Folkestone

AR 2011

Folkestone | ANNUAL REPORT | 2010/11

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Chairman and Managing Director's Report

It has been a busy period since the new Board joined Folkestone on 9 March 2011 as a result of the Extraordinary General Meeting of Shareholders.

We are looking forward to working with our co-directors, Ross Strang and Hugh Gurner and our team in transforming Folkestone into a value-add and opportunistic real estate investor, developer and funds manager.

The annual result of a net loss of $12.2 million was substantially due to the significant write-downs against the projects at Donnybrook Road, Mickleham ("Donnybrook") and Millers Road, Altona North ("Altona North"). Both these projects were valued as at 31 December 2010 by CB Richard Ellis and resulted in a $9.7 million non-cash write down reflecting their current value. CB Richard Ellis has confirmed that they are of the opinion that no market evidence existed as at 30 June 2011 which would suggest a material change to their 31 December 2010 valuation.

Since the 9 March 2011 Extraordinary General Meeting of Shareholders and the introduction of the new management team, we have spent significant time on these projects which are held in joint ventures with the AMP managed Select Property Portfolio Fund No:2 ("AMP"). Our 20 per cent investment in Donnybrook, a 320 hectare site on the northern outskirts of Melbourne is currently zoned for industrial use. It was purchased in December 2006 as farm land and was successfully rezoned in December 2008 to "Business 1 and 3". It is well located near the Hume Highway and the joint venture is exploring the opportunity to masterplan and rezone part of the site to residential which we believe to be the highest and best use and a logical inclusion to the precinct. Whilst this process will take time, gaining authority approval for this master plan will enhance the value of Folkestone's 20 per cent share of this asset which is currently being carried at a net asset value of $5.4 million.

The Altona North joint venture owns a 13.9 hectare parcel of land suitable for a bulky goods retail and industrial subdivision. We have agreed with AMP to commence construction of the internal road and the subdivision process which will improve access to the land, providing the catalyst to attract tenants. This process will enable us to pre-lease space and should improve the value and saleability of the land.

The work we have undertaken and continue to do on these two projects demonstrates the new senior management team's ability to add value to sites by re-appraising strategies and finding solutions that reflect current market needs.

The new Folkestone team has also contributed to an improved work rate and delivery of our Noone Street, Clifton Hill residential development held in a 50:50 joint venture with AMP. Through an increase in resourcing and safety standards and focus on removing construction bottlenecks, the development is now on track to be completed in early 2012. Once completed Folkestone expects to receive forecast net cash proceeds of approximately $9.0 million.

Despite challenging equity markets we successfully raised $31.5 million in gross proceeds from a number of institutional and sophisticated investors as well as existing shareholders. The capital raising has significantly strengthened our balance sheet which at 30 June 2011 comprised total assets of $53.5 million of which $27.3 million was in cash or cash equivalents. It is worth noting that the cash or cash equivalents of $27.3 million represented 7.36 cents per Folkestone share. Furthermore our net assets of $45.4 million represented 12.25 cents per share.

Our new management team has commenced investing the funds raised by the capital raising with our initial investments in two of Australia's fastest growing population regions – Officer in Melbourne and Karratha in the north west of Western Australia.

The Ranges, Karratha, a residential short stay accommodation project is located 1.5 kilometres from Karratha's CBD. Folkestone purchased a 25 per cent interest in the joint venture for $1.6 million with a forecast investment of up to $3.6 million. Our joint venture partners include real estate developers and investors who have extensive experience in developing and marketing real estate in Western Australia, in particular in the North West region of Western Australia. Karratha is home to approximately 14,000 people and is a part of the Pilbara region that is experiencing rapid growth due to the

“ With our current cash balance and access to off balance sheet capital we are well positioned to capitalise on any attractive investment opportunities... ”

increasing number of large scale resource projects in the region. To date, all of the Stage 1A villas have been sold off the plan and construction is expected to commence in late 2011. Two further tranches of villas in Stage 1 – Stage 1B & 1C – are forecast to be released in late 2011.

We have also invested an initial $0.4 million in a 50:50 joint venture which has an option over a 14.1 hectare site on the Princes Highway in Officer, Victoria, with a forecast investment of up to $6.1 million. This site gives Folkestone exposure to a residential land sub-division in Australia's third fastest growing local government area in 2010. Under the terms of the transaction, settlement of the land is subject to rezoning and is triggered six months after this rezoning is finalised. The Victorian State Minister for Planning has foreshadowed the imminent approval of the Officer Precinct Structure Plan, which includes the rezoning of our site, in late 2011 which is ahead of schedule. We expect the first lot of sales to be settled in early 2013.

Both these investments demonstrate our ability to recognise, evaluate and transact quickly and efficiently without compromising our target after tax return on equity of 15 per cent per annum on a rolling three year basis.

Folkestone's funds management business, Equity Real Estate Funds Management, is actively examining a number of real estate investment opportunities that are suitable to be placed into a fund open to high net worth private investors. We have also undertaken an awareness building campaign with selected investment advisers, private banks and rating agencies. Feedback from the campaign is proving to be very useful in the design of our initiatives for real estate investment products and services.

We are also open to acquiring existing funds management platforms that are in need of recapitalisation and the skill sets of the new Folkestone team.

Our shareholder base has grown since the capital raising and we now have over 1,000 shareholders ranging from institutions and other sophisticated investors to high net worth individual and private investors. As part of our process to build stronger relationships with our shareholders we have initiated a series of regular shareholder updates in written and electronic form. Our website at **www.folkestone.com.au** is continually updated to ensure our shareholders are up to date with the latest company information and can avail themselves of our in-depth real estate research and any new product information. We recommend that you visit our site.

Current market conditions remain volatile and unpredictable, driven by concerns about global growth, debt default and political instability. Currently domestic consumers and investors remain cautious with their investment decisions.

Despite the uncertainty in the investment markets, we continue to be presented with a range of opportunities across the real estate spectrum as well as a variety of corporate opportunities. With our current cash balance and access to off balance sheet capital we are well positioned to capitalise on any attractive investment opportunities that can deliver Folkestone returns in excess of our target after tax return on equity of 15 per cent per annum.

Due to our focus on investing for capital growth we are unlikely to pay a dividend in the coming financial year. Folkestone had $3.3 million in carried forward tax losses as at 30 June 2010 which will increase once the 2011 income tax return has been finalised. These carried forward tax losses will reduce the tax paid on any profits realised from our real estate investments.

On behalf of the Board, we would like to thank all of our shareholders for their support and in particular express the Board's gratitude to our new management team who have worked so hard to position Folkestone for future growth.

Garry Sladden
Chairman

Greg Paramor
Director

Financial Highlights

	2011 $'000	2010 $'000	2009 $'000	2008 $'000	2007 $'000
PROFIT/(LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAX (EXPENSE)/CREDIT	(12,224)	(2,428)	(7,125)	5,128	6,656
INCOME TAX (EXPENSE)/CREDIT	(2)	(918)	1,543	(1,667)	(2,066)
PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS	6	(131)	1,709	–	–
(PROFIT)/LOSS ATTRIBUTABLE TO MINORITY EQUITY INTEREST	(1)	(18)	177	(333)	(285)
PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO MEMBERS OF THE PARENT ENTITY	**(12,221)**	**(3,495)**	**(3,696)**	**3,128**	**4,305**
BASIC EARNINGS PER ORDINARY SHARE (CENTS)	(7.5)	(4.8)	(11.8)	10.1	14.2
DIVIDEND RATE ON FULLY PAID SHARES (CENTS)	–	–	–	6.5	6.5
SPECIAL DIVIDEND (CENTS)	–	–	–	–	1.5
ASX CLOSING PRICE 30 JUNE (CENTS)	10.5	12.0	30.5	70.5	80.0

Company Highlights

Experienced

Board and senior management driving new strategy

Growth

two new real estate investments in key growth regions

Positioned

to seize attractive real estate opportunities

Solid

balance sheet and pre-existing assets repositioned

Diversified

funds management platform now established

Board

L to R: Gregory J Paramor, A Hugh Gurner, K Ross Strang and Garry R Sladden.

Garry R Sladden

B.Bus, CPA, FINSA

Chairman

Garry was appointed as a Non-Executive Chairman of Folkestone in March 2011. Garry is a business and strategic adviser who has a diversified business background in the areas of real estate, private equity, business operations, banking and finance, having held the position of General Manager Operations at Consolidated Press Holdings for six years and more recently (2007) the role of Group Operations Executive for a real estate investment, development and funds management group. Garry is Chairman of Trafalgar Corporate Group and Ashton Manufacturing Pty Limited, and a non-executive director of Endeavour Healthcare Limited and the Melanoma Institute of Australia.

Gregory J Paramor

FAPI, FAICD, FRICS

Managing Director

Greg was appointed as a Non-Executive Director of Folkestone Ltd in May 2010 and became Managing Director in April 2011 following the acquisition of Equity Real Estate Partners. Greg is a founding partner of Equity Real Estate Partners. Greg has been involved in the real estate and funds management industry for more than 35 years, and was the co-founder of Growth Equities Mutual, Paladin Australia and the James Fielding Group. Greg was the CEO of Mirvac between 2004 and 2008. Greg is a past president of the Property Council of Australia and past president of Investment Funds Association, a Fellow of the Australian Property Institute and The Royal Institute of Chartered Surveyors. Greg is a director of a number of not-for-profit organisations, including the Garvan Institute of Medical Research and the National Breast Cancer Foundation. Greg is also a board member of the Sydney Swans, Chairman of LJ Hooker and a non-executive director of Firstfolio Ltd.

A Hugh Gurner

BA, FAICD

Non-Executive Director

Hugh was appointed as a Non-Executive Director in May 2010. Hugh has extensive experience in the property sector as an analyst and corporate adviser and has held board positions in a number of ASX listed and unlisted companies including executive and non-executive roles as a founding director of listed property funds management and venture capital companies.

K Ross Strang

LLB (HONS), MAICD

Non-Executive Director

Ross was appointed as a Non-Executive Director of Folkestone in March 2011. Ross is a consultant to Kemp Strang, a Sydney commercial law firm. Ross is one of Kemp Strang's founders and was a partner in the practice for over 30 years. Ross has extensive experience in commercial real estate, construction and securities matters on a broad front and is well known in legal, commercial and community circles. Ross is a member of the Australian Institute of Company Directors. Ross is also a director of the Millers Point Youth and Employment Partnership, which is a not for profit initiative aimed at providing employment and educational opportunities for inner city youth.

Senior Management

L to R: Scott Martin, Adrian Harrington, Jonathan Sweeney and Ben Dodwell.

Ben Dodwell

Head of Real Estate

BA(I.D.), (GradDipAppFin)SIA, Dip Prop Fin, MISCD

Ben Dodwell joined Equity Real Estate Partners in October 2010 and is now Head of Real Estate at Folkestone. Ben has held a number of senior executive roles at Stockland and Lend Lease where he has been responsible for the operations and profitability of development pipelines worth in excess of $500 million. During his career Ben has been responsible for the development of traditional retail shopping centres, integrated mixed use, urban renewal townhouse and apartments projects. Ben has a Bachelor of Industrial Design, a Graduate Diploma of Applied Finance and Investment from the Financial Services Institute of Australasia and a Diploma of Property Finance from the Property Council of Australia. Ben is an Olympic, World Championship and Commonwealth medallist in the sport of rowing, a member of the Institute of Company Directors, an Australia Day Ambassador and a passionate contributor to the training and development of Aboriginal Australians.

Adrian Harrington

Head of Funds Management

B.Sc (Hons), FFINSA

Adrian is a founding partner of Equity Real Estate Partners. Adrian has 18 years of experience in the funds management and real estate industries. He was formerly CEO Funds Management, UK and USA for Mirvac Group. He previously held senior positions at James Fielding Group, Deutsche Asset Management, Paladin Australia and the Property Council of Australia. Adrian is the Non-Executive Chairman of IPD Australia. Adrian is a Fellow of the Financial Services Institute of Australasia. Adrian has a Bachelor of Science (Hons) from the University of New South Wales and a Graduate Diploma in Applied Finance and Investment from the Financial Services Institute of Australasia.

Jonathan Sweeney

Chief Operating Officer

B.Comm, LLB, CFA, MAICD

Jonathan is a founding partner of Equity Real Estate Partners. Jonathan has over 23 years experience in the financial services industry, firstly in London as a funds manager with Gartmore for five years and then in Australia with Armstrong Jones before joining The Trust Company in 1991. He occupied a variety of senior positions at Trust and was Managing Director from May 2000 to December 2008.

Jonathan holds a Bachelor of Law and a Bachelor of Commerce from the University of New South Wales, is a Certified Financial Analyst and a member of the Institute of Company Directors. He is a past president of the Trustee Corporation's Association and is a director of the Australian Davis Cup Tennis Foundation and Equities & Freeholds Ltd. He is also a member of the University of New South Wales, School of Business Advisory Council.

Scott Martin

Chief Financial Officer & Company Secretary

B.Com, CA

Scott joined Folkestone in December 2005 and has held the position of Chief Financial Officer and Company Secretary since this time. Scott has nine years experience in the property and construction industries and has previously held finance positions at R.Corporation and Higgins Coatings. Scott is a Chartered Accountant and spent the first six years of his career at Deloitte providing specialist accounting and taxation advice to a variety of clients in a broad range of sectors. Scott is a member of the Institute of Chartered Accountants and holds a Bachelor of Commerce from the University of Melbourne.

Direct Investments

Folkestone's strategy for Direct Investments is to focus on assets and projects which have the potential for capital growth over a two to three year investment horizon in the value-add and opportunistic space.

Folkestone aims to achieve attractive risk-adjusted returns through a disciplined and selective investment screening process that seeks to identify opportunities, conducting thorough due diligence, determining a clear strategy for each asset with a view to adding value during the holding period and exiting the investment at an appropriate time.

Folkestone now has a portfolio of five projects, four situated in Victoria and one in Western Australia.

Donnybrook Road, Mickleham

Donnybrook Road, Mickleham was acquired in December 2006 and is a 320 hectare site located on Donnybrook Road in Melbourne's northern corridor adjacent to the Hume Highway, approximately 32 kilometres north of the Melbourne CBD. The joint venture successfully secured a land rezoning in December 2008 from farmland to "Business 1 and 3" and the site is now suitable for industrial and employment uses and forms part of a designated future employment precinct within the Hume City Council Growth Area Plan. The joint venture is exploring the opportunity to masterplan and rezone part of the site to residential which we believe to be the highest and best use and a logical inclusion to the precinct. Whilst this process will take time, gaining authority approval for this master plan will enhance the value of Folkestone's 20 per cent share of this asset which is currently being carried at a net asset value of $5.4 million.

Key Information

Type	Industrial/Land
Size	320 hectares
Ownership	20%
Book Value	$14.1m (represents FLK's 20% share)
Net Book Value	$5.4m (represents FLK's 20% share)
Debt	$8.7m (represents FLK's 20% share)

Noone Street, Clifton Hill

Noone Street, Clifton Hill was acquired in June 2007 and is a 1.13 hectare parcel of land with a residential development approval held in a 50:50 joint venture with AMP. The development, known as The Terraces Clifton Hill, originally comprised 103 dwellings prior to the sale of a part of Stage 6 as a superlot. The balance of The Terraces Clifton Hill development comprises 87 dwellings (42 townhouses and 45 apartments) which are 98 per cent presold with revenue totaling $53.4 million (inclusive of the superlot sale). Four of the seven stages have settled including Stage 1, Stage 2, Stage 4 and a super lot sale of part of Stage 6. Construction of the remaining stages of the project is in progress and the project is scheduled to be completed in early 2012. The new Folkestone team has contributed to improved productivity through an increase in resourcing and safety standards, and a focus on removing construction bottlenecks which has resulted in the development now being on track for completion in early 2012. Once completed Folkestone expects to receive forecast net cash proceeds of approximately $9 million.

Key Information

Type	Residential Development
Size	103 apartments
Ownership	50%
Book Value	$10.4m (represents FLK's 50% share)
Net Book Value	$8.0m (represents FLK's 50% share)
Debt	$2.4m (represents FLK's 50% share)

Millers Road, Altona North

Millers Road, Altona North was acquired in December 2007 and is a 13.9 hectare parcel of "Industrial 3" zoned land, located approximately 13 kilometres from the Melbourne CBD and 2.5 kilometres from the Westgate Freeway and Western Ring Road. Altona North is held in a 50:50 joint venture with AMP. This project was the subject of a strategic review which considered options such as an englobo land sale, sub-division of the land and divestment of super-lots and developing out the site to include a mix of bulky goods and serviced industrial lots. Agreement has now been reached with AMP to commence construction of the internal road and to progress the subdivision process which will improve access to the land and provide the catalyst to attract tenants. This process will enable us to pre-lease space and should improve the value and saleability of the land.

Key Information

Type	Bulky Goods/Land
Size	12 hectares
Ownership	50%
Book Value	$6.2m (represents FLK's 50% share)
Net Book Value	$2.0m (represents FLK's 50% share)
Debt	$4.2m (represents FLK's 50% share)

> **“ Folkestone aims to achieve attractive risk-adjusted returns through a disciplined and selective investment screening process. ”**




The Ranges, Karratha

The Ranges is conveniently located 1.5 kilometres from Karratha’s town centre on Karratha Road, the main road which connects Karratha, in North West Western Australia to the North West Coastal Highway. Karratha is the largest community in the Pilbara Region and is home to approximately 14,000 people. The Pilbara Region has a rapidly growing population due to a number of large scale natural resource projects in the region comprised mainly of mining and oil and gas operations. Continuing expansion of these operations, new projects and continued investment in infrastructure are expected to drive further economic and population growth in the Pilbara Region. This will in turn lead to increasing demand for permanent and short-term accommodation. Folkestone’s 25 per cent interest in The Ranges is in joint venture with a consortium including experienced real estate developers and investors who have extensive experience in developing and marketing real estate in Western Australia, including the North West of Western Australia. Stage 1 of The Ranges comprises 2.2 hectares with a “Tourism” zoning and DA approval for 108 single level, fully furnished, one bedroom villas with shared guest facilities, including a pool and BBQ area. The development will provide much needed short and long-term accommodation for visitors to Karratha. To date all of the 41 villas in Stage 1A, have been sold off the plan with construction expected to commence in late 2011. A further two tranches of villas in Stage 1 are forecast with Stage 1B being released later in 2011. Folkestone’s current equity commitment is $1.6 million with a total forecast equity commitment of $3.6 million. Through this joint venture, Folkestone has also acquired a 25 per cent interest in an Option to Purchase a further 7.1 hectares of adjoining land.

