

Other Projects

Finalisation of outstanding issues in respect of the residential development at Jolimont Square is still being attended to. The Company has made an allowance for future costs to resolve these outstanding issues.

Construction Division

Access Constructions is one of Victoria's leading builders of industrial and low-rise commercial property. As a design and construction specialist, the company works closely with its clients to deliver tailor made solutions.

Access' pre-tax result for the year of \$1.972m (2007: \$3.261m) was adversely affected by rising cost of materials such as steel, and a reduction in activity levels within the industry brought about by the slowing economy. With a forward order book of \$39 million at 30 June 2008, Access is well placed to deliver a similar result in 2009.

The Folkestone/Access partnership continues to be successful with both companies sharing resources and referring contacts in order to secure new projects.

Outlook

The global credit crunch has both increased the cost of finance and reduced its availability. Furthermore, the Reserve Bank's use of higher interest rates to slow economic activity has dampened consumer confidence and reduced the demand for property. It is expected that the current market conditions will continue throughout the 2009 financial year.

During this period, Folkestone will continue to take a cautious and selective approach to new property acquisitions and devote its resources to adding value to its current development projects. Based upon the timing of our current development plans, the 2009 earnings are forecast to be lower than 2008.

Whilst it has become increasingly difficult to predict outcomes in the current market, the Directors believe that Folkestone is well positioned to be able to complete existing projects with its available resources and to maintain its current level of dividends in 2009.

Management team

Below are the profiles of the Group's management team:

Oscar Guglielmi

Managing Director & Chief Executive Officer

Oscar's qualifications and experience are detailed on page 11 of the Directors' Report.

Scott Martin

Chief Financial Officer & Company Secretary

Scott joined the company in December 2005. He has had extensive experience as a chartered accountant in a broad range of accounting and taxation fields, the last six years of which have been in the property and construction industry.

John Lincoln

General Manager – Industrial & Commercial

John joined Folkestone in April 2007 as General Manager – Industrial & Commercial. John has over 15 years experience in the property industry. During this time he has been responsible for the development of a range of large commercial, industrial, retail and integrated developments throughout Australia including Darwin City Waterfront, Cairns Central Shopping Complex and Southgate in Melbourne.

Peter Quinn

General Manager – Residential

Peter joined Folkestone in November 2006 as General Manager – Residential. He has over 25 years experience in the property development industry. He was formerly an executive director of a substantial private property development group and was responsible for the creation and development of a number of residential communities in Victoria, Queensland, New South Wales and South Australia. Peter is also an active member in various property industry bodies, being a former president of the Urban Land Institute of Australia and Board member of the Victorian Planning and Environmental Law Association and Western Port Development Corporation. Peter's role at Folkestone is to develop and grow the residential portfolio of the company through the acquisition and development of strategic land parcels capable of producing a range of innovative residential products.

Tony Cariss

Managing Director – Access Constructions

Tony joined Access Constructions in April 1991 when the company was in its infancy, and has held the position of Managing Director since April 2005. During his time as Managing Director, turnover has increased from \$20m to \$50m in 2007.

DIRECTORS' REPORT

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 2008 and the auditor's report thereon.

A. Directors

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

Alister TL Maitland (*BCom, FAICD, FAIM, SF Fin*) (Chairman)

Oscar Guglielmi (*B.Bus, CPA*)
(Managing Director & Chief Executive Officer)

Bruce R Kean AM (*Dip ChemEng, FIE Aust, FTS, FAICD*)

Michael W Parkinson CBE (*MA, MBA, FAICD*)

Kaye H Dening AM (*BEc AAPI (Val), AAIB, JP*)

B. Company Secretary

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

Scott M Martin, *BCom, CA*, was appointed to Folkestone Limited in December 2005, as Company Secretary and Chief Financial Officer for all the Group's activities.

E. Dividends

Dividends paid to members during the year were as follows:

	2008	2007
	\$'000	\$'000
Final ordinary dividend for the year ended 30 June 2007 of 4 cents (2006 – 3.5 cents) per fully paid share paid on 2 October 2007	1,217	1,051
Special ordinary dividend for the year ended 30 June 2007 of 1.5 cents (2006 – Nil) per fully paid share paid on 2 October 2007	456	–
Interim ordinary dividend for the year ended 30 June 2008 of 3 cents (2007 – 2.5 cents) per fully paid share paid on 11 March 2008	929	758
Total dividends paid in the year	2,602	1,809

In addition to the above dividends, the Directors declared on 21 August 2008 the payment of a final ordinary dividend of \$1,091,000 (3.5 cents per fully paid share) fully franked. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2008 and will be recognised in subsequent financial reports.

Dividends declared as paid during the year were fully franked at the rate of 30 per cent.

C. Review of Board Performance

No external review of the Board's performance was conducted during the year, however the Board reviewed its operations and effectiveness, including the contribution made by all members, appropriateness of agenda's and times spent at meetings. The contributions of all Directors is considered to be of a high level and adequate to discharge their duties in full.

D. Principal activities

The principal activities of the consolidated entity during the financial year were:

- (a) property development (including project management); and
- (b) design and construction of industrial and commercial premises.

There were no significant changes in the nature of the activities of the consolidated entity during the year.

F. Review of Operations

A review of the Folkestone Group's operations and activities is contained on pages 7 to 9.

G. Earnings per Share

	NOTE	2008 CENTS	2007 CENTS
Basic Earnings per share	9	10.1	14.2
Diluted Earnings per share	9	10.0	13.5

H. After Balance Date Events

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in future financial years, that has not been disclosed elsewhere in this report.

I. Likely Developments and Expected Results of Operations

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

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

J. Environmental Regulation

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

K. Occupation Health and Safety Regulations

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

L. Director Profiles

Alister TL Maitland (67)

BCom, FAICD, FAIM, SF Fin
Chairman

Alister was appointed as a Non-Executive Director of Folkestone in 1998 and has held the position of Chairman since January 1999. He is also Chairman of the Remuneration Committee and a member of the Audit and Risk Management Committee. He is a former Executive Director of the ANZ Banking Group Ltd. His current positions include Chairman of Eastern Health Network, Chairman of Sterling Biofuels Ltd and Non-Executive Director of Lihir Gold Ltd.

Oscar Guglielmi (48)

B.Bus, CPA
Managing Director & Chief Executive Officer ("CEO")

Oscar joined Folkestone in August 2006. He has extensive experience in the property industry, having held senior managerial positions with substantial property organisations whose operations have involved property development and investment across Australia.

Bruce R Kean (75)

AM, FIE Aust, FTS, FAICD
Non-Executive Director

Bruce was appointed as a Non-Executive Director in March 2000 and is the Chairman of the Audit and Risk Management Committee and also a member of the Remuneration Committee. Bruce is a former Chief Executive and Director of Boral Ltd and is currently Chairman of the Mental Health Research Institute and a Director of Neuroscience Victoria.

L. Director Profiles (*continued*)

Michael W Parkinson (65)

CBE, MA, MBA (Stanford), FAICD
Non-Executive Director

Michael was appointed as a Non-Executive Director in December 2005 and is a member of the Audit and Risk Management and Remuneration Committees. Michael is a former Non-Executive director of IOOF Holdings Ltd and its predecessor, IOOF Ltd, from 1996 to 2005. For the past 20 years, Michael has operated his own corporate advisory business specialising in investment opportunities. Michael is also a director of Singhi Advisors Limited.

Kaye H Denning (63)

AM, BEc, AAPI (Val), AAIB, JP
Non-Executive Director

Kaye was appointed as a Non-Executive Director in June 2007 and is a member of the Audit and Risk Management and Remuneration Committees. Kaye has a long history of involvement in the construction and property development industries as CEO of Denning Group and has worked with Stockland Limited, ComLand Limited and NSW Government Landcom.

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

M. Remuneration Report

This report details the nature and amount of remuneration for each director of Folkestone Limited and for key management personnel receiving the highest remuneration. Remuneration of directors and key management personnel is referred to as compensation as defined in AASB 124 'Related Party Disclosures'. Details of Directors shareholdings are disclosed in Note 6 to the financial statements on page 43 of the Financial Report.

Remuneration Policy

The objective of the Company's executive reward framework is to ensure that reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good governance reward practice:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage/alignment of executive compensation;
- transparency; and
- capital management.

The Company has structured an executive remuneration framework that is market competitive and reflects the reward strategy of the organisation, having regard to the size of the Group.

Alignment to shareholders' interests:

- has profit as a core component of plan design;
- focuses on sustained growth and delivering consistent return on assets; and
- is focused on attracting and retaining high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience;
- reflects competitive reward for contribution to shareholder growth;
- provides a clear structure for earning rewards; and
- provides recognition for contribution.

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.

