Folkestone

ANNUAL REPORT
2017

CONTENTS

DIRECTORS' REPORT

FOLKESTONE LIMITED AND ITS CONTROLLED ENTITIES

For the year ended 30 June 2017

The Directors present their report together with the financial report of Folkestone Limited ('the Company') and of the consolidated entity, being the Company and its controlled entities, for the financial year ended 30 June 2017 and the Auditor's Report thereon.

A. DIRECTORS

The following persons have been Directors of Folkestone Limited since the start of the financial year to the date of this report unless otherwise stated:

- Garry R Sladden (B.Bus, CPA, FINSA)
- Mark W Baillie (B.Com, CA)
- Gregory J Paramor, AO (FAPI, FAICD, FRICS)
- K Ross Strang (LLB (HONS), MAICD)

B. COMPANY SECRETARY

The following person held the position of Company Secretary at the end of the financial year: Scott N Martin (B.Com, CA) was appointed as Company Secretary and Chief Financial Officer of Folkestone Ltd on 10 December 2005.

C. REVIEW OF BOARD PERFORMANCE

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

D. ABOUT FOLKESTONE - PRINCIPAL ACTIVITIES

Folkestone is an ASX listed real estate funds management and developer which listed on the ASX on 14 June 2000.

Folkestone's funds management platform offers listed and unlisted funds to private clients and select institutional investors. Folkestone's on-balance sheet activities focus on value-add and opportunistic real estate investments.

E. DIVIDENDS

On 27 September 2016, the Company paid a final dividend of 2.5 cents per share fully franked at the rate of 30 per cent in respect of the year ended 30 June 2016.

There was no interim dividend paid during the year.

Consistent with the announcement made on 25 July 2017, the Board is pleased to announce that on 24 August 2017 it has resolved to pay a final ordinary dividend in respect of the year ended 30 June 2017 of 2.75 cents per share fully franked at the rate of 30 per cent. In addition to the ordinary dividend, the Board has resolved to pay a special dividend of 0.5 cents per share fully franked in recognition of the larger than forecast rezoning fee received in respect of the Wollert development project. The dividends will be paid on 27 September 2017.

The financial effect of these dividends has not been brought to account in the financial statements for the year ended 30 June 2017 and will be recognised in subsequent financial reports.

The Company has a Dividend Re-Investment plan (DRP) in place, however the Board has resolved that the DRP will remain suspended until further notice.

F. REVIEW OF OPERATIONS

FULL YEAR RESULT

The statutory net profit after tax (NPAT) attributable to members of the parent entity for the year ended 30 June 2017 was $13.4 million (2016: $5.5 million), a 146.1 per cent increase compared to the prior period. This represents statutory basic earnings per share (EPS) of 9.1 cents (2016: 3.7 cents).

The normalised NPAT attributable to members of the parent entity for the year ended 30 June 2017 was $9.4 million (2016: $5.0 million), an 86.7 per cent increase compared to the prior period. This represents normalised EPS of 6.3 cents (2016: 3.4 cents).

Normalised NPAT is the reported NPAT adjusted for non-recurring significant items. The table below provides a reconciliation between statutory NPAT and normalised NPAT.

The current year result includes the following material items:

- $7.6 million of recurring fee income and cost recoveries generated from funds management;
- $4.4 million in distributions from Folkestone's holding in the Folkestone Education Trust (ASX: FET);
- a $0.8 million performance fee in respect of the Oxley Fund;

Reconciliation of Statutory NPAT and Normalised NPAT Attributable to Folkestone

	2017	2016
Statutory NPAT ($m)	13.4	5.5
Adjustments		
Wollert Rezoning Fee Outperformance	(5.8)	-
Due Diligence Costs on Transactions Not Proceeding ($m)	-	0.8
Realised Gain on Investments ($m)	-	(1.4)
Tax Impact of the Above ($m)	1.7	0.2
Normalised NPAT ($m)	9.4	5.0

Note: numbers may not add up due to rounding

- a $8.8 million rezoning fee in respect of the Wollert development project being undertaken in joint venture with ID_Land - $5.8 million above budget;
- a $4.3 million profit contribution from Folkestone's 51 per cent interest in the Millers Junction Business project at Altona North, Victoria;
- a $1.8 million profit contribution from Folkestone's 50 per cent interest in the Northside project at Officer, Victoria;
- a $1.4 million profit contribution from Folkestone's 50 per cent interest in the Industria project at Knoxfield, Victoria;
- ($1.0) million share of the expensing of development costs in respect of the South Dural project in New South Wales; and
- ($0.6) million impairment provision against the Company's investment in the Karratha project.

In addition to the reported statutory NPAT, Folkestone also generated an unrealised gain on its investment in FET of $3.7 million ($2.6 million net of tax) compared to an unrealised gain of $16.9 million ($11.8 million net of tax) in the prior year.

The prior period result included the following material items:

- $6.3 million of recurring fee income and cost recoveries generated from funds management;
- $4.2 million in distributions from Folkestone's holding in FET;
- a $1.1 million debt establishment fee in respect of the FET debt facility re-finance;
- a $1.2 million realised profit on the sale of 1.2 million FET units;
- a $4.9 million profit contribution from the West Ryde project comprising a $3.2 million share of development profits net of fund administration costs and a $1.6 million performance fee payable by the Fund to Folkestone;
- a $0.5 million profit contribution from Folkestone’s 50 per cent interest in the Potters Grove project at Officer;
- ($1.2) million impairment provision against the Company's investment in the Karratha project; and
- ($1.2) million in due diligence costs on new project opportunities.

ASSET BACKING

Folkestone’s net asset value (NAV) was $1.08 per share at 30 June 2017 (2016: 98.9 cents per share), an 8.7 per cent increase compared to the prior period. Net tangible asset (NTA) backing was $1.04 per share at 30 June 2017 (2016: 93.6 cents per share), an 11.2 per cent increase compared to the prior period.

FINANCIAL CONDITIONS

As at the date of this report, Folkestone and its associated entities are in full compliance with all of its debt facilities and have sufficient liquidity to fund all of its commitments. The following is a high level summary of each facility:

- ANZ Corporate Facility - During the current reporting period, the corporate facility was extended for a further two years until December 2019. The new facility limit is $25.0 million and was drawn to $7.5 million as at 30 June 2017.
- Millers Junction Business, Altona North - The finance facility with the Bank of Melbourne in respect of the Millers Junction Business project has been fully repaid during the current reporting period.
- Millers Junction Stage 3, Altona North - The finance facility with Bank of Melbourne in respect of the Millers Junction Stage 3 land is for a facility of $2.1 million and is fully drawn as at 30 June 2017. The Stage 3 facility is secured by the Stage 3 land only and has an expiry date of 26 June 2018. Folkestone has provided Bank of Melbourne with an unlimited guarantee and indemnity in respect of the Stage 3 facility.
- The Ranges, Karratha - The drawn balance on the St George Bank finance facility for the Karratha project at 30 June 2017 was $2.6 million. The facility was extended during the current reporting period and now has an expiry date of 28 February 2018. Folkestone has a 30 per cent interest in the project, however there is no recourse to Folkestone in respect of this project facility.
- Elements, Truganina - In respect of the Elements land sub-division project at Truganina in which the Folkestone Truganina Development Fund has an 80 per cent interest in the joint venture and Folkestone holds 18.76 per cent of the units in the Fund, the ANZ Bank has provided the joint venture with a $26.2 million development facility (drawn to $2.9 million at 30 June 2017) and a $13.2 million land facility (drawn to $13.2 million at 30 June 2017). The development facility expires in May 2018 and the land facility expires in December 2017. There is no recourse to Folkestone in respect of the development facility however, Folkestone Limited has provided the ANZ Bank with a guarantee and indemnity limited to $10.6 million plus costs in respect of the land facility. The mezzanine loan provided by the Folkestone Truganina Development Fund to the project, drawn to $4.1 million at 30 June 2016, has been repaid from sales proceeds during the current period.
- Northside, Officer - In respect of the Northside residential land project at Officer in which Folkestone has a 50 per cent interest, the Bank of Melbourne has provided the joint venture with a $2.1 million facility for this project with an expiry date of March 2018. The balance drawn on the facility as at 30 June 2017 was nil. The Company has provided Bank of Melbourne with a guarantee and indemnity limited to $2.0 million

F. REVIEW OF OPERATIONS CONT.

plus costs in respect of this project facility.

- Industria, Knoxfield - In respect of the Industria, Knoxfield project in which Folkestone has a 50 per cent interest, the Bank of Melbourne has provided the joint venture with a $5.5 million facility for the development of Stage 2 of the project. The facility has an expiry date of June 2018 and was drawn to $1.0 million as at 30 June 2017. Folkestone has provided the Bank of Melbourne with a guarantee and indemnity limited to $2.0 million plus costs in respect of this facility.
- Industria, Nunawading - In respect of the Industria, Nunawading project in which Folkestone has a 50 per cent interest, the Commonwealth Bank of Australia (CBA) has provided the joint venture with a $15.0 million facility for the development of the project. The facility has an expiry date of August 2018 and was drawn to $3.7 million as at 30 June 2017. Folkestone has provided CBA with a guarantee and indemnity limited to $4.2 million plus costs in respect of this facility.
- FLK-Lyon Hornsby Joint Venture - In respect of the Hornsby residential project in north-west Sydney in which Folkestone has a 50 per cent interest, the Bank of Melbourne has provided a $5.4 million facility to assist with the acquisition of three small mixed use retail and office properties. The loan was fully drawn as at 30 June 2017 and has an expiry date of January 2019.

Information in relation to cash flows from operations is contained in the Statement of Cash Flows on page 41 and the associated notes.

FUNDS MANAGEMENT DIVISION

Folkestone's funds management division is a specialist real estate funds manager for private clients and select institutional investors. During the reporting period, Folkestone increased its funds under management from $1.1 billion to $1.3 billion.

Total funds management revenue was $17.0 million up 7.3 per cent on FY16.

Key features of the FY17 result are:

- 20.2 per cent increase in recurring fee income and cost recoveries to $7.6 million;
- 44.5 per cent increase in transaction fees to $3.2 million inclusive of a $0.6 million acquisition fee in respect of the Folkestone Seniors Living Fund No.1 and a $0.9 million acquisition fee in respect of the Folkestone Wollert Development Fund;
- a $0.8 million performance fee in respect of the Oxley fund upon sale of the property; and
- 3.7 per cent increase in distributions from FLK's co-investment in the ASX listed Folkestone Education Trust to $4.4 million.

Folkestone Education Trust

The ASX listed Folkestone Education Trust (ASX:FET) continued to deliver on its stated strategy of owning a quality portfolio of early learning centres with an active period of acquisitions, developments and the disposal of a number of smaller centres. As at 30 June 2017, FET owned 407 properties and had gross assets of approximately $903 million.

FET generated a total return of 10.1 per cent in FY17 substantially outperforming the S&P/ASX 300 A-REIT Accumulation Index which returned (5.6) per cent.

As at 30 June 2017, Folkestone held 12.2 per cent of FET units on issue (excluding units held in FET by the Folkestone Maxim A-REIT Securities Fund), valued at $85.6 million.

During the current reporting period, Folkestone generated $15.7 million before tax from its investment in FET comprising:

- $4.4 million in trust distributions received;
- $7.6 million in fees and cost recoveries charged in accordance with FET's constitution; and
- an unrealised gain of $3.7 million on its unitholding in FET as at 30 June 2017 which has been recognised as Other Comprehensive Income.

Folkestone Truganina Development Fund

The Folkestone Truganina Development Fund is undertaking, in an 80/20 joint venture with ID_Land, the development of a circa 718 lot residential master planned community in Truganina, one of Melbourne's fastest growing suburbs. The joint venture has continued to see strong pre-sale activity with 657 sales at 30 June 2017, representing approximately 92 per cent of total lots.

As at 30 June 2017, Stages 1-6 and 8 of the project had been completed and a total of 332 lots had settled, 178 of which have occurred in FY17. The mezzanine loan provided by the Folkestone Truganina Development Fund, drawn to $4.1 million at 30 June 2016, has been fully repaid from sales proceeds during the current period. The joint venture settled the remaining land in December 2016 which was 100 per cent debt funded.

Folkestone has co-invested $3.5 million (18.76 per cent) in the Fund. Due to the acceleration of the project, the Fund's current forecast equity IRR has increased from 18.0 per cent to 21.5 per cent per annum (pre-tax, net of fees) on drawn equity.

Folkestone Seniors Living Fund No. 1

In July 2016, Folkestone announced that it had established the Folkestone Seniors Living Fund No.1 to acquire Watermark Castle Cove, an award winning retirement living community on Sydney's lower north shore. The acquisition of Watermark Castle Cove comprised a 100 per cent interest in 50 existing independent living apartments

(ILAs) and 8 ILAs that were under construction (now completed) and were to be paid for on completion (including sale of ILAs). Also, the Fund acquired a 100 per cent interest in adjacent land for development of up to 21 ILAs (Stage 3) on terms whereby part of the consideration is contingent on completion and sale of the ILAs and the development is undertaken in a 50/50 joint venture with the Watermark Partnership. The development of Stage 3 commenced in the March 2017 quarter.

Folkestone underwrote $19.7 million of the initial $25.7 million Fund Offer by way of a short-term loan to the Fund with the capital raising closing oversubscribed in September 2016. Folkestone has co-invested $2.5 million (10.0 per cent) in the Fund. The Fund has a target fund raising of up to $60 million to enable it to acquire further assets consistent with the investment mandate of the Fund. The Fund has a target forecast equity IRR of 15.0 per cent per annum (pre-tax, net of fees) on drawn equity over the life of the Fund.

Folkestone Wollert Development Fund

In March 2017, Folkestone announced it had successfully completed the equity raising for the Folkestone Wollert Development Fund which has an 80 per cent interest in a circa 42.2 hectare residential land subdivision project known as Amber in Wollert, Victoria.

Amber is located within the Wollert Precinct Structure Plan ("PSP") which has been approved by the Victorian Government as a major new masterplanned suburb in Melbourne's northern growth corridor. Wollert is located in the City of Whittlesea, approximately 25 kilometres north of the Melbourne CBD and is ideally positioned between Craigieburn and Mernda, and will essentially form a bridge between these two thriving suburbs.

The Fund will develop, in joint venture with ID_Land (20 per cent of the Project), approximately 560 residential lots providing a selection of lot sizes and price points to suit a range of buyers. ID_Land will manage the delivery of the Project on behalf of the joint venture.

Folkestone underwrote the $25.4 million Fund Offer which closed one week after opening significantly oversubscribed. Folkestone has co-invested $6.4 million (25.0 per cent) in the Fund. The Fund has a target forecast equity IRR of 17.0 per cent per annum (pre-tax, net of fees) on drawn equity over the life of the Fund.

On the successful completion of the equity raising, Folkestone received a rezoning fee of $8.8 million paid by the Project and a $0.9 million acquisition fee paid by the Fund.

As at the reporting date, the joint venture has experienced strong pre-sale activity with 189 sales at 30 June 2017, representing approximately 34 per cent of total lots.

DIRECT INVESTMENTS - DEVELOPMENT

Folkestone's development division generated a net return of $16.7 million up 364.0 per cent on FY16.

Key features of the FY17 results are:

- $8.8 million rezoning fee received from the Amber residential land project at Wollert, Victoria;
- $4.3 million share of development profits from the Millers Junction Business project at Altona North, Victoria;
- $1.8 million share of development profits from the Northside residential land project at Officer, Victoria;
- $1.4 million share of development profits from the Industria project at Knoxfield, Victoria;
- $2.2 million in preferred equity interest in FY17, up 99.0 per cent on FY16;
- ($1.0) million share of the expensing of development costs in respect of the South Dural project in New South Wales
- ($0.6) million impairment provision against the Company's investment in the Karratha project;
- Continued strong sales and settlements in respect of our residential land projects and enterprise park projects in Melbourne; and
- Completion of the Potter's Grove, Officer residential land subdivision project.

The following is a brief update on Folkestone's Direct Investments during the reporting period.

Millers Junction Business 1, Altona North

In September 2014, the Company announced it had entered into a 51/49 joint venture with Wilmac Properties to develop 69 strata style office/ warehouse units and a café at Millers Junction, Altona North. As at 30 June 2017, all but 8 of the 69 units had been completed and settled.

Of the remaining 8 units, 6 units have settled as at 24 August 2017 with the remaining 2 units forecast to settle in the September 2017 quarter.

During the current reporting period, Folkestone recognised a $4.3 million share of development profits in respect of this project. As at the reporting date, Folkestone's funds invested in this project were $1.2 million.

Millers Junction Business 2, Altona North

In June 2017, Folkestone announced that it has entered into its fourth joint venture with Wilmac Properties ("Wilmac") to expand its exposure to enterprise park developments. Folkestone and Wilmac will develop a further 2.2 hectares of Folkestone's land at Altona North into 76 office/warehouse units with an end value of circa $28 million ("Millers Junction Business 2").

DIRECTORS' REPORT CONT.

F. REVIEW OF OPERATIONS CONT.

Millers Junction Business 2 is immediately adjacent to the proposed Millers Junction Retail site and directly opposite Folkestone and Wilmac's first enterprise park development, Millers Junction Business 1. Construction of Millers Junction Business 2 is expected to commence in early 2018.

As at the reporting date, Folkestone has invested $5.9 million in the Millers Junction Business 2 project.

Millers Junction Stage 3, Altona North

In June 2017, Folkestone announced it had entered into agreements with BWP Trust to acquire 1.0 hectares of land and a new call option to acquire an adjoining further 2.4 hectares of land at 290-298 Millers Road, Altona North, to undertake Stage 3 of its successful Millers Junction project.

The 3.4 hectares of BWP Trust land will be amalgamated with approximately 2.2 hectares of Folkestone's existing land holding, immediately to the rear of the BWP Trust land, to create Millers Junction Retail, a 13,330 square metre neighbourhood and large format retail centre anchored by Woolworths. The masterplan has secured unanimous support from Hobsons Bay Council and is now subject to final approval before the Victorian Government's Planning Panels Victoria hearing in the September 2017 quarter.

As at the reporting date, Folkestone has invested $4.8 million in the Millers Junction retail project.

Industria, Knoxfield

In June 2015, Folkestone entered into a second 50/50 joint venture with Wilmac Properties to develop 88 strata office/warehouse/retail units plus a cafe in Knoxfield, Victoria with an anticipated end value of $39.3 million.

As at 30 June 2017, all 20 units in Stage 1 had been completed and have settled. Construction of the 24 units in Stage 2 commenced in the March 2017 and as 30 June 2017, 22 of these had been pre-sold. A further 18 of the 44 units in stages 3 and 4 had been pre-sold.

During the current reporting period, Folkestone recognised a $1.4 million share of development profits in respect of this project. As at the reporting date, Folkestone has invested $1.8 million in this project.

Industria, Nunawading

In May 2016, Folkestone entered into a third 50/50 joint venture with Wilmac Properties to develop an enterprise business park in Nunawading, Victoria with an anticipated end value of $42.4 million.

The land was acquired on deferred terms and settlement of the land occurred in September 2016. Planning consent for the development was received in October 2016, including a modification to the original design by allowing for a three storey office building with 9 strata office spaces and a café in addition to 71 units. Since launching a total of 60 of the 71 units have been pre-sold plus the proposed three storey office building and cafe. Construction of Stage 1 commenced in the March 2017 quarter.