Key Information

Type	Tourism/Residential Development
Size	108 apartments (Stage 1)
Ownership	25%
Equity Commitment	May 2011 – $1.6m Forecast Total Equity Commitment – $3.6m

Princes Highway, Officer

Officer is a 14.1 hectare site located approximately 45 kilometres south east of the CBD in the Cardinia Shire, ranked as the third fastest growing local government area in Australia in 2010. The Cardinia Urban Growth Area is in Melbourne’s south-east growth corridor and was created when the State Government extended Melbourne’s urban growth boundary. The site is well located near the Officer Railway Station, Officer Town Centre, and the Princes Freeway linking Officer to Melbourne. Officer is a 50:50 joint venture between Folkestone and Integrated Development, a Melbourne based property development company specialising in land subdivision and mixed-use development. Folkestone’s initial commitment was $0.4 million with total forecast equity of approximately $6.1 million. This Project gives Folkestone exposure to residential land subdivision on favourable deferred settlement terms with the bulk of the equity required on settlement of the land. Under the terms of the transaction, settlement of the land is subject to rezoning and triggered six months after rezoning which was anticipated to occur in July 2012. The Victorian Minister for Planning has however foreshadowed the imminent approval of the Officer Precinct Structure Plan, which includes the rezoning of our site, in late 2011 which is ahead of schedule. Planned sales from the Officer residential development are expected to settle in early 2013.

Key Information

Type	Residential Land Subdivision
Size	14.08 hectares
Ownership	50%
Equity Commitment	June 2011 – $0.38m Forecast Total Equity Commitment – $6.1m

Australian Real Estate Outlook

Despite Australia's economic growth being one of the fastest in the developed world, it is now facing headwinds.

The ongoing strength and prosperity in the mining sector is not translating across the entire economy, especially in the eastern States. The non-mining sectors particularly those exposed to the high level of exchange rates – manufacturing and tourism and to consumers – retail and housing are struggling. As a result, in August 2011 the RBA reduced their GDP growth forecast for 2011 from 3.75 per cent to 3.25 per cent.[1]

Employment growth, a key economic driver of the real estate markets, has slowed from the rapid pace recorded in 2010. At the same time, consumer and business confidence has been weighted down by concerns about domestic and international conditions, and ongoing volatility in the equities market.

Non-residential

Sentiment towards the non-residential sector has materially improved with transaction activity picking up in 2010/2011. According to CBRE, there were $8.9 billion of sales in the past year, up 32 per cent on the previous year.[2] Prime assets offering secure cashflows, in particular office buildings, have been keenly sought by both domestic and international investors.

Debt markets are slowly thawing. The banks are recognising that to generate earnings, they need to re-cycle capital back into the market. As a result, the banks are beginning to actively work with investors and developers who have viable deals, good track records and can demonstrate financial discipline. In addition, for construction finance, the banks are requiring a healthy amount of equity and significant pre-commitments to at least cover their debt exposure.

Non-residential real estate, as measured by the PCA/IPD Investment Performance Index, generated a total return of 10.6 per cent in the year to June 2011, consisting of a 7.5 per cent income return and a 2.8 per cent capital return.[3] Hotels (16.0 per cent) followed by retail centres (10.7 per cent) were the two best performing sectors, while the office and industrial sectors recorded total returns of 10.3 per cent and 9.4 per cent respectively.

Over the coming year, we expect non-residential real estate to deliver a similar total return of approximately 10 per cent in line with the long-term average, although given the strong correlation between real estate returns and economic growth, the final outcome will be susceptible to any further slow-down in the Australian economy.

Office

Australia's office market recovery gained momentum, with all CBD markets, with the exception of Sydney (9.3 per cent), experiencing a decline in vacancy in the six months to July 2011. Vacancy rates, with the exception of a few smaller non-CBD markets, range between 5.8 per cent in the Melbourne CBD and 13.3 per cent in Canberra.[4] Four of Australia's CBD office markets now have vacancy rates below 8 per cent – Melbourne (5.8 per cent), Adelaide (7.3 per cent), Brisbane (7.4 per cent) and Perth (7.8 per cent).

Overall net absorption in Australia's CBD markets in the six months to July was 160,396 square metres, almost 50 per cent more than the 20 year historical average. However, demand varies across the markets. The Melbourne CBD accounted for 34 per cent or 54,999 square metres of the total take-up of CBD office space. Brisbane and Perth fuelled by the resource boom also recorded strong demand – 38,108 square metres and 33,087 square metres respectively.

Low levels of supply continue to be a feature of most markets as new projects require substantial pre-commitments to obtain financing and commence construction. This should assist vacancy rates continuing to edge downwards.

Given the economic uncertainty outside of the mining sector, tenants are cautious, and are therefore taking longer to make relocation decisions. Lease incentives in some markets remain elevated (eg Sydney 20 per cent plus) but are below levels offered during the depths of the GFC. In the coming year, effective rental growth will be positive but we expect the annual pace of growth to range between 0 per cent (Canberra) and 8% (Perth). As we move through the recovery cycle, we are likely to see a reduction in lease incentives rather than significant growth in face rents, and tenants taking less time to make decisions. Sydney and Melbourne offer the best upside – affordability may again become an issue in the Brisbane and Perth CBD markets.

Domestic and offshore investors looking for security of income will continue to focus on prime office assets. However, we believe better value is now emerging in well-located non-prime assets which offer the opportunity to refurbish/reposition within the market.

> “Low levels of supply continue to be a feature of most markets as new projects require substantial pre-commitments to obtain financing and commence construction.”

Retail

Consumer confidence is fragile. The Westpac-Melbourne Institute of Consumer Sentiment Index shows a marked deterioration in recent months which suggests consumers will remain cautious for the foreseeable future.[5] At the same time, Australia's household savings rate is now just shy of the GFC peak and close to the highest level since the late 1980s.

Not surprising, therefore, is that parts of the retail industry are going through a tough time. According to the ABS, retail sales fell by 0.1 per cent in the month of June but sales were down 0.5 per cent if food is excluded.[6] Annual retail sales slowed to just 1.4 per cent year on year, and ex food, sales were flat (0.0 per cent). Discretionary retailers (department stores, discount departments stores, electrical and whitegoods, clothing) are struggling with pressure on margins and profitability due to flat or declining sales and increasing occupancy costs. Food-based retailers (non-discretionary) continue to report strong sales which is being reflected in the demand and value of retail centres anchored by these stores.

In addition to the cyclical factors impacting the retail sector, there are a number of structural factors – new formats, loss of certain retailers (eg Borders), growth of foreign retailers (eg Zara, Gap) and increased competition from the internet – that are threatening some bricks and mortar retail formats.

To date, the impact of these cyclical and structural factors on retail centres has been modest – slowing but still positive rental growth, a small increase in vacancies and capitalisation rates stabilising rather than easing.

Quality centres will remain in demand but will continue to be tightly held. We believe the best opportunity is neighbourhood “food-based” centres, with a good mix between local and national chain operators, that are located in growing or well established catchments, and have the potential to be refurbished, repositioned or re-mixed.

Residential

Consistent with fragile consumer confidence, lower household spending and subdued growth in household debt, the housing market has cooled since early 2010.

According to RP Data-Rismark Home Value Index,[7] Australia's capital city house prices declined by 2.6 per cent in the year to June. However, there is wide variation across capital cities. Brisbane (–6.3 per cent) and Perth (–5.5 per cent) lead the weakness while Canberra (–1.2 per cent) and Sydney (–0.4 per cent) have been more resilient. A similar trend emerges across the apartment market with Brisbane down 6.3 per cent and Sydney up 2.3 per cent.

Whilst house prices have fallen, the housing rental market is gaining momentum. Vacancy rates are low and rental growth has been strong. According to RP Data-Rismark, gross yields on houses and apartments in major cities are higher with house yields all above 4 per cent, except for Melbourne.[7] Canberra and Sydney apartment yields are higher than other major cities at 5.3 per cent and 5.2 per cent respectively.

There is a strong relationship between house prices and both the movement in interest rates and consumer sentiment. The housing market is currently being driven by negative sentiment and is unlikely to recover until interest rates stabilise and buyers feel that residential prices have or are close to bottoming. The key risk to the housing outlook is the potential for further interest rate hikes.

In the coming 12 months, we are expecting investors to re-enter the market. Higher yields and more attractive pricing will, for the disciplined investor, provide a good opportunity to make a sound investment.

Owner occupiers will be more cautious and slower to return to the market. The first home buyer market has been hit hard. The Federal Government's First Home Owners Grant Boost pulled forward first home buyer demand in 2009, rising from around 19 per cent of all owner occupier finance commitments in late 2008 to a record 28.5 per cent in May 2009. In June 2011, first home buyers had fallen back to around 15 per cent.[8] By mid 2012, these purchasers will have been out of the market for more than two years suggesting that when confidence returns and affordability improves, they will return to the market with vigour, giving a much needed boost to the housing sector.

Those locations where supply is reasonably constrained and housing is relatively affordable (sub $500,000) will be the most attractive to both investors and owner-occupiers.

Taking a longer-term view, we like the residential sector. Supply remains constrained and the industry is not building enough accommodation to meet overall demand. Low unemployment, positive wages growth, demographic changes and high net overseas migration should underpin longer-term demand.

1 Reserve Bank – Statement of Monetary Policy – 5 August 2011.
2 CBRE – Commercial Property Sales Increase – 29 June 2011.
3 IPD – Property Market Review – 24 August 2011.
4 Property Council of Australia – Office Markets Continue to Strengthen – 2 August 2011.
5 Westpac-Melbourne Institute of Consumer Sentiment Index – June 2011.
6 ABS – Retail Trade – June 2011 Cat No. 8501 – 3 August 2011.
7 RP Data-Rismark Home Value Index – Capital City Housing Markets Flat – 29 July 2011.
8 ABS – Housing Finance Cat No. 5609.0.

Clockwise from top:
The Ranges, Karratha, WA;
Princes Highway, Officer, VIC;
Tivoli Apartments, EREP Tivoli Development Fund; Millers Road, Altona North, VIC;
The Terraces, Clifton Hill, VIC;
The Ranges, Karratha, WA

Directors' Report

For the year ended 30 June 2011

A. Directors

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

- Gregory J Paramor (FAPI, FAICD, FRICS)
- A Hugh Gurner (BA, FAICD)

Mr K Ross Strang (LLB (HONS), MAICD) and Mr Garry R Sladden (B.Bus, CPA, FINSA) were appointed as Directors of the Company on 9 March 2011 and continue in office to the date of this report.

Mr Oscar Guglielmi resigned as Managing Director and Chief Executive Officer on 6 December 2010.

Ms Kaye Dening resigned from the Board of Directors on 10 February 2011.

Mr Alister Maitland and Mr Michael Parkinson resigned from the Board of Directors following the Shareholder Meeting held on 9 March 2011.

B. Company Secretary

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

Scott N Martin (BCom, CA) was appointed as Company Secretary and Chief Financial Officer of Folkestone Ltd on 10 December 2005.

Jonathan W Sweeney (B.Com, LLB, CFA, MAICD) was appointed as joint Company Secretary on 12 May 2011.

C. Review of Board Performance

No external review of the Board's performance was conducted during the year, however the Board is comfortable that the contributions of all directors is of a high level and adequate to discharge their duties.

D. About Folkestone – Principal Activities

Folkestone is a real estate company which listed on the ASX on 14 June 2000.

At the 9 March 2011 Shareholder Meeting, shareholders approved a number of changes to the existing activities of the Company.

Following the 9 March 2011 Shareholder Meeting, the Company successfully completed capital raisings which raised $31.5 million in gross proceeds and acquired Equity Real Estate Partners Pty Ltd ("EREP"). As a result of this, Folkestone's activities have changed to real estate investment, development and funds management.

Previously, the principal activities of the consolidated entity were property development in the industrial, commercial and residential real estate sectors and the design and construction of industrial and commercial premises. During the previous financial year, Folkestone exited its equity investment in Access Constructions and as such the results of the construction division are presented as discontinued operations.

E. Dividends

There was no interim dividend paid during the year and the Board has resolved not to pay a final dividend in respect of the year ended 30 June 2011.

F. Review of Operations

Full year result

The Group's net loss after tax for the year ended 30 June 2011 was $12.2 million compared to a net loss after tax of $3.5 million in the prior corresponding period. This represents basic earnings per share of negative 7.5 cents, compared with negative 4.8 cents previously.

The full year results include $10.5 million ($9.7 million at 31 December 2010) of non-cash provision items, $2.5 million ($2.3 million at 31 December 2010) which relates to the project at 300 Millers Road, Altona North and $8.0 million ($7.4 million at 31 December 2010) which relates to the project at Donnybrook Road, Mickleham.

The full year result was materially impacted by provisions included in the 31 December 2010 financial statements against the carrying values of Folkestone's respective interests in the 300 Millers Road, Altona North and Donnybrook Road, Mickleham projects. The assessment of the carrying values of the interests in these projects was made with reference to formal valuations completed by CB Richard Ellis as at 31 December 2010. This resulted in a $9.7 million non-cash provision relating to the impairment of the carrying values of these projects as at 31 December 2010. The Board has sought updated advice from CB Richard Ellis as to whether there has been any material change in Folkestone's interest in the value of the respective projects since their prior assessment.

Directors' Report

Continued For the year ended 30 June 2011

F. Review of Operations (continued)

CB Richard Ellis have confirmed that following their market review, they are of the opinion that no market evidence exists which would suggest a material change in the property values as noted in their December 2010 report. Based upon this advice, the Board has resolved to hold the carrying value of Folkestone's interests in these projects at the values as at 31 December 2010 and as such the development and holding costs incurred on these projects since 31 December 2010 have resulted in a further provision being made against each project's respective carrying values.

Financial conditions

Folkestone is in full compliance with all of its debt facilities and has sufficient liquidity to fulfil all of its commitments.

The finance facility in respect of the project at 300 Millers Road, Altona North expires on 30 November 2011. Subsequent to the reporting date, the joint venture has accepted an offer from St George Bank to extend this facility until 30 November 2012.

The finance facility in respect of the project at Donnybrook Road, Mickleham expires on 21 December 2011. The current senior debt provider, Capital Finance Australia Limited, has indicated that they are not in a position to offer an extension to the facility and as such, the joint venture is actively pursuing a re-finance of the facility with alternative financiers. The loan with Capital Finance Australia Limited is non-recourse to Folkestone and our joint venture partner.

The finance facility in respect of the project at Karratha expires on 31 August 2011. St George Bank has advised that they will provide an extension to this funding facility until 30 November 2011, whilst the terms of the new construction facility are finalised.

Information in relation to cash flows from operations is contained in the Statement of Cash Flows on page 42 and the associated notes.

Acquisition of Equity Real Estate Partners and recapitalisation of Folkestone

At a general meeting of shareholders held on 9 March 2011, the shareholders of Folkestone approved resolutions which involved the appointment of two new board members, a recapitalisation of Folkestone, the acquisition of Equity Real Estate Partners ("EREP") and the appointment of a new senior management team.

EREP is a specialist real estate funds manager and adviser, founded in 2009 by Greg Paramor, Jonathan Sweeney and Adrian Harrington. EREP was established to manage funds and mandates on behalf of private clients, high net worth individuals and select institutional investors. Equity Real Estate Funds Management Pty Ltd, a subsidiary of EREP, holds an Australian Financial Services Licence No: 340990.

Following the shareholder approvals received on 9 March 2011, Mr Garry Sladden and Mr Ross Strang were appointed to the Board of Folkestone and Mr Alister Maitland and Mr Michael Parkinson resigned. Mr Sladden and Mr Strang, together with the remaining Non-Executive Directors, Mr Greg Paramor and Mr Hugh Gurner, formed the New Board of Folkestone bringing with them extensive experience in real estate, funds management, finance and the law and with responsibility for implementing the strategy approved by shareholders.

On 31 March 2011, Folkestone announced that the acquisition of EREP had been completed together with the first stage of the Capital Raising, a $25 million placement to institutional and sophisticated investors. The final stage of the Capital Raising was concluded on 10 May 2011 which brought the total of gross proceeds raised to $31.5 million.

Following the completion of the acquisition of EREP, Mr Greg Paramor was appointed Managing Director, Mr Ben Dodwell was appointed Head of Real Estate, Mr Adrian Harrington was appointed Head of Funds Management and Mr Jonathan Sweeney was appointed Chief Operating Officer of Folkestone Limited. Mr Scott Martin remained as Chief Financial Officer and Company Secretary.

The completion of the Capital Raising and the acquisition of EREP has provided the Company with two new board members and a senior management team who have extensive experience in the real estate, funds management and financial services industries.

Please refer to the commentary below for an update on current development and funds management activities.

Development Division

The following is a brief update of the projects that are currently under development or have been completed during the reporting period.

Donnybrook Road, Mickleham

Donnybrook Road, Mickleham was acquired in December 2006 and is a 320 hectare site located on Donnybrook Road in Melbourne's northern corridor adjacent to the Hume Highway, approximately 32 kilometres north of the Melbourne CBD.

The joint venture successfully secured a land rezoning in December 2008 from farmland to “Business 1 and 3” and the site is now suitable for industrial and employment uses and forms part of a designated future employment precinct within the Hume City Council Growth Area Plan. The focus is currently on providing servicing to the site to secure industrial space users in parallel with instigating a new investment strategy for the project including exploring the potential to pursue rezoning part of the site from Business 1 and 3 to residential.

Noone Street, Clifton Hill

Noone Street, Clifton Hill was acquired in June 2007 and is a 1.13 hectare parcel of land with a residential development approval. The development, known as The Terraces Clifton Hill, originally comprised 103 dwellings prior to the sale of part of Stage 6 as a superlot.

The balance of The Terraces Clifton Hill development comprises 87 dwellings (42 townhouses and 45 apartments) which are 98 per cent presold with revenue totaling $53.4 million (inclusive of the superlot sale). Four of the seven stages have settled including Stage 1, Stage 2, Stage 4 and a super lot sale of part of Stage 6. Construction of the remaining stages of the project is in progress and the project is scheduled to be completed in early 2012.

Folkestone’s strategy is to develop out the site, whilst actively managing delivery, cash flow and settlement risk.

Millers Road, Altona North

Millers Road, Altona North was acquired in December 2007 and is a 13.9 hectare parcel of “Industrial 3” zoned land, located approximately 13 kilometres from the Melbourne CBD and 2.5 kilometres from the Westgate Freeway and Western Ring Road.

The joint venture has recently agreed to commence works to effect the sub-division of the land and is pursuing agreements for lease from bulky goods tenants.

