Folkestone

ANNUAL REPORT
2016

A Specialist
Funds Manager And Developer
Providing Real Estate

Wealth Solutions

CONTENTS


THALES
ParkBikes
8073 4777
www.parkbikes.com.au

DIRECTORS' REPORT

FOLKESTONE LIMITED AND ITS CONTROLLED ENTITIES

For the year ended 30 June 2016

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 2016 and the Auditor’s Report thereon.

A. DIRECTORS

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

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

B. COMPANY SECRETARY

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

C. REVIEW OF BOARD PERFORMANCE

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

D. ABOUT FOLKESTONE - PRINCIPAL ACTIVITIES

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

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

E. DIVIDENDS

There was no interim dividend paid during the year.

Consistent with the announcements made throughout the course of this financial year, the Board is pleased to announce that on 25 August 2016 it has resolved to pay a final dividend in respect of the year ended 30 June 2016 of 2.5 cents per share fully franked at the rate of 30 per cent. The dividend will be paid on Tuesday 27 September 2016.

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2016 and will be recognised in subsequent financial reports.

The Company last paid a dividend to shareholders on 1 October 2008 at which time the Company had a Dividend Re-Investment plan (DRP) in place, however the DRP was suspended when the company ceased paying dividends. The Board has resolved that the DRP will remain suspended until further notice given that the Company's shares are currently trading at a discount to the Company's Net Asset Value per share as at 30 June 2016.

F. REVIEW OF OPERATIONS

FULL YEAR RESULT

The statutory net profit after tax (NPAT) attributable to members of the parent entity for the year ended 30 June 2016 was $5.5 million (2015: $7.0 million), a 22.3 per cent decrease compared to the prior period. This represents statutory basic earnings per share (EPS) of 3.7 cents (2015: 5.5 cents).

The normalised NPAT attributable to members of the parent entity for the year ended 30 June 2016 was $5.0 million (2015: $2.9 million), a 71.2 per cent increase compared to the prior period. This represents normalised EPS of 3.4 cents (2015: 2.3 cents).

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

The current year result includes the following material items:

- $6.3 million of recurring fee income and cost recoveries generated from funds management;
- $4.2 million in distributions from Folkestone's holding in the Folkestone Education Trust (ASX: FET);
- a $1.1 million debt establishment fee in respect of the FET debt facility re-finance;
- a $1.2 million realised profit on the sale of 1.2 million FET units;

Reconciliation of Statutory NPAT and Normalised NPAT Attributable to Folkestone

	2016	2015
Statutory NPAT ($m)	5.5	7.0
Adjustments		
Due Diligence costs on transactions not proceeding ($m)	0.8	-
Realised Gain on Investments ($m)	(1.4)	-
Tax impact of the above ($m)	0.2	-
Tax adjustment relating to re-recognition of carried forward tax losses in FY15 ($m)		(4.1)
Normalised NPAT ($m)	5.0	2.9

Numbers may not add due to rounding

- a $4.9 million profit contribution from the West Ryde project comprising a $3.2 million share of development profits net of fund administration costs and a $1.6 million performance fee payable by the Fund to Folkestone;
- a $0.5 million profit contribution from Folkestone’s 50 per cent interest in the Officer project JV;
- ($1.2) million in impairment provisions against the Company's investment in the Karratha project; and
- ($1.2) million in due diligence costs on new project opportunities, ($0.4) million of which relate to opportunities which are currently under exclusive due diligence.

In addition to the reported statutory NPAT, Folkestone also generated an unrealised gain on its investment in FET of $16.9 million ($11.8 million net of tax) compared to an unrealised gain of $6.5 million ($4.5 million net of tax) in the prior year.

The prior period result included the following material items:

- $5.9 million of recurring fee income and cost recoveries generated from funds management;
- $3.1 million in trust distributions from Folkestone's holding in FET;
- $1.0 million in acquisition fees and due diligence fees generated from the successful establishment of the Folkestone Truganina Development Fund and acquisitions made by FET;
- $0.2 million disposal fee generated from the sale of the Folkestone Social Infrastructure Fund's self storage facility;
- $1.5 million profit contribution from the West Ryde project net of fund administration cost;
- $1.2 million equity raising fees generated from the Officer Northside and Truganina projects;
- $1.1 million profit contribution from Folkestone’s 50 per cent interest in the Officer project JV;
- $0.9 million profit contribution from Folkestone's Altona North project based on the completion of the Stage 1 development, sale of land to ALDI, part reversal of the impairment of the Stage 2 land ($0.8 million) being developed in JV with Wilmac Properties, part reversal of the impairment of the Stage 3 land ($1.1 million) and expensing of the sub-lease payments in relation to the lease held over the land adjoining the Stage 3 land;
- ($0.7) million impairment provision against the Company's investment in the Karratha project; and
- $2.2 million net income tax benefit resulting from the recognition of $13.6 million of carried forward tax losses ($4.1 million tax effected).

The statutory NPAT for the Consolidated Group in FY16 was $9.0 million. The Consolidated Group includes Folkestone West Ryde Development Fund (“Fund”) even though Folkestone only owns 50 per cent of the units in the Fund. The Consolidated Group’s statutory NPAT includes an after tax contribution of $7.2 million from the Fund relating to its share of development profits recognised during the period net of fund administration costs. 50 per cent of the profit after tax from the Fund ($3.6 million) is attributable to the other Unitholders in the Fund. Therefore, Folkestone’s statutory NPAT after adjusting for 50 per cent of the Fund's profit is $5.5 million.

ASSET BACKING

Folkestone’s net asset value (NAV) was 98.9 cents per share at 30 June 2016, up from 87.5 cents per share at 30 June 2015 (restated from 17.5 cents per share to account for the 1:5 share consolidation which was completed during the current reporting period). Net tangible asset (NTA) backing was 93.6 cents per share at 30 June 2016 compared with 77.0 cents per share at 30 June 2015 (restated from 15.4 cents per share to account for the 1:5 share consolidation which was completed during the current reporting period).

FINANCIAL CONDITIONS

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

- ANZ Corporate Facility - In December 2014, the ANZ Bank provided the Company with a $20.0 million facility to assist with the acquisition of units in FET. The facility is for a term of three years expiring in December 2017. During the current reporting period the facility limit was increased to $22.5 million with a further short term increase of $7.5 million also provided to assist with securing seniors living opportunities for our funds management platform. The terms of the facility were also amended to convert it to a fully re-drawable facility. The drawn balance on the facility at 30 June 2016 was $5.0 million.
- Millers Junction, Altona North - The finance facility with the Bank of Melbourne in respect of the Millers Junction project at Altona North has been re-financed into two separate facilities for the remaining stages of the project. In respect of the Stage 2 land which is being developed in the JV with Wilmac Properties, the Bank of Melbourne has provided the JV with a $13.6 million facility for the development of the project. The facility has an expiry date of 25 February 2017 and was drawn to $8.9 million as at 30 June 2016. The Company has provided the Bank of Melbourne with a guarantee and indemnity limited to $2.0 million plus costs in respect of the project facility. In relation to the Stage 3 land, the $4.1 million facility in place at 30 June 2015 has now been reduced to $2.1 million and is secured by the Stage 3 land only. The Stage 3 facility was fully drawn at 30 June 2016 and has an expiry date of 26 December 2016. The Company

DIRECTORS' REPORT CONT.

F. REVIEW OF OPERATIONS CONT.

has provided Bank of Melbourne with an unlimited guarantee and indemnity in respect of the Stage 3 facility.

- The Ranges, Karratha - The St George Bank facility for the Karratha project has been paid down to $2.6 million during the current reporting period following the settlement of 16 units within Stage 1b. Negotiations are underway to extend the facility for a further period of 12 months. Folkestone has a 25 per cent interest in the project, however there is no recourse to Folkestone in respect of this facility.
- Elements, Truganina - In respect of the Elements land sub-division project at Truganina, in which the Folkestone Truganina Development Fund has an 80 per cent interest in the JV and Folkestone holds 18.76 per cent of the units in the Fund, the ANZ Bank has provided the JV with a $6.2 million facility for the development of Stage 5 (drawn to $0.9 million at 30 June 2016) and a $16.9 million facility for the development of Stages 6, 8 and 9 (drawn to $0.0 million at 30 June 2016). The Stage 5 facility expires in October 2016 and the Stages 6, 8 and 9 facility expires in April 2017. The facility in respect of Stages 1-4 was repaid during the current reporting period. There is no recourse to Folkestone in respect of the ANZ facilities. The Folkestone Truganina Development Fund has also provided the project with a $5.0 million mezzanine facility to assist with the acceleration of the project which was drawn to $4.1 million as at 30 June 2016.
- Northside, Officer the Bank of Melbourne has provided the JV with a $7.8 million facility for this project with an expiry date of 25 August 2016. The balance drawn on the facility as at 30 June 2016 was $6.5 million. Subsequent to year end, the facility limit has been reduced to $2.0 million following completion of settlements from the first stage and an additional $5.8 million facility has been provided to settle the balance of the land purchase and fund the next stage of construction, The Company has provided the Bank of Melbourne with a guarantee and indemnity limited to $2.0 million plus costs In respect of this project facility.
- Industria, Knoxfield - the Bank of Melbourne has provided the JV with a $8.2 million facility for this project with an expiry date in June 2017. The balance drawn on the facility as at 30 June 2016 was $2.4 million. The Company has provided Bank of Melbourne with a guarantee and indemnity limited to $2 million plus costs in respect of this project facility.
- FLK-Lyon Hornsby Joint Venture - the Bank of Melbourne has provided the JV with a $2.1 million facility to assist with the acquisition of a small mixed use retail and office property that forms part of the site which has been consolidated by the JV in Hornsby, north-west Sydney. The loan was fully drawn as at 30 June 2016 and has an expiry of 13 August 2017.

The project facilities for the Potters Grove and West Ryde projects at 30 June 2015 have been repaid in the current reporting period from sales proceeds of the respective developments.

Information in relation to cash flows from operations is contained in the Statement of Cash Flows on page 38 and the associated notes.

SHARE CONSOLIDATION

On 4 November 2015, following approval by shareholders at the Annual General Meeting of the Company, Folkestone completed a consolidation of its share capital through the conversion of every 5 shares into 1 share. Where the consolidation resulted in an entitlement to a fraction of a share, the fraction was rounded up to the nearest whole number of shares.

As a result of the above, the number of shares on issue has reduced from 736,531,824 shares to 147,306,759 shares as at 30 June 2016.

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 $917 million to more than $1 billion.

Folkestone West Ryde Development Fund

The Folkestone West Ryde Development Fund has completed a 50/50 JV with the Toga Group, a 229 residential development project located in West Ryde, Sydney known as Central Square. Construction was completed in June 2015 with 64 apartments settled as at 30 June 2015. During the current reporting period, the balance of 165 apartments settled.

In September 2015, investors in the Fund received a distribution of $1.50 per unit following completion of the project with a further minor distribution forecast to be made upon the expiration of the defects liability period in June 2017. The Fund's forecast equity internal rate of return (IRR) has increased from 18 per cent per annum to 30 per cent per annum and the forecast return on equity has increased from 32 per cent to 50 per cent (pre-tax, net of fees).

Folkestone co-invested $8.7 million in the Fund. Folkestone has generated a return on equity of 79 per cent over the life of the Fund, including $0.9 million in acquisition and management fees, a $1.6 million performance fee earned in the current reporting period and a net profit before tax of $4.4 million on its investment in the Fund of which $3.3 million was earned in this reporting period.

Folkestone Education Trust

The ASX listed Folkestone Education Trust (ASX:FET) continued to deliver on its stated strategy of owning a quality portfolio of early learning centres with an active period of acquisitions, developments and the disposal of a number of smaller centres. As at 30 June 2016, FET owned 394 properties and had gross assets of approximately $754 million.

FET generated a total return of 34.8 per cent in FY16 substantially outperforming the S&P/ASX 300 A-REIT Accumulation Index which returned 24.6 per cent.

As at 30 June 2016, Folkestone held 12.4 per cent of FET units on issue (excluding units held in FET by the Folkestone Maxim A-REIT Securities Fund), valued at $81.9 million.

During the current reporting period, Folkestone generated $28.8 million before tax from its investment in FET comprising:

- $4.2 million in trust distributions received;
- $6.5 million in fees and cost recoveries charged in accordance with FET's constitution;
- a $1.2 million realised profit on the sale of 1.2 million FET units sold during the current reporting period; and
- an unrealised gain of $16.9 million on its unitholding in FET as at 30 June 2016 which has been recognised as Other Comprehensive Income.

Folkestone Truganina Development Fund

The Folkestone Truganina Development Fund is undertaking, in a 80/20 JV with ID_Land, the development of a circa 707 lot residential master planned community in Truganina, one of Melbourne's fastest growing suburbs. The JV has continued to see strong sales activity with 469 pre-sales at 30 June 2016, almost twice the number forecast in the base case feasibility.

As at 30 June 2016, Stages 1-4 of the project comprising 183 lots had been completed and a total of 154 lots had settled.

As a result of the strong pre-sales achieved to date, the JV elected to bring forward both the selling and construction of further stages. In October 2015, the Fund raised $2.5 million via the issue of loan notes to investors in conjunction with a further $2.5 million from Folkestone on an at-call basis. The Loan Notes Offer closed significantly over subscribed. The funds raised have been loaned to the JV to accelerate the project. As at 30 June 2016, the Project had drawn $4.1 million against the $5.0 million Loan Note facility, $2.5 million from investors and $1.6 million from Folkestone. In July 2016, 50 per cent of the drawn amount ($2.05 million) was repaid, with the remaining amount to be repaid in the December 2016 quarter.

Folkestone has co-invested $3.4 million (18.76 per cent) in the Fund. Due to the acceleration of the project, the Fund's current forecast equity IRR has increased from 18 per cent per annum to 21.5 per cent per annum (pre-tax, net of fees) on drawn equity.

DIRECT INVESTMENTS

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

Millers Junction Business, Altona North

In September 2014, the Company entered into a 50/50 JV with Wilmac Properties to develop 74 strata style office/warehouse mews in Stage 2 of Millers Junction in Altona North, known as Millers Junction Business. As at 30 June 2016, 74 per cent of units released to the market had been pre-sold. Construction of Stage 1 (28 mews, a café and office suite) commenced in September 2015 and is forecast to be completed in the September 2016 quarter. Construction of Stage 2 (14 mews) commenced in March 2016 and is forecast to be completed in September 2016.

As at the reporting date, Folkestone has invested $2.0 million in this project.

Millers Junction Stage 3, Altona North

In May 2015 Folkestone entered into an option agreement with BWP Trust and Bunnings Group Limited (BGL) to purchase the former Bunnings site adjacent to Millers Junction. Subject to planning approval, the 3.4 hectare parcel will be consolidated with Folkestone's existing Stage 3 land holding of 4.4 hectares to create a substantial development opportunity which will include traditional retail, large format retail and social infrastructure investments.

During the current reporting period, Folkestone continued with master-planning activities and progressed negotiations with key stakeholders in respect of the site; in particular a planning application to rezone the 3.4 hectare parcel and permit to undertake a retail development of 13,286 sqm.

An Agreement for Lease with a major supermarket to anchor the proposed development is in place. The current year result includes a further $1.5 million part reversal of the prior period impairment of the Stage 3 land and a $1.6 million rental expense in respect of the sub-lease payments to BGL.

As at the reporting date, Folkestone has invested $9.9 million in this project.

Industria, Knoxfield

In May 2015, Folkestone entered into a second 50/50 JV with Wilmac Properties to develop 85 strata office/warehouse/retail mews in Knoxfield, Victoria with an anticipated end value of $30.0 million.

Settlement of the land occurred in March 2016. Marketing of Stage 1 (20 mews) commenced in the current reporting period with a total of 15 pre-sales (75 per cent) secured at 30 June 2016. An additional 2 pre-sales were secured on Stage 2, ahead of the sales launch in July 2016. Construction of Stage 1 commenced in June 2016 and is forecast to be completed in April 2017.

As at the reporting date, Folkestone

F. REVIEW OF OPERATIONS CONT.

has invested $1.8 million in this project.

Industria, Nunawading

In May 2015, Folkestone entered into a third 50/50 JV with Wilmac Properties to develop 73 strata office/warehouse/retail mews in Nunawading, Victoria with an anticipated end value of $31.0 million.

The land has been acquired on deferred terms with settlement forecast to occur in September 2016. Marketing of Stage 1 (26 mews) is scheduled to commence in August 2016. Planning consent is forecast to be received in September 2016.

As at the reporting date, Folkestone has invested $0.5 million in this project with a further $2.8 million in funds forecast to be invested to settle the land in September 2016.

Potters Grove, Officer

Potters Grove, Officer is a 50/50 JV with ID_Land to develop a 240 lot land sub-division.

As at 30 June 2016, 239 lots had been settled with 41 of these settlements occurring in the current reporting period leaving one lot to sell. In August 2016, this lot was contracted for sale The project has delivered Folkestone an equity IRR of 26.8 per cent on funds invested and a total return before tax of $4.5 million.

Northside, Officer

In August 2014, Folkestone acquired, in a 50/50 JV with ID_Land, Northside Officer to develop a 146 lot land sub-division diagonally opposite Folkestone and ID_Land's Potters Grove development. The zoned site was purchased on deferred terms. Settlement of the first tranche of land (3.6 hectares) took place on 25 August 2015 and the remaining tranche (4.7 hectares) was settled on 5 August 2016.