As at the reporting date, Folkestone has invested $2.8 million in this project.

Potters Grove, Officer

Potters Grove, Officer is a 14.1 hectare site located in the Cardinia Shire, in south-east Melbourne. Potters Grove is a 50/50 joint venture between Folkestone and ID_Land to develop a 240 lot land sub-division.

During the current reporting period, the last remaining lot settled and as at the reporting date, Folkestone's remaining funds invested in this project was $0.05 million.

Northside, Officer

In August 2014, Folkestone acquired, in a 50/50 joint venture with ID Land, Northside Officer to develop a 146 lot land sub-division diagonally opposite Folkestone and ID_Land's Potters Grove development. The zoned site was purchased on deferred terms. Settlement of the first tranche of land (3.6 hectares) took place in August 2015 and the remaining tranche (4.7 hectares) was settled in August 2016.

All lots have been pre-sold with Stages 1-3 having been completed as at 30 June 2017, at which time a total of 114 lots had settled. Stage 4 (19 lots) construction commenced in the March 2017 quarter with project completion anticipated to occur in the second half of 2017. Stage 5 (8 lots) construction is forecast to start in the September 2017 quarter with project completion anticipated in the June 2018 quarter.

During the current reporting period, Folkestone recognised a $1.8 million share of development profits and $0.1 million preferred equity interest income in respect of this project. As at the reporting date, Folkestone has invested $1.1 million in this project.

Amber, Wollert

In December 2015, Folkestone and ID_Land secured a 42.2 hectare site on deferred settlement terms in a 50/50 joint venture. Folkestone and ID_Land sought a rezoning, which was obtained in February 2017. Folkestone and ID_Land sold down part of their positions in the Project so that the Folkestone Wollert Development Fund has an 80 per cent interest in the Project and ID_Land a 20 per cent interest in the Project.

In return for taking the re-zoning risk, establishing the Amber estate brand and pre-selling 115 pre-sales, representing 20.5 per cent of total forecast lots, Folkestone received a re-zoning fee of $8.8 million when the Fund capital raising was completed in April 2017.

Hornsby

In December 2014, Folkestone announced that it had entered into a

50/50 joint venture with the Lyon Group Australia, a leading Sydney developer, to develop a strategically located, mixed use site opposite Hornsby railway station in Sydney's north-west. Following the settlement of two further properties in the current reporting period, the joint venture has now acquired three sites totalling 1,297 square metres which are currently under short term lease agreements whilst the joint venture progresses its master planning activities. A further option agreement over a commercial building is in place (a site comprising 1,929 square metres) and due for settlement in the December 2017 quarter after which time the joint venture will have amalgamated a total landholding exceeding 3,200 square metres. Master-planning activities are underway.

As at the reporting date, Folkestone has $10.1 million invested in this project.

South Dural

In October 2015, Folkestone announced that it had entered into a second 50/50 joint venture with the Lyon Group Australia, to acquire development rights over 60 hectares of land which is currently owned or under option by an entity associated with the Lyon Group in South Dural. South Dural is strategically located between the rapidly growing suburbs of Glenhaven and the established areas of Castle Hill and Cherrybrook in Sydney's north-west.

The joint venture has been appointed as Preferred Developer Proponent by the South Dural Residents and Ratepayers Group and is working with Hornsby Shire Council and the NSW State Government to have approximately 240 hectares (including the land over which it has development rights) rezoned.

During the current reporting period, Folkestone recognised a $1.0 million share of the expensing of development costs in respect of its 50 per cent interest in the project. As at the reporting date, Folkestone has invested $7.4 million in this project.

Green Square, Alexandria

In November 2016, Folkestone announced that it had entered into a 50/50 joint venture with Furnished Property to develop a circa 144 room hotel at Green Square, Sydney. The site, at 18 O'Riordan Street, Alexandria, is located within the $13 billion, 278 hectare Green Square Urban Regeneration Area ('GSURA') and is strategically located approximately 100 metres from the Green Square Train Station. The Sydney Airport Domestic and International Terminals are two and three stops respectively to the south with Central Station, one stop to the north. Green Square is one of the most significant urban transformation programs under construction in Australia, revitalising the industrial edge of Sydney's inner south into a vibrant global village.

Folkestone intends to launch the Folkestone Green Square Hotel Fund in the second half of 2017, to raise circa $22.75 million of third party capital, which together with construction finance, will fund the development of the hotel on a fund-through basis reducing Folkestone and Furnished Property's funds employed to develop the hotel. The Fund will own the hotel long-term.

As at the reporting date, Folkestone has invested $7.3 million in this project.

Chatswood Golf Club

In May 2017 Folkestone announced that it had entered into a partnership agreement with Watermark Retirement Living to develop a seniors living community in partnership with the Chatswood Golf Club. The proposed development includes a new clubhouse, associated parking and a seniors living community on circa 14,000 square metres of golf course land currently utilised for the clubhouse and car park. The Watermark, Folkestone and Chatswood Golf Club partnership are working towards submitting the first stage of the planning process with the Department of Planning. Following planning approval, it is expected that the project will be a suitable acquisition for the Folkestone Seniors Living Fund No.1, alongside Watermark Castle Cove. As at the reporting date, Folkestone has invested $1.3 million in this project.

The Ranges, Karratha

Stage 1 of The Ranges comprises 2.2 hectares with a "Tourism" zoning and DA approval for 108 single level, one bedroom villas with pool and BBQ facilities. Stage 1a comprising 41 villas opened for trade in December 2012 and a further 32 villas in Stage 1b were completed in 2015. During FY17, the joint venture completed the construction of a food and beverage facility which will complement the existing offer and make it more appealing to customers, particularly business travellers to the Pilbara.

Folkestone has completed a further review of the carrying value of its investment in this project at 30 June 2017, referenced by an updated third party valuation. As a result of this process, and in response to the continued economic conditions in the region, Folkestone made a further $0.6 million provision against the carrying value of its investment in the project. As at the reporting date, Folkestone has invested $2.9 million in this project.

OUTLOOK

Folkestone is well placed to continue to build sustainable growth across its funds management and development divisions.

DIRECTORS' REPORT CONT.

F. REVIEW OF OPERATIONS CONT.

Folkestone recently launched a new fund to acquire a 5,810 square metre office and retail building under construction in Sydney Olympic Park. A total of $24.7 million was committed by a small number of high net worth investors and family offices. Folkestone, as noted above, expects to launch the Folkestone Green Square Hotel Fund in the second half of 2017.

In addition, Folkestone is in due diligence on a number of opportunities that will either be acquired on balance sheet and sold down at a later date to Folkestone funds or acquired directly by new funds established by Folkestone.

Folkestone's low gearing, its cash on hand and the recycling of capital from projects that are earmarked to be sold down to funds or are nearing completion provides the Group with significant flexibility to continue to execute on its strategy.

Folkestone will continue to look for investment opportunities across the residential, non-residential and social infrastructure sectors where the projects offer the potential for attractive risk-adjusted returns, can be acquired and/or developed using efficient capital structures (i.e. staged land payments or deferred settlement terms), and where appropriate, undertaken in joint venture with quality partners and held in Folkestone managed funds.

Folkestone confirms that its current intention is to pay a fully franked dividend of 3.0 cents per share in respect of FY18, an increase of 9.1 per cent on the FY17 ordinary dividend assuming no material change in market conditions.

G. EARNINGS PER SHARE

	Note	2017 Cents	2016 Cents
Basic earnings per share from continuing operations	9	9.1	3.7
Diluted earnings per share from continuing operations	9	9.0	3.7

Earnings per share is calculated on the weighted average number of ordinary shares on issue during the period.

H. AFTER BALANCE DATE EVENTS

On 26 July 2017 the Company announced that it had established the Folkestone SOP Opportunity Fund which has entered into an agreement to acquire 11 Murray Rose Avenue, Sydney Olympic Park. Folkestone provided a short term loan of $7.7 million to the SOP Opportunity Fund whilst the $24.7 million equity raising was completed. The loan was fully repaid on 11 August 2017.

I. CHANGE IN STATE OF AFFAIRS

There was no significant change in the state of affairs of the consolidated entity during the financial year not otherwise disclosed in Section F of this report.

J. LIKELY DEVELOPMENTS, BUSINESS RISKS 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.

There are a number of risk factors that could have a materially adverse impact on the future operating and financial performance of the Company. These risks are both specific to the Company and also relate to the general business and economic climate in Australia.

The Company has processes in place which are focussed on the identification and management of risk through regular Board Reporting and exception reporting between meetings. Note 32 of the attached financial statements provide further detail on some of the financial risks faced by the Company. Other material business risks of the Company include:

Real Estate Market Risk – The Company's asset values and earnings are subject to real estate market conditions. The Company will continue to diversify its exposure to this risk by investing its capital into a range of opportunities across asset type, geography and sector.

Investment Pipeline Risk – The performance of the Company is dependent on the ability of the Executive Team to identify and source suitable investment opportunities for both its balance sheet and third party investors through its funds management platform. The Company is continuing to see a good pipeline of investment opportunities and has a well-qualified and skilled team to identify and secure those opportunities which meet our risk/return criteria.

Regulatory Risk – The Company holds four Australian Financial Services Licences which permit it to carry on a financial services business. As at 30 June 2017, the Company has over $1.3 billion in funds under management. The Company must comply with its obligations under each AFSL in order to continue to manage its funds management platform.

The Company has in place a Compliance Program to monitor compliance with our AFSL obligations and compliance requirements for the managed investment schemes managed by the Company.

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 been outlined in Section F - Review of Operations.

K. 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 Limited complies with all statutory obligations relevant to their activities. Systems and processes are in place to identify, resolve and monitor issues that may arise.

L. WORKPLACE HEALTH AND SAFETY REGULATIONS

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 Limited complies with all statutory obligations relevant to their activities. Systems and processes are in place to identify, resolve and monitor issues that may arise.

M. DIRECTOR PROFILES

Garry R Sladden
B.Bus, CPA, FINSA
Non-Executive Chairman

Garry was appointed as 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, and equity raising, having held the position of General Manager Operations at Consolidated Press Holdings for six years. Garry is Chairman of Ashton Manufacturing Pty Limited, Chairman of FivePointFour Pty Limited and Non-Executive Chairman of Clarius Limited (ASX: CND).

Mark W Baillie
B.Com, CA
Non-Executive Deputy Chairman

Mark was appointed as Non-Executive Deputy Chairman of Folkestone in February 2013. Prior to this Mark was Macquarie Group Limited's Head of Real Estate – Europe and North America. During his 14 years at Macquarie, Mark was responsible for the creation and listing of three listed AREITs on the ASX and was an AREIT CEO for five years. Mark was located in Chicago, USA (2001 to 2006) and London, UK (2006 to 2009) in order to create and manage Macquarie Real Estate's business in both regions. Mark was a director on the boards of all Macquarie's listed AREITs. In addition, Mark has been a director of the following real estate industry bodies, the Property Council of Australia, the Shopping Centre Council of Australia, the Association of Foreign Investors in Real Estate (past Chairman) and the European Public Real Estate Association. Mark is currently Chairman of the United States Studies Centre Limited and a director of Perth USA Asia Centre Limited.

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. He is a former Non-Executive Director of Mirvac Funds Management Limited and Mirvac Wholesale Funds Management Limited and is a member of the Australian Institute of Company Directors.

Gregory J Paramor, AO
FAPI, FAICD, FRICS
Managing Director

Greg became Managing Director of Folkestone in April 2011. Greg has been involved in the real estate and funds management industry for more than 40 years, and was the cofounder of Equity Real Estate Partners, Growth Equities Mutual, Paladin Australia and the James Fielding Group. Greg was the CEO of Mirvac Group 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 board member of the Sydney Swans and the immediate past Chair of LJ Hooker. Greg was awarded an Officer in the General Division (AO) of the Order of Australia in January 2015 for his distinguished service to the community through executive roles in a range of fields, including breast cancer research, the not-for-profit sector and real estate and property investment industries.

N. REMUNERATION REPORT (AUDITED)

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

Remuneration Policy

The performance of the Company depends on the quality of its directors and executives. Folkestone is committed to maintaining a Remuneration Policy which ensures that executive reward is aligned with the achievement of the Company's overall strategic objectives, outcomes and creation of value for shareholders. The Company's Remuneration Policy is designed to attract, retain and motivate appropriately qualified and experienced directors and executives having regard to the size of the Company. The objective of the Company's Remuneration Policy is to ensure that executive remuneration is market competitive and designed to reward performance and closely align the interests of the executives to those of shareholders through the use of short-term and long-term incentives.

Key principles in developing the performance based remuneration structure 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 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 can be found on the Folkestone Limited website.

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 Company'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 up to 12 months' notice by the Company. The Company 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 on page 13 summarises information about the consolidated entity's earnings and movements in shareholder wealth for the five years to June 2017, which is considered when setting the remuneration policy for the Group:

a) Folkestone Limited pays key management personnel a combination of fixed remuneration and performance based remuneration. Over the past 5 years, the Company has delivered increasing profits as the business has been re-built and transformed from a pure developer into a real estate funds management and development company. In 2017 the Company recorded a net profit after tax attributable to members of the parent entity of $13.4 million, a 146.1 per cent increase compared to the prior period. The Company has declared an ordinary final dividend of 2.75 cents per share and a special dividend of 0.5 cents per share in respect of FY17. The total dividend payable in respect of FY17 is a 30 per cent increase compared to the prior period.

The short-term incentive scheme (STI) Executive Plan was originally implemented in June 2014 and a further review of was completed by the Remuneration Committee in June 2017 to ensure that it remains commensurate with market. The STI Executive Plan is based upon Return on Equity performance hurdles. The Return on Equity calculation includes both the reported net profit after tax attributable to the Company as well as the reported Other Comprehensive Income. The STI Executive Plan allows for deferral of a portion of the STI payable, with the deferred component subject to a further performance condition relating to the achievement of the following year's budget which is approved by the Board.

In 2017, the bonus pool calculated in accordance with the STI Executive Plan was $1.9 million, with $1.5 million being allocated to the key management personnel contained in the Remuneration Report and the remaining $0.4 million allocated to other senior executives who do not meet the definition of key management personnel as defined in AASB 124. A further $0.4 million bonus pool was available and allocated to general staff based upon individual performance.

b) During the past five years, there have been share based payments made to key management personnel which have been summarised in prior period Annual Reports.

The Executive Incentive Plan was amended and approved at the annual general meeting of shareholders held on 9 November 2016. The Executive Incentive Plan was amended to include the ability for the Board to use an Employee Share Trust (EST) for the purpose of holding shares before or after the exercise of an employee's performance rights or share appreciation rights or for the purpose of delivering shares to employees on the vesting and exercise of a performance right or share appreciation right currently on issue or to be issued in the future. The amendments also provide the ability for employees, for rights granted after 9 November 2016, to defer the exercise of vested rights for up to 15 years from the issue date. As at 30 June 2017, there were 3,201,700 performance rights on issue to executives (please refer to following sections of the Remuneration Report for further detail).

The performance hurdles which have been set for the share based payments are set at a level to reward performance for increases in profitability of the Company and total returns to shareholders.

c) As the table on page 13 outlines, the Company's financial performance has improved over the last five years which was preceded by a period where the Company was in a loss making position. It is

N. REMUNERATION REPORT (AUDITED) CONT.

the focus of the Board of Directors to recruit and retain management personnel essential to continue to build the business which provides profitable operations for the Group and to attract suitable executives to maximize profitability. Folkestone will continue to offer key management personnel a combination of fixed remuneration and performance based remuneration based upon predetermined performance hurdles as outlined further below.

Executive Remuneration

The Company's policy is for the executive remuneration and reward framework to comprise two components:

- Fixed Remuneration which includes base pay and other benefits; and
- Performance linked remuneration comprising:
- Short-term incentives (STI); and
- Long-term incentives (LTI).

The combination of these comprises the executive's total remuneration. No additional 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 executive's remuneration will have a combination of short and long term incentives so that the Company can attract, retain and motivate appropriately qualified and experienced executives. Where performance targets are satisfied, success will be rewarded through the payment of a cash bonus (STI) and/or the grant of specified long-term incentives determined by the Board (LTI). At present, the Managing Director has elected not to participate in the LTI Plan. The Board is comfortable the Managing Director has sufficient exposure to the Company's share price performance to align his interests in value creation as he continues to be Folkestone's single largest shareholder. The Managing Director's participation in the LTI Plan will continue to be reviewed on a year by year basis.

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 tables on page 18.

Summary of Historical Financial Performance of the Consolidated Entity

	2017 $000	2016 $000	2015 $000	2014 $000	2013 $000
Profit/(loss) from continuing operations before income tax (expense)/credit	19,001	10,962	5,972	2,526	1,545
Income tax (expense)/benefit	(5,586)	(1,925)	2,223	249	(369)
(Profit)/loss attributable to non-controlling interest	-	(3,586)	(1,178)	377	-
Profit /(loss) from ordinary activities attributable to members of the parent entity	13,415	5,451	7,017	3,152	1,176
Total other comprehensive income net of tax	2,578	11,847	4,524	238	-
Total comprehensive income/(loss) net of tax attributable to members of the parent entity	15,993	17,298	11,541	3,390	1,176
Basic earnings per ordinary share (cents)*	9.1	3.7	5.5	3.5	1.5
Ordinary Dividend rate on fully paid shares (cents)	2.75	2.5	-	-	-
Special Dividend rate on fully paid shares (cents)	0.5	-	-	-	-
ASX Closing Price 30 June (dollars)*	$1.08	$0.85	$1.05	$1.10	$0.80

Short Term Incentives

Short term incentives ('STI') will generally be 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).

Examples of performance targets which may be set for future periods include goals set to achieve defined:

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

The STI scheme which has been set by the Board includes a mechanism for the deferral of a portion of the STI's payable for key executives to assist with their retention.

Long Term Incentives – Executive Incentive Plan

Shareholders approved the current Executive Plan at the annual general meeting of shareholders which was held on 9 November 2016.

The Executive Incentive Plan ("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.

A summary of the Plan Rules is set out on the following pages.

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).

The Plan provides the ability for the Board to use an Employee Share Trust for the purpose of holding shares before or after the exercise of an employee's performance rights or share appreciation rights or for the purpose of delivering shares to employees on the vesting and exercise of a performance right or share appreciation right currently on issue or to be issued in the future.

Incentives offered under the Plan

Employees selected for participation in the Plan may be offered Performance Rights and/or Share Appreciation 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 employee has a right to exercise their Performance Right and Folkestone must procure the issue or transfer of a Share to the participant. The Share may be subject to disposal conditions if in the relevant terms of any offer it is specified that such conditions will apply. If they are not vested and issued within 15 years of their issue or such shorter time as determined by the Board, the Performance Rights lapse.