The Ranges, Karratha

The Ranges is conveniently located 1.5 kilometres from Karratha’s CBD. Folkestone’s 25 per cent interest in The Ranges is in joint venture with a consortium including experienced real estate developers and investors who have extensive experience in developing and marketing real estate in Western Australia, including the North West of Western Australia. Karratha is the largest community in the Pilbara Region and is home to approximately 14,000 people. The Pilbara Region has a rapidly growing population due to a number of large scale natural resource projects in the region comprised mainly of mining and oil and gas operations. Continuing expansion of these operations, new projects and continued investment in infrastructure are expected to drive further economic and population growth in the Pilbara Region, which in turn will lead to increasing demand for permanent and short-term accommodation.

Stage 1 of The Ranges comprises 2.2 hectares with a “Tourism” zoning and DA approval for 108 single level, one bedroom villas with shared guest facilities, including a pool and gymnasium. The development will provide much needed short and long-term accommodation for visitors to Karratha. To date all of the Stage 1a villas have been sold off the plan with construction expected to commence in late 2011. A further two tranches of villas in Stage 1 are forecast to be released later in 2011.

Through this joint venture, Folkestone has also acquired a 25 per cent interest in an Option to Purchase a further 7.1 hectares of adjoining land.

Princes Highway, Officer

Officer is a 14.1 hectare site located in the Cardinia Shire, ranked as the third fastest growing local government area in Australia in 2010. The Cardinia Urban Growth Area is in Melbourne’s south-east growth corridor and was created when the State Government extended Melbourne’s urban growth boundary.

Officer is a 50/50 joint venture between Folkestone and Integrated Development, a Melbourne based property development company specialising in land subdivision and mixed-use development. Under the terms of the transaction, settlement of the land is subject to rezoning and rezoning is anticipated to occur in late 2011.

Folkestone’s initial commitment is $0.38 million with total forecast equity of approximately $6.1 million. Planned sales from the Officer residential development are expected to settle in early 2013.

Funds Management Division

Equity Real Estate Funds Management (EREFM) is a specialist real estate funds manager for private clients, high net worth and institutional investors.

Equity Real Estate Funds Management was granted an Australian Financial Services Licence (AFSL: 340 990) on 2nd December 2009 which permits it to carry on a financial services business to provide certain general financial product advice and provide certain custodial and depository services to wholesale and retail clients.

Directors' Report

Continued For the year ended 30 June 2011

F. Review of Operations (continued)

Currently, EREFM has established and is acting as the trustee of the EREP Tivoli Development Fund (Tivoli Fund). The Tivoli Fund is developing a residential apartment development in West Melbourne in joint venture with a leading Melbourne residential developer, Urban Inc.

Outlook

Global financial markets continue to be extremely volatile due to concerns around global economic growth and US and European debt markets. Current investor and consumer sentiment in Australia remains subdued and residential housing markets are relatively benign. Whilst these are uncertain times, opportunities continue to present themselves. Folkestone is well positioned to capitalise on these opportunities given its current cash balance and considerable access to off balance sheet capital, however we remain cautious over the short term and are prepared to be patient.

Folkestone continues to explore opportunistic real estate investments in the residential, commercial and retail markets that offer returns in excess of its target after tax return on equity of 15 per cent per annum. Folkestone is unlikely to pay a dividend in the coming financial year.

G. Earnings Per Share

	Note	2011 Cents	2010 Cents
Basic earnings per share from continuing and discontinued operations	9	(7.5)	(4.8)
Diluted earnings per share from continuing and discontinued operations	9	(7.5)	(4.8)
Basic earnings per share from continuing operations	9	(7.5)	(4.6)
Diluted earnings per share from continuing operations	9	(7.5)	(4.6)

H. After Balance Date Events

The finance facility in respect of the project at 300 Millers Road, Altona North expires on 30 November 2011.
On 29 July 2011, the joint venture accepted an offer from St George Bank to extend this facility until 30November 2012.

I. Likely Developments and Expected Results of Operations

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

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

J. Environmental Regulation

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

K. Occupational Health and Safety Regulations

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

L. Director Profiles

Garry R Sladden (50)
B.Bus, CPA, FINSA
Chairman

Garry was appointed as a Non-Executive Chairman of Folkestone in March 2011. Garry is a business and strategic adviser who has a diversified business background in the areas of real estate, private equity, business operations, banking and finance, having held the position of General Manager Operations at Consolidated Press Holdings for six years and more recently (2007) the role of Group Operations Executive for a real estate investment, development and funds management group. Garry is Chairman of Trafalgar Corporate Group and Ashton Manufacturing Pty Limited, and a non-executive director of Endeavour Healthcare Limited and the Melanoma Institute of Australia.

Gregory J Paramor (61)
FAPI, FAICD, FRICS
Managing Director

Greg was appointed as a Non-Executive Director of Folkestone Ltd in May 2010 and became Managing Director in April 2011 following the acquisition of Equity Real Estate Partners. Greg is a founding partner of Equity Real Estate Partners. Greg has been involved in the real estate and funds management industry for more than 35 years, and was the co-founder of Growth Equities Mutual, Paladin Australia and the James Fielding Group. Greg was the CEO of Mirvac between 2004 and 2008. Greg is a past president of the Property Council of Australia and past president of Investment Funds Association, a Fellow of the Australian Property Institute and The Royal Institute of Chartered Surveyors. Greg is a director of a number of not-for-profit organisations, including the Garvan Institute of Medical Research and the National Breast Cancer Foundation. Greg is also a board member of the Sydney Swans, Chairman of LJ Hooker and a non-executive director of Firstfolio Ltd.

A Hugh Gurner (55)
BA, FAICD
Non-Executive Director

Hugh was appointed as a Non-Executive Director in May 2010. Hugh has extensive experience in the property sector as an analyst and corporate adviser and has held board positions in a number of ASX listed and unlisted companies including executive and non-executive roles as a founding director of listed property funds management and venture capital companies.

K Ross Strang (66)
LLB (HONS), MAICD
Non-Executive Director

Ross was appointed as a Non-Executive Director of Folkestone in March 2011. Ross is a consultant to Kemp Strang, a Sydney commercial law firm. Ross is one of Kemp Strang's founders and was a partner in the practice for over 30 years. Ross has extensive experience in commercial real estate, construction and securities matters on a broad front and is well known in legal, commercial and community circles. Ross is a member of the Australian Institute of Company Directors. Ross is also a director of the Millers Point Youth and Employment Partnership, which is a not for profit initiative aimed at providing employment and educational opportunities for inner city youth.

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

M. Remuneration Report

This report details the nature and amount of remuneration for each director of Folkestone Ltd and for key management personnel receiving the highest remuneration. Remuneration of Directors and key management personnel is referred to as compensation as defined in AASB 124 "Related Party Disclosures". Details of Directors shareholdings are disclosed in Note 7 to the financial statements on page 57 of the Financial Report.

Directors' Report

Continued For the year ended 30 June 2011

M. Remuneration Report (continued)

Remuneration Policy

The objective of the Company's Remuneration Policy is to ensure that reward for performance is competitive and appropriate for the results achieved. The Remuneration Policy aligns executive reward with the achievement of strategic objectives, outcomes, creation of value for shareholders and conforms to market best practice for delivery of reward.

Folkestone is committed to developing a remuneration policy which is designed to attract, retain and motivate appropriately qualified and experienced directors and executives. Key principles in developing the remuneration structure and levels include the creation of longer term Shareholder value, alignment with Shareholder interests, market competitiveness, recognition of individual performance and experience and divisional and group performance.

The Company has structured the Remuneration Policy so that is market competitive and reflects the reward strategy of the organisation, having regard to the size of the Company. The Board of Folkestone has established a Remuneration Committee comprised of the three Non-Executive Directors of the Company. The Remuneration Committee operates under the charter as outlined in the Corporate Governance Statement which is contained on pages 30 to 33 of this report.

The Remuneration Committee reviews, monitors and recommends to the Board the remuneration for the Managing Director and senior executives and considers the appropriate mix of performance based remuneration and fixed remuneration to retain and attract appropriate executives.

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.

Service agreements and contract details

It is the consolidated entity's policy that contracts of employment for certain executives be unlimited in term but capable of termination on three to six months' notice by the employee and 12 month's notice by the consolidated entity. The consolidated entity retains the right to terminate the contract immediately, by making payment in lieu of notice.

Relationship between the Remuneration Policy and company performance

The table set out below summarises information about the consolidated entity's earnings and movements in shareholder wealth for the five years to June 2011, which is considered when setting the Remuneration Policy for the Group:

	2011 $'000	2010 $'000	2009 $'000	2008 $'000	2007 $'000
Profit/(loss) from continuing operations before income tax (expense)/credit	(12,224)	(2,428)	(7,125)	5,128	6,656
Income tax (expense)/credit	(2)	(918)	1,543	(1,667)	(2,066)
Profit/(loss) from discontinued operations	6	(131)	1,709	–	–
(Profit)/loss attributable to minority equity interest	(1)	(18)	177	(333)	(285)
Profit /(loss) from ordinary activities attributable to members of the parent entity	**(12,221)**	**(3,495)**	**(3,696)**	**3,128**	**4,305**
Basic earnings per ordinary share (cents)	(7.5)	(4.8)	(11.8)	10.1	14.2
Dividend rate on fully paid shares (cents)	–	–	–	6.5	6.5
Special dividend (cents)	–	–	–	–	1.5
ASX Closing Price 30 June (cents)	10.5	12	30.5	70.5	80

a) During the past five years, Folkestone Limited has paid key management personnel a combination of fixed remuneration and performance based remuneration. Performance based remuneration has been paid based upon KPI's relevant to each key management personnel. There has been a focus on attracting and retaining appropriately skilled personnel to enable the Group to achieve its goals and strategies and improve its financial performance.

b) During the past five years, there have been share based payments made to key management personnel in accordance with the achievement of pre set KPI's which have been summarised in prior period Annual Reports. The KPI's were established to increase profitability and therefore shareholder wealth. The last tranche of performance rights that vested under the terms of the previous Executive Bonus Scheme related to performance measured as at 30 June 2008 and the rights vested in July 2010.

c) As the table above indicates, earnings have varied significantly over the past five financial years. It is the focus of the current Board of Directors to recruit and retain management personnel essential to create profitable operations for the Group and to attract suitable executives to maximize profitability. A key component of the acquisition of Equity Real Estate Partners was the retention and alignment of a new senior management team who have extensive experience in the real estate, funds management and financial services industries. A further component of the transaction was to implement a new employee incentive plan to enhance alignment with shareholders' interests. Folkestone will continue to offer key management personnel a combination of fixed remuneration and performance based remuneration based upon predetermined KPI's as outlined further below.

Executive remuneration

The executive remuneration and reward framework has two components:

a) Fixed Remuneration which includes base pay and other benefits; and

b) Performance linked remuneration comprising:

- Short-term incentives (STI); and
- Long-term incentives (LTI).

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 associated entity activities.

i) Fixed remuneration

Fixed remuneration consists of base remuneration, employer contributions to superannuation funds and employee benefits inclusive of any associated fringe benefits tax.

When setting fixed remuneration, data from external remuneration consultants may be reviewed to ensure the fixed remuneration is reflective of the market for a comparable role. Fixed remuneration for executives and other staff is reviewed annually to ensure that it is competitive with the market.

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

ii) Performance linked remuneration

Performance linked remuneration includes both short-term and long-term incentives and is designed to reward the Managing Director, executives and other staff for meeting or exceeding performance targets set by the Board.

The performance targets are determined by the Board and are set on the basis that the Managing Director and executives will have a combination of short and long term incentives. Where performance targets are satisfied, success is rewarded through the payment of a cash bonus (STI) and/or the grant of specified Performance Rights determined by the Board (LTI).

The proportion of salary that links with performance varies according to contractual arrangements. The proportion of remuneration paid to Directors and executives that was performance related for the current and prior financial year is summarised in the table on pages 22-23.

Short-term incentives

Short-term incentives ("STI") are generally paid in cash and measured against the achievement of individual performance targets and group performance targets generally described in the annual budget of the Company or relevant division of the Company (as applicable to the executive's responsibilities).

M. Remuneration Report (continued)

These targets may include goals set to achieve defined:

- after tax profits;
- returns on shareholder funds;
- pre tax contributions (from divisions of the Company);
- profit measures of projects such as internal rate of return and margins.

Incentives set for the achievement of short-term targets are unlikely to exceed the value of the base salary of the relevant executive in one year.

Long-term incentives – Executive Incentive Performance Rights Plan

At the 9 March 2011 Shareholder Meeting, shareholders approved the establishment of a new long-term incentive plan to be known as the Executive Incentive Performance Rights Plan ("Plan"). The Plan is designed to:

- assist with the attraction and retention of Directors, executives, managers and employees;
- continue to motivate and drive performance at both the individual and corporate level; and
- strengthen the alignment between employee and Shareholder interests.

It is proposed that grants of Performance Rights will be made annually, following announcement of Folkestone's full-year audited results. Subject to any requisite Shareholder approval, the Board will have discretion to make grants at other times including on the commencement of employment by a person deemed by the Board to be eligible to participate in the Plan.

A summary of the Plan Rules is set out below.

Summary of the plan rules

Eligibility

Eligibility is restricted to those employees who the Board determines in its discretion are eligible and should be invited to participate in the Plan. Employees are defined in the Plan as a person who is in the full or part time employment of Folkestone or its subsidiaries (including Directors).

Securities offered under the Plan

Employees selected for participation in the Plan will be offered Performance Rights.

A Performance Right is the right to receive a Share. On the vesting date, if the performance hurdles and tenure conditions are satisfied in respect of a Performance Right, the Performance Right immediately vests and Folkestone must procure the issue or transfer of a Share either directly to the participant or their nominee. In either case, the Share will be subject to disposal conditions if in the relevant terms of any offer it is specified that such conditions will apply.

No monetary consideration will be payable by an employee for an award of Performance Rights, nor will any amount be payable by the holder in connection with the vesting of a Performance Right.

Performance Rights will not be quoted on the ASX or another financial market and will be subject to restrictions on transfer and hedging. Shares delivered on the vesting of Performance Rights will rank equally with those traded on the ASX at the time of issue.

Performance Rights will not entitle the holder to receive any dividends from Folkestone or exercise any voting rights in respect of Folkestone.

Performance hurdles

Performance Rights will not vest and the holders of Performance Rights will not be entitled to Shares, unless the performance hurdles associated with those Performance Rights are satisfied or waived. The performance rights that were issued on 29 June 2011 have the following performance hurdles:

50 per cent of the Rights will vest based on the achievement of compound annual growth in Total Shareholder Return over the performance period ranging from 10 per cent - 15 per cent per annum on a sliding scale with:

- full vesting where Total Shareholder Return is 15 per cent per annum or above;
- 50 per cent vesting where Total Shareholder Return is 10 per cent per annum; and
- where Total Shareholder Return is between 10 per cent and 15 per cent per annum, the number of Performance Rights that will vest will be calculated on a straight line basis; and

50 per cent of the rights will vest based on the achievement of compound annual growth in Folkestone's Net Total Assets per share over the performance period ranging from 10 per cent - 15 per cent per annum on a sliding scale with:

- full vesting where the growth in Net Total Assets per share is 15 per cent per annum or above;
- 50 per cent vesting where the growth in Net Total Assets per share is 10 per cent per annum; and
- where the growth in Net Total Assets per share is between 10 per cent and 15 per cent per annum, the number of Performance Rights that will vest will be calculated on a straight line basis.

The performance period for the performance rights issued on 29 June 2011 is 1 July 2011 to 30 June 2014.

The Board will determine the applicable performance hurdles prior to future Performance Rights being granted.

Early vesting of Performance Rights

Performance Rights may vest or lapse earlier than the Vesting Date in certain circumstances. Where a participant ceases employment with Folkestone prior to the Expiry Date, the Performance Rights will normally lapse. However, the Board has the discretion to vest part or all of a participant's Performance Rights, including where:

- the participant's employment ceases due to death, retirement, total and permanent disablement or redundancy; or
- an event occurs in respect of Folkestone such as a change of control, receipt of a takeover bid, a court ordering the holding of a meeting in relation to a compromise or arrangement, a voluntary or compulsory winding up or Shares ceasing to be quoted on any exchange.

Early lapse of Performance Rights

Performance Rights, that have not vested, lapse on the earlier of:

- the Expiry Date specified in the invitation for the Performance Rights;
- the Board determining that a participant's Performance Rights should lapse where it is of the opinion the participant has committed an act of fraud, dishonesty or willful misconduct or is convicted of a criminal offence which may injure Folkestone's reputation or the participant leaves Folkestone and is not a good leaver (or is otherwise a bad leaver);
- the participant becoming bankrupt; or
- the participant ceasing to be an employee and the Board not making a determination that the Performance Rights vest or that the employee is to be treated as remaining employed for the purposes of assessing the vesting of the Performance Rights.

New issues and reorganisations of capital

In the event of any capital reorganisation by Folkestone (including bonus issues), the participant's Performance Rights, and the Shares allocated to the participant on vesting of the Performance Rights will be treated or adjusted, as set out in the Plan Rules. In general, it is intended that the participant will not receive any advantage or disadvantage from such an adjustment not received by holders of Shares.

Non-Executive Director remuneration

The Board's policy is to remunerate Non-Executive Directors at market rates for comparable companies and reflects their time, commitment and responsibilities. The Remuneration Committee determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at the Annual General Meeting (currently $400,000). To align Directors' interests with shareholders' interests, the Directors are encouraged to hold shares in the Company. Details of the Directors' interests in shares and rights over shares of the Company as at the date of this report are contained in Note 7 to the accounts on pages 56 to 62.

Directors' Report

Continued For the year ended 30 June 2011

M. Remuneration Report (continued)

Details of remuneration for the year ended 30 June 2011

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

		Short-term		
		Salary and fees $	STI cash bonus $(A)	Non-monetary benefits $
Directors (Non-executive)				
GR Sladden	2011	18,667	–	–
Chairperson (appointed 9 March 2011)	2010	–	–	–
AH Gurner	2011	40,367	–	–
(appointed 4 May 2010)	2010	6,262	–	–
KR Strang	2011	–	–	–
(appointed 9 March 2011)	2010	–	–	–
KH Dening	2011	24,893	–	–
(resigned 10 February 2011)	2010	40,367	–	–
ATL Maitland	2011	41,903	–	4,707
(resigned 9 March 2011)	2010	60,550	–	4,212
MW Parkinson	2011	27,935	–	–
(resigned 9 March 2011)	2010	40,367	–	–
Directors (Executive)				
GJ Paramor	2011	101,475	–	–
(appointed 4 May 2010)	2010	6,262	–	–
O Guglielmi, CEO	2011	136,354	–	–
(resigned 6 December 2010)	2010	250,000	-	2,430
Executives				
B Dodwell, Head of Real Estate	2011	68,807	–	–
(appointed 1st April 2011)	2010	–	–	–
A Harrington, Head of Funds Management	2011	71,200	–	–
(appointed 1 April 2011)	2010	–	–	–
SN Martin,	2011	200,743	25,000	–
CFO & Company Secretary	2010	185,539	–	–
J Sweeney, Chief Operating Officer	2011	71,200	–	–
(appointed 1 April 2011)	2010	–	–	–
AS Cariss, Managing Director, Access Constructions	2011	–	–	–
(resigned 19th August 2009)	2010	37,290	–	–
Total compensation:	2011	803,544	25,000	4,707
key management personnel (consolidated)	2010	626,637	–	6,642
Total compensation:	2011	803,544	25,000	4,707
key management personnel (company)	2010	589,347	–	6,642

A The short-term cash incentive bonus is for performance during the relevant financial year using the criteria set out on pages 19-20.

