Folkestone

ANNUAL REPORT
2014

**A Specialist
Funds Manager And Developer
Providing Real Estate
Wealth Solutions**

CONTENTS

FOLKESTONE LIMITED AND ITS CONTROLLED ENTITIES

For the year ended 30 June 2014

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 2014 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 (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, investment and development company which listed on the ASX on 14 June 2000.

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

E. DIVIDENDS

There was no interim dividend paid during the year and the Board has resolved not to pay a final dividend in respect of the year ended 30 June 2014.

F. REVIEW OF OPERATIONS

FULL YEAR RESULT

The net profit after tax attributable to members of the parent entity for the year ended 30 June 2014 was $3.2 million compared to a net profit after tax of $1.2m in the prior corresponding period, a 168% increase over the period. This represents basic earnings per share of 0.7 cents, compared with 0.3 cents per share for the prior corresponding period.

The current year result includes the following material items:

- $5.1 million of recurring fee income and cost recoveries generated from the Company's funds management platform;
- $1.2 million in acquisition fees generated from the successful completion of the equity raisings for the Altona North and Oxley real estate income funds;
- $0.3 million one off disposal fee in relation to the sale of 100% of the units in the Folkestone Childcare Fund to the Folkestone Education Trust (previously known as the Australian Education Trust);
- $0.3 million in leasing fees generated from the successful negotiation of new leases for the Folkestone Education Trust;
- $1.1 million in preferred equity interest income associated with Folkestone's direct real estate investments; and
- $0.9 million share of development profits from Folkestone's 50% interest in the Officer project joint venture.

The prior period result included the following material items:

- $3.8 million of fee income and cost recoveries generated from the Austock property funds management business acquired during the prior period;
- $1.4 million in preferred equity interest income and project fees associated with Folkestone's direct real estate investments;
- $0.6 million of development profits from Folkestone's 50% share of the first stage of the Officer project and $0.3 million of development profits representing Folkestone's 25% share of the first stage of the Karratha project;
- $1.2 million in fee income generated from the two new real estate income funds (SOP and Wollongong Funds) established during the prior year; and
- ($0.3) million in one off transaction costs incurred during the prior year related to the acquisition of the Austock property funds management business.

The net profit after tax for the consolidated group in FY14 was $2.8 million. The consolidated group includes Folkestone West Ryde Development Fund ("Fund") even though Folkestone only owns 50% of the units in the Fund. The consolidated group's net profit after tax includes a net loss of $0.8 million from the Fund relating to acquisition, fund establishment and fund administration costs. 50% of the loss from the Fund ($0.4 million) is attributable to the other unitholders in the Fund. Therefore, Folkestone's net profit after tax after adjusting for 50% of the Fund loss is $3.2 million.

DIRECTOR'S REPORT CONT.

F. REVIEW OF OPERATIONS CONT.

ASSET BACKING

Folkestone's net asset value (NAV) was 14.4 cents per share at 30 June 2014, up from 12.8 cents per share at 30 June 2013. Net tangible asset (NTA) backing was 11.7 cents per share at 30 June 2014 compared with 9.2 cents per share at 30 June 2013. During the reporting period, Folkestone successfully completed a $25.0 million capital raising which contributed to the 2.5 cent increase in NTA per share from 30 June 2013.

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.

In respect of the Altona North project, the Bank of Melbourne has provided a $25.4 million facility for Stage 1 with an expiry date of 26 June 2015. The balance of the facility owing on this facility at 30 June 2014 was $12.9 million. In addition to the above facility for the Altona North project, the Folkestone Real Estate Income Fund at Altona North has provided a loan facility of $13.7 million (inclusive of capitalised interest) to assist the funding of the construction of the early civil works and payment of costs relating to the development of Stage 1. The facility was fully drawn at 30 June 2014 and will be fully repaid out of the sales proceeds from the sale of the Stage 1 asset to the Fund in late September 2014.

The St George bank finance facility for the Karratha project has been repaid to $1.1 million as at 30 June 2014 following settlement of all 41 units in Stage 1a. The joint venture is in discussions with regard to a new facility for the development of Stage 1b.

In respect of the Potters Grove land sub-division project at Officer, the Bank of Melbourne has provided the joint venture with a $6.6 million facility for Stage 3a with an expiry date of 31 December 2014. The balance owing on this facility as at 30 June 2014 was $5 million. The facility is forecast to be repaid in August 2014 as Stage 3a settlements occur. Funding terms for the next stage of the development were agreed in August 2014.

In respect of the residential apartment project at West Ryde in which the Folkestone West Ryde Development Fund has a 50% in the project joint venture, and Folkestone holds 50% of the units in the Fund, the Commonwealth Bank has provided the joint venture with a $84.4 million facility for the development of the project with an expiry date of 31 January 2016. The balance owing on this facility as at 30 June 2014 was $17.3 million.

Information in relation to cash flows from operations is contained in the Statement of Cash Flows on page 36 and the associated notes.

EQUITY RAISING

On 15 November 2013, Folkestone announced a $25 million equity raising at 16.5 cents per share to take advantage of a number of current opportunities to accelerate the growth of its funds management platform and provide it with exposure to the Sydney residential development market.

The Equity Raising comprised:

- a $9.2 million placement to existing and new institutional investors; and
- a 1.0 for 3.86 non-renounceable entitlement offer to existing eligible shareholders to raise $15.8 million (Equity Raising).

The Equity Raising was successfully completed on 12 December 2013. Both components of the Equity Raising were significantly oversubscribed having received very strong support from existing shareholders and new institutional investors. A total of 151,472,638 new shares were issued as part of the Equity Raising which increased Folkestone's shares on issue to 521,758,762 shares.

The proceeds of the Equity Raising have been applied to the following:

- $8.7 million for a 50% interest in the Folkestone West Ryde Development Fund which is undertaking a joint venture with Toga for an apartment and mixed use development in West Ryde, Sydney. As at 30 June, all of the $8.7 million investment had been called by the Fund and paid by Folkestone;
- $4.1 million investment in the ASX listed Folkestone Education Trust (ASX code: FET), which is the largest of Folkestone's managed funds;
- $1.1 million to pay for the transaction costs relating to the Equity Raising; and
- The balance of $11.1 million has been retained by Folkestone as additional working capital which is being used to accelerate the growth of its funds management platform and its pipeline of on-balance sheet development activities.

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 $630 million to more than $800 million with the successful launch of two unlisted real estate income funds – the Folkestone Real Estate Income Fund at Altona North and the Folkestone Real Estate Income Fund at Oxley, the successful launch of a new unlisted development fund - the Folkestone West Ryde Development Fund, the acquisition of early learning centres by the Folkestone Education

Trust including all 22 early learning centres owned by the unlisted Folkestone Childcare Fund and the acquisition of Maxim Asset Management a specialist A-REIT securities and real estate debt funds management business.

Folkestone Real Estate Income Fund at Altona North

The Folkestone Real Estate Income Fund at Altona North was established in December 2013. The Fund has entered into an agreement to acquire from Folkestone a 21,553 square metre large format retail centre (Centre) which will be anchored by Bunnings and includes Officeworks, together with JB Hi-Fi Home, Repco, PETstock and petVET. The Centre is being developed by Folkestone on behalf of the Fund and is scheduled to be completed in late September 2014.

The applications for the Fund closed oversubscribed and as a result Folkestone increased the equity raising for the Fund from $16.3 million to $16.6 million to accommodate some of the oversubscription.

Folkestone Real Estate Income at Oxley

The Folkestone Real Estate Income Fund at Oxley was established in April 2014. The Fund has acquired a 7,094 square metre neighbourhood retail centre in Oxley, Brisbane.

As part of its strategy to secure assets not subject to capital raising, Folkestone underwrote the acquisition of the Centre and the Fund capital raising of $20.55 million. At 30 June, 84.3% of the Fund had been sold down with the remainder in the process of being sold down in the September 2014 quarter.

Folkestone West Ryde Development Fund

The Folkestone West Ryde Development Fund is undertaking, in joint venture with the Toga Group a residential development project located at 7-19 Chatham Road, West Ryde known as Central Square. The joint venture has entered into a development agreement with the landowner, Coles, to complete the development. The project was launched in November 2013. The joint venture has made a series of section 96 applications to convert the commercial space to residential and reconfigure the mix of apartments to increase the number of apartments from 205 to 229. As at 30 June 2014, the joint venture had secured pre-sales of 215 apartments, which represents 93.9% of the total residential apartments. Construction has commenced and the programme is on track for a mid 2015 completion.

The applications for the Fund closed oversubscribed and as a result Folkestone had to scale back the applications received. The total equity raising for the Fund was $17.4 million, 50% of which ($8.7 million) was called in December 2013 and the balance of equity was called in March 2014. Folkestone holds a 50% interest in the Fund.

Folkestone Education Trust

The ASX listed Folkestone Education Trust (ASX: FET) successfully completed a $45 million capital raising in December 2013, which together with debt, funded the acquisition of 27 early learning centres (including the unlisted Folkestone Childcare Fund which owned 22 centres) and five development sites to be developed as early learning properties and operated under long-term leases. A further four properties (one new centre and three development sites for new centres) were under contract at 30 June 2014 with settlement subject to sub-division and/or development approval.

In March 2014, FET reached a major milestone with its inclusion in the S&P/ASX300 Index and as a result, a number of new institutions have come onto the Trust's register.

The Fund performed strongly in FY14, with distributions increasing 12.1% to 12 cents per unit and generating a total return of 27.8 per cent compared to the S&P/ASX300 A-REIT Accumulation Index of 11.1 per cent.

Acquisition of Folkestone Maxim Asset Management Limited

In April 2014, Folkestone acquired 100% of the share capital of Maxim Asset Management Limited (now known as Folkestone Maxim Asset Management Limited). The acquisition provided $30 million in funds under management across two unlisted funds specialising in real estate securities and structured debt.

DIRECT INVESTMENTS

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

Millers Road, Altona North

Millers Road, Altona North was acquired in December 2007 and is a 13.9 hectare parcel of land, located approximately 13 kilometres from the Melbourne CBD.

In November 2013, Folkestone announced the commencement of Stage 1 of the Millers Road, Altona North development and the pre-sale of the development to a new unlisted fund – the Folkestone Real Estate Income Fund at Altona North. Settlement with the Altona North Fund is subject to the completion of the sub-division of the land and completion of construction which is expected to occur in late September 2014.

The Stage 1 development comprises a 21,553 square metre large format retail centre which is 99.6% pre-committed and is anchored by Bunnings and includes Officeworks, together with JB Hi-Fi Home, Repco, PETstock and petVET. The Stage 1 development is being constructed by FDC Construction and Fitout and as at 30 June 2014, construction works were well advanced. Officeworks, together with JB Hi-Fi.

DIRECTOR'S REPORT CONT.

F. REVIEW OF OPERATIONS CONT.

Home, Repco, PETstock and petVET commenced trading in August 2014 and Bunnings are scheduled to open in late September 2014, after which time settlement with the Fund will occur.

Folkestone has also entered into a contract of sale of 8,063 square metres of land to Aldi Stores for a 1,600 square metre supermarket which adjoins the Stage 1 development. Settlement with Aldi Stores is subject to the completion of the sub-division of the land which Folkestone expects to occur in the September 2014 quarter.

There is a further 7.0 hectares of development land remaining after completion of the Stage 1 development, comprising 2.5 hectares in Stage 2 and 4.5 hectares in Stage 3.

Folkestone have been actively assessing potential development opportunities for the Stage 3 land including traditional retail and mixed-uses.

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, a Melbourne based property development company specialising in land sub-division and mixed-use developments.

As at 30 June 2014, 98 lots had been settled and 55 of these were settled during the current year. A further 55 lots were contracted for sale, but yet to settle.

Development of Stage 3a (31 lots) commenced during the reporting period and as at 30 June 2014, works had reached practical completion.

In August 2014, the joint venture secured a construction facility to allow commencement of Stage 3b.

As at 21 August, a further 29 lots had settled taking the total number of lots settled across the entire project to 129 lots (54.7% of total lots to be developed) and a further 45 lots (19.1% of the total) had been contracted for sale but not yet settled.

The joint venture expects the balance of the remaining lots in the project to be developed and sold by late 2015.

The Ranges, Karratha

Folkestone has a 25% interest in 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.

The first 41 dwellings in Stage 1a opened for occupation in December 2012 and have settled. The opening of The Ranges has provided much needed accommodation for business travellers to Karratha.

The joint venture has secured 18 pre-sales for Stage 1b units with construction works expected to commence in the first half of the 2015 financial year.

During the reporting period, the joint venture partners agreed to reduce the rate of interest on preferred equity loans from 25% to 15% with effect from 1 October 2013 reflective of the change in development risk given the completion of Stage 1a. Folkestone has $3.5 million in preferred equity loans to the joint venture in addition to its $2.0 million equity investment.

OUTLOOK

The Australian economy continues to grow albeit not all parts of the economy are growing at the same pace. The mining slowdown gained momentum in FY14 while there has been a gradual improvement in the pace of activity in the non-resource sector, particularly in the housing and construction sectors.

Household consumption growth has been positive but below trend. Employment growth remains moderate and the unemployment rate remains above 6.0%.

As a result, the RBA has kept the cash rate at 2.5% since August 2013. Low interest rates are starting to stimulate demand particularly in the housing sector, however, as the RBA pointed out in the Minutes of their July 2014 board meeting, "with growth in resource exports expected to ease back, GDP growth is forecast to be a little below trend over the next year or so, before picking up gradually thereafter".

With low rates globally, both global and domestic investors continue to search for attractive yield investments, and the Australian real estate market continues to be a key target. Despite the benign demand for space in most office, retail and industrial markets, competition for quality assets with secure income streams remains intense. As a result, yields on assets continue to compress pushing prices higher.

Folkestone will continue to look for investments primarily through 'off-market' transactions that offer attractive risk-adjusted returns for its investors.

Folkestone, with its strong balance sheet and access to third party capital is well placed to grow its funds under management across its listed and unlisted funds management platform, and invest in select development opportunities on its balance sheet.

G. EARNINGS PER SHARE

	Note	2014 Cents	2013 Cents
Basic earnings per share from continuing operations	9	0.7	0.3
Diluted earnings per share from continuing operations	9	0.7	0.3
Basic earnings per share from continuing operations	9	0.7	0.3
Diluted earnings per share from continuing operations	9	0.7	0.3

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

H. AFTER BALANCE DATE EVENTS

On 1 July 2014, the Company issued 3,942,054 performance rights to senior executives.

On 1 July 2014 a total of 3,285,045 performance rights vested following satisfaction of the performance conditions to the rights and 3,285,045 shares were issued to the holders of the performance rights. On the same date a further 1,971,027 performance rights lapsed as the performance conditions associated with the performance rights were not achieved.

On 4 August 2014, Folkestone announced that it has established the Folkestone Truganina Development Fund which has acquired an 80% interest in a 52.5 hectare residential master planned community In Truganina in joint venture with ID_Land. Folkestone is underwriting the Fund offer and intends to retain a co-investment of 20% of the Fund.

On 7 August 2014 Folkestone announced that it has acquired a call option over 8 hectares of land in Officer in a 50/50 joint venture with ID_Land.