Relationship between the remuneration policy and company performance

The table set out below summarises information about the consolidated entity's earnings and movements in shareholder wealth for the five years to June 2008, which is considered when setting the remuneration policy for the Group:

	A-IFRS			AUST GAAP	
	2008 \$'000	2007 \$'000	2006 \$'000	2005 \$'000	2004 \$'000
Profit from ordinary activities before individually significant items	5,128	6,656	2,635	650	5,748
Income tax expense	(1,667)	(2,066)	(804)	(212)	(1,742)
Profit attributable to minority equity interest	(333)	(285)	-	-	-
Profit from ordinary activities attributable to members of the parent entity	3,128	4,305	1,831	438	4,006
Basic earnings per ordinary share (cents)	10.1	14.2	6.1	1.5	15.0
Dividend rate on fully paid shares (cents)	6.5	6.5	6.0	6.0	6.0
Special dividend (cents)	-	1.5	-	-	1.5
ASX Closing Price 30 June (cents)	70.5	80	55	58	80

- Folkestone Limited has paid key management personnel a combination of fixed remuneration and performance based remuneration over the past two years. Performance based remuneration has been paid based upon predetermined KPI's relevant to each key management personnel. There has been a focus on attracting and retaining appropriate personnel to enable the financial performance of the Group to improve.
- There have been share based payments made to key management personnel in accordance with the achievement of pre set KPI's as summarised within this report. The KPI's have been established to increase profitability and therefore shareholder wealth.
- As the table above indicates, earnings have varied significantly over the past four financial years. It has been the focus of the Board of Directors to retain management personnel essential to the profitable operations of the Group and to attract suitable executives to maximize profitability.

The Directors continually review and monitor the remuneration of key management and executives and consider the appropriate mix of performance based remuneration and fixed remuneration to retain and recruit appropriate executives.

Non-Executive Director Remuneration

The Board policy is to remunerate Non-Executive Directors at market rates for comparable companies for time, commitment and responsibilities. The Remuneration Committee determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at the Annual General Meeting (currently \$400,000). To align Directors' interests with shareholder interest, the Directors are encouraged to hold shares in the Company. Details of Directors' interests in shares and rights over shares of the Company as at the date of this report are contained in Note 6 to the accounts on pages 43 to 46.

The Chairman receives carparking and use of an office, with the Company meeting the cost of the fringe benefits tax.

Performance Based Remuneration

The executive pay and reward framework has two components:

- base pay, benefits and superannuation;
- performance incentives;

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

M. Remuneration Report (*continued*)

i) Base pay, benefits and superannuation

Executive Base Pay

Executive base pay is structured as a total employment cost package that may be delivered as a mix of cash and benefits at the executives' discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and benefits. When setting executive base pay, data from external remuneration consultants is reviewed to ensure they are reflective of the market for a comparable role. Base pay for both specified executives and other staff is reviewed annually to ensure that total remuneration is competitive with the market.

It is the consolidated entity's policy that contracts of employment for senior executives other than those disclosed in this report be unlimited in term but capable of termination on three months notice and that the consolidated entity retains the right to terminate the contract immediately, by making payment equal to three months pay in lieu of notice.

Benefits

Executives receive carparking, motor vehicle expenses and professional membership fees. The Company meets the cost of any fringe benefits tax applicable to these benefits.

Superannuation

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.

Service Agreement and Contract Details for CEO of Folkestone Limited

The service contract for Mr Oscar Guglielmi is for a term of 5 years commencing on 28 August 2006 and allows for specified payouts which were approved at the 2006 AGM, a summary of which is provided below.

If Mr Guglielmi's employment is terminated without cause, he will receive the following payments:

- in the remaining period of employment by providing compensation equal to 25% of Mr Guglielmi's total remuneration package, plus any unvested Performance Rights to which Mr Guglielmi is entitled will vest immediately.

If Mr Guglielmi's employment is terminated as a result of him being incapacitated by illness or injury of any kind which prevents him from performing his duties for a period of 3 consecutive months or any periods aggregating 3 months in any period of 12 months during the period of his employment, he is entitled to one year of his total remuneration package plus any unvested performance rights to which Mr Guglielmi is entitled will vest immediately.

Employment contracts for executives of Access Constructions

The management team of Access Constructions (including the Managing Director, Mr Tony Cariss) have their employment conditions formalised in contracts of employment. The original contracts were initially to 31 December 2006 and stipulated a three month resignation period. The contracts have been rolled forward for a further term of 3 years on the same terms and conditions. The Company may terminate an employment contract without cause by paying the outstanding amount under the contract. In the instance of serious misconduct the Company may terminate employment at any time. No termination payments are due on resignation or dismissal for serious misconduct.

ii) Performance Incentives

Executive Bonus Scheme – Folkestone Developments

The Executive Bonus Scheme is offered to senior executives as determined by the Board from time to time.

The scheme rewards a senior executive's performance against targets set by the Board. Where targets are satisfied, success is rewarded through the payment of a cash bonus and/or the grant of specified performance rights determined by the Board.

The targets are determined by the Board and are set on the basis that the senior executive will have a combination of short and long term incentives. The proportion of salary that links with performance varies according to contractual arrangements and is summarised in the table on page 15 to 16. For executives of Folkestone it is expected that the percentage of remuneration that will be performance based in future years will be between the ranges of 30%–50% of the total remuneration package under ordinary circumstances. For executives of Access Constructions, the percentage of remuneration that will be performance based cannot be quantified as it is dependent upon the performance of that business segment in any financial year.

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Short Term Incentives

Short term incentives (STI) are generally paid in cash and measured against the achievement of performance generally described in the annual budget of the Company, subsidiary of the Company or relevant section of the Company or subsidiary of the Company (as applicable to the senior executive's responsibilities).

These targets may include goals set to achieving defined:

- after tax profits;
- returns on shareholder funds;
- pre tax contributions (from divisions of the Company or a subsidiary of the Company);
- profit measures of projects such as internal rate of return and margins;
- management of compliance with policies concerning OH&S, environmental and human resources.

Incentives set for the achievement of short term targets will not exceed the value of the base salary of the relevant senior executive in one year.

Long Term Incentives – Performance Rights

In October 2006 the Company revised the Executive Bonus Scheme (Plan) to provide additional incentives for executives to reach targets set by the Board. The Plan provides for the CEO and executives to receive grants for performance rights over ordinary shares. A performance right is a conditional right to be granted ordinary shares in the capital of the Company for nil consideration and at a zero exercise price after a prescribed vesting period determined by the Board and approved by shareholders. The performance rights are exercisable subject to the satisfaction of set performance criteria. The satisfaction or otherwise of targets will generally be determined by the Board following receipt of the audited accounts of the Company for the financial year to which the target related. The Board reserves the right to issue a lesser number of performance rights if the senior executive fails to achieve any stated target by a small margin for acceptable reasons. In the event that the Board determines that a target is satisfied, the vesting period will commence with effect from 30 June in the financial year to which the target related and the performance right vests on the 10th business day following the 2 year vesting period. The performance rights may then be exercised by the executive within 5 business days of the vesting date by notice in writing to the Company. In the event that a performance right is not exercised within this period, it will lapse. It is a condition that the employee must remain a full time employee until the time that the performance right vests.

The following performance rights were granted in the period ending 30 June 2007:

FINANCIAL YEAR TO WHICH TARGET RELATES	ISSUED TO	TRANCHE	PERFORMANCE CRITERIA	ENTITLEMENT	STATUS	VESTING DATE
Ongoing	Oscar Guglielmi	1.	Execution and completion of a new corporate acquisition with a value between \$2,000,000 and \$10,000,000	Up to 100,000 Performance Rights (as determined by the Board)	Not achieved in 2007 or 2008	N/A
		2.	Execution and completion of a new corporate acquisition with a value between \$10,000,000 and \$25,000,000 together with associated fund raising requirements	Up to 200,000 Performance Rights (as determined by the Board)	Not achieved in 2007 or 2008	N/A
2006–2007	Oscar Guglielmi	3.	Earnings per share exceeds \$0.12 for the financial year ending 30 June 2007	Up to 100,000 Performance Rights (as determined by the Board)	Achieved	14 July 2009
		4.	TSR ranking exceeds the 50 th percentile in the ASX Real Estate Management and Development Listing (excluding Australand and Lendlease) as published in the Australian Financial Review	Up to 100,000 Performance Rights (as determined by the Board)	Achieved	14 July 2009

M. Remuneration Report (continued)

The following performance rights were granted in the period ending 30 June 2008:

FINANCIAL YEAR TO WHICH TARGET RELATES	ISSUED TO	TRANCHE	PERFORMANCE CRITERIA	ENTITLEMENTS	STATUS	VESTING DATE
2006–2007	Scott Martin	3A	Earnings per share exceeds \$0.12 for the financial year ending 30 June 2007	62,500 Performance Rights	Achieved	14 July 2009
2006–2007	Other Staff	3A	Earnings per share exceeds \$0.12 for the financial year ending 30 June 2007	225,000 Performance Rights	Achieved	14 July 2009
2007–2008	Oscar Guglielmi	5	Earnings per share increases more than 10% above base of \$0.12* for the financial year ending 30 June 2008	Up to 100,000 Performance Rights (as determined by the Board)	Part Achieved	14 July 2010
	Oscar Guglielmi	6	TSR ranking exceeds the 60th percentile in the ASX Real Estate Management and Development Listing (excluding Australand and Lendlease) as published in the Australian Financial Review.	Up to 100,000 Performance Rights (as determined by the Board)	Achieved	14 July 2010
2007–2008	Scott Martin	5	Earnings per share increases more than 10% above base of \$0.12* for the financial year ending 30 June 2008	Up to 62,500 Performance Rights (as determined by the Board)	Part Achieved	14 July 2010
	Scott Martin	6	TSR ranking exceeds the 60th percentile in the ASX Real Estate Management and Development Listing (excluding Australand and Lendlease) as published in the Australian Financial Review.	Up to 62,500 Performance Rights (as determined by the Board)	Achieved	14 July 2010
	Other Staff	7	Net after tax profit of the Development Division exceeds \$2,107,500 for the financial year ending 30 June 2008	Up to 450,000 Performance Rights (as determined by the Board)	Not Achieved	N/A

* The Board recognises that the results for 2006/2007 included a significant carry forward of earnings that under ordinary circumstances would have been recognised in the 2007–2008 year or later. Accordingly it has taken this into consideration when assessing performance for 2007/2008 against the above benchmark.