A Share Appreciation Right also represents the right to receive Shares. On the Vesting Date, if the performance hurdles and tenure conditions are satisfied in respect of a Share Appreciation Right, the Share Appreciation Right immediately vests and the Participant is eligible to receive a "Payout" calculated in accordance with the terms of issue of the Share Appreciation Right. Generally the "Payout" amount will be referable to the amount by which the prevailing 10 day VWAP of Shares as at the vesting date is greater than the 10 day VWAP of Shares as at the time of issue of the Share Appreciation Right or other date as determined by the Board. Upon being eligible to receive a "Payout", the Company must procure the issue or transfer of such number of Shares as is determined by dividing the "Payout" amount by the prevailing 10 day VWAP of Shares as at the payout date. The Employee then has a right to exercise their Share Appreciation Right and Folkestone must procure the issue or transfer of a Share to the participant. If they are not vested and issued within 15 years of the issue date or such shorter time as determined by the Board, the Share Appreciation Rights lapse.

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

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

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

Performance Rights and Share Appreciation Rights will not vest and the holders of Performance Rights or Share Appreciation Rights will not be entitled to Shares, unless the performance hurdles associated with those Performance Rights or Share Appreciation Rights are satisfied or waived. The Board will determine the applicable performance hurdles prior

N. REMUNERATION REPORT (AUDITED) CONT.

to Performance Rights or Share Appreciation Rights being granted. The hurdles may reflect the Company's business plans, targets, budgets and performance objectives.

Performance Rights and Share Appreciation Rights may vest or lapse earlier than the Vesting Date in certain circumstances. Where a participant ceases employment with the Company prior to the Expiry Date, the Performance Rights and Share Appreciation Rights will normally lapse. However, the Board has the discretion to vest part or all of a participant's Performance Rights or Share Appreciation 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 the Company 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 ("Event").

The Board also has the discretion to determine that a participant who dies or becomes totally and permanently disabled may retain their Performance Rights or Share Appreciation Rights as though they remained an Employee.

Early Lapse of Rights

Performance Rights and Share Appreciation Rights that have not vested and been exercised, lapse on the earlier of:

- 15 years from the date that they were issued or such earlier date as determined by the Board;
- the date specified in the invitation for the Performance Rights or Share Appreciation Rights;
- the Board determining that a participant's Performance Rights or Share Appreciation Rights should lapse where it is of the opinion the participant has committed an act of fraud, dishonesty or wilful misconduct or is convicted of a criminal offence which may injure the Company's reputation or the participant leaves the Company 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 or Share Appreciation Rights vest or that the participant is to be treated as remaining employed for the purposes of assessing the vesting of the Performance Rights or Share Appreciation Rights.

Dealing with Rights and Shares

Participants may not sell, assign, transfer or otherwise deal with, or grant a security interest over, their Performance Rights or Share Appreciation Rights. Performance Rights and Share Appreciation Rights lapse immediately on any purported sale, assignment, transfer, dealing or grant of security interest unless the Board in its absolute discretion approves the dealing or transfer or transmission is effected by force of law on death or legal incapacity to the participant's legal representative.

Participants are prohibited from entering into any arrangement to hedge or otherwise affect their economic exposure to their Performance Rights or Share Appreciation Rights.

In addition, the Board may determine that participants will not be able to dispose or otherwise deal with the Shares they or their nominees receive on the vesting and exercise of Performance Rights or Share Appreciation Rights until a set disposal restriction ends. The terms of any disposal restrictions are to be set by the Board and specified in the participant's invitation letter.

New Issues and Reorganisation of Capital

In the event of any capital reorganisation by the Company (including bonus issues, share splits, consolidations), the participant's Performance Rights and Share Appreciation Rights, and the Shares allocated to the participant on vesting of the Performance Rights or Share Appreciation Rights may be treated or adjusted, as set out in the Executive Incentive Plan. 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.

Change of Plan Rules

Subject to the terms of the Executive Incentive Plan and the ASX Listing Rules, the Board may amend or vary the Executive Incentive Plan at any time in any manner it thinks fit in it absolute discretion. However, the Executive Incentive Plan cannot be amended or varied in a manner which reduces the rights of participants in respect of Performance Rights or Share Appreciation Rights acquired by them prior to the date of the amendment without their consent other than an amendment:

- introduced primarily to the purpose of complying with law or ASIC policy;
- to correct any manifest error of mistake; or
- for the purpose of enabling the Company or its subsidiaries, participants in the Executive Incentive Plan or groups of participants generally to receive more favourable taxation treatment in respect of their participation in the Executive Incentive Plan.

Non-Executive Director Remuneration

In accordance with corporate governance best practice, the structure for non-executive director remuneration is separate from the structure for executive 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. The Remuneration Committee undertook a review of the remuneration of non-executive directors in July 2017 and resolved to increase the fees paid to the Non-Executive Chairman by 18 per cent as his fee had not been adjusted since June 2015. 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). Details of the Directors' interests in shares and rights over shares of the Company as at the date of this report are contained in the Remuneration Report on page 25.

Details of Remuneration for the year ended 30 June 2017

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 which have been determined to meet the definition of Key Management personnel as defined in AASB 124 (Related Party Disclosures) and the economic entity receiving the highest remuneration are set out in the table below.

Key Management Personnel	Position
GR Sladden	Non-Executive Chairman
MW Baillie	Non-Executive Deputy Chairman
KR Strang	Non-Executive Director
GJ Paramor	Managing Director
NJ Anagnostou	Chief Executive Officer - Folkestone Education Trust
BP Dodwell	Head of Real Estate
AJ Harrington	Head of Funds Management
SN Martin	Chief Financial Officer & Company Secretary


elements

N. REMUNERATION REPORT (AUDITED) CONT.

		Short Term		Post Employ. Benefits		Share Based Payment	Long Term		
		Salary & Fees	STI Cash Bonus	Non-Monetary Benefits	Super. Benefits	Perf. Rights /SARs (A)	Other Long Term Benefits (B)	Total	Prop. of Remun. Perform. Related
		$	$	$	$	$	$	$	%
Directors Non-Executive									
GR Sladden	**2017**	**116,164**	**-**	**-**	**11,036**	**-**	**-**	**127,200**	**-**
	2016	116,164	13,699	-	12,337	-	-	142,200	10
MW Baillie	**2017**	**48,805**	**-**	**-**	**9,495**	**-**	**-**	**58,300**	**-**
	2016	53,242	13,699	-	6,359	-	-	73,300	19
KR Strang	**2017**	**39,200**	**-**	**-**	**35,000**	**-**	**-**	**74,200**	**-**
	2016	40,501	13,699	-	35,000	-	-	89,200	15
Directors Executive									
GJ Paramor	**2017**	**455,384**	**210,000**	**-**	**19,616**	**-**	**(35,841)**	**649,159**	**32**
	2016	455,692	-	-	19,308	(9,356)	24,082	489,726	(2)
Total Compensation: Directors (consolidated)	**2017**	**659,553**	**210,000**	**-**	**75,147**	**-**	**(35,841)**	**908,859**	**23**
	2016	665,599	41,097	-	73,004	(9,356)	24,082	794,426	20
Executives									
NJ Anagnostou	**2017**	**379,124**	**270,000**	**1,260**	**19,616**	**102,349**	**2,693**	**775,042**	**48**
	2016	380,692	120,000	-	19,308	3,301	21,562	544,863	23
BP Dodwell	**2017**	**360,033**	**360,000**	**9,967**	**30,000**	**102,349**	**10,691**	**873,040**	**53**
	2016	358,000	85,000	12,000	30,000	75,572	26,291	586,863	27
AJ Harrington	**2017**	**366,827**	**330,000**	**13,557**	**19,616**	**102,349**	**5,101**	**837,450**	**52**
	2016	367,512	85,000	13,180	19,308	3,301	52,178	540,479	16
SN Martin	**2017**	**333,405**	**330,000**	**34,479**	**19,616**	**102,349**	**9,003**	**828,852**	**52**
	2016	324,337	85,000	31,355	19,308	75,572	20,000	555,572	29
Total Compensation: Executives (consolidated)	**2017**	**1,439,389**	**1,290,000**	**59,263**	**88,848**	**409,396**	**27,488**	**3,314,384**	**51**
	2016	1,430,541	375,000	56,535	87,924	157,746	120,031	2,227,777	24
Total Compensation: Key Management Personnel	**2017**	**2,098,942**	**1,500,000**	**59,263**	**163,995**	**409,396**	**(8,353)**	**4,223,243**	**45**
	2016	2,096,140	416,097	56,535	160,928	148,390	144,113	3,022,203	19

The accounting standards require that Performance Rights and Share Appreciation Rights be valued at fair value on the grant date. The fair value of performance rights and share appreciation rights granted under the Executive Incentive Plan are 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 Rights expensed in this reporting period.

A. Other Long Term Benefits comprise movements in the annual/long service leave accruals during the period.

B. There have been no termination payments paid during the current or prior reporting periods.

DIRECTORS' REPORT CONT.

N. REMUNERATION REPORT (AUDITED) CONT.

Performance Rights and Share Appreciation Rights issued as part of Remuneration for the year ended 30 June 2017

Performance Rights

There were a total of 2,486,200 performance rights issued as part of remuneration for the year ended 30 June 2017 with a grant date of 16 November 2016. The following table summarises the factors and assumptions which were used in determining the fair value of rights on the grant dates together with a summary of the recipients of the performance rights:

Details of Performance Rights Issued During the Current Year

	Valuation Factors and Assumptions						Recipients					
Tranche	Grant Date	Expiry Date	Fair Value per Right	Exercise Price	Price of Shares on Grant Date	Dividend Yield	AJ Harrington	BP Dodwell	NJ Anagnostou	SN Martin	Other Staff	Total
12	16-Nov-16	30-Jun-31	$0.85	-	$0.94	2.8%	235,000	235,000	235,000	235,000	354,000	1,294,000
13	16-Nov-16	16-Nov-31	$0.89	-	$0.94	2.8%	53,500	53,500	53,500	53,500	183,400	397,400
14	16-Nov-16	16-Nov-31	$0.87	-	$0.94	2.8%	53,500	53,500	53,500	53,500	183,400	397,400
15	16-Nov-16	16-Nov-31	$0.85	-	$0.94	2.8%	53,500	53,500	53,500	53,500	183,400	397,400
Total							**395,500**	**395,500**	**395,500**	**395,500**	**904,200**	**2,486,200**

**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 the shares on vesting of any rights awarded.

The fair value of performance rights granted for rights with non-market based performance criteria are measured using a Black Scholes simulation model 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.

Share Appreciation Rights

There was no share appreciation rights issued as part of remuneration for the year ended 30 June 2017.

The Board's policy in respect of the accounting treatment of share appreciation rights is to engage the services of an independent expert to calculate the fair value of share appreciation 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 the shares on vesting of any rights awarded.

The fair value of share appreciation rights granted are measured using a Black Scholes simulation model which is the generally accepted approach for valuing such rights. 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 of the performance rights on issue over ordinary shares in the Company that have been granted as compensation as at 30 June 2017 are set out in the following tables. The performance rights were provided at no cost to the recipients and have a nil exercise price.

Summary of Performance Rights Granted as Compensation as at 30 June 2017

Tranche	Grant Date	Expiry Date	Fair Value per Right	AJ Harrington	BP Dodwell	NJ Anagnostou	SN Martin	Other Staff	Total
6	29-Sep-15	31-Aug-17	$0.93	31,200	31,200	31,200	31,200	82,500	207,300
7	29-Sep-15	01-Jul-18	$0.91	31,200	31,200	31,200	31,200	82,500	207,300
8	29-Sep-15	01-Jul-19	$0.89	31,200	31,200	31,200	31,200	82,500	207,300
9	12-Nov-15	31-Aug-17	$0.96	-	-	-	-	31,200	31,200
10	12-Nov-15	01-Jul-18	$0.94	-	-	-	-	31,200	31,200
11	12-Nov-15	01-Jul-19	$0.92	-	-	-	-	31,200	31,200
12	16-Nov-16	30-Jun-31	$0.85	235,000	235,000	235,000	235,000	354,000	1,294,000
13	16-Nov-16	16-Nov-31	$0.89	53,500	53,500	53,500	53,500	183,400	397,400
14	16-Nov-16	16-Nov-31	$0.87	53,500	53,500	53,500	53,500	183,400	397,400
15	16-Nov-16	16-Nov-31	$0.85	53,500	53,500	53,500	53,500	183,400	397,400
Total				**489,100**	**489,100**	**489,100**	**489,100**	**1,245,300**	**3,201,700**

The following table summarises the performance rights which have lapsed or vested during the 2017 financial year.

Summary of Performance Rights Which Have Vested / Lapsed in 2017

	Grant Date	Expiry Date	Fair Value per Right	AJ Harrington	BP Dodwell	NJ Anagnostou	SN Martin	Other Staff	Total
Tranche 5									
Issued	01-Jul-14	01-Jul-16	$1.10	-	131,402	-	131,402	-	262,804
Vested				-	(131,402)	-	(131,402)	-	(262,804)
Lapsed				-	-	-	-	-	-

N. REMUNERATION REPORT (AUDITED) CONT.

The performance rights issued under the Executive Incentive Performance Rights Plan expire on the termination of the individual's employment and vest subject to the following performance criteria being met.

Tranche 5 Performance Rights

Tranche 5 performance rights were issued on 1 July 2014 and vested on 1 July 2016. The Tranche 5 performance rights did not have a performance criteria.

Tranche 6, 7, 8, 9, 10 and 11 Performance Rights

Tranche 6, 7, 8, 9, 10 and 11 performance rights will vest based on the achievement of average compound Return on Equity over the performance period ranging from 7.5%-12.5% per annum on a sliding scale with:

- Full vesting where the average compound Return on Equity is 12.5% per annum or above;
- 50% vesting where the average compound Return on Equity is 7.5% per annum; and
- Where the average compound Return on Equity is between 7.5% and 12.5% per annum, the number of Performance Rights that vest will be calculated on a straight line basis.

The performance period for Tranche 6, 7, 8, 9, 10 and 11 performance rights is 1 July 2015 to 30 June 2017.

The performance condition has been 97% achieved. The Shares to be issued in respect of each tranche of performance rights are summarised in the table below and will vest on the dates outlined in the table subject to the employee's continued employment with Folkestone Limited at all times during the vesting period:

Tranche	Number of shares to be issued	Vesting Date
6 and 9	230,158	31 August 2017
7 and 10	219,543	1 July 2018
8 and 11	219,543	1 July 2019

Tranche 12 Performance Rights

Tranche 12 performance rights were issued on 16 November 2016 and have a vesting date of 30 June 2020 and an expiry date of 30 June 2031. The Tranche 12 performance rights represent the issue of additional performance rights in lieu of the component of the FY16 STI Bonus Pool which the Board elected to defer and issue in the form of long term incentives. Other than continuity of employment, there are no other performance criteria relating to the vesting of the Tranche 12 performance rights.

Tranche 13,14 and 15 Performance Rights

Tranche 13, 14 and 15 performance rights will vest based on the achievement of average compound Return on Equity over the performance period ranging from 7.5%-12.5% per annum on a sliding scale with:

- Full vesting where the average compound Return on Equity is 12.5% per annum or above;
- 50% vesting where the average compound Return on Equity is 7.5% per annum; and
- Where the average compound Return on Equity is between 7.5% and 12.5% per annum, the number of Performance Rights that vest will be calculated on a straight line basis.

The performance period for Tranche 13, 14 and 15 performance rights is 1 July 2016 to 30 June 2018.

The vesting dates and expiry dates for each Tranche of performance rights is summarised in the table below.

Tranche	Vesting Date	Expiry Date
13	31 August 2018	30 Nov 2031
14	1 July 2019	30 Nov 2031
15	1 July 2020	30 Nov 2031

Share Appreciation rights over equity instruments granted as compensation

There were no share appreciation rights granted during the 2017 financial year. There were no share appreciation rights on issue over ordinary shares in the Company as at 30 June 2017. The following table summarises share appreciation rights which have vested or lapsed during the 2017 financial year.

Summary of Share Appreciation Rights Which Have Vested/Lapsed in 2017

	Grant Date	Expiry Date	Fair Value per Right	GJ Paramor	AJ Harrington	BP Dodwell	NJ Anagnostou	SN Martin	Other Staff	Total
Tranche 4 & 7										
Issued	21-Aug-14	14-Sep-16	$0.37		36,036	36,036	36,036	36,036	90,106	234,250
Lapsed					(36,036)	(36,036)	(36,036)	(36,036)	(90,106)	(234,250)
Tranche 5										
Issued	21-Aug-14	14-Sep-16	$0.34		39,216	39,216	39,216	39,216	98,028	254,892
Lapsed					(39,216)	(39,216)	(39,216)	(39,216)	(98,028)	(254,892)
Tranche 6										
Issued	21-Aug-14	14-Sep-16	$0.32		42,090	42,090	42,090	42,090	105,832	274,192
Lapsed					(42,090)	(42,090)	(42,090)	(42,090)	(105,832)	(274,192)
Tranche 7										
Issued	16-Oct-14	14-Sep-16	$0.195	36,036						36,036
Lapsed				(36,036)						(36,036)
Tranche 8										
Issued	16-Oct-14	14-Sep-16	$0.175	39,216						39,216
Lapsed				(39,216)						(39,216)
Tranche 9										
Issued	16-Oct-14	14-Sep-16	$0.165	42,090						42,090
Lapsed				(42,090)						(42,090)
Total										
Issued				117,342	117,342	117,342	117,342	117,342	293,966	880,676
Lapsed				(117,342)	(117,342)	(117,342)	(117,342)	(117,342)	(293,966)	(880,676)

N. REMUNERATION REPORT (AUDITED) CONT.

Share Appreciation rights over equity instruments granted as compensation continued

Tranche 4,5,6,7,8 and 9 Share Appreciation Rights

Tranche 4,5,6,7,8 and 9 share appreciation rights were subject to the achievement of average compound Return on Equity over the performance period ranging from 7.5%-12.5% per annum on a sliding scale with:

- Full vesting where average compound Return on Equity is 12.5% per annum or above;
- 50% vesting where average compound Return on Equity is 7.5% per annum; and
- Where the average compound Return on Equity per annum is between 7.5% and 12.5% per annum, the number of Share Appreciation Rights that vest will be calculated on a straight line basis.

The performance period for Tranche 4,5,6,7,8 and 9 share appreciation rights was 1 July 2014 to 30 June 2016.

The Average Compound Return on Equity over the performance period has been calculated as 12.8% which meant that the performance condition was 100% satisfied however the SARs only vested if the share price at 31 August 2016 was above $1.105 per share. The share price at 31 August 2016 was $1.015 and as a result the Tranche 4,5,6,7,8 and 9 share appreciation rights expired on 14 September 2016.