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 35 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 does not anticipate any significant slowdown in the real estate market. 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 currently seeing 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 2014, the Company has over $800 million in funds under management. The Company must comply with is 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 not been included in this report where disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

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

DIRECTOR'S REPORT CONT.

L. WORKPLACE HEALTH AND SAFETY REGULATIONS

The consolidated entity complies with all relevant legislation and regulations in respect of workplace health and safety matters and regularly reports to the relevant board. Systems and processes are in place to identify, resolve and monitor Work, Health and Safety 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, Non−Executive Director of Melanoma Institute Australia 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 a director of the American Australian Association Limited and the United States Studies 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
FAPI, FAICD, FRICS
Managing Director

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

N. REMUNERATION REPORT

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 developing 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 is contained on pages 24 to 27 of this report.

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

N. REMUNERATION REPORT CONT.

Remuneration Policy continued

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 month's 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 below summarises information about the consolidated entity's earnings and movements in shareholder wealth for the five years to June 2014, which is considered when setting the remuneration policy for the Group:

a) During the past five years, Folkestone Limited has paid key management personnel a combination of fixed remuneration and performance based remuneration. Performance based remuneration has been paid based upon KPI's relevant to each key management personnel. During the period 2009-2012, the Company was in a loss position, and as such the majority of remuneration paid to key management personnel during this period was fixed remuneration. In 2013, the Company recorded a Net Profit after tax of $1.2 million, the first profit result achieved by the Company since 2008. Since the re-capitalisation of the Company in April 2011, significant efforts by executives and staff have gone into rebuilding and transforming the Company. In 2014 the company has recorded a net profit after tax of $3.2m, a 168% increase from the profit achieved in 2013.

During the current reporting period, the Company has implemented a short-term incentive scheme (STI) which in future years will be based upon Return on Equity performance hurdles. When establishing the scheme, the Remuneration Committee sought external advice from a remuneration consultant to ensure that the proposed scheme was commensurate with other entities comparable to Folkestone.

In 2014, the bonus pool which has been calculated in accordance with the short term incentive scheme was $0.5 million and it was based upon achieving the forecast budget which had been set by the Board. The Board considered that this was an appropriate performance measure to apply to the STI, as the Company has experienced a period of transformation and growth.

Whilst the profit for the current year is a 168% increase on the profit achieved last year, the quantum of the STI has not increased. Now that the business has been re-established, the performance hurdle to apply to the STI will be based upon return on equity performance hurdles set by the Board.

	2014 $000	2013 $000	2012 $000	2011 $000	2010 $000
Profit/(loss) from continuing operations before income tax (expense)/credit	2,526	1,545	(73)	(12,224)	(2,428)
Income tax (expense)/credit	249	(369)	-	(2)	(918)
Profit/(loss) from discontinued operations	-	-	(46)	6	(131)
(Profit)/loss attributable to minority equity interest	377	-	-	(1)	(18)
Profit /(loss) from ordinary activities attributable to members of the parent entity	3,152	1,176	(119)	(12,221)	(3,495)
Basic earnings per ordinary share (cents)	0.7	0.3	(0.0)	(7.5)	(4.8)
Dividend rate on fully paid shares (cents)	-	-	-	-	-
ASX Closing Price 30 June (cents)	22	16	8.7	10.5	12

N. REMUNERATION REPORT CONT.

b) During the past five years, there have been share based payments made to certain key management personnel in accordance with the achievement of pre set KPI's 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 22 October 2013. The Executive Incentive Plan was amended to include the ability for the Board to either issue performance rights or share appreciation rights to eligible employees. As at 30 June 2014, there were 3,942,053 performance rights and 2,493,720 share appreciation rights on issue to executives (please refer to following sections of the Remuneration Report for further detail).

The KPI's 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 9 indicates, the Company has recorded two consecutive years of profit which was preceded by five years of losses. It is 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 KPI's as outlined further below.

Executive Remuneration

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

i. Fixed Remuneration which includes base pay and other benefits and:

ii. 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).

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 pages 13-14.

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.

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 long term retention.

Long Term Incentives – Executive Incentive Plan

Shareholders approved the current Executive Plan at the annual general meeting of shareholders which was held on 22 October 2013.

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.

N. REMUNERATION REPORT CONT.

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).

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 Performance Right immediately vests 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.

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 vest 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.

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 or Share Appreciation 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 or 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 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, lapse on the earlier of:

- 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.

N. REMUNERATION REPORT CONT.

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 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 a participant's invitation.

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 June 2014 and resolved to increase the amount of fees paid to non-executive directors with effect from 1 July 2014. 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 19.

Details of Remuneration for the year ended 30 June 2014

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 (Key Management Personnel[1]) and the economic entity receiving the highest remuneration are set out in the table on the following pages.

[1]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 - Social Infrastructure Funds
BP Dodwell	Head of Real Estate
AJ Harrington	Head of Funds Management
SN Martin	Chief Financial Officer & Company Secretary
TS Butcher	Chief Financial Officer - Funds
MJ Stewien	General Counsel
AH Gurner	Non-Executive Director (resigned 26 April 2013)
JW Sweeney	Chief Operating Officer (resigned 28 February 2013)

N. REMUNERATION REPORT CONT.

		Short Term			Post Employ. Benefits	Share Based Payment	Long Term			
		Salary & Fees	STI Cash Bonus	Non-Monetary Benefits	Super. Benefits	Perf. Rights /SARs (C)	Term. Paymts	Other Long Term Benefits (D)	Total	Prop. of Remun. Perform. Related
		$	$	$	$		$		$	%
Directors Non-Executive										
GR Sladden	***2014***	***91,533***	**-**	**-**	***8,467***	**-**	**-**	**-**	***100,000***	**-**
	2013	*76,147*	-	-	*6,853*	-	-	-	*83,000*	-
MW Baillie(A)	***2014***	***45,767***	**-**	**-**	***4,233***	**-**	**-**	**-**	***50,000***	**-**
	2013	*16,702*	-	-	*1,503*	-	-	-	*18,205*	-
KR Strang	***2014***	***36,000***	**-**	**-**	***24,000***	**-**	**-**	**-**	***60,000***	**-**
	2013	*28,000*	-	-	*24,000*	-	-	-	*52,000*	-
AH Gurner(B)	***2014***	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2013	*50,434*	-	-	*3,039*	-	-	-	*53,473*	-
Directors										
Executive										
GJ Paramor	***2014***	***270,145***	***50,000***	**-**	***17,775***	**-**	**-**	***544***	***338,464***	***15%***
	2013	*183,530*	-	-	*16,470*	-	-	*(17,737)*	*182,263*	-
Total compensation: Directors (consolidated)	***2014***	***443,445***	***50,000***	**-**	***54,475***	**-**	**-**	***544***	***548,464***	***9%***
	2013	*354,813*	-	-	*51,865*	-	-	*(17,737)*	*388,941*	-

A. Appointed 19 February 2013
B. Resigned 16 April 2013
C 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.
D. Other Long Term Benefits comprise movements in the annual/long service leave accruals during the period.

N. REMUNERATION REPORT CONT.

		Short Term			Post Employ. Benefits	Share Based Payment	Long Term			
		Salary & Fees	STI Cash Bonus	Non-Monetary Benefits	Super. Benefits	Perf. Rights /SARs (C)	Term. Paymts	Other Long Term Benefits (D)	Total	Prop. of Remun. Perform. Related
		$	$	$	$		$		$	%
Executives										
NJ Anagnostou (A)	***2014***	***362,225***	***80,000***	***-***	***17,775***	***5,454***	***-***	***4,798***	***470,252***	***18%***
	2013	*263,944*	*50,000*	*-*	*12,352*	*-*	*-*	*4,641*	*330,937*	*15%*
BP Dodwell	***2014***	***332,225***	***80,000***	***-***	***17,775***	***5,454***	***-***	***(3,747)***	***431,707***	***20%***
	2013	*283,530*	*50,000*	*-*	*16,470*	*-*	*-*	*2,025*	*352,025*	*14%*
AJ Harrington	***2014***	***332,225***	***80,000***	***-***	***17,775***	***42,454***	***-***	***14,075***	***486,529***	***25%***
	2013	*283,530*	*50,000*	*-*	*16,470*	*36,793*	*-*	*5,969*	*392,762*	*22%*
SN Martin	***2014***	***282,225***	***80,000***	***-***	***17,775***	***5,454***	***-***	***14,238***	***399,692***	***21%***
	2013	*223,530*	*50,000*	*-*	*16,470*	*-*		*22,043*	*312,043*	*16%*
TS Butcher (A)	***2014***	***252,225***	***60,000***	***-***	***17,775***	***5,454***	***-***	***22,566***	***358,020***	***18%***
	2013	*194,206*	*40,000*	*-*	*12,584*	*-*	*-*	*(11,148)*	*235,642*	*17%*
MJ Stewien (A)	***2014***	***232,225***	***50,000***	***-***	***17,775***	***5,454***	***-***	***20,652***	***326,106***	***17%***
	2013	*222,225*	*20,000*	*-*	*12,353*	*-*	*-*	*3,019*	*257,597*	*8%*
JW Sweeney(B)	***2014***	***-***	***-***	***-***	***-***	***-***	***-***	***-***	***-***	***-***
	2013	*181,000*	*-*	*-*	*20,886*	*(36,793)*	*194,154*	*(4,695)*	*354,552*	*(10%)*
Total compensation: Executives (consolidated)	***2014***	***1,793,350***	***430,000***	***-***	***106,650***	***69,724***	***-***	***72,582***	***2,472,306***	***20%***
	2013	*1,651,965*	*260,000*	*-*	*107,585*	*-*	*194,154*	*21,854*	*2,235,558*	*12%*
Total compensation: Key Management Personnel	***2014***	***2,236,795***	***480,000***	***-***	***161,125***	***69,724***	***-***	***73,126***	***3,020,770***	***18%***
	2013	***2,006,778***	***260,000***	***-***	***159,450***	***-***	***194,154***	***4,117***	***2,624,499***	***10%***

A. Commenced employment 28 September 2012
B. Resigned 28 February 2013
C 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.
D. Other Long Term Benefits comprise movements in the annual/long service leave accruals during the period.

N. REMUNERATION REPORT CONT.

Performance Rights and Share Appreciation Rights issued as part of Remuneration for the year ended 30 June 2014

Performance Rights

There has been no performance rights issued as part of remuneration for the year ended 30 June 2014. The last issue of performance rights as part of Remuneration took place on 29 June 2011 and the following factors and assumptions were used in determining the fair value of rights on the grant date:

Grant Date	Expiry Date	*Fair Value per Right	Exercise Price	Price of Shares on Grant Date	Estimated Volatility	Risk Free Interest Rate	Dividend Yield
29 Jun 11	30 Jun 2014	$0.104	$0	$0.105	40%	4.71%	-
29 Jun 11	30 Jun 2014	$0.056	$0	$0.105	40%	4.71%	-

**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 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 including market based conditions which may impact the performance criteria. The amount recognised as an expense is amortised on a straight line basis over the life of the right even if the market based performance criteria are never met and the rights never vest, except where the employee forfeits their rights due to termination of employment.

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

Share Appreciation Rights

The following table provides a summary of the share appreciation rights which have been issued, following shareholder approval of the amendments to the Executive Incentive Plan at the 22 October 2013 annual general meeting, as part of remuneration for the year ended 30 June 2014. The following factors and assumptions were used in determining the fair value of rights on the grant date:

Grant Date	SARs Tranche	Expiry Date	*Fair Value per Right	Exercise Price	Price of Shares on Grant Date	Estimated Volatility	Risk Free Interest Rate	Dividend Yield
14 Apr 14	1	14 Sep 15	$0.086	$0	$0.22	50%	2.83%	-
14 Apr 14	2	14 Sep 15	$0.083	$0	$0.22	50%	2.83%	-
14 Apr 14	3	14 Sep 15	$0.089	$0	$0.22	50%	3.00%	-

**The fair value of share appreciation 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 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.

N. REMUNERATION REPORT CONT.

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 on performance rights over ordinary shares in the Company that have been granted as compensation as at 30 June 2014 are set out in the following tables. The performance rights were provided at no cost to the recipients and have a nil exercise price.

Executive	Tranche	Granted During Prior Period	Grant Date	Vested/Lapsed During 2014	Fair Value per Right at Grant Date	Expiry Date
A Harrington	1	1,971,026	29 Jun 2011	-	$0.104	1 July 2014
	2	1,971,027	29 Jun 2011	-	$0.056	1 July 2014

There were no performance rights granted during the 2014 financial year.

The above performance rights issued under the Executive Incentive Performance Rights Plan expire on the termination of the individual’s employment and vest on 1 July 2014 subject to the following performance criteria being met.

- Tranche 1 Performance Rights
    - Tranche 1 performance rights will vest based on the achievement of compound annual growth in Folkestone’s Net Total Assets per share over the performance period ranging from 10%-15% per annum on a sliding scale with:
        - Full vesting where the growth in Net Total Assets per share is 15% per annum or above;
        - 50% vesting where the growth in Net Total Assets per share is 10% per annum; and
        - Where the growth in Net Total Assets per share is between 10% and 15% per annum, the number of Performance Rights that vest will be calculated on a straight line basis.
        - The performance period for Tranche 1 performance rights is 1 July 2011 to 30 June 2014.
- Tranche 2 Performance Rights
    - Tranche 2 performance rights will vest based on the achievement of compound annual growth in Folkestone's Total Shareholder Return over the performance period ranging from 10%-15% per annum on a sliding scale with:
        - Full vesting where the growth in Total Shareholder Return is 15% per annum or above;
        - 50% vesting where the growth in Total Shareholder Return is 10% per annum; and
        - Where the growth in Net Total Assets per share is between 10% and 15% per annum, the number of Performance Rights that vest will be calculated on a straight line basis.
        - The performance period for Tranche 2 performance rights is 1 July 2011 to 30 June 2014.

N. REMUNERATION REPORT CONT.

Share Appreciation rights over equity instruments granted as compensation

Details on share appreciation rights over ordinary shares in the Company that have been granted as compensation as at 30 June 2014 are set out in the following tables. The share appreciation rights were provided at no cost to the recipients and have a nil exercise price.

Executive	Tranche	Granted During Prior Period	Grant Date	Vested/Lapsed During 2014	Fair Value per Right at Grant Date	Expiry Date
N Anagnostou	1	138,430	14 Apr 2014	-	$0.086	14 Sep 2015
	2	143,430	14 Apr 2014	-	$0.083	14 Sep 2015
	3	133,760	14 Apr 2014	-	$0.089	14 Sep 2015
B Dodwell	1	138,430	14 Apr 2014	-	$0.086	14 Sep 2015
	2	143,430	14 Apr 2014	-	$0.083	14 Sep 2015
	3	133,760	14 Apr 2014	-	$0.089	14 Sep 2015
A Harrington	1	138,430	14 Apr 2014	-	$0.086	14 Sep 2015
	2	143,430	14 Apr 2014	-	$0.083	14 Sep 2015
	3	133,760	14 Apr 2014	-	$0.089	14 Sep 2015
S Martin	1	138,430	14 Apr 2014	-	$0.086	14 Sep 2015
	2	143,430	14 Apr 2014	-	$0.083	14 Sep 2015
	3	133,760	14 Apr 2014	-	$0.089	14 Sep 2015
T Butcher	1	138,430	14 Apr 2014	-	$0.086	14 Sep 2015
	2	143,430	14 Apr 2014	-	$0.083	14 Sep 2015
	3	133,760	14 Apr 2014	-	$0.089	14 Sep 2015
M Stewien	1	138,430	14 Apr 2014	-	$0.086	14 Sep 2015
	2	143,430	14 Apr 2014	-	$0.083	14 Sep 2015
	3	133,760	14 Apr 2014	-	$0.089	14 Sep 2015
Total		2,493,720				

The above share appreciation rights issued under the Executive Incentive Plan expire on the termination of the individual's employment and vest on 31 August 2015 subject to the following performance criteria being met.