B The accounting standards require that Performance Rights be valued at fair value on the grant date. The fair value of performance rights granted under the Executive Performance Rights Plan is calculated at the date of grant by an independent expert using an appropriate valuation model and allocated to each reporting period evenly over the period from grant date to vesting date. The Board has adopted the fair value calculation as the cost basis for issuing the Rights and for shares on vesting of any Rights awarded. The value disclosed above is the portion of the fair value of the performance rights allocated to this reporting date. The values disclosed above relate to performance rights that have vested in prior years.

Post employment benefits	Share based payment			
Superannuation benefits $	Perf. Rights (B)	Termination payments	Total $	Proportion of remuneration performance related %
1,680	–	–	20,347	–
–	–	–	–	–
3,633	–	–	44,000	–
564	–	–	6,826	–
12,578	–	–	12,578	–
–	–	–	–	–
2,422	–	–	27,315	–
3,633	–	–	44,000	–
3,771	–	–	50,381	–
5,450	–	–	70,212	–
2,514	–	–	30,449	–
3,633	–	–	44,000	–
6,524	–	–	107,999	–
564	–	–	6,826	–
25,098	–	75,000	236,452	–
50,000	36,089	–	338,519	11%
6,193	–	–	75,000	–
–	–	–	–	–
3,800	–	–	75,000	–
–	–	–	–	–
15,199	–	–	240,942	10%
14,461	18,098	–	218,098	8%
3,800	–	–	75,000	–
–	–	–	–	–
–	–	–	–	–
3,514	–	–	40,804	–
87,212	–	75,000	995,463	2%
81,819	54,187	–	769,285	7%
87,212	–	75,000	995,463	2%
78,305	54,187	–	728,481	7%

Directors' Report

Continued For the year ended 30 June 2011

M. Remuneration Report (continued)

Performance Rights issued as part of remuneration for the year ended 30 June 2011

The following factors and assumptions were used in determining the fair value of rights on the grant date; which have been granted since the introduction of an Executive Bonus Scheme in October 2006:

Grant date	Expiry date	Fair value per right[1]	Exercise price	Price of shares on grant date	Estimated volatility	Risk free interest rate	Dividend yield
25-Oct-06	25-Oct-09	$0.53	$0	$0.665	32%	5.97%	8.64%
25-Oct-06	25-Oct-09	$0.53	$0	$0.665	32%	5.97%	8.64%
25-Oct-06	21-Jul-09	$0.53	$0	$0.665	32%	5.97%	8.64%
25-Oct-06	21-Jul-09	$0.42	$0	$0.665	32%	5.97%	8.64%
31-Jul-07	21-Jul-09	$0.756	$0	$0.87	37%	6.31%	7.21%
11-Oct-07	21-Jul-10	$0.709	$0	$0.865	36%	6.44%	7.25%
11-Oct-07	21-Jul-10	$0.50	$0	$0.865	36%	6.44%	7.25%
11-Oct-07	21-Jul-10	$0.709	$0	$0.865	36%	6.44%	7.25%
16-Oct-08	21-Jul-11	$0.40	$0	$0.55	47%	4.34%	11.80%
16-Oct-08	21-Jul-11	$0.21	$0	$0.55	47%	4.34%	11.80%
29-Jun-11	30-Jun-14	$0.104	$0	$0.105	40%	4.71%	–
29-Jun-11	30-Jun-14	$0.056	$0	$0.105	40%	4.71%	–

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

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

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

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

Performance rights over equity instruments granted as compensation

Details on performance rights over ordinary shares in the Company that were granted as compensation and vested to each key management person during the reporting period are set out in the following tables. The performance rights were provided at no cost to the recipients and have a nil exercise price.

Executive	Granted during 2011	Grant date	Vested during 2011	Fair value per right at grant date	Expiry date
G Paramor	–	–	–	–	–
B Dodwell	–	–	–	–	–
A Harrington	1,971,026	29 Jun 2011	–	$0.104	–
	1,971,027	29 Jun 2011	–	$0.056	–
S Martin	–	–	–	–	–
J Sweeney	1,971,026	29 Jun 2011	–	$0.104	–
	1,971,027	29 Jun 2011	–	$0.056	–
O Guglielmi[1]	–	–	–	–	–

Executive	Granted during 2009	Grant date	Vested during 2010	Fair value per right at grant date	Expiry date
G Paramor	–	–	–	–	–
B Dodwell	–	–	–	–	–
A Harrington	–	–	–	–	–
S Martin	–	–	–	–	–
J Sweeney	–	–	–	–	–
O Guglielmi[1]	100,000	16 Oct 2008	–	$0.40	Expired
	100,000	16 Oct 2008	–	$0.21	Lapsed

Executive	Granted during 2008	Grant date	Vested during 2011	Fair value per right at grant date	Expiry date
G Paramor	–	–	–	–	–
B Dodwell	–	–	–	–	–
A Harrington	–	–	–	–	–
S Martin	62,500	31 Jul 2007	100%	$0.756	Vested
	62,500	31 Jul 2007	52%	$0.709	Vested/ Expired
	62,500	11 Oct 2007	100%	$0.50	Vested
J Sweeney	–	–	–	–	–
O Guglielmi[1]	100,000	11 Oct 2007	52%	$0.709	Vested/ Expired
	100,000	11 Oct 2007	100%	$0.50	Vested

1 Resigned effective 6 December 2010.

M. Remuneration Report (continued)

Executive	Granted during 2007	Grant date	Vested during 2010	Fair value per right at grant date	Expiry date
G Paramor	–	–	–	–	–
B Dodwell	–	–	–	–	–
A Harrington	–	–	–	–	–
S Martin	–	–	–	–	–
J Sweeney	–	–	–	–	–
O Guglielmi[1]	400,000	25 Oct 2006	25%	$0.40	Vested/ Expired
	100,000	25 Oct 2006	100%	$0.21	Expired

1 Resigned effective 6 December 2010.

There were no performance rights granted during the 2010 financial year.

All performance rights issued under the old Executive Bonus Schemes have either vested, lapsed or expired.

All performance rights issued under the new Executive Incentive Performance Rights Plan approved by shareholders on 9 March 2011 expire on the termination of the individual's employment and vest three years from grant date subject to performance criteria met.

Analysis of share-based payments granted as compensation

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

Performance rights granted							
	Number	Date	% Vested in year	% Vested in total	% Forfeited in year	% Forfeited in total	Financial years to which grant vests
Directors							
O Guglielmi[1]	500,000	25 Oct 2006	–	40%	–	60%	30 Jun 2010
	200,000	11 Oct 2007	76%	76%	–	24%	30 Jun 2011
	200,000	16 Oct 2008	–	–	–	100%	N/A
Executives							
A Harrington	3,942,053	29 Jun 2011	–	–	–	–	30 Jun 2014
S Martin	62,500	31 Jul 2007	–	100%	–	–	30 Jun 2010
	125,000	11 Oct 2007	76%	76%	–	24%	30 Jun 2011
J Sweeney	3,942,053	29 Jun 2011	–	–	–	–	30 Jun 2014

1 Resigned effective 6 December 2010.

Analysis of movements in performance rights

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

	Opening balance	Granted in year[1,2]	Vested in year[3]	Lapsed in Year[4]	Closing balance
Directors					
O Guglielmi					
Number of rights	152,000	–	(152,000)	–	–
Value of rights $	86,868	–	(86,868)	–	–
Executives					
A Harrington					
Number of rights	–	3,942,053	–	–	3,942,053
Value of rights $	–	315,365	–	–	315,365
S Martin					
Number of rights	95,000	–	(95,000)	–	–
Value of rights $	54,293	–	(54,293)	–	–
J Sweeney					
Number of rights	–	3,942,053			3,942,053
Value of rights $	–	315,365			315,365
Other Staff					
Number of rights	14,000	–	(14,000)	–	–
Value of rights $	9,926	–	(9,926)	–	–
Total					
Number of rights	261,000	7,884,106	(261,000)	–	7,884,106
Value of rights $	151,087	630,730	(151,087)	–	630,730

1 The number of performance rights is the number of performance rights granted during the reporting period.

2 The value of performance rights granted during the year is their fair value at grant date.

3 The value of performance rights exercised during the year is calculated as the fair value at grant date of those rights exercised during the period.

4 The value of the performance rights that lapsed during the year represents the benefit foregone and is calculated at the date the performance rights lapsed using their fair value at the grant date of these rights. There were no performance rights which lapsed during the current year.

No options have been issued or are on issue.

Directors' Report

Continued For the year ended 30 June 2011

N. 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 2011 and the number of meetings attended by each director was as follows:

Meetings of Directors	Full meeting of Directors	Audit Committee	Remuneration Committee
Number of meetings held	17	7	–
Number of meetings attended by:			
Garry R Sladden (appointed 9 March 2011)[1,2]	6	1	–
Gregory J Paramor	17	*	*
A Hugh Gurner[2]	15	1	–
K Ross Strang (appointed 9 March 2011)[1,2]	5	1	–
Oscar Guglielmi (resigned 6 Dec 2010)	4	*	*
Kaye H Dening (resigned 10 February 2011)	10	6	–
Alister TL Maitland (resigned 9 March 2011)	11	6	–
Michael W Parkinson (resigned 9 March 2011)	11	6	–

* Not a member of the relevant committee.

1 Since their appointment, six Board Meetings have been held.

2 Appointed to Audit and Risk Management Committee and Remuneration Committee in April 2011.

O. Indemnification of Officers and Auditors

During the financial year ended 30 June 2011, Folkestone Limited paid a premium of $20,491 plus GST (2010 – $17,234) to insure each of the directors and executives of the company and related bodies corporate. The liabilities insured include legal costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the economic entity. The company has not otherwise, during or since the financial year, indemnified or agreed to indemnify the auditor of the company or of any related body corporate against a liability incurred as the auditor.

P. Proceedings on Behalf of the Company

There are currently no proceedings on behalf of the Company.

Q. Non-audit Services

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

Details of the amounts paid to the auditor Deloitte Touche Tohmatsu for audit and non-audit services provided during the year are set out in Note 8 to the financial statements on page 63.

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

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

R. Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30 June 2011 has been received and is found on page 36 of the Annual Report.

S. 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 in accordance with s.298(2) of the *Corporations Act 2001*.

Garry Sladden
Chairman

Greg Paramor
Director

Sydney
24 August 2011

Corporate Governance Statement

For the year ended 30 June 2011

Folkestone Limited (the Company) and the Board are committed to achieving and demonstrating high standards of corporate governance. The Company's Corporate Governance Statement has been prepared and is structured in accordance with the Australian Securities Exchange's (ASX) Corporate Governance Principles and Recommendations and the Company measures its corporate governance accordingly.

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

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

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the senior management of Folkestone. These delegations are reviewed on a regular basis.

The headings below 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 bold italics.

Lay Solid Foundations for Management and Oversight

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

Day to day management of the Company's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the senior management of Folkestone. These delegations are reviewed on a regular basis.

The Board Charter, which is summarised below, provides the details of the functions and responsibilities of the Board.

BOARD CHARTER

- Approving and monitoring financial and other reporting.
- Reviewing and approving corporate strategies, business plans and budgets.
- Ensuring 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.
- Approving and monitoring the progress of major capital expenditure, capital management investments and acquisitions.

The Company Secretary reports directly to the Board. Between meetings the Company Secretary is required to keep the Chairman fully informed.

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

A Director is invited to join the Board by a formal letter which details the key terms of their appointment including remuneration and requires a written acceptance. The powers, duties, disclosure of Directors interests and trading policy governing dealing in the Company's securities are covered with the new Director during their induction.

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 Company Secretary not less than 30 and not more than 40 business days before the Annual General Meeting.

The Board is responsible for the appointment of the Managing Director and ratifies the appointment of senior executives. Upon commencement with the Company, each senior executive is provided with a letter of appointment which outlines their duties and responsibilities. The Board reviews and evaluates the performance of the Managing Director and senior executives in line with their respective duties and responsibilities.

Structure the Board to Add Value

The Board currently comprises three Non-Executive Directors (including a Non-Executive Chairman) and a Managing Director. The Board reviews the independence and skills of all Non-Executive Directors on a regular basis and makes a statement in the Annual Report in relation to these matters. Details of the Directors' backgrounds and experience are summarised in the Directors' Report in the Company's Annual Report and can also be found on the Company's website.

The Chair of the Company is an independent Director and the role of the Chair and Managing Director are not exercised by the same individual.

To assist in the execution of its responsibilities the Board has an Audit and Risk Management Committee and a Remuneration Committee.

The Board does not have a Nomination Committee due to the Company's size, however the Board has processes in place which raise the issues that would otherwise be considered by the Nomination Committee including review of succession plans, appointment, performance evaluation and re-election of Directors.

Folkestone has entered into a Deed of Access, Indemnity and Insurance with each Director entitling them to obtain independent advice at the Company's expense with the prior approval of the Chairman. This advice is to be made available to all Directors.

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

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

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

Promote Ethical and Responsible Decision Making

The Company requires high ethical standards and integrity in all its dealings. In particular Directors and senior 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. Systems and policies are in place covering the acquisition and use of assets and the incurring of expenses as well as reporting of unethical or unfair trading.

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

Directors and senior management are made aware of their obligation to comply with the Law in regard to trading in the Company's shares so as not to take advantage of information or position, or opportunities arising from these, for personal gain. The Company's Share Trading Policy is reviewed at least annually and the last review was undertaken in July 2011.

SHARE TRADING POLICY

Under Folkestone's share trading policy Directors and Employees:

- Must not purchase or sell securities in Folkestone when they are in possession of price sensitive "inside" information relating to Folkestone, which is not generally available to the market.
- Are prohibited from trading in Folkestone securities in the 60 day period prior to the announcement of the half year and full year results and the 30 day period prior to the Annual General Meeting ("Closed Periods");
- May only commence trading in Folkestone's securities one full business day after the announcement of the half-year results and full year results and the Annual General Meeting; or other ASX announcement which would be likely to materially affect the market price of the securities provided always that the Directors and Employees are not in possession of price sensitive "inside" information at the time of trading.
- May in exceptional circumstances be given clearance to trade during a Closed Period. The determination on whether to give clearance for trading during a Closed Period is to be made by the Board. Clearance will generally only be given in cases of clear financial hardship.

Corporate Governance Statement

Continued For the year ended 30 June 2011

Safeguard Integrity in Financial Reporting

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

The Board has established an Audit and Risk Management Committee, comprised solely of Non-Executive Directors. The Chair of the Audit and Risk Management Committee is required to be a different person to the Chair of the Company. Details of the members of the Audit and Risk Management Committee and meetings held during the year are disclosed in the Directors' Report.

AUDIT AND RISK MANAGEMENT COMMITTEE CHARTER

The responsibilities of the Audit and Risk Management Committee include:

- Reviewing the financial reports and integrity and processes associated with their preparation.
- 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 in processes are subject to prompt remedial action by management.
- Monitoring compliance with the Corporations Act, ASX and related reporting requirements.
- Identifying the risks inherent in the Company's business activities and establishing policies and procedures to monitor these risks.

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 regularly review the Auditor's Independence and receives an Independence Declaration which is included in the Annual and Half Year Reports.

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 may seek external advice to ensure that announcements do not omit any material information.

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

Respect the Rights of Shareholders

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

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

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

Recognise and Manage Risk

The Board identifies and establishes processes to manage the significant operating, financial and regulatory risks through the formal adoption of a medium term Strategic Plan (3 to 5 years), annual business plans and budgets.

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

The Company's Audit and Risk Management Committee has formulated a Risk Management Plan that formalises the current culture and processes of the Company which is focused on the identification and management of risk through regular Board reporting and exception reporting in between.

The Managing Director and Chief Financial Officer provide a letter of representation to the Board 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.

Remunerate Fairly and Responsibly

REMUNERATION COMMITTEE CHARTER

The functions and responsibilities include:

- Reviewing the performance of the MD and/or CEO.
- Reviewing and recommending to the Board the remuneration packages of the MD, CEO and senior executives as well as the percentage remuneration change for the Group as a whole.
- Reviewing and recommending the Company's remuneration policy and structure to the Board.
- Reviewing and recommending appropriate Non-Executive Directors fees.

The Board has established a Remuneration Committee comprised of the three Non-Executive Directors and chaired by the Company Chairman. Further details of the members of the Remuneration Committee and of meetings held are included in the Directors' Report. 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 management are remunerated on the basis of packages which comprise a base salary plus short term and long-term performance bonuses. Salary sacrifice provisions apply within the limits allowed by taxation law. Overall packages are set at levels that are intended to retain and attract executives who are capable of managing the consolidated entities operations. Details are fully disclosed in the remuneration report contained in the Directors Report.

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

Fees for Non-Executive Directors are determined by the Remuneration Committee within the maximum limits approved by shareholders which is disclosed in full in the remuneration report contained in the Directors Report each year.

The Board has the power to approve loans to executives at commercial rates if the need arises. Any such loans would be fully disclosed in the remuneration report contained in the Directors Report and the financial statements of the Company. No such loans are currently outstanding.

The Company has an Executive Bonus Scheme and the details of the Executive Bonus Scheme are fully disclosed in the Remuneration Report.

Independent Auditor's Report

For the year ended 30 June 2011

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Independent Auditor's Report to the members of Folkestone Limited

Report on the Financial Report

We have audited the accompanying financial report of Folkestone Limited, which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 37 to 84.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the 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 financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

Auditor's Independence Declaration

Deloitte.

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Folkestone Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

In our opinion:

(a) the financial report of Folkestone Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2011 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(iii) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 17 to 27 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Folkestone Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Craig Bryan
Partner
Chartered Accountants
Melbourne, 24 August 2011

Auditor's Independence Declaration

For the year ended 30 June 2011

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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The Board of Directors
Folkestone Limited
Level 9, 350 Collins St
MELBOURNE VIC 3000

24 August 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 audit of the financial statements of Folkestone Limited for the financial year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Craig Bryan
Partner
Chartered Accountants

Folkestone Limited and its Controlled Entities

Financial Report

Contents For the year ended 30 June 2011

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

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

Folkestone Limited
Level 9
350 Collins Street
Melbourne Vic 3000

A description of the nature of the economic entity's operations and its principal activities is included within the Directors' Report on pages 13 to 29.