Where a benchmark pertaining to a performance right is not achieved by a small margin, the Board, in its sole discretion, is permitted to issue a lesser number of performance rights to the employee. The Board has resolved to issue a lesser number of performance rights in respect of the performance rights detailed in the table above that are identified as having been “part achieved”.

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 resolved to adopt the fair value calculation as the cost basis for issuing the rights and to shares on vesting of any rights awarded.

The fair value of performance rights is recognised as an expense on a straight line basis over the life of the right. The life of tranche 1 & 2 rights has been determined to be 5 years, which represents the term of the CEO’s employment contract, as the performance criteria in respect of these tranches could occur at any time during the life of the contract. The life of all other rights is 3 years and the fair value is being expensed on a straight line basis over the relevant financial years.

Executive Incentives – Access Constructions

Certain executives of Access Constructions are on an STI programme which is directly linked to profitability of the operation. Cash incentives (bonuses) are payable within 3 months of the end of each calendar year in accordance with their employment contracts. The STI programme was in place prior to acquisition by Folkestone and encourages employees to deliver profits on an annual basis. The original STI programme expired on 31 December 2006 and has been rolled forward on the same terms and conditions for a further term of 3 years.

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All remuneration packages, including STI performance bonuses, are set at levels that are intended to attract and retain executives capable of managing the economic entity's operations.

Details of Remuneration for the year ended 30 June 2008

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

Executives are those employees with authority for the strategic direction and management of the consolidated entity. Apart from Mr Oscar Guglielmi, Managing Director, the other executive of the Company was Mr Scott Martin, Chief Financial Officer and Company Secretary. Mr Tony Cariss, Managing Director of Access Constructions Pty Ltd is also an executive in relation to Access Constructions Pty Ltd. Mr Simon Lowe resigned from the company on 8 December 2006.

		SHORT TERM			POST EMPLOYMENT	SHARE BASED	TOTAL	S300A(1)(e)(i) PROPORTION OF REMUNERATION PERFORMANCE RELATED %
		SALARY & FEES \$	STI CASH BONUS \$(A)	NON-MONETARY BENEFITS \$	SUPERANNUATION BENEFITS \$	PAYMENT PERFORMANCE RIGHTS (B)		
Directors (Non-Executive)								
ATL Maitland (Chairperson)	2008	58,257	-	4,798	5,243	-	68,298	-
	2007	55,046	-	3,716	4,954	-	63,716	-
BR Kean	2008	42,333	-	-	-	-	42,333	-
	2007	40,000	-	-	-	-	40,000	-
MW Parkinson	2008	38,838	-	-	3,495	-	42,333	-
	2007	36,697	-	-	3,303	-	40,000	-
KH Dening (Appointed 22 June 2007)	2008	38,838	-	-	3,495	-	42,333	-
	2007	-	-	-	-	-	-	-
DCJ Scarf (retired 21 June 2007)	2008	-	-	-	-	-	-	-
	2007	36,697	-	-	**56,103	-	92,800	-
Directors (Executive)								
O Guglielmi, CEO (appointed August 2006)	2008	265,000	70,000	6,359	35,000	60,623	436,982	30%
	2007	219,910	80,000	4,063	29,167	63,467	396,607	36%
AR Davison, CEO (retired 3 Jul 2006)	2008	-	-	-	-	-	-	-
	2007	68,858	-	-	-	-	68,858	-
Executives								
SN Martin, CFO & Company Secretary	2008	171,871	-	-	13,129	41,723	226,723	18%
	2007	155,007	15,000	-	13,896	-	183,903	8%
AS Cariss, Managing Director, Access Constructions	2008	99,676	472,532	14,769	49,999	-	636,976	74%
	2007	101,148	781,766	15,000	54,900	-	952,814	82%
SJR Lowe, General Manager of Development, Folkestone Limited (resigned 8 Dec 2006)	2008	-	-	-	-	-	-	-
	2007	106,863	10,000	7,314	5,931	-	130,108	8%
Total compensation: key management personnel (consolidated)	2008	714,813	542,532	25,926	110,361	102,346	1,495,978	43%
	2007	820,226	886,766	30,093	168,254	63,467	1,968,806	48%
Total compensation: key management personnel (company)	2008	615,137	70,000	11,157	60,362	102,346	859,002	20%
	2007	719,078	105,000	15,093	113,354	63,467	1,015,992	17%

A The Short-term cash incentive bonus is for performance during the relevant financial year using the criteria set out on page 15.

B The accounting standards require that performance rights be valued at fair value on the grant date (in the case of the CEO, this is the date of shareholder approval. In the case of the CFO it is the date upon which formal written notification is provided by the Company). The fair value of performance rights granted under the Executive performance rights Plan is calculated at the date of grant by an independent expert using an appropriate valuation model and allocated to each reporting period evenly over the period from grant date to vesting date. The Board has resolved to adopt the fair value calculation as the cost basis for issuing the Rights and for shares on vesting of any Rights awarded. The value disclosed above is the portion of the fair value of the performance rights allocated to this reporting date. In valuing performance rights, market conditions have been taken into account in both the current and prior periods.

** This amount includes the \$52,800 paid to Mr Scarf as a retirement benefit.

M. Remuneration Report (*continued*)

Performance Rights Issued as part of Remuneration for the year ended 30 June 2008

Details on performance rights over ordinary shares in the Company that were available as compensation to the CEO and other staff during the reporting period are set out in the following table.

The performance rights when allocated are at no cost to the recipients and have a nil exercise price.

EXECUTIVE	TRANCHE	GRANTED DURING 2008	GRANT DATE	VESTED DURING 2008	FAIR VALUE PER RIGHT AT GRANT DATE	EXPIRY DATE
Oscar Guglielmi	5	100,000	11 Oct 2007	–	\$0.709	21 Jul 2010
	6	100,000	11 Oct 2007	–	\$0.50	21 Jul 2010
Scott Martin	3A	62,500	31 Jul 2007	–	\$0.756	21 Jul 2009
	5	62,500	11 Oct 2007	–	\$0.709	21 Jul 2010
	6	62,500	11 Oct 2007	–	\$0.50	21 Jul 2010
Other Staff	3A	225,000	31 Jul 2007	–	\$0.756	21 Jul 2009
	7	450,000	11 Oct 2007	–	\$0.709	21 Jul 2010

In addition to the above the following performance rights were granted in previous years:

EXECUTIVE	TRANCHE	GRANTED DURING 2007	GRANT DATE	VESTED DURING 2007/2008	FAIR VALUE PER RIGHT AT GRANT DATE	EXPIRY DATE
Oscar Guglielmi	1	100,000	25 Oct 2006	–	\$0.53	21 Jul 2012
	2	200,000	25 Oct 2006	–	\$0.53	21 Jul 2012
	3	100,000	25 Oct 2006	–	\$0.53	21 Jul 2009
	4	100,000	25 Oct 2006	–	\$0.42	21 Jul 2009

Summary of Tranches performance criteria:

1. Execute and complete a new corporate acquisition with value between A\$2.0–A\$10.0m
2. Execute and complete a new corporate acquisition with value between A\$10.0–A\$25.0m
- 3.&3A. Earnings per share exceed \$0.12 for the year ended 30 June 2007.
4. TSR ranking that exceeds 50th percentile in S&P/ASX 200 Real Estate Index (excluding Australand and Lendlease) as at 30 June 2007.
5. Earnings per share increases more than 10% above the base of \$0.12 for the financial year ending 30 June 2008.
6. TSR ranking that exceeds 60th percentile in the ASX Real Estate Management and Development listing (excluding Australand and Lend Lease) as of 30 June 2008.
7. Net profit after tax and performance right expense for the Development Division exceeds \$2,107,500 for the financial year ending 30 June 2008.

All performance rights expire on the earlier of their expiry date or termination of the individual's employment and vest two years from the date at which performance of the KPI is achieved.

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The following factors and assumptions were used in determining the fair value of rights on the grant date:

TRANCHE	GRANT DATE	EXPIRY DATE	*FAIR VALUE PER RIGHT	EXERCISE PRICE	PRICE OF SHARES ON GRANT DATE	ESTIMATED VOLATILITY	RISK FREE INTEREST RATE	DIVIDEND YIELD
1	25 Oct 06	21 Jul 2012	\$0.53	\$0	\$0.665	32%	5.97%	8.64%
2	25 Oct 06	21 Jul 2012	\$0.53	\$0	\$0.665	32%	5.97%	8.64%
3	25 Oct 06	21 Jul 2009	\$0.53	\$0	\$0.665	32%	5.97%	8.64%
4	25 Oct 06	21 Jul 2009	\$0.42	\$0	\$0.665	32%	5.97%	8.64%
3A	31 Jul 07	21 Jul 2009	\$0.756	\$0	\$0.87	37%	6.31%	7.21%
5	11 Oct 07	21 Jul 2010	\$0.709	\$0	\$0.865	36%	6.44%	7.25%
6	11 Oct 07	21 Jul 2010	\$0.50	\$0	\$0.865	36%	6.44%	7.25%
7	11 Oct 07	21 Jul 2010	\$0.709	\$0	\$0.865	36%	6.44%	7.25%

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

Each performance right entitles the holder to acquire one ordinary share in the Company. All performance rights are subject to specified performance criteria and a vesting period of two years from the financial year end date in respect of the performance. The performance rights expire on the earlier of their expiry date or termination of the employee's employment.