N. REMUNERATION REPORT CONT.

Share Appreciation rights over equity instruments granted as compensation continued

- Tranche 1,2 & 3 Share Appreciation Rights
  - Tranche 1, 2 & 3 share appreciation 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 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 1, 2 & 3 share appreciation rights is 1 July 2013 to 30 June 2015.
  - All Tranche 1, 2 & 3 share appreciation rights will vest on 31 August 2015 if the conditions set out above are satisfied and the Participants will be entitled to receive Shares to the value of the Payout calculated in accordance of the terms of the Executive Incentive Plan.
  - The Shares to be issued in respect of each tranche of SARs will vest on the following dates subject to the employee's continued employment with Folkestone Limited at all times during the vesting period:
    - Shares issued pursuant to Tranche 1 SARs – 31 August 2015
    - Shares issued pursuant to Tranche 2 SARs – 1 July 2016
    - Shares issued pursuant to Tranche 3 SARs – 1 July 2017

Analysis of share-based payments granted as compensation

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

Performance Rights/Share Appreciation Rights Granted							
Executives	**Number**	**Date**	**% Vested in Year**	**% Vested in Total**	**% Forfeited in Year**	**% Forfeited in Total**	**Financial Years to which Grant Vests**
Performance Rights Granted							
A Harrington	3,942,053	29 Jun 2011	-	-	-	-	30 Jun 2015
Total	3,942,053						
Share Appreciation Rights Granted							
N. Anagnostou	415,620	14 Apr 2014	-	-	-	-	30 June 2016
B. Dodwell	415,620	14 Apr 2014	-	-	-	-	30 June 2016
A. Harrington	415,620	14 Apr 2014	-	-	-	-	30 June 2016
S. Martin	415,620	14 Apr 2014	-	-	-	-	30 June 2016
T. Butcher	415,620	14 Apr 2014	-	-	-	-	30 June 2016
M. Stewien	415,620	14 Apr 2014	-	-	-	-	30 June 2016
Total	2,493,720						

N. REMUNERATION REPORT CONT.

Number of Shares held by Key Management Personnel - Current year

2014	Balance 1.7.2013	Received as Compensation	Performance Rights / SARs Exercised	Net Change Other[1]	Balance 30.6.2014
GR Sladden	416,667	-	-	107,945	524,612
MW Baillie	7,629,727	-	-	1,976,613	9,606,340
GJ Paramor	41,350,204	-	-	10,712,488	52,062,692
BP Dodwell	489,035	-	-	716,754	1,205,789
AJ Harrington	3,356,666	-	-	230,000	3,586,666
SN Martin	560,698	-	-	162,794	723,492
NJ Anagnostou	-	-	-	100,000	100,000
MJ Stewien	-	-	-	114,000	114,000
Total	53,802,997	-	-	14,120,594	67,923,591

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

Number of Shares held by Key Management Personnel - Prior year

2013	Balance 1.7.2012	Received as Compensation	Performance Rights/ SARs Exercised	Net Change Other[1]	Balance 30.6.2013
GR Sladden	416,667	-	-	-	416,667
MW Baillie (appointed 19 February 2013)	-	-	-	7,629,727	7,629,727
AH Gurner (resigned 26 April 2013)[2]	1,000,000	-	-	-	1,000,000
GJ Paramor	41,350,204	-	-	-	41,350,204
BP Dodwell	489,035	-	-	-	489,035
AJ Harrington	3,356,666	-	-	-	3,356,666
SN Martin	560,698	-	-	-	560,698
JW Sweeney (resigned 28 February 2013)[2]	3,772,666	-	-	(3,772,666)	-
Total	50,945,936	-	-	3,857,061	54,802,997

[1] *Net Change Other refers to shares purchased or sold during the financial year.*
[2] *The closing balance reflects the shares held as at the date of departure.*

N. REMUNERATION REPORT CONT.

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					
A Harrington					
Number of Performance Rights	3,942,053	-	-	-	3,942,053
Value of Performance Rights $	315,365	-	-	-	315,365
Total					
Number of Performance Rights	**3,942,053**	**-**	**-**	**-**	**3,942,053**
Value of Performance Rights	**315,365**	**-**	**-**	**-**	**315,365**
Share Appreciation Rights - Executives					
N. Anagnostou					
Number of Share Appreciation Rights	-	415,620	-	-	415,620
Value of Share Appreciation Rights $	-	35,700	-	-	35,700
B Dodwell					
Number of Share Appreciation Rights	-	415,620	-	-	415,620
Value of Share Appreciation Rights $	-	35,700	-	-	35,700
A Harrington					
Number of Share Appreciation Rights	-	415,620	-	-	415,620
Value of Share Appreciation Rights $	-	35,700	-	-	35,700
S. Martin					
Number of Share Appreciation Rights	-	415,620	-	-	415,620
Value of Share Appreciation Rights $	-	35,700	-	-	35,700
T. Butcher					
Number of Share Appreciation Rights	-	415,620	-	-	415,620
Value of Share Appreciation Rights $	-	35,700	-	-	35,700
M. Stewien					
Number of Share Appreciation Rights	-	415,620	-	-	415,620
Value of Share Appreciation Rights $	-	35,700	-	-	35,700
Total					
Number of Share Appreciation Rights	**-**	**2,493,720**	**-**	**-**	**2,493,720**
Value of Share Appreciation Rights	**-**	**214,200**	**-**	**-**	**214,200**

(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. There were no performance rights granted during the current year.
(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. There were no performance rights or share appreciation rights that vested during the current year.
(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. There was no lapse of performance rights or share appreciation rights during the current year.

No options have been issued or are on issue.

N. REMUNERATION REPORT CONT.

Other Transactions with key management personnel of the Group

1. During the year, Folkestone Limited paid a fee of $100,000 to an entity associated with Mr Paramor in relation a short term loan provided to the joint venture partner of the West Ryde project. The short term loan provided Folkestone with an exclusivity period to seek approval to acquire an interest in the West Ryde project which was completed in November 2013. The Independent Non-Executive Directors of the Company met separately to consider and approve the payment of this fee on the basis that it was commensurate with market conditions.
2. 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 $120,000 (2013: $40,000).
3. 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 $15,227 (2012: $23,400). The Company regularly seeks alternate costing on a periodic basis to ensure the costs are commensurate with market conditions.
4. During the year, Folkestone Limited successfully completed a $25 million Equity Raising. The Equity Raising was fully underwritten by Moelis Australian Advisory Pty Ltd (Moelis). Entitles associated with Mr Paramor and Mr Baillie each entered into a sub-underwriting agreement with Moelis to sub-underwrite the Retail Entitlement Offer up to the amount of $1.0 million. Both Mr Paramor and Mr Baillie each received a sub-underwriting fee of $10,000 paid by Moelis. There were no shares issued in respect of the sub-underwriting agreements.

Prior year

1. During the prior year, Folkestone Funds Management Limited entered into an underwriting agreement for the offer of units in the Folkestone Real Estate Income Fund at Wollongong. The underwriting agreement was with Folkestone Limited and two third-party entities, one of which was an entity associated with Mr Paramor.

   The underwriting occurred through the subscription by the underwriters for underwrite units. Mr Paramor subscribed for 500,000 Underwrite Units and all these units were fully re-deemed by 1 July 2013. Mr Paramor received a fee of $10,000 for his underwriting and the calculation of this fee was commensurate with the fee paid to the other third party underwriter.
2. During the prior year, Folkestone Funds Management Limited entered into an underwriting agreement for the offer of units in the Folkestone Real Estate Income Fund at Sydney Olympic Park. The underwriting agreement was with Folkestone Limited and two third party entities, one of which was an entity associated with Mr Paramor.

   The underwriting occurred through the subscription by the underwriters for underwrite units. Mr Paramor subscribed for 1,422,500 Underwrite Units and all these units were fully re-deemed during the financial year. Neither Mr Paramor nor any other underwriter received a fee for underwriting the offer.

DIRECTOR'S REPORT CONT.

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 2014 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	12	5	6
Number of meetings attended by:			
Garry R Sladden	12	5	6
Mark W Baillie	12	5	6
Gregory J Paramor	12	*	*
K Ross Strang	11	5	5

* Not a member of the relevant committee

P. INDEMNIFICATION OF OFFICERS AND AUDITORS

During the financial year ended 30 June 2014, Folkestone Limited paid a premium of $54,096 including GST and Stamp Duty (2013 - $48,509 including GST and Stamp Duty) to insure each of the directors and executives of the Company and related bodies corporate. The liabilities insured include legal costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the directors and officers in their capacity as office bearers of entities in the economic entity. The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify the auditor of the Company or of any related body corporate against a liability incurred as the auditor.

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 8 to the financial statements on page 63.

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 2014 has been received and is found on page 28 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
Non-Executive Chairman

Greg Paramor
Director

Sydney

21 August 2014

CORPORATE GOVERNANCE STATEMENT

FOLKESTONE LIMITED AND ITS CONTROLLED ENTITIES

For the year ended 30 June 2014

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

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

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

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

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

LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

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

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

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

BOARD CHARTER

- Approving and monitoring financial and other reporting performance.
- Reviewing and approving corporate strategies, business plans and budgets.
- Ensuring that risk management and compliance systems are effective.
- Setting the Company's overall remuneration framework and assessing the performance of, and compensation for senior management.
- Enhancing and protecting the reputation of the Company.
- Reporting to shareholders.
- Approving and monitoring the progress of major capital expenditure, capital management investments and acquisitions.

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

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

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

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

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

STRUCTURE THE BOARD TO ADD VALUE

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

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

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

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

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

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

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

Measures of performance are regularly reviewed, including that of individual officers. Statements in relation to independence of each of the Directors are included with the Directors' Report each year.

ACT ETHICALLY AND RESPONSIBLY

The Company requires high ethical standards and integrity in all its dealings. In particular Directors and senior management are expected to actively and fully comply with all Laws and Regulations. Fair dealing with the Company's suppliers, advisors, customers, employees and competitors is expected at all levels of the group. ***The Company does not have a Diversity Policy. This is due to the small and stable nature of the Company's workforce, and therefore it is not considered appropriate or useful to set gender specific, or other diversity specific, performance targets that relate specifically to the Company's operations.***

Systems are in place to ensure the protection and proper use of the Company's assets. Systems and policies are in place covering the acquisition and use of assets and the incurring of expenses as well as reporting of unethical or unfair trading.

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

Directors and senior management are made aware of their obligation to comply with the Law in regard to trading in the Company's shares so as not to take advantage of information or position, or opportunities arising from these, for personal gain. The Company's Share Trading Policy is reviewed at least annually and the last review was undertaken in May 2014. The Share Trading Policy covers both the trading in securities in Folkestone and the trading in securities of managed investment schemes which are managed by Folkestone.

SHARE TRADING POLICY

Under Folkestone's share trading policy Directors and Employees:

- Must not purchase or sell securities in Folkestone when they are in possession of price sensitive "inside" information relating to Folkestone, which is not generally available to the market.
- Are prohibited from trading in Folkestone securities from 30 June until the announcement of full year results, from 31 December until the announcement of the half year results and the 30 day period prior to the Annual General Meeting ("Prohibited Periods").
- May only commence trading in Folkestone's securities one full business day after the announcement of the half-year results and full year results and the Annual General Meeting; or other ASX announcement which would be likely to materially affect the market price of the securities provided always that the Directors and Employees are not in possession of price sensitive "inside" information at the time of trading.
- May in exceptional circumstances be given clearance to trade during a Prohibited Period. The determination on whether to give clearance for trading during a Prohibited Period is to be made by the Board. Clearance will generally only be given in cases of clear financial hardship.

CORPORATE GOVERNANCE STATEMENT CONT.

SAFEGUARD INTEGRITY IN CORPORATE REPORTING

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

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

AUDIT AND RISK MANAGEMENT COMMITTEE CHARTER

The responsibilities of the Audit and Risk Management Committee include:

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

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

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

MAKE TIMELY AND BALANCED DISCLOSURE

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

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

RESPECT THE RIGHTS OF SECURITY HOLDERS

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

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

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

RECOGNISE AND MANAGE RISK

The Board identifies and establishes processes to manage the significant operating, financial and regulatory risks through the formal adoption of a medium term Strategic Plan, annual business plans and budgets. ***The Company does not have an internal audit function due to the Company's size, however, the Board may elect to request an independent review of its accounting systems and processes by an accounting organisation not aligned to the Auditor. This independent review, if deemed necessary, coupled with the comprehensive nature of the monthly reporting systems assists in the Company's risk minimisation process.***

The Company's Audit and Risk Management Committee has formulated a Risk Management Plan that formalises the current culture and processes of the Company which is focused on the identification and management of risk through regular Board reporting and exception reporting in between. The Directors Report and Financial Statements includes a summary of the financial risks and other material business risks faced by the Company.

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

REMUNERATE FAIRLY AND RESPONSIBLY

REMUNERATION COMMITTEE CHARTER

The functions and responsibilities include:

- Reviewing the performance of the Managing Director.
- Reviewing and recommending to the Board the remuneration packages of the Managing Director and senior executives as well as the percentage remuneration change for the Group as a whole.
- Reviewing and recommending the Company's remuneration policy and structure to the Board.
- Reviewing and recommending appropriate non-executive Directors fees.

The Board has established a Remuneration Committee comprised of the three non-executive Directors and chaired by the Company Chairman. Further details of the members of the Remuneration Committee and of meetings held are included in the Directors' Report. Executive remuneration and other terms of employment are reviewed annually having regard to performance goals set at the start of the year, relevant comparative information and independent advice where appropriate.

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

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

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

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

A summary of the Company's Executive Incentive Plan is fully disclosed in the Remuneration Report.

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

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

21 August 2014

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 2014, 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

Paul Carr
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Independent Auditor's Report to the members of Folkestone Limited

Report on the Financial Report

We have audited the accompanying financial report of Folkestone Limited, which comprises the statement of financial position as at 30 June 2014, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 32 to 92.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

Deloitte.

Auditor's Independence Declaration

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

Opinion

In our opinion:

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

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

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

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

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 21 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Folkestone Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

Paul Carr
Partner
Chartered Accountants
Melbourne, 21 August 2014

FINANCIAL REPORT

FOLKESTONE LIMITED AND ITS CONTROLLED ENTITIES

For the year ended 30 June 2014

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

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

Folkestone Limited
Level 12
15 William 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 23.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOLKESTONE LIMITED AND ITS CONTROLLED ENTITIES

For the year ended 30 June 2014

		Economic Entity	
	Note	2014 $000	2013 $000
Continuing Operations			
Revenue	2	9,248	7,381
Employee benefits expense		(5,164)	(4,248)
Depreciation and amortisation expense		(156)	(222)
Consultants expense		(338)	(483)
Due diligence and acquisition costs		(257)	(373)
Rental expense on operating leases		(358)	(260)
Share of net gain of associated entities		40	315
Share of net gain of joint ventures		958	586
Administration expenses		(1,439)	(1,141)
Finance costs	3	(8)	(10)
Profit before income tax		2,526	1,545
Income tax benefit/ (expense)	5	249	(369)
Profit for the year		2,775	1,176
Net profit after tax for the year attributable to:			
Owners of the company		3,152	1,176
Non-controlling interests		(377)	-
Net profit after tax for the year		2,775	1,176
Other comprehensive income:			
Items that may be re-classed subsequently to profit or loss:			
Changes in fair value of financial assets		340	-
Income tax relating to components of other comprehensive Income		(102)	-
Total other comprehensive income net of tax		238	-
Total comprehensive income net of tax		3,013	1,176
Total comprehensive income for the year attributable to:			
Owners of the company		3,390	1,176
Non-controlling interests		(377)	-
Total comprehensive income for the year		3,013	1,176
Earnings per Share			
From continuing operations:			
Basic earnings per share (cents per share)	9	0.7	0.3
Diluted earnings per share (cents per share)	9	0.7	0.3

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to the financial statement set out on pages 37 to 91.

STATEMENT OF FINANCIAL POSITION

FOLKESTONE LIMITED AND ITS CONTROLLED ENTITIES

As at 30 June 2014

		Economic Entity	
ASSETS	**Note**	**2014 $000**	**2013 $000**
CURRENT ASSETS			
Cash and cash equivalents	10	27,177	12,989
Trade and other receivables	11	7,158	6,828
Inventories	13	38,219	16,593
Other current assets	14	542	396
CURRENT ASSETS		73,096	36,806
Assets classified as held for sale	12	3,222	-
TOTAL CURRENT ASSETS		**76,318**	**36,806**
NON-CURRENT ASSETS			
Other financial assets	35	4,472	-
Units in associated entities	15	1,908	1,868
Investment In joint ventures	16	19,577	4,818
Property, plant and equipment	18	160	274
Intangibles	19	11,389	11,117
Goodwill	20	1,433	1,433
Deferred Tax Assets	23	1,207	773
TOTAL NON-CURRENT ASSETS		**40,146**	**20,283**
TOTAL ASSETS		**116,464**	**57,089**
CURRENT LIABILITIES			
Trade and other payables	21	6,500	1,200
Short-term borrowings	22	26,112	8,100
Current tax liability	23	-	113
Short-term provisions	24	326	234
TOTAL CURRENT LIABILITIES		**32,938**	**9,647**
NON-CURRENT LIABILITIES			
Long-term provisions	24	251	177
TOTAL NON-CURRENT LIABILITIES		**251**	**177**
TOTAL LIABILITIES		**33,189**	**9,824**
NET ASSETS		**83,275**	**47,265**
EQUITY			
Issued capital	25	83,911	59,683
Reserves	26	750	443
Accumulated losses		(9,710)	(12,862)
Parent interest		74,951	47,264
Non-controlling interest	27	8,324	1
TOTAL EQUITY		**83,275**	**47,265**

The statement of financial position is to be read in conjunction with the notes to the financial statement set out on pages 37 to 91.

FOLKESTONE LIMITED AND ITS CONTROLLED ENTITIES

For the year ended 30 June 2014

Economic Entity	Note	Issued Capital $000	Accumulated Losses $000	Reserves $000	Attributable to Owners of the Parent $000	Non-controlling Interest $000	Total $000
Balance at 1 July 2012		58,889	(14,038)	443	45,294	1	45,295
Profit for the year		-	1,176	-	1,176	-	1,176
Total comprehensive profit for the year		-	1,176	-	1,176	-	1,176
Tax effect on share issue costs not previously recognised	25	794	-	-	794	-	794
Balance at 30 June 2013		59,683	(12,862)	443	47,264	1	47,265
Profit / (loss) for the year		-	3,152	-	3,152	(377)	2,775
Other comprehensive income net of tax	26	-	-	238	238	-	238
Total comprehensive income for the year		-	3,152	238	3,390	(377)	3,013
Issue of new shares	25	24,993	-	-	24,993	-	24,993
Share Issue costs	25	(1,093)	-	-	(1,093)	-	(1,093)
Tax effect on share issue costs	25	328	-	-	328	-	328
Issue of performance / share appreciation rights	26	-	-	69	69	-	69
Non-controlling interest arising on control of the Folkestone West Ryde Fund	27	-	-	-	-	8,700	8,700
Balance at 30 June 2014		83,911	(9,710)	750	74,951	8,324	83,275

The statement of changes in equity is to be read in conjunction with the notes to the financial statement set out on pages 37 to 91.

STATEMENT OF CASH FLOWS

FOLKESTONE LIMITED AND ITS CONTROLLED ENTITIES

For the year ended 30 June 2014

		Economic Entity	
	Note	2014 $000	2013 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		6,571	5,586
Payments to suppliers and employees		(23,072)	(7,662)
Interest received - continuing operations	2	582	671
Finance costs - continuing operations	3	(8)	(10)
Interest and line fees capitalised to property developments included in inventory		(472)	(508)
Income tax paid		(71)	(225)
Net cash (used in)/ provided by operating activities	31	(16,470)	(2,148)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(17)	(36)
Payment for investment in subsidiary	4	(306)	(11,485)
Payment for interest in joint venture		(16,100)	(6,922)
Proceeds received from interest in joint ventures		2,300	319
Trust distributions received		164	130
Purchase of financial instruments		(4,132)	-
Subscription for underwriting units		(18,675)	-
Redemption for underwriting units		15,453	-
Net cash provided by/ (used in) investing activities		(21,313)	(17,994)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		19,317	-
Repayment of borrowings		(2,115)	-
Repayment of loans by/(Loans advanced to) associated entities		2,269	(1,609)
Proceeds from capital raising		23,900	-
Proceeds from non-controlling interest		8,700	-
Funds placed on deposit to secure bank guarantees		(100)	-
Net cash (used in)/provided by financing activities		51,971	(1,609)
Net (decrease)/ increase in cash and cash equivalents		14,188	(21,751)
Cash and cash equivalents at beginning of financial year		12,989	34,740
Cash and cash equivalents at end of financial year	10	27,177	12,989

The statement of cashflows is to be read in conjunction with the notes to the financial statement set out on pages 37 to 91.

FOLKESTONE LIMITED AND ITS CONTROLLED ENTITIES

For the year ended 30 June 2014

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 21 August 2014 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 following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported in these financial statements.

Standards affecting presentation and disclosure:

AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'

This standard removes the individual key management personnel disclosure requirements in AASB 124 'Related Party Disclosures' As a result the Group only discloses the key management personnel compensation in total and for each of the categories required in AASB 124. The adoption of this amending standard does not have any material impact on the financial statements.

AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'.

The Group has applied AASB 13 for the first time in the current year. AASB 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of AASB 13 is broad; the fair value measurement requirements of AASB 13 apply to both financial instrument items and non-financial instrument items for which other AASBs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of AASB 2 'Share-based Payment', leasing transactions that are within the scope of AASB 117 'Leases', and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under AASB 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, AASB 13 includes extensive disclosure requirements.

AASB 13 requires prospective application from 1 July 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by AASB 13 for the 2013 comparative period. The application of AASB 13 does not have any material impact on the amounts recognised in the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES CONT.

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

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards.	1 January 2018	30 June 2019
AASB 1031 'Materiality' (2013)	1 January 2014	30 June 2015
AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'	1 January 2014	30 June 2015
AASB 2013-3 'Amendments to AASB 135 – Recoverable Amount Disclosures for Non-Financial Assets'	1 January 2014	30 June 2015
AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'	1 January 2014	30 June 2015

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

Annual Improvements to IFRSs 2010-2012 Cycle	1 July 2014	30 June 2015
Annual Improvements to IFRSs 2011-2013 Cycle	1 July 2014	30 June 2015
IFRS 15: Revenue from Contracts with Customers	1 January 2017	30 June 2018

The Directors have not yet determined what impact, if any, the implementation of the above standards would have on the financial statements of the Company.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES CONT.

Impact of the application of AASB 10

AASB 10 replaces the parts of AASB 127 'Consolidated and Separate Financial Statements' that deals with consolidated financial statements and Interpretation 112 'Consolidation – Special Purpose Entities'. AASB 10 changes the definition of control such that an investor controls an investee when a) it has power over an investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee, and c) has the ability to use its power to affect its returns.

All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in AASB 10 to explain when an investor has control over an investee. Certain guidance included in AASB 10 that deals with whether or not an investor that owns less than 50 per cent of the voting rights in an investee, has control over that investee, is relevant to the Group.

The Group has a 50 per cent ownership interest in the Folkestone West Ryde Development Fund ("Fund"). The Fund is an un-registered trust for which an entity within the Group also acts as Trustee of the Fund. Day to day management of the Fund is undertaken by the Trustee, however in the event that a meeting of unitholders was held, the Group's 50 per cent ownership interest in the Fund gives the Group the same percentage of the voting rights in the Fund. The Group's 50 percent ownership interest in the Fund was acquired in December 2013 at the time of the establishment of the Fund and there has been no change in the Group's ownership in the Fund since this time. The remaining 50 per cent of the ordinary units of the Fund are owned by approximately 45 unitholders, none individually holding more than 10 per cent.

The Directors of the Company made an assessment at the date of the establishment of the Fund as to whether or not the Group has control over the Fund in accordance with the new definition of control and the related guidance set out in AASB 10. The Directors concluded that it has control over the Fund from the date of establishment (December 2013) on the basis of the Group's absolute size of holding in the Fund and the provisions of the Trust Deed relating to the removal of the Group as Trustee of the Fund. Therefore, in accordance with the requirements of AASB 10, the Fund has been deemed to be a controlled entity.

As the 50 per cent ownership in the Fund has arisen in the current reporting period, there has been no requirement to re-state any comparative amounts in the financial statements.

Impact of the application of AASB 11

AASB 11 replaces AASB 131 'Interests in Joint Ventures' and the guidance contained in a related interpretation, Interpretation 113 'Jointly Controlled Entities – Non-Monetary Contributions by Venturers', has been incorporated in AASB 128 (as revised in 2011). AASB 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under AASB 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under AASB 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, AASB 131 'Interests in Joint Ventures' contemplated three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under AASB 131 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).

The initial and subsequent accounting of joint ventures and joint operations is different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognises its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expense incurred jointly). Each joint operation accounts for the assets and, liabilities, as well as revenue and expenses, relating to its interest in the joint operation in accordance with the applicable Standards.

The Directors of the Company reviewed and assessed the classification of the Group's investments in joint arrangements in accordance with the requirements of AASB 11. The Directors concluded that the Group's investment in the Potters Grove, Officer joint venture and Noone Street Clifton Hill joint venture which have previously been classified as a jointly controlled entity under AASB 131 and was accounted for using the proportionate consolidation method, should now be classified as a joint venture under AASB 11 and accounted for using the equity method.

The change in accounting of the Group's investment in the Potters Grove Officer and Noone Street Clifton Hill joint ventures have been applied in accordance with the relevant transitional provisions set out in AASB 11. Comparative amounts for 2013 have been restated to reflect the change in accounting for the Group's investment in

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES CONT.

the Potters Grove Officer and Noone Street Clifton Hill joint ventures. The initial investment as at 1 July 2011 for the purposes of applying the equity method is measured as the aggregate of the carrying amounts of the assets and liabilities that the Group had previously proportionately consolidated (see the tables below for details). Also the Directors of the Company performed an impairment assessment on the initial investment as at 1 July 2011 and concluded that no impairment loss is required.

As outlined above, the Folkestone West Ryde Development Fund (“Fund”) has been deemed to be a controlled entity in accordance with AASB 10. The Fund has invested in a joint venture with the Toga Group. When consolidating the financial statements of the Fund with the Group, the Directors of the Company reviewed and assessed the classification of the Fund’s investment in the joint arrangement with Toga in accordance with the requirements of AASB 11. The Directors concluded that the Fund’s investment in the West Ryde joint venture should be classified as a joint venture under AASB 11 and accounted for using the equity method. As the acquisition of the interest in the joint venture has occurred in the current reporting period there was no requirement to re-state any comparative numbers.

Impact on profit (loss) for the year of the application of AASB 11

	Year ended 30 June 2013 $000
Decrease in revenue	(2,680)
Decrease in Development expenses	2,074
Decrease in Administration expenses	20
Increase in Share of net gain of joint ventures	586
Increase/(decrease) in profit for the year	-
Increase (decrease) in profit for the year attributable to:	
Owners of the Company	-
Non-controlling interests	-
Increase (decrease) in profit for the year	-

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES CONT.

Impact on assets, liabilities and equity as at 1 July 2012 of the application of AASB 11

	As at 1 July 2012 as Previously Reported $000	AASB11 Adjustments $000	As at 1 July 2012 as Restated $000
Cash and cash equivalents	34,988	(248)	34,740
Trade and other receivables	3,307	(254)	3,053
Inventories	8,394	(8,394)	-
Other current assets	632	(377)	255
Units in associated entities	1,553	-	1,553
Investment in joint ventures	-	4,998	4,998
Property, plant & equipment	374	-	374
Goodwill	1,225	-	1,225
Trade and other payables	(894)	125	(769)
Short-term borrowings	(4,150)	4,150	-
Short-term provisions	(62)	-	(62)
Long-term provisions	(72)	-	(72)
Total effect on net assets	**45,295**	**-**	**45,295**
Issued capital	58,889	-	58,889
Reserves	443	-	443
Accumulated Losses	(14,038)	-	(14,038)
Non-controlling interest	1	-	1
Total effect on equity	**45,295**	**-**	**45,295**

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES CONT.

Impact on assets, liabilities and equity as at 30 June 2013 of the application of AASB 11

	30 June 2013 as previously reported $000	AASB11 Adjustments $000	30 June 2013 as restated $000
Cash and cash equivalents	13,082	(93)	12,989
Current Trade and other receivables	8,377	(1,549)	6,828
Inventories	17,937	(1,344)	16,593
Other current assets	396	-	396
Units in associated entities	1,868	-	1,868
Non-Current Trade and other receivables	3,667	(3,667)	-
Investment in joint ventures	-	4,818	4,818
Property, plant & equipment	274	-	274
Intangibles	11,117	-	11,117
Goodwill	1,433	-	1,433
Deferred Tax Assets	773	-	773
Trade and other payables	(1,407)	207	(1,200)
Short-term borrowings	(9,728)	1,628	(8,100)
Current tax liability	(113)	-	(113)
Short-term provisions	(234)	-	(234)
Long-term provisions	(177)	-	(177)
Total effect on net assets	**47,265**	**-**	**47,265**
Issued capital	59,683	-	59,683
Reserves	443	-	443
Accumulated Losses	(12,862)	-	(12,862)
Non-controlling interest	1	-	1
Total effect on equity	**47,265**	**-**	**47,265**

Impact on cashflows for the year ended 30 June 2013 on the application of AASB 11

	AASB 11 Adjustments $000
Adjustment to opening cash balance	(248)
Net cash inflow (outflow) from operating activities	(127)
Net cash inflow (outflow) from investing activities	(3,159)
Net cash inflow (outflow) from financing activities	3,441
Net cash inflow (outflow)	(93)

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES CONT.

Impact of the application of AASB 13

The Group has applied AASB 13 for the first time in the current year. AASB 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of AASB 13 is broad; the fair value measurement requirements of AASB 13 apply to both financial instrument items and non-financial instrument items for which other AASBs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of AASB 2 'Share-based Payment', leasing transactions that are within the scope of AASB 117 'Leases', and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under AASB 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, AASB 13 includes extensive disclosure requirements. AASB 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by AASB 13 for the 30 June 2013 and 31 December 2012 comparative period, the application of AASB 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

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

Accounting Policies

a) Principles of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including 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

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES CONT.

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 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

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES CONT.

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) Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the 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.

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the AASBs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognise its share of the gains and losses until it resells those assets to a third party.

d) Goods and Services Tax (GST)

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

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

e) Revenue

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

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

1. 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 goods and services tax (GST).

f) Income Tax

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

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

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES CONT.

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

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

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

g) Cash and Cash Equivalents

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

h) 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.

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 35. 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

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES CONT

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.

i) Inventories

i) Developments in Progress

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

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

ii) Land Held for Resale

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

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

j) Property, Plant and Equipment

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

Plant and equipment

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

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

k) Depreciation on plant and equipment

Depreciation is charged in respect of 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.

l) Finance Costs

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

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

m) Business Combinations

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

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

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

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES CONT.

acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another Standard.

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

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

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

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

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

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

n) 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 an indefinite 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 (o) 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.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES CONT.

o) Impairment of Assets

i) Non financial assets

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

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

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

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

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

ii) Financial assets

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

p) Employee Benefits

i) Wages and Salaries and Annual Leave

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

ii) Long Service Leave

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

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

iii) Profit Sharing and Bonus Plans

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES CONT.

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 the Binomial Option Pricing Methodology which is the generally accepted approach for valuing rights which may be exercised, once vested, at any time up until expiry. The 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.

q) Provisions

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

i) Rectification and warranties

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

r) Earnings per Share

i) Basic Earnings per Share

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

ii) Diluted Earnings per Share

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

s) Comparative Figures

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

t) Rounding of Amounts

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

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

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

i) Inventories

Note 13 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.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES CONT.

ii) Shares in associated entities

Note 15 sets out the value of shares in associated entities. Under the equity method, investments in associates are carried in the consolidated Statement of Financial Position at cost as adjusted for post acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Shares in associated entities are assessed for indicators of impairment at each reporting date. All impairment losses are expensed to the income statement.

iii) Assets classified as held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales for such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The Group holds underwrite units in the Folkestone Real Estate Income Fund at Oxley which have been classified as held for sale. Please refer to Note 12 for further information.

iv) Control of Folkestone West Ryde Development Fund

The Group has a 50 per cent ownership interest in the Folkestone West Ryde Development Fund ("Fund"). The Fund is an un-registered trust for which an entity within the Group also acts as Trustee of the Fund. Day to day management of the Fund is undertaken by the Trustee, however in the event that a meeting of unitholders was held, the Group's 50 per cent ownership interest in the Fund gives the Group the same percentage of the voting rights in the Fund. The Group's 50 percent ownership interest in the Fund was acquired in December 2013 at the time of the establishment of the Fund and there has been no change in the Group's ownership in the Fund since this time. The remaining 50 per cent of the ordinary units of the Fund are owned by approximately 45 unitholders, none individually holding more than 10 per cent. The Directors of the Company made an assessment at the date of the establishment of the Fund as to whether or not the Group has control over the Fund in accordance with the new definition of control and the related guidance set out in AASB 10. The Directors concluded that it has control over the Fund from the date of establishment (December 2013) on the basis of the Group's absolute size of holding in the Fund and the provisions of the Trust Deed relating to the removal of the Group as Trustee of the Fund. Therefore, in accordance with the requirements of AASB 10, the Fund has been deemed to be a controlled entity.

v) Investment in joint ventures

The Directors of the Company reviewed and assessed the classification of the Group's investments in joint arrangements in accordance with the requirements of AASB 11. The Directors concluded that the Group's investment in the Potters Grove, Officer joint venture and Noone Street Clifton Hill joint venture which have previously been classified as a jointly controlled entity under AASB 131 and was accounted for using the proportionate consolidation method, should now be classified as a joint venture under AASB 11 and accounted for using the equity method

vi) Impairment testing of intangible assets

Please refer to Note 19 and 20 for a summary of the inputs which have been used to assess the carrying value of intangible assets.

vii) Recognition of Deferred Tax Assets

Please refer to Note 23 for a summary of the methodology used when assessing the carrying value of the Deferred Tax Asset.

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 2: REVENUE

	Note	Economic Entity 2014 $000	2013 $000
Revenue from continuing operations consists of the following items:			
- Revenue from land and property development activities		-	221
- Interest received	2a	1,671	1,884
- Fees from funds management activities		7,019	5,094
- Trust distribution		466	-
- Other income		92	182
Total Revenue		9,248	7,381
a. Interest received from:			
- bank deposits		582	671
- preferred equity loans for development projects		1,089	1,213
Total interest revenue		1,671	1,884

NOTE 3: FINANCE COSTS

	2014 $000	2013 $000
Finance costs from continuing operations consist of the following items:		
- Interest and line fees	1,278	508
- Financial institution charges	8	10
Total Finance Costs	1,286	518
Less:		
Interest and line fees capitalised to property developments included in inventory	(1,278)	(508)
	8	10

The weighted average interest rate (including margins) on funds borrowed at balance date is 10.51% (2013: 5.95%)

NOTE 4: BUSINESS COMBINATIONS

During the year, Folkestone acquired 100% of the share capital of Maxim Asset Management Limited (now known as Folkestone Maxim Asset Management Limited). The total price paid for the acquisition was $326,075.

Included in the reported result for the year is a $40,821 net loss before tax contribution attributable to the acquired entity. Revenue for the year includes $95,047 attributable to the acquired business. If the acquisition had taken place on 1 July 2013 revenue of $640,082 would have been attributable to the acquired business and the net loss contribution after tax would have been $57,923. The acquisition accounting for this Business Combination is now complete.

Consideration transferred	**$'000**
Cash	326
	326

Acquisition costs amounting to $16,211 have been excluded from the consideration transferred and have been recognised as an expense in the current financial year.

Assets acquired and liabilities assumed at the date of acquisition	**$'000**
Current assets	
Cash & cash equivalents	20
Trade & other receivables	72
Other assets	22
Intangibles - management rights[1]	300
Current liabilities	
Trade & other payables	(88)
Net assets	326

Goodwill arising on acquisition	**$'000**
Consideration transferred	326
Less: fair value of net assets acquired	(326)
Goodwill arising on acquisition	-

Net cash outflow on acquisition of subsidiaries	**$'000**
Consideration paid or payable	326
Less: cash and cash equivalents acquired	(20)
	306

[1] The value attributable to intangible management rights has been determined in accordance with the valuation methodology summarised in Note 19 : Intangibles.

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 4: BUSINESS COMBINATIONS CONT.

During the prior year, Folkestone acquired 100% of the Austock property funds management business which comprised four companies (Folkestone SI 1 Pty Ltd, Folkestone SI 2 Pty Ltd, Folkestone Investment Management Limited and Folkestone Real Estate Management Limited). The total price paid for the acquisition was $11.45 million plus an amount of $3.02 million for regulatory and working capital settlement adjustments in accordance with the terms of the share sale agreement.

Included in the reported result for the prior year was a $2.339 million net profit before tax contribution attributable to the acquired entity. Revenue for the prior year included $3.994 million attributable to the acquired business. If the acquisition had taken place on 1 July 2012 revenue of $4.932 million would have been attributable to the acquired business and the net profit contribution after tax would have been $2.469 million. The acquisition accounting for this Business Combination was completed in the prior period.

Consideration transferred	**$000**
Cash	14,470
	14,470

Acquisition costs amounting to approximately $525,000 were excluded from the consideration transferred and were recognised as an expense in the prior financial year.

Assets acquired and liabilities assumed at the date of acquisition	**$000**
Current assets	
Cash & cash equivalents	2,985
Other assets	690
Non-current assets	
Intangibles - management rights [1]	11,200
Deferred tax asset	211
Current liabilities	
Trade & other payables	(332)
Provision for annual leave	(190)
Other liabilities	(202)
Non-current liabilities	
Provision for long service leave	(100)
Net assets	14,262

Goodwill arising on acquisition	
Consideration transferred	14,470
Less: fair value of net assets acquired	(14,262)
Goodwill arising on acquisition [2]	208

Net cash outflow on acquisition of subsidiaries	
Consideration paid or payable	14,470
Less: cash and cash equivalents acquired	(2,985)
	11,485

[1] The value attributable to intangible management rights has been determined in accordance with the valuation methodology summarised in Note 19: Intangibles.

[2] The goodwill arising from the acquisition is attributable to the significant expansion of Folkestone's fund management platform providing additional fee income, distribution networks and an experienced team of ten staff.

NOTE 4: BUSINESS COMBINATIONS CONT.

During the prior year, Folkestone announced that it had acquired it's joint venture partner's (AMP Capital Investors), 50% interest in the development project at 302-330 Millers Road Altona North. This asset is now 100% owned by the Folkestone Group. The total cash price paid for the acquisition was $3.4 million. In addition to the cash price paid, Folkestone took over 100% of the obligations of the loan facility associated with the project.

Included in the reported result for the prior year, was $4,139 of revenue and $7,771 of costs attributable to the acquired interest in the joint venture. If the acquisition had taken place on 1 July 2012, revenue of $13,487 and expenses of $15,527 would have been attributable to the acquired interest in the joint venture. The acquisition accounting for this business combination was completed in the prior period..

Summary of consideration transferred	**$000**
Cash	3,450
	3,450

Assets acquired and liabilities assumed at the date of acquisition	**$000**
Current assets	
Cash & cash equivalents	12
Trade and other receivables	6
Inventories	16,593
Other assets	528
Current liabilities	
Trade & other payables	(6)
Short term borrowings	(8,100)
Net assets	**9,033**

Discount arising on acquisition	
Consideration transferred	3,450
Plus: fair value of net assets previously held	4,520
Less: fair value of identifiable net assets recognised	(9,033)
Discount arising on acquisition	**(1,063)**

Net cash outflow on acquisition of interest in joint venture	
Consideration paid or payable	3,450
Less: cash and cash equivalents acquired	(6)
	3,444

NOTE 5: INCOME TAX EXPENSE

	Economic Entity 2014 $000	2013 $000
Income tax recognised in profit or loss		
Current tax expense/(credit)	457	1,142
Deferred tax (benefit)/expense	(208)	(773)
Income tax expense/(credit)	**(249)**	**369**

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 2014 $000	2013 $000
Profit from operations	2,526	1,545
Income tax calculated at 30%	758	463
Add/(Subtract):		
- Non- deductible expenses	26	4
- Other non-assessable income	(11)	(19)
- Over provision for income tax in the prior year	(40)	-
- Re-recognition of Deferred Tax Asset charged to income tax expense	(1,209)	162
- Effect of utilisation of carried forward tax losses	-	(241)
- De-recognition of deferred tax assets relating to entities outside the consolidated tax group	227	-
Income tax expense/(credit) attributable to entity recognised In profit or loss	**(249)**	**369**

	Economic Entity 2014 $000	2013 $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	102	-
Total income tax expense recognised In other comprehensive income	**102**	**-**

NOTE 6: KEY MANAGEMENT PERSONNEL COMPENSATION

Names and positions held of economic entity key management personnel 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	Managing Director
NJ Anagnostou	Chief Executive Officer - Social Infrastructure Funds
BP Dodwell	Head of Real Estate
AJ Harrington	Head of Funds Management
SN Martin	Chief Financial Officer & Company Secretary
TS Butcher	Chief Financial Officer - Funds
MJ Stewien	General Counsel
AH Gurner	Non-Executive Director (resigned 26 April 2013)
JW Sweeney	Chief Operating Officer (resigned 28 February 2013)

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	
	2014 $	**2013 $**
Short-term employee benefits	2,236,795	2,006,778
Post-employment benefits	161,125	159,450
Short-term incentive cash bonus	480,000	260,000
Termination payments	-	194,154
Other long term benefots	73,126	4,117
Net share-based payment	69,724	-
	3,020,770	**2,624,499**

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 7: SHARE BASED PAYMENTS

Performance Rights and Share Appreciation Rights issued as part of Remuneration for the year ended 30 June 2014

Performance Rights

There have been no performance rights issued as part of remuneration for the year ended 30 June 2014. The last issue of performance rights as part of Remuneration took place on 29 June 2011 and the following factors and assumptions were used in determining the fair value of rights on the grant date:

Grant Date	Expiry Date	*Fair Value per Right	Exercise Price	Price of Shares on Grant Date	Estimated Volatility	Risk Free Interest Rate	Dividend Yield
29 Jun 11	30 Jun 2014	$0.104	$0	$0.105	40%	4.71%	-
29 Jun 11	30 Jun 2014	$0.056	$0	$0.105	40%	4.71%	-

**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 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 including market based conditions which may impact the performance criteria. The amount recognised as an expense is amortised on a straight line basis over the life of the right even if the market based performance criteria are never met and the rights never vest, except where the employee forfeits their rights due to termination of employment.

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

Share Appreciation Rights

The following table provides a summary of the share appreciation rights which have been issued, following shareholder approval of the amendments to the Executive Incentive Plan at the 22 October 2013 annual general meeting, as part of remuneration for the year ended 30 June 2014. The following factors and assumptions were used in determining the fair value of rights on the grant date:

Grant Date	SARs Tranche	Expiry Date	*Fair Value per Right	Exercise Price	Price of Shares on Grant Date	Estimated Volatility	Risk Free Interest Rate	Dividend Yield
14 Apr 14	1	14 Sep 2015	$0.086	$0	$0.22	50%	2.83%	-
14 Apr 14	2	14 Sep 2015	$0.083	$0	$0.22	50%	2.83%	-
14 Apr 14	3	14 Sep 2015	$0.089	$0	$0.22	50%	3.00%	-

**The fair value of share appreciation 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 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.

NOTE 7: SHARE BASED PAYMENTS CONT.

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 to 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 on performance rights over ordinary shares in the Company that have been granted as compensation as at 30 June 2014 are set out in the following tables. The performance rights were provided at no cost to the recipients and have a nil exercise price.

Executive	Tranche	Granted During Prior Period	Grant Date	Vested/Lapsed during 2014	Fair Value per Right at Grant Date	Expiry Date
A Harrington	1	1,971,026	29 Jun 2011	-	$0.104	1 July 2014
	2	1,971,027	29 Jun 2011	-	$0.056	1 July 2014

There were no performance rights granted during the 2014 financial year.

The above performance rights issued under the Executive Incentive Performance Rights Plan expire on the termination of the individual's employment and vest on 1 July 2014 subject to the following performance criteria being met:

- Tranche 1 Performance Rights
  - Tranche 1 performance rights will vest based on the achievement of compound annual growth in Folkestone's Net Total Assets per share over the performance period ranging from 10%-15% per annum on a sliding scale with:
    - Full vesting where the growth in Net Total Assets per share is 15% per annum or above;
    - 50% vesting where the growth in Net Total Assets per share is 10% per annum; and
    - Where the growth in Net Total Assets per share is between 10% and 15% per annum, the number of Performance Rights that vest will be calculated on a straight line basis.
  - The performance period for Tranche 1 performance rights is 1 July 2011 to 30 June 2014.
- Tranche 2 Performance Rights
  - Tranche 2 performance rights will vest based on the achievement of compound annual growth in Folkestone's Total Shareholder Return over the performance period ranging from 10%-15% per annum on a sliding scale with:
    - Full vesting where the growth in Total Shareholder Return is 15% per annum or above;
    - 50% vesting where the growth in Total Shareholder Return is 10% per annum; and
    - Where the growth in Net Total Assets per share is between 10% and 15% per annum, the number of Performance Rights that vest will be calculated on a straight line basis.
  - The performance period for Tranche 2 performance rights is 1 July 2011 to 30 June 2014.

NOTE 7: SHARE BASED PAYMENTS CONT.

Share Appreciation rights over equity instruments granted as compensation

Details on share appreciation rights over ordinary shares in the Company that have been granted as compensation as at 30 June 2014 are set out in the following tables. The share appreciation rights were provided at no cost to the recipients and have a nil exercise price.

Executive	Tranche	Granted During Prior Period	Grant Date	Vested/Lapsed During 2014	Fair Value per Right at Grant Date	Expiry Date
N Anagnostou	1	138,430	14 Apr 2014	-	$0.086	14 Sep 2015
	2	143,430	14 Apr 2014	-	$0.083	14 Sep 2015
	3	133,760	14 Apr 2014	-	$0.089	14 Sep 2015
B Dodwell	1	138,430	14 Apr 2014	-	$0.086	14 Sep 2015
	2	143,430	14 Apr 2014	-	$0.083	14 Sep 2015
	3	133,760	14 Apr 2014	-	$0.089	14 Sep 2015
A Harrington	1	138,430	14 Apr 2014	-	$0.086	14 Sep 2015
	2	143,430	14 Apr 2014	-	$0.083	14 Sep 2015
	3	133,760	14 Apr 2014	-	$0.089	14 Sep 2015
S Martin	1	138,430	14 Apr 2014	-	$0.086	14 Sep 2015
	2	143,430	14 Apr 2014	-	$0.083	14 Sep 2015
	3	133,760	14 Apr 2014	-	$0.089	14 Sep 2015
T Butcher	1	138,430	14 Apr 2014	-	$0.086	14 Sep 2015
	2	143,430	14 Apr 2014	-	$0.083	14 Sep 2015
	3	133,760	14 Apr 2014	-	$0.089	14 Sep 2015
M Stewien	1	138,430	14 Apr 2014	-	$0.086	14 Sep 2015
	2	143,430	14 Apr 2014	-	$0.083	14 Sep 2015
	3	133,760	14 Apr 2014	-	$0.089	14 Sep 2015
Total		**2,493,720**				

The above share appreciation rights issued under the Executive Incentive Plan expire on the termination of the individual’s employment and vest on 31 August 2015 subject to the following performance criteria being met:

NOTE 7: SHARE BASED PAYMENTS CONT.

Share Appreciation rights over equity instruments granted as compensation

- Tranche 1,2 & 3 Share Appreciation Rights
  - Tranche 1, 2 & 3 share appreciation 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 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 1, 2 & 3 share appreciation rights is 1 July 2013 to 30 June 2015.
  - All Tranche 1,2&3 share appreciation rights will vest on 31 August 2015 if the conditions set out above are satisfied and the Participants will be entitled to receive Shares to the value of the Payout calculated in accordance of the terms of the Executive Incentive Plan.
  - The Shares to be issued in respect of each tranche of SARs will vest on the following dates subject to the employee's continued employment with Folkestone Limited at all times during the vesting period:
    - Shares issued pursuant to Tranche 1 SARs – 31 August 2015
    - Shares issued pursuant to Tranche 2 SARs – 1 July 2016
    - Shares issued pursuant to Tranche 3 SARs – 1 July 2017

Analysis of share-based payments granted as compensation

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

		Performance Rights/Share Appreciation Rights Granted					
Executives	**Number**	**Date**	**% Vested in Year**	**% Vested in Total**	**% Forfeited in Year**	**% Forfeited in Total**	**Financial Years to which Grant Vests**
Performance Rights Granted							
A Harrington	3,942,053	29 Jun 2011	-	-	-	-	30 Jun 2015
Total	**3,942,053**						
Share Appreciation Rights Granted							
N. Anagnostou	415,620	14 Apr 2014	-	-	-	-	30 June 2016
B. Dodwell	415,620	14 Apr 2014	-	-	-	-	30 June 2016
A. Harrington	415,620	14 Apr 2014	-	-	-	-	30 June 2016
S. Martin	415,620	14 Apr 2014	-	-	-	-	30 June 2016
T. Butcher	415,620	14 Apr 2014	-	-	-	-	30 June 2016
M. Stewien	415,620	14 Apr 2014	-	-	-	-	30 June 2016
Total	**2,493,720**						

NOTE 7: SHARE BASED PAYMENTS CONT.

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					
A Harrington					
Number of Performance Rights	3,942,053	-	-	-	3,942,053
Value of Performance Rights $	315,365	-	-	-	315,365
Total					
Number of Performance Rights	**3,942,053**	**-**	**-**	**-**	**3,942,053**
Value of Performance Rights	**315,365**	**-**	**-**	**-**	**315,365**
Share Appreciation Rights - Executives					
N. Anagnostou					
Number of Share Appreciation Rights	-	415,620	-	-	415,620
Value of Share Appreciation Rights $	-	35,700	-	-	35,700
B Dodwell					
Number of Share Appreciation Rights	-	415,620	-	-	415,620
Value of Share Appreciation Rights $	-	35,700	-	-	35,700
A Harrington					
Number of Share Appreciation Rights	-	415,620	-	-	415,620
Value of Share Appreciation Rights $	-	35,700	-	-	35,700
S. Martin					
Number of Share Appreciation Rights	-	415,620	-	-	415,620
Value of Share Appreciation Rights $	-	35,700	-	-	35,700
T. Butcher					
Number of Share Appreciation Rights	-	415,620	-	-	415,620
Value of Share Appreciation Rights $	-	35,700	-	-	35,700
M. Stewien					
Number of Share Appreciation Rights	-	415,620	-	-	415,620
Value of Share Appreciation Rights $	-	35,700	-	-	35,700
Total					
Number of Share Appreciation Rights	**-**	**2,493,720**	**-**	**-**	**2,493,720**
Value of Share Appreciation Rights	**-**	**214,200**	**-**	**-**	**214,200**

(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. There were no performance rights granted during the current year.
(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. There were no performance rights or share appreciation rights that vested during the current year.
(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. There was no lapse of performance rights or share appreciation rights during the current year.

No options have been issued or are on issue.

NOTE 8: AUDITORS' REMUNERATION

	Economic Entity	
	2014 $	2013 $
Remuneration of the auditor for:		
- auditing or reviewing the financial report	107,000	121,750
- due diligence	-	18,000
- other	3,450	600
Total	**111,450**	**140,350**

The auditor of Folkestone Ltd is Deloitte Touche Tohmatsu.

NOTE 9: EARNINGS PER SHARE

	Economic Entity	
	2014 (cents)	2013 (cents)
Basic earnings per share		
From continuing operations	0.7	0.3
Total basic earnings per share	0.7	0.3
Diluted earnings per share		
From continuing operations	0.7	0.3
Total diluted earnings per share	**0.7**	**0.3**

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	
	2014 ($000)	2013 ($000)
Profit after tax attributable to members of the parent entity	3,152	1,176
Earnings used in the calculation of basic EPS	3,152	1,176
Earnings used in the calculation of basic earnings per share from continuing operations	3,152	1,176

	2014 No.	2013 No.
Weighted average number of ordinary shares for the purposes of basic earnings per share (all measures)	458,006,721	370,286,124

NOTE 9: EARNINGS PER SHARE CONT.

Diluted earnings per share

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

	Economic Entity	
	2014 $000	2013 $000
Profit after tax attributable to members of the parent entity	3,152	1,176
Earnings used in the calculation of diluted EPS	3,152	1,176
Earnings used in the calculation of diluted earnings per share from continuing operations	3,152	1,176

	2014 No.	2013 No.
Weighted average number of ordinary shares used in the calculation of diluted EPS	459,977,748	372,257,151

There are 1,971,027 market based employee performance rights which have been issued for no consideration. These are dilutive in a profit making position. There are 2,493,720 share appreciation rights on issue which are not considered dilutive at year end.

NOTE 10: CASH AND CASH EQUIVALENTS

	Economic Entity	
	2014 $000	2013 $000
Cash at bank and in hand	27,177	12,989
	27,177	**12,989**

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	27,177	12,989
	27,177	**12,989**

NOTE 11: TRADE AND OTHER RECEIVABLES

	Economic Entity	
	2014 $000	2013 $000
CURRENT		
Trade receivables	1,154	1,159
Preferred equity loans	4,408	5,630
Other receivables	1,596	39
	7,158	**6,828**

NOTE 11: TRADE AND OTHER RECEIVABLE CONT.

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

Trade Receivables

	Economic Entity 2014 $000	2013 $000
Not past due	1,127	845
Past due 0-30 days	9	9
Past due 31-120 days	18	9
Past 120 days	-	296
	1,154	**1,159**

NOTE 12: ASSETS CLASSIFIED AS HELD FOR SALE

	Economic Entity 2014 $000	2013 $000
Underwrite Units - Folkestone Real Estate Income Fund at Oxley	3,222	-
	3,222	**-**
Liabilities associated with assets held for sale	-	-
Amounts recognised directly in equity associated with assets held for sale	-	-

As at 30 June 2014, Folkestone held 3,221,800 underwrite units in the Folkestone Real Estate Income Fund at Oxley ("Oxley Fund") pursuant to its underwriting of the Oxley Fund equity raising. Folkestone is in the process of selling down the remaining underwrite units in the Oxley Fund and expects this process to be completed in the September 2014 quarter.

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 13: INVENTORIES

	Economic Entity	
	2014 $000	2013 $000
Current		
Land and property developments in progress	38,219	16,593
	38,219	**16,593**

NOTE 14: OTHER CURRENT ASSETS

	Economic Entity	
	2014 $000	2013 $000
Prepayments	73	33
Other assets	469	363
	542	**396**

NOTE 15: 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	
			2014 %	2013 %	2014 $000	2013 $000
Greenvalley Asset Property Trust[1]	Property Development	Australia	25	25	1,908	1,868
					1,908	**1,868**

1 *The Ranges Holdings Karratha Pty Ltd, a wholly owned subsidiary of Folkestone Ltd, owns 6 of the 24 units on issue. The units were acquired on 3 June 2011.*

Ownership interest in Greenvalley Asset Property Trust was 25% of issued units. The reporting date of Greenvalley Asset Property Trust is 30 June 2014. This reporting date coincides with Folkestone Limited.

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.

	2014 $000	2013 $000
Greenvalley Asset Property Trust		
Current assets	98	6,426
Non-current assets	17,205	16,797
Current liabilities	(1,541)	(9,087)
Non-current liabilities	(9,778)	(8,312)
Net assets	**5,984**	**5,824**
Revenue	2,382	19,006
Profit from continuing operations	120	1,260
Profit for the year	120	1,260
Other comprehensive income for the year	-	-
Total comprehensive income for the year	120	1,260
Dividends received from the associate during the year	-	-

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

	2014 $000	2013 $000
Net assets of the associate	5,984	5,824
Proportion of the Group's ownership interest in the associate	25%	25%
	1,496	1,456
Consideration paid greater than the carrying value of net assets	412	412
Carrying amount of the Group's interest in the associate	**1,908**	**1,868**

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 16: INVESTMENT IN JOINT VENTURES

Details of the Group's investment in joint ventures at the end of the reporting period are as follows:

Name	Principal Activity	Country of Incorporation	Carrying Value 2014 $000	Carrying Value 2013 $000	Ownership Interest 2014 %	Ownership Interest 2013 %
West Ryde Joint Venture	Property Development	Australia	16,135	-	50	-
Potters Grove, Officer Joint Venture	Property Development	Australia	3,430	4,806	50	50
Noone Street, Clifton Hill Joint Venture	Property Development	Australia	12	12	50	50
			19,577	**4,818**		

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 are 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).

	2014 $000	2013 $000
West Ryde Joint Venture		
Current assets	667	-
Non-current assets	59,304	-
Current liabilities	(10,240)	-
Non-current liabilities	(17,460)	-
Net assets	**32,271**	**-**
The above amounts of assets and liabilities Include the following:		
Cash and cash equivalents	354	-
Non-current financial liabilities (excluding trade and other payables and provisions)	**(17,260)**	**-**

NOTE 16: INVESTMENT IN JOINT VENTURES CONT.

	2014 $000	2013 $000
West Ryde Development Joint Venture		
Revenue	71	-
Profit from continuing operations	71	-
Profit for the year	71	-
Other comprehensive income for the year	-	-
Total comprehensive income for the year	71	-
The above profit for the year include the following:		
Interest income	71	-

Reconciliation of the summarised financial information to the carrying amount of the interest in the joint venture in the consolidated financial statements:

	2014 $000	2013 $000
Net assets of the joint venture	32,271	-
Proportion of the Group's ownership interest in the joint venture	50%	-
Carrying amount of the Group's interest In the joint venture	**16,135**	**-**

	2014 $000	2013 $000
Potters Grove, Officer Joint Venture		
Current assets	5,090	2,988
Non-current assets	7,390	10,353
Current liabilities	(5,620)	(3,728)
Non-current liabilities	-	-
Net assets	**6,860**	**9,613**
The above amounts of assets and liabilities Include the following:		
Cash and cash equivalents	268	271
Current financial liabilities (excluding trade and other payables and provisions)	4,986	3,343
Non-current financial liabilities (excluding trade and other payables and provisions)	-	-

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 16: INVESTMENT IN JOINT VENTURES CONT.

	2014 $000	2013 $000
Potters Grove, Officer Joint Venture		
Revenue	6,735	5,066
Profit from continuing operations	1,844	1,212
Profit for the year	1,844	1,212
Other comprehensive income for the year	-	-
Total comprehensive income for the year	1,844	1,212
The above profit for the year include the following:		
Interest income	3	3

Reconciliation of the summarised financial information to the carrying amount of the interest in the joint venture in the consolidated financial statements:

	2014 $000	2013 $000
Net assets of the joint venture	6,860	9,613
Proportion of the Group's ownership interest in the joint venture	50%	50%
Carrying amount of the Group's interest In the joint venture	**3,430**	**4,806**

	2014 $000	2013 $000
Noone St Clifton Hill Joint Venture		
Current assets	56	55
Current liabilities	(32)	(32)
Net assets	**24**	**23**
The above amounts of assets and liabilities Include the following:		
Cash and cash equivalents	56	55
Current financial liabilities (excluding trade and other payables and provisions)	-	-
Non-current financial liabilities (excluding trade and other payables and provisions)	-	-

NOTE 16: INVESTMENT IN JOINT VENTURES CONT.

	2014 $000	2013 $000
Noone St Clifton Hill Joint Venture		
Revenue	1	301
Profit /(loss) from continuing operations	1	(40)
Profit /(loss) for the year	1	(40)
Other comprehensive income for the year	-	-
Total comprehensive income/(loss) for the year	1	(40)
The above profit /(loss) for the year include the following:		
Interest income	1	3

Reconciliation of the summarised financial information to the carrying amount of the interest in the joint venture in the consolidated financial statements:

	2014 $000	2013 $000
Net assets of the joint venture	24	23
Proportion of the Group's ownership interest in the joint venture	50%	50%
Carrying amount of the Group's interest In the joint venture	**12**	**12**

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 17: CONTROLLED ENTITIES

a. Controlled Entities Consolidated

	Country of Incorporation	Percentage Owned (%)^	
		2014	2013
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 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	-
Folkestone West Ryde Development Fund	Australia	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 No: 6 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 (formerly Folkestone No: 9 Pty Ltd)	Australia	100	100
Folkestone No: 10 Pty Ltd	Australia	100	100
Equity 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
Folkestone Freeholds Pty Ltd *	Australia	100	100
Folkestone Developments Pty Ltd *	Australia	100	100
Folkestone Project Management Pty Ltd *	Australia	100	100
Fenchurch Pty Ltd *	Australia	100	100
Folkestone (EMT) Pty Ltd *	Australia	100	100
Ceres House Pty Ltd *	Australia	100	100
Lionel Road (Vic) Pty Ltd	Australia	100	100
Folkestone (PMD) Pty Ltd *	Australia	100	100
Folkestone No. 1 Pty Ltd *	Australia	100	100
Bertie Bridge Pty Ltd *	Australia	75	75
Folkestone East Melbourne Trust	Australia	-	100

* Members voluntary liquidation is in progress.

^ Percentage of voting power is in proportion to ownership.

b. De-registration of controlled entities in 2014.

During the period, the Folkestone East Melbourne Trust has been wound up.

NOTE 18: PROPERTY, PLANT AND EQUIPMENT

	Note	Economic Entity	
		2014 $000	2013 $000
PLANT AND EQUIPMENT			
Office equipment:			
At cost		606	616
Accumulated depreciation and impairment		(446)	(342)
Total Property, Plant and Equipment		160	274

a. Movements in Carrying Amounts

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

	Economic Entity	
	2014 $000	2013 $000
Carrying amount at the start of the year	274	374
Additions at cost	17	36
Disposals at cost	(73)	(33)
Accumulated depreciation eliminated on disposal	65	28
Depreciation expense	(123)	(131)
Carrying amount at the end of year	160	274

NOTE 19: INTANGIBLES

	Economic Entity 2014 $000	2013 $000
Management Rights	11,500	11,200
Accumulated amortisation	(111)	(83)
Total management rights	**11,389**	**11,117**
Management Rights		
Balance at the beginning of year	11,117	-
Acquisition of management rights through business combinations with indefinite useful life	300	10,942
Acquisition of management rights through business combinations with finite life	-	258
Accumulated Amortisation of management rights with finite life	(28)	(83)
Balance at the end of year	**11,389**	**11,117**

During the year, Folkestone acquired 100% 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 an indefinite life assessed as at the date of acquisition was $0.3 million.

During the prior year, 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 an indefinite life assessed as at the date of acquisition was $10.9 million. The fair value of intangible management rights with a finite life assessed as at the date of acquisition was $0.3 million.

The intangible assets with a finite life related to the Folkestone Childcare Fund and were previously being amortised on a straight line basis between the date of the acquisition of the management rights by the Group (September 2012) and the end date of the Fund (January 2015). During the period, Folkestone Education Trust, a listed open-ended managed investment scheme acquired 100% of the units in the Folkestone Childcare Fund at which point the written down value of the management rights was reclassified as management rights with an indefinite life.

In accordance with the accounting standards, the carrying value of intangible assets with an indefinite useful life is assessed 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 3% growth in funds under management, a revenue growth rate of 3%, a cost escalation assumption of 5% and a pre-tax discount factor of 19%. Based upon this analysis no impairment loss has been recognised in respect of intangible management rights for the year ended 30 June 2014.

NOTE 20: GOODWILL

	Economic Entity 2014 $000	2013 $000
Goodwill		
At cost	1,433	1,433
Total goodwill	**1,433**	**1,433**
Goodwill		
Balance at the beginning of year	1,433	1,225
Acquisitions through business combinations	-	208
Balance at the end of year	**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 ten staff. The balance of $1.2m 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 19.

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 19%.

Based upon the above analysis no impairment loss has been recognised in respect of goodwill for the year ended 30 June 2014.

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 21: TRADE AND OTHER PAYABLES

	Note	Economic Entity 2014 $000	Economic Entity 2013 $000
Trade payables	a	5,227	180
Sundry payables and accrued expenses		1,273	1,020
		6,500	**1,200**

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

NOTE 22: SHORT TERM BORROWINGS

		Economic Entity 2014 $000	Economic Entity 2013 $000
Secured liabilities			
Bills payable - Bank	22a,b,c	12,902	8,100
Loan from Folkestone Real Estate Income Fund at Altona North	22a,d	13,210	-
		26,112	**8,100**

a. The carrying amounts of current assets pledged as security are:

The Bills payable and the secured loan are secured by freehold land and buildings (developments in progress) in Australia and a mortgage debenture over the assets of the borrowing entity. In relation to the Bills Payable a guarantee is also provided by Folkestone Limited (Refer Note 29; Contingent Liabilities).

	2014	2013
Carrying amount of current assets pledged as security	38,219	16,593
	38,219	**16,593**

b. Bills payable

The prevailing interest rate at 30 June 2014 on bills drawn was 4.71% (2013: 5.95%) including margins. The total bill facility available at 30 June 2014 was $25.4m (2013: $8.1m) and relates to the facility provided by Bank of Melbourne in respect of the project at 302-330 Millers Road, Altona North. Subject to continuing compliance with the specific conditions of the facility for the project, the bill facility may be drawn at any time and has an expiry in line with the timeline of the project. As new projects are secured, further bill facilities will be secured. .

c. Maturity and classification of bills payable

- The finance facility in respect of the project at 302-330 Millers Road, Altona North expires on 26 June 2015.
- The borrowings have been classified as current to align with the classification of inventory to which the borrowings relate and as at reporting date the finance facility was due to expire within 12 months.

d. Other loans

The Folkestone Real Estate Income Fund at Altona North ("Altona Fund") has provided a loan in respect of the project at 302-330 Millers Road, Altona North. The Altona Fund has entered into an agreement to acquire the completed Stage 1 asset. The loan has been fully drawn at 30 June 2014 and will be repaid at the time of the acquisition of the Stage 1 asset by the Altona Fund. The interest rate on the loan is 15% per annum.

NOTE 23: TAX

	Economic Entity	
	2014 $000	2013 $000
a. Assets		
NON-CURRENT		
Deferred Tax Asset	1,207	773
	1,207	**773**
b. Liabilities		
CURRENT		
Income Tax	-	113
	-	**113**
c. Deferred Tax Assets		
Accrued expenses	302	234
S.40-880 deductible expenditure	428	381
Management rights	(10)	42
Employee benefits	173	123
Accrued income	(286)	-
Carried forward tax losses	1,200	-
Other	(600)	(7)
Closing balance	**1,207**	**773**

The increment in the deferred tax asset for the year is as follows:

Opening balance	773	-
Recognition of deferred tax assets charged to income statement	1,209	(162)
Re-recognition of deferred tax assets charged to equity in relation to share issues costs	328	794
Recognition of deferred tax assets acquired as part of business combination	-	211
Movement for the year charged to profit or loss	(1,001)	(70)
Movement for the year charged to other comprehensive Income	(102)	-
Closing balance	**1,207**	**773**

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 23: TAX CONT.

	Economic Entity	
	2014 $000	2013 $000
d. Unrecognised Deferred Tax Assets		
Deferred tax assets not recognised at reporting date comprise:		
Temporary Differences	-	1,542
Carried forward tax losses	4,439	3,880
	4,439	**5,422**

NOTE 24: PROVISIONS

Current		
Employee benefits		
Provision for annual leave	326	234
Total Current Provisions	**326**	**234**
Non-Current		
Employee benefits		
Provision for long service leave	251	177
Total Non-Current Provisions	**251**	**177**

NOTE 25: ISSUED CAPITAL

521,758,762 (2013: ***370,286,124***) fully paid ordinary shares of no par value	**83,911**	**59,683**
	83,911	**59,683**

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.

NOTE 25: ISSUED CAPITAL CONT.

	2014		2013	
	Shares (thousand)	**$000**	**Shares (thousand)**	**$000**
Ordinary shares				
At the beginning of reporting period	370,286	59,683	370,286	58,889
Ordinary shares issued by placement	55,543	9,165		
Ordinary shares issued by institutional and retail entitlement offer	95,929	15,828	-	-
Share Issue costs	-	(1,093)	-	-
Tax effect of share issue costs	-	328	-	794
At reporting date	**521,758**	**83,911**	**370,286**	**59,683**

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 year, Folkestone Limited successfully completed a $25 million Equity Raising which included the following components:

- Allotment of 55,542,905 shares at 16.5 cents per share by way of a share placement to institutional investors on 21 November 2013;
- Allotment of 36,340,557 shares at 16.5 cents per share on 21 November 2013 as part of the institutional component of the pro-rata 1 for 3.86 entitlement offer; and
- Allotment of 59,589,176 shares at 16.5 cents per share on 18 December 2013 as part of the retail component of the pro-rata 1 for 3.86 entitlement offer.

Franking Account	**Economic Entity**	
	2014 $000	**2013 $000**
Balance of franking account at year end	13,353	13,353

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 26: RESERVES

Reserves

	Economic Entity	
	2014	**2013**
	$000	**$000**
Investment revaluation reserve	238	-
Equity-settled employee benefits reserve	512	443
	750	**443**

Investment revaluation reserve

	Economic Entity	
	2014	**2013**
	$000	**$000**
Balance at the beginning of the year	-	-
Net gain arising on revaluation of available-for-sale financial assets (net of tax)	238	-
Balance at the end of the year	**238**	**-**

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	
	2014	**2013**
	$000	**$000**
Balance at the beginning of the year	443	443
Net performance rights/share appreciation rights granted	69	-
Balance at the end of the year	**512**	**443**

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 7.

NOTE 27: NON-CONTROLLING INTERESTS

	Economic Entity	
	2014	**2013**
	$000	**$000**
Balance at the beginning of the year	1	1
Share of loss for the year attributable to non-controlling interests of the Folkestone West Ryde Development Fund	(377)	-
Non-controlling interests arising on control of the Folkestone West Ryde Development Fund	8,700	-
Balance at the end of the year	**8,324**	**1**

NOTE 27: NON-CONTROLLING INTERESTS CONT.

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	2014 $000	2013 $000
Current Assets	537	-
Non-Current Assets	16,135	-
Current Liabilities	(25)	-
Equity attributable to owners of the Company	8,323	-
Non-Controlling Interest	8,324	-
Revenue	98	-
Expenses	(849)	-
Loss for the year	(753)	-
Loss attributable to owners of the Company	(376)	-
Loss attributable to non-controlling interests	(377)	-
Net cash outflow from operating activities	(843)	-
Net cash outflow from investing activities	(16,100)	-
Net cash inflow from financing activities	17,400	-
Net cash inflow	457	-

NOTE 28: CAPITAL AND LEASING COMMITMENTS

	Economic Entity	
	2014 $000	2013 $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	291	313
- between 12 months and 5 years	213	501
	504	**814**

The Group has the following lease commitments:

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

Level 12, 15 William Street, Melbourne, sublease which expires on 30 May 2016. Rent is payable monthly in advance with 3.75% per annum fixed increases on the anniversary date.

b. Other Expenditure Commitments

The Group has entered into an agreement to provide the Moelis SIV Fund (Moelis Fund) with the ability to require Folkestone to acquire the Moelis Fund's unitholding (2 million units) in the Folkestone Real Estate Income Fund at Oxley ("Oxley Fund") each 1 April, 1 July, 1 October and 1 January which occurs after 30 March 2018 but prior to the scheduled windup of the Oxley Fund. The agreed purchase price for the units is the prevailing NTA per unit as at the date that Moelis Fund exercises its option.

NOTE 29: CONTINGENT LIABILITIES

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

Millers Road (Altona) Pty Ltd - Folkestone Limited has a 100% interest in the development of land at 302-330 Millers Road, Altona North. Folkestone Limited has provided a guarantee in favour of Bank of Melbourne in relation to a loan facility for $25.4m (drawn to 30 June 2014: $12.9m) for this development. The loan facility runs to 26 June 2015. As part of the security for the facility, Folkestone Limited has provided Bank of Melbourne with an unlimited guarantee and indemnity for 100% of the loan.

- 330 Princes Highway Pty Ltd - Folkestone Limited has a 50% interest in the development of 330 Princes Highway Officer. On 10 July 2012, Folkestone Limited provided a limited guarantee in favour of Bank of Melbourne in relation to a loan facility for $6.6m (drawn to 30 June 2014: $5.0m) for this development. The loan facility runs to 31 December 2014. As part of the security for the facility, Folkestone Limited has provided Bank of Melbourne with a guarantee and indemnity limited to $2.0m plus costs.

Contingent liabilities are measured at fair value on a recurring basis and the fair value hierarchy for the contingent liabilities is Level 3. Each of the above contingent liabilities have been reviewed to determine whether they meet the definition of a financial guarantee contract as defined under AASB 139. The Company has determined that there is no value attributable to the financial guarantees disclosed in this note. In assessing the liability arising from the financial guarantee contracts, the following have been considered:

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

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

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

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

NOTE 30: 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 Property Development and Funds Management.

	Segment Revenue		Segment Profit	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
	$000	$000	$000	$000
Continuing operations				
Property development[1]	2,088	2,315	2,088	2,315
Funds management	7,018	5,223	7,018	5,223
	9,106	**7,538**	**9,106**	**7,538**
Other revenue			1,140	744
Administration costs			(7,720)	(6,737)
Profit before income tax			**2,526**	**1,545**
Income tax (expense)/credit (continuing and discontinued operations)			249	(369)
Consolidated segment revenue and profit for the year	**9,106**	**7,538**	**2,775**	**1,176**

NOTE 30: SEGMENT REPORTING CONT.

Segment Assets	30 June 2014 $000	30 June 2013 $000
Funds management	16,695	16,762
Property development[1]	69,327	30,044
Unallocated	30,442	10,283
	116,464	57,089
Segment Liabilities		
Funds management	211	646
Property development[1]	30,958	8,193
Unallocated	2,020	985
	33,189	**9,824**

[1]Property development includes amounts in relation to interests in joint ventures and associated entities and interest on preferred equity loans.

NOTE 31: NOTES TO THE CASH FLOW STATEMENT

	Economic Entity	
	2014 **$000**	**2013** **$000**
a. Reconciliation of profit for the period to net cash flows from operations		
Profit /(loss) after income tax	2,775	1,176
Non-cash flows in profit		
Amortisation & depreciation	156	222
Expensing of performance rights	69	-
Accrued interest on preferred equity loans	(1,089)	(1,213)
Trust distributions classified as cash flows from investing activities	(466)	(130)
Share of net gain of associated entities classified as cash flows from investing activities	(40)	(315)
Share of joint venture profits classified as cash flows from investing activities	(958)	(587)
Movement in assets and liabilities		
Increase in trade and other receivables	(1,134)	(267)
Increase in prepayments	(40)	-
Decrease/(Increase) in other operating assets	16	130
(Increase) / Decrease in inventories	(21,626)	(1,391)
Increase / (Decrease) in trade and other payables	6,022	96
(Increase)/decrease in deferred tax asset	(208)	232
Increase/(decrease) in provisions	166	(12)
Increase/(decrease) in current tax liability	(113)	(89)
Net cash provided by/(used in) operations	**(16,470)**	**(2,148)**
b. Credit Standby Arrangements with Banks		
Bank Loan Facilities	25,402	8,100
Amount utilised	(12,902)	(8,100)
	12,500	**-**

NOTE 31: NOTES TO THE CASH FLOW STATEMENT CONT.

The major facilities are summarised as follows:

Bill facility

The prevailing interest rate at 30 June 2014 on bills drawn was 4.71% (2013: 5.95%) including margins. The total bill facility available at 30 June 2014 was $25.4m (2013: $8.1m) and relates to the facility provided by Bank of Melbourne in respect of the project at 302-330 Millers Road, Altona North. Subject to continuing compliance with the specific conditions of the facility for the project, the bill facility may be drawn at any time and has an expiry in line with the timeline of the project. As new projects are secured, further bill facilities will be acquired.

The bill facility is expected to reduce as Stage 1 of the 302-330 Millers Road Altona North project is completed during the year.

NOTE 32: EVENTS AFTER BALANCE DATE

On 1 July 2014 the company issued 3,942,054 performance rights to senior executives.

On 1 July 2014 a total of 3,285,045 performance rights vested following satisfaction of the performance conditions pertaining to the rights and 3,285,045 shares were issued to the holders of the performance rights. On the same date a further 1,971,027 performance rights lapsed as the performance conditions associated with the performance rights were not achieved.

On 4 August 2014, Folkestone announced that it had established the Folkestone Truganina Development Fund which has acquired an 80% interest in a 52.5 hectare residential master planned community in Truganina In joint venture with ID_Land. Folkestone is underwriting the Fund offer and intends to retain a co-Investment of 20% of the Fund.

On 7 August 2014 Folkestone announced that it has acquired a call option over 8 hectares of land in Officer in joint venture with ID_Land.

NOTE 33: 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	
Financial Position	**2014**	**2013**
	$000	**$000**
ASSETS		
Current assets	24,534	9,156
Non-current assets	37,702	29,384
Total assets	**62,236**	**38,540**
LIABILITIES		
Current liabilities	1,676	730
Non-current liabilities	207	56
Total liabilities	**1,883**	**786**
NET ASSETS	**60,353**	**37,754**
EQUITY		
Issued capital	83,911	59,683
Accumulated losses	(24,194)	(22,372)
Reserves	636	443
TOTAL EQUITY	**60,353**	**37,754**

NOTE 33: PARENT ENTITY INFORMATION CONT.

Financial Performance	Parent Entity 2014 $000	Parent Entity 2013 $000
Loss for the year	(1,822)	(3,777)
Other comprehensive Income	226	-
Total comprehensive loss for the year	**(1,596)**	**(3,777)**
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 29: 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 director's have assessed that the liability arising from the financial guarantee contracts is $nil.

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

NOTE 34: RELATED PARTY TRANSACTIONS

Controlling Entity

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

Wholly-owned Group

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

Transactions between Folkestone Limited and other entities in the wholly-owned Group during the years ended 30 June 2014 and 2013 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 accounting tax funding agreement described in Note 1(f).

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

NOTE 34: RELATED PARTY TRANSACTIONS CONT.

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 15 and interests in joint venture operations as set out in Note 16.

During the year, Folkestone Funds Management Limited entered into an underwriting agreement for the offer of units in the Folkestone Real Estate Income Fund at Oxley. The underwriting agreement was with Folkestone Limited. The underwriting occurred through the subscription by the underwriters for underwrite units. Folkestone Limited subscribed for 18,675,000 Underwrite Units and the balance of Underwrite Units left to redeem at 30 June 2014 was 3,221,800. Folkestone did not receive a fee for underwriting the offer. During the current period, Folkestone was entitled to a distribution from the Oxley Fund for the period 31 March to 30 June 2014 of $221,760. This distribution was accrued for in the 30 June 2014 financial statements.

In respect to the Altona North project, the Folkestone Real Estate Income Fund at Altona North (Altona Fund) has entered into an agreement to acquire Stage 1 completed. The price paid by the Fund represents an arms length transaction between Folkestone and the Altona Fund. In addition to this, the Altona Fund has provided a loan facility of $13.7 million (inclusive of capitalised interest) plus capitalised interest to assist the funding of the construction of the early civil works and payment of costs relating to the development of Stage 1. The facility was fully drawn at 30 June 2014 and will be fully repaid out of the sales proceeds from the sale of the Stage 1 asset to the Fund.

In November 2013, Folkestone Limited agreed to sub-underwrite the Institutional Entitlement Offer and the Retail Entitlement Offer of the Folkestone Education Trust (formerly the Australian Education Trust) up to an amount of $6 million. Folkestone Limited received a fee of $60,000 from Moelis and acquired 2,718,409 units for total consideration of $4,131,982 pursuant to the sub-underwriting agreement. During the current period, the Group received distributions from the Trust pertaining to its unitholding of $244,657.

Transactions between Folkestone Limited and other related parties during the years ended 30 June 2014 and 2013 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:

	2014 $000	2013 $000
Management Fees [1]	4,194	2,722
Acquisition Fees [1] and Disposal Fees	1,457	970
Administration Fees / Cost Recoveries	950	732
Debt Refinance	120	670
Leasing Fees	264	-
Other	33	-
	7,018	**5,094**

[1] An acquisition fee of $609,000 and management fees of $82,661 were also invoiced by the Group in 2014 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.

NOTE 34: RELATED PARTY TRANSACTIONS CONT.

Transactions with Directors

Current year

1. During the year, Folkestone Limited paid a fee of $100,000 to an entity associated with Mr Paramor in relation a short term loan provided to the joint venture partner of the West Ryde project. The short term loan provided Folkestone with an exclusivity period to seek approval to acquire an interest in the West Ryde project which was completed in November 2013. The Independent Non-Executive Directors of the Company met separately to consider and approve the payment of this fee on the basis that it was commensurate with market conditions.
2. 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 $120,000 (2013: $40,000).
3. 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 $15,227 (2012: $23,400). The Company regularly seeks alternate costing on a periodic basis to ensure the costs are commensurate with market conditions.
4. During the year, Folkestone Limited successfully completed a $25 million Equity Raising. The Equity Raising was fully underwritten by Moelis Australian Advisory Pty Ltd (Moelis). Entitles associated with Mr Paramor and Mr Baillie each entered into a sub-underwriting agreement with Moelis to sub-underwrite the Retail Entitlement Offer up to the amount of $1.0 million. Both Mr Paramor and Mr Baillie each received a sub-underwriting fee of $10,000 paid by Moelis. There were no shares issued in respect of the sub-underwriting agreements.

Prior year

1. During the prior year, Folkestone Funds Management Limited entered into an underwriting agreement for the offer of units in the Folkestone Real Estate Income Fund at Wollongong. The underwriting agreement was with Folkestone Limited and two third-party entities, one of which was an entity associated with Mr Paramor.

   The underwriting occurred through the subscription by the underwriters for underwrite units. Mr Paramor subscribed for 500,000 Underwrite Units and all these units were fully re-deemed by 1 July 2013. Mr Paramor received a fee of $10,000 for his underwriting and the calculation of this fee was commensurate with the fee paid to the other third party underwriter.
2. During the prior year, Folkestone Funds Management Limited entered into an underwriting agreement for the offer of units in the Folkestone Real Estate Income Fund at Sydney Olympic Park. The underwriting agreement was with Folkestone Limited and two third party entities, one of which was an entity associated with Mr Paramor.

   The underwriting occurred through the subscription by the underwriters for underwrite units. Mr Paramor subscribed for 1,422,500 Underwrite Units and all these units were fully re-deemed during the financial year. Neither Mr Paramor nor any other underwriter received a fee for underwriting the offer.

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 35: 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	
	2014 \$000	**2013 \$000**
Debt	26,112	8,100
Cash and Cash Equivalents	(27,177)	(12,989)
Net Debt	(1,065)	(4,889)
Equity (Parent interest)	74,951	47,264
Net debt to equity ratio	-1%	-10%

The above analysis does not take into account Folkestone's share of debt in respect of the Karratha, Officer or West Ryde projects 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 this project's debt, the debt for the economic entity for the current year would increase to $37.5m (2013: $10.3m) and net debt would increase to $10.3m (2013: ($2.8m)), reflecting a net debt to equity ratio of 13.8% (2013: 1%). It should be noted that the Karratha and West Ryde debt facilities are non-recourse to Folkestone.

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

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

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

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

NOTE 35: FINANCIAL INSTRUMENTS CONT.

B) Categories of Financial Instruments

	Economic Entity	
	2014 $000	2013 $000
Financial Assets		
Cash and cash equivalents	27,177	12,989
Available for sale financial assets	3,222	-
Trade and other receivables	7,158	6,828
Financial Assets	4,472	-
Total Financial Assets	**42,029**	**19,817**
Financial Liabilities		
Trade and other payables	6,500	1,200
Short-term borrowings	26,112	8,100
Total Financial Liabilities	**32,612**	**9,300**

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.

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 our financial assets plus the contingent liabilities as detailed in Note 29, net of any allowance for losses.

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

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.

NOTE 35: FINANCIAL INSTRUMENTS CONT.

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.

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

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

Sensitivity Analysis

A 1% change in interest rates at the reporting date would not have a material 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 our financial liabilities are shown below. The amounts presented represent the future undiscounted principal and interest cash flows relating to the amounts drawn at reporting date. The amounts presented do not include the financial guarantee provided for the Millers Road, Altona North or Officer projects as disclosed in Note 29, 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
2014				
Non-interest bearing trade and other payables	-	6,500	-	-
Variable interest rate instruments	10.51%	686	28,171	-
		7,186	**28,171**	**-**
2013				
Non-interest bearing trade and other payables	-	1,200	-	-
Variable interest rate instruments	5.95%	146	9,811	-
		1,346	**9,811**	**-**

NOTE 35: FINANCIAL INSTRUMENTS CONT.

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). 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% higher/lower:

- Other comprehensive income before tax for the year ended 30 June 2014 would increase/decrease by $223,453 (2013: nil) as a result of the changes in fair value of available for sale units.

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:

	2014 $000	2013 $000
Units - Folkestone Education Trust	4,472	-

The Group owns 2,718,409 units in the Folkestone Education Trust which is a listed real estate investment trust on the Australian Securities Exchange (ASX: FET). The units were acquired on 18 December 2013 for total consideration of $4,131,982. The fair value hierarchy for this asset is a level 1. The fair value assessed as at 30 June 2014 was $4,471,783, where the valuation technique used was the quoted bid price of the units on the Australian Securities Exchange as at 30 June 2014. If the market price was 1% higher/lower, the carrying amount would increase/decrease by $44,717.

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 32 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 2014 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; an

  (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 17 will be able to pay their debts as and when they become due and payable

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

Garry Sladden
Non-Executive Chairman

Greg Paramor
Director

Sydney

21 August 2014

ADDITIONAL SECURITIES EXCHANGE INFORMATION

The shareholder information set out below was applicable as at 12 August 2014.

DISTRIBUTION OF EQUITY SECURITIES

Analysis of number of equity security holders by size of holding

Holding Ranges	Ordinary Shares
1 - 1,000	155
1,001 - 5,000	94
5,001 - 10,000	73
10,001 - 100,000	423
100,001 – and over	575
Total	1,320

There were 134 holders of less than a marketable parcel of ordinary shares.

EQUITY SECURITY HOLDERS

Twenty Largest quoted Equity Security Holders

		Ordinary Shares
Holder Name	Number Held	% of Issued Shares
J P Morgan Nominees Australia Limited	55,959,141	10.658
G J P Investments Pty Ltd	46,816,579	8.917
Aust Executor Trustees Ltd	30,396,604	5.789
National Nominees Limited	14,883,039	2.835
Emmanuel Capital Pty Ltd	14,062,978	2.678
UBS Nominees Pty Ltd	11,909,439	2.268
Citicorp Nominees Pty Limited	11,535,175	2.197
Wilbow Group Pty Ltd	10,887,757	2.074
Perron Investments Pty Ltd	10,492,228	1.998
Mr Mark William Baillie	9,606,340	1.830
Mr Peter Anthony Vogliotti	9,191,128	1.751
FDC Construction & Fitout Pty Ltd	8,333,333	1.587
UBS Wealth Management Australia Nominees Pty Ltd	5,648,798	1.076
HSBC Custody Nominees (Australia) Limited	5,498,565	1.047
National Nominees Limited	5,246,113	0.999
Para-Ere Holdings Pty Ltd	5,246,113	0.999
FDC Construction & Fitout Pty Ltd	4,466,547	0.851
Netwealth Investments Limited	4,418,001	0.841
Langburgh Pty Ltd	4,300,000	0.819
Paval Superannuation Pty Ltd	4,165,000	0.793
	273,062,878	52.008

There were 525,043,807 shares on issue, held by 1,320 shareholders.

SUBSTANTIAL HOLDERS

Substantial holders in the Company are set out below:

Holdings Ranges	Number Held	% of Issued Shares
GJP Investments Pty Ltd & Associated Entities	52,062,692	9.98
Phoenix Portfolios Pty Ltd	39,455,050	8.22
FDC Construction & Fitout Pty Ltd	31,221,469	6.76

VOTING RIGHTS

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

DIRECTORS

Garry R Sladden
(Non-Executive Chairman)

Gregory J Paramor
(Managing Director)

Mark W Baillie
(Non-Executive Deputy Chairman)

K Ross Strang
(Non-Executive Director)

CHIEF FINANCIAL OFFICER & SECRETARY

Scott N Martin

REGISTERED OFFICE

Level 12
15 William Street
Melbourne VIC 3000

SHARE REGISTRY

Boardroom Pty Limited
Level 7, 207 Kent 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

Folkestone