Folkestone Limited and its Controlled Entities

Statement of Comprehensive Income

For the year ended 30 June 2011

	Note	Economic entity 2011 $'000	Economic entity 2010 $'000	Parent entity 2011 $'000	Parent entity 2010 $'000
Continuing operations					
Revenue	2	8,229	2,925	846	2,715
Development expenses		(7,187)	(2,052)	–	–
Employee benefits expense		(1,283)	(1,231)	(1,128)	(1,231)
Depreciation and amortisation expense		(41)	(24)	(10)	(24)
Changes in inventories of finished goods and work in progress		(2,526)	(1,357)	–	–
Consultants' expenses		(367)	(47)	(362)	(47)
Rental expense on operating leases		(57)	(147)	(49)	(147)
Impairment of interest held in associated entities	14	(8,015)	–	–	–
Impairment of financial assets	16	–	–	(8,015)	–
Other expenses		(972)	(492)	(4,177)	(5,621)
Finance costs	3	(5)	(3)	(2)	(1)
Loss before income tax		**(12,224)**	**(2,428)**	**(12,897)**	**(4,356)**
Income tax expense	6	(2)	(918)	–	(1,048)
Loss for the year from continuing operations		**(12,226)**	**(3,346)**	**(12,897)**	**(5,404)**
Discontinued operations					
Profit /(loss)from discontinued operations	**5**	**6**	**(131)**	–	–
Loss for the year		(12,220)	(3,477)	(12,897)	(5,404)
Total comprehensive income		**(12,220)**	**(3,477)**	**(12,897)**	**(5,404)**
Attributable to					
Owners of the company		(12,221)	(3,495)	(12,897)	(5,404)
Non-controlling interests		1	18	–	–
Total comprehensive income		**(12,220)**	**(3,477)**	**(12,897)**	**(5,404)**
Earnings per share					
From continuing and discontinued operations:					
Basic earnings per share (cents per share)	9	(7.5)	(4.8)		
Diluted earnings per share (cents per share)	9	(7.5)	(4.8)		
From continuing operations:					
Basic earnings per share (cents per share)	9	(7.5)	(4.6)		
Diluted earnings per share (cents per share)	9	(7.5)	(4.6)		

The statement of comprehensive income is to be read in conjunction with the notes of the financial statements set out on pages 43 to 83.

Folkestone Limited and its Controlled Entities

Statement of Financial Position

For the year ended 30 June 2011

		Economic entity		Parent entity	
	Note	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Assets					
Current assets					
Cash and cash equivalents	10	27,276	15,648	26,887	13,077
Trade and other receivables	11	336	46	9,174	10,359
Inventories	12	16,597	21,017	–	–
Current tax assets	22a	–	12	–	21
Other current assets	13	663	3	150	1
Total current assets		**44,872**	**36,726**	**36,211**	**23,458**
Non-current assets					
Financial assets	16	–	–	10,031	5,017
Shares in associated entities	14	6,998	3,239	–	–
Property, plant and equipment	18	434	18	79	18
Goodwill	19	1,225	–	–	–
Total non-current assets		**8,657**	**3,257**	**4,689**	**5,035**
Total assets		**53,529**	**39,983**	**46,321**	**28,493**
Liabilities					
Current liabilities					
Trade and other payables	20	1,445	1,248	389	282
Current tax liabilities	22b	1	–	–	–
Short-term borrowings	21	6,568	11,688	3,505	3,591
Short-term provisions	23	54	56	43	56
Total current liabilities		**8,068**	**12,992**	**3,937**	**3,929**
Non-current liabilities					
Long-term provisions	23	40	–	32	–
Total non-current liabilities		**40**	**–**	**32**	**–**
Total liabilities		**8,108**	**12,992**	**3,969**	**3,929**
Net assets		**45,421**	**26,991**	**42,352**	**24,564**
Equity					
Issued capital	24	58,970	28,271	58,970	28,271
Reserves	25	369	383	369	383
Accumulated losses		(13,919)	(1,698)	(16,987)	(4,090)
Parent interest		45,420	26,956	42,352	24,564
Non-controlling interest		1	35	–	–
Total equity		**45,421**	**26,991**	**42,352**	**24,564**

The statement of financial position is to be read in conjunction with the notes of the financial statements set out on pages 43 to 83.

Folkestone Limited and its Controlled Entities

Statement of Changes in Equity

For the year ended 30 June 2011

Economic entity	Note	Issued capital $'000	Retained Earnings/ (accumulated losses) $'000	Reserves $'000	Attributable to holders of the parent $'000	Non-controlling interest $'000	Total $'000
Balance at 1 July 2009		**19,326**	**1,797**	**345**	**21,468**	**392**	**21,860**
Loss for the year		–	(3,495)	–	(3,495)	18	(3,477)
Total comprehensive income		–	(3,495)	–	(3,495)	18	(3,477)
Issue of share capital – placement	24	1,556	–	–	1,556	–	1,556
Issue of share capital – equity raising	24	8,200	–	–	8,200	–	8,200
Share issue costs	24	(811)	–	–	(811)	–	(811)
Net issue of performance rights	25	–	–	38	38	–	38
Dividends paid		–	–	–	–	(375)	(375)
Balance at 30 June 2010		**28,271**	**(1,698)**	**383**	**26,956**	**35**	**26,991**
Loss for the year		–	(12,221)	–	(12,221)	1	(12,220)
Total comprehensive income		–	(12,221)	–	(12,221)	1	(12,220)
Issue of share capital – placement	24	25,000	–	–	25,000	–	25,000
Issue of share capital – acquisition of Equity Real Estate Partners Pty Ltd	24	1,000	–	–	1,000	–	1,000
Issue of share capital – prospectus	24	6,538	–	–	6,538	–	6,538
Share issue costs	24	(1,839)	–	–	(1,839)	–	(1,839)
Net forfeiture of performance rights	25	–	–	(14)	(14)	–	(14)
Dividends paid		–	–	–	–	(35)	(35)
Balance at 30 June 2011		**58,970**	**(13,919)**	**369**	**45,420**	**1**	**45,421**

The statement of changes in equity is to be read in conjunction with the notes of the financial statements set out on pages 43 to 83.

Parent entity	Note	Issued capital $'000	Retained Earnings/ (accumulated losses) $'000	Reserves $'000	Attributable to holders of the parent $'000	Non-controlling interest $'000	Total $'000
Balance at 1 July 2009		**19,326**	**1,314**	**345**	**20,985**	**–**	**20,985**
Loss for the year		–	(5,404)	–	(5,404)	–	(5,404)
Total comprehensive income		–	(5,404)	–	(5,404)	–	(5,404)
Issue of share capital – placement	24	1,556	–	–	1,556	–	1,556
Issue of share capital – equity raising	24	8,200	–	–	8,200	–	8,200
Share issue costs	24	(811)	–	–	(811)	–	(811)
Net issue of performance rights	25	–	–	38	38	–	38
Balance at 30 June 2010		**28,271**	**(4,090)**	**383**	**24,564**	**–**	**24,564**
Loss for the year		–	(12,897)	–	(12,897)	–	(12,897)
Total comprehensive income		–	(12,897)	–	(12,897)	–	(12,897)
Issue of share capital – placement	24	25,000	–	–	25,000	–	25,000
Issue of share capital – acquisition of Equity Real Estate Partners Pty Ltd	24	1,000	–	–	1,000	–	1,000
Issue of share capital – prospectus	24	6,538	–	–	6,538	–	6,538
Share issue costs	24	(1,839)	–	–	(1,839)	–	(1,839)
Net forfeiture of performance rights	25	–	–	(14)	(14)	–	(14)
Balance at 30 June 2011		**58,970**	**(16,987)**	**369**	**42,352**	**–**	**42,352**

The statement of changes in equity is to be read in conjunction with the notes of the financial statements set out on pages 43 to 83.

Folkestone Limited and its Controlled Entities

Statement of Cash Flows

For the year ended 30 June 2011

		Economic entity		Parent entity	
	Note	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Cash flows from operating activities					
Receipts from customers		7,313	3,714	86	192
Payments to suppliers and employees		(8,818)	(8,990)	(2,358)	(1,722)
Dividends received		–	–	105	490
Interest received – continuing operations	2	712	472	644	439
Interest received – discontinued operations		2	12	–	–
Finance costs – continuing operations	3	(5)	(3)	(2)	(1)
Interest and line fees capitalised to property developments included in inventory	3	(41)	(412)	–	–
Income tax refunded		11	466	21	520
Net cash used in operating activities	**29**	**(826)**	**(4,741)**	**(1,504)**	**(82)**
Cash flows from investing activities					
Purchase of property, plant and equipment		(81)	(2)	(72)	(2)
Proceeds from sale of property, plant and equipment		3	–	2	–
Payment for investment in associate		(11,771)	(413)	(11,771)	(413)
Payment for subsidiary, net of cash acquired	4	(241)	–	(258)	–
Net cash used in investing activities		**(12,090)**	**(415)**	**(12,099)**	**(415)**
Cash flows from financing activities					
Proceeds from borrowings		4,219	4,938	–	–
Repayment of borrowings		(9,339)	(1,411)	–	–
Loans to controlled entities		–	–	(2,286)	(2,399)
Proceeds from the issue of shares	24	31,538	9,756	31,538	9,756
Payment for share issue costs	24	(1,839)	(811)	(1,839)	(811)
Dividends paid to minority interests		(35)	(375)	–	–
Net cash provided by financing activities		**24,544**	**12,097**	**27,413**	**6,546**
Net increase in cash and cash equivalents		11,628	6,941	13,810	6,049
Cash and cash equivalents at beginning of financial year		15,648	8,707	13,077	7,028
Cash and cash equivalents at end of financial year	**10**	**27,276**	**15,648**	**26,887**	**13,077**

The statement of cash flows is to be read in conjunction with the notes of the financial statements set out on pages 43 to 83.

Notes to the Financial Statements

For the year ended 30 June 2011

Note 1: Significant Accounting Policies

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Interpretations, and complies with other requirements of the law. The financial report includes the separate financial statements of the company and the consolidated financial statement of the group. Accounting Standards include Australian equivalents to International Financial Reporting Standards ("A-IFRS"). Compliance with the A-IFRS ensures that the consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards ("IFRS").

The financial statements were approved by the Board on 24 August 2011 and were authorised for issue.

Basis of preparation

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

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

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

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

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has not affected the reporting results or financial position, but has resulted in changes to the company and Group's presentation of, or disclosure in the following areas:

Amendments to AASB 7 "Financial Instruments: Disclosure" (adopted in advance of effective date of 1 January 2011)

The amendments (part of AASB 2010-4 "Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project") clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans.

Amendments to AASB 101 "Presentation of Financial Statements" (adopted in advance of effective date of 1 January 2011)

The amendments (part of AASB 2010-4 "Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project") clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

Amendments to AASB 107 "Statement of Cash Flows"

The amendments (part of AASB 2009-5 "Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project") specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows. Consequently, cash flows in respect of development costs that do not meet the criteria in AASB 138 "Intangible Assets" for capitalisation as part of an internally generated intangible asset (and, therefore, are recognised in profit or loss as incurred) have been reclassified from investing to operating activities in the statement of cash flows.

Notes to the Financial Statements

Continued For the year ended 30 June 2011

Note 1: Significant Accounting Policies (continued)

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

AASB 2009-5 "Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project"

Except for the amendments to AASB 5 and AASB 107 described earlier this section, the application of AASB 2009-5 has not had any material effect on amounts reported in the financial statements.

AASB 2009-8 "Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions"

The application of AASB 2009-8 makes amendments to AASB 2 "Share-based Payment" to clarify the scope of AASB 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.

AASB 2009-10 "Amendments to Australian Accounting Standards – Classification of Rights Issues"

The application of AASB 2009-10 makes amendments to AASB 132 "Financial Instruments: Presentation" to address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments.

AASB 2010-3 "Amendments to Australian Accounting Standards arising from the Annual Improvements Project"

The application of AASB 2010-3 makes amendments to AASB 3(2008) "Business Combinations" to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards.

In addition, the application of AASB 2010-3 makes amendments to AASB 3(2008) to give more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with AASB 2 "Share-based Payment" at the acquisition date (market-based measure).

AASB 2010-4 "Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project"

Except for the amendments to AASB 7 and AASB 101 described earlier this section, the application of AASB 2010-4 has not had any material effect on amounts reported in the financial statements.

Interpretation 19 "Extinguishing Financial Liabilities with Equity Instruments"

This Interpretation provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. In particular, the equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss. To date, the Group has not entered into transactions of this nature.

At the date of authorisation of the financial report, the following Standards and Interpretations listed below were in issue but not yet effective:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 124 "Related Party Disclosures" (revised December 2009), AASB 2009-12 "Amendments to Australian Accounting Standards"	1 January 2011	30 June 2012
AASB 9 "Financial Instruments", AASB 2009-11 "Amendments to Australian Accounting Standards arising from AASB 9" and AASB 2010-7 "Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)"	1 January 2013	30 June 2014
AASB 1053 "Application of Tiers of Australian Accounting Standards" and AASB 2010-2 "Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements"	1 July 2013	30 June 2014
AASB 2009-14 "Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement"	1 January 2011	30 June 2012
AASB 2010-4 "Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project"	1 January 2011	30 June 2012
AASB 2010-5 "Amendments to Australian Accounting Standards"	1 January 2011	30 June 2012
AASB 2010-6 "Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets"	1 July 2011	30 June 2012
AASB 2010-8 "Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets"	1 January 2012	30 June 2013
AASB 2010-9 "Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters"	1 July 2011	30 June 2012

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

Accounting Policies

a) Principles of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the noncontrolling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the noncontrolling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Notes to the Financial Statements

Continued For the year ended 30 June 2011

Note 1: Significant Accounting Policies (continued)

Accounting Policies (continued)

a) Principles of Consolidation (continued)

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139 "Financial Instruments: Recognition and Measurement" or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

b) Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with AASB 5 "Non-current Assets Held for Sale and Discontinued Operations". Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of AASB 139 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with AASB 136 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with AASB 136 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

c) Jointly controlled operations and assets

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

When a group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

The Group's interests in assets where the Group does not have joint control are accounted for in accordance with the substance of the Group's interest. Where such arrangements give rise to an undivided interest in the individual assets and liabilities of the joint venture, the Group recognises its undivided interest in each asset and liability and classifies and presents those items according to their nature

d) Goods and Services Tax (GST)

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

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

e) Revenue

Interest revenue is recognised on a proportional basis taking into account the effective interest rates applicable to the financial assets.

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

1. Land sub-division

Revenue is recognised where there is a signed unconditional contract.

2. Project development

Where construction of a property is not substantially complete at reporting date, revenue and profit on sales are not recognised until sale settlement. Where construction of the property has been achieved or is substantially complete (practical completion) and all risk and reward has been transferred to the customer, revenue and expenses are recognised where there is a signed unconditional contract of sale unless the outcome of the contract cannot be reliably estimated. 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.

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

f) Income tax

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Notes to the Financial Statements

Continued For the year ended 30 June 2011

Note 1: Significant Accounting Policies (continued)

Accounting policies (continued)

f) Income tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

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

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

g) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 3 months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

h) Financial instruments

The Group holds non derivative financial instruments comprising trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non derivative financial instruments are initially recorded at the fair value of the amounts to be received and are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

i) Inventories

i) Developments in progress

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

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

ii) Land held for resale

Land held for resale is stated at the lower of cost and net realisable value. Cost includes the cost of acquisition, finance costs and holding costs until completion of the development. Any income received in relation to the property prior to its sale and being ready for use reduces the cost base of the asset.

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

j) Property, plant and equipment

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

Plant and equipment

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

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

k) Depreciation on plant and equipment

Depreciation is charged in respect of mechanical plant, equipment and moveable fittings, and is calculated on either the diminishing value method or the straight line method from the date of acquisition at various rates so as to write off the cost of these assets over their expected useful lives. The expected useful life of mechanical plant, equipment and moveable fittings is five to ten years.

l) Finance costs

Financing costs exclude borrowing costs capitalised to qualifying assets. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

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

m) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquire and the equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 “Income Taxes” and AASB 119 “Employee Benefits” respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquire are measured in accordance with AASB 2 “Share-based Payment” at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 “Noncurrent Assets Held for Sale and Discontinued Operations” are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity’s net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests’ proportionate share of the recognised amounts of the acquiree’s identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another Standard.

Notes to the Financial Statements

Continued For the year ended 30 June 2011

Note 1: Significant Accounting Policies (continued)

Accounting policies (continued)

m) Business combinations (continued)

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with AASB 139, or AASB 137 "Provisions, Contingent Liabilities and Contingent Assets", as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquire is remeasured to fair value at the acquisition date (i.e. the date when the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete.

Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Business combinations that took place prior to 1 July 2009 were accounted for in accordance with the previous version of AASB 3.

n) Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

o) Impairment of assets

i) Non financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

ii) Financial assets

Financial assets are assessed for indicators of impairment at each reporting date. The financial asset is considered to be impaired when there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. All impairment losses are expensed to the income statement.

p) Employee benefits

i) Wages and salaries and annual leave

Liabilities for wages and salaries and annual leave are recognised and are measured at the amount expected to be paid when the liabilities are settled plus related on costs. The liability for annual leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

ii) Long service leave

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

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

iii) Profit sharing and bonus plans

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

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

Liabilities for profit sharing are expected to be settled within 9 months after the end of the financial year and are measured at the amounts expected to be paid when they are settled.

Notes to the Financial Statements

Continued For the year ended 30 June 2011

Note 1: Significant Accounting Policies (continued)

Accounting policies (continued)

p) Employee benefits (continued)

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, workcover and other on-costs are recognised and included in sundry payables and accrued expenses and costs when the employee benefits to which they relate are recognised as liabilities.

vi) Performance rights

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

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

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

q) Provisions

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

i) Rectification and warranties

A provision for rectification and warranties is recognised when the underlying products or services (including construction contracts) are sold or completed. The provision is based on historical rectification and warranty data, known claims and a weighting of all possible outcomes against their associated probabilities.

r) Earnings per share

i) Basic earnings per share

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

ii) Diluted earnings per share

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

s) Comparative figures

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

t) Rounding of amounts

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

u) Critical judgements in applying the entity's accounting policies

The following are the critical judgements that management has made in the process of applying the Group's accounting policies and that have the most effect on the amounts recognised in the financial statements:

i) Inventories

Note 12 sets out the category and value of inventory carried. The net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs to sell which approximates fair value less costs to sell. The key assumptions require the use of management judgement and are reviewed annually. These key assumptions are the variables affecting the estimated costs to develop and sell and the expected selling price. Any reassessment of cost to develop and sell or selling price in a particular year will affect the cost of goods sold.

ii) Shares in associated entities.