Analysis of Share-based Payments Granted as Compensation

Details of the vesting profile of options/performance rights granted as compensation to the CEO and other staff are detailed below:

EXECUTIVE	TRANCHE	NUMBER	DATE	STATUS	% VESTED		FINANCIAL YEARS TO WHICH GRANT VESTS	VALUE YET TO VEST	
					IN YEAR	FORFEITED IN YEAR		MIN (A) \$	MAX (B) \$
Oscar Guglielmi	1	100,000	25 Oct 2006	Not achieved in 2007 or 2008	-	-	30 Jun 2013	-	53,000
	2	200,000	25 Oct 2006	Not achieved in 2007 or 2008	-	-	30 Jun 2013	-	106,000
	3	100,000	25 Oct 2006	Achieved	-	-	30 Jun 2010	53,000	53,000
	4	100,000	25 Oct 2006	Achieved	-	-	30 Jun 2010	42,000	42,000
	5	100,000	11 Oct 2007	Part Achieved	-	(48,000)	30 June 2011	66,646	66,646
	6	100,000	11 Oct 2007	Achieved	-	-	30 June 2011	50,000	50,000
Scott Martin	3A	62,500	31 July 2007	Achieved	-	-	30 Jun 2010	47,250	47,250
	5	62,500	11 Oct 2007	Part Achieved	-	(30,000)	30 Jun 2011	41,654	41,654
	6	62,500	11 Oct 2007	Achieved	-	-	30 Jun 2011	31,250	31,250
Other Staff	3A	225,000	31 Jul 2007	Achieved	-	-	30 Jun 2010	170,100	170,100
	7	450,000	11 Oct 2007	Not Achieved	-	(450,000)	-	-	-

A The minimum value of performance rights yet to vest in respect of Tranches 1 & 2 is \$nil as the performance criteria may not be met and consequently the performance rights may not vest. The minimum value in respect of all other Tranches is as stated above as the target has been achieved and reflects the fair value of the performance rights.

B The maximum value of Tranches 1 & 2 performance rights yet to vest is the fair value of those rights as the performance criteria may be achieved in future periods. The maximum value in respect of all other Tranches is as stated above as the target has been achieved reflecting the fair value of the performance rights.

M. Remuneration Report (continued)

Analysis of movements in performance rights and options during the year

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

	OPENING BALANCE	GRANTED IN YEAR (i) (ii)	VESTED IN YEAR (iii)	LAPSED IN YEAR (iv)	CLOSING BALANCE
Directors					
Oscar Guglielmi					
Number of Rights	500,000	200,000	–	(48,000)	652,000
Value of Rights \$	254,000	120,900	–	(34,032)	340,868
Executives					
Scott Martin					
Number of Rights	–	187,500	–	(30,000)	157,500
Value of Rights \$	–	122,813	–	(21,270)	101,543
Other Staff					
Number of Rights	–	675,000	–	(450,000)	225,000
Value of Rights \$	–	489,150	–	(319,050)	170,100
TOTAL					
Number of Rights	500,000	1,062,500	–	(528,000)	1,034,500
Value of Rights	254,000	732,863	–	(374,352)	612,511

(i) The number of performance rights is the maximum number of performance rights approved for issue during the reporting period.

(ii) The value of performance rights granted in year is their fair value at grant date.

(iii) The value of performance rights exercised during the year is calculated as the fair value at grant date of those rights exercised during the period. No performance rights were available for exercise during the year.

(iv) The value of the performance rights that lapsed during the year represents the benefit foregone and is calculated at the date the performance rights lapsed using their fair value on the date lapsed. The Company has assessed that the fair value on the date lapsed is the same as the fair value at grant date.

No options have been issued or are on issue.

N. Meetings of Directors

The number of meetings of the Company's Board of Directors and each Board Committee held during the year ended 30 June 2008, and the number of meetings attended by each Director were as follows:

MEETINGS OF DIRECTORS	FULL MEETING OF DIRECTORS	AUDIT COMMITTEE	REMUNERATION COMMITTEE
Number of meetings held	11	5	1
Number of meetings attended by:			
Alister TL Maitland (Chairman)	11	5	1
Bruce R Kean	9	5	1
Michael W Parkinson	11	5	1
Oscar Guglielmi (Managing Director)	11	*	*
Kaye H Denning	10	3	1

* not a member of the relevant committee

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O. Indemnification of Officers and Auditors

During the financial year ended 30 June 2008, Folkestone Limited paid a premium of \$16,650 plus GST (2007 – \$13,320) to insure each of the Directors and executives of the Company and related bodies corporate. The liabilities insured include legal costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the economic entity. The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify the auditor of the company or of any related body corporate against a liability incurred as the auditor.

P. Proceedings on Behalf of the Company

Access Constructions Pty Ltd filed proceedings with the Federal Court on 27 June 2008 against Winston Properties Pty Ltd, AJB Group Pty Ltd, Qanstruct (Aust) Pty Ltd and Gallagher Jeffs Pty Ltd. The proceedings relate to an alleged copyright infringement.

Q. Non-Audit Services

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

Details of the amounts paid to the auditor Deloitte Touche Tohmatsu for audit and non-audit services provided during the year are set out in Note 7 to the financial statements on page 46.

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

R. Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30 June 2008 has been received and is found on page 26 of the Annual Report.

S. Rounding of Amounts to Nearest Thousand Dollars

The Company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities & Investments Commission, relating to "rounding off" of amounts in the Directors' Report. Amounts, in accordance with that Class Order, in the financial report and Directors' Report have been rounded off to the nearest thousand dollars or in certain cases to the nearest dollar.

This report is made in accordance with a resolution of the Directors.



Alister T L Maitland
Chairman

Melbourne
21 August 2008



Oscar Guglielmi
Director

CORPORATE GOVERNANCE STATEMENT

Folkestone Limited (the Company) and the Board are committed to achieving and demonstrating high standards of corporate governance. The Australian Securities Exchange Corporate Governance Council has recently released a second edition of the Corporate Governance Principles and Recommendations (ASX Principles) and the Company measures its corporate governance accordingly.

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

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

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the Managing Director & Chief Executive Officer (CEO) and the Company Secretary. These delegations are reviewed on a regular basis.

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

Lay Solid Foundations for Management and Oversight:

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

The Board delegates the executive management of the Company to the CEO with regular reporting to the Board and operating within approved budgets. Some matters are delegated jointly to the Chairman and the Managing Director to act on between Board meetings.

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

BOARD CHARTER

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

The Company Secretary reports directly to the Board. Between meetings the Company Secretary is required to keep the Chairman fully informed. The application of the company seal requires the signature of the Company Secretary and a director or two directors together. The Board reviews and ratifies the use of the Company seal at its next meeting.

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

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

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

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

Structure the Board to Add Value:

The Board consists of the Chairman of the Company and other Non-Executive Directors together with the Chief Executive Officer of the company. The Board reviews the independence and skills of all Non-Executive Directors on a regular basis and makes a statement in the Annual Report in relation to these matters. Details of the Directors' backgrounds and experience are summarised in the Directors' Report in the Company's Annual Report and can also be found on the Company's website.

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

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

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

Directors have the right to obtain independent advice, at the Company's expense, on any matters that they consider important. Before exercising this right they are required to discuss the issue with the Chairman and seek his consent which will not be unreasonably withheld.

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

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

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

Promote Ethical and Responsible Decision Making:

The Company requires high ethical standards and integrity in all its dealings. In particular Directors and management are expected to actively and fully comply with all Laws and Regulations. Fair dealing with the Company's suppliers, advisors, customers, employees and competitors is expected at all levels of the Group.

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

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

Directors and management are made aware of their obligation to comply with the Law in regard to trading in the Company's shares so as not to take advantage of property, information or position, or opportunities from these, for personal gain or to compete with the Company.

SHARE TRADING POLICY

Directors and senior management are prohibited from dealing in the Company's shares:

- 45 days prior to the release of the Company's half-year and annual results to the ASX (except where a prospectus has been issued).
- At any time whilst in possession of price sensitive information.

All trades must be advised to the Chairman before dealing and confirmed afterwards (except for dividend reinvestment plans and new issues).

Safeguard Integrity in Financial Reporting:

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

The Board has established an Audit and Risk Management Committee which, in view of the small size of the Board, comprises all the independent, Non-Executive Directors. The Chair of the committee is required to be a different person to the Chair of the Company. The members of the Audit and Risk Management Committee are appropriately experienced and qualified. Details of the members of the Audit and Risk Management Committee and meetings held during the year are disclosed in the Directors' Report.