Analysis of Share-Based Payments Granted as Compensation

Details of the vesting profile of performance rights/share appreciation rights granted as compensation to Director's & Executives are detailed below:

Executives	Number	Date	% Vested in Year	% Vested in Total	% Forfeited in Year	% Forfeited in Total	Financial Years to which Grant Vests
Performance Rights Granted							
AJ Harrington	93,600	29 Sep 2015	-	-	-	-	Jun 2018 - 2020
	395,500	16 Nov 2016	-	-	-	-	Jun 2019 - 2020
BP Dodwell	131,402	1 Jul 2014	100%	100%	-	-	Jun 2017
	93,600	29 Sep 2015	-	-	-	-	Jun 2018 - 2020
	395,500	16 Nov 2016	-	-	-	-	Jun 2019 - 2020
SN Martin	131,402	1 Jul 2014	100%	100%	-	-	Jun 2017
	93,600	29 Sep 2015	-	-	-	-	Jun 2018 - 2020
	395,500	16 Nov 2016	-	-	-	-	Jun 2019 - 2020
NJ Anagnostou	93,600	29 Sep 2015	-	-	-	-	Jun 2018 - 2020
	395,500	16 Nov 2016	-	-	-	-	Jun 2019 - 2020
Other Staff	247,500	29 Sep 2015	-	-	-	-	Jun 2018 - 2020
	93,600	12 Nov 2015	-	-	-	-	Jun 2018 - 2020
	904,200	16 Nov 2016	-	-	-	-	Jun 2019 - 2020
Total	**3,464,504**						
Share Appreciation Rights Granted							
GJ Paramor	117,342	16 Oct 2014	-	-	100%	100%	June 2017
NJ Anagnostou	117,342	21 Aug 2014	-	-	100%	100%	June 2017
BP Dodwell	117,342	21 Aug 2014	-	-	100%	100%	June 2017
AJ Harrington	117,342	21 Aug 2014	-	-	100%	100%	June 2017
SN Martin	117,342	21 Aug 2014	-	-	100%	100%	June 2017
Other Staff	293,966	21 Aug 2014	-	-	100%	100%	June 2017
Total	**880,676**						

DIRECTORS' REPORT CONT.

N. REMUNERATION REPORT (AUDITED) CONT.

Number of Shares held by Key Management Personnel - Current year

2017	Balance 1.7.2016	Received as Compensation	Performance Rights / SARs Exercised	Net Change Other[1]	Balance 30.6.2017
GR Sladden	131,153	-	-	-	131,153
MW Baillie	2,780,585	-	-	-	2,780,585
GJ Paramor	13,602,800	-	5,151	-	13,607,951
BP Dodwell	373,190	-	136,553	-	509,743
AJ Harrington	1,095,265	-	5,151	-	1,100,416
SN Martin	426,899	-	136,553	-	563,452
NJ Anagnostou	24,972	-	5,151	-	30,123
Total	**18,434,864**	**-**	**288,559**	**-**	**18,723,423**

[1] *Net Change Other refers to shares purchased or sold during the financial year.*

Number of Shares held by Key Management Personnel - Prior year

2016	Balance 1.7.2015	Received as Compensation	Performance Rights / SARs Exercised	Net Change Other[1]	Balance 30.6.2016
GR Sladden	655,765	-	-	(524,612)	131,153
MW Baillie	13,882,925	-	-	(11,102,340)	2,780,585
GJ Paramor	67,839,683	-	24,857	(54,261,740)	13,602,800
BP Dodwell	1,862,798	-	681,886	(2,171,494)	373,190
AJ Harrington	5,451,465	-	24,857	(4,381,057)	1,095,265
SN Martin	1,452,622	-	681,886	(1,707,609)	426,899
NJ Anagnostou	100,000	-	24,857	(99,885)	24,972
Total	**91,245,258**	**-**	**1,438,343**	**(74,248,737)**	**18,434,864**

[1] *Net Change Other refers to shares purchased or sold during the prior financial year together with the impact of the 1 for 5 share consolidation completed during the prior financial year*

Analysis of Movements in Performance Rights and Share Appreciation Rights

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

	Opening Balance (i)	Granted in Year (ii) (iii)	Vested in Year (iv)	Lapsed in Year (v)	Closing Balance
Performance Rights - Executives					
AJ Harrington					
Number of Performance Rights	93,600	395,500	-	-	489,100
Value of Performance Rights $	85,020	340,209	-	-	425,229
BP Dodwell					
Number of Performance Rights	225,002	395,500	(131,402)	-	489,100
Value of Performance Rights $	229,562	340,209	(144,542)	-	425,229
SN Martin					
Number of Performance Rights	225,002	395,500	(131,402)	-	489,100
Value of Performance Rights $	229,562	340,209	(144,542)	-	425,229
NJ Anagnostou					
Number of Performance Rights	93,600	395,500	-	-	489,100
Value of Performance Rights $	85,020	340,209	-	-	425,229
Other Staff					
Number of Performance Rights	341,100	904,200	-	-	1,245,300
Value of Performance Rights $	312,875	781,943	-	-	1,094,818
Total					
Number of Performance Rights	**978,304**	**2,486,200**	**(262,804)**	**-**	**3,201,700**
Value of Performance Rights	**942,039**	**2,142,779**	**(289,084)**	**-**	**2,795,734**

N. REMUNERATION REPORT (AUDITED) CONT.

Analysis of movements in performance rights and share appreciation rights

	Opening Balance (i)	Granted in Year (ii) (iii)	Vested in Year (iv)	Lapsed in Year (v)	Closing Balance
Share Appreciation Rights - Executives					
GJ Paramor					
Number of Share Appreciation Rights	117,342	-	-	(117,342)	-
Value of Share Appreciation Rights $	20,835	-	-	(20,835)	-
NJ Anagnostou					
Number of Share Appreciation Rights	117,342	-	-	(117,342)	-
Value of Share Appreciation Rights $	39,925	-	-	(39,925)	-
BP Dodwell					
Number of Share Appreciation Rights	117,342	-	-	(117,342)	-
Value of Share Appreciation Rights $	39,925	-	-	(39,925)	-
AJ Harrington					
Number of Share Appreciation Rights	117,342	-	-	(117,342)	-
Value of Share Appreciation Rights $	39,925	-	-	(39,925)	-
SN Martin					
Number of Share Appreciation Rights	117,342	-	-	(117,342)	-
Value of Share Appreciation Rights $	39,925	-	-	(39,925)	-
Other Staff					
Number of Share Appreciation Rights	293,966	-	-	(293,966)	-
Value of Share Appreciation Rights $	100,006	-	-	(100,006)	-
Total					
Number of Share Appreciation Rights	**880,676**	**-**	**-**	**(880,676)**	**-**
Value of Share Appreciation Rights	**280,541**	**-**	**-**	**(280,541)**	**-**

(i) *Opening balance of performance rights/share appreciation rights granted.*

(ii) *The number of performance rights/share appreciation rights is the number of performance rights/share appreciation rights granted during the reporting period.*

(iii) *The value of performance rights/share appreciation rights granted during the year is their fair value at grant date.*

(iv) *The value of performance rights/share appreciation rights vested during the year is calculated as the fair value at grant date of those rights vested during the period.*

(v) *The value of the performance rights/share appreciation rights that lapsed during the year represents the benefit foregone and is calculated at the date the performance rights/share appreciation rights lapsed using their fair value at the grant date of these rights.*

No options have been issued or are on issue.

OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL OF THE GROUP

Current year

1. During the year, the Company engaged the services of Mr Baillie, a non-executive Director of Folkestone Limited, on a consultancy agreement to provide property funds management advisory services to the Company. Total fees paid during the year under the agreement were $90,000 (2016: $120,000).
2. Folkestone Limited has engaged Daniels Printing to provide a range of printing services (annual reports, shareholder updates etc.). Mr Paramor is a co-owner of Daniels Printing. During the year, Daniels Printing provided services totalling $11,037 (2016: $17,979). The Company regularly seeks alternate costing on a periodic basis to ensure the costs are commensurate with market conditions.
3. During the year, an underwriting fee of $10,000 was paid by a wholly owned subsidiary of the Company to an entity associated with Mr Baillie, for the underwriting of the Folkestone Seniors Living Fund No 1.
4. During the year, an underwriting fee of $10,000 was paid by a wholly owned subsidiary of the Company to an entity associated with Mr Paramor, for the underwriting of the Folkestone Seniors Living Fund No 1.

O. 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 2017 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	14	3	2
Number of meetings attended by:			
Garry R Sladden	14	3	2
Mark W Baillie	14	3	2
Gregory J Paramor	13	*	*
K Ross Strang	14	3	2

** Not a member of the relevant committee*

P. INDEMNIFICATION OF OFFICERS AND AUDITORS

During the year, Folkestone Limited has paid insurance premiums in respect of its officers for liability and legal expenses insurance contracts. Such insurance contracts insure against certain liability (subject to specified exclusions) for persons who are or have been officers of the Company.

Details of the nature of the liabilities covered or the amount of the premium paid has not been included as such disclosure is prohibited under the terms of the contracts.

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.

DIRECTORS' REPORT CONT.

Q. PROCEEDINGS ON BEHALF OF THE COMPANY

There are currently no proceedings on behalf of the Company.

R. 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 7 to the financial statements on page 61.

The Board of Directors, in accordance with the advice from the Audit and Risk Management 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 and Risk Management 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 APES110 - Code of Ethics for Professional Accountants.

S. AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 30 June 2017 has been received and is found on page 31 of the Annual Report.

T. 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	**Greg Paramor AO**
Non-Executive Chairman	Managing Director

Sydney
24 August 2017

CORPORATE GOVERNANCE STATEMENT

Folkestone Limited ("the Company") is a publicly listed company that is governed by the regulations of the *Corporations Act 2001*.

The Company is committed to achieving and demonstrating the highest standards of corporate governance. The Company has reviewed its corporate governance practices against the Corporate Governance principles and Recommendations (3rd edition) published by the ASX Corporate Governance Council.

The 2017 corporate governance statement is dated as at 24 August 2017 and reflects the corporate governance practices in place throughout the 2017 financial year. The 2017 corporate governance statement was approved by the board on 24 August 2017. A description of the Company's current corporate governance practices is set out in the group's corporate governance statement which can be viewed at http://folkestone.com.au/about-us/corporate-governance/.

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

DX: 111
Tel: +61 (0) 3 9671 7000
Fax: +61 (0) 9671 7001
www.deloitte.com.au

24 August 2017

The Board of Directors
Folkestone Limited
Level 14
357 Collins Street
MELBOURNE VIC 3000

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 2017, 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

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

DX: 111
Tel: +61 (0) 3 9671 7000
Fax: +61 (0) 9671 7001
www.deloitte.com.au

Independent Auditor's Report to the members of Folkestone Limited

Report on the Audit of the Financial Report

Opinion

We have audited the consolidated financial report of Folkestone Limited (the "Group"), which comprises the statement of financial position as at 30 June 2017, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key Audit Matters	How the scope of our audit responded to the Key Audit Matters

Recoverability of investments made and loans issued to land and property development projects
 	
As at 30 June 2017 the Group's exposures in the form of either equity accounted interests in joint ventures & associates and/or loans made to unlisted equity partnerships undertaking land and property development projects is $42.22 million (2016 $28.03 million) as disclosed in notes 9 (equity loans), 11 and 12.
 	
The recoverability of these exposures requires significant judgement in estimating the ultimate proceeds from the realisation of the development projects compared with the expected cost of the project.
	Our audit procedures included but were not limited to:
	
	• Obtaining an understanding of the process undertaken by management to prepare the project feasibility plan and test the key internal controls, including the preparation, review and board approval of cash flow forecasts supporting this process,
	• Testing the profits recognised from equity accounted investments with reference to the completeness and accuracy of the carrying value of project work-in-progress and underlying profit recognised in the investment entities,
	• Challenging management's assessment of the realisation assumptions included in the feasibility report by:
	  ○ Assessing the reasonableness of the key assumptions adopted by management compared to similar projects completed by the Group as well as comparing the actual project revenues and costs incurred,
	  ○ Assessing the historical accuracy of management's forecasting of project revenues and development costs,
	  ○ Performing sensitivity analysis on the key assumptions including but not limited to non-achievement of revenue forecasts, cost overruns and/or impact of project delays, and
	  ○ Obtaining an understanding of the current stage of completion of the project at year end and post year end compared with the Board approved feasibility plan to identify any indicators of impairment.
	
	We also assessed the appropriateness of the related disclosures in Notes 9, 11 and 12 to the financial statements.

Recoverability of Inventories
 	
As at 30 June 2017 the Group's direct investment in land currently under property development is $11.33 million (2016 $15.02 million) as disclosed in note 10.
 	
Significant judgement is required in estimating the ultimate proceeds from the realisation of the development inventory and measuring the inventories at the lower of net realisable value or cost.
	Our audit procedures included but were not limited to:
	
	• Obtaining an understanding of the process undertaken by management to assess the net realisable value and test the key internal controls, including the preparation, review and board approval supporting this process,
	• Challenging management's assessment of the net realisable value by:
	  ○ Assessing the independent valuations performed by management's experts to support the recoverability assessment,
	  ○ Evaluating the competence and objectivity of management's experts, and
	  ○ Obtaining an understanding of the current stage of completion of the project at year end and post year end compared with the Board approved feasibility plan to identify any issues with realisation.
	
	We also assessed the appropriateness of the related disclosures in Note 10 to the financial statements.

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Other Information

The directors are responsible for other information. The other information comprises the information included in the annual report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities for the Financial Report

The directors of the Group 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
From the matters communicated with directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 28 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Folkestone Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of Folkestone Limited 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.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Craig Bryan
Partner
Chartered Accountants
Melbourne, 24 August 2017

FINANCIAL REPORT

FOLKESTONE LIMITED AND ITS CONTROLLED ENTITIES

For the year ended 30 June 2017

This Financial Report covers both Folkestone Ltd as an individual entity and the Group 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 14
357 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 3 to 29.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOLKESTONE LIMITED AND ITS CONTROLLED ENTITIES

For the year ended 30 June 2017

	Note	Economic Entity 2017 $000	 2016 $000
Continuing operations			
Revenue	2	57,224	15,773
Development expenses		(29,199)	(65)
Other gains/(losses)		9	-
Reversal of impairment of finished goods and work in progress		237	1,541
Share of profits of associates and joint ventures		6,650	8,681
Impairment of interest held in associated entity		(406)	(400)
Impairment of preferred equity loans		(240)	(840)
Impairment of other receivables		(413)	-
Employee benefits expense		(10,474)	(8,016)
Rental expense on operating leases - developments		(237)	(1,637)
Rental expense on operating leases - corporate		(301)	(356)
Administration expenses		(2,684)	(1,989)
Finance costs	3	(663)	(481)
Due diligence and acquisition costs		(626)	(1,182)
Depreciation and amortisation expense		(123)	(105)
Changes in fair value of financial assets through profit and loss		175	96
Changes in fair value of derivative instruments through profit and loss		72	(58)
Profit before income tax		**19,001**	**10,962**
Income tax expense	4	(5,586)	(1,925)
Profit for the year		**13,415**	**9,037**
Net profit after tax for the year attributable to: Owners of the company		13,415	5,451
Non-controlling interests		-	3,586
Net profit after tax for the year		**13,415**	**9,037**
Other comprehensive income:			
Items that may be re-classed subsequently to profit or loss:			
Changes in fair value of financial assets		3,683	16,925
Income tax expense relating to components of other comprehensive income		(1,105)	(5,078)
Total other comprehensive income net of tax		2,578	11,847
Total comprehensive income net of tax		**15,993**	**20,884**
Total comprehensive income for the year attributable to:			
Owners of the company		15,993	17,298
Non-controlling interests		-	3,586
Total comprehensive income for the year		**15,993**	**20,884**
Earnings per share from continuing operations			
Basic earnings per share (cents per share)	8	9.1	3.7
Diluted earnings per share (cents per share)	8	9.0	3.7

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 42 to 91.

STATEMENT OF FINANCIAL POSITION

FOLKESTONE LIMITED AND ITS CONTROLLED ENTITIES

As at 30 June 2017

ASSETS	Note	Economic Entity 2017 $000	Economic Entity 2016 $000
CURRENT ASSETS			
Cash and cash equivalents	27	21,887	20,175
Trade and other receivables	9	4,851	6,966
Inventories	10	11,330	15,024
Investment in joint ventures	12	2,458	355
Other current assets		406	399
TOTAL CURRENT ASSETS		**40,932**	**42,919**
NON-CURRENT ASSETS			
Trade and other receivables	9	15,628	16,550
Other financial assets	32	88,396	82,038
Units in associated entities	11	9,521	4,247
Investment in joint ventures	12	18,041	7,408
Property, plant and equipment	14	491	457
Intangibles	15	11,389	11,389
Goodwill	16	1,433	1,433
TOTAL NON-CURRENT ASSETS		**144,899**	**123,522**
TOTAL ASSETS		**185,831**	**166,441**
CURRENT LIABILITIES			
Trade and other payables	17	4,121	2,391
Short-term borrowings	18	2,705	7,212
Employee benefit provisions		1,060	561
Provision for income tax	20	4,058	-
TOTAL CURRENT LIABILITIES		**11,944**	**10,164**
NON-CURRENT LIABILITIES			
Long-term borrowings	18	7,429	4,970
Derivative financial instruments	19	35	107
Employee benefit provisions		107	452
Deferred tax liability	20	7,616	4,983
TOTAL NON-CURRENT LIABILITIES		**15,187**	**10,512**
TOTAL LIABILITIES		**27,131**	**20,676**
NET ASSETS		**158,700**	**145,765**
EQUITY			
Issued capital	21	124,668	124,668
Reserves	22	21,607	18,301
Accumulated profits		12,426	2,758
Parent interest		158,701	145,727
Non-controlling interest	23	(1)	38
TOTAL EQUITY		**158,700**	**145,765**

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 42 to 91.

STATEMENT OF CHANGES IN EQUITY

FOLKESTONE LIMITED AND ITS CONTROLLED ENTITIES

For the year ended 30 June 2017

Economic Entity	Note	Issued Capital $000	Accumulated Profits/ (Losses) $000	Reserves $000	Attributable to Owners of the Parent $000	Non-controlling Interest $000	Total $000
Balance at 1 July 2015		124,668	(2,693)	6,293	128,268	9,502	137,770
Profit for the year		-	5,451	-	5,451	3,586	9,037
Other comprehensive income net of tax	22	-	-	11,847	11,847	-	11,847
Total comprehensive income for the year		-	5,451	11,847	17,298	3,586	20,884
Distribution paid or provided for	23	-	-	-	-	(13,050)	(13,050)
Issue of performance / share appreciation rights	22	-	-	161	161	-	161
Balance at 30 June 2016		**124,668**	**2,758**	**18,301**	**145,727**	**38**	**145,765**
Balance at 1 July 2016		124,668	2,758	18,301	145,727	38	145,765
Profit for the year		-	13,415	-	13,415	-	13,415
Other comprehensive income net of tax	22	-	-	2,578	2,578	-	2,578
Total comprehensive income for the year		-	13,415	2,578	15,993	-	15,993
Distribution paid or provided for	23	-	-	-	-	(96)	(96)
Dividends paid or provided for		-	(3,690)	-	(3,690)	-	(3,690)
Transactions with non-controlling interests	23	-	(57)	-	(57)	57	-
Issue of performance / share appreciation rights	22	-	-	728	728	-	728
Balance at 30 June 2017		**124,668**	**12,426**	**21,607**	**158,701**	**(1)**	**158,700**

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 42 to 91.