Note 14 sets out the value of shares in associated entities. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Shares in associated entities are assessed for indicators of impairment at each reporting date. All impairment losses are expensed to the income statement.

Note 2: Revenue

		Economic entity		Parent entity	
	Note	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Revenue from continuing operations consists of the following items:					
Revenue from the sale of goods – development activities		7,472	2,453	86	217
Dividends received	2a	–	–	105	2,059
Interest received	2b	712	472	644	439
Management fee		33	–	–	–
Other income		12	–	11	–
Total revenue		**8,229**	**2,925**	**846**	**2,715**
a. Dividend received from:					
Subsidiaries		–	–	105	2,059
Total dividend revenue		**–**	**–**	**105**	**2,059**
b. Interest received from:					
Bank deposits		712	472	644	439
Total interest revenue		**712**	**472**	**644**	**439**

Notes to the Financial Statements

Continued For the year ended 30 June 2011

Note 3: Finance Costs

	Economic entity		Parent entity	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Finance costs from continuing operations consist of the following items:				
Interest and line fees on bills payable	695	797	–	–
Financial institution charges	5	3	2	1
Total finance costs	**700**	**800**	**2**	**1**
Less:				
Interest and line fees capitalised to property developments included in inventory	(41)	(412)	–	–
Interest and line fees expense included within development expenses	(306)	–	–	–
Interest and line fees included within changes in inventories of finished goods and work in progress	(348)	(385)	–	–
Finance costs	**5**	**3**	**2**	**1**
The weighted average capitalisation rate (including margins) on funds borrowed at balance date is 7.07 per cent (2010: 7.09 per cent)				

Note 4: Business Combinations

On 1 April 2011 the Group acquired the share capital of Equity Real Estate Partners Pty Ltd, Equity Real Estate Services Pty Ltd, Equity Real Estate Funds Management Pty Ltd and Equity Real Estate Quakers Hills Pty Ltd. The consideration was a cash payment of $258,286 and the issue of 8,333,332 shares at a fair value of 12 cents per share.

Included in the reported loss for the year is $353,441 attributable to the acquired entities. Revenue for the period includes $34,907 attributable to the acquired entities. If the acquisition had occurred on 1 July 2010, management estimates that the acquired entities would have contributed approximately $618,000 thousand of revenue and $758,000 of losses.

Consideration transferred	$'000
Cash	258
Ordinary Shares	1,000
Total consideration	**1,258**

Acquisition costs amounting to approximately $25,000 have been excluded from the consideration transferred and have been recognised as an expense in the period, within the "other expenses" line item in the Statement of Comprehensive Income.

Assets acquired and liabilities assumed at the date of acquisition	$'000
Current assets	
Cash and cash equivalents	17
Other assets	48
Non-current assets	
Plant and equipment	382
Current liabilities	
Trade and other payables	(262)
Provision for annual leave	(9)
Other liabilities	(131)
Non-current liabilities	
Provision for long service leave	(12)
Net assets	**33**
Goodwill arising on acquisition	
Consideration transferred	1,258
Less: fair value of net assets acquired	(33)
Goodwill arising on acquisition	1,225
Net cash outflow on acquisition of subsidiaries	
Consideration paid in cash	258
Less: cash and cash equivalents acquired	(17)
Net cash outflow on acquisition of subsidiaries	**241**

The goodwill arising on acquisition is attributable to:

- expansion of Folkestone's existing business to include a funds management platform which is expected to provide additional revenue streams and potential access to external sources of capital;
- the appointment of an experienced management team with proven real estate and funds management experience; and
- an Australian Financial Services Licence (AFSL: 340 990) which permits it to carry on a financial services business to provide certain general financial product advice and provide certain custodial and depository services to wholesale and retail clients.

None of the goodwill arising from the acquisition is expected to be deductible for tax purposes.

Notes to the Financial Statements

Continued For the year ended 30 June 2011

Note 5: 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 year ended 30 June 2011 are as follows:

	30 June 2011 $'000	30 June 2010 $'000
(Loss)/profit from discontinued operations		
Revenue	47	152
Expenses	(41)	(333)
(Loss)/profit before tax	6	(181)
Income tax credit/(expense)	–	50
Net (loss)/profit from discontinued operations after income tax	**6**	**(131)**

Note 6: Income Tax Expense

	Economic entity		Parent entity	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Income tax recognised in profit or loss				
Current tax expense/(credit)	2	103	–	573
Deferred tax (benefit)/expense	–	815	–	54
Under provision of income tax in respect of prior year	–	–	–	421
Income tax expense/(credit)	**2**	**918**	**–**	**1,048**

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

	Economic entity		Parent entity	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Loss from operations	(12,224)	(2,428)	(12,897)	(4,356)
Income tax calculated at 30%	(3,667)	(728)	(3,869)	(1,307)
Add:				
Entertainment	–	–	–	1
Provision for receivables that are not deductible	–	–	1,019	1,564
Current year tax losses not recognised as deferred tax assets	467	444	408	444
Temporary differences not recognised as deferred tax assets	3,159	708	2,431	49
Other assessable income	43	483	–	–
Other non-allowable expenses	–	11	–	11
Sub Total	**3,669**	**1,646**	**3,859**	**2,069**
Less:				
Other non-assessable income	–	–	11	135
Sub Total	**2**	**918**	**–**	**627**
Under/(Over) provision of income tax in respect of prior year	–	–	–	421
Income tax attributable to entity	**2**	**918**	**–**	**1,048**

Note 7: Key Management Personnel Compensation

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

Key management person	Position
GR Sladden	Chairman (appointed 9 March 2011)
GJ Paramor	Managing Director (appointed Non-Executive Director 4 May 2010, Managing Director 1 April 2011)
AH Gurner	Non-Executive Director (appointed 4 May 2010)
KR Strang	Non-Executive Director (appointed 9 March 2011)
BP Dodwell	Head of Real Estate (appointed 1 April 2011)
AJ Harrington	Head of Funds Management (appointed 1 April 2011)
SN Martin	CFO and Company Secretary
JW Sweeney	Chief Operating Officer (appointed 1 April 2011)
ATL Maitland	Chairman (resigned 9 March 2011)
MW Parkinson	Non-Executive Director(resigned 9 March 2011)
KH Dening	Non-Executive Director (resigned 10 February 2011)
O Guglielmi	Managing Director (resigned 6 December 2010)
AS Cariss	Managing Director, Access Constructions Pty Ltd (resigned 19 August 2009)

Notes to the Financial Statements

Continued For the year ended 30 June 2011

Note 7: Key Management Personnel Compensation (continued)

Information regarding individual directors and executives compensation is provided below

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

	Economic entity		Parent entity	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Short-term employee benefits	908,251	633,279	908,251	595,989
Post-employment benefits	87,212	81,819	87,212	78,305
Share-based payment	–	54,187	–	54,187
Total	**995,463**	**769,285**	**995,463**	**728,481**

Long-term incentives – Performance Rights

At the 9 March 2011 Shareholder Meeting, shareholders approved the establishment of a new long term incentive plan to be known as the Executive Incentive Performance Rights Plan ("Plan"). The Plan is designed to:

- assist with the attraction and retention of directors, executives, senior managers and employees;
- continue to motivate and drive performance at both the individual and corporate level; and
- strengthen the alignment between employee and Shareholder interests.

A summary of the Plan Rules is set out in the Remuneration Report section of the Director's Report on pages 17 to 27.

Performance Rights issued as part of remuneration for the year ended 30 June 2011

The following factors and assumptions were used in determining the fair value of rights on the grant date; which have been granted since the introduction of an Executive Bonus Scheme in October 2006:

Grant date	Expiry date	Fair value per right[1]	Exercise price	Price of shares on grant date	Estimated volatility	Risk free interest rate	Dividend yield
25-Oct-06	25-Oct-09	$0.53	$0	$0.665	32%	5.97%	8.64%
25-Oct-06	25-Oct-09	$0.53	$0	$0.665	32%	5.97%	8.64%
25-Oct-06	21-Jul-09	$0.53	$0	$0.665	32%	5.97%	8.64%
25-Oct-06	21-Jul-09	$0.42	$0	$0.665	32%	5.97%	8.64%
31-Jul-07	21-Jul-09	$0.756	$0	$0.87	37%	6.31%	7.21%
11-Oct-07	21-Jul-10	$0.709	$0	$0.865	36%	6.44%	7.25%
11-Oct-07	21-Jul-10	$0.50	$0	$0.865	36%	6.44%	7.25%
11-Oct-07	21-Jul-10	$0.709	$0	$0.865	36%	6.44%	7.25%
16-Oct-08	21-Jul-11	$0.40	$0	$0.55	47%	4.34%	11.80%
16-Oct-08	21-Jul-11	$0.21	$0	$0.55	47%	4.34%	11.80%
29-Jun-11	30-Jun-14	$0.104	$0	$0.105	40%	4.71%	0%
29-Jun-11	30-Jun-14	$0.056	$0	$0.105	40%	4.71%	0%

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

The Board's policy in respect of the accounting treatment of performance rights is to engage the services of an independent expert to calculate the fair value of performance rights at the date of grant using an appropriate valuation model.

The Board has adopted the fair value calculation as the cost basis for issuing the rights and to shares on vesting of any rights awarded. Please refer to the accounting policy note on page 52 for further detail.

Performance rights over equity instruments granted as compensation

Details on performance rights over ordinary shares in the Company that were granted as compensation and vested to each key management person during the reporting period are set out in the following tables. The performance rights were provided at no cost to the recipients and have a nil exercise price.

Executive	Granted during 2011	Grant date	Vested during 2011	Fair value per right at grant date	Expiry date
G Paramor	–	–	–	–	–
B Dodwell	–	–	–	–	–
A Harrington	1,971,026	29 Jun 2011	–	$0.104	–
	1,971,027	29 Jun 2011	–	$0.056	–
S Martin	–	–	–	–	–
J Sweeney	1,971,026	29 Jun 2011	–	$0.104	–
	1,971,027	29 Jun 2011	–	$0.056	–
O Guglielmi[1]	–	–	–	–	–

Executive	Granted during 2009	Grant date	Vested during 2010	Fair value per right at grant date	Expiry date
G Paramor	–	–	–	–	–
B Dodwell	–	–	–	–	–
A Harrington	–	–	–	–	–
S Martin	–	–	–	–	–
J Sweeney	–	–	–	–	–
O Guglielmi[1]	100,000	16 Oct 2008	–	$0.40	Expired
	100,000	16 Oct 2008	–	$0.21	Lapsed

Executive	Granted during 2008	Grant date	Vested during 2011	Fair value per right at grant date	Expiry date
G Paramor	–	–	–	–	–
B Dodwell	–	–	–	–	–
A Harrington	–	–	–	–	–
S Martin	62,500	31 Jul 2007	100%	$0.756	Vested
	62,500	31 Jul 2007	52%	$0.709	Vested/ Expired
	62,500	11 Oct 2007	100%	$0.50	Vested
J Sweeney	–	–	–	–	–
O Guglielmi[1]	100,000	11 Oct 2007	52%	$0.709	Vested/ Expired
	100,000	11 Oct 2007	100%	$0.50	Vested

1 Resigned effective 6 December 2010.

Notes to the Financial Statements

Continued For the year ended 30 June 2011

Note 7: Key Management Personnel Compensation (continued)

Performance rights over equity instruments granted as compensation (continued)

Executive	Granted during 2007	Grant date	Vested during 2010	Fair value per right at grant date	Expiry date
G Paramor	–	–	–	–	–
B Dodwell	–	–	–	–	–
A Harrington	–	–	–	–	–
S Martin	–	–	–	–	–
J Sweeney	–	–	–	–	–
O Guglielmi[1]	400,000	25 Oct 2006	25%	$0.40	Expired
	100,000	25 Oct 2006	100%	$0.21	Expired

1 Resigned effective 6 December 2010.

There were no performance rights granted during the 2010 financial year.

All performance rights issued under the old Executive Bonus Schemes have either vested, lapsed or expired.

All performance rights issued under the new Executive Incentive Performance Rights Plan approved by shareholders on 9 March 2011 expire on the termination of the individual's employment and vest three years from grant date subject to performance criteria met.

Analysis of share-based payments granted as compensation

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

	Performance rights granted						
	Number	Date	% Vested in year	% Vested in total	% Forfeited in year	% Forfeited in total	Financial years to which grant vests
Directors							
O Guglielmi[1]	500,000	25 Oct 2006	–	40%	–	60%	30 Jun 2010
	200,000	11 Oct 2007	76%	76%	–	24%	30 Jun 2011
	200,000	16 Oct 2008	–	–	–	100%	N/A
Executives							
A Harrington	3,942,053	29 Jun 2011	–	–	–	–	30 Jun 2014
S Martin	62,500	31 Jul 2007	–	100%	–	–	30 Jun 2010
	125,000	11 Oct 2007	76%	76%	–	24%	30 Jun 2011
J Sweeney	3,942,053	29 Jun 2011	–	–	–	–	30 Jun 2014

1 Resigned effective 6 December 2010.

Analysis of movements in performance rights

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

	Opening balance	Granted in year[1,2]	Vested in year[3]	Lapsed in year[4]	Closing balance
Directors					
O Guglielmi					
Number of Rights	152,000	–	(152,000)	–	–
Value of Rights $	86,868	–	(86,868)	–	–
Executives					
A Harrington					
Number of Rights	–	3,942,053	–	–	3,942,053
Value of Rights $	–	315,365	–	–	315,365
S Martin					
Number of Rights	95,000	–	(95,000)	–	–
Value of Rights $	54,293	–	(54,293)	–	–
J Sweeney					
Number of Rights	–	3,942,053			3,942,053
Value of Rights $	–	315,365			315,365
Other staff					
Number of Rights	14,000	–	(14,000)	–	–
Value of Rights $	9,926	–	(9,926)	–	–
Total					
Number of Rights	261,000	7,884,106	(261,000)	–	7,884,106
Value of Rights $	151,087	630,730	(151,087)	–	630,730

1 The number of performance rights is the number of performance rights granted during the reporting period.

2 The value of performance rights granted in year is their fair value at grant date.

3 The value of performance rights exercised during the year is calculated as the fair value at grant date of those rights exercised during the period.

4 The value of the performance rights that lapsed during the year represents the benefit foregone and is calculated at the date the performance rights lapsed using their fair value at the grant date of these rights. There were no performance rights which lapsed during the current year.

No options have been issued or are on issue.

Notes to the Financial Statements

Continued For the year ended 30 June 2011

Note 7: Key Management Personnel Compensation (continued)

Number of shares held by key management personnel

2011	Balance 1 July 2010	Received as compen-sation	Performance rights exercised	Net change other[1]	Balance 30 June 2011
GR Sladden (appointed 9 March 2011)	–	–	–	416,667	416,667
GJ Paramor (appointed 4 May 2010)	4,730,205	–	–	37,499,999	42,230,204
AH Gurner (appointed 4 May 2010)	1,000,000	–	–	–	1,000,000
KR Strang (appointed 9 March 2011)	–	–	–	–	–
BP Dodwell (appointed 1 April 2010)	–	–	–	489,035	489,035
AJ Harrington (appointed 1 April 2010)	–	–	–	2,916,666	2,916,666
SN Martin	465,698	–	95,000	–	560,698
JW Sweeney (appointed 1 April 2010)	–	–	–	3,332,666	3,332,666
ATL Maitland (resigned 9 March 2011)[2]	971,580	–	–	–	971,580
MW Parkinson (resigned 9 March 2011)[2]	59,190	–	–	–	59,190
KH Dening (resigned 10 February 2011)[2]	107,151	–	–	–	107,151
O Guglielmi (resigned 6 December 2011)[2]	1,879,776	–	152,000	–	2,031,776
AS Cariss (resigned 19 August 2009)[2]	–	–	–	–	–
Total	**9,213,600**	**–**	**247,000**	**44,655,033**	**54,115,633**

2010	Balance 1 July 2009	Received as compen-sation	Performance rights exercised	Net change other[1]	Balance 30 June 2010
GJ Paramor (appointed 4 May 2010)	–	–	–	4,730,205	4,730,205
AH Gurner (appointed 4 May 2010)	–	–	–	1,000,000	1,000,000
SN Martin	107,210	–	62,500	295,988	465,698
ATL Maitland (resigned 9 March 2011)	323,860	–	–	647,720	971,580
MW Parkinson (resigned 9 March 2011)	19,730	–	–	39,460	59,190
KH Dening (resigned 10 February 2011)	35,717	–	–	71,434	107,151
O Guglielmi (resigned 6 December 2011)	426,592	–	200,000	1,253,184	1,879,776
AS Cariss (resigned 19 August 2009)	–	–	–	–	–
Total	**913,109**	**–**	**262,500**	**8,037,991**	**9,213,600**

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

2 For current year the closing balance is held as at the date of departure.

Note 8: Auditors' Remuneration

	Economic entity		Parent entity	
	2011 $	2010 $	2011 $	2010 $
Remuneration of the auditor of the parent entity for:				
auditing or reviewing the financial report	89,763	63,088	86,097	59,588
taxation services	16,732	19,320	14,475	13,125
other – Investigating Accountant's Report	27,000	–	27,000	–

The auditor of Folkestone Ltd is Deloitte Touche Tohmatsu.