AUDIT AND RISK MANAGEMENT COMMITTEE CHARTER

The responsibilities of the Audit and Risk Management Committee include:

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

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

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

Make Timely and Balanced Disclosure:

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

In order to ensure that all market participants are equally and fully informed there are embargos on all media and analysts contacts in the period 30 days prior to the release of half-yearly and annual financial reports.

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

Respect the Rights of Shareholders:

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

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

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

Recognise and Manage Risk:

The Board identifies and establishes processes to manage the significant operating, financial and regulatory risks through the formal adoption of a medium term Strategic Plan (3 to 5 years), annual business plans and budgets. The principal risk of the Company is project development risk for the development division which is assessed on a comprehensive basis before commencement and regularly thereafter. Deviations from the planned outcomes together with forecasts of profitability and cash flows are reviewed monthly at Board meetings. Design and construction risk is managed by ensuring that adequately trained professional persons are engaged throughout the delivery process which is monitored regularly.

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

The Company has a Risk Management Sub-Committee within the Audit and Risk Management Committee. The Risk Management Committee, in conjunction with management, has formulated a Risk Management Plan. The Risk Management Plan formalises the current culture and processes of the Company which is focused on the identification and management of risk through regular Board reporting and exception reporting in between.

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

Remunerate Fairly and Responsibly:

REMUNERATION COMMITTEE CHARTER

The functions and responsibilities include:

- Reviewing the performance of the CEO and senior executives.
- Reviewing and recommending to the Board the remuneration packages of the CEO and senior executives.
- Recommending the Company's remuneration policy.
- Reviewing and recommending Non-Executive Directors' fees.

The Board has established a Remuneration Committee which, in view of the small size of the Board, consists of all Non-Executive Directors. The Company Chairman is the Committee Chair. Details of the members of the Remuneration Committee and of meetings held are included in the Directors' Report. Executive remuneration and other terms of employment are reviewed annually having regard to performance goals set at the start of the year, relevant comparative information and independent advice.

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

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

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

The Board has the power to approve loans to executives at commercial rates if the need arises. Any such loans would be fully disclosed in the remuneration report contained in the Directors' Report and the financial statements of the company.

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

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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The Board of Directors
Folkestone Limited
Level 24/360 Collins Street
Melbourne VIC 3000

21 August 2008

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 2008, 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



Robert D D Collie
Partner
Chartered Accountant

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Independent Auditor's Report to the Members of Folkestone Limited

Report on the Financial Report

We have audited the accompanying financial report of Folkestone Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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 29-65.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

Deloitte.

Page 2

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*.

Auditor's 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 company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 12-20 of the directors' report for the year ended 30 June 2008. 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.

Auditor's Opinion

In our opinion the Remuneration Report of Folkestone Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Robert D D Collie

Robert D D Collie
Partner
Chartered Accountants
Melbourne, 21 August 2008

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FINANCIAL REPORT

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

Folkestone Limited is a company limited by shares incorporated and domiciled in Australia. Its registered office and principal place of business is:

Folkestone Limited
Level 24
360 Collins Street
Melbourne Vic 3000

A description of the nature of the economic entity's operations and its principal activities is included in the review of operations on page 7 and within the Directors' Report on pages 10 to 21.

INCOME STATEMENT
For the year ended 30 June 2008

	NOTE	ECONOMIC ENTITY		PARENT ENTITY	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
Revenue	2	43,656	81,035	7,567	3,944
Development expenses		(1,173)	(26,128)	-	-
Construction expenses		(30,893)	(41,978)	-	-
Employee benefits expense	4	(4,702)	(4,764)	(1,870)	(1,441)
Depreciation and amortisation expense		(88)	(82)	(24)	(24)
Consultants' expenses		(174)	(197)	(38)	(175)
Rental expense on operating leases		(269)	(260)	(155)	(151)
Other expenses		(1,147)	(964)	(746)	(697)
Finance costs	3	(85)	(7)	(1)	(3)
Share of net profits of associates and joint ventures	14	3	1	-	-
Profit before income tax	4	5,128	6,656	4,733	1,453
Income tax expense/(benefit)	5	(1,667)	(2,066)	(584)	88
Profit from continuing operations		3,461	4,590	4,149	1,541
Profit for the year		3,461	4,590	4,149	1,541
Profit attributable to minority equity interest		(333)	(285)	-	-
Profit attributable to members of the parent entity		3,128	4,305	4,149	1,541
Overall Operations					
Basic earnings per share (cents per share)	9	10.1	14.2		
Diluted earnings per share (cents per share)	9	10.0	13.5		
Ordinary Dividends per share (cents)		6.5	6.5		
Special Dividends per share (cents)		-	1.5		

The income statement is to be read in conjunction with the notes of the financial statements set out on pages 34 to 65.

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BALANCE SHEET
For the year ended 30 June 2008

	NOTE	ECONOMIC ENTITY		PARENT ENTITY	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	10	4,756	12,466	1,045	3,406
Trade and other receivables	11	2,258	20,092	22,903	18,166
Inventories	12	32,081	14,089	-	-
Other current assets	13	309	19	135	16
TOTAL CURRENT ASSETS		39,404	46,666	24,083	21,588
NON-CURRENT ASSETS					
Financial assets	16	-	-	5,614	4,980
Shares in associated entities	14	1,716	1,079	-	-
Property, plant and equipment	18	233	236	55	59
Deferred tax assets	22b	105	205	54	46
Goodwill	19	2,120	2,120	-	-
TOTAL NON-CURRENT ASSETS		4,174	3,640	5,723	5,085
TOTAL ASSETS		43,578	50,306	29,806	26,673
CURRENT LIABILITIES					
Trade and other payables	20	3,215	20,828	275	569
Short-term borrowings	21	10,724	2,957	5,022	4,776
Current tax liabilities	22a	2,473	946	1,779	920
Short-term provisions	23	590	570	62	53
TOTAL CURRENT LIABILITIES		17,002	25,301	7,138	6,318
NON-CURRENT LIABILITIES					
Long-term borrowings	21	-	12	-	-
Other Long-term provisions	23	40	82	-	-
TOTAL NON-CURRENT LIABILITIES		40	94	-	-
TOTAL LIABILITIES		17,042	25,395	7,138	6,318
NET ASSETS		26,536	24,911	22,668	20,355
EQUITY					
Issued capital	24	19,115	18,505	19,115	18,505
Reserves	25	219	63	219	63
Retained earnings		6,584	6,058	3,334	1,787
Parent interest		25,918	24,626	22,668	20,355
Minority equity interest		618	285	-	-
TOTAL EQUITY		26,536	24,911	22,668	20,355

The balance sheet is to be read in conjunction with the notes of the financial statements set out on pages 34 to 65.

STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2008

	NOTE	ISSUED CAPITAL	RETAINED EARNINGS	RESERVES	ATTRIBUTABLE TO HOLDERS OF THE PARENT	MINORITY INTEREST	TOTAL
Economic Entity		\$000	\$000	\$000	\$000	\$000	\$000
Balance at 1 July 2006		18,235	3,562	–	21,797	–	21,797
Profit for the year		–	4,305	–	4,305	285	4,590
Total recognised income and expense		–	4,305	–	4,305	285	4,590
Issue of share capital	24	270	–	–	270	–	270
Issue of performance rights	25	–	–	63	63	–	63
Dividends paid	8	–	(1,809)	–	(1,809)	–	(1,809)
Balance at 30 June 2007		18,505	6,058	63	24,626	285	24,911
Profit for the year		–	3,128	–	3,128	333	3,461
Total recognised income and expense		–	3,128	–	3,128	333	3,461
Issue of share capital	24	610	–	–	610	–	610
Issue of performance rights	25	–	–	156	156	–	156
Dividends paid	8	–	(2,602)	–	(2,602)	–	(2,602)
Balance at 30 June 2008		19,115	6,584	219	25,918	618	26,536

	NOTE	ISSUED CAPITAL	RETAINED EARNINGS	RESERVES	ATTRIBUTABLE TO HOLDERS OF THE PARENT	MINORITY INTEREST	TOTAL
Parent Entity		\$000	\$000	\$000	\$000	\$000	\$000
Balance at 1 July 2006		18,235	2,055	–	20,290	–	20,290
Profit for the year		–	1,541	–	1,541	–	1,541
Total recognised income and expense		–	1,541	–	1,541	–	1,541
Issue of share capital	24	270	–	–	270	–	270
Issue of performance rights	25	–	–	63	63	–	63
Dividends paid	8	–	(1,809)	–	(1,809)	–	(1,809)
Balance at 30 June 2007		18,505	1,787	63	20,355	–	20,355
Profit for the year		–	4,149	–	4,149	–	4,149
Total recognised income and expense		–	4,149	–	4,149	–	4,149
Issue of share capital	24	610	–	–	610	–	610
Issue of performance rights	25	–	–	156	156	–	156
Dividends paid	8	–	(2,602)	–	(2,602)	–	(2,602)
Balance at 30 June 2008		19,115	3,334	219	22,668	–	22,668

The statement of changes in equity is to be read in conjunction with the notes of the financial statements set out on pages 34 to 65.

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CASH FLOW STATEMENT
For the year ended 30 June 2008

	NOTE	ECONOMIC ENTITY		PARENT ENTITY	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		60,731	69,384	4,271	1,457
Payments to suppliers and employees		(74,113)	(58,716)	(3,056)	(2,527)
Dividends received		-	-	2,952	1,960
Interest received		758	655	380	419
Finance costs	3	(85)	(7)	(1)	(3)
Income tax paid		(40)	(1,289)	268	869
Net cash provided by/(used in) operating activities	29	(12,749)	10,027	4,814	2,175
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		41	1	-	1
Purchase of property, plant and equipment		(125)	(99)	(20)	(18)
Payment for investment in associate		(634)	(1,080)	(634)	(1,080)
Net cash used in investing activities		(718)	(1,178)	(654)	(1,097)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		8,467	2,250	-	-
Repayment of borrowings		(18)	(4,306)	-	-
Repayment of loans by controlled entities		-	-	6,936	732
Repayment of loans by associated entities		-	694	683	2,216
Loans to controlled entities		-	-	(10,729)	-
Repayment of loans from associated entities		(700)	-	(1,419)	-
Proceeds from the issue of shares		610	270	610	270
Dividends paid by parent entity	8	(2,602)	(1,809)	(2,602)	(1,809)
Net cash provided by/(used in) financing activities		5,757	(2,901)	(6,521)	1,409
Net increase/(decrease) in cash and cash equivalents		(7,710)	5,948	(2,361)	2,487
Cash and cash equivalents at beginning of financial year		12,466	6,518	3,406	919
Cash and cash equivalents at end of financial year	10	4,756	12,466	1,045	3,406

The cashflow statement is to be read in conjunction with the notes of the financial statements set out on pages 34 to 65.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

The financial statements were approved by the Board on 21 August 2008 and were authorised for issue.

Basis of Preparation

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

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

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

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

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The Group has also adopted the following Standards as listed below which only impacted on the Groups financial statements with respect to disclosure:

- AASB 101 'Presentation of Financial Statements (revised October 2006)
- AASB 7 'Financial Instruments: Disclosures'

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

Initial application of the following Standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the Group and the Company's financial report:

STANDARDS	EFFECTIVE FOR ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER	EXPECTED TO BE INITIALLY APPLIED IN THE FINANCIAL YEAR ENDING
• AASB 101 'Presentation of Financial Statements' (revised September 2007), AASB 2007-8 'Amendments to Australian Accounting Standards arising from AASB 101'	1 January 2009	30 June 2010
• AASB 8 'Operating Segments', AASB 2007-3 'Amendments to Australian Accounting Standards arising from AASB 8'	1 January 2009	30 June 2010

Initial application of the following Standards and Interpretations is not expected to have any material impact on the financial report of the Group and the Company:

STANDARD/INTERPRETATION	EFFECTIVE FOR ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER	EXPECTED TO BE INITIALLY APPLIED IN THE FINANCIAL YEAR ENDING
• AASB 123 'Borrowing Costs' (revised), AASB 2007-6 'Amendments to Australian Accounting Standards arising from AASB 123'	1 January 2009	30 June 2010
• AASB 3 'Business Combinations' (2008), AASB 127 'Consolidated and Separate Financial Statements' and AASB 2008-3 'Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127'	AASB 3 (business combinations occurring after the beginning of annual reporting periods beginning 1 July 2009), AASB 127 and AASB 2008-3 (1 July 2009)	30 June 2010
• AASB 2008-1 'Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations'	1 January 2009	30 June 2010
• AASB 2008-2 'Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation'	1 January 2009	30 June 2010
• AASB Interpretation 12 'Service Concession Arrangements', AASB Interpretation 4 'Determining whether an Arrangement contains a Lease' (revised), AASB Interpretation 129 'Service Concession Arrangements: Disclosure' (revised), AASB 2007-2 'Amendments to Australian Accounting Standards arising from AASB Interpretation 12'	1 January 2008	30 June 2009
• AASB Interpretation 13 'Customer Loyalty Programmes'	1 July 2008	30 June 2009
• AASB Interpretation 14 'AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'	1 January 2008	30 June 2009

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The initial application of the expected issue of an Australian equivalent accounting standard to the following standard is not expected to have a material impact on the financial report of the Group and the Company:

STANDARD/INTERPRETATION	EFFECTIVE FOR ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER	EXPECTED TO BE INITIALLY APPLIED IN THE FINANCIAL YEAR ENDING
• Improvements to IFRSs (2008)	1 January 2009	30 June 2010
• Amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards' and IAS 27 'Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate'	1 January 2009	30 June 2010
• IFRIC 15 'Agreements for the Construction of Real Estate'	1 January 2009	30 June 2010
• IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'	1 October 2008	30 June 2010

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

Accounting Policies

a) Principles of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the company (its subsidiaries) (referred to as "the Group" in these financial statements). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the Group. A list of subsidiaries appears in Note 17 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The consolidated financial statements include the information and results of each subsidiary from the date on which the Group obtains control and until such time as the Group ceases to control such entity.

In preparing the consolidated financial statements, all inter-company balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

b) Investments in Associates

An associate is an entity over which the Group has significant influence, but not control, over the financial and operating policies. Investments in associate companies are recognised in the consolidated financial statements by applying the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

Investments in associates are recognised at cost in the separate financial statements of the Company.

c) Jointly Controlled Operations and Assets

The interest of the Group in unincorporated jointly controlled operations and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls, the liabilities that it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or services by the jointly controlled operations.

d) Goods and Services Tax (GST)

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

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

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e) Revenue

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

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

1. Land Sub-division

Revenue is recognised where there is a signed unconditional contract.

2. Project Development

Where construction of a property is not substantially complete at balance 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.

3. Construction

Construction revenue is recognised on the percentage of completion basis taking into account the terms of the contract adjusted for any variations or claims allowable under the contract.

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

f) Income Tax

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

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly

to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

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

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

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Cash and Cash Equivalents

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

h) Financial Instruments

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

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

i) Inventories

i) *Developments in Progress/Capitalisation of Finance Costs*

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/Capitalisation of Finance Costs*

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

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

j) Construction Contracts and Work in Progress

Where the outcome of a construction contract can be estimated reliably, construction work in progress is valued at cost, plus profit recognised to date less any provision for

anticipated future losses. Cost includes both variable and fixed costs relating to specific contracts, and those costs that are attributable to the contract activity in general and that can be allocated on a reasonable basis.

Construction profits are recognised on the stage of completion basis and measured using the proportion of costs incurred to date as compared to expected actual costs. Where losses are anticipated they are provided for in full.

Construction revenue is recognised on the basis of the terms of the contract adjusted for any variations or claims allowable under the contract.

k) 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.

l) Depreciation on Plant and Equipment

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

m) 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.

n) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset are the Company's are classified as finance leases. All other leases are classified as operating leases.

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Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over their estimated useful lives.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses on a straight line basis.

o) Intangibles

Goodwill is initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Impairment testing is performed at least annually or wherever there is an indication of impairment for goodwill and intangible assets with indefinite lives.

p) Impairment of Assets

i) Non financial assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

ii) Financial assets

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

q) 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, are recognised and included in sundry payables and accrued expenses and costs when the employee benefits to which they relate are recognised as liabilities.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

vi) *Performance Rights*

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

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

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

r) *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.

ii) *Contract losses*

When it is probable that total contract cost will exceed total contract revenue, a provision for the expected loss is recognised immediately.

s) *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.

t) *Comparative Figures*

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

u) *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.

v) *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) *Impairment of goodwill*

Goodwill relates to the acquisition of Access Constructions Pty Ltd. Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating unit (Access Constructions Pty Ltd). The carrying amount of goodwill at balance sheet date was \$2.120 million (2007: \$2.120 million). Details of the estimation of value in use are included in Note 19. No impairment loss has been recognised to date.

ii) *Inventories*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2008

NOTE 2: REVENUE	NOTE	ECONOMIC ENTITY		PARENT ENTITY	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
Revenue from continuing operations consisting of the following items:					
-		6,956	31,623	4,225	1,502
-		35,942	48,757		-
-	2a	-	-	2,952	1,960
-	2b	758	655	380	419
		-	-	-	1
-		-	-	10	62
Total Revenue		43,656	81,035	7,567	3,944
a. Dividend revenue from:					
-		-	-	2,952	1,960
Total dividend revenue		-	-	2,952	1,960
b. Interest revenue from:					
-		758	655	380	419
Total interest revenue		758	655	380	419
NOTE 3: FINANCE COSTS					
Finance costs consist of the following items:					
-		592	2	-	-
-		4	5	1	3
-		3	2	-	-
-		78	-	-	-
Total Finance Costs		677	9	1	3
Less:					
Interest capitalised to property developments included in inventory		(592)	(2)	-	-
		85	7	1	3
The weighted average capitalisation rate (excluding margins) on funds borrowed at balance date is 8.01% (2007: 6.39%)					

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2008

NOTE 4: PROFIT FOR THE YEAR	NOTE	ECONOMIC ENTITY		PARENT ENTITY	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
a. Expenses					
Development expenses		1,173	26,128	-	-
Construction expenses		30,893	41,978	-	-
Finance costs (external)		85	7	1	3
Depreciation – plant & equipment		88	82	24	24
Provisions					
– Employee entitlements		99	29	30	(33)
Rental expense on operating leases					
– minimum lease payments		269	260	155	151
b. Employee benefits expense					
Post employment benefits					
– Contribution plans		220	183	92	84
Equity settled share based payments		156	63	156	63
Other		4,326	4,518	1,622	1,294
		4,702	4,764	1,870	1,441

NOTE 5: INCOME TAX EXPENSE

a. The components of tax expense comprise:

Current tax expense/(income)	1,767	2,073	576	(47)
Deferred tax (benefit)/expense	(100)	(5)	8	(35)
Overprovision of income tax in respect of prior year	-	(2)	-	(6)
	1,667	2,066	584	(88)

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:

Profits from operations	5,128	6,656	4,733	1,453
Income tax calculated at 30%	1,539	1,997	1,420	436
Add:				
– Entertainment	4	3	3	2
– Other assessable income	77	-	-	-
– Other non-allowable expenses	47	68	47	66
	128	71	50	68
Less:				
– Other non-assessable income	-	-	886	586
Sub Total	1,667	2,068	584	(82)
Overprovision of income tax in respect of prior year	-	(2)	-	(6)
Income tax attributable to entity	1,667	2,066	584	(88)

NOTE 6: KEY MANAGEMENT PERSONNEL COMPENSATION

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

KEY MANAGEMENT PERSON	POSITION
ATL Maitland	Chairman
BR Kean	Non-executive director
MW Parkinson	Non-executive director
KH Dening	Non-executive director (appointed 22 June 2007)
DCJ Scarf	Non-executive director (retired 21 June 2007)
O Guglielmi	Managing Director (appointed 28 August 2006)
SN Martin	CFO & Company Secretary
AS Cariss	Managing Director, Access Constructions Pty Ltd
SJR Lowe	General Manager Development Folkestone Limited (resigned 8 December 2006)
AR Davison	Managing Director (retired 3 July 2006)

Information regarding individual Directors and executives compensation is provided below:

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

	ECONOMIC ENTITY		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
Short-term employee benefits	1,283,271	1,737,085	686,294	839,171
Post-employment benefits	110,361	168,254	70,362	113,354
Share-based payment	102,346	63,467	102,346	63,467
	1,495,978	1,968,806	859,002	1,015,992

Long Term Incentives – Performance Rights

In October 2006 the Company revised the Executive Bonus Scheme (the Plan) to provide additional incentives for executives to reach targets set by the Board. The Plan provides for the CEO and executives to receive grants for performance rights over ordinary shares. A performance right is a conditional right to be granted ordinary shares in the capital of the Company for nil consideration and at a zero exercise price after a prescribed vesting period determined by the Board and approved by shareholders. The performance rights are exercisable subject to the satisfaction of set performance criteria. The satisfaction or otherwise of targets will generally be determined by the Board following receipt of the audited accounts of the Company for the financial year to which the target related. The Board reserves the right to issue a lesser number of performance rights if the senior executive fails to achieve any stated target by a small margin for acceptable reasons. In the event that the Board determines that a target is satisfied, the vesting period will commence with effect from 30 June in the financial year to which the target related and the performance right vests on the 10th business day following the 2 year vesting period which commences at the end of the financial year to which the target related. The performance rights may then be exercised by the executive within 5 business days of the vesting date by notice in writing to the Company. In the event that a performance right is not exercised within this period, it will lapse. It is a condition that the employee must remain a full time employee until the time that the performance right vests.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2008

NOTE 6: KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

Compensation/Performance Rights

The following performance rights that were available as remuneration to Key Management Personnel during the financial year are detailed below. There are no options outstanding over ordinary shares outstanding.

DIRECTOR	TRANCHE	NUMBER	DATE	STATUS	% VESTED		FINANCIAL YEARS TO WHICH GRANT VESTS	VALUE YET TO VEST	
					IN YEAR	FORFEITED IN YEAR		MIN (A) \$	MAX (B) \$
Oscar Guglielmi	1	100,000	25 Oct 2006	Not achieved in 2007	-	-	30 Jun 2013	-	53,000
	2	200,000	25 Oct 2006	Not achieved in 2007	-	-	30 Jun 2013	-	106,000
	3	100,000	25 Oct 2006	Achieved	-	-	30 Jun 2010	53,000	53,000
	4	100,000	25 Oct 2006	Achieved	-	-	30 Jun 2010	42,000	42,000
	5	100,000	11 Oct 2007	Part Achieved	-	(48,000)	30 June 2011	36,868	36,868
	6	100,000	11 Oct 2007	Achieved	-	-	30 June 2011	50,000	50,000
		700,000				(48,000)		181,868	340,868
Scott Martin	3A	62,500	31 July 2007			-	30 Jun 2010	47,250	47,250
	5	62,500	11 Oct 2007			(30,000)	30 Jun 2011	23,043	23,043
	6	62,500	11 Oct 2007			-	30 Jun 2011	31,250	31,250
			187,500				(30,000)		101,543

A The minimum value of performance rights yet to vest in respect of Tranches 1 & 2 is \$nil as the performance criteria may not be met and consequently the performance rights may not vest. The minimum value in respect of other Tranches is as stated above as the target has been achieved and reflects the fair value of the performance rights.

B The maximum value of Tranches 1 & 2 performance rights yet to vest is the fair value of those rights as the performance criteria may be achieved in future periods. The maximum value in respect of other Tranches is as stated above as the target has been achieved reflects the fair value of the performance rights.

Summary of Tranches performance criteria:

1. Execute and complete a new corporate acquisition with value between A\$2.0–A\$10.0m
2. Execute and complete a new corporate acquisition with value between A\$10.0–A\$25.0m
- 3&3A. Earnings per share exceed \$0.12 for the year ended 30 June 2007
4. TSR ranking that exceeds 50th percentile in S&P/ASX 200 Real Estate Index (excluding Australand and Lendlease) as at 30 June 2007
5. Earnings per share increases more than 10% above the base of \$0.12 for the financial year ending 30 June 2008.
6. TSR ranking that exceeds 60th percental in the ASX Real Estate Management and Development listing (excluding Australand and Lend Lease) as of 30th June 2008

No other key management personnel were granted performance rights during the period

Each performance right entitles the holder to acquire one ordinary share in the company. All performance rights are subject to specified performance criteria and a vesting period of two years from the financial year end date in respect of the performance. The performance rights expire on the earlier of their expiry date or termination of the employee's employment.

Where a benchmark pertaining to a performance right is not achieved by a small margin, the Board, in its sole discretion, is permitted to issue a lesser number of performance rights to the employee. The Board has resolved to issue a lesser number of performance rights in respect of the performance rights detailed in the table above that are identified as having been "part achieved".

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The following factors and assumptions were used in determining the fair value of rights on the grant date:

TRANCHE	GRANT DATE	EXPIRY DATE	FAIR VALUE PER RIGHT	EXERCISE PRICE	PRICE OF SHARES ON GRANT DATE	ESTIMATED VOLATILITY	RISK FREE INTEREST RATE	DIVIDEND YIELD
1	25 Oct 06	21 Jul 2012	\$0.53	\$0	\$0.665	32%	5.97%	8.64%
2	25 Oct 06	21 Jul 2012	\$0.53	\$0	\$0.665	32%	5.97%	8.64%
3	25 Oct 06	21 Jul 2009	\$0.53	\$0	\$0.665	32%	5.97%	8.64%
4	25 Oct 06	21 Jul 2009	\$0.42	\$0	\$0.665	32%	5.97%	8.64%
3A	31 Jul 07	21 Jul 2009	\$0.756	\$0	\$0.87	37%	6.31%	7.21%
5	11 Oct 07	21 Jul 2010	\$0.709	\$0	\$0.865	36%	6.44%	7.25%
6	11 Oct 07	21 Jul 2010	\$0.50	\$0	\$0.865	36%	6.44%	7.25%

Analysis of movements in performance rights

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

	OPENING BALANCE	AWARDED IN YEAR (i) (ii)	EXERCISED IN YEAR (iii)	LAPSED IN YEAR (iv)	CLOSING BALANCE
Directors					
Oscar Guglielmi					
Number of Rights	500,000	200,000	–	(48,000)	652,000
Value of Rights \$	254,000	120,900	–	(34,032)	340,868
Executives					
Scott Martin					
Number of Rights	–	187,500	–	(30,000)	157,500
Value of Rights \$	–	122,813	–	(21,270)	101,543
Total					
Number of Rights	500,000	387,500	–	(78,000)	809,500
Value of Rights \$	254,000	243,713	–	(55,302)	442,411

(i) The number of performance rights is the maximum number of performance rights approved for issue during the reporting period.

(ii) The value of performance rights granted in year is their fair value at grant date.

(iii) The value of performance rights exercised during the year is calculated as the fair value at grant date of those rights exercised during the period. No performance rights were available for exercise during the year.

(iv) The value of the performance rights that lapsed during the year represents the benefit foregone and is calculated at the date the performance rights lapsed using their fair value on the date lapsed. The Company has assessed that the fair value on the date lapsed is the same as the fair value at grant date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2008

NOTE 6: KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

Number of Shares held by Key Management Personnel

2008	BALANCE 1.7.2007	RECEIVED AS COMPENSATION	PERFORMANCE		BALANCE 30.6.2008
			RIGHTS EXERCISED	NET CHANGE OTHER*	
ATL Maitland	323,860	-	-	-	323,860
BR Kean	17,143	-	-	-	17,143
MW Parkinson	17,085	-	-	1,828	18,913
KH Dening	-	-	-	34,238	34,238
O Guglielmi	292,195	-	-	134,397	426,592
SN Martin	11,850	-	-	93,025	104,875
AS Cariss	-	-	-	-	-
Total	662,133	-	-	263,488	925,621

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

2007	BALANCE 1.7.2007	RECEIVED AS COMPENSATION	PERFORMANCE		BALANCE 30.6.2007
			RIGHTS EXERCISED	NET CHANGE OTHER*	
ATL Maitland	323,860	-	-	-	323,860
BR Kean	17,143	-	-	-	17,143
DCJ Scarf	322,870	-	-	-	322,870
MW Parkinson	15,707	-	-	1,378	17,085
KH Dening (appointed 22 June 2007)	-	-	-	-	-
O Guglielmi (appointed 28 Aug 2006)	-	-	-	292,195	292,195
SN Martin	-	-	-	11,850	11,850
SJR Lowe (resigned 8 Dec 2006)	-	-	-	-	-
AS Cariss	-	-	-	-	-
AR Davison (retired 3 July 2006)	1,384,031	-	-	(1,333,113)	50,918
Total	2,063,611	-	-	(1,027,690)	1,035,921

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

NOTE 7: AUDITORS' REMUNERATION	ECONOMIC ENTITY		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
Remuneration of the auditor of the parent entity for:				
- auditing or reviewing the financial report	78,800	65,925	74,450	65,175
- taxation services	21,290	25,750	11,450	21,750

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NOTE 8: DIVIDENDS	ECONOMIC ENTITY/ PARENT ENTITY	
	2008 \$000	2007 \$000
Recognised amounts		
Dividends paid		
Interim fully franked ordinary dividend of 3 (2007: 2.5) cents per share franked at the tax rate of 30% (2007: 30%) paid on 11 March 2008 (2007: 3 April 2007)	929	758
Final dividend for the year ended 30 June 2007 of 4 (2007: 3.5) cents per share paid on 2 October 2007 (2007: 23 October 2006)	1,217	1,051
Special dividend of 1.5 (2007: -) cents per share franked at the tax rate of 30% (2006: 30%) paid on 2 October 2007	456	-
	2,602	1,809
Dividends Proposed but not recognised as a liability		
Proposed final fully franked ordinary dividend of 3.5 (2007: 4) cents per share franked at the tax rate of 30% (2007: 30%)	1,091	1,217
Proposed special dividend of Nil (2007: 1.5) cents per share franked at the tax rate of 30% (2006: 30%)	-	456
	1,091	1,673
Franking Account		
Balance of franking account at year end	8,549	9,844
Adjusted for franking credits arising from:		
- payment of provision for income tax	1,779	920
Payment of proposed dividend detailed above	(468)	(717)
	9,860	10,047
NOTE 9: EARNINGS PER SHARE	ECONOMIC ENTITY	
	2008 \$000	2007 \$000
Earnings per share		
Basic EPS	10.1	14.2
Dilutive EPS	10.0	13.5
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:		
Profit attributable to members of the parent entity	3,128	4,305
Earnings used in the calculation of basic EPS	3,128	4,305
	2008 No.	2007 No.
Weighted average number of ordinary shares for the purposes of basic earnings per share	30,887,941	30,244,727

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2008

NOTE 9: EARNINGS PER SHARE (CONTINUED)

Diluted earnings per share

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

	2008	2007
	\$000	\$000
Profit attributable to members of the parent entity	3,128	4,305
Earnings used in the calculation of diluted EPS	3,128	4,305
	2008	2007
	No.	No.
Weighted average number of ordinary shares used in the calculation of basic EPS	30,887,941	30,244,727
Shares deemed to be issued for no consideration in respect of:		
Employee performance rights	440,638	339,726
Weighted average number of ordinary shares used in the calculation of diluted EPS	31,328,579	30,584,453

NOTE 10: CASH AND CASH EQUIVALENTS	NOTE	ECONOMIC ENTITY		PARENT ENTITY	
		2008	2007	2008	2007
		\$000	\$000	\$000	\$000
Cash at bank and in hand		4,746	5,705	1,045	362
Deposits at call		10	6,761	-	3,044
		4,756	12,466	1,045	3,406

Reconciliation of cash

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

Cash and cash equivalents	4,756	12,466	1,045	3,406
	4,756	12,466	1,045	3,406

NOTE 11: TRADE AND OTHER RECEIVABLES

CURRENT

Trade receivables		452	19,505	441	485
Amounts due from customers for construction contracts	11a	1,782	584	-	-
Other receivables		19	3	9	1
Amounts receivable from:					
– wholly-owned subsidiaries	31	-	-	22,448	17,680
– associated companies	31	5	-	5	-
		2,258	20,092	22,903	18,166

a. Construction Contracts

Contract costs incurred		30,893	41,978	-	-
Recognised profits		5,047	6,691	-	-
		35,940	48,669	-	-
Progress billings		(34,158)	(48,085)	-	-
Amounts due from customers for contract work		1,782	584	-	-
Retentions on construction contracts in progress		13	298	-	-
Progress billings and advances received and receivable on construction contracts in progress		34,158	48,085	-	-

Trade Receivables	2008	2007	2008	2007
Ageing of past due but not impaired	\$000	\$000	\$000	\$000
Not past due	440	19,481	429	461
Past due 0–30 days	-	-	-	-
Past due 31–60 days	-	-	-	-
Past due 61–90 days	12	-	12	-
Past due 91–120 days	-	-	-	-
Past 120 days	-	24	-	24
	452	19,505	441	485

As at 30 June 2008, 97% of the trade receivables balance (2007: 53%) represents project management fees, payable in accordance with development agreements. Due to this arrangement, credit risk is considered minimal.

No allowance has been made for trade receivables past due as this balance has been recovered in full subsequent to year end.

Amounts due from customers for construction contracts	2008	2007	2008	2007
Ageing of past due but not impaired	\$000	\$000	\$000	\$000
Not past due	1,624	576	-	-
Past due 0–30 days	-	-	-	-
Past due 31–60 days	-	2	-	-
Past due 61–90 days	31	-	-	-
Past due 91–120 days	-	6	-	-
Past 120 days	127	-	-	-
	1,782	584	-	-

The terms of construction contracts require payment within agreed contractual terms. Depending on the contract, settlement terms are generally 14–30 days. Each new customer is analysed individually for creditworthiness prior to signing of a contract. All progress claims are made under the *Building & Construction Industry Security of Payments Act 2002*.

As at 30 June 2008, amounts due from customers for construction contracts with a carrying amount of \$0.158m (2007: (\$.08m)) were past due but not doubtful. These amounts due comprise customers who have good debt history and are considered recoverable. No collateral is held over these balances.

NOTE 12: INVENTORIES	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
CURRENT				
Developments in progress	32,081	14,089	-	-
	32,081	14,089	-	-

NOTE 13: CURRENT ASSETS – OTHER

Other assets	135	-	135	-
Prepayments	174	19	-	16
	309	19	135	16

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 14: ASSOCIATED ENTITIES

Interests are held in the following associated entities

NAME	PRINCIPAL ACTIVITIES	COUNTRY OF INCORPORATION	SHARES	OWNERSHIP INTEREST		CARRYING AMOUNT OF INVESTMENT	
				2008 %	2007 %	2008 \$000	2007 \$000
Unlisted:							
Folkestone Docklands Unit Trust ⁽¹⁾	Property Development	Australia	B Class Units	80	80	10	10
Folkestone (Bayside) Pty Ltd ⁽²⁾	Property Development	Australia	Ordinary shares	20	20	1,706	1,069
						1,716	1,079

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

(2) Folkestone holds 1,702,502 of the 8,512,510 ordinary shares on issue. They also hold 1 B class share, however this is for profit sharing entitlements only.

	ECONOMIC ENTITY	
	2008 \$000	2007 \$000
a. Movements during the year in equity accounted investment in associated entities		
Balance at beginning of the financial year	1,079	-
Add: Share of associated company's profit after income tax	3	1
Capital issued	634	1,079
Less: Distribution of profits from associated entity	-	(1)
Balance at end of the financial year	1,716	1,079
b. Equity accounted profits of associates are broken down as follows:		
Share of associate's profit before income tax expense	3	1
Share of associate's income tax expense	-	-
Share of associate's profit after income tax	3	1
c. Summarised Presentation of the economic entity's share of Aggregate Assets, Liabilities and Performance of Associates		
Current assets	124	12
Non-current assets	15,095	12,471
Total assets	15,219	12,483
Current liabilities	103	350
Non-current liabilities	13,400	11,054
Total liabilities	13,503	11,404
Net assets	1,716	1,079
Revenues	4	1
Profit after income tax of associates	3	1

Ownership interest in Folkestone Docklands Unit Trust was 80% of Issued B Class Units. The reporting date of Folkestone Docklands Unit Trust is 30 June 2008. This reporting date coincides with the entity's holding company.

Ownership interest in Folkestone (Bayside) Pty Ltd was 20% of issued ordinary shares. The reporting date of Folkestone (Bayside) Pty Ltd is 30 June 2008. This reporting date coincides with the entity's holding company.

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NOTE 15: JOINTLY CONTROLLED OPERATIONS	ECONOMIC ENTITY	
	2008 \$000	2007 \$000
a. Interest in Jointly Controlled Operations		
i) A controlled entity, