Activities	Ownership Interest		Carrying amount of investment	
		31 December 2010 %	30 June 2010 %	31 December 2010 \$000	30 June 2010 \$000
Unlisted:					
Folkestone Docklands Unit Trust	Property Development – Completed Project	80	80	10	10
Folkestone (Bayside) Pty Ltd	Property Development – Registered Owner of 135,225 & 285 Donnybrook Road Mickleham	20	20	5,470	3,229
				<b>5,480</b>	<b>3,239</b>

**Folkestone Limited**  
**Notes to the condensed consolidated financial statements**  
**For the half-year ended 31 December 2010**

**NOTE 6: SHARES IN ASSOCIATED ENTITIES (CONTINUED)**

The following is a summarised presentation of the consolidated entity's share of Aggregate Assets and Liabilities of Associates:

	<b>31 December 2010 \$000</b>	30 June 2010 \$000
Current assets	<b>21,552</b>	21,136
Total assets	<b>21,552</b>	21,136
Current liabilities	<b>8,678</b>	17,897
Total liabilities	<b>8,678</b>	17,897
Net assets	<b>12,874</b>	3,239
Provision made by consolidated entity for impairment of shares in associated entity	<b>(7,394)</b>	-
Carrying value of Shares in Associated Entities	<b>5,480</b>	3,239

**NOTE 7: CONTINGENT LIABILITIES**

- a) Folkestone Limited has guaranteed the performance of certain controlled and related entities in relation to development activities. These include:
- Noone St Clifton Hill Pty Ltd - Folkestone Limited owns 50% of the share capital in Noone St Clifton Hill Pty Ltd. Folkestone Limited has provided a guarantee in favour of St George Bank in relation to a loan facility for \$14.450m (drawn to 31 December 2010: \$4.474m) for the development of 169 Noone Street, Clifton Hill. The loan facility runs to 31 December 2011. As part of the security for the facility, Folkestone Limited has provided St George Bank with an unlimited guarantee and indemnity for 100% of the loan. Folkestone's joint venture partner, SPP No 2, has provided a limited undertaking of \$2.25m to Folkestone Limited in respect of the guarantee and indemnity provided to St George Bank.
  - Millers Road (Altona) Pty Ltd - Folkestone Limited owns 50% of the share capital in Millers Road (Altona) Pty Ltd. Folkestone Limited has provided a guarantee in favour of St George Bank in relation to a loan facility for \$8.3m (drawn to 31 December 2010: \$8.3m) for the development of 300 Millers Road, Altona. The loan facility runs to 30 November 2011. As part of the security for the facility, Folkestone Limited has provided St George Bank with an unlimited guarantee and indemnity for 100% of the loan. Folkestone's joint venture partner, SPP No 2, has provided a limited undertaking of \$4.5m to Folkestone Limited in respect of the guarantee and indemnity provided to St George Bank.
  - Bertie Bridge Pty Ltd – Folkestone Limited owns 75% of the share capital in Bertie Bridge Pty Ltd. The development agreement between Folkestone Limited and Trust Company Australia Ltd was terminated on 29 January 2010 and in accordance with the Terms of the Deed of Termination Folkestone continues to provide ongoing indemnifications to Goodman, the joint venture partner in the development.

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

**Folkestone Limited**  
**Notes to the condensed consolidated financial statements**  
**For the half-year ended 31 December 2010**

**NOTE 7: CONTINGENT LIABILITIES (CONTINUED)**

Folkestone Ltd owns 20% of the share capital of Folkestone (Bayside) Pty Ltd and had provided a several guarantee to Capital Finance Australia Limited which was limited to 20% of the loan facility only. Following settlement by Folkestone

(Bayside) Pty Ltd of 135,225 & 285 Donnybrook Road Mickleham on 21 December 2010, the guarantee previously in favour of Capital Finance Australia Limited lapsed and in consequence the loan is now non-recourse.

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.

Based upon these criteria, the director's have assessed that the liability arising from the financial guarantee contracts is \$nil.