Note 9: Earnings Per Share

	Economic entity	
	2011 $'000	2010 $'000
Basic earnings per share		
From continuing operations	(7.5)	(4.6)
From discontinued operations	–	(0.2)
Total basic earnings per share	**(7.5)**	**(4.8)**
Diluted earnings per share		
From continuing operations	(7.5)	(4.6)
From discontinued operations	–	(0.2)
Total diluted earnings per share	**(7.5)**	**(4.8)**

Basic earnings per share

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

	2011 $'000	2010 $'000
Loss attributable to members of the parent entity	(12,221)	(3,495)
Earnings used in the calculation of basic EPS	(12,221)	(3,495)
(Profit)/loss for the year from discontinued operations used in the calculation of basic earnings per share from discontinued operations	(6)	131
Earnings used in the calculation of basic earnings per share from continuing operations	(12,227)	(3,364)

	2011	2010
Weighted average number of ordinary shares for the purposes of basic earnings per share (all measures)	162,060,516	73,576,171

Notes to the Financial Statements

Continued For the year ended 30 June 2011

Note 9: Earnings Per Share (continued)

Diluted earnings per share

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

	2011 $'000	2010 $'000
Loss attributable to members of the parent entity	(12,221)	(3,495)
Earnings used in the calculation of diluted EPS	(12,221)	(3,495)
(Profit)/loss for the year from discontinued operations used in the calculation of diluted earnings per share from discontinued operations	(6)	131
Earnings used in the calculation of diluted earnings per share from continuing operations	(12,227)	(3,364)

	2011	2010
Weighted average number of ordinary shares used in the calculation of basic EPS	162,060,516	73,576,171
Shares deemed to be issued for no consideration in respect of:		
Employee performance rights	–	261,000
Weighted average number of ordinary shares used in the calculation of diluted EPS	162,060,516	73,837,171

Note 10: Cash and Cash Equivalents

	Economic entity		Parent entity	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Cash at bank and in hand	27,276	15,645	26,887	13,077
Deposits at call	–	3	–	–
Total	**27,276**	**15,648**	**26,887**	**13,077**

Reconciliation of cash

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

	Economic entity		Parent entity	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Cash and cash equivalents	27,276	15,648	26,887	13,077
Total	**27,276**	**15,648**	**26,887**	**13,077**

Note 11: Trade and Other Receivables

	Note	Economic entity 2011 $'000	Economic entity 2010 $'000	Parent entity 2011 $'000	Parent entity 2010 $'000
Current					
Trade receivables		219	45	2	40
Amounts due from customers for construction contracts		–	15	–	–
Other receivables		117	1	52	1
Amounts receivable from:					
wholly-owned subsidiaries	31	–	–	19,135	16,935
Allowance for doubtful debts					
Amounts due from customers for construction contracts		–	(15)		–
wholly-owned subsidiaries		–	–	(10,015)	(6,617)
Total		**336**	**46**	**9,174**	**10,359**

Trade receivables disclosed above include amounts (see below for aged analysis) that are past due at the end of the reporting period but against which the Group has not has not recognised an allowance for doubtful receivables because there has not been significant change in credit quality and the amounts are considered recoverable. No collateral is held over these balances.

Trade receivables

Ageing of past due but not impaired

	Economic entity 2011 $'000	Economic entity 2010 $'000	Parent entity 2011 $'000	Parent entity 2010 $'000
Not past due	209	22	–	21
Past due 0-30 days	2	23	2	19
Past 120 days	8	–	–	–
Total	**219**	**45**	**2**	**40**

Note 12: Inventories

	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Current				
Developments in progress	16,597	21,017	–	–
Total	**16,597**	**21,017**	**–**	**–**

Notes to the Financial Statements

Continued For the year ended 30 June 2011

Note 13: Other Current Assets

	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Other assets	663	3	150	1
Total	**663**	**3**	**150**	**1**

Note 14: Shares in Associated Entities

Interests are held in the following associated entities

Name	Principal activities	Country of incorp-oration	Shares	Ownership interest		Carrying amount of investment	
				2011 %	2010 %	2011 %	2010 %
Unlisted:							
Folkestone Docklands Unit Trust[1]	Property Development	Australia	B Class Units	80	80	10	10
Folkestone (Bayside) Pty Ltd[2]	Property Development	Australia	Ordinary shares	20	20	5,421	3,229
Greenvalley Asset Property Trust[3]	Property Development	Australia	Units	25	–	1,567	–
Total						**6,998**	**3,239**

1 Folkestone holds 170,804 (2010: 170,804) of the 213,505 B Class units on issue. These B Class units are for profit sharing entitlements only. Folkestone retains 50 per cent of the voting control and therefore is classified as an associate.

2 Folkestone holds 13,429,502 of the 67,147,510 ordinary shares on issue.

3 The Ranges Holdings Karratha Pty Ltd, a wholly owned subsidiary of Folkestone Ltd, holds 6 of the 24 units on issue. The units were acquired on 3 June 2011. The Ranges Holdings Karratha Pty Ltd holds 50 per cent of the voting control.

	Economic entity	
	2011 $'000	2010 $'000
a. Movements during the year in equity accounted investment in associated entities		
Balance at beginning of the financial year	3,239	2,826
Add: Share of associated company's profit after income tax	3	–
Capital issued	11,771	413
Less: Provision made by consolidated entity for impairment of shares in associated entity	(8,015)	–
Balance at end of the financial year	6,998	3,239
This balance comprises		
Share of net assets in associated entities (b)	14,621	3,239
Provision made by consolidated entity for impairment of shares in associated entity	(8,015)	–
Consideration paid greater than reported carrying value of net assets	392	–
Total	**6,998**	**3,239**

	Economic entity	
	2011 $'000	2010 $'000
b. Summarised presentation of the economic entity's share of aggregate assets, liabilities and performance of associates		
Current assets	24,685	21,136
Total assets	24,685	21,136
Current liabilities	10,064	17,897
Non-current liabilities	–	–
Total liabilities	10,064	17,897
Net assets	14,621	3,239
Revenues	–	3
Profit after income tax of associates	3	–

Ownership interest in Folkestone Docklands Unit Trust was 80 per cent of Issued B Class Units. The reporting date of Folkestone Docklands Unit Trust is 30 June 2011. This reporting date coincides with Folkestone Limited.

Ownership interest in Folkestone (Bayside) Pty Ltd was 20 per cent of issued ordinary shares. The reporting date of Folkestone (Bayside) Pty Ltd is 30 June 2011. This reporting date coincides with Folkestone Limited.

Ownership interest in Greenvalley Asset Property Trust was 25 per cent of issued units. The reporting date of Greenvalley Asset Property Trust is 30 June 2011. This reporting date coincides with Folkestone Limited.

Note 15: Jointly Controlled Operations

The Group's interest, as a venturer, in assets employed in jointly controlled operations is detailed below. The amounts are included in the consolidated financial statements under their respective asset categories.

i) A controlled entity, Folkestone No:1 Pty Ltd has a 50 per cent interest with the Select Property Portfolio Fund No:2 Ltd, in the development of a site at 720-808 Kororoit Creek Road, Altona, which has now been completed.

The economic entity's share of assets employed in the jointly controlled operations is:

	Economic entity	
	2011 $'000	2010 $'000
Current assets		
Cash at bank and on hand	2	3
Total current assets	2	3
Share of total assets of jointly controlled operations	2	3
Net interest in jointly controlled operations	2	3

Notes to the Financial Statements

Continued For the year ended 30 June 2011

Note 15: Jointly Controlled Operations (continued)

ii) A controlled entity, Folkestone No:4 Pty Ltd has a 50 per cent interest with the Select Property Portfolio Fund No:2 Ltd, in the development of a site at 169 Noone Street, Clifton Hill.

The economic entity's share of assets employed in the jointly controlled operations is:

	2011 $'000	2010 $'000
Current assets		
Cash at bank and on hand	214	2,293
Inventories – developments in progress	10,310	12,862
Other current assets	8	5
Total current assets	10,532	15,160
Share of total assets of jointly controlled operations	10,532	15,160
Net interest in jointly controlled operations	7,548	7,299

iii) A controlled entity, Folkestone No:7 Pty Ltd has a 50 per cent interest with the Select Property Portfolio Fund No:2 Ltd, in the development of a site in Millers Road, Altona North.

The economic entity's share of assets employed in the jointly controlled operations is:

	2011 $'000	2010 $'000
Current assets		
Cash at bank and on hand	29	67
Inventories – developments in progress	6,225	8,155
Other current assets	200	-
Total current assets	6,454	8,222
Share of total assets of jointly controlled operations	6,454	8,222
Net interest in jointly controlled operations	2,300	3,718

iv) A controlled entity, Folkestone No:10 Pty Ltd has a 50 per cent interest with Integrated Development in the development of a site in Princes Highway, Officer.

The economic entity's share of assets employed in the jointly controlled operations is:

	2011 $'000	2010 $'000
Current assets		
Inventories – developments in progress	63	–
Other current assets	250	–
Total current assets	313	–
Share of total assets of jointly controlled operations	313	–
Net interest in jointly controlled operations	313	–

Note 16: Other Non-Current Financial Assets

	Economic entity		Parent entity	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Shares in controlled entities at cost	–	–	3,040	1,781
Shares in associated entities at cost	–	–	15,006	3,236
Provision for impairment of financial asset	–	–	(8,015)	–
Total	**–**	**–**	**10,031**	**5,017**

Note 17: Controlled Entities

a. Controlled entities consolidated

		Percentage owned (%)[1]	
	Country of incorporation	2011	2010
Parent entity:			
Folkestone Limited	Australia		
Subsidiaries of Folkestone Limited:			
Folkestone Freeholds Pty Ltd	Australia	100	100
Folkestone Developments Pty Ltd	Australia	100	100
Folkestone Project Management Pty Ltd	Australia	100	100
Fenchurch Pty Ltd	Australia	100	100
Folkestone (EMT) Pty Ltd	Australia	100	100
Folkestone East Melbourne Trust	Australia	100	100
Ceres House Pty Ltd	Australia	100	100
Lionel Road (Vic) Pty Ltd (formerly Access Constructions Pty Ltd)	Australia	100	100
Folkestone (PMD) Pty Ltd	Australia	100	100
Bertie Bridge Pty Ltd	Australia	75	75
Sorrento (VIC) Pty Ltd	Australia	100	100
Folkestone No. 1 Pty Ltd	Australia	100	100
Folkestone No. 2 Pty Ltd	Australia	100	100
Folkestone No. 3 Pty Ltd	Australia	100	100
Folkestone No. 4 Pty Ltd	Australia	100	100
Folkestone No. 5 Pty Ltd	Australia	100	100
Folkestone No. 6 Pty Ltd	Australia	100	100
Folkestone No. 7 Pty Ltd	Australia	100	100
Folkestone No. 8 Pty Ltd	Australia	100	100
Folkestone No. 9 Pty Ltd	Australia	100	100
Folkestone No. 10 Pty Ltd	Australia	100	100
Equity Real Estate Partners Pty Ltd	Australia	100	–
Equity Real Estate Funds Management Pty Ltd	Australia	100	–
Equity Real Estate Services Pty Ltd	Australia	100	–
EREP Quakers Hill Pty Ltd	Australia	100	–
The Ranges Holdings Karratha Pty Ltd	Australia	100	–

1 Percentage of voting power is in proportion to ownership.

Notes to the Financial Statements

Continued For the year ended 30 June 2011

Note 17: Controlled Entities (continued)

b. Acquisition of controlled entities in 2011

During the financial year, Folkestone Ltd acquired the following entities:
Equity Real Estate Partners Pty Ltd
Equity Real Estate Funds Management Pty Ltd
Equity Real Estate Services Pty Ltd
EREP Quakers Hill Pty Ltd
For further information, refer to Note 4.

During the financial year, the following entity was incorporated and Folkestone Limited owns 100 per cent of the issued shares:

	Date of incorporation
The Ranges Holdings Karratha Pty Ltd	18 April 2011

Note 18: Property, Plant and Equipment

	Economic entity		Parent entity	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Plant and equipment				
Plant and equipment:				
At cost	547	142	131	142
Accumulated depreciation and impairment	(113)	(124)	(52)	(124)
Total property, plant and equipment	**434**	**18**	**79**	**18**

Movements in carrying amounts

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

	Economic entity		Parent entity	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Opening balance of plant and equipment at cost	142	740	142	387
Opening balance of accumulated depreciation	(124)	(565)	(124)	(347)
Opening balance of impairment losses	–	(135)	–	–
Additions at cost	81	2	73	2
Additions through acquisitions	382	–	–	–
Disposals at cost	(89)	(600)	(84)	(247)
Accumulated depreciation eliminated on disposal	83	449	82	231
Reversal of impairment losses	–	135	–	–
Depreciation expense	(41)	(8)	(10)	(8)
Carrying amount at the end of year	**434**	**18**	**79**	**18**

Note 19: Goodwill

	Note	Economic entity 2011 $'000	Economic entity 2010 $'000	Parent entity 2011 $'000	Parent entity 2010 $'000
Goodwill					
At cost		1,225	–	–	–
Total goodwill		**1,225**	**–**	**–**	**–**
Goodwill					
Balance at the beginning of year		–	–	–	–
Acquisitions through business combinations	4	1,225	–	–	–
Balance at the end of year		**1,225**	**–**	**–**	**–**

In accordance with the accounting standards, the carrying value of goodwill is assessed at least annually or whenever there is an indication that the goodwill may be impaired.

Acquisitions through business combinations

The acquisition of EREP resulted in goodwill of $1.225 million being generated as part of the acquisition. The acquisition of EREP took place on 1 April 2011, in accordance with approvals received at the general meeting of shareholders held on 9 March 2011.

The goodwill arising on acquisition is attributable to:

- expansion of Folkestone's existing business to include a funds management platform which is expected to provide additional revenue streams and potential access to external sources of capital;
- the appointment of an experienced management team with proven real estate and funds management experience; and
- an Australian Financial Services Licence (AFSL: 340 990) which permits it to carry on a financial services business to provide certain general financial product advice and provide certain custodial and depository services to wholesale and retail clients.

The carrying value of goodwill has been reviewed for impairment at 30 June 2011 using the market value approach and no impairment loss has been recognised as the transaction was recently completed in April 2011, and the consideration paid by Folkestone for EREP reflected the market value of EREP.

Note 20: Trade and Other Payables

	Economic entity 2011 $'000	Economic entity 2010 $'000	Parent entity 2011 $'000	Parent entity 2010 $'000
Trade payables[1]	683	969	101	162
Sundry payables and accrued expenses	762	279	288	120
Total	**1,445**	**1,248**	**389**	**282**

1 Trade payables are non interest bearing liabilities. Trade creditor payments are generally processed 21 days from the end of the month of invoice.

Notes to the Financial Statements

Continued For the year ended 30 June 2011

Note 21: Short-term Borrowings

	Note	Economic entity 2011 $'000	Economic entity 2010 $'000	Parent entity 2011 $'000	Parent entity 2010 $'000
Current					
Unsecured liabilities					
Advances from related entities	31	–	–	3,505	3,591
Sub Total		**–**	**–**	**3,505**	**3,591**
Secured liabilities					
Bills payable	21a,b,c	6,568	11,688	–	–
Sub Total		**6,568**	**11,688**	**–**	**–**
Total		**6,568**	**11,688**	**3,505**	**3,591**
a. The carrying amounts of current assets pledged as security are:					
Bills payable are secured by freehold land and buildings (developments in progress) in Australia and a mortgage debenture over the assets of the borrowing entity. In some instances a guarantee is also provided by Folkestone Limited (refer Note 27).		16,597	21,017	–	–
Total		**16,597**	**21,017**	**–**	**–**

b. Bills payable

Prevailing interest rates at 30 June 2011 on bills drawn range from 6.97 per cent - 7.41 per cent (2010: 7.01 per cent - 7.15 per cent) including margins. The total bill facility available at 30 June 2011 was $11.375 million (2010: $17.838 million) and subject to continuing compliance with the specific conditions of the facility for each project, the bill facilities may be drawn at any time and have an expiry in line with each specific project. Bill facilities are specific to each project and the total bill facility available represents the Group's share of these facilities. As new projects are secured, further bill facilities will be acquired.

c. Maturity and classification of bills payable

- The finance facility in respect of the project at 300 Millers Road, Altona North expires on 30 November 2011. Subsequent to year end the joint venture has accepted a proposal to extend the facility until 30 November 2012.
- The finance facility in respect of the project at Noone Street, Clifton Hill expires on 31 December 2011.
- The borrowings have been classified as current to align with the classification of inventory to which the borrowings relate and as at reporting date all finance facilities were due to expire within 12 months.

Note 22: Tax

	Economic entity		Parent entity	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
a. Assets				
Current				
Income tax	–	12	–	21
Total	**–**	**12**	**–**	**21**
b. Liabilities				
Current				
Income tax	1	–	–	–
Total	**1**	**–**	**–**	**–**
c. Unrecognised deferred tax assets				
Deferred tax assets not recognised at reporting date				
Temporary differences	4,454	907	3,067	244
Total	**4,454**	**907**	**3,067**	**244**

A deferred tax asset has not been recognised in respect of this item because it is not probable that future taxable profits will be available against which the consolidated entity can utilise the benefits.

Note 23: Provisions

	Economic entity		Parent entity	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Current				
Employee benefits				
Provision for annual leave	54	56	43	56
Total current provisions	**54**	**56**	**43**	**56**
Non-current				
Employee benefits				
Provision for long service leave	40	–	32	–
Total non-current provisions	**40**	**–**	**32**	**–**
Analysis of total provisions				
Current	54	56	43	56
Non-current	40	–	32	–
Total	**94**	**56**	**75**	**56**

Notes to the Financial Statements

Continued For the year ended 30 June 2011

Note 24: Issued Capital

	Economic entity		Parent entity	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
370,836,124 (2010: 99,438,228) fully paid ordinary shares of no par value	58,970	28,271	58,970	28,271
Total	**58,970**	**28,271**	**58,970**	**28,271**

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

	2011		2010	
	Shares '000	$'000	Shares '000	$'000
Ordinary shares				
At the beginning of reporting period	99,438	28,271	31,439	19,326
Shares issued during the year				
– Exercise of Performance Rights	261	–	362	–
– Share placement (a)	208,334	25,000	54,667	8,200
Less: share issue costs	–	(1,190)	–	(681)
– Acquisition of Equity Real Estate Partners (b)	8,333	1,000		
– Prospectus (c)	54,470	6,538	12,970	1,556
Less: share issue costs	–	(649)	–	(130)
At reporting date	**370,836**	**58,970**	**99,438**	**28,271**

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

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

a) On 31 March 2011, Folkestone completed a placement of 208,333,334 shares issued at an issue price of 12 cents per share to institutional and sophisticated investors in accordance with the shareholder approvals received at the 9 March 2011 General Meeting of Shareholders.

b) On 31 March 2011, Folkestone issued 8,333,332 shares in consideration for the acquisition of Equity Real Estate Partners Pty Ltd in accordance with the shareholder approvals received at the 9 March 2011 General Meeting of Shareholders.

c) On 10 May 2011, Folkestone issued 54,470,230 shares at an issue price of 12 cents per share pursuant to the prospectus dated 11 April 2011.

Franking account	Economic entity/Parent entity	
	2011 $'000	2010 $000
Balance of franking account at year end	10,545	10,529
Adjusted for franking credits arising from:		
– payment/(refund) of provision for income tax	1	(21)
Total	**10,546**	**10,508**

Note 25: Reserves

	Economic entity		Parent entity	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
At the beginning of the reporting period	383	345	383	345
Net performance rights (forfeited)/granted	(14)	38	(14)	38
At the reporting date	**369**	**383**	**369**	**383**

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

Note 26: Capital and Leasing Commitments

	Economic entity		Parent entity	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
a. Operating lease commitments				
Non-cancellable operating leases contracted for but not capitalised in the financial statements				
Payable – minimum lease payments				
– not later than 12 months	172	77	21	77
– between 12 months and 5 years	663	–	74	–
Total	**835**	**77**	**95**	**77**
b. Group's share of associated entities capital commitments				
– not later than 12 months	9,657	–	–	–
Total	**9,657**	**–**	**–**	**–**

The Group has the following lease commitments:

1 Level 9, 350 Collins Street, Melbourne which expires on 1 June 2014. Rent is payable monthly in advance with 4 per cent per annum fixed increases on the anniversary date.

2 Level 10, 60 Carrington Street, Sydney which expires on 1 Feb 2016. Rent is payable monthly in advance with 4 per cent per annum fixed increases on the anniversary date. The Group has sub-let approximately 37 per cent of this office space to a sub-tenant.

The Group has the following capital commitments:

1 A controlled entity, Folkestone No. 10 Pty Ltd has a 50 per cent interest with Integrated Development in the development of a site in Princes Highway, Officer. Under the terms of the transaction, settlement of the land is subject a number of special conditions including the re-zoning of the land, and rezoning is anticipated to occur in late 2011.

2 As part of the joint venture agreement for the Officer project, a controlled entity, Folkestone No. 10 Pty Ltd, has a loan agreement with ID Princess Highway Pty Ltd, the joint venture partner, for a maximum amount of $2.020 million excluding capitalised interest.

3 As part of Folkestone's investment in the Karratha project, a controlled entity, The Ranges Karratha Pty Ltd, has an Equity Investment Agreement with the Greenvalley Asset Trust for a maximum amount of $2 million excluding capitalised interest.

Notes to the Financial Statements

Continued For the year ended 30 June 2011

Note 27: Contingent Liabilities

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

- Noone St Clifton Hill Pty Ltd – Folkestone Limited has a 50 per cent interest in the development of 169 Noone Street, Clifton Hill. Folkestone Limited has provided a guarantee in favour of St George Bank in relation to a loan facility for $14.450 million (drawn to 30 June 2011: $4.836 million) for this development. 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 per cent of the loan. Folkestone's joint venture partner, SPP No 2, has provided a limited undertaking of $2.25 million to Folkestone Limited in respect of the guarantee and indemnity provided to St George Bank.
- Millers Road (Altona) Pty Ltd – Folkestone Limited has a 50 per cent interest in the development of land at 300 Millers Road, Altona North. Folkestone Limited has provided a guarantee in favour of St George Bank in relation to a loan facility for $8.3 million (drawn to 30 June 2011: $8.3 million) for this development. The loan facility has recently been extended to 30 November 2012. As part of the security for the facility, Folkestone Limited has provided St George Bank with an unlimited guarantee and indemnity for 100 per cent of the loan. Folkestone's joint venture partner, SPP No 2, has provided a limited undertaking of $4.5 million to Folkestone Limited in respect of the guarantee and indemnity provided to St George Bank.
- Bertie Bridge Pty Ltd – Folkestone Limited owns 75 per cent 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.

Each of the above contingent liabilities have been reviewed to determine whether they meet the definition of a financial guarantee contract as defined under AASB 139. The company has determined that there is no value attributable to the financial guarantees disclosed in this note. In assessing the liability arising from the financial guarantee contracts, the following have been considered:

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

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

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

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

Note 28: Segment Reporting

The economic entity's reportable segments under AASB 8 are Property Development and Funds Management.

In prior periods, the economic entity also operated a Construction division which was reported as a separate segment under AASB 8. That operation was discontinued with effect from 1 July 2009 (see Note 5).

	Segment revenue		Segment profit	
	30 June 2011 $'000	30 June 2010 $'000	30 June 2011 $'000	30 June 2010 $'000
Continuing operations				
Property development	7,472	2,925	(10,256)	(484)
Funds management	33	–	33	–
Sub Total	**7,505**	**2,925**	**(10,223)**	**(484)**
Other revenue	–	–	724	–
Administration costs	–	–	(2,725)	(1,944)
Loss before income tax	–	–	(12,224)	(2,428)
Discontinued operations				
Construction	45	152	45	(86)
Sub Total	**45**	**152**	**45**	**(86)**
Administration costs	–	–	(39)	(95)
(Loss)/profit before income tax	–	–	6	(181)
Income tax (expense)/credit (continuing and discontinued operations)	–	–	(2)	(868)
Consolidated segment revenue and profit for the year	**7,550**	**3,077**	**(12,220)**	**(3,477)**

Notes to the Financial Statements

Continued For the year ended 30 June 2011

Note 29: Notes to the Cash Flow Statement

	Economic entity		Parent entity	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
a. Reconciliation of profit for the period to net cash flows from operations				
Loss after income tax	(12,220)	(3,477)	(12,897)	(5,404)
Non-cash flows in profit				
Amortisation and depreciation	41	24	10	24
Expensing of performance rights	(14)	38	(14)	38
Inter-company dividends and distributions	–	–	–	(1,569)
Provision for doubtful debts	–	–	3,397	5,213
Unused tax losses of the members expensed by the parent entity	–	–	–	599
Impairment of interest held in associated entities	8,015	–	8,015	–
(Increase)/decrease in trade and other receivables	(290)	955	(13)	(30)
(Increase)/decrease in other operating assets	(612)	12	(149)	–
(Increase)/decrease in inventories	4,420	(2,684)	–	–
Increase/(decrease) in trade and other payables	(196)	(802)	107	78
(Increase)/decrease in income taxes receivable	13	470	21	494
(Increase)/decrease in deferred tax assets	–	865	–	475
Increase/(decrease) in provisions	17	(142)	19	–
Net cash used in operations	**(826)**	**(4,741)**	**(1,504)**	**(82)**
b. Credit standby arrangements with banks				
Bank loan facilities	11,375	17,838	–	–
Amount utilised	(6,568)	(11,688)	–	–
Amount available	**4,807**	**6,150**	**–**	**–**

The major facilities are summarised as follows:

Bill facility

Prevailing interest rates at 30 June 2011 on bills drawn range from 6.97 per cent - 7.41 per cent (2010: 7.01 per cent - 7.15 per cent) including margins. The total bill facility available at 30 June 2011 was $11.375 million (2010: $17.838 million) and subject to continuing compliance with the specific conditions of the facility for each project, the bill facilities may be drawn at any time and have an expiry in line with each specific project. Bill facilities are specific to each project and the total bill facility available represents the Group's share of these facilities. As new projects are secured, further bill facilities will be acquired.

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

c. Non-cash transactions

During the 2011 financial year, the Group entered into the following non-cash investing activity which is not reflected in the Statement of Cash Flows:

- On 1 April 2011 the Group acquired the share capital of Equity Real Estate Partners Pty Ltd, Equity Real Estate Services Pty Ltd, Equity Real Estate Funds Management Pty Ltd and Equity Real Estate Quakers Hills Pty Ltd. The consideration included the issue of 8,333,332 shares at a fair value of 12 cents per share.

Note 30: Events After Balance Date

The finance facility in respect of the project at 300 Millers Road, Altona North expires on 30 November 2011.
On 29 July 2011, the joint venture accepted an offer from St George Bank to extend this facility until 30 November 2012.

Note 31: Related Party Transactions

Controlling entity

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

Wholly-owned group

The wholly-owned group consists of Folkestone Limited and its wholly-owned controlled entities. Ownership interests in these controlled entities are set out in Note 17.

Transactions between Folkestone Limited and other entities in the wholly-owned group during the years ended 30 June 2011 and 2010 consisted of:

a) loans advanced by Folkestone Limited;

b) loans repaid to Folkestone Limited;

c) the payment of dividends and distributions to Folkestone Limited; and

d) transactions between Folkestone Limited and its wholly-owned Australian controlled entities under the accounting tax funding agreement described in Note 1(b).

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

	Economic entity		Parent entity	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Total amounts receivable from and payable to related parties in the wholly-owned group at balance date were as follows:				
Current receivables	–	–	19,134,501	16,935,008
Allowance for doubtful receivables	–	–	(10,014,972)	(6,617,478)
Net current receivables	–	–	9,119,529	10,317,530
Current borrowings	–	–	3,504,927	3,591,146

The above transactions between the parent entity and its controlled entities consist of funds transferred for day to day financing of the group's activities which include real estate investment, development and funds management which result in inter-entity receivables and payables. Such balances are unsecured and interest free. The inter-entity receivables and payables are eliminated upon consolidation of the economic entity.

An expense of $3,397,494 (2010: 5,213,057) was recognised by the parent entity during the period for doubtful debts in respect of certain amounts loaned to wholly owned entities for real estate development and working capital purposes. This expense is eliminated upon consolidation of the economic entity.

Notes to the Financial Statements

Continued For the year ended 30 June 2011

Note 31: Related Party Transactions (continued)

Other related parties

Other related parties include investment in associates as set out in Note 14 and interests in joint venture operations as set out in Note 15.

Transactions between Folkestone Limited and other related parties during the years ended 30 June 2011 and 2010 consisted of:

a) loans advanced by Folkestone Limited;

b) loans repaid to Folkestone Limited; and

c) the payment of arms length Project Management Fees to Folkestone Limited as per formal agreements with joint venture partners.

	Economic entity		Parent entity	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Income from joint ventures and associated entities				
Project management fees	86	207	86	207
Total amounts receivable from, and payable to, joint ventures and associated entities at balance date:				
Current receivables:				
Trade receivables	–	38	–	38
Loans	1	2	1	2
Total current receivables	**1**	**40**	**1**	**40**

Transactions with Directors

1. On 9 March 2011, shareholders approved the acquisition of Equity Real Estate Partners, an entity associated with Mr Greg Paramor. Following the receipt of shareholder approval and the satisfaction of a number of conditions precedent, the acquisition was completed on 1 April 2011 for $258,286 in cash and the issue of 8,333,332 Folkestone shares at a deemed issue price of 12 cents per share.

   Mr Paramor and his associates were excluded from the shareholder vote.

2. On 9 June 2011, Folkestone announced that it had acquired a 50 per cent interest in a residential property project in Officer (Officer Transaction), Victoria for $383,490. The acquisition was from an entity associated with Mr Paramor, Mr Sweeney and Mr Harrington. This entity originally entered into contracts for a 50 per cent interest in the Officer Transaction in February 2011 with the intention that this 50 per cent interest would be offered to Folkestone to acquire at cost. The acquisition was only offered to Folkestone following the shareholders of Folkestone approving the acquisition of Equity Real Estate Partners and was subject to the approval of the independent non-executive directors of the Folkestone Board.

   The independent non-executive directors met to consider the Officer Transaction and determined that it was in the best interests of Folkestone to acquire the 50 per cent interest and that the price to be paid by Folkestone to acquire the 50 per cent interest in the Officer Transaction was at cost and was commensurate with current market conditions.

   In accordance with the Company's related party transaction and conflicts of interest policy, Mr Paramor, Mr Sweeney and Mr Harrington were excluded from the discussions and subsequent approval of this acquisition by the independent non-executive directors.

Note 32: Financial Instruments

The Group holds non derivative financial instruments comprising trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The directors consider that the carrying amounts of financial assets and liabilities recorded in the financial statements approximate their fair values.

The company and the Group have exposure to the following risks from the use of financial instruments:

- credit risk.
- market risk.
- liquidity risk.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established an Audit and Risk Management Committee, which is responsible for developing and monitoring risk management plans.

Procedures are in place to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to budgets. Risk management plans and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. In order to maintain or adjust the capital structure, the Board may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

Gearing is a measure used to monitor levels of debt capital used by the Group to fund its operations. This ratio is calculated as net debt divided by total assets. The gearing ratios at year end were as follows:

Notes to the Financial Statements

Continued For the year ended 30 June 2011

Note 32: Financial Instruments (continued)

	Economic entity		Parent entity	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Debt	6,568	11,688	–	–
Cash and Cash Equivalents	(27,276)	(15,648)	(26,887)	(13,077)
Net Debt	(20,708)	(3,960)	(26,887)	(13,077)
Equity (Parent interest)	45,420	26,956	42,352	24,564
Net debt to equity ratio	–46%	–15%	–63%	–53%

The above analysis does not take into account Folkestone's share of debt in respect of the Mickleham and Karratha projects as these investments are disclosed on the face of the statement of financial position as an investment in an associated entity.

Allowing for Folkestone's share of these projects debt, the debt for the economic entity for the current year would increase to $16.4 million (2010:$29.5 million) and net debt would increase to $(11.0) million (2010: $13.9 million), reflecting a net debt to equity ratio of -24 per cent (2010: 52 per cent). It should be noted that both the Mickleham and Karratha debt facilities are non-recourse to Folkestone.

The Group looks to fund each of their developments with a mix of debt and equity and ensures that each project is not over geared.

Debt is project specific and facilities are secured for a term that allows the development of the property. Where possible non-recourse or limited recourse borrowings are sought from financiers.

The Group does not have a defined share buy-back plan.

There were no changes in the Group's approach to capital management during the year.

b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer fails to meet its contractual obligations, and arises principally from the Group's trade and other receivables.

The Group's maximum exposure to credit risk is based on the recorded amounts of our financial assets, net of any allowance for losses.

For further information regarding trade and other receivables refer to note 11.

c) Market risk

Market risk is the risk that changes in market prices will affect the Group's income or the value of its holdings of financial instruments. The Group's activities expose it primarily to the financial risk of changes in market interest rates. Bills payable which have a variable interest rate attached give rise to cash flow interest rate risk.

The Group manages interest rate risk by:

- Interest rate hedging where appropriate.
- Securing loan facility terms of a medium to long term nature which match the anticipated development life cycle and cash flow profile of each project.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures risk from the previous period.

The company and the Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Sensitivity Analysis

A change in interest rates at the reporting date would not have a material impact on profit or loss or equity in the current period.

d) Liquidity risk

Liquidity risk is the risk that Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, based on an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Note 29(b) details additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

The contractual maturities of our financial liabilities are shown below. The amounts presented represent the future undiscounted principal and interest cash flows relating to the amounts drawn at reporting date. The amounts presented do not include the financial guarantees provided for the Millers Road, Altona North and Noone Street, Clifton Hill projects as disclosed in Note 27, as the company has reviewed and determined that there is no value attributable to the financial guarantees provided.

Economic entity	Weighted average effective interest rate %	Less than 3 months $'000	3 months to 1 year $'000	1-5 years $'000
2011				
Non-interest bearing trade and other payables	–	1,283	–	–
Variable interest rate instruments	7.07%	116	7,037	–
Total	**–**	**1,399**	**7,037**	**–**
2010				
Non-interest bearing trade and other payables	–	1,248	–	–
Variable interest rate instruments	7.09%	207	12,126	–
Total	**–**	**1,455**	**12,126**	**–**

Parent entity	Weighted average effective interest rate %	Less than 3 months $'000	3 months to 1 year $'000	1-5 years $'000
2011				
Non-interest bearing trade and other payables	–	227	–	–
Non-interest bearing loans to subsidiaries	–	–	3,505	–
Total	**–**	**227**	**3,505**	**–**
2010				
Non-interest bearing trade and other payables	–	282	–	–
Non-interest bearing loans to subsidiaries	–	–	3,591	–
Total	**–**	**282**	**3,591**	**–**

Folkestone Limited and its Controlled Entities

Directors' Declaration

For the year ended 30 June 2011

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

(a) the financial statements and notes set out on pages 38 to 83, are in accordance with the *Corporations Act 2001*, and:

(i) give a true and fair view of the financial position of the company and the economic entity as at 30 June 2011 and of their performance for the financial year ended on that date;

(ii) comply with Australian Accounting Standards and the Corporations Regulations 2001; and

(iii) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 1 to the financial statements.

(b) the Managing Director and Chief Financial Officer have declared that:

(i) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;

(ii) the financial statements and notes for the financial year comply with the Accounting Standards; and

(iii) the financial statements and notes for the financial year give a true and fair view.

(c) in the directors' opinion, there are reasonable grounds to believe that the company and the controlled entities identified in Note 17 will be able to pay their debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors pursuant to S.295(5) of the *Corporations Act 2001*.

Garry Sladden	**Greg Paramor**
Chairman	**Director**

Sydney
24 August 2011

ASX Additional Information

The shareholder information set out below was applicable as at 13 September 2011:

A Distribution of Equity Securities

Analysis of number of equity security holders by size of holding

	Ordinary Shares
1 – 1,000	63
1,001 – 5,000	115
5,001 – 10,000	98
10,001 – 100,000	414
100,001 and over	354
Total	**1,044**

There were 188 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
GJP Investments Pty Ltd	38,063,538	10.26
HSBC Custody Nominees (Australia) Pty Ltd	27,467,978	7.41
National Nominees Limited	20,969,572	5.65
JP Morgan Nominees Australia Limited	16,162,471	4.36
JP Morgan Nominees Australia Limited	13,696,510	3.69
Wilbow Group Pty Ltd	8,647,477	2.33
Perron Investments Pty Ltd	8,333,333	2.25
FDC Construction & Fitout Pty Ltd	8,333,333	2.25
Mr Peter Vogliotti	8,333,333	2.25
UBS Nominees Pty Ltd	4,500,000	1.21
Langburgh Pty Ltd	4,300,000	1.16
Para-Ere Holdings Pty Ltd	4,166,666	1.12
RBC Dexia Investor Services Australia Nominees Pty Ltd	4,166,666	1.12
Seaspin Pty Ltd	4,166,666	1.12
Quality Life Pty Ltd	4,166,666	1.12
Paval Superannuation Pty Ltd	4,165,000	1.12
Froth Pty Ltd	3,341,410	0.90
Kimbar Nominees Pty Ltd	3,333,333	0.90
Filetron Pty Ltd	3,333,333	0.90
Development Management & Constructions Pty Ltd	3,333,333	0.90
Total	**192,980,618**	**52.04%**

C Substantial Holders

Substantial holders in the company are set out below

	Number Held	% of issued Shares
GJP Investments Pty Ltd & Associated Entities	42,230,204	11.39
BT Management Investment Limited	22,916,666	6.18
National Nominees Limited	19,448,921	5.24

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.

Folkestone

Directory

Directors
Garry R Sladden (Chairman)
Gregory J Paramor (Managing Director)
A Hugh Gurner
K Ross Strang

Chief Financial Officer & Company Secretary
Scott N Martin

Registered Office
Level 9, 350 Collins Street
Melbourne Victoria 3000

Share Registry
Link Market Services Limited
Level 1, 333 Collins Street
Melbourne Victoria 3000

Auditor
Deloitte Touche Tohmatsu
550 Bourke Street
Melbourne Victoria 3000

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

Website
www.folkestone.com.au