STATEMENT OF CASH FLOWS

FOLKESTONE LIMITED AND ITS CONTROLLED ENTITIES

For the year ended 30 June 2017

	Note	Economic Entity 2017 $000	2016 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		48,869	10,295
Payments to suppliers and employees		(41,472)	(13,498)
Interest received		136	425
Finance costs		(644)	(519)
Trust distributions received		4,288	3,091
Net cash achieved by/(used in)operating activities	27	**11,177**	**(206)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(249)	(466)
Payment for investment in associated entity		(6,350)	-
Proceeds received from redemption of units in associated entity		435	-
Distributions received from investment in associated entity		426	-
Payment for interest in joint venture		(15,080)	(3,759)
Distributions received from interests in joint ventures		8,801	29,739
Loans advanced to associated entities		(9,726)	(11,241)
Repayment of loans by associated entities		16,045	-
Sale/(purchase) of financial assets		(2,500)	5,267
Net cash provided by/(used in) investing activities		**(8,198)**	**19,540**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		17,500	105
Repayment of borrowings		(15,000)	(15,168)
Dividends paid to members of the parent entity		(3,676)	-
Distribution paid to non-controlling interests		(93)	(13,050)
Funds returned from / (funds placed on) deposit to secure bank guarantees		2	(37)
Net cash used in financing activities		**(1,267)**	**(28,150)**
Net increase/(decrease) in cash and cash equivalents		**1,712**	**(8,816)**
Cash and cash equivalents at beginning of financial year		**20,175**	**28,991**
Cash and cash equivalents at end of financial year	27	**21,887**	**20,175**

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 42 to 91.

NOTES TO THE FINANCIAL STATEMENTS

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 consolidated financial statements of the group. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity. 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 2017 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.

The following new and revised Standards and Interpretations have been adopted in the current year and have affected the amounts reported in these financial statements.

ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for an accounting period that begins on or after 1 July 2016.

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

- AASB 1057 Application of Australian Accounting Standards and AASB 2015-9 Amendments to Australian Accounting Standards – Scope and Application Paragraphs
- AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions if Interests in Joint Operations
- AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation
- AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements
- AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle
- AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101
- AASB 2015-5 Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES CONT.

New and revised Australian Accounting Standards in issue but not yet effective

At the date of authorisation of the financial statements, the Group has not applied the following new and revised Australian Accounting Standards, Interpretations and amendments that have been issued but are not yet effective:

Standard/Interpretation	Effective for Annual Reporting Periods Beginning On Or After
AASB 9 Financial Instruments	1 January 2018
AASB 15 Revenue from Contracts with Customers, 2014-5 Amendments to Australian Accounting Standards arising from AASB 15, 2015-8 Amendments to Australian Accounting Standards – Effective date of AASB 15, 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15	1 January 2018
AASB 16 Leases	1 January 2019
AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128	1 January 2018
AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses (AASB 112)	1 January 2017
AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [AASB 10 & AASB 128], 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	1 January 2017
AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions	1 January 2018
AASB 2017-1 Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments	1 January 2018
AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle	1 January 2017
Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018

At the date of these financial statements, the potential impact of these standards has not yet been determined.

Accounting Policies

a) Principles of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company: has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including: the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders; potential voting rights held by the Company, other vote holders or other parties; rights arising from other contractual arrangements; and any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated Statement of Profit or Loss and Other Comprehensive Income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries 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.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and 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. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable AASBs). 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, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

b) Investments in Associates and Joint Ventures

An associate is an entity over which the Group has significant influence. 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.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with AASB 5. Under the equity method, an investment in an associate or a joint venture 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 or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES CONT.

in the associate or joint venture), 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 or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee 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 and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

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 or a joint venture. 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.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with AASB 139. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no re-measurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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

c) 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.

d) 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. Funds Management Revenues

Revenue from the rendering of funds management services are accounted for as they are provided as outlined in accordance with the various Fund Constitution documents for which the Group acts as the Responsible Entity or Trustee.

2. Development Activities

(i) Land Sub-division

Revenue is recognised where there is a signed unconditional contract and the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the land;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the land sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(ii) 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 GST.

e) 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 assessed as to whether sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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.

Folkestone Limited and its wholly owned entities have formed a tax-consolidated group and are therefore taxed as a single entity from the date of consolidation. 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

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES CONT.

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.

f) 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 Statement of Financial Position.

g) Financial Instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets at AFS

Listed shares held by the Group that are traded in an active market are classified as AFS and are stated at fair value. Fair value is determined in the manner described in Note 32. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. Distributions on AFS equity instruments are recognised in profit or loss when the Group's right to receive the distributions is established.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both; or
- which is managed and its performance is evaluated on a fair value basis, in accordance with the accounting standards.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'changes in fair value of financial assets' line item. Fair value is determined in the manner described in Note 32.

h) 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.

i) 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.

j) Depreciation on Plant and Equipment

Depreciation is charged in respect of office equipment, 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 plant, equipment and moveable fittings is five to ten years.

k) 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.

l) Intangibles

Intangible assets acquired in a business combination are identified and recognised separately from goodwill, where they satisfy the definition of an intangible asset and their fair values can be measured reliably.

(i) Management Rights

Management rights recognised by the Group are assessed to determine their useful life to the Group. Where management rights have a finite life they are amortised over that life. Where management rights have been assessed to have a non-finite useful life, they are not amortised.

Each period management rights are reviewed to determine whether events and circumstances continue to support this assessment of useful life. Management rights are tested for impairment in accordance with the accounting policy stated at note 1(m) below.

(ii) 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.

m) 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

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES CONT.

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 Statement of Profit and Loss and Other Comprehensive Income.

n) 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 12 months after the end of the financial year and are measured at the amounts expected to be paid when they are settled.

iv) Superannuation

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

v) Employee Benefit On-costs

Employee benefit on-costs, including payroll tax, 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/Share Appreciation Rights

The fair value of performance rights/share appreciation 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 a Black Scholes simulation model which is the generally accepted approach for valuing rights which may be exercised, once vested, at any time up until expiry. The expense recognised 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.

The fair value of share appreciation rights granted are measured using a Black Scholes simulation model which is the generally accepted approach to valuing such rights. 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.

o) 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.

p) Earnings per Share

i) Basic Earnings per Share

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

ii) Diluted Earnings per Share

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

q) Comparative Figures

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

r) 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.

s) 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 10 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) Investment in Joint Ventures

Note 12 sets out the Group's interest in joint ventures. The Directors of the Company have reviewed and assessed the classification of the Group's investments in joint ventures in accordance with the requirements of AASB 11. The Directors of the Company have concluded that the arrangements in place for the projects summarised in Note 12 meet the definition of a joint venture arrangement and as such should be classified as a joint venture under AASB 11 and accounted for using the equity method on the basis of the following:

- There is equal representation on the management committee from both joint venture parties;
- Relevant decisions require unanimous approval by the management committee; and
- The joint venture parties have the rights to the net assets of the arrangement.

iii) Units in Associated Entities

Note 11 sets out the value of units held in associated entities. Under the equity method investments in associates are carried in the consolidated Statement of Financial Position at cost adjusted for post-acquisition changes in the Group's share of net assets of the associate, less any impairment in the value of individual investments.

The Group holds a 30 per cent interest in the Greenvalley Asset Trust, an 18.76 per cent interest in the Folkestone Truganina Development Fund (Truganina Fund), and a 25 per cent interest in the Folkestone Wollert Development Fund (Wollert Fund) which have been classified as units held in associated entities. The Directors of the Company reviewed and assessed the classification of the Group's investment in the associated entities in accordance with the requirements of AASB 128 on the basis that the Group has significantly influence over the financial and

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES CONT.

operating policy decisions of the investee.

Whilst the Group only holds a 18.76 per cent interest in the Truganina Fund which is below the 20 per cent threshold ordinarily used to assess whether an entity has influence, the Directors have determined that the Group does have significant influence over the Truganina Fund on the basis that the Group acts as Trustee of the Truganina Fund which provides it with significant influence over the financial and operating policy decisions of the Truganina Fund.

Units in associated entities are assessed for indicators of impairment at each reporting date. All impairment losses are expensed to the Statement of Profit or Loss and Other Comprehensive Income.

iv) Non-Finite Life Intangible assets

The Company holds intangible assets with respect to management rights that are classified as non-finite life intangible assets and not subject to amortisation but are subject to annual impairment testing under note 1(m). The Directors have determined that on the basis of the rights having no fixed useful life and it is the intention that the funds will be continually managed going forward it is appropriate that management rights are classified as non-finite life intangible assets. Refer to Note 15 for a summary of the judgements used in determining the useful life of management rights.

v) Impairment Testing of Intangible Assets

Please refer to Note 15 and 16 for a summary of the inputs which have been used to assess the carrying value of intangible assets.

vi) Recognition of Deferred Tax Balances

Please refer to Note 4 and Note 20 for a summary of the methodology used when assessing the carrying value of the Deferred Tax Liability.

vii) Recoverability of investments made and loans issued to land and property development projects

As at 30 June 2017 the Group's exposures in the form of either equity accounted interests in joint ventures & associates and/or loans made to unlisted equity partnerships undertaking land and property development projects are disclosed in notes 9, 11 and 12.

The recoverability of these exposures requires significant judgement in estimating the ultimate proceeds from the realisation of the development projects compared with the expected cost of the project.

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 2: REVENUE

		Economic Entity	
		2017	**2016**
	Note	**$000**	**$000**
Revenue from continuing operations consists of the following items:			
- Development activities		38,110	135
- Interest received	2a	2,286	1,500
- Funds management activities		12,470	8,467
- Trust distributions		4,358	4,236
- Realised gain on sale of available for sale financial assets		-	1,435
Total Revenue		**57,224**	**15,773**
2a. Interest received from:			
- bank deposits		136	420
- preferred equity loans for development projects		2,150	1,080
Total Interest Revenue		**2,286**	**1,500**

NOTE 3: FINANCE COSTS

	Economic Entity	
	2017	**2016**
	$000	**$000**
Finance costs from continuing operations consist of the following items:		
- Interest and line fees	735	595
- Financial institution charges	12	10
Total Finance Costs	**747**	**605**
Less:		
Interest and line fees capitalised to property developments included in inventory or expensed as development expenses	(84)	(124)
Total Finance Costs	**663**	**481**

The weighted average interest rate (including margins) on funds borrowed at balance date is 4.02% (2016: 4.32%).

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 4: INCOME TAX EXPENSE

	Economic Entity	
	2017 $000	2016 $000
Income tax recognised in profit or loss		
Current tax expense	6,087	2,552
Deferred tax benefit	(501)	(627)
Income tax expense	**5,586**	**1,925**

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	
		2017 $000	2016 $000
Profit from operations		19,001	10,962
Income tax calculated at 30%		5,700	3,289
Add/(Subtract):			
i.	Non-deductible expenses	11	54
ii.	Non-assessable income	(106)	(1,122)
iii.	Over provision for income tax in the prior year	(19)	(296)
Income tax expense attributable to entity recognised in profit or loss		**5,586**	**1,925**

		Economic Entity	
		2017 $000	2016 $000
Income tax recognised in other comprehensive income			
Items that may be re-classified subsequently to profit or loss:			
-	Income tax expense relating to changes in fair value of financial assets	1,105	5,078
Total income tax expense recognised in other comprehensive income		**1,105**	**5,078**

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION

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

Key Management Person	Position
GR Sladden	Non-Executive Chairman
MW Baillie	Non-Executive Deputy Chairman
KR Strang	Non-Executive Director
GJ Paramor AO	Managing Director
NJ Anagnostou	Chief Executive Officer - Folkestone Education Trust
BP Dodwell	Head of Real Estate
AJ Harrington	Head of Funds Management
SN Martin	Chief Financial Officer & Company Secretary

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	
	2017 $	2016 $
Short-term employee benefits	2,098,942	2,096,140
Non-monetary benefits	59,263	56,535
Post-employment benefits	163,995	160,928
Short-term incentive cash bonus	1,500,000	416,097
Other long term benefits	(8,353)	144,113
Share-based payment	409,396	148,390
	4,223,243	**3,022,203**

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 6: SHARE BASED PAYMENTS

Performance Rights and Share Appreciation Rights issued as part of Remuneration for the year ended 30 June 2017

Performance Rights

There were a total of 2,486,200 performance rights issued as part of remuneration for the year ended 30 June 2017 with a grant date of 16 November 2016. The following table summarises the factors and assumptions were used in determining the fair value of rights on the grant dates together with a summary of the recipients of the performance rights:

Details of Performance Rights Issued During the Current Year

	Valuation Factors and Assumptions						Recipients					
Tranche	**Grant Date**	**Expiry Date**	**Fair Value per Right**	**Exercise Price**	**Price of Shares on Grant Date**	**Dividend Yield**	**AJ Harrington**	**BP Dodwell**	**NJ Anagnostou**	**SN Martin**	**Other Staff**	**Total**
12	16-Nov-16	30-Jun-31	$0.85	-	$0.94	2.8%	235,000	235,000	235,000	235,000	354,000	1,294,000
13	16-Nov-16	16-Nov-31	$0.89	-	$0.94	2.8%	53,500	53,500	53,500	53,500	183,400	397,400
14	16-Nov-16	16-Nov-31	$0.87	-	$0.94	2.8%	53,500	53,500	53,500	53,500	183,400	397,400
15	16-Nov-16	16-Nov-31	$0.85	-	$0.94	2.8%	53,500	53,500	53,500	53,500	183,400	397,400
Total							**395,500**	**395,500**	**395,500**	**395,500**	**904,200**	**2,486,200**

**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 the shares on vesting of any rights awarded.

The fair value of performance rights granted for rights with non-market based performance criteria are measured using a Black Scholes simulation model 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.

Share Appreciation Rights

There was no share appreciation rights issued as part of remuneration for the year ended 30 June 2017.

The Board's policy in respect of the accounting treatment of share appreciation rights is to engage the services of an independent expert to calculate the fair value of share appreciation 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 the shares on vesting of any rights awarded.

The fair value of share appreciation rights granted are measured using a Black Scholes simulation model which is the generally accepted approach for valuing such rights. 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 of the performance rights on issue over ordinary shares in the Company that have been granted as compensation as at 30 June 2017 are set out in the following tables. The performance rights were provided at no cost to the recipients and have a nil exercise price.

Summary of Performance Rights Granted as Compensation as at 30 June 2017

Tranche	Grant Date	Expiry Date	Fair Value per Right	AJ Harrington	BP Dodwell	NJ Anagnostou	SN Martin	Other Staff	Total
6	29-Sep-15	31-Aug-17	$0.93	31,200	31,200	31,200	31,200	82,500	207,300
7	29-Sep-15	01-Jul-18	$0.91	31,200	31,200	31,200	31,200	82,500	207,300
8	29-Sep-15	01-Jul-19	$0.89	31,200	31,200	31,200	31,200	82,500	207,300
9	12-Nov-15	31-Aug-17	$0.96					31,200	31,200
10	12-Nov-15	01-Jul-18	$0.94					31,200	31,200
11	12-Nov-15	01-Jul-19	$0.92					31,200	31,200
12	16-Nov-16	30-Jun-31	$0.85	235,000	235,000	235,000	235,000	354,000	1,294,000
13	16-Nov-16	16-Nov-31	$0.89	53,500	53,500	53,500	53,500	183,400	397,400
14	16-Nov-16	16-Nov-31	$0.87	53,500	53,500	53,500	53,500	183,400	397,400
15	16-Nov-16	16-Nov-31	$0.85	53,500	53,500	53,500	53,500	183,400	397,400
Total				**489,100**	**489,100**	**489,100**	**489,100**	**1,245,300**	**3,201,700**

The following table summarises the performance rights which have lapsed or vested during the 2017 financial year.

Summary of Performance Rights Which Have Vested/Lapsed in 2017

	Grant Date	Expiry Date	Fair Value per Right	AJ Harrington	BP Dodwell	NJ Anagnostou	SN Martin	Other Staff	Total
Tranche 5									
Issued	01-Jul-14	01-Jul-16	$1.10	-	131,402	-	131,402	-	262,804
Vested				-	(131,402)	-	(131,402)	-	(262,804)
Lapsed				-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 6: SHARE BASED PAYMENTS CONT.

The performance rights issued under the Executive Incentive Performance Rights Plan expire on the termination of the individual's employment and vest subject to the following performance criteria being met.

Tranche 5 Performance Rights

Tranche 5 performance rights were issued on 1 July 2014 and vested on 1 July 2016. The Tranche 5 performance rights did not have a performance criteria.

Tranche 6, 7, 8, 9, 10 and 11 Performance Rights

Tranche 6, 7, 8, 9, 10 and 11 performance rights will vest based on the achievement of average compound Return on Equity over the performance period ranging from 7.5%-12.5% per annum on a sliding scale with:

- Full vesting where the average compound Return on Equity is 12.5% per annum or above;
- 50% vesting where the average compound Return on Equity is 7.5% per annum; and
- Where the average compound Return on Equity is between 7.5% and 12.5% per annum, the number of Performance Rights that vest will be calculated on a straight line basis.

The performance period for Tranche 6, 7, 8, 9, 10 and 11 performance rights is 1 July 2015 to 30 June 2017.

The performance condition has been 97% achieved. The Shares to be issued in respect of each tranche of performance rights are summarised in the table below and will vest on the dates outlined in the table subject to the employee's continued employment with Folkestone Limited at all times during the vesting period:

Tranche	Number of shares to be issued	Vesting Date
6 and 9	230,158	31 August 2017
7 and 10	219,543	1 July 2018
8 and 11	219,543	1 July 2019

Tranche 12 Performance Rights

Tranche 12 performance rights were issued on 16 November 2016 and have a vesting date of 30 June 2020 and an expiry date of 30 June 2031. The Tranche 12 performance rights represent the issue of additional performance rights in lieu of the component of the FY16 STI Bonus Pool which the Board elected to defer and issue in the form of long term incentives. Other than continuity of employment, there are no other performance criteria relating to the vesting of the Tranche 12 performance rights.

Tranche 13,14 and 15 Performance Rights

Tranche 13, 14 and 15 performance rights will vest based on the achievement of average compound Return on Equity over the performance period ranging from 7.5%-12.5% per annum on a sliding scale with:

- Full vesting where the average compound Return on Equity is 12.5% per annum or above;
- 50% vesting where the average compound Return on Equity is 7.5% per annum; and
- Where the average compound Return on Equity is between 7.5% and 12.5% per annum, the number of Performance Rights that vest will be calculated on a straight line basis.

The performance period for Tranche 13, 14 and 15 performance rights is 1 July 2016 to 30 June 2018.

The vesting dates and expiry dates for each Tranche of performance rights is summarised in the table below.

Tranche	Vesting Date	Expiry Date
13	31 August 2018	30 Nov 2031
14	1 July 2019	30 Nov 2031
15	1 July 2020	30 Nov 2031

Share Appreciation rights over equity instruments granted as compensation

There were no share appreciation rights granted during the 2017 financial year. There were no share appreciation rights on issue over ordinary shares in the Company as at 30 June 2017. The following table summarises share appreciation rights which have vested or lapsed during the 2017 financial year.

Summary of Share Appreciation Rights Which Have Vested/Lapsed in 2017

	Grant Date	Expiry Date	Fair Value per Right	GJ Paramor	AJ Harrington	BP Dodwell	NJ Anagnostou	SN Martin	Other Staff	Total
Tranche 4 & 7										
Issued	21-Aug-14	14-Sep-16	$0.37		36,036	36,036	36,036	36,036	90,106	234,250
Lapsed					(36,036)	(36,036)	(36,036)	(36,036)	(90,106)	(234,250)
Tranche 5										
Issued	21-Aug-14	14-Sep-16	$0.34		39,216	39,216	39,216	39,216	98,028	254,892
Lapsed					(39,216)	(39,216)	(39,216)	-39,216	(98,028)	(254,892)
Tranche 6										
Issued	21-Aug-14	14-Sep-16	$0.32		42,090	42,090	42,090	42,090	105,832	274,192
Lapsed					(42,090)	(42,090)	(42,090)	(42,090)	(105,832)	(274,192)
Tranche 7										
Issued	16-Oct-14	14-Sep-16	$0.195	36,036						36,036
Lapsed				(36,036)						(36,036)
Tranche 8										
Issued	16-Oct-14	14-Sep-16	$0.175	39,216						39,216
Lapsed				(39,216)						(39,216)
Tranche 9										
Issued	16-Oct-14	14-Sep-16	$0.165	42,090						42,090
Lapsed				(42,090)						(42,090)
Total										
Issued				**117,342**	**117,342**	**117,342**	**117,342**	**117,342**	**293,966**	**880,676**
Lapsed				**(117,342)**	**(117,342)**	**(117,342)**	**(117,342)**	**(117,342)**	**(293,966)**	**(880,676)**

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 6: SHARE BASED PAYMENTS CONT.

Share Appreciation rights over equity instruments granted as compensation continued

Tranche 4,5,6,7,8 and 9 Share Appreciation Rights

Tranche 4,5,6,7,8 and 9 share appreciation rights were subject to the achievement of average compound Return on Equity over the performance period ranging from 7.5%-12.5% per annum on a sliding scale with:

- Full vesting where average compound Return on Equity is 12.5% per annum or above;
- 50% vesting where average compound Return on Equity is 7.5% per annum; and
- Where the average compound Return on Equity per annum is between 7.5% and 12.5% per annum, the number of Share Appreciation Rights that vest will be calculated on a straight line basis.

The performance period for Tranche 4,5,6,7,8 and 9 share appreciation rights was 1 July 2014 to 30 June 2016.

The Average Compound Return on Equity over the performance period has been calculated as 12.8% which meant that the performance condition was 100% satisfied however the SARs only vested if the share price at 31 August 2016 was above $1.105 per share. The share price at 31 August 2016 was $1.015 and as a result the Tranche 4,5,6,7,8 and 9 share appreciation rights expired on 14 September 2016.

Analysis of share-based payments granted as compensation

Details of the vesting profile of performance rights/share appreciation rights granted as compensation to Director's & Executives are detailed below:

Executives	Number	Date	% Vested in Year	% Vested in Total	% Forfeited in Year	% Forfeited in Total	Financial Years to which Grant Vests
Performance Rights Granted							
AJ Harrington	93,600	29 Sep 2015	-	-	-	-	Jun 2018 - 2020
	395,500	16 Nov 2016	-	-	-	-	Jun 2019 - 2020
BP Dodwell	131,402	1 Jul 2014	50%	50%	-	-	Jun 2017
	93,600	29 Sep 2015	-	-	-	-	Jun 2018 - 2020
	395,500	16 Nov 2016	-	-	-	-	Jun 2019 - 2020
SN Martin	131,402	1 Jul 2014	50%	50%	-	-	Jun 2017
	93,600	29 Sep 2015	-	-	-	-	Jun 2018 - 2020
	395,500	16 Nov 2016	-	-	-	-	Jun 2019 - 2020
NJ Anagnostou	93,600	29 Sep 2015	-	-	-	-	Jun 2018 - 2020
	395,500	16 Nov 2016	-	-	-	-	Jun 2019 - 2020
Other Staff	247,500	29 Sep 2015	-	-	-	-	Jun 2018 - 2020
	93,600	12 Nov 2015	-	-	-	-	Jun 2018 - 2020
	904,200	16 Nov 2016	-	-	-	-	Jun 2019 - 2020
Total	**3,464,504**						
Share Appreciation Rights Granted							
GJ Paramor	117,342	16 Oct 2014	-	-	100%	100%	June 2017
NJ Anagnostou	117,342	21 Aug 2014	-	-	100%	100%	June 2017
BP Dodwell	117,342	21 Aug 2014	-	-	100%	100%	June 2017
AJ Harrington	117,342	21 Aug 2014	-	-	100%	100%	June 2017
SN Martin	117,342	21 Aug 2014	-	-	100%	100%	June 2017
Other Staff	293,966	21 Aug 2014	-	-	100%	100%	June 2017
Total	**880,676**						

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 7: AUDITORS' REMUNERATION

	Economic Entity	
	2017 **$**	**2016** **$**
Remuneration of the auditor for:		
- auditing or reviewing the financial report	131,250	118,525
- other	16,500	3,460
Total	**147,750**	**121,985**

The auditor of Folkestone Ltd is Deloitte Touche Tohmatsu.

NOTE 8: EARNINGS PER SHARE

	Economic Entity	
	2017 **(cents)**	**2016** **(cents)**
Basic earnings per share		
From continuing operations	9.1	3.7
Total basic earnings per share	**9.1**	**3.7**
Diluted earnings per share		
From continuing operations	9.0	3.7
Total diluted earnings per share	**9.0**	**3.7**

On 4 November 2015, Folkestone completed a consolidation of its share capital through the conversion of every 5 shares into 1 share. Where the consolidation resulted in an entitlement to a fraction of a share, the fraction was rounded up to the nearest whole number of shares.

As a result of the above, the number of shares on issue reduced from 736,531,824 shares to 147,306,759 shares in the prior reporting period.

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:

	Economic Entity	
	2017 ($000)	2016 ($000)
Profit after tax attributable to members of the parent entity	13,415	5,451
Earnings used in the calculation of basic EPS	13,415	5,451
Earnings used in the calculation of basic earnings per share from continuing operations	13,415	5,451

	2017 No.	2016 No.
Weighted average number of ordinary shares for the purposes of basic earnings per share (all measures)	147,605,620	147,300,864

Diluted earnings per share

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

	Economic Entity	
	2017 $000	2016 $000
Profit after tax attributable to members of the parent entity	13,415	5,451
Earnings used in the calculation of diluted EPS	13,415	5,451
Earnings used in the calculation of diluted EPS from continuing operations	13,415	5,451

	2017 No.	2016 No.
Weighted average number of ordinary shares used in the calculation of diluted EPS	149,860,521	147,563,668

There are 3,201,700 non-market based employee performance rights which have been issued for no consideration as at 30 June 2017 (2016: 1,241,108). These are considered dilutive in a profit making position.

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 9: TRADE AND OTHER RECEIVABLES

	Economic Entity 2017 $000	Economic Entity 2016 $000
CURRENT		
Trade receivables	3,615	1,765
Provision for doubtful debts	(127)	-
Preferred equity loans	75	3,974
Other receivables	1,288	1,227
Total current trade and other receivables	**4,851**	**6,966**
NON-CURRENT		
Preferred equity loans	12,454	12,883
Impairment of preferred equity loans	(240)	(840)
Other receivables	3,827	4,507
Impairment of other receivables	(413)	-
Total non-current trade and other receivables	**15,628**	**16,550**

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. Standard trade receivable terms are 30 days.

Trade Receivables

	Economic Entity 2017 $000	Economic Entity 2016 $000
Not past due	3,437	1,437
Past due 0-30 days	1	-
Past due 31-120 days	32	270
Past 120 days	145	58
Total trade receivables	**3,615**	**1,765**

NOTE 10: INVENTORIES

	Economic Entity 2017 $000	Economic Entity 2016 $000
Current		
Land and property developments in progress (i)	11,330	15,024
Total inventories	**11,330**	**15,024**

(i) The inventories relate to land at Millers Junction, Altona North. During the current reporting period there was a $0.237 million (2016: $1.541 million) reversal of a prior year impairment based upon a re-assessment of the net realisable value of the Stage 3 land parcel. The re-assessment of the net realisable value was based upon a forecast project feasibility and independent valuation advice.

NOTE 11: UNITS IN ASSOCIATED ENTITIES

Details of the Group's material associates at the end of the reporting period are as follows:

Name	Principal Activities	Country of Incorporation	Proportion of ownership interest and voting power held by the Group		Carrying amount of investment	
			2017 %	2016 %	2017 $000	2016 $000
Greenvalley Asset Property Trust[1]	Property Development	Australia	30	25	38	557
Folkestone Truganina Development Fund[2]	Property Development	Australia	18.76	18.76	3,333	3,690
Folkestone Wollert Development Fund[3]	Property Development	Australia	25	-	6,150	-
					9,521	**4,247**

1 *The Ranges Holdings Karratha Pty Ltd, a wholly owned subsidiary of Folkestone Ltd, owns 72 of the 240 units on issue. The units were acquired in June 2011.*

2 *Folkestone No.3 Pty Ltd, a wholly owned subsidiary of Folkestone Ltd, owns 2,990,025 of the 15,932,250 units on issue. The units were acquired in August 2014.*

3 *Folkestone No.3 Pty Ltd, a wholly owned subsidiary of Folkestone Ltd, owns 6,350,000 of the 25,400,000 units on issue. The units were acquired in April 2017.*

Folkestone's ownership interest in the Greenvalley Asset Trust ("Greenvalley") was 30 per cent of the issued units at the reporting date. The first stage of the Project sees Greenvalley undertaking the development of the Ranges, Karratha ,a hotel for business travellers to the region comprising of 108 one bedroom villas. Greenvalley also owns an adjoining 7.15 hectare parcel of land previously zoned "Conservation and Recreation and Natural Landscapes" and re-zoned by Greenvalley to "Urban Development" for future staged development of approximately 350 dwellings, a Clubhouse and complementary recreational amenity including education and community uses. To date, 73 units have been constructed and 57 units have settled. The remaining 16 units are being held by Greenvalley pending a distribution of these units to preferred equity loan providers in partial repayment of their loans. Folkestone has agreed to acquire a total of 4 of these units as a partial repayment of their preferred equity loan. The timing for the development of the balance of the land has not yet been determined due to the present economic conditions in the region. At 30 June 2017, Folkestone completed a review of the carrying value of its investment in the project which was referenced by an updated third party valuation completed in June 2017. As a result of this process, Folkestone made a further $0.6 million provision against the carrying value of its investment in this project, $0.4 million of which has been made against the carrying value of its equity investment with the balance allowed for against the carrying value of the preferred equity loan.

Folkestone's ownership interest in the Folkestone Truganina Development Fund was 18.76 per cent of issued units at the reporting date. The reporting date of Folkestone Truganina Development Fund is 30 June 2017. This reporting date coincides with Folkestone Ltd. Please refer to Note 1 for a summary of the explanation as to the classification of the Group's interest in this Fund as an interest in associated entity.

Folkestone's ownership interest in the Folkestone Wollert Development Fund was 25.0 per cent of issued units at the reporting date. The reporting date of Folkestone Wollert Development Fund is 30 June 2017. This reporting date coincides with Folkestone Ltd. During the current reporting period, the Group's interest in the Folkestone Wollert Development Fund reduced from 62.5 per cent to 25 per cent. Please refer to Note 23 and 29 for further information.

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 11: UNITS IN ASSOCIATED ENTITIES CONT.

The summarised financial information in respect of the Group's material associates is set out below and represents amounts shown in the associate's financial statements prepared in accordance with AASBs adjusted by the Group for equity accounting purposes.

	2017 $000	2016 $000
Greenvalley Asset Property Trust		
Current assets	8,201	9,455
Non-current assets	11,107	9,120
Current liabilities	(3,147)	(3,834)
Non-current liabilities	(12,391)	(9,777)
Net assets	**3,770**	**4,964**
Revenue	1,118	8,308
Loss from continuing operations	(375)	(835)
Loss for the year	(375)	(835)
Other comprehensive income for the year	-	-
Total comprehensive loss for the year	(375)	(835)
Distributions received from the associate during the year	-	-

Reconciliation of the summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2017 $000	2016 $000
Net assets of the associate	3,770	4,964
Proportion of the Group's ownership interest in the associate	30%	25%
	1,131	1,241
Consideration paid greater than the carrying value of net assets	412	412
Impairment provision	(1,505)	(1,096)
Carrying amount of the Group's interest in the associate	**38**	**557**

NOTES TO THE FINANCIAL STATEMENTS CONT.

	2017 $000	2016 $000
Folkestone Truganina Development Fund		
Current assets	2,517	5,076
Non-current assets	16,048	19,721
Current liabilities	(806)	(5,135)
Non-current liabilities	-	-
Net assets	**17,759**	**19,662**
Revenue	4,394	4,099
Profit/ (Loss) from continuing operations	2,683	2,270
Profit/ (Loss) for the year	2,683	2,270
Other comprehensive income for the year	-	-
Total comprehensive profit/ (loss) for the year	2,683	2,270
Distributions received from the associate during the year	426	-

Reconciliation of the summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2017 $000	2016 $000
Net assets of the associate	17,759	19,662
Proportion of the Group's ownership interest in the associate	18.76%	18.76%
Carrying amount of the Group's interest in the associate	**3,333**	**3,690**

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 11: UNITS IN ASSOCIATED ENTITIES CONT.

	2017 $000	2016 $000
Folkestone Wollert Development Fund		
Current assets	7,319	-
Non-current assets	17,308	-
Current liabilities	(27)	-
Non-current liabilities	-	-
Net assets	**24,600**	**-**
Revenue	20	-
Profit/ (Loss) from continuing operations	(803)	-
Profit/ (Loss) for the year	(803)	-
Other comprehensive income for the year	-	-
Total comprehensive profit/ (loss) for the year	(803)	-
Distributions received from the associate during the year	-	-

Reconciliation of the summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2017 $000	2016 $000
Net assets of the associate	24,600	-
Proportion of the Group's ownership interest in the associate	25.00%	-
Carrying amount of the Group's interest in the associate	**6,150**	**-**

NOTE 12: INVESTMENT IN JOINT VENTURES

Name	Principal Activity	Country of Incorporation	Carrying Value 2017 $000	Carrying Value 2016 $000	Ownership Interest 2017 %	Ownership Interest 2016 %
CURRENT						
West Ryde Joint Venture	Property Development	Australia	130	125	50	50
Potters Grove, Officer Joint Venture	Property Development	Australia	45	230	50	50
Millers Junction Business Joint Venture	Property Development	Australia	1,165	-	51	51
Northside, Officer Joint Venture	Property Development	Australia	1,118	-	50	50
			2,458	**355**		
NON-CURRENT						
Green Square Hotel Joint Venture	Property Development	Australia	5,049	-	50	-
Chatswood Joint Venture	Property Development	Australia	1,300	-	50	-
Industria, Nunawading Joint Venture	Property Development	Australia	2,834	447	50	50
FLK-Lyon Hornsby Joint Venture	Property Development	Australia	4,954	474	50	50
Industria, Knoxfield Joint Venture	Property Development	Australia	1,821	1,785	50	50
South Dural Joint Venture	Property Development	Australia	2,083	1,395	50	50
Millers Junction Business Joint Venture	Property Development	Australia	-	2,038	51	51
Northside, Officer Joint Venture	Property Development	Australia	-	1,277	50	50
Wollert Joint Venture	Property Development	Australia	-	(8)	-	80
			18,041	**7,408**		
Total			**20,499**	**7,763**		

The above joint ventures are accounted for using the equity method in these consolidated financial statements.

Summarised financial information in respect of the Group's investment in joint ventures is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with AASBs (adjusted by the Group for equity accounting purposes).

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 12: INVESTMENT IN JOINT VENTURES CONT.

Summarised Statement of Financial Position	West Ryde		Potters Grove, Officer		Millers Junction		Northside, Officer		Green Square Hotel		Chatswood		Industria, Nunawading		FLK-Lyon Hornsby		Industria, Knoxfield		South Dural	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Current assets	1,212	2,105	108	421	3,226	14,024	2,628	9,252	331	-	-	-	291	144	229	186	443	369	1,046	1,187
Non-current assets	-	-	-	290	-	-	-	35	9,807	-	2,600	-	9,711	811	23,135	9,830	5,024	5,750	3,152	1,727
Current liabilities	(951)	(1,855)	(19)	(251)	(941)	(10,027)	(391)	(6,733)	(39)	-	-	-	(4,333)	(61)	(5,397)	(2,127)	(863)	(59)	(33)	(123)
Non-current liabilities	-	-	-	-	-	-	-	-	-	-	-	-			(8,058)	(6,940)	(962)	(2,490)	1	-
Net assets	**261**	**250**	**89**	**460**	**2,285**	**3,997**	**2,237**	**2,554**	**10,099**	**-**	**2,600**	**-**	**5,669**	**894**	**9,909**	**949**	**3,642**	**3,570**	**4,166**	**2,791**
Reconciliation to carrying amounts																				
Proportion of the Group's ownership interest in the joint venture	50%	50%	50%	50%	51%	51%	50%	50%	50%	0%	50%	0%	50%	50%	50%	50%	50%	50%	50%	50%
Carrying amount of the Group's interest in the joint venture	**130**	**125**	**45**	**230**	**1,165**	**2,038**	**1,118**	**1,277**	**5,049**	**-**	**1,300**	**-**	**2,834**	**447**	**4,954**	**474**	**1,821**	**1,785**	**2,083**	**1,395**
The above amounts of assets and liabilities include the following:																				
Cash and cash equivalents	1,152	2,096	108	241	-	366	297	14	312	-	-	-	185	144	193	134	317	369	2	150
Current financial liabilities (excluding trade and other payables and provisions)	-	-	-	-	-	(8,876)	-	(6,616)	-	-	-	-	(3,700)	-	(5,375)	(2,125)	(962)	-	-	-
Non-current financial liabilities (excluding trade and other payables and provisions)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(8,058)	(6,940)	-	(2,490)	-	-

Summarised Statement of Comprehensive Income	West Ryde		Potters Grove, Officer		Millers Junction		Northside, Officer		Green Square Hotel		Chatswood		Industria, Nunawading		FLK-Lyon Hornsby		Industria, Knoxfield		South Dural	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Revenue	18	98,986	145	4,564	24,679	-	22,099	-	-	-	-	-	127	-	268	196	11,083	-	33	-
Profit/(loss) from continuing operations	11	16,340	30	904	8,586	-	3,582	(26)	(1)	-	-	-	127	-	(969)	95	2,741	-	(1,150)	(369)
Profit/(loss) for the year	11	16,340	30	904	8,586	-	3,582	(26)	(1)	-	-	-	127	-	(969)	95	2,741	-	(1,150)	(369)
Other comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	**11**	**16,340**	**30**	**904**	**8,388**	**-**	**3,582**	**(26)**	**(1)**	**-**	**-**	**-**	**127**	**-**	**(969)**	**95**	**2,741**	**-**	**(1,150)**	**(369)**
The above profit/(loss) for the year includes the following:																				
Interest income	17	3	3	4	1	-	28	-	-	-	-	-	2	-	2	1	4	-	33	-

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 13: CONTROLLED ENTITIES

a. Controlled Entities Consolidated

	Country of Incorporation	Percentage Owned (%)^ 2017	2016
Parent Entity:			
Folkestone Limited	Australia		
Controlled entities of Folkestone Limited:			
Folkestone Funds Management Ltd	Australia	100	100
Folkestone Investment Management Ltd	Australia	100	100
Folkestone Seniors Living Management Ltd (formerly Folkestone Real Estate Management Ltd)	Australia	100	100
Equity Real Estate Partners Pty Ltd	Australia	100	100
The Ranges Holdings Karratha Pty Ltd	Australia	100	100
Millers Road (Altona) Pty Ltd	Australia	100	100
Folkestone Maxim Asset Management Limited	Australia	100	100
Folkestone West Ryde Development Fund	Australia	99	50
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 Nunawading Pty Ltd	Australia	100	100
Folkestone No: 7 Pty Ltd	Australia	100	100
Folkestone No: 8 Pty Ltd	Australia	100	100
Corporate Square Wollongong Pty Ltd	Australia	100	100
Folkestone No: 10 Pty Ltd	Australia	100	100
Folkestone Real Estate Services Pty Ltd	Australia	100	100
Folkestone SI 1 Pty Ltd	Australia	100	100
Folkestone SI 2 Pty Ltd	Australia	100	100
Sorrento (VIC) Pty Ltd*	Australia	100	100
Lionel Road (Vic) Pty Ltd *	Australia	100	100
Folkestone Knoxfield Pty Ltd	Australia	100	100
Folkestone South Dural Pty Ltd	Australia	100	100
Millers Junction Fund	Australia	100	100
Folkestone Hornsby Development Fund	Australia	100	100
Folkestone Property Management Pty Ltd	Australia	100	100
Folkestone Geelong Development Fund	Australia	100	100
Folkestone Commerce Park Fund	Australia	100	100
Folkestone South Dural Development Fund	Australia	100	100
Folkestone Green Square Pty Ltd	Australia	100	-
Folkestone Chatswood Pty Ltd	Australia	100	-
Folkestone Seniors Living Fund No. 2	Australia	100	-

^Percentage of voting power is in proportion to ownership.