Stage 1 commenced in the September 2015 quarter and was completed in May 2016. First settlements for the project commenced in July 2016. Pre-sales secured to date remain ahead of program and as at the reporting date only 21 lots remain to be sold.

As at the reporting date, Folkestone has invested $2.2 million in this project.

Wollert, Victoria

In December 2015, Folkestone announced that it had entered into a fourth JV with ID_Land, to develop a 48 hectare residential master-planned community in Wollert in Melbourne's rapidly growing Northern Growth Corridor. Wollert is located in the City of Whittlesea, circa 25 kilometres north of the Melbourne CBD and is ideally positioned between Craigieburn and Mernda.

The project is located within the Wollert Precinct Structure Plan (PSP) which is expected to receive Government approval in late 2016. The project will encompass circa 500 residential lots, with an on completion value of approximately $120 million. The land is being acquired on a staged settlement basis with a series of payments required between December 2015 and 2019. Following the PSP approval, Folkestone and ID_Land anticipate selling down part of their investment to third party investors similar to the process completed for the Folkestone Truganina Development Fund.

As at the reporting date, Folkestone has invested $3.1 million in this project.

Hornsby, New South Wales

In December 2014, the Company announced a 50/50 JV with the Lyon Group, a leading Sydney developer, to develop a strategically located, mixed use site opposite Hornsby train station in Sydney's north-west. The JV has secured option agreements over two commercial buildings and has acquired a small mixed use retail and office property covering a land area of 2,835 square metres.

During the current reporting period, the JV contracted to acquire a further small mixed use retail and office property covering a land area of 348 square metres. Master-planning activities are under way and negotiations continue with key stakeholders in respect of the site. The JV is seeking to consolidate further land adjoining the existing properties to unlock a significant mixed-use development opportunity in this key location.

As at the reporting date, Folkestone has invested $4.9 million in this project.

South Dural, New South Wales

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

The JV has been appointed as Preferred Developer Proponent by the South Dural Residents and Ratepayers Group and is working collaboratively with Hornsby Shire Council and the NSW State Government to have approximately 240 hectares (including the land over which it has development rights) rezoned for residential and mixed-use development under the NSW Government's Gateway Determination dated 4 March 2014.

As at the reporting date, Folkestone has invested $6.7 million in this project

The Ranges, Karratha

Folkestone holds a 25 per cent 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. Stage 1a comprising 41 villas opened for trade in December 2012.

During the current reporting period, construction of Stage 1b (32 units) was completed. As at 30 June 2016, 16 settlements of Stage 1b units had been completed. The 16 unsold units will be acquired by the various JV partners with Folkestone agreeing to acquire a total of 4 units. The JV partners have agreed to leave these 16 units in the asset pool of the trust whilst it seeks an extension to the existing debt facility with St George Bank. The JV is also exploring the construction of a food and beverage facility at the Ranges which will assist with increasing occupancy and revenue.

Folkestone completed a review of the carrying value of its investment in this project at 31 December 2015, referenced by third party valuations which were commissioned following the completion of Stage 1b. As a result of this process, and in response to the current economic conditions in the region, Folkestone made a further $1.2 million provision against the carrying value of its investment in the project at that time. A further review of the carrying value of the investment has been undertaken at 30 June 2016 and no further provisions have been made. As at the reporting date, Folkestone has invested $3.3 million in this project.

OUTLOOK

Low interest rates and the depreciation of the Australian dollar are continuing to support the rebalancing of economic activity away from the resource sector. Australia's economic growth remains below trend, but relative to most other developed countries is performing reasonably well. With spare capacity and core inflationary pressures subdued, the RBA's recent monetary easing to a record low cash rate of 1.5 per cent should provide some additional support for economic activity and employment growth in the year ahead.

Whilst we did not expect interest rates to fall to such levels, with the RBA now expecting low levels of inflation to persist into 2017, we now anticipate interest rates will stay lower for longer which should provide continued support for assets like real estate.

Investors will continue to focus on yield and we expect the weight of money chasing quality real estate to continue in the coming year, putting further upward pressure on values. Although yields for most non-residential sectors are at cyclical lows, the spread to both the cash rate and 10 year bond yields remains positive. Back in 2007, when yields last reached these levels, both the cash rate and 10 year bond yields were substantially higher, and there was little, or in some cases, a negative spread.

We will continue to search for opportunities to acquire quality non-residential assets for our unlisted income funds, however, as we pointed out six months ago when we delivered our FY16 Half Year Results, the challenge in this environment is to avoid simply taking greater risk in the search for higher returns. Investors may not be properly rewarded for the risk they are taking on. As we have demonstrated in recent years, we continue to believe it is critical to remain disciplined. Where possible, we will seek to manufacture quality investment product for our unlisted funds rather than relying on entering a competitive tender process to acquire completed assets on market.

The momentum in the Sydney and Melbourne residential markets is likely to slow as affordability constraints, weaker rental yields and tighter lending conditions impact the market. The fundamentals still remain positive with low interest rates and population growth. Pockets of oversupply are emerging in selected markets such as inner Melbourne, South Sydney and inner Brisbane apartments. Our preference continues to be residential land and housing in Melbourne, Sydney and Brisbane, apartments in Sydney around major transport nodes and residential in mixed-use developments.

We continue to believe that real estate related social infrastructure (childcare, seniors living and medical) will offer attractive investment returns in the coming year. The demographic drivers (workforce participation and population growth for childcare and an ageing population for seniors living and medical) and a shortage of quality accommodation in all three sectors will see investors increasingly look at these investments as a legitimate part of a real estate investment portfolio. We have recently launched our first fund in the seniors living sector – the Folkestone Seniors Living Fund No.1 which has acquired a high quality retirement living community on Sydney's lower north shore. We are in due diligence on a number of other opportunities in both the seniors living and medical sectors. The Folkestone Education Trust will also continue to build on its portfolio of more than 393 childcare centres through the development of high quality centres in key locations.

We have been actively building our development pipeline in recent years, and a number of projects are set to gain momentum in the coming year. Some of these projects may be sold down, or joint ventured with a Folkestone managed fund thereby ensuring we can realise profits, drive our return on equity and recycle our balance sheet capital. We will continue to look for development opportunities across the residential, non-residential and social infrastructure sectors where the projects offer the potential for attractive risk-adjusted returns, can be acquired and/or developed using efficient capital structures (i.e. staged land payments or deferred settlement terms), and where appropriate, undertaken in JV with quality partners.

DIRECTORS' REPORT CONT.

G. EARNINGS PER SHARE

	Note	2016 Cents	2015 Cents
Basic earnings per share from continuing operations	9	3.7	5.5
Diluted earnings per share from continuing operations	9	3.7	5.4

Earnings per share is calculated on the weighted average number of ordinary shares on issue during the period. The prior year comparative has been adjusted to reflect the impact of the 1 for 5 share consolidation completed in November 2015

H. AFTER BALANCE DATE EVENTS

On 7 July 2016 the Company announced that it had established the Folkestone Seniors Living Fund No.1 (FSLF) which has acquired Watermark Castle Cove, an award winning retirement community on Sydney's lower north shore. The Company currently owns 100% of FSLF while It completes a $25.66 million equity raising.

I. CHANGE IN STATE OF AFFAIRS

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

J. LIKELY DEVELOPMENTS, BUSINESS RISKS AND EXPECTED RESULTS OF OPERATIONS

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

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

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

Real Estate Market Risk – The Company’s asset values and earnings are subject to real estate market conditions. The Company 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 continuing to see a good pipeline of investment opportunities and has a well qualified and skilled team to identify and secure those opportunities which meet our risk/return criteria.

Regulatory Risk – The Company holds four Australian Financial Services Licences which permit it to carry on a financial services business. As at 30 June 2016, the Company has over $1 billion in funds under management. The Company must comply with its obligations under each AFSL in order to continue to manage its funds management platform.

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

Further information to those matters already disclosed on likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years has been outlined in section F - Review of Operations.

K. ENVIRONMENTAL REGULATION

The consolidated entity complies with all relevant State and Commonwealth legislation and regulations regarding environmental matters. Regular board reporting on a project by project basis occurs in relation to development activities. Folkestone 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.

L. WORKPLACE HEALTH AND SAFETY REGULATIONS

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

M. DIRECTOR PROFILES

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

Garry was appointed as Non-Executive Chairman of Folkestone in March 2011. Garry is a business and strategic adviser who has a diversified business background in the areas of real estate, private equity, business operations, banking and finance, and equity raising, having held the position of General Manager Operations at Consolidated Press Holdings for six years. Garry is Chairman of Ashton Manufacturing Pty Limited, 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 Chairman of the United States Studies Centre Limited, a director of Perth USA Asia Centre Limited and a director of the American Australian Association Limited.

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

Ross was appointed as a Non-Executive Director of Folkestone in March 2011. Ross is a consultant to Kemp Strang, a Sydney commercial law firm. Ross is one of Kemp Strang's founders and was a partner in the practice for over 30 years. Ross has extensive experience in commercial real estate, construction and securities matters on a broad front and is well known in legal, commercial and community circles. He is a former Non-Executive Director of Mirvac Funds Management Limited and Mirvac Wholesale Funds Management Limited and is a member of the Australian Institute of Company Directors.

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

Greg became Managing Director of Folkestone in April 2011. Greg has been involved in the real estate and funds management industry for more than 40 years, and was the cofounder of Equity Real Estate Partners, Growth Equities Mutual, Paladin Australia and the James Fielding Group. Greg was the CEO of Mirvac Group between 2004 and 2008. Greg is a past president of the Property Council of Australia and past president of Investment Funds Association, a Fellow of the Australian Property Institute and The Royal Institute of Chartered Surveyors. Greg is a board member of the Sydney Swans and the immediate past Chair of LJ Hooker. Greg was awarded an Officer in the General Division (AO) of the Order of Australia in January 2015 for his distinguished service to the community through executive roles in a range of fields, including breast cancer research, the not-for-profit sector and real estate and property investment industries.

N. REMUNERATION REPORT (AUDITED)

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

Remuneration Policy

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

Key principles in developing the performance based remuneration structure include the creation of longer term Shareholder value, alignment with Shareholder interests, market competitiveness, recognition of individual performance and experience and divisional and group performance.

The Board of Folkestone has established a Remuneration Committee comprised of the three non-executive directors of the Company. The Remuneration Committee operates under the charter as outlined in the Corporate Governance Statement which can be found on the Folkestone Limited website.

DIRECTORS' REPORT CONT.

N. REMUNERATION REPORT (AUDITED) CONT.

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

The Managing Director and executives receive a superannuation guarantee contribution as required by legislation and do not receive any other retirement benefits. All remuneration paid to Directors and executives is valued at the cost to the Company and expensed.

Service agreements and contract details

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

Relationship between the remuneration policy and company performance

The table set out on page 12 summarises information about the consolidated entity's earnings and movements in shareholder wealth for the five years to June 2016, 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. 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 this time, the company has delivered a further three years of consecutive profits as the business has been re-built and transformed from a pure developer into a real estate funds management and development company. In 2016 the Company recorded a net profit after tax attributable to members of the parent entity of $5.5 million and has declared a final dividend of 2.5 cents per share, the first dividend to be paid by the company since 2008.

   In 2014, the Company implemented a short-term incentive scheme (STI) which is based upon Return on Equity performance hurdles. The Return on Equity calculation includes both the reported net profit after tax attributable to the Company as well as the reported Other Comprehensive Income. When establishing the scheme, the Remuneration Committee sought external advice from a remuneration consultant to confirm that the proposed scheme was commensurate with other entities comparable to Folkestone.

   In 2016, the bonus pool calculated in accordance with the short term incentive scheme was $2.1 million, however the Board acknowledges that a significant contribution to the Return on Equity achieved has been generated by the unrealised gain its unitholding in the ASX listed Folkestone Education Trust (FET) which has been recognised as Other Comprehensive Income. As a result, the Board has elected to adjust the cash STI bonus payable to $0.8 million with the balance of the bonus pool to be converted into the issue of long term incentives with a four year vesting period to further align the interests of key executives with those of shareholders and to assist with the long term retention of key executives.

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

   The Executive Incentive Plan was amended and approved at the annual general meeting of shareholders held on 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 2016, there were 978,304 performance rights and 880,676 share appreciation rights on issue to executives (please refer to following sections of the Remuneration Report for further detail).

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

c) As the table on page 12 outlines, the Company has recorded four consecutive years of profit which was preceded by five consecutive 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 performance hurdles as outlined further below.

Executive Remuneration

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

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

The combination of these comprises the executive's total remuneration. No additional remuneration is received by any executive where they act on behalf of the Company in relation to joint venture, subsidiary or associated entity activities.

i) Fixed Remuneration

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

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

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

ii) Performance Linked Remuneration

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

The performance targets are determined by the Board and are set on the basis that the Managing Director and executive's remuneration will have a combination of short and long term incentives so that the Company can attract, retain and motivate appropriately qualified and experienced executives. Where performance targets are satisfied, success will be rewarded through the payment of a cash bonus (STI) and/or the grant of specified long-term incentives determined by the Board (LTI). At present, the Managing Director has elected not to participate in the Long Term Executive Incentive Plan. The Board is comfortable the Managing Director has sufficient exposure to the Company's share price performance to align his interests in value creation as he continues to be Folkestone's single largest shareholder. The Managing Director's participation in the Long Term Incentive Plan will continue to be reviewed on a year by year basis.

The proportion of salary that links with performance varies according to contractual arrangements. The proportion of remuneration paid to Directors and executives that was performance related for the current and prior financial year is summarised in the tables on page 16.

Summary of Historical Financial Performance of the Consolidated Entity

	2016 $000	2015 $000	2014 $000	2013 $000	2012 $000
Profit/(loss) from continuing operations before income tax (expense)/credit	10,962	5,972	2,526	1,545	(73)
Income tax (expense)/benefit	(1,925)	2,223	249	(369)	-
Loss from discontinued operations	-	-	-	-	(46)
(Profit)/loss attributable to non-controlling interest	(3,586)	(1,178)	377	-	-
Profit /(loss) from ordinary activities attributable to members of the parent entity	5,451	7,017	3,152	1,176	(119)
Total other comprehensive income net of tax	11,847	4,524	238	-	-
Total comprehensive income/(loss) net of tax attributable to members of the parent entity	17,298	11,541	3,390	1,176	(119)
Basic earnings per ordinary share (cents)*	3.7	5.5	3.5	1.5	(0.0)
Dividend rate on fully paid shares (cents)	2.5	-	-	-	-
ASX Closing Price 30 June (dollars)*	$0.85	$1.05	$1.10	$0.80	$0.435

** Comparative numbers have been adjusted to reflect the impact of the 1 for 5 share consolidation completed during the period.*

N. REMUNERATION REPORT (AUDITED) CONT.

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 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.

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 vests and the Participant is eligible to receive a "Payout" calculated in accordance with the terms of issue of the Share Appreciation Right. Generally the "Payout" amount will be referable to the amount by which the prevailing 10 day VWAP of Shares as at the vesting date is greater than the 10 day VWAP of Shares as at the time of issue of the Share Appreciation Right or other date as determined by the Board. Upon being eligible to receive a "Payout", the Company must procure the issue or transfer of such number of Shares as is determined by dividing the "Payout" amount by the prevailing 10 day VWAP of Shares as at the payout date.

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

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

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

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

Dealing with Rights and Shares

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

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

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

New Issues and Reorganisation of Capital

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

Change of Plan Rules

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

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

Non-Executive Director Remuneration

In accordance with corporate governance best practice, the structure for non-executive director remuneration is separate from the structure for executive remuneration. The Board’s policy is to remunerate non-executive directors at market rates for comparable companies and reflects their time, commitment and responsibilities. The Remuneration Committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability.

The Remuneration Committee undertook a review of the remuneration of non-executive directors in August 2016 and resolved that no change be made to Non-Executive Remuneration from the review completed in June 2015. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting (currently $400,000). Details of the Directors’ interests in shares and rights over shares of the Company as at the date of this report are contained in the Remuneration Report on page 24.

DIRECTORS' REPORT CONT.

N. REMUNERATION REPORT (AUDITED) CONT.

Details of Remuneration for the year ended 30 June 2016

Details of the nature and amount of each element of the remuneration of each Director of Folkestone Limited and each of the Executives of the Company which have been determined to meet the definition of Key Management personnel as defined in AASB 124 (Related Party Disclosures) and the economic entity receiving the highest remuneration are set out in the table below.

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

		Short Term		Post Employ. Benefits	Share Based Payment	Long Term			
		Salary & Fees	STI Cash Bonus	Non-Monetary Benefits	Super. Benefits	Perf. Rights /SARs (A)	Other Long Term Benefits (B)	Total	Prop. of Remun. Perform. Related
		$	$	$	$	$	$	$	%
Directors Non-Executive									
GR Sladden	**2016**	**116,164**	**13,699**	**-**	**12,337**	**-**	-	**142,200**	**10**
	2015	109,589	-	-	10,411	-	-	120,000	-
MW Baillie	**2016**	**53,242**	**13,699**	**-**	**6,359**	**-**	-	**73,300**	**19**
	2015	50,228	-	-	4,772	-	-	55,000	-
KR Strang	**2016**	**40,501**	**13,699**	**-**	**35,000**	**-**	-	**89,200**	**15**
	2015	35,834	-	-	34,166	-	-	70,000	-
Directors Executive									
GJ Paramor	**2016**	**455,692**	**-**	**-**	**19,308**	**(9,356)**	**24,082**	**489,726**	**(2)**
	2015	356,217	150,000	-	18,783	30,485	23,994	579,479	31
Total Compensation: Directors (consolidated)	**2016**	**665,599**	**41,097**	**-**	**73,004**	**(9,356)**	**24,082**	**794,426**	**20**
	2015	551,868	150,000	-	68,132	30,485	23,994	824,479	22
Executives									
NJ Anagnostou	**2016**	**380,692**	**120,000**	**-**	**19,308**	**3,301**	**21,562**	**544,863**	**23**
	2015	366,217	150,000	-	18,783	42,729	8,584	586,313	33
BP Dodwell	**2016**	**358,000**	**85,000**	**12,000**	**30,000**	**75,572**	**26,291**	**586,863**	**27**
	2015	330,198	150,000	4,802	30,000	404,084	15,406	934,490	59
AJ Harrington	**2016**	**367,512**	**85,000**	**13,180**	**19,308**	**3,301**	**52,178**	**540,479**	**16**
	2015	340,536	150,000	5,681	18,783	42,729	31,276	589,005	33
SN Martin	**2016**	**324,337**	**85,000**	**31,355**	**19,308**	**75,572**	**20,000**	**555,572**	**29**
	2015	327,725	150,000	3,492	18,783	404,084	18,424	922,508	60
Total Compensation: Executives (consolidated)	**2016**	**1,430,541**	**375,000**	**56,535**	**87,924**	**157,746**	**120,031**	**2,227,777**	**24**
	2015	1,364,676	600,000	13,975	86.349	893,626	73,690	3,032,316	49
Total Compensation: Key Management Personnel	**2016**	**2,096,140**	**416,097**	**56,535**	**160,928**	**148,390**	**144,113**	**3,022,203**	**19**
	2015	1,916,544	750,000	13,975	154,481	924,111	97,684	3,856,795	43

A. 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.

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

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

N. REMUNERATION REPORT (AUDITED) CONT.

Performance Rights and Share Appreciation Rights issued as part of Remuneration for the year ended 30 June 2016

Performance Rights

There were a total of 715,500 performance rights issued as part of remuneration for the year ended 30 June 2016 with grant dates of 29 September 2015 and 12 November 2015. The following factors and assumptions were used in determining the fair value of rights on the grant dates:

Grant Date	Expiry Date	*Fair Value per Right	Exercise Price	Price of Shares on Grant Date	Dividend Yield
29 Sep 2015	31 Aug 2017	$0.93	$0	$0.98	2.6%
29 Sep 2015	1 Jul 2018	$0.91	$0	$0.98	2.6%
29 Sep 2015	1 Jul 2019	$0.89	$0	$0.98	2.6%
12 Nov 2015	31 Aug 2017	$0.96	$0	$1.01	2.5%
12 Nov 2015	1 Jul 2018	$0.94	$0	$1.01	2.5%
12 Nov 2015	1 Jul 2019	$0.92	$0	$1.01	2.5%

**The fair value of performance rights was calculated by an independent expert using an appropriate valuation model in accordance with applicable accounting standards. The fair value of performance rights has been adjusted to reflect the impact of the 1 for 5 share consolidation completed during the current reporting period.*

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

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

Share Appreciation Rights

There was no share appreciation rights issued as part of remuneration for the year ended 30 June 2016.

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

The fair value of share appreciation rights granted are measured using a Black Scholes simulation model which is the generally accepted approach for valuing such rights. The amount recognised as an expense is amortised on a straight line basis over the life of the right. If the performance criteria associated with the right is not achieved, adjustments to the value of the expense are made so that the cumulative expense recognised over the vesting period reflects the number of instruments that actually vest.

Performance rights over equity instruments granted as compensation

Details of the performance rights on issue over ordinary shares in the Company that have been granted as compensation as at 30 June 2016 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	Performance Rights Granted during current and prior period	Grant Date	Vested/Lapsed During 2016	Fair Value per Right at Grant Date	Expiry Date
A Harrington	6	31,200	29 Sep 2015	-	$0.93	31 Aug 2017
	7	31,200	29 Sep 2015	-	$0.91	1 Jul 2018
	8	31,200	29 Sep 2015	-	$0.89	1 Jul 2019
B Dodwell	4	131,402	1 Jul 2014	(131,402)	$1.10	1 Jul 2015
	5	131,402	1 Jul 2014	-	$1.10	1 Jul 2016
	6	31,200	29 Sep 2015	-	$0.93	31 Aug 2017
	7	31,200	29 Sep 2015	-	$0.91	1 Jul 2018
	8	31,200	29 Sep 2015	-	$0.89	1 Jul 2019
N Anagnostou	6	31,200	29 Sep 2015	-	$0.93	31 Aug 2017
	7	31,200	29 Sep 2015	-	$0.91	1 Jul 2018
	8	31,200	29 Sep 2015	-	$0.89	1 Jul 2019
S Martin	4	131,402	1 Jul 2014	(131,402)	$1.10	1 Jul 2015
	5	131,402	1 Jul 2014	-	$1.10	1 Jul 2016
	6	31,200	29 Sep 2015	-	$0.93	31 Aug 2017
	7	31,200	29 Sep 2015	-	$0.91	1 Jul 2018
	8	31,200	29 Sep 2015	-	$0.89	1 Jul 2019
Other Staff	6	82,500	29 Sep 2015	-	$0.93	31 Aug 2017
	7	82,500	29 Sep 2015	-	$0.91	1 July 2018
	8	82,500	29 Sep 2015	-	$0.89	1 July 2019
	9	31,200	12 Nov 2015	-	$0.96	31 Aug 2017
	10	31,200	12 Nov 2015	-	$0.94	1 Jul 2018
	11	31,200	12 Nov 2015	-	$0.92	1 Jul 2019
Total		**1,241,108**		**(262,804)**		

There were 715,500 performance rights granted during the 2016 financial year as outlined on page 17.

The above summary of performance rights on issue or granted during the period and the fair value per right at grant date have been adjusted to reflect the 1:5 share consideration completed during the current reporting period.

N. REMUNERATION REPORT (AUDITED) CONT.

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

Tranche 4 Performance Rights

Tranche 4 performance rights were issued on 1 July 2014 and vested on 1 July 2015. The Tranche 4 performance rights did not have a performance criteria.

Tranche 5 Performance Rights

Tranche 5 performance rights were issued on 1 July 2014 and have a vesting date of 1 July 2016. Other than continuity of employment, there are no other performance criteria relating to the vesting of the Tranche 5 performance rights.

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

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

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

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

The vesting date for each Tranche of performance rights is summarised in the table below.

Tranche	Vesting Date
4	1 July 2015
5	1 July 2016
6, 9	31 August 2017
7, 10	1 July 2018
8, 11	1 July 2019

Share Appreciation rights over equity instruments granted as compensation

Details of the share appreciation rights over ordinary shares in the Company that have been granted as compensation as at 30 June 2016 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 Current and Prior Period	Grant Date	Vested/Lapsed During 2016	Fair Value per Right at Grant Date	Expiry Date
G Paramor	7	36,036	16 Oct 2014	-	$0.195	14 Sep 2016
	8	39,216	16 Oct 2014	-	$0.175	14 Sep 2016
	9	42,090	16 Oct 2014	-	$0.165	14 Sep 2016
	10	27,686	16 Oct 2014	(27,686)	$0.37	14 Sep 2015
	11	28,686	16 Oct 2014	(28,686)	$0.33	14 Sep 2015
	12	26,752	16 Oct 2014	(26,752)	$0.315	14 Sep 2015

Executive	Tranche	Granted During Current and Prior Period	Grant Date	Vested/Lapsed During 2016	Fair Value per Right at Grant Date	Expiry Date
N Anagnostou	1	27,686	14 Apr 2014	(27,686)	$0.43	14 Sep 2015
	2	28,686	14 Apr 2014	(28,686)	$0.415	14 Sep 2015
	3	26,752	14 Apr 2014	(26,752)	$0.445	14 Sep 2015
	4	36,036	21 Aug 2014	-	$0.37	14 Sep 2016
	5	39,216	21 Aug 2014	-	$0.34	14 Sep 2016
	6	42,090	21 Aug 2014	-	$0.315	14 Sep 2016
B Dodwell	1	27,686	14 Apr 2014	(27,686)	$0.43	14 Sep 2015
	2	28,686	14 Apr 2014	(28,686)	$0.415	14 Sep 2015
	3	26,752	14 Apr 2014	(26,752)	$0.445	14 Sep 2015
	4	36,036	21 Aug 2014	-	$0.37	14 Sep 2016
	5	39,216	21 Aug 2014	-	$0.34	14 Sep 2016
	6	42,090	21 Aug 2014	-	$0.315	14 Sep 2016
A Harrington	1	27,686	14 Apr 2014	(27,686)	$0.43	14 Sep 2015
	2	28,686	14 Apr 2014	(28,686)	$0.415	14 Sep 2015
	3	26,752	14 Apr 2014	(26,752)	$0.445	14 Sep 2015
	4	36,036	21 Aug 2014	-	$0.37	14 Sep 2016
	5	39,216	21 Aug 2014	-	$0.34	14 Sep 2016
S Martin	1	27,686	14 Apr 2014	(27,686)	$0.43	14 Sep 2015
	2	28,686	14 Apr 2014	(28,686)	$0.415	14 Sep 2015
	3	26,752	14 Apr 2014	(26,752)	$0.445	14 Sep 2015
	4	36,036	21 Aug 2014	-	$0.37	14 Sep 2016
	5	39,216	21 Aug 2014	-	$0.34	14 Sep 2016
	6	42,090	21 Aug 2014	-	$0.315	14 Sep 2016
	6	42,090	21 Aug 2014	-	$0.315	14 Sep 2016

DIRECTORS' REPORT CONT.

N. REMUNERATION REPORT (AUDITED) CONT.

Executive	Tranche	Granted During Current and Prior Period	Grant Date	Vested/Lapsed During 2016	Fair Value per Right at Grant Date	Expiry Date
Other Staff	1	55,372	14 Apr 2014	(55,372)	$0.43	14 Sep 2015
	2	57,372	14 Apr 2014	(57,372)	$0.415	14 Sep 2015
	3	53,504	14 Apr 2014	(53,504)	$0.445	14 Sep 2015
	4	90,106	21 Aug 2014	-	$0.37	14 Sep 2016
	5	98,028	21 Aug 2014	-	$0.34	14 Sep 2016
	6	105,832	21 Aug 2014	-	$0.315	14 Sep 2016
Total		**1,462,544**		**(581,868)**		

There were no share appreciation rights granted during the 2016 financial year.

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

The above summary of share appreciation rights on issue or granted during the period and the fair value per right at grant date have been adjusted to reflect the 1 for 5 share consolidation completed during the current reporting period.

Share Appreciation rights over equity instruments granted as compensation continued

Tranche 1,2,3,10,11 and 12 Share Appreciation Rights

Tranche 1,2,3,10,11 and 12 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 1,2,3,10,11,12 share appreciation rights was 1 July 2013 to 30 June 2015.

The Average Compound Return on Equity over the performance period was calculated as 9.4% and as such there was 75.1% vesting of the Tranche 1, 2, 3, 10, 11 and 12 share appreciation rights on 31 August 2015. At this date the Participants were 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 are summarised In the table below will vest on the dates outlined in the table subject to the employee’s continued employment with Folkestone Limited at all times during the vesting period:

Tranche	Number of shares to be issued	Vesting Date
1 and 10	34,804	1 September 2015
2 and 11	36,057	1 July 2016
3 and 12	33,628	1 July 2017

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

Tranche 4,5,6,7,8 and 9 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 4,5,6,7,8 and 9 share appreciation rights is 1 July 2014 to 30 June 2016.

The Average Compound Return on Equity over the performance period has been calculated as 12.8% which would result In 100% vesting of the Tranches 4-9 share appreciation rights however the SARs will only vest if the share price at 31 August 2016 is above $1.105 per share.

Should the share price at 31 August 2016 be above $1.105 per share, any 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 4 and 7 SARs – 31 August 2016
- Shares issued pursuant to Tranche 5 and 8 SARs – 1 July 2017
- Shares issued pursuant to Tranche 6 and 9 SARs – 1 July 2018

N. REMUNERATION REPORT (AUDITED) CONT.

Analysis of share-based payments granted as compensation

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

Executives	Number	Date	% Vested in Year	% Vested in Total	% Forfeited in Year	% Forfeited in Total	Financial Years to which Grant Vests
Performance Rights Granted							
A Harrington	93,600	29 Sep 2015	-	-	-	-	Jun 2018 - 2020
B Dodwell	262,804	1 Jul 2014	50%	50%	-	-	Jun 2016 - 2017
	93,600	29 Sep 2015	-	-	-	-	Jun 2018 - 2020
S Martin	262,804	1 Jul 2014	50%	50%	-	-	Jun 2016 - 2017
	93,600	29 Sep 2015	-	-	-	-	Jun 2018 - 2020
N Anagnostou	93,600	29 Sep 2015	-	-	-	-	Jun 2018 - 2020
Other Staff	247,500	29 Sep 2015	-	-	-	-	Jun 2018 - 2020
	93,600	12 Nov 2015	-	-	-	-	Jun 2018 - 2020
Total	**1,241,108**						
Share Appreciation Rights Granted							
G. Paramor	83,124	16 Oct 2014	75%	75%	25%	25%	June 2016
	117,342	16 Oct 2014	-	-	-	-	June 2017
N. Anagnostou	83,124	14 Apr 2014	75%	75%	25%	25%	June 2016
	117,342	21 Aug 2014	-	-	-	-	June 2017
B. Dodwell	83,124	14 Apr 2014	75%	75%	25%	25%	June 2016
	117,342	21 Aug 2014	-	-	-	-	June 2017
A. Harrington	83,124	14 Apr 2014	75%	75%	25%	25%	June 2016
	117,342	21 Aug 2014	-	-	-	-	June 2017
S. Martin	83,124	14 Apr 2014	75%	75%	25%	25%	June 2016
	117,342	21 Aug 2014	-	-	-	-	June 2017
Other Staff	166,248	14 Apr 2014	75%	75%	25%	25%	June 2016
	293,966	21 Aug 2014	-	-	-	-	June 2017
Total	**1,462,544**						

Number of Shares held by Key Management Personnel - Current year

2016	Balance 1.7.2015	Received as Compensation	Performance Rights / SARs Exercised	Net Change Other[1]	Balance 30.6.2016
GR Sladden	655,765	-	-	(524,612)	131,153
MW Baillie	13,882,925	-	-	(11,102,340)	2,780,585
GJ Paramor	67,839,683	-	24,857	(54,261,740)	13,602,800
BP Dodwell	1,862,798	-	681,886	(2,245,750)	298,934
AJ Harrington	5,451,465	-	24,857	(4,381,057)	1,095,265
SN Martin	1,452,622	-	681,886	(1,707,609)	426,899
NJ Anagnostou	100,000	-	24,857	(99,885)	24,972
Total	**91,245,258**	**-**	**1,438,343**	**(74,322,993)**	**18,360,608**

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

Number of Shares held by Key Management Personnel - Prior year

2015	Balance 1.7.2014	Received as Compensation	Performance Rights / SARs Exercised	Net Change Other[1]	Balance 30.6.2015
GR Sladden	524,612	-	-	131,153	655,765
MW Baillie	9,600,340	-	-	4,276,585	13,882,925
GJ Paramor	52,062,692	-	-	15,776,991	67,839,683
BP Dodwell	1,205,789	-	657,009	-	1,862,798
AJ Harrington	3,586,666	-	1,971,027	(106,228)	5,451,465
SN Martin	723,492	-	657,009	72,121	1,452,622
NJ Anagnostou	100,000	-	-	-	100,000
Total	**67,809,591**	**-**	**3,285,045**	**20,150,622**	**91,245,258**

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

DIRECTORS' REPORT CONT.

N. REMUNERATION REPORT (AUDITED) 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	-	93,600	-	-	93,600
Value of Performance Rights $	-	85,020	-	-	85,020
B Dodwell					
Number of Performance Rights	262,804	93,600	(131,402)	-	225,002
Value of Performance Rights $	289,084	85,020	(144,542)	-	229,562
S Martin					
Number of Performance Rights	262,804	93,600	(131,402)	-	225,002
Value of Performance Rights $	289,084	85,020	(144,542)	-	229,562
N Anagnostou					
Number of Performance Rights	-	93,600	-	-	93,600
Value of Performance Rights $	-	85,020	-	-	85,020
Other Staff					
Number of Performance Rights	-	341,100	-	-	341,100
Value of Performance Rights $	-	312,875	-	-	312,875
Total					
Number of Performance Rights	**525,608**	**715,500**	**(262,804)**	**-**	**978,304**
Value of Performance Rights	**578,168**	**652,955**	**(289,084)**	**-**	**942,039**

Note: The above number of performance rights disclosed have been adjusted to reflect the completion of the 1 for 5 share consolidation completed during the current reporting period.

Analysis of movements in performance rights and share appreciation rights

	Opening Balance (i)	Granted in Year (ii) (iii)	Vested in Year (iv)	Lapsed in Year (v)	Closing Balance
Share Appreciation Rights - Executives					
G. Paramor					
Number of Share Appreciation Rights	200,466	-	(62,422)	(20,702)	117,342
Value of Share Appreciation Rights $	48,972	-	(21,129)	(7,008)	20,835
N. Anagnostou					
Number of Share Appreciation Rights	200,466	-	(62,422)	(20,702)	117,342
Value of Share Appreciation Rights $	75,639	-	(26,819)	(8,895)	39,925
B Dodwell					
Number of Share Appreciation Rights	200,466	-	(62,422)	(20,702)	117,342
Value of Share Appreciation Rights $	75,639	-	(26,819)	(8,895)	39,925
A Harrington					
Number of Share Appreciation Rights	200,466	-	(62,422)	(20,702)	117,342
Value of Share Appreciation Rights $	75,639	-	(26,819)	(8,895)	39,925
S. Martin					
Number of Share Appreciation Rights	200,466	-	(62,422)	(20,702)	117,342
Value of Share Appreciation Rights $	75,639	-	(26,819)	(8,895)	39,925
Other Staff					
Number of Share Appreciation Rights	460,214	-	(124,844)	(41,404)	293,966
Value of Share Appreciation Rights $	171,434	-	(53,638)	(17,790)	100,006
Total					
Number of Share Appreciation Rights	**1,462,544**	**-**	**(436,954)**	**(144,914)**	**880,676**
Value of Share Appreciation Rights	**522,962**	**-**	**(182,043)**	**(60,378)**	**280,541**

(i) Opening balance of performance rights/share appreciation rights granted. The opening balances have been adjusted to reflect the Impact of the 1 for 5 share consolidation completed during the period.

(ii) The number of performance rights/share appreciation rights is the number of performance rights/share appreciation rights granted during the reporting period adjusted to reflect the impact of the 1 for 5 share consolidation completed during the period.

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

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

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

No options have been issued or are on issue.

DIRECTORS' REPORT CONT.

N. REMUNERATION REPORT (AUDITED) CONT.

Other Transactions with key management personnel of the Group

Current year

- 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 (2015: $120,000).
- 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 $17,979 (2015: $16,687). The Company regularly seeks alternate costing on a periodic basis to ensure the costs are commensurate with market conditions.

Prior year

- During the prior year, Folkestone Limited successfully completed a $42.0 million Equity Raising. The Equity Raising was fully underwritten by Moelis Australian Advisory Pty Ltd (Moelis). Entities 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 $3.5 million for Mr Paramor and $0.8 million for Mr Baillie. Mr Paramor received a sub-underwriting fee of $35,000 and Mr Baillie received a sub-underwriting fee of $8,000 which was paid by Moelis. Mr Paramor was issued with 2,761,318 shares (prior to the 1 for 5 share consolidation completed in November 2015) and Mr Baillie was issued with 750,000 shares (prior to the 1 for 5 share consolidation completed in November 2015) in respect of the sub-underwriting agreements.

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 2016 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	4	1
Number of meetings attended by:			
Garry R Sladden	12	4	1
Mark W Baillie	12	4	1
Gregory J Paramor	12	*	*
K Ross Strang	12	4	1

** Not a member of the relevant committee*

P. INDEMNIFICATION OF OFFICERS AND AUDITORS

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

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

The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify the auditor of the Company or of any related body corporate against a liability incurred as the auditor.

Q. PROCEEDINGS ON BEHALF OF THE COMPANY

There are currently no proceedings on behalf of the Company.

R. NON-AUDIT SERVICES

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

Details of the amounts paid to the auditor Deloitte Touche Tohmatsu for audit and non-audit services provided during the year are set out in Note 7 to the financial statements on page 59.

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 2016 has been received and is found on page 30 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 AO
Managing Director

Sydney
25 August 2016

CORPORATE GOVERNANCE STATEMENT

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

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

The 2016 corporate governance statement is dated as at 25 August 2016 and reflects the corporate governance practices in place throughout the 2016 financial year. The 2016 corporate governance statement was approved by the board on 25 August 2016. A description of the Company's current corporate governance practices is set out in the group's corporate governance statement which can be viewed at http://folkestone.com.au/about-us/corporate-governance/.

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

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

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

25 August 2016

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 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Craig Bryan
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

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

Independent Auditor's Report to the members of Folkestone Limited

Report on the Financial Report

We have audited the accompanying financial report of Folkestone Limited, which comprises the statement of financial position as at 30 June 2016, 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 34 to 96.

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.

Deloitte.

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

Auditor's Independence Declaration

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 2016 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 10 to 27 of the directors' report for the year ended 30 June 2016. 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.

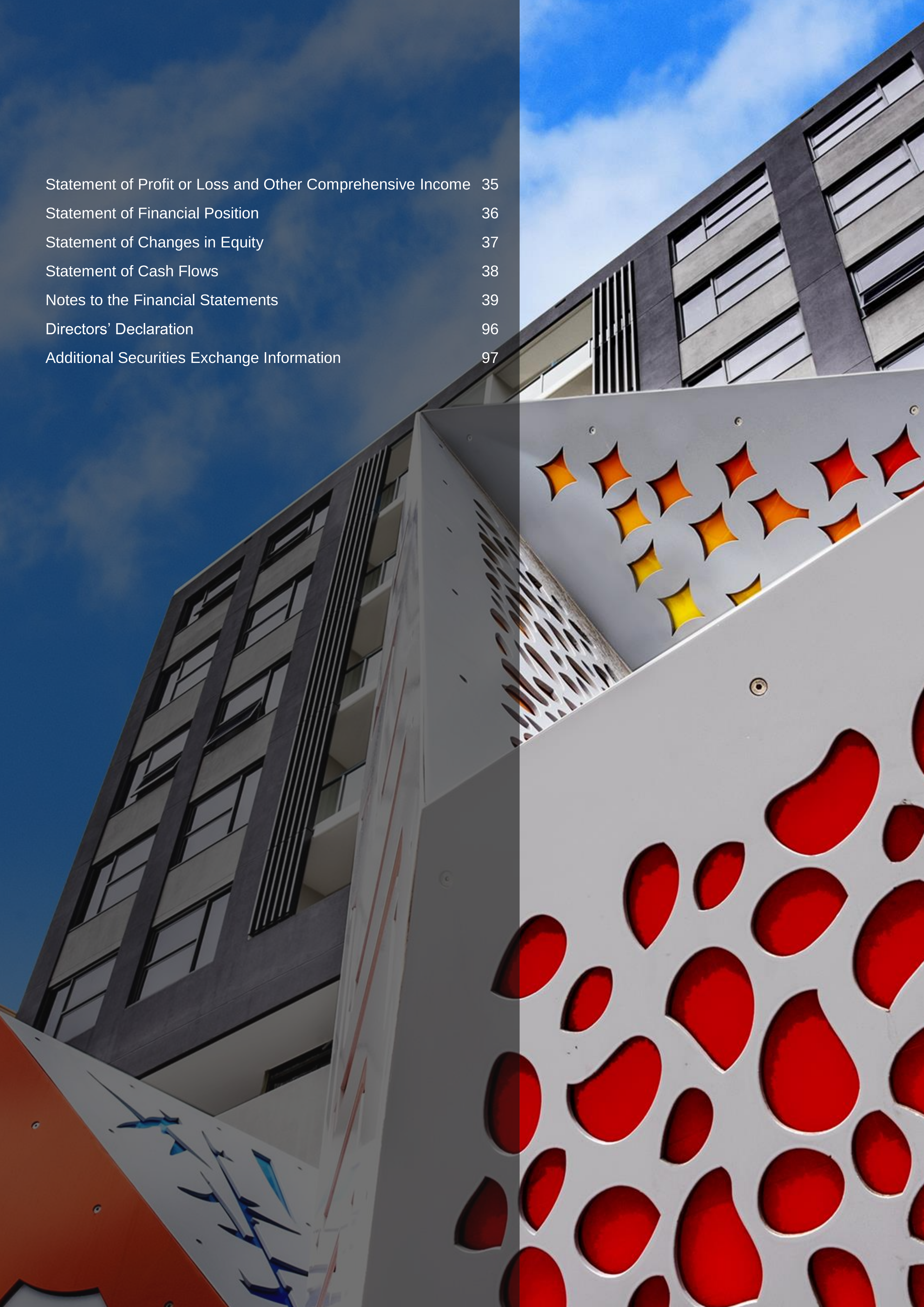
Opinion

In our opinion the Remuneration Report of Folkestone Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Craig Bryan
Partner
Chartered Accountants
Melbourne, 25 August 2016



FOLKESTONE LIMITED AND ITS CONTROLLED ENTITIES

For the year ended 30 June 2016

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

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

Folkestone Limited
Level 14
357 Collins Street
Melbourne VIC 3000

A description of the nature of the economic entity's operations and its principal activities is included within the Directors' Report on pages 3 to 28.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOLKESTONE LIMITED AND ITS CONTROLLED ENTITIES

For the year ended 30 June 2016

	Note	Economic Entity 2016 $000	2015 $000
Continuing operations			
Revenue	2	15,773	45,952
Development expenses		(65)	(33,728)
Reversal of impairment of finished goods and work in progress		1,541	1,919
Share of profits of associates and joint ventures		8,681	4,181
Impairment of interest held in associated entity		(400)	(696)
Impairment of preferred equity loans		(840)	-
Employee benefits expense		(8,016)	(8,099)
Rental expense on operating leases - developments		(1,637)	(947)
Rental expense on operating leases - corporate		(356)	(312)
Administration expenses		(1,989)	(1,353)
Finance costs	3	(481)	(468)
Due diligence and acquisition costs		(1,182)	(235)
Depreciation and amortisation expense		(105)	(112)
Changes in fair value of financial assets through profit and loss		96	(81)
Changes in fair value of derivative instruments through profit and loss		(58)	(49)
Profit before income tax		**10,962**	**5,972**
Income tax benefit/(expense)	4	(1,925)	2,223
Profit for the year		**9,037**	**8,195**
Net profit after tax for the year attributable to:			
Owners of the company		5,451	7,017
Non-controlling interests		3,586	1,178
Net profit after tax for the year		**9,037**	**8,195**
Other comprehensive income:			
Items that may be re-classed subsequently to profit or loss:			
Changes in fair value of financial assets		16,925	6,463
Income tax relating to components of other comprehensive income		(5,078)	(1,939)
Total other comprehensive income net of tax		11,847	4,524
Total comprehensive income net of tax		**20,884**	**12,719**
Total comprehensive income for the year attributable to:			
Owners of the company		17,298	11,541
Non-controlling interests		3,586	1,178
Total comprehensive income for the year		**20,884**	**12,719**
Earnings per share from continuing operations			
Basic earnings per share (cents per share)	8	3.7	5.5
Diluted earnings per share (cents per share)	8	3.7	5.4

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 39 to 95.

STATEMENT OF FINANCIAL POSITION

FOLKESTONE LIMITED AND ITS CONTROLLED ENTITIES

As at 30 June 2016

		Economic Entity	
ASSETS	**Note**	**2016 $000**	**2015 $000**
CURRENT ASSETS			
Cash and cash equivalents	27	20,175	28,991
Trade and other receivables	9	6,966	6,418
Inventories	10	15,024	12,817
Investment in joint ventures	12	355	20,501
Other current assets		429	726
TOTAL CURRENT ASSETS		**42,949**	**69,453**
NON-CURRENT ASSETS			
Trade and other receivables	9	16,550	6,397
Other financial assets	32	82,038	67,695
Units in associated entities	11	4,247	4,429
Investment in joint ventures	12	7,408	1,644
Property, plant and equipment	14	457	97
Intangibles	15	11,389	11,389
Goodwill	16	1,433	1,433
Deferred tax asset	20	-	2,019
TOTAL NON-CURRENT ASSETS		**123,522**	**95,103**
TOTAL ASSETS		**166,471**	**164,556**
CURRENT LIABILITIES			
Trade and other payables	17	2,391	1,842
Short-term borrowings	18	7,212	4,130
Employee benefit provisions		561	430
TOTAL CURRENT LIABILITIES		**10,164**	**6,402**
NON-CURRENT LIABILITIES			
Long-term borrowings	18	5,000	20,000
Derivative financial instruments	19	107	49
Employee benefit provisions		452	335
Deferred tax liability	20	4,983	-
TOTAL NON-CURRENT LIABILITIES		**10,542**	**20,384**
TOTAL LIABILITIES		**20,706**	**26,786**
NET ASSETS		**145,765**	**137,770**
EQUITY			
Issued capital	21	124,668	124,668
Reserves	22	18,301	6,293
Accumulated profits/(losses)		2,758	(2,693)
Parent interest		145,727	128,268
Non-controlling interest	23	38	9,502
TOTAL EQUITY		**145,765**	**137,770**

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 39 to 95.

STATEMENT OF CHANGES IN EQUITY

FOLKESTONE LIMITED AND ITS CONTROLLED ENTITIES

For the year ended 30 June 2016

Economic Entity	Note	Issued Capital $000	Accumulated Profits/ (Losses) $000	Reserves $000	Attributable to Owners of the Parent $000	Non-controlling Interest $000	Total $000
Balance at 1 July 2014		83,911	(9,710)	750	74,951	8,324	83,275
Profit for the year		-	7,017	-	7,017	1,178	8,195
Other comprehensive income net of tax	22	-	-	4,524	4,524	-	4,524
Total comprehensive income for the year		-	7,017	4,524	11,541	1,178	12,719
Issue of new shares	21	42,000	-	-	42,000	-	42,000
Share issue costs	21	(1,772)	-	-	(1,772)	-	(1,772)
Tax effect on share issue costs	21	529	-	-	529	-	529
Issue of performance / share appreciation rights	22	-	-	1,019	1,019	-	1,019
Balance at 30 June 2015		**124,668**	**(2,693)**	**6,293**	**128,268**	**9,502**	**137,770**
Balance at 1 July 2015		124,668	(2,693)	6,293	128,268	9,502	137,770
Profit for the year		-	5,451	-	5,451	3,586	9,037
Other comprehensive income net of tax	22	-	-	11,847	11,847	-	11,847
Total comprehensive income for the year		-	5,451	11,847	17,298	3,586	20,884
Distribution paid or provided for	23	-	-	-	-	(13,050)	(13,050)
Issue of performance / share appreciation rights	22	-	-	161	161	-	161
Balance at 30 June 2016		**124,668**	**2,758**	**18,301**	**145,727**	**38**	**145,765**

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 39 to 95.

STATEMENT OF CASH FLOWS

FOLKESTONE LIMITED AND ITS CONTROLLED ENTITIES

For the year ended 30 June 2016

	Note	Economic Entity 2016 $000	2015 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		10,295	46,056
Payments to suppliers and employees		(13,498)	(24,152)
Interest received		425	610
Finance costs		(519)	(1,645)
Trust distributions received		3,091	1,627
Net cash achieved by/(used in)operating activities	27	**(206)**	**22,496**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(466)	(49)
Payment for investment in associated entity		-	(3,425)
Payment for interest in joint venture		(3,759)	(1,619)
Proceeds received from interests in joint ventures		29,739	3,439
Sale/(purchase) of financial instruments		5,267	(56,234)
Redemption of underwriting units		-	3,222
Net cash provided by/(used in) investing activities		**30,781**	**(54,666)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		105	30,052
Repayment of borrowings		(15,168)	(32,097)
Loans advanced to associated entities		(11,241)	(4,422)
Proceeds from capital raising		-	42,000
Payment for share issue costs		-	(1,772)
Distribution to non-controlling interests		(13,050)	-
Funds returned from / (funds placed on) deposit to secure bank guarantees		(37)	223
Net cash provided by/(used in) financing activities		**(39,391)**	**33,984**
Net (decrease)/increase in cash and cash equivalents		**(8,816)**	**1,814**
Cash and cash equivalents at beginning of financial year		**28,991**	**27,177**
Cash and cash equivalents at end of financial year	27	**20,175**	**28,991**

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 39 to 95.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. The financial report includes the consolidated financial statements of the group. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity. Accounting Standards include Australian equivalents to International Financial Reporting Standards (‘A-IFRS’). Compliance with the A-IFRS ensures that the consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards (‘IFRS’).

The financial statements were approved by the Board on 25 August 2016 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

New and revised AASBs affecting amounts reported and/or disclosures in the financial statements

In the current year, the Group has applied a number of amendments to AASBs and a new Interpretation issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 July 2015, and therefore relevant for the current year end.

AASB 2015-3 ‘Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality’	This amendment completes the withdrawal of references to AASB 1031 in all Australian Accounting Standards and Interpretations, allowing that Standard to effectively be withdrawn.
AASB 2015-4 ‘Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent’	The amendments to AASB 128 align the relief available in AASB 10 and AASB 128 in respect of the financial reporting requirements for Australian groups with a foreign parent. The amendments require that the ultimate Australian entity shall apply the equity method in accounting for interests in associates and joint ventures if either the entity or the group is a reporting entity, or both the entity and group are reporting entities.

The application of these amendments does not have any material impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS CONT.

Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the 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 15 'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15', AASB 2015-8 'Amendments to Australian Accounting Standards – Effective date of AASB 15'	1 January 2018	30 June 2019
AASB 16 'Leases'	1 January 2019	30 June 2020
AASB 2014-3 'Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations'	1 January 2016	30 June 2017
AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'	1 January 2016	30 June 2017
AASB 2014-9 'Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements'	1 January 2016	30 June 2017
AASB 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture', AASB 2015-10 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128'	1 January 2018	30 June 2019
AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'	1 January 2016	30 June 2017
AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'	1 January 2016	30 June 2017
AASB 2015-5 'Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception'	1 January 2016	30 June 2017
AASB 2016-1 'Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses'	1 January 2017	30 June 2018
AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	1 January 2017	30 June 2018

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.

Clarifications to IFRS 15 'Revenue from Contracts with Customers'	1 January 2018	30 June 2019

The potential effect of the revised Standards/Interpretations on the Group's financial statements has not yet been determined.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES CONT.

Accounting Policies

a) Principles of Consolidation

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

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

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

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

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

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

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable AASBs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

b) Investments in Associates and Joint Ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

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

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

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

Any reversal of that impairment loss is recognised in accordance with AASB 136 to the extent that the recoverable amount of the investment subsequently increases.

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

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

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

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

c) Goods and Services Tax ("GST")

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

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

d) Revenue

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

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

1. Funds Management Revenues

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

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES CONT.

2. Development Activities

(i) Land Sub-division

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

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

(ii) Project Development

Where construction of a property is not substantially complete at reporting date, revenue and profit on sales are not recognised until sale settlement. Where construction of the property has been achieved or is substantially complete (practical completion) and all risk and reward has been transferred to the customer, revenue and expenses are recognised where there is a signed unconditional contract of sale unless the outcome of the contract cannot be reliably estimated. Where it is probable that a loss will arise from a project, the excess of total costs over revenue is recognised as an expense immediately.

All revenue is stated net of the amount of GST.

e) Income Tax

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

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

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

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and assessed as to whether sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

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

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

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

f) Cash and Cash Equivalents

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

g) Financial Instruments

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

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

Financial assets at AFS

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

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

h) Inventories

i) Developments in Progress

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

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

ii) Land Held for Resale

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

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

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES CONT.

expenses.

i) Property, Plant and Equipment

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

Plant and equipment

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

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

j) Depreciation on Plant and Equipment

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

k) Finance Costs

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

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

l) Intangibles

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

(i) Management Rights

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

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

(ii) Goodwill

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

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

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

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

m) Impairment of Assets

i) Non Financial Assets

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

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

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

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

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

ii) Financial Assets

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

n) Employee Benefits

i) Wages and Salaries and Annual Leave

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

ii) Long Service Leave

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

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

iii) Profit Sharing and Bonus Plans

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

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

Liabilities for profit sharing are expected to be settled within 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. Superannuation includes amounts required to comply with the Superannuation Guarantee Legislation and any salary sacrificed amounts.

v) Employee Benefit On-costs

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

vi) Performance Rights/Share Appreciation Rights

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

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

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

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES CONT.

generally accepted approach for valuing rights which may be exercised, once vested, at any time up until expiry. The expense recognised is amortised on a straight line basis over the life of the right. If the performance criteria associated with the right is not achieved, adjustments to the value of the expense are made so that the cumulative expense recognised over the vesting period reflects the number of instruments that actually vest.

The fair value of share appreciation rights granted are measured using a Black Scholes simulation model which is the generally accepted approach to valuing such rights. The amount recognised as an expense is amortised on a straight line basis over the life of the right. If the performance criteria associated with the right is not achieved, adjustments to the value of the expense are made so that the cumulative expense recognised over the vesting period reflects the number of instruments that actually vest.

o) Provisions

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

i) Rectification and Warranties

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

p) Earnings per Share

i) Basic Earnings per Share

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

ii) Diluted Earnings per Share

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

q) Comparative Figures

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

r) Rounding of Amounts

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

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

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

i) Inventories

Note 10 sets out the category and value of inventory carried. The net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs to sell which approximates fair value less costs to sell. The key assumptions require the use of management judgement and are reviewed annually. These key assumptions are the variables affecting the estimated costs to develop and sell and the expected selling price. Any reassessment of cost to develop and sell or selling price in a particular year will affect the cost of goods sold.

ii) 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 per cent 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.

iii) Investment in Joint Ventures

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

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

iv) Units in Associated Entities

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

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

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

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

v) Non-Finite Life Intangible assets

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

vi) Impairment Testing of Intangible Assets

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

vii) Recognition of Deferred Tax Assets

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

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 2: REVENUE

		Economic Entity	
		2016	2015
	Note	$000	$000
Revenue from continuing operations consists of the following items:			
- Revenue from land and property development activities		135	34,882
- Interest received	2a	1,500	665
- Fees from funds management activities		8,467	7,231
- Trust distributions		4,236	3,142
- Realised gain on sale of available for sale financial assets		1,435	-
- Other income		-	32
Total Revenue		**15,773**	**45,952**
2a. Interest received from:			
- bank deposits		420	616
- preferred equity loans for development projects		1,080	49
Total Interest Revenue		**1,500**	**665**

NOTE 3: FINANCE COSTS

	Economic Entity	
	2016	2015
	$000	$000
Finance costs from continuing operations consist of the following items:		
- Interest and line fees	595	1,613
- Financial institution charges	10	32
Total Finance Costs	**605**	**1,645**
Less:		
Interest and line fees capitalised to property developments included in inventory or expensed as development expenses	(124)	(1,177)
Total Finance Costs	**481**	**468**

The weighted average interest rate (including margins) on funds borrowed at balance date is 4.32% (2015: 4.26%).

NOTE 4: INCOME TAX EXPENSE

	Economic Entity	
	2016 $000	2015 $000
Income tax recognised in profit or loss		
Current tax expense	2,552	966
Deferred tax benefit	(627)	(3,189)
Income tax (benefit)/expense	**1,925**	**(2,223)**

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	
		2016 $000	2015 $000
Profit from operations		10,962	5,972
Income tax calculated at 30%		3,289	1,792
Add/(Subtract):			
i.	Non- deductible expenses	54	309
ii.	Other non-assessable income	(1,122)	(9)
iii.	Over provision for income tax in the prior year	(296)	-
iv.	Recognition of Deferred Tax Asset charged to income tax expense	-	(4,088)
v.	(Recognition)/De-recognition of deferred tax assets relating to entities outside the consolidated tax group	-	(227)
Income tax (benefit)/expense attributable to entity recognised in profit or loss		**1,925**	**(2,223)**

	Economic Entity	
	2016 $000	2015 $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	5,078	1,939
Total income tax expense recognised in other comprehensive income	**5,078**	**1,939**

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION

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

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

Information regarding individual directors and executives compensation is provided below:

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

	Economic Entity	
	2016 $000	**2015 $000**
Short-term employee benefits	2,096,140	1,916,544
Non-monetary benefits	56,535	13,975
Post-employment benefits	160,928	154,481
Short-term incentive cash bonus	416,097	750,000
Other long term benefits	144,113	97,684
Share-based payment	148,390	924,111
	3,022,203	**3,856,795**

NOTE 6: SHARE BASED PAYMENTS

Performance Rights and Share Appreciation Rights issued as part of Remuneration for the year ended 30 June 2016

Performance Rights

There were a total of 715,500 performance rights issued as part of remuneration for the year ended 30 June 2016 with grant dates of 29 September 2015 and 12 November 2015. The following factors and assumptions were used in determining the fair value of rights on the grant dates:

Grant Date	Expiry Date	*Fair Value per Right	Exercise Price	Price of Shares on Grant Date	Dividend Yield
29 Sep 2015	31 Aug 2017	$0.93	$0	$0.98	2.6%
29 Sep 2015	1 Jul 2018	$0.91	$0	$0.98	2.6%
29 Sep 2015	1 Jul 2019	$0.89	$0	$0.98	2.6%
12 Nov 2015	31 Aug 2017	$0.96	$0	$1.01	2.5%
12 Nov 2015	1 Jul 2018	$0.94	$0	$1.01	2.5%
12 Nov 2015	1 Jul 2019	$0.92	$0	$1.01	2.5%

**The fair value of performance rights was calculated by an independent expert using an appropriate valuation model in accordance with applicable accounting standards. The fair value of performance rights has been adjusted to reflect the impact of the 1 for 5 share consolidation completed during the current reporting period.*

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

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

Share Appreciation Rights

There was no share appreciation rights issued as part of remuneration for the year ended 30 June 2016.

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

The fair value of share appreciation rights granted are measured using a Black Scholes simulation model which is the generally accepted approach for valuing such rights. The amount recognised as an expense is amortised on a straight line basis over the life of the right. If the performance criteria associated with the right is not achieved, adjustments to the value of the expense are made so that the cumulative expense recognised over the vesting period reflects the number of instruments that actually vest.

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 6: SHARE BASED PAYMENTS CONT.

Performance rights over equity instruments granted as compensation

Details of the performance rights on issue over ordinary shares in the Company that have been granted as compensation as at 30 June 2016 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	Performance Rights Granted during current and prior period	Grant Date	Vested/Lapsed During 2015	Fair Value per Right at Grant Date	Expiry Date
A Harrington	6	31,200	29 Sep 2015	-	$0.93	31 Aug 2017
	7	31,200	29 Sep 2015	-	$0.91	1 Jul 2018
	8	31,200	29 Sep 2015	-	$0.89	1 Jul 2019
B Dodwell	4	131,402	1 Jul 2014	(131,402)	$1.10	1 Jul 2015
	5	131,402	1 Jul 2014	-	$1.10	1 Jul 2016
	6	31,200	29 Sep 2015	-	$0.93	31 Aug 2017
	7	31,200	29 Sep 2015	-	$0.91	1 Jul 2018
	8	31,200	29 Sep 2015	-	$0.89	1 Jul 2019
N Anagnostou	6	31,200	29 Sep 2015	-	$0.93	31 Aug 2017
	7	31,200	29 Sep 2015	-	$0.91	1 Jul 2018
	8	31,200	29 Sep 2015	-	$0.89	1 Jul 2019
S Martin	4	131,402	1 Jul 2014	(131,402)	$1.10	1 Jul 2015
	5	131,402	1 Jul 2014	-	$1.10	1 Jul 2016
	6	31,200	29 Sep 2015	-	$0.93	31 Aug 2017
	7	31,200	29 Sep 2015	-	$0.91	1 Jul 2018
	8	31,200	29 Sep 2015	-	$0.89	1 Jul 2019
Other Staff	6	82,500	29 Sep 2015	-	$0.93	31 Aug 2017
	7	82,500	29 Sep 2015	-	$0.91	1 July 2018
	8	82,500	29 Sep 2015	-	$0.89	1 July 2019
	9	31,200	12 Nov 2015	-	$0.96	31 Aug 2017
	10	31,200	12 Nov 2015	-	$0.94	1 Jul 2018
	11	31,200	12 Nov 2015	-	$0.92	1 Jul 2019
Total		1,241,108		(262,804)		

There were 715,500 performance rights granted during the 2016 financial year.

The above summary of performance rights on issue or granted during the period and the fair value per right at grant date have been adjusted to reflect the 1 for 5 share consideration completed during the current reporting period.

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

Tranche 4 Performance Rights

Tranche 4 performance rights were issued on 1 July 2014 and vested on 1 July 2015. The Tranche 4 performance rights did not have a performance criteria.

Tranche 5 Performance Rights

Tranche 5 performance rights were issued on 1 July 2014 and have a vesting date of 1 July 2016. Other than continuity of employment, there are no other performance criteria relating to the vesting of the Tranche 5 performance rights.

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

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

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

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

The vesting date for each Tranche of performance rights is summarised in the table below.

Tranche	Vesting Date
4	1 July 2015
5	1 July 2016
6, 9	31 August 2017
7, 10	1 July 2018
8, 11	1 July 2019

Share Appreciation rights over equity instruments granted as compensation

Details of the share appreciation rights over ordinary shares in the Company that have been granted as compensation as at 30 June 2016 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 Current and Prior Period	Grant Date	Vested/Lapsed During 2016	Fair Value per Right at Grant Date	Expiry Date
G Paramor	7	36,036	16 Oct 2014	-	$0.195	14 Sep 2016
	8	39,216	16 Oct 2014	-	$0.175	14 Sep 2016
	9	42,090	16 Oct 2014	-	$0.165	14 Sep 2016
	10	27,686	16 Oct 2014	(27,686)	$0.37	14 Sep 2015
	11	28,686	16 Oct 2014	(28,686)	$0.33	14 Sep 2015
	12	26,752	16 Oct 2014	(26,752)	$0.315	14 Sep 2015

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 6: SHARE BASED PAYMENTS CONT.

Executive	Tranche	Granted During Current and Prior Period	Grant Date	Vested/Lapsed During 2016	Fair Value per Right at Grant Date	Expiry Date
N Anagnostou	1	27,686	14 Apr 2014	(27,686)	$0.43	14 Sep 2015
	2	28,686	14 Apr 2014	(28,686)	$0.415	14 Sep 2015
	3	26,752	14 Apr 2014	(26,752)	$0.445	14 Sep 2015
	4	36,036	21 Aug 2014	-	$0.37	14 Sep 2016
	5	39,216	21 Aug 2014	-	$0.34	14 Sep 2016
	6	42,090	21 Aug 2014	-	$0.315	14 Sep 2016
B Dodwell	1	27,686	14 Apr 2014	(27,686)	$0.43	14 Sep 2015
	2	28,686	14 Apr 2014	(28,686)	$0.415	14 Sep 2015
	3	26,752	14 Apr 2014	(26,752)	$0.445	14 Sep 2015
	4	36,036	21 Aug 2014	-	$0.37	14 Sep 2016
	5	39,216	21 Aug 2014	-	$0.34	14 Sep 2016
	6	42,090	21 Aug 2014	-	$0.315	14 Sep 2016
A Harrington	1	27,686	14 Apr 2014	(27,686)	$0.43	14 Sep 2015
	2	28,686	14 Apr 2014	(28,686)	$0.415	14 Sep 2015
	3	26,752	14 Apr 2014	(26,752)	$0.445	14 Sep 2015
	4	36,036	21 Aug 2014	-	$0.37	14 Sep 2016
	5	39,216	21 Aug 2014	-	$0.34	14 Sep 2016
S Martin	1	27,686	14 Apr 2014	(27,686)	$0.43	14 Sep 2015
	2	28,686	14 Apr 2014	(28,686)	$0.415	14 Sep 2015
	3	26,752	14 Apr 2014	(26,752)	$0.445	14 Sep 2015
	4	36,036	21 Aug 2014	-	$0.37	14 Sep 2016
	5	39,216	21 Aug 2014	-	$0.34	14 Sep 2016
	6	42,090	21 Aug 2014	-	$0.315	14 Sep 2016
	6	42,090	21 Aug 2014	-	$0.315	14 Sep 2016

NOTES TO THE FINANCIAL STATEMENTS CONT.

Executive	Tranche	Granted During Current and Prior Period	Grant Date	Vested/Lapsed During 2016	Fair Value per Right at Grant Date	Expiry Date
Other Staff	1	55,372	14 Apr 2014	(55,372)	$0.43	14 Sep 2015
	2	57,372	14 Apr 2014	(57,372)	$0.415	14 Sep 2015
	3	53,504	14 Apr 2014	(53,504)	$0.445	14 Sep 2015
	4	90,106	21 Aug 2014	-	$0.37	14 Sep 2016
	5	98,028	21 Aug 2014	-	$0.34	14 Sep 2016
	6	105,832	21 Aug 2014	-	$0.315	14 Sep 2016
Total		**1,462,544**		**(581,868)**		

There were no share appreciation rights granted during the 2016 financial year.

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

The above summary of share appreciation rights on issue or granted during the period and the fair value per right at grant date have been adjusted to reflect the 1 for 5 share consolidation completed during the current reporting period.

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 6: SHARE BASED PAYMENTS CONT.

Share Appreciation rights over equity instruments granted as compensation continued

Tranche 1,2,3,10,11 and 12 Share Appreciation Rights

Tranche 1,2,3,10,11 and 12 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 1,2,3,10,11,12 share appreciation rights was 1 July 2013 to 30 June 2015.

The Average Compound Return on Equity over the performance period was calculated as 9.4% and as such there was 75.1% vesting of the Tranche 1, 2, 3, 10, 11 and 12 share appreciation rights on 31 August 2015. At this date the Participants were 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 are summarised in the table below and will vest on the dates outlined in the table subject to the employee’s continued employment with Folkestone Limited at all times during the vesting period:

Tranche	Number of shares to be issued	Vesting Date
1 and 10	34,804	1 September 2015
2 and 11	36,057	1 July 2016
3 and 12	33,628	1 July 2017

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

Tranche 4,5,6,7,8 and 9 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 4,5,6,7,8 and 9 share appreciation rights is 1 July 2014 to 30 June 2016.

The Average Compound Return on Equity over the performance period has been calculated as 12.8% which would result in 100% vesting of the Tranches 4-9 share appreciation rights however the SARs will only vest if the share price at 31 August 2016 is above $1.105 per share.

Should the share price at 31 August 2016 be above $1.105 per share, any 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 4 and 7 SARs – 31 August 2016
- Shares issued pursuant to Tranche 5 and 8 SARs – 1 July 2017
- Shares issued pursuant to Tranche 6 and 9 SARs – 1 July 2018

Analysis of share-based payments granted as compensation

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

Executives	Number	Date	% Vested in Year	% Vested in Total	% Forfeited in Year	% Forfeited in Total	Financial Years to which Grant Vests
Performance Rights Granted							
A Harrington	93,600	29 Sep 2015	-	-	-	-	Jun 2018 - 2020
B Dodwell	262,804	1 Jul 2014	50%	50%	-	-	Jun 2016 - 2017
	93,600	29 Sep 2015	-	-	-	-	Jun 2018 - 2020
S Martin	262,804	1 Jul 2014	50%	50%	-	-	Jun 2016 - 2017
	93,600	29 Sep 2015	-	-	-	-	Jun 2018 - 2020
N Anagnostou	93,600	29 Sep 2015	-	-	-	-	Jun 2018 - 2020
Other Staff	247,500	29 Sep 2015	-	-	-	-	Jun 2018 - 2020
	93,600	12 Nov 2015	-	-	-	-	Jun 2018 - 2020
Total	**1,241,108**						
Share Appreciation Rights Granted							
G. Paramor	83,124	16 Oct 2014	75%	75%	25%	25%	June 2016
	117,342	16 Oct 2014	-	-	-	-	June 2017
N. Anagnostou	83,124	14 Apr 2014	75%	75%	25%	25%	June 2016
	117,342	21 Aug 2014	-	-	-	-	June 2017
B. Dodwell	83,124	14 Apr 2014	75%	75%	25%	25%	June 2016
	117,342	21 Aug 2014	-	-	-	-	June 2017
A. Harrington	83,124	14 Apr 2014	75%	75%	25%	25%	June 2016
	117,342	21 Aug 2014	-	-	-	-	June 2017
S. Martin	83,124	14 Apr 2014	75%	75%	25%	25%	June 2016
	117,342	21 Aug 2014	-	-	-	-	June 2017
Other Staff	166,248	14 Apr 2014	75%	75%	25%	25%	June 2016
	293,966	21 Aug 2014	-	-	-	-	June 2017
Total	**1,462,544**						

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 7: AUDITORS' REMUNERATION

	Economic Entity 2016 $	Economic Entity 2015 $
Remuneration of the auditor for:		
- auditing or reviewing the financial report	118,525	112,450
- other	3,460	10,960
Total	**121,985**	**123,410**

The auditor of Folkestone Ltd is Deloitte Touche Tohmatsu. Other fees relate to subscription fees paid to Deloitte Access Economics.

NOTE 8: EARNINGS PER SHARE

	Economic Entity 2016 (cents)	Economic Entity 2015 (cents)
Basic earnings per share		
From continuing operations	3.7	5.5
Total basic earnings per share	**3.7**	**5.5**
Diluted earnings per share		
From continuing operations	3.7	5.4
Total diluted earnings per share	**3.7**	**5.4**

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

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

The calculation of earnings per share for 30 June 2015 has been adjusted to reflect the impact of the share consolidation with the weighted average number of shares adjusted retrospectively.

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	
	2016 ($000)	2015 ($000)
Profit after tax attributable to members of the parent entity	5,451	7,017
Earnings used in the calculation of basic EPS	5,451	7,017
Earnings used in the calculation of basic earnings per share from continuing operations	5,451	7,017

	2016 No.	2015 No.
Weighted average number of ordinary shares for the purposes of basic earnings per share (all measures)	147,300,864	128,512,834

Diluted earnings per share

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

	Economic Entity	
	2016 $000	2015 $000
Profit after tax attributable to members of the parent entity	5,451	7,017
Earnings used in the calculation of diluted EPS	5,451	7,017
Earnings used in the calculation of diluted EPS from continuing operations	5,451	7,017

	2016 No.	2015 No.
Weighted average number of ordinary shares used in the calculation of diluted EPS	147,563,668	129,038,443

There are 1,241,108 non-market based employee performance rights which have been issued for no consideration as at 30 June 2016 (2015: 525,607). There are also 1,412,544 share appreciation rights on issue at year end. These are considered dilutive in a profit making position.

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 9: TRADE AND OTHER RECEIVABLES

	Economic Entity	
	2016 $000	**2015 $000**
CURRENT		
Trade receivables	1,765	2,501
Preferred equity loans	3,974	1,500
Other receivables	1,227	2,417
Total current trade and other receivables	**6,966**	**6,418**
NON-CURRENT		
Preferred equity loans	12,883	3,897
Impairment of preferred equity loans	(840)	-
Other receivables	4,507	2,500
Total non-current trade and other receivables	**16,550**	**6,397**

Trade receivables disclosed above include amounts (see below for aged analysis) that are past due at the end of the reporting period but against which the Group has not has not recognised an allowance for doubtful receivables because there has not been significant change in credit quality and the amounts are considered recoverable. No collateral is held over these balances. Standard trade receivable terms are 30 days.

Trade Receivables

	Economic Entity	
	2016 $000	**2015 $000**
Not past due	1,437	1,381
Past due 0-30 days	-	1,100
Past due 31-120 days	270	20
Past 120 days	58	-
Total trade receivables	**1,765**	**2,501**

NOTE 10: INVENTORIES

	Economic Entity	
	2016 $000	**2015 $000**
Current		
Land and property developments in progress (i)	15,024	12,817
Total inventories	**15,024**	**12,817**

(i) The inventories relate to land owned by the company located at Millers Junction, Altona North. During the current reporting period there was a $1.541 million (2015: $1.919 million) reversal of a prior year impairment of land and property developments in progress based upon a re-assessment of the net realisable value of the Stage 3 land parcel. The re-assessment of the net realisable value was based upon independent valuation advice prepared by Savills which was obtained in June 2016. In respect of the Stage 2 land, an assessment of the forecast project feasibility was undertaken to assess its carrying value and no change has been made as a result of the assessment.

NOTE 11: UNITS IN ASSOCIATED ENTITIES

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

Name	Principal Activities	Country of Incorporation	Proportion of ownership Interest and voting power held by the Group		Carrying amount of Investment	
			2016 %	2015 %	2016 $000	2015 $000
Greenvalley Asset Property Trust[1]	Property Development	Australia	25	25	557	1,166
Folkestone Truganina Development Fund[2]	Property Development	Australia	18.76	18.76	3,690	3,263
					4,247	**4,429**

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 in June 2011.*

2 *Folkestone No.3 Pty Ltd, a wholly owned subsidiary of Folkestone Ltd, owns 3,425,000 of the 18,250,000 units on issue. The units were acquired in August 2014.*

Folkestone's ownership interest in the Greenvalley Asset Trust ("Greenvalley") was 25 per cent of the issued units at the reporting date. The first stage of the Project sees Greenvalley undertaking the development of the Ranges, Karratha a hotel for business travellers to the region comprising of 108 one bedroom villas. Greenvalley also owns an adjoining 7.15 hectare parcel of land previously zoned "Conservation and Recreation and Natural Landscapes" and re-zoned by Greenvalley to "Urban Development" for future staged development of approximately 350 dwellings, a Clubhouse and complementary recreational amenity including education and community uses. To date, Stage 1a (41 units) have been constructed and settled and Stage 1b (32 lots) has been completed in the current reporting period with 16 units having settled and the remaining 16 units being held by Greenvalley pending a distribution of these units to preferred equity loan providers in partial repayment of their loans. Folkestone has agreed to acquire a total of 4 of these units as a partial repayment of their preferred equity loan. The timing for the development of the balance of the land has not yet been determined due to the present economic conditions in the region. At 31 December 2015, Folkestone completed a review of the carrying value of its investment in the project which was referenced by updated third party valuations which were completed following the completion of Stage 1b. As a result of this process and in response to the current economic conditions in the region, Folkestone made a further $1.2 million provision against the carrying value of its investment in this project, $0.4 million of which has been made against the carrying value of Its equity investment with the balance allowed for against the carrying value of the preferred equity loan. A further assessment of the carrying value has been completed at 30 June 2016 and given there has been no material change to the status of the project since the last assessment was completed at 31 December 2015, no further adjustment to the carrying value of Folkestone's investment at 30 June 2016 has been made.

Folkestone's ownership interest in the Folkestone Truganina Development Fund was 18.76 per cent of issued units. The reporting date of Folkestone Truganina Development Fund is 30 June 2016. This reporting date coincides with Folkestone Ltd. During the prior reporting period, the Group's interest in the Folkestone Truganina Fund reduced from 100 per cent to 18.76 per cent. Please refer to Note 29 for further information. Please refer to Note 1 for a summary of the explanation as to the classification of the Group's interest in this Fund as an interest in associated entity.

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 11: UNITS IN ASSOCIATED ENTITIES CONT.

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

	2016 $000	2015 $000
Greenvalley Asset Property Trust		
Current assets	9,455	15,002
Non-current assets	9,120	10,112
Current liabilities	(3,834)	(9,325)
Non-current liabilities	(9,777)	(9,989)
Net assets	**4,964**	**5,800**
Revenue	8,308	777
Loss from continuing operations	(835)	(188)
Loss for the year	(835)	(188)
Other comprehensive income for the year	-	-
Total comprehensive loss for the year	(835)	(188)
Distributions received from the associate during the year	-	-

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

	2016 $000	2015 $000
Net assets of the associate	4,964	5,800
Proportion of the Group's ownership interest in the associate	25%	25%
	1,241	1,450
Consideration paid greater than the carrying value of net assets	412	412
Impairment provision	(1,096)	(696)
Carrying amount of the Group's interest in the associate	**557**	**1,166**

	2016 $000	2015 $000
Folkestone Truganina Development Fund		
Current assets	5,076	2,489
Non-current assets	19,721	14,936
Current liabilities	(5,135)	(33)
Non-current liabilities	-	-
Net assets	**19,662**	**17,392**
Revenue	4,099	6
Profit/ (Loss) from continuing operations	2,270	(858)
Profit/ (Loss) for the year	2,270	(858)
Other comprehensive income for the year	-	-
Total comprehensive profit/ (loss) for the year	2,270	(858)
Distributions received from the associate during the year	-	-

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

	2016 $000	2015 $000
Net assets of the associate	19,662	17,392
Proportion of the Group's ownership interest in the associate	18.76%	18.76%
Carrying amount of the Group's interest in the associate	**3,690**	**3,263**

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 12: INVESTMENT IN JOINT VENTURES

Name	Principal Activity	Country of Incorporation	Carrying Value 2016 $000	Carrying Value 2015 $000	Ownership Interest 2016 %	Ownership Interest 2015 %
CURRENT						
West Ryde Joint Venture	Property Development	Australia	125	19,387	50	50
Potters Grove, Officer Joint Venture	Property Development	Australia	230	1,103	50	50
Noone Street, Clifton Hill Joint Venture	Property Development	Australia	-	11	50	50
			355	**20,501**		
NON-CURRENT						
Northside, Officer Joint Venture	Property Development	Australia	1,277	586	50	50
FLK-Lyon Hornsby Joint Venture	Property Development	Australia	474	1,058	50	50
Industria, Knoxfield Joint Venture	Property Development	Australia	1,785	-	50	-
Wollert Joint Venture	Property Development	Australia	(8)	-	80	-
South Dural Joint Venture	Property Development	Australia	1,395	-	50	-
Millers Junction Business Joint Venture	Property Development	Australia	2,038	-	51	-
Industria, Nunawading Joint Venture	Property Development	Australia	447	-	50	-
			7,408	**1,644**		
Total			**7,763**	**22,145**		

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

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

	2016 $000	2015 $000
West Ryde Joint Venture		
Current assets	2,105	88,172
Non-current assets	-	-
Current liabilities	(1,855)	(49,399)
Non-current liabilities	-	-
Net assets	**250**	**38,773**
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	2,096	5,498
Current financial liabilities (excluding trade and other payables and provisions)	-	(34,366)
Non-current financial liabilities (excluding trade and other payables and provisions)	-	-

	2016 $000	2015 $000
West Ryde Joint Venture		
Revenue	98,986	38,491
Profit from continuing operations	16,340	6,502
Profit for the year	16,340	6,502
Other comprehensive income for the year	-	-
Total comprehensive income for the year	16,340	6,502
The above profit for the year include the following:		
Interest income	3	112

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

	2016 $000	2015 $000
Net assets of the joint venture	250	38,773
Proportion of the Group's ownership interest in the joint venture	50%	50%
Carrying amount of the Group's interest in the joint venture	**125**	**19,387**

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 12: INVESTMENT IN JOINT VENTURES CONT.

	2016 $000	2015 $000
Potters Grove, Officer Joint Venture		
Current assets	421	4,268
Non-current assets	290	-
Current liabilities	(251)	(2,063)
Non-current liabilities	-	-
Net assets	**460**	**2,205**
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	241	501
Current financial liabilities (excluding trade and other payables and provisions)	-	(1,361)
Non-current financial liabilities (excluding trade and other payables and provisions)	-	-

	2016 $000	2015 $000
Potters Grove, Officer Joint Venture		
Revenue	4,564	12,376
Profit from continuing operations	904	2,224
Profit for the year	904	2,224
Other comprehensive income for the year	-	-
Total comprehensive income for the year	904	2,224
The above profit for the year include the following:		
Interest income	4	10

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

	2016 $000	2015 $000
Net assets of the joint venture	460	2,205
Proportion of the Group's ownership interest in the joint venture	50%	50%
Carrying amount of the Group's interest in the joint venture	**230**	**1,103**

	2016 $000	2015 $000
Northside, Officer Joint Venture		
Current assets	9,252	1,209
Non-current assets	35	-
Current liabilities	(6,733)	(36)
Non-current liabilities	-	-
Net assets	**2,554**	**1,173**
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	14	36
Current financial liabilities (excluding trade and other payables and provisions)	(6,616)	(36)
Non-current financial liabilities (excluding trade and other payables and provisions)	-	-

	2016 $000	2015 $000
Northside, Officer Joint Venture		
Revenue	-	-
Loss from continuing operations	(26)	(3)
Loss for the year	(26)	(3)
Other comprehensive income for the year	-	-
Total comprehensive loss for the year	(26)	(3)
The above loss for the year include the following:		
Interest income	-	-

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

	2016 $000	2015 $000
Net assets of the joint venture	2,554	1,173
Proportion of the Group's ownership interest in the joint venture	50%	50%
Carrying amount of the Group's interest In the joint venture	**1,277**	**586**

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 12: INVESTMENT IN JOINT VENTURES CONT.

	2016 $000	2015 $000
FLK-Lyon Hornsby Joint Venture		
Current assets	186	181
Non-current assets	9,830	8,392
Current liabilities	(2,127)	(99)
Non-current liabilities	(6,940)	(6,357)
Net assets	**949**	**2,117**
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	134	54
Current financial liabilities (excluding trade and other payables and provisions)	(2,125)	-
Non-current financial liabilities (excluding trade and other payables and provisions)	(6,940)	(6,357)

	2016 $000	2015 $000
FLK-Lyon Hornsby Joint Venture		
Revenue	196	54
Profit from continuing operations	95	54
Profit for the year	95	54
Other comprehensive income for the year	-	-
Total comprehensive income for the year	95	54
The above profit for the year include the following:		
Interest income	1	-

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

	2016 $000	2015 $000
Net assets of the joint venture	949	2,117
Proportion of the Group's ownership interest in the joint venture	50%	50%
Carrying amount of the Group's interest In the joint venture	**474**	**1,058**

	2016 $000	2015 $000
Industria, Knoxfield Joint Venture		
Current assets	369	-
Non-current assets	5,750	-
Current liabilities	(59)	-
Non-current liabilities	(2,490)	-
Net assets	**3,570**	**-**
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	369	-
Current financial liabilities (excluding trade and other payables and provisions)	-	-
Non-current financial liabilities (excluding trade and other payables and provisions)	(2,490)	-

	2016 $000	2015 $000
Industria, Knoxfield Joint Venture		
Revenue	-	-
Profit from continuing operations	-	-
Profit for the year	-	-
Other comprehensive income for the year	-	-
Total comprehensive income for the year	-	-
The above profit for the year include the following:		
Interest income	-	-

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

	2016 $000	2015 $000
Net assets of the joint venture	3,570	-
Proportion of the Group's ownership interest in the joint venture	50%	-
Carrying amount of the Group's interest In the joint venture	**1,785**	**-**

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 12: INVESTMENT IN JOINT VENTURES CONT.

	2016 $000	2015 $000
Wollert Joint Venture		
Current assets	-	-
Non-current assets	2,840	-
Current liabilities	(10)	-
Non-current liabilities	(2,840)	-
Net assets	**(10)**	**-**
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	-	-
Current financial liabilities (excluding trade and other payables and provisions)	-	-
Non-current financial liabilities (excluding trade and other payables and provisions)	(2,840)	-

	2016 $000	2015 $000
Wollert Joint Venture		
Revenue	-	-
Loss from continuing operations	(10)	-
Loss for the year	(10)	-
Other comprehensive income for the year	-	-
Total comprehensive loss for the year	(10)	-
The above loss for the year include the following:		
Interest income	-	-

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

	2016 $000	2015 $000
Net assets of the joint venture	(10)	-
Proportion of the Group's ownership interest in the joint venture	80%	-
Carrying amount of the Group's interest In the joint venture	**(8)**	**-**

	2016 $000	2015 $000
South Dural Joint Venture		
Current assets	1,187	-
Non-current assets	1,727	-
Current liabilities	(123)	-
Non-current liabilities	-	-
Net assets	**2,791**	**-**
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	150	-
Current financial liabilities (excluding trade and other payables and provisions)	-	-
Non-current financial liabilities (excluding trade and other payables and provisions)	-	-

	2016 $000	2015 $000
South Dural Joint Venture		
Revenue	-	-
Loss from continuing operations	(369)	-
Loss for the year	(369)	-
Other comprehensive income for the year		-
Total comprehensive loss for the year	(369)	-
The above loss for the year include the following:		
Interest income	-	-

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

	2016 $000	2015 $000
Net assets of the joint venture	2,791	-
Proportion of the Group's ownership interest in the joint venture	50%	-
Carrying amount of the Group's interest In the joint venture	**1,395**	**-**

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 12: INVESTMENT IN JOINT VENTURES CONT.

	2016 $000	2015 $000
Millers Junction Business Joint Venture		
Current assets	14,024	-
Non-current assets	-	-
Current liabilities	(10,027)	-
Non-current liabilities	-	-
Net assets	**3,997**	**-**
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	366	-
Current financial liabilities (excluding trade and other payables and provisions)	(8,876)	-
Non-current financial liabilities (excluding trade and other payables and provisions)	-	-

	2016 $000	2015 $000
Millers Junction Business Joint Venture		
Revenue	-	-
Profit from continuing operations	-	-
Profit for the year	-	-
Other comprehensive income for the year	-	-
Total comprehensive income for the year	-	-
The above profit for the year include the following:		
Interest income	-	-

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

	2016 $000	2015 $000
Net assets of the joint venture	3,997	-
Proportion of the Group's ownership interest in the joint venture	51%	-
Carrying amount of the Group's interest In the joint venture	**2,038**	**-**

	2016 $000	2015 $000
Industria, Nunawading Joint Venture		
Current assets	144	-
Non-current assets	811	-
Current liabilities	(61)	-
Non-current liabilities	-	-
Net assets	**894**	**-**
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	144	-
Current financial liabilities (excluding trade and other payables and provisions)	-	-
Non-current financial liabilities (excluding trade and other payables and provisions)	-	-

	2016 $000	2015 $000
Industria, Nunawading Joint Venture		
Revenue	-	-
Profit from continuing operations	-	-
Profit for the year	-	-
Other comprehensive income for the year	-	-
Total comprehensive income for the year	-	-
The above profit for the year include the following:		
Interest income	-	-

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

	2016 $000	2015 $000
Net assets of the joint venture	894	-
Proportion of the Group's ownership interest in the joint venture	50%	-
Carrying amount of the Group's interest In the joint venture	**447**	**-**

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 13: CONTROLLED ENTITIES

a. Controlled Entities Consolidated

	Country of Incorporation	Percentage Owned (%)^ 2016	2015
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	100
Folkestone West Ryde Development Fund	Australia	50	50
Folkestone No. 2 Pty Ltd	Australia	100	100
Folkestone No. 3 Pty Ltd	Australia	100	100
Folkestone No. 4 Pty Ltd*	Australia	100	100
Folkestone No: 5 Pty Ltd	Australia	100	100
Folkestone Nunawading Pty Ltd (formerly Park Avenue Springfield 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
Folkestone Real Estate Services Pty Ltd (formerly 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
Lionel Road (Vic) Pty Ltd	Australia	100	100
Folkestone Knoxfield Pty Ltd	Australia	100	100
Folkestone South Dural Pty Ltd	Australia	100	100
Millers Junction Fund	Australia	100	100
Folkestone Hornsby Development Fund	Australia	100	100
Folkestone Property Management Pty Ltd (formerly Folkestone Thornton Pty Ltd)	Australia	100	100
Folkestone Wollert Development Fund	Australia	62.5	-
Folkestone Geelong Development Fund	Australia	100	-
Folkestone Commerce Park Fund	Australia	100	-
Folkestone South Dural Development Fund	Australia	100	-

^Percentage of voting power is in proportion to ownership.

** Members voluntary liquidation in progress*

NOTES TO THE FINANCIAL STATEMENTS CONT.

Deregistration of controlled entities

The following entities were deregistered during the financial year:

	Date of deregistration
Folkestone Freeholds Pty Ltd	18 September 2015
Folkestone Developments Pty Ltd	18 September 2015
Fenchurch Pty Ltd	18 September 2015
Folkestone (EMT) Pty Ltd	18 September 2015
Ceres House Pty Ltd	18 September 2015
Folkestone Project Management Pty Ltd	27 November 2015
Folkestone (PMD) Pty Ltd	27 November 2015
Folkestone No. 1 Pty Ltd	27 November 2015
Bertie Bridge Pty Ltd	27 November 2015

NOTE 14: PROPERTY, PLANT AND EQUIPMENT

	Economic Entity	
	2016 $000	2015 $000
PLANT AND EQUIPMENT		
Office equipment:		
At cost	1,045	582
Accumulated depreciation and impairment	(588)	(485)
Total property, plant and equipment	**457**	**97**

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	
	2016 $000	2015 $000
Carrying amount at the start of the year	97	160
Additions at cost	463	49
Depreciation expense	(103)	(112)
Carrying amount at the end of year	**457**	**97**

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 15: INTANGIBLES

	Economic Entity 2016 $000	2015 $000
Management Rights	11,500	11,500
Accumulated amortisation	(111)	(111)
Total management rights	**11,389**	**11,389**

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

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

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

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

For the purposes of impairment testing, intangibles have been allocated to the cash generating business unit of funds management. The analysis completed is based upon a value in use calculation of the forecast earnings over a five year period into perpetuity on the basis that the funds have an infinite life. For the purposes of the analysis we have assumed a 2.2% growth in funds under management, a revenue growth rate of 3%, a cost escalation assumption of 5% and a pre-tax discount factor of 13%. Based upon this analysis no impairment loss has been recognised in respect of intangible management rights for the year ended 30 June 2016.

NOTE 16: GOODWILL

	Economic Entity	
	2016 $000	2015 $000
Goodwill		
At cost	1,433	1,433
Total goodwill	**1,433**	**1,433**

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

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

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

The balance of the goodwill in relation to the acquisition of EREP, ($0.6 million) has been allocated to the cash generating unit of property development for the purposes of impairment testing. The analysis completed is based upon a value in use calculation of the forecast earnings of each cash-generating unit using a pre-tax discount factor of 13%.

Based upon the above analysis no impairment loss has been recognised in respect of goodwill for the year ended 30 June 2016.

NOTE 17: TRADE AND OTHER PAYABLES

	Note	Economic Entity	
		2016 $000	2015 $000
Trade payables	a	543	299
Sundry payables and accrued expenses		1,848	1,543
Total trade and other payables		**2,391**	**1,842**

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

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 18: BORROWINGS

	Economic Entity 2016 $'000	Economic Entity 2015 $'000
Short- term borrowings		
Bank loans - secured	2,068	4,130
Loans - other	5,144	-
	7,212	4,130
Long-term borrowings		
Bank loans - secured	5,000	20,000
	5,000	**20,000**

Short-term Borrowings

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

The key commercial terms of the debt facility as at 30 June 2016 are as follows:

Facility Limit	$2.1 million
Drawn Amount	$2.1 million
Facility Maturity	December 2016

The Group also has an additional loan of $5.1m from Wilmac-FLK Millers Road Pty Ltd. The loan is repayable from the sales proceeds of the Millers Junction Business project. The loan is interest free and does not have a fixed term.

Long-term Borrowings

The Group has a debt facility with ANZ Bank.

The key commercial terms of the debt facility as at 30 June 2016 are as follows:

Facility Limit	$30.0 million
Drawn Amount	$5.0 million
Facility Maturity	December 2017

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

During the prior reporting period, the Company secured a $20 million facility from ANZ Bank to assist with the acquisition of units in the Folkestone Education Trust (ASX:FET). During the current reporting period, the facility limit was increased to $22.5 million with a further short term increase of $7.5 million also provided to assist with the securing of seniors living opportunities for Folkestone's funds management platform. The facility is for a term of three years expiry in December 2017. The prevailing interest rate at 30 June 2016 was 2.92 per cent plus a line fee of 0.83 per cent. As at 30 June 2016, the Company complied with all of its debt covenant ratios and obligations.

Hedging arrangements

The Group has the following interest rate swap in place:

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

Interest rate and liquidity risk

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

NOTE 19: DERIVATIVE FINANCIAL INSTRUMENTS

	2016 $000	**2015 $000**
Non-Current		
Derivative financial instruments - interest rate swap contracts	107	49
	107	**49**

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

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

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 20: TAX

	Economic Entity	
	2016 $000	2015 $000
a. Assets		
NON-CURRENT		
Deferred Tax Asset	-	2,019
	-	**2,019**
b. Liabilities		
CURRENT		
Income Tax	-	-
NON-CURRENT		
Deferred Tax Liability	4,983	-
	4,983	**-**
c. Deferred Tax Assets/(Liabilities)		
Accrued expenses	413	387
S.40-880 deductible expenditure	449	622
Employee benefits	304	229
Accrued income	(154)	(154)
Carried forward tax losses	2,045	4,243
Unrealised gain on Financial Assets	(7,118)	(2,017)
Other	(922)	(1,291)
Closing balance	**(4,983)**	**2,019**

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

	Economic Entity	
	2016 $000	2015 $000
Opening balance	2,019	1,207
Recognition of deferred tax assets charged to income statement	-	4,088
Recognition of deferred tax assets charged to equity in relation to share issues costs	-	529
Utilisation of carried forward tax losses	(2,552)	(967)
Movement for the year charged to profit or loss	628	(899)
Movement for the year charged to other comprehensive income	(5,078)	(1,939)
Closing balance	**(4,983)**	**2,019**

d. Unrecognised Deferred Tax Assets

Deferred tax assets not recognised at reporting date comprise:

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

The carried forward tax losses which remain unrecognised at 30 June 2016 are "transferred" losses acquired through business combinations. Whilst these losses are able to be utilised, they are subject to an available fraction test to determine the quantum which can be utilised in any one tax year.

NOTE 21: ISSUED CAPITAL

	Economic Entity	
	2016 $000	2015 $000
147,306,759 (2015: ***735,043,807***) fully paid ordinary shares of no par value	124,668	124,668
	124,668	**124,668**

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

	2016		2015	
	Shares '000	$000	Shares '000	$000
Ordinary shares				
At the beginning of reporting period	735,044	124,668	521,758	83,911
Ordinary shares issued by placement			78,757	15,751
Ordinary shares issued by institutional and retail entitlement offer			131,243	26,249
Share issue costs			-	(1,772)
Tax effect of share issue costs			-	529
Issue of shares under employee share rights plan	1,488	-	3,286	-
Share consolidation	(589,225)	-		
At reporting date	**147,307**	**124,668**	**735,044**	**124,668**

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

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

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

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

	Economic Entity	
Franking Account	2016 $000	2015 $000
Balance of franking account at year end	13,353	13,353

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 22: RESERVES

	Economic Entity 2016 $000	Economic Entity 2015 $000
Investment revaluation reserve	16,609	4,762
Equity-settled employee benefits reserve	1,692	1,531
	18,301	**6,293**

Investment revaluation reserve

	Economic Entity 2016 $000	Economic Entity 2015 $000
Balance at the beginning of the year	4,762	238
Net gain arising on revaluation of available-for-sale financial assets (net of tax)	11,847	4,524
Balance at the end of the year	**16,609**	**4,762**

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 2016 $000	Economic Entity 2015 $000
Balance at the beginning of the year	1,531	512
Net performance rights/share appreciation rights granted	161	1,019
Balance at the end of the year	**1,692**	**1,531**

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

NOTE 23: NON-CONTROLLING INTERESTS

	Economic Entity 2016 $000	Economic Entity 2015 $000
Balance at the beginning of the year	9,502	8,324
Share of profit for the year attributable to non-controlling interests of the Folkestone West Ryde Development Fund	3,589	1,178
Share of loss for the year attributable to non-controlling interests of the Folkestone Wollert Development Fund	(3)	-
Distribution paid to non-controlling interests of the Folkestone West Ryde Development Fund	(13,050)	-
Balance at the end of the year	**38**	**9,502**

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	**2016 $000**	**2015 $000**
Current Assets	257	19,712
Non-Current Assets	-	-
Current Liabilities	(175)	(710)
Equity attributable to owners of the Company	41	9,501
Non-Controlling Interest	41	9,501
Revenue	8,180	3,258
Expenses	(1,687)	(216)
Income tax expense	686	(686)
Profit for the year after tax	7,179	2,356
Profit attributable to owners of the Company	3,590	1,178
Profit attributable to non-controlling interests	3,589	1,177
Net cash outflow from operating activities	(1,466)	(190)
Net cash inflow from investing activities	27,431	-
Net cash outflow from financing activities	(26,100)	-
Net cash outflow	(135)	(190)

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 24: CAPITAL AND LEASING COMMITMENTS

	Economic Entity	
	2016 $000	2015 $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	672	1,590
• between 12 months and 5 years	1,422	115
	2,094	**1,705**

The Group has the following corporate lease commitments:

- Level 10, 60 Carrington St, Sydney which expires on 31 March 2021. Rent is payable monthly in advance with 3.75 per cent per annum fixed increases on the anniversary date. The Group has sub-let approximately 37 per cent of this office space to a sub-tenant.
- Level 14, 357 Collins Street, Melbourne which expires on 28 Feb 2021. Rent is payable monthly in advance with 3.75 per cent per annum fixed increases on the anniversary date.

The Group has the following lease commitments pertaining to development activities:

- 290-298 Millers Road, Altona North which expires on 30 September 2016. Rent is payable monthly in advance.

NOTE 25: CONTINGENT LIABILITIES

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 per cent 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 $4.1 million (drawn to 30 June 2016: $4.1 million) for this development. The loan facility runs to 26 December 2016. As part of the security for the facility, Folkestone Limited has provided Bank of Melbourne with an unlimited guarantee and indemnity for 100 per cent of the loan.
- Wilmac - FLK Millers Road Pty Ltd - The Group has a 51% interest in the development of the Millers Junction Business Project located at 302-330 Millers Road, Altona North. Folkestone Limited provided a limited guarantee in favour of Bank of Melbourne in relation to a loan facility of $13.6 million (drawn to 30 June 2016: $8.9 million) for the development. The loan facility runs to 25 February 2017. As part of the security for this facility, Folkestone Limited has provided Bank of Melbourne with a guarantee and indemnity limited to $2.0 million plus costs.
- ID-FLK Bayview Road Pty Ltd - The Group has a 50% interest in the development of the Northside, Officer Project located at 15 Bayview Road, Officer. Folkestone Limited has provided a limited guarantee in favour of Bank of Melbourne in relation to a bank facility of $7.8 million (drawn to 30 June 2016: $6.5 million) for this development. The loan facility runs to 25 August 2016. As part of the security for this facility, Folkestone Limited has provided Bank of Melbourne with a guarantee and indemnity limited to $2.0 million plus costs.
- Industria, Knoxfield - The Group has a 50% interest in the development of the Industria project at Knoxfield. Folkestone Limited has provided a limited guarantee in favour of Bank of Melbourne in relation to a bank facility of $7.8 million (drawn to 30 June 2016: $2.4 million) for this development. The loan facility runs to June 2017. As part of the security for this facility, Folkestone Limited has provided Bank of Melbourne with a guarantee and indemnity limited to $2.0 million plus costs.

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

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

- value of primary asset securing the obligation to which the financial guarantee contract relates.

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

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

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

NOTE 26: SEGMENT REPORTING

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

	Segment Revenue		Segment Profit	
	30 June 2016 $000	30 June 2015 $000	30 June 2016 $000	30 June 2015 $000
Continuing operations				
Funds management[1]	15,851	10,457	15,851	10,457
Development[2]	8,279	38,979	6,811	5,527
	24,130	**49,436**	**22,662**	**15,984**
Other revenue[3]	420	616	420	616
Administration costs			(12,120)	(10,628)
Profit before income tax			**10,962**	**5,972**
Income tax benefit/(expense) (continuing and discontinued operations)			(1,925)	2,223
Consolidated segment revenue and profit for the year	**24,550**	**50,052**	**9,037**	**8,195**

Segment Assets	30 June 2016 $000	30 June 2015 $000
Funds management[4]	98,122	80,118
Development[5]	48,294	48,269
Unallocated[6]	20,055	36,169
Total Assets	**166,471**	**164,556**
Segment Liabilities		
Funds management	-	-
Development	7,212	4,130
Unallocated	13,494	22,656
Total Liabilities	**20,706**	**26,786**

1 *Funds management revenue and segment profit includes distributions, realised gains management fees and other fees generated from Folkestone's funds management platform. This also includes $1.6m of fees generated from the Folkestone West Ryde Development Fund which have been eliminated on consolidation.*

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

3 *Other Revenue comprises interest income on cash reserves, trust distributions and realised gains from other financial assets.*

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

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

6 *Unallocated assets include $17.6 million of cash reserves*

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 27: NOTES TO THE CASH FLOW STATEMENT

	Economic Entity 2016 $000	Economic Entity 2015 $000
Cash at bank and in hand	20,175	28,991
	20,175	**28,991**

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:

	2016 $000	2015 $000
Cash and cash equivalents	20,175	28,991
	20,175	**28,991**

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

	2016 $000	2015 $000
Profit after income tax	9,037	8,195
Non-cash items		
Share of profits of associates and joint ventures classified as cash flows from investing activities	(8,681)	(4,181)
Trust distribution received relating to participation in Distribution Reinvestment Plan	(1,127)	(606)
Accrued interest on preferred equity loans	(1,070)	(49)
Expensing of performance rights	161	1,019
Impairment of interest held in associated entity	400	696
Realised gain on sale of investments classified as investing cashflows	(1,435)	-
Amortisation and depreciation	105	112
Impairment of preferred equity loans	840	-
Change in fair value of financial assets through profit and loss	(96)	81
Change in fair value of derivative financial instrument	58	49
Movement in assets and liabilities		
Decrease/(increase) in trade and other receivables	738	(1,183)
Decrease/(increase) in prepayments	341	(402)
Decrease/(increase) in other operating assets	8	(5)
(Increase)/decrease in inventories	(2,207)	25,402
(Increase)/decrease in deferred tax asset	1,925	(2,222)
Increase/(decrease) in trade and other payables	549	(4,595)
Increase in provisions	248	187
Net cash provided by/(used in) operations	**(206)**	**22,496**

b. Credit Standby Arrangements with Banks

	2016 $000	2015 $000
Bank Loan Facilities	32,100	24,150
Amount utilised	(7,068)	(24,130)
	25,032	**20**

NOTES TO THE FINANCIAL STATEMENTS CONT.

The major facilities are summarised as follows:

Bill facility

The prevailing interest rate at 30 June 2016 on bills drawn was 5.43 per cent (2015: 5.35 per cent) including margins. The total bill facilities available at 30 June 2016 was $32.1 million (2015: $24.2 million) and comprise a $2.1 million facility provided by Bank of Melbourne in respect of the project at 302-330 Millers Road, Altona North and a $30.0 million re-drawable facility provided by ANZ Bank. Subject to continuing compliance with the specific conditions each facility, the bill facilities may be drawn at any time. The expiry date of the $2.1 million Bank of Melbourne facility is 26 December 2016 and the expiry date for the $30.0 million ANZ facility is in December 2017.

NOTE 28: EVENTS AFTER BALANCE DATE

On 7 July 2016 the Company announced that it had established the Folkestone Seniors Living Fund No.1 (FSLF) which has acquired Watermark Castle Cove, an award winning retirement community on Sydney's lower north shore. The Company currently owns 100% of FSLF while it completes a $25.66 million equity raising.

NOTE 29: CHANGES IN OWNERSHIP INTEREST IN A SUBSIDIARY

In the prior year, Folkestone underwrote the Folkestone Truganina Development Fund (Fund) offer of $18.25 million via a loan and has retained a co-investment of $3.425 million which equated to 18.76 per cent of the units on issue.

In the prior year, Folkestone established the Folkestone Truganina Development Fund (Fund) to undertake a joint venture with ID_Land for the development of a residential master planned community in Truganina, Victoria. Whilst the third party equity raising was completed, Folkestone owned a 100 per cent interest in the Fund. On 6 February 2015, Folkestone commenced the issue of units in the Fund to third party investors at which time Folkestone ceased to have control over the Fund. Folkestone's investment in the Fund is now 18.76 per cent. There was no profit or loss incurred during the period in which Folkestone controlled the Fund.

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

NOTE 30: PARENT ENTITY INFORMATION

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

	Parent Entity	
Financial Position	**2016 $000**	**2015 $000**
ASSETS		
Current assets	15,021	23,440
Non-current assets	127,736	105,247
Total assets	**142,757**	**128,687**
LIABILITIES		
Current liabilities	2,608	2,001
Non-current liabilities	10,543	20,384
Total liabilities	**13,151**	**22,385**
Net Assets	**129,606**	**106,302**
EQUITY		
Issued capital	124,668	124,668
Accumulated losses as at 30 June 2015	(24,282)	(24,282)
Accumulated profit /(loss) since 1 July 2015	10,919	-
Reserves	18,301	5,916
Total Equity	**129,606**	**106,302**

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 30: PARENT ENTITY INFORMATION CONT.

Financial Performance	**2016 $000**	**2015 $000**
Profit/(loss) for the year	10,919	(88)
Other comprehensive income	12,223	4,228
Total comprehensive income for the year	**23,142**	**4,140**
Guarantees entered into by the parent entity in relation to the debts of its subsidiaries		
Guarantee provided by the parent entity in relation to the debts of its subsidiaries (i)	-	-
Contingent liabilities of the parent entity		
Contingent liabilities of the parent entity (i)	-	-

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

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

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

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

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

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

NOTE 31: RELATED PARTY TRANSACTIONS

Controlling Entity

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

Wholly-owned Group

The wholly-owned Group consists of Folkestone Limited and its wholly-owned controlled entities. Ownership interests in these controlled entities are set out in Note 13.

Transactions between Folkestone Limited and other entities in the wholly-owned Group during the years ended 30 June 2016 and 2015 consisted of:

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

No interest has been charged on loans made by/to Folkestone Limited to/from its wholly owned subsidiaries and there are no fixed terms for the repayment of these loans as they are at call. Balances and transactions between the Company and its subsidiaries which are related parties are eliminated on consolidation and are not disclosed in this note.

Other Related Parties

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

Current year

The Group owns 30,687,878 units (2015: 31,321,658) in the Folkestone Education Trust (ASX:FET) which is a listed real estate investment trust on the Australian Securities Exchange. During the current reporting period, the company received or was entitled to receive distributions totalling $4,202,376 (2015: $3,088,878). The Group acquired 515,707 units (2015: 304,067) through participation in FET's Distribution Reinvestment Plan in the current reporting period. The Group sold 1,149,487 units during the year for a realised gain of $1,174,646.

Prior year

During the year, Folkestone successfully completed an $18.250 million equity raising for the Folkestone Truganina Development Fund. Folkestone has retained an 18.76 per cent interest in the Folkestone Truganina Fund and the units acquired were on the same terms and conditions as units issued to third party investors. Folkestone was entitled to receive an acquisition fee of $888,000 plus GST payable by the Fund following completion of the equity raising. Folkestone also received a $1,000,000 fee from the joint venture to which the Folkestone Truganina Development Fund is a joint venture partner.

During the 2014 financial year, Folkestone Funds Management Limited entered into an underwriting agreement for the offer of units in the Folkestone Real Estate Income Fund at Oxley (Oxley Fund). The underwriting agreement was with Folkestone Limited. The underwriting occurred through the subscription 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. The balance of underwritten units were fully redeemed in the September 2015 quarter. Folkestone did not receive a fee for underwriting the offer. During the period, Folkestone was entitled to a distribution from the Oxley Fund for the period it owned units in the Fund of $25,290 (2014: $221,760).

In respect to the Altona North project, the Folkestone Real Estate Income Fund at Altona North (Altona Fund) settled the acquisition of the Stage 1 completed asset in November 2014. The price paid by the Fund represented an arm's length transaction between Folkestone and the Altona Fund. In addition to this, the Altona Fund provided a loan facility of $14 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 repaid out of the sales proceeds from the sale of the Stage 1 asset to the Fund.

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 31: RELATED PARTY TRANSACTIONS CONT.

Transactions between Folkestone Limited and other related parties during the years ended 30 June 2016 and 2015 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:

	2016 $000	2015 $000
Management Fees	5,234	4,876
Administration Fees / Cost Recoveries	1,053	1,005
Development Management Services Fees	545	-
Acquisition Fees and Disposal Fees	43	1,226
Debt Refinance	1,150	100
Leasing Fees	442	24
Other	-	-
Total per Note 2 - Revenue	**8,467**	**7,231**
Management Fees - Folkestone West Ryde Development Fund[1]	41	165
Performance Fee - Folkestone West Ryde Development Fund[1]	1,576	-
Total Fees and Cost Recoveries	**10,084**	**7,396**

[1] *A Performance fee of $1,576,354 and Management fees of $41,250 (2015: $165,000) were invoiced by the Group in 2016 in respect of the Folkestone West Ryde Development Fund. These fees have been eliminated upon consolidation of the Folkestone West Ryde Development Fund into the financial statements of the Group.*

Transactions with Directors

Current year

1. During the year, the Company engaged the services of Mr Baillie, a non-executive Director of Folkestone Limited, on a consultancy agreement to provide property funds management advisory services to the Company. Total fees paid during the year under the agreement were $120,000 (2015: $120,000).
2. Folkestone Limited has engaged Daniels Printing to provide a range of printing services (annual reports, shareholder updates etc.). Mr Paramor is a co-owner of Daniels Printing. During the year, Daniels Printing provided services totalling $17,979 (2015: $16,687). The Company regularly seeks alternate costing on a periodic basis to ensure the costs are commensurate with market conditions.

Prior year

1. During the prior year, Folkestone Limited successfully completed a $42 million Equity Raising. The Equity Raising was fully underwritten by Moelis Australian Advisory Pty Ltd (Moelis). Entities 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 $3.5 million for Mr Paramor and $0.8 million for Mr Baillie. Mr Paramor received a sub-underwriting fee of $35,000 and Mr Baillie received a sub-underwriting fee of $8,000 which was paid by Moelis. Mr Paramor was issued with 2,761,318 shares (prior to the 1 for 5 share consolidation completed in November 2015) and Mr Baillie was issued with 750,000 shares (prior to the 1 for 5 share consolidation completed in November 2015) in respect of the sub-underwriting agreements.

NOTE 32: FINANCIAL INSTRUMENTS

a) Capital Risk Management

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

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

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

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

	Economic Entity	
	2016 $000	2015 $000
Debt	7,068	24,130
Cash and Cash Equivalents	(20,175)	(28,991)
Net Cash	(13,107)	(4,861)
Equity (Parent interest)	145,727	128,268
Net debt to equity ratio	(9.0%)	(3.8%)

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

Allowing for Folkestone's share of these project's debt, the debt for the economic entity for the current year would increase to $19.2 million (2015: $44.4 million) and net cash would increase to $2.9 million (2015: net debt of $15.4 million), reflecting a net debt to equity ratio of 2 per cent (2015: 12 per cent). It should be noted that the Karratha, Hornsby and Truganina debt facilities are non-recourse to Folkestone.

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

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

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

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

b) Categories of Financial Instruments

	Economic Entity	
	2016 $000	2015 $000
Financial Assets		
Cash and cash equivalents	20,175	28,991
Trade and other receivables	23,516	12,815
Available for sale financial assets	81,937	65,776
Held for trading financial assets	101	1,919
Total Financial Assets	**125,729**	**109,501**

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 32: FINANCIAL INSTRUMENTS CONT.

	Economic Entity	
	2016 $000	2015 $000
Financial Liabilities		
Financial liabilities - fair value through profit or loss	107	49
Short-term borrowings - at amortised cost	7,212	4,130
Long-term borrowings - at amortised cost	5,000	20,000
Trade and other payables - at amortised cost	2,391	1,842
Total Financial Liabilities	**14,710**	**26,021**

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 25, net of any allowance for losses.

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

ii) Market Risk

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

The Group manages interest rate risk by:

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

The Group has a $30 million re-drawable facility from ANZ Bank to assist with working capital requirements and funding of new acquisitions. The Group has entered into a fixed interest rate swap with ANZ Bank for $10 million of the total facility limit. Please refer to Note 18 and Note 19 for further information.

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

Sensitivity Analysis

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

iii) Liquidity Risk

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

Ultimate responsibility for liquidity risk management rests with the Board of Directors, based on an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The contractual maturities of the Group's financial liabilities are shown below. The amounts presented represent the future undiscounted principal and interest cash flows relating to the amounts drawn at reporting date. The amounts presented do not include the financial guarantee provided for the Millers Road, Altona North or Officer projects as disclosed in Note 25, as the Company has reviewed and determined that there is no value attributable to the financial guarantees provided.

Economic Entity

	Weighted Average Effective Interest Rate %	Less than 3 months $000	3 months to 1 year $000	1 to 5 years $000
2016				
Non-interest bearing trade and other payables	-	2,171	-	-
Variable interest rate instruments	4.32%	48	2,269	5,286
Total		**2,219**	**2,269**	**5,286**
2015				
Non-interest bearing trade and other payables	-	1,842	-	-
Variable interest rate instruments	4.26%	202	4,846	21,194
Total		**2,044**	**4,846**	**21,194**

iv) Other Price Risks

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

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

- Other comprehensive income before tax for the year ended 30 June 2016 would increase/decrease by $4,096,832 (2015: $3,288,774) as a result of the changes in fair value of available for sale units.

NOTES TO THE FINANCIAL STATEMENTS CONT.

NOTE 32: FINANCIAL INSTRUMENTS CONT.

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

- Net profit after tax for the year ended 30 June 2016 would increase/decrease by $5,087 (2015: $95,956) as a result of the changes in fair value.

d) Fair value of financial instruments

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

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

	2016 $000	2015 $000
Assets		
Units - Folkestone Education Trust	81,937	65,776
Listed Securities - Mason Stevens A-REIT Securities Portfolio Separately Managed Account	101	1,919
	82,038	**67,695**
Liabilities		
Derivative financial instruments	107	49

<u>Fair value of Financial Assets</u>

The Group owns 30,687,878 units in the Folkestone Education Trust (ASX:FET) which is a listed real estate investment trust on the Australian Securities Exchange. The units have been acquired in a number of tranches since December 2013 for a total consideration of $58,208,976 at an average acquisition price of $1.90 per unit. The fair value hierarchy for this asset is a level 1. The fair value assessed as at 30 June 2016 was $81,936,634 where the valuation technique used was the quoted bid price of the units on the Australian Securities Exchange as at 30 June 2016. If the market price was 1 per cent higher/lower, the carrying amount would increase/decrease by $819,366.

The Group owns listed securities held through the Mason Stevens A-REIT Securities Portfolio Separately Managed Account. The listed securities were acquired for a total consideration of $85,844. The fair value hierarchy for this asset is a level 1. The fair value assessed as at 30 June 2016 was $101,741 where the valuation technique used was the quoted bid price of the units on the Australian Securities Exchange at 30 June 2016. If the market price was 1 per cent higher/lower the carrying amount would increase/decrease by $1,017.

<u>Fair value of derivative financial instruments</u>

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

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

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

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

DIRECTORS' DECLARATION

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

(a) the financial statements and notes set out on pages 39 to 95, 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 2016 and of its performance for the financial year ended on that date; and
- (ii) comply with Australian Accounting Standards and the Corporations Regulations 2001; and
- (iii) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 1 to the financial statements.

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

- (iv) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
- (v) the financial statements and notes for the financial year comply with the Accounting Standards; and
- (vi) the financial statements and notes for the financial year give a true and fair view.

(c) in the directors' opinion, there are reasonable grounds to believe that the Company and the controlled entities identified in Note 13 will be able to pay their debts as and when they become due and payable.

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

Garry Sladden
Non-Executive Chairman

Greg Paramor AO
Managing Director

Sydney
25 August 2016

ADDITIONAL SECURITIES EXCHANGE INFORMATION

The shareholder information set out below was applicable as at 18 August 2015.

DISTRIBUTION OF EQUITY SECURITIES

Analysis of number of equity security holders by size of holding

Holding Ranges	Ordinary Shares
1 - 1,000	252
1,001 - 5,000	170
5,001 - 10,000	140
10,001 - 100,000	723
100,001 – and over	135
Total	**1,420**

There were 137 holders of less than a marketable parcel of ordinary shares.

EQUITY SECURITY HOLDERS

Twenty Largest quoted Equity Security Holders

Holder Name	Number Held	Ordinary Shares % of Issued Shares
J P Morgan Nominees Australia Limited	24,376,729	16.515%
G J P Investments Pty Ltd	13,602,800	9.216%
Citicorp Nominees Pty Limited	6,167,009	4.178%
HSBC Custody Nominees (Australia) Limited	4,618,131	3.129%
Aust Executor Trustees Ltd	4,427,879	3.000%
National Nominees Limited	3,252,034	2.203%
FDC Construction & Fitout Pty Ltd	3,203,035	2.170%
Perron Investments Pty Ltd	3,098,446	2.099%
Emmanuel Capital Pty Ltd	3,000,000	2.032%
Wilbow Group Pty Ltd	2,721,940	1.844%
UBS Nominees Pty Ltd	2,661,112	1.803%
BNP Paribas Noms Pty Ltd	1,965,735	1.332%
Mr Peter Anthony Vogliotti	1,838,226	1.245%
Filetron Pty Limited	1,689,321	1.144%
Quality Life Pty Ltd	1,500,629	1.017%
Netwealth Investments Limited	1,351,323	0.915%
Mr Mark William Baillie	1,176,585	0.797%
Adkar Investments Pty Ltd	1,095,265	0.742%
National Nominees Limited	1,049,223	0.711%
Paval Superannuation Pty Ltd	1,041,250	0.705%
Total	**83,836,672**	**56.798%**

There were 147,605,620 shares on issue, held by 1,420 shareholders.

ADDITIONAL SECURITIES EXCHANGE INFORMATION CONT.

SUBSTANTIAL HOLDERS

Substantial holders in the Company are set out below:

Holdings Ranges	Number Held
GJP Investments Pty Ltd & Associated Entities	13,607,951
Phoenix Portfolios Pty Ltd	12,436,148*
FDC Construction & Fitout Pty Ltd & Associated Entities	9,991,807

*Shares consolidated as per the Share Consolidation Notice dated 4 November 2015 at 1 for 5 shares

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 AO
(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 14
357 Collins Street
Melbourne VIC 3000

SHARE REGISTRY

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

AUDITOR

Deloitte Touche Tohmatsu
550 Bourke Street
Melbourne VIC 3000

STOCK EXCHANGE LISTING

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

WEBSITE

www.folkestone.com.au

Folkestone