** Members voluntary liquidation in progress*

NOTE 14: PROPERTY, PLANT AND EQUIPMENT

	Economic Entity 2017 $000	2016 $000
PLANT AND EQUIPMENT		
Office equipment:		
At cost	1,072	1,045
Accumulated depreciation and impairment	(581)	(588)
Total property, plant and equipment	**491**	**457**

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 2017 $000	2016 $000
Carrying amount at the start of the year	457	97
Additions at cost	249	463
Disposals	(4)	-
Transfers to operating expenditure	(88)	-
Depreciation expense	(123)	(103)
Carrying amount at the end of year	**491**	**457**

NOTE 15: INTANGIBLES

	Economic Entity	
	2017 $000	**2016 $000**
Management Rights	11,500	11,500
Accumulated amortisation	(111)	(111)
Total management rights	**11,389**	**11,389**

The carrying value of management rights ($11.4 million) comprise the following amounts:

- In September 2012, Folkestone acquired the Austock property funds management business which at the date of acquisition had $555 million of funds under management. The fair value of intangible management rights with a non-finite life assessed at the date of acquisition was $10.9 million. The fair value of intangible management rights with a finite life assessed as at date of acquisition was $0.3 million. The intangible management rights related to the Folkestone Childcare Fund and were previously being amortised on a straight line until the date that the Folkestone Education Trust, a listed open-ended management investment scheme, acquired 100 per cent of the units in the Folkestone Childcare Fund at which point the written down value of the management rights ($0.1 million) was re-classified as management rights with a non-finite life. The total carrying value of non-finite intangible management rights relating to the acquisition of the Austock property funds management business is $11.1 million.
- In April 2014, Folkestone acquired 100 per cent of the share capital of Maxim Asset Management Limited (now known as Folkestone Maxim Asset Management Limited). Maxim had $30 million of funds under management at the date of acquisition. The fair value of intangible management rights with a non-infinite life assessed as at the date of acquisition was $0.3 million.

The Directors have assessed that the management rights have a non-finite useful life. The underlying funds to which the management rights relate are open-ended funds and therefore have no fixed termination date and are intended to be managed on an ongoing basis into the foreseeable future with no determination made around potential exits of the underlying Funds, and therefore there is no foreseeable limit to the period over which the management rights are expected to generate cash inflows for Folkestone. Further the Funds Management business reflects an activity that is a core part of Folkestone's business and there is no expectation Folkestone would divest the management rights.

In accordance with the accounting standards, the carrying value of intangible assets with a non-finite useful life is assessed for impairment at least annually or whenever there is an indication that the intangible asset may be impaired.

For the purposes of impairment testing, intangibles have been allocated to the cash generating business unit of funds management. The analysis completed is based upon a value in use calculation of the forecast earnings over a five year period into perpetuity on the basis that the funds have an infinite life. For the purposes of the analysis we have assumed a 2.2% growth in funds under management, a revenue growth rate of 3%, a cost escalation assumption of 5% and a pre-tax discount factor of 14%. Based upon this analysis no impairment loss has been recognised in respect of intangible management rights for the year ended 30 June 2017.

NOTE 16: GOODWILL

	Economic Entity	
	2017 $000	2016 $000
Goodwill		
At cost	1,433	1,433
Total goodwill	**1,433**	**1,433**

During the 2013 year, Folkestone acquired the Austock property funds management business. The acquisition resulted in an amount $0.2 million of goodwill being recognised. The goodwill which arose on the acquisition was attributable to the significant expansion of Folkestone's funds management platform which has provided the Company with additional fee income, distribution networks and an experienced team of staff. The balance of $1.2 million of goodwill relates to the acquisition of Equity Real Estate Partners Pty Ltd (EREP) which occurred on 1 April 2011 which at the time expanded Folkestone's business to include a funds management platform and provided the Company with an experienced management team with proven real estate and funds management experience in addition to an AFSL which permitted it to carry on a financial services business.

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.

For the purposes of impairment testing, the carrying value of goodwill associated with the acquisition of the Austock Property Funds management business ($0.2 million) and 50% of the goodwill relating to the acquisition of EREP has been allocated to the funds management cash generating unit. The goodwill allocated to the funds management cash generating unit has been assessed in conjunction with the assessment of intangibles as disclosed in Note 15 based upon a value in use calculation of the forecast earnings over a five year period into perpetuity on the basis that the funds have an infinite life.

The balance of the goodwill in relation to the acquisition of EREP, ($0.6 million) has been allocated to the cash generating unit of property development for the purposes of impairment testing. The analysis completed is based upon a value in use calculation of the forecast earnings of each cash-generating unit using a pre-tax discount factor of 14%.

Based upon the above analysis no impairment loss has been recognised in respect of goodwill for the year ended 30 June 2017.

NOTE 17: TRADE AND OTHER PAYABLES

	Economic Entity	
	2017 $000	2016 $000
Trade payables (i)	618	543
Sundry payables and accrued expenses	3,503	1,848
Total trade and other payables	**4,121**	**2,391**

(i) Trade payables are non-interest bearing liabilities. Trade creditor payments are generally processed 30 days from the end of the month of invoice.

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 18: BORROWINGS

	Economic Entity 2017 $'000	2016 $'000
Short-term borrowings		
Bank loans - secured	2,097	2,068
Loans - other	608	5,144
	2,705	**7,212**
Long-term borrowings		
Bank loans - secured	7,500	5,000
Less: unamortised up front transaction costs	(71)	(30)
	7,429	**4,970**

Short-Term Borrowings

The Group has a debt facility with Bank of Melbourne in respect of the project at 302-330 Millers Road, Altona North.

The key commercial terms of the debt facility as at 30 June 2017 are as follows:

Facility Limit	$2.1 million
Drawn Amount	$2.1 million
Facility Maturity	June 2018

The prevailing interest rate at 30 June 2017 was 3.52 per cent plus a line fee of 1.75 per cent.

The Group also has an additional loan of $0.6m from Wilmac-FLK Millers Road Pty Ltd. The loan is repayable from the sales proceeds of the Millers Junction Business project. During the current period, sales proceeds of $4.5m were applied against the original loan amount of $5.1m. The balance of sales proceeds required to repay the loan are expected to be received by 31 December 2017.

The loan is interest free and does not have a fixed term.

Long-Term Borrowings

The Group has a debt facility with ANZ Bank.

The key commercial terms of the debt facility as at 30 June 2017 are as follows:

Facility Limit	$25.0 million
Drawn Amount	$7.5 million
Facility Maturity	December 2019

The carrying amounts of the Company's borrowings approximate their fair value.

During the current reporting period the corporate facility was extended for a further two years until December 2019. The new facility limit is $25.0 million. The prevailing interest rate at 30 June 2017 was 2.765 per cent plus a line fee of 0.90 per cent. As at 30 June 2017, the Company complied with all of its debt covenant ratios and obligations.

Hedging arrangements

The Group has the following interest rate swap in place:

Period	Hedged Amount $'000	Hedged Rate (Inclusive of margin and line fees)%
February 2015 - December 2017	10,000	4.22

Interest rate and liquidity risk

Please refer to Note 32 for information on interest rate and liquidity risk.

NOTE 19: DERIVATIVE FINANCIAL INSTRUMENTS

	2017 $000	2016 $000
NON-CURRENT		
Derivative financial instruments - interest rate swap contracts	35	107
	35	**107**

The Group uses derivative financial instruments (comprising of interest rate swaps) to swap its risk associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently re-measured to fair value.

Please refer to Note 18 for further information on these contracts.

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 20: TAX

	Economic Entity 2017 $000	Economic Entity 2016 $000
a. Liabilities		
CURRENT		
Income Tax	4,058	-
NON-CURRENT		
Deferred Tax Liability	7,616	4,983
	11,674	**4,983**
b. Deferred Tax Liability		
Accrued expenses	865	413
S.40-880 deductible expenditure	306	449
Employee benefits	350	304
Accrued income	(154)	(154)
Carried forward tax losses	-	2,045
Unrealised gain on Financial Assets	(8,223)	(7,118)
Other	(760)	(922)
Closing balance	**(7,616)**	**(4,983)**

The increment in the deferred tax asset/(liability) for the year is as follows:

	Economic Entity 2017 $000	Economic Entity 2016 $000
Opening balance	(4,983)	2,019
Utilisation of carried forward tax losses	(2,029)	(2,552)
Movement for the year charged to profit or loss	501	628
Movement for the year charged to other comprehensive income	(1,105)	(5,078)
Closing balance	**(7,616)**	**(4,983)**

c. Unrecognised Deferred Tax Assets

Deferred tax assets not recognised at reporting date comprise:

Carried forward tax losses	303	303
	303	**303**

The carried forward tax losses which remain unrecognised at 30 June 2017 are "transferred" losses acquired through business combinations. Whilst these losses are able to be utilised, they are subject to an available fraction test to determine the quantum which can be utilised in any one tax year.

NOTE 21: ISSUED CAPITAL

	Economic Entity 2016 $000	Economic Entity 2016 $000
147,605,620 (2016: ***147,306,759***) fully paid ordinary shares of no par value	124,668	124,668
	124,668	**124,668**

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.

	2017		2016	
	Shares '000	**$000**	**Shares '000**	**$000**
Ordinary shares				
At the beginning of reporting period	147,307	124,668	735,044	124,668
Issue of shares under employee share rights plan	299	-	1,488	-
Share consolidation	-	-	(589,225)	-
At reporting date	**147,606**	**124,668**	**147,307**	**124,668**

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.

During the prior reporting period, Folkestone Limited completed a consolidation of its capital through the conversion of every five shares into one share. Where the consolidation resulted in an entitlement to a fraction of a share the fraction was rounded up to the nearest whole number of shares.

The share consolidation was completed on 4 November 2015 and the number of shares on issue was reduced from 736,531,824 shares to 147,306,759 shares.

Franking Account	Economic Entity 2017 $000	Economic Entity 2016 $000
Balance of franking account at year end	11,955	13,354

NOTE 22: RESERVES

	Economic Entity	
	2017 $000	2016 $000
Investment revaluation reserve	19,187	16,609
Equity-settled employee benefits reserve	2,420	1,692
	21,607	**18,301**

Investment revaluation reserve

	Economic Entity	
	2017 $000	2016 $000
Balance at the beginning of the year	16,609	4,762
Net gain arising on revaluation of available-for-sale financial assets (net of tax)	2,578	11,847
Balance at the end of the year	**19,187**	**16,609**

The investment revaluation reserve represents the cumulative gains and losses arising on the revaluation of available-for-sale financial assets that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of or are determined to be impaired.

Equity-settled employee benefits reserve

	Economic Entity	
	2017 $000	2016 $000
Balance at the beginning of the year	1,692	1,531
Net performance rights/share appreciation rights granted	728	161
Balance at the end of the year	**2,420**	**1,692**

The above equity-settled benefits reserve relates to performance rights and share appreciation rights granted by the Company to its employees under its Executive Incentive Plan. Further information about share-based payments to employees is set out in Note 6.

NOTE 23: NON-CONTROLLING INTERESTS

	Economic Entity	
	2017 $000	2016 $000
Balance at the beginning of the year	38	9,502
Share of profit for the year attributable to non-controlling interests of the Folkestone West Ryde Development Fund	-	3,589
Share of loss for the year attributable to non-controlling interests of the Folkestone Wollert Development Fund	-	(3)
Transactions with non-controlling interests - Folkestone West Ryde Development Fund	54	-
Transactions with non-controlling interests - Folkestone Wollert Development Fund	3	-
Distribution paid to non-controlling interests of the Folkestone West Ryde Development Fund	(96)	(13,050)
Balance at the end of the year	**(1)**	**38**

Transactions with Non-Controlling Interests

On 28 June 2017, the Folkestone West Ryde Development Fund paid a final distribution to unitholders of the Fund. Following payment of the distribution, all ordinary units were redeemed and 100 B Class units were issued. The Group was issued with 99 B Class units, increasing the Group's interest in the Fund by an additional 49 per cent to 99 per cent. The carrying amounts of the Group's interests and the non-controlling interest have been adjusted to reflect the change in ownership interest.

In April 2017, the Group ceased to have control of the Folkestone Wollert Development Fund following the issue of units in the Fund to third party investors. The Group's investment in the Fund is now 25 per cent. Refer to Note 29 for further information.

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Folkestone West Ryde Development Fund	**2017 $000**	**2016 $000**
Current Assets	134	257
Current Liabilities	(255)	(175)
Equity attributable to owners of the Company	(120)	41
Non-Controlling Interest	(1)	41
Revenue	6	8,180
Expenses	(18)	(1,687)
Income tax expense	-	686
Profit/(loss) for the year after tax	(12)	7,179
Profit/(loss) attributable to owners of the Company	(12)	3,590
Profit/(loss) attributable to non-controlling interests	-	3,589
Net cash outflow from operating activities	(17)	(1,466)
Net cash inflow from investing activities	-	27,431
Net cash outflow from financing activities	(111)	(26,100)
Net cash outflow	(128)	(135)

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 24: OPERATING LEASE COMMITMENTS

	Economic Entity	
	2017 $000	2016 $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	377	672
• between 12 months and 5 years	1,290	1,422
	1,667	**2,094**

The Group has the following corporate lease commitments:

- Level 10, 60 Carrington St, Sydney which expires on 31 March 2021. Rent is payable monthly in advance with 3.75 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.
- Level 14, 357 Collins Street, Melbourne which expires on 28 Feb 2021. Rent is payable monthly in advance with 3.75 per cent per annum fixed increases on the anniversary date.

NOTE 25: CONTINGENT LIABILITIES

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

- ID-FLK Bayview Road Pty Ltd - The Group has a 50 per cent interest in the development of the Northside, Officer project located at 15 Bayview Road, Officer. The Bank of Melbourne has provided the joint venture with a $2.1 million loan facility (drawn to 30 June 2017: $0.0 million) for this development. The loan facility runs to March 2018. As part of the security for this facility, Folkestone Limited has provided Bank of Melbourne with a guarantee and indemnity limited to $2.0 million plus costs.
- Industria, Knoxfield - The Group has a 50 per cent interest in the development of the Industria project at Knoxfield. The Bank of Melbourne has provided the joint venture with a $5.5 million loan facility (drawn to 30 June 2017: $1.0 million) for this development. The loan facility runs to June 2018. As part of the security for this facility, Folkestone Limited has provided Bank of Melbourne with a guarantee and indemnity limited to $2.0 million plus costs.
- Industria, Nunawading. The Group has a 50 per cent interest in the development of the Industria project at Nunawading. The Commonwealth Bank of Australia has provided the joint venture with a $15.0 million loan facility (drawn to 30 June 2017: $3.7 million) to assist with the acquisition of the land. The facility has an expiry date of September 2017. Folkestone has provided CBA with a guarantee and indemnity limited to $4.2 million plus costs.
- Elements, Truganina. - The Group has an effective 18.76 per cent interest in the development of the Elements project at Truganina via a co-investment in the Folkestone Truganina Development Fund. The ANZ Bank has provided the joint venture with a $13.2 million land facility (drawn to 30 June 2017: $13.2 million) for this development. The loan facility runs to 31 August 2017. Folkestone Limited has provided ANZ Bank with a guarantee and indemnity limited to $10.6 million plus costs.

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; and
- 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 Directors 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 26: SEGMENT REPORTING

The directors of the Company have chosen to organise the Group around differences in products and services. No operating segments have been aggregated in arriving at the reportable segments of the Group. The economic entity's reportable segments under AASB 8 are Funds Management and Development.

	Segment Revenue		Segment Profit	
	30 June 2017 $000	30 June 2016 $000	30 June 2017 $000	30 June 2016 $000
Continuing operations				
Funds management[1]	17,003	15,851	17,003	15,851
Development[2]	46,910	8,279	16,652	6,811
	63,913	**24,130**	**33,655**	**22,662**
Other revenue[3]	145	420	145	420
Administration costs			(14,799)	(12,120)
Profit before income tax			**19,001**	**10,962**
Income tax benefit/(expense) (continuing and discontinued operations)			(5,586)	(1,925)
Consolidated segment revenue and profit for the year	**64,058**	**24,550**	**13,415**	**9,037**

Segment Assets	30 June 2017 $000	30 June 2016 $000
Funds management[4]	116,744	98,122
Development[5]	57,929	48,294
Unallocated[6]	11,158	20,025
Total Assets	**185,831**	**166,441**
Segment Liabilities		
Funds management	-	-
Development	2,705	7,212
Unallocated	24,426	13,464
Total Liabilities	**27,131**	**20,676**

1 *Funds management revenue and segment profit includes trust distributions, management fees and other fees generated from Folkestone's funds management platform.*

2 *Development revenue and segment profit includes amounts in relation to direct balance sheet investments, interests in joint ventures and associated entities and interest on preferred equity loans.*

3 *Other Revenue comprises interest income on cash reserves and other gains*

4 *Funds management segment assets include regulatory capital/intangible management rights and goodwill allocated to the funds management cash generating unit.*

5 *Development segment assets include amounts in relation to direct balance sheet investments, goodwill, interests in joint ventures and associated entities and preferred equity loans.*

6 *Unallocated assets include $9.5 million of cash reserves*

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 27: NOTES TO THE CASH FLOW STATEMENT

	Economic Entity	
	2017 $000	2016 $000
Cash at bank and in hand	21,887	20,175
	21,887	**20,175**

Reconciliation of cash

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to items in the Statement of Financial Position as follows:

Cash and cash equivalents	21,887	20,175
	21,887	**20,175**

a. Reconciliation of profit for the period to net cash flows from operations

	2017 $000	2016 $000
Profit after income tax	13,415	9,037
Non-cash items		
Share of profits of associates and joint ventures classified as cash flows from investing activities	(6,650)	(8,681)
Trust distribution received relating to participation in Distribution Reinvestment Plan	-	(1,127)
Accrued interest on preferred equity loans	(2,150)	(1,070)
Expensing of performance rights	728	161
Impairment of interest held in associated entity	406	400
Realised gain on sale of investments classified as investing cashflows	-	(1,435)
Amortisation and depreciation	123	105
Loss on disposal of fixed assets	4	-
Transfers from property plant and equipment	88	-
Impairment of preferred equity loans	240	840
Impairment of other receivables	413	-
Change in fair value of financial assets through profit and loss	(175)	(96)
Change in fair value of derivative financial instrument	(72)	58
Movement in assets and liabilities		
Decrease/(increase) in trade and other receivables	(1,781)	738
Decrease/(increase) in prepayments	(9)	341
Decrease/(increase) in other operating assets	(42)	8
(Increase)/decrease in inventories	(841)	(2,207)
(Increase)/decrease in deferred tax asset	-	1,925
Increase/(decrease) in current tax liability	4,058	-
Increase/(decrease) in deferred tax liability	1,528	-
Increase/(decrease) in trade and other payables	1,712	549
Increase in provisions	153	248
Finance costs capitalised	29	-
Net cash provided by/(used in) operations	**11,177**	**(206)**

b. Credit Standby Arrangements with Banks

Bank Loan Facilities	27,100	32,100
Amount utilised	(9,597)	(7,068)
	17,503	**25,032**

Refer to Note 18 for a summary of the bank loan facilities.

NOTE 28: EVENTS AFTER BALANCE DATE

On 26 July 2017 the Company announced that it had established the Folkestone SOP Opportunity Fund which has entered into an agreement to acquire 11 Murray Rose Avenue, Sydney Olympic Park. Folkestone provided a short term loan of $7.7 million to the SOP Opportunity Fund whilst the $24.7 million equity raising was completed. The loan was fully repaid on 11 August 2017.

NOTE 29: CHANGES IN OWNERSHIP INTERESTS

In the prior year, Folkestone established the Folkestone Wollert Development Fund (Fund) to undertake a joint venture with ID_Land for the development of a residential master planned community in Wollert, Victoria. Whilst the third party equity raising was completed, Folkestone owned a 62.5 per cent interest in the Fund. In April 2017, Folkestone commenced the issue of units in the Fund to third party investors, at which time Folkestone ceased to have control over the Fund. Folkestone's investment in the Fund is now 25 per cent. Folkestone has recognised a gain of $0.013 million in the current period following loss of control of the Fund.

Folkestone's investment in the Fund is now recognised as investment in an associated entity as it has been determined that Folkestone has significant influence over the Fund through its equity investment and its role as Trustee of the Fund. Please refer to Note 1 for further information.

In the prior year, the Folkestone West Ryde Development Fund completed a 50/50 joint venture for the development of residential development project in located in West Ryde, Sydney. Folkestone owned a 50 per cent interest in the Fund. In June 2017, all ordinary units in the Fund were redeemed and 100 B Class units were issued. Folkestone was issued with 99 B Class units, increasing the Group's interest in the Fund by an additional 49 per cent to 99 per cent. The carrying amount of the Group's interests and the non-controlling interests have been adjusted to reflect the changes in their relative interests.

NOTE 30: PARENT ENTITY INFORMATION

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements. Refer to Note 1 for a summary of the significant accounting policies relating to the Group.

	Parent Entity	
	2017	**2016**
Financial Position	**$000**	**$000**
ASSETS		
Current assets	11,703	15,021
Non-current assets	149,937	127,736
Total assets	**161,640**	**142,757**
LIABILITIES		
Current liabilities	8,730	2,608
Non-current liabilities	15,186	10,543
Total liabilities	**23,916**	**13,151**
Net Assets	**137,724**	**129,606**
EQUITY		
Issued capital	124,668	124,668
Accumulated losses as at 30 June 2015	(24,282)	(24,282)
Accumulated profits since 1 July 2015	15,731	10,919
Reserves	21,607	18,301
Total Equity	**137,724**	**129,606**

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 30: PARENT ENTITY INFORMATION CONT.

Financial Performance	2017 $000	2016 $000
Profit/(loss) for the year	8,501	10,919
Other comprehensive income	2,578	12,223
Total comprehensive income for the year	**11,079**	**23,142**
Guarantees entered into by the parent entity in relation to the debts of its subsidiaries		
Guarantee provided by the parent entity in relation to the debts of its subsidiaries (i)	-	-
Contingent liabilities of the parent entity		
Contingent liabilities of the parent entity (i)	-	-

(i) Please refer to Note 25: Contingent liabilities for a summary of the guarantees and contingent liabilities that have been provided by the parent entity.

Each of these guarantees 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 Directors 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 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 13.

Transactions between Folkestone Limited and other entities in the wholly-owned Group during the years ended 30 June 2017 and 2016 consisted of:

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

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. Balances and transactions between the Company and its subsidiaries which are related parties are eliminated on consolidation and are not disclosed in this note.

Other Related Parties

Other related parties include investment in associates as set out in Note 11 and interests in joint venture operations as set out in Note 12.

Current year

The Group owns 30,687,878 units (2016: 30,687,878) in the Folkestone Education Trust (ASX:FET) which is a listed real estate investment trust on the Australian Securities Exchange. During the current reporting period, the company received or was entitled to receive distributions totalling $4,357,679 (2016: $4,202,376). In the prior reporting period, the Group acquired 515,707 units through participation in FET's Distribution Reinvestment Plan and the Group sold 1,149,487 units for a realised gain of $1,174,646.

During the year, Folkestone successfully completed a $25.4 million equity raising for the Folkestone Wollert Development Fund. Folkestone has retained a 25 per cent interest in the Folkestone Wollert Development Fund and the units acquired were on the same terms and conditions as units issued to third party investors. Folkestone was entitled to receive an acquisition fee of $883,181 plus GST payable by the Fund following completion of the equity raising. Folkestone also received an $8,800,000 re-zoning fee from the joint venture to which the Folkestone Wollert Development Fund is a joint venture partner.

During the year, Folkestone successfully completed a $25.6 million equity raising for the Folkestone Seniors Living Fund No. 1. Folkestone has retained a 10 per cent interest in the Folkestone Seniors Living Fund No. 1. and the units acquired were on the same terms and conditions as units issued to third party investors. Folkestone was entitled to receive an acquisition fee of $577,000 plus GST payable by the Fund following completion of the equity raising.

Transactions between Folkestone Limited and other related parties during the years ended 30 June 2017 and 2016 consisted of fees received and cost recoveries from unlisted funds for whom the Company acts as Corporate Trustee and fees and cost recoveries from managed investment schemes for whom the Company acts as Responsible Entity. The following is a summary of the fees and cost recoveries received from funds management activities:

	2017 $000	2016 $000
Management Fees	7,340	5,234
Administration Fees / Cost Recoveries	1,146	1,053
Development Management Services Fees	694	545
Acquisition Fees and Disposal Fees	2,411	43
Debt Refinance	450	1,150
Leasing Fees	429	442
Total per Note 2 - Revenue	**12,470**	**8,467**
Management Fees - Folkestone West Ryde Development Fund[1]	-	41
Performance Fee - Folkestone West Ryde Development Fund[1]	-	1,576
Total Fees and Cost Recoveries	**12,470**	**10,084**

[1] *A Performance fee of $1,576,354 and Management fees of $41,250 were invoiced by the Group in 2016 in respect of the Folkestone West Ryde Development Fund. These fees have been eliminated upon consolidation of the Folkestone West Ryde Development Fund into the financial statements of the Group.*

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 31: RELATED PARTY TRANSACTIONS CONT.

Transactions with Directors

Current year

1. During the year, the Company engaged the services of Mr Baillie, a non-executive Director of Folkestone Limited, on a consultancy agreement to provide property funds management advisory services to the Company. Total fees paid during the year under the agreement were $90,000 (2016: $120,000).
2. Folkestone Limited has engaged Daniels Printing to provide a range of printing services (annual reports, shareholder updates etc.). Mr Paramor is a co-owner of Daniels Printing. During the year, Daniels Printing provided services totalling $11,037 (2016: $17,979). The Company regularly seeks alternate costing on a periodic basis to ensure the costs are commensurate with market conditions.
3. During the year, an underwriting fee of $10,000 was paid by a wholly owned subsidiary of the Company to an entity associated with Mr Baillie, for the underwriting of the Folkestone Seniors Living Fund No 1.
4. During the year, an underwriting fee of $10,000 was paid by a wholly owned subsidiary of the Company to an entity associated with Mr Paramor, for the underwriting of the Folkestone Seniors Living Fund No 1.

NOTE 32: FINANCIAL INSTRUMENTS

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:

	Economic Entity	
	2017 $000	**2016 $000**
Debt	9,597	7,068
Cash and Cash Equivalents	(21,887)	(20,175)
Net Cash	(12,290)	(13,107)
Equity (Parent interest)	158,701	145,727
Net debt to equity ratio	(7.7%)	(9.0%)

The above analysis does not take into account Folkestone's share of debt in respect of the joint venture projects disclosed in Notes 11 and 12 as these investments are disclosed on the face of the statement of financial position as an investment in an associated entity or an investment in a joint venture.

Allowing for Folkestone's share of these project's debt, the debt for the economic entity for the current year would increase to $17.9 million (2016: $19.2 million) and net cash would decrease to $4.0 million (2016: net cash of $1.0 million), reflecting a net debt to equity ratio of 2.5 per cent (2016: 0.7 per cent).

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) Categories of Financial Instruments

	Economic Entity	
	2017 $000	2016 $000
Financial Assets		
Cash and cash equivalents	21,887	20,175
Trade and other receivables	20,479	23,516
Available for sale financial assets	85,619	81,937
Held for trading financial assets	2,777	101
Total Financial Assets	**130,762**	**125,729**

	Economic Entity	
	2017 $000	2016 $000
Financial Liabilities		
Financial liabilities - fair value through profit or loss	35	107
Short-term borrowings - at amortised cost	2,705	7,212
Long-term borrowings - at amortised cost	7,429	4,970
Trade and other payables - at amortised cost	4,121	2,391
Total Financial Liabilities	**14,290**	**14,680**

c) Financial Risk Management Objectives

The Group holds non derivative financial instruments comprising trade and other receivables, cash and cash equivalents, units in listed trusts, 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
- other price risks

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.

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 32: FINANCIAL INSTRUMENTS CONT.

i) 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 financial assets plus the contingent liabilities as detailed in Note 25, net of any allowance for losses.

For further information regarding trade and other receivables refer to Note 9.

ii) 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; and
- 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.

The Group has a $25 million re-drawable facility from ANZ Bank to assist with working capital requirements and funding of new acquisitions. The Group has entered into a fixed interest rate swap with ANZ Bank for $10 million of the total facility limit. Please refer to Note 18 and Note 19 for further information.

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 1 per cent change in interest rates at the reporting date would have a $0.1 million impact on profit or loss or equity in the current period.

iii) 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.

The contractual maturities of the Group's 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 projects disclosed in Note 25, 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 to 5 years $000
2017				
Non-interest bearing trade and other payables	-	4,121	-	-
Variable interest rate instruments	4.02%	2,579	2,317	5,275
Total		**6,700**	**2,317**	**5,275**
2016				
Non-interest bearing trade and other payables	-	2,171	-	-
Variable interest rate instruments	4.32%	48	2,269	5,286
Total		**2,219**	**2,269**	**5,286**

iv) Other Price Risks

The Group is exposed to equity price risks arising from its ownership of units in the Folkestone Education Trust (ASX: FET) and the listed securities it holds in the Mason Stevens A-REIT Securities Portfolio Separately Managed Account. The sensitivity analysis below has been determined based on the exposure to equity price risks at the end of the reporting period.

If the price of FET units had been 5 per cent higher/lower:

- Other comprehensive income before tax for the year ended 30 June 2017 would increase/decrease by $4,280,958 (2016: $4,096,832) as a result of the changes in fair value of available for sale units.

If the price of listed securities held through the Mason Stevens A-REIT Securities Portfolio Separately Managed Account had been 5 per cent higher/lower:

- Net profit after tax for the year ended 30 June 2017 would increase/decrease by $5,088 (2016: $5,087) as a result of the changes in fair value.

d) Fair value of financial instruments

Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurring basis

The following financial assets are measured at fair value at the end of each reporting period:

	2017 $000	2016 $000
Assets		
Units - Folkestone Education Trust	85,619	81,937
Listed Securities - Mason Stevens A-REIT Securities Portfolio Separately Managed Account	102	101
Units - Folkestone Seniors Living Fund No. 1	2,675	-
	88,396	**82,038**
Liabilities		
Derivative financial instruments	35	107

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 32: FINANCIAL INSTRUMENTS CONT.

Fair value of Financial Assets

The Group owns 30,687,878 units in the Folkestone Education Trust (ASX:FET) which is a listed real estate investment trust on the Australian Securities Exchange. The units have been acquired in a number of tranches since December 2013 for a total consideration of $58,208,976 at an average acquisition price of $1.90 per unit. The fair value hierarchy for this asset is a level 1. The fair value assessed as at 30 June 2017 was $85,619,180 where the valuation technique used was the quoted bid price of the units on the Australian Securities Exchange as at 30 June 2017. If the market price was 1 per cent higher/lower, the carrying amount would increase/decrease by $856,192.

The Group owns listed securities held through the Mason Stevens A-REIT Securities Portfolio Separately Managed Account. The listed securities were acquired for a total consideration of $85,844. The fair value hierarchy for this asset is a level 1. The fair value assessed as at 30 June 2017 was $101,763 where the valuation technique used was the quoted bid price of the units on the Australian Securities Exchange at 30 June 2017. If the market price was 1 per cent higher/lower the carrying amount would increase/decrease by $1,018.

The Group owns 2,500,000 units in the Folkestone Seniors Living Fund No. 1. The units were acquired for a total consideration of $2,500,000. The fair value hierarchy for this asset is a level 1. The fair value assessed as at 30 June 2017 was $2,675,000 where the valuation technique used was based upon the audited Net Asset Value per unit of the units in the Folkestone Seniors Living Fund No. 1. at 30 June 2017. If the market price was 1 per cent higher/lower the carrying amount would increase/decrease by $26,750.

Fair value of derivative financial instruments

The fair values of interest rate swap contracts are calculated as the present value of estimated cashflows. The Group has entered into an interest rate swap. The swap's notional principal is $10 million at a fixed rate of 2.37 per cent which matures on 22 December 2017. The fair value hierarchy for this liability is a level 2. There were no transfers between levels during the year.

Fair value of the Group’s financial assets and financial liabilities that are not measured at fair value on a recurring basis

All other financial instruments disclosed in the Statement of Financial Position are classified as balances at amortised cost with the exception of Trade and Other Receivables and Borrowings which are classified as loans and receivables. The accounting policies that apply to these financial instruments are disclosed in Note 1 to the Financial Statements.

The Directors consider that the carrying amount of all other financial assets and financial liabilities in the financial statements approximate their fair value.

DIRECTORS' DECLARATION

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

(a) the financial statements and notes set out on pages 38 to 91, are in accordance with the Corporations Act 2001, and:

- (i) give a true and fair view of the financial position of the economic entity as at 30 June 2017 and of its performance for the financial year ended on that date; and
- (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:

- (iv) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
- (v) the financial statements and notes for the financial year comply with the Accounting Standards; and
- (vi) 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 13 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 AO**
Non-Executive Chairman	Managing Director

Sydney
24 August 2017

ADDITIONAL SECURITIES EXCHANGE INFORMATION

The shareholder information set out below was applicable as at 14 August 2017.

DISTRIBUTION OF EQUITY SECURITIES

Analysis of number of equity security holders by size of holding

Holding Ranges	Ordinary Shares
1 - 1,000	265
1,001 - 5,000	188
5,001 - 10,000	154
10,001 - 100,000	680
100,001 – and over	131
Total	**1,418**

There were 198 holders of less than a marketable parcel of ordinary shares.

EQUITY SECURITY HOLDERS

Twenty Largest quoted Equity Security Holders

Holder Name	Number Held	Ordinary Shares % of Issued Shares
J P Morgan Nominees Australia Limited	24,068,662	16.302%
G J P Investments Pty Ltd	13,612,755	9.220%
National Nominees Limited	9,575,689	6.486%
Citicorp Nominees Pty Limited	7,547,417	5.112%
HSBC Custody Nominees (Australia) Limited	4,064,686	2.753%
FDC Construction & Fitout Pty Ltd	3,203,035	2.170%
Emmanuel Capital Pty Ltd	3,122,505	2.115%
Perron Investments Pty Ltd	3,098,446	2.099%
Wilbow Group Pty Ltd <Wilbow Group A/C>	2,721,940	1.844%
Mr Victor John Plummer	2,305,804	1.562%
Mr Peter Anthony Vogliotti	1,838,226	1.245%
Filetron Pty Limited <Hunter Discretionary A/C>	1,689,321	1.144%
Quality Life Pty Ltd <The Neill Family A/C>	1,500,629	1.016%
UBS Nominees Pty Ltd	1,267,778	0.859%
NetWealth Investments Limited <Wrap Services A/C>	1,241,985	0.841%
Mr Mark William Baillie	1,176,585	0.797%
National Nominees Limited <DB A/C>	1,116,223	0.756%
Langburgh Pty Ltd <Marc Besen Family TR A/C>	1,100,000	0.745%
Adkar Investments Pty Ltd <The Harrington Family A/C>	1,095,265	0.742%
Bell Potter Nominees Ltd <Bb Nominees A/C>	1,047,575	0.710%
Total	**83,394,526**	**58.517%**

There were 147,639,248 shares on issue, held by 1,418 shareholders.

ADDITIONAL SECURITIES EXCHANGE INFORMATION CONT.

SUBSTANTIAL HOLDERS

Substantial holders in the Company are set out below:

Holdings Ranges	Number Held
G J P Investments Pty Ltd & Associated Entities	13,612,755
Phoenix Portfolios Pty Ltd	12,436,148
FDC Construction & Fitout Pty Ltd & Associated Entities	9,991,807
KIL Property Management Pty Ltd ATF KEL Property Fund	8,229,392

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.

DIRECTORY

BOARD

Garry R Sladden
(Non-Executive Chairman)

Gregory J Paramor AO
(Managing Director)

Mark W Baillie
(Non-Executive Deputy Chairman)

K Ross Strang
(Non-Executive Director)

CHIEF FINANCIAL OFFICER & COMPANY SECRETARY

Scott N Martin

REGISTERED OFFICE

Level 14
357 Collins Street
Melbourne VIC 3000

SHARE REGISTRY

Boardroom Pty Limited
Level 12 Grosvenor Place
225 George Street
Sydney NSW 2000
T: 1300 737 760

AUDITOR

Deloitte Touche Tohmatsu
550 Bourke Street
Melbourne VIC 3000

STOCK EXCHANGE LISTING

Folkestone Limited shares are listed on the Australian Securities Exchange. The ASX code Is FLK.

WEBSITE

www.folkestone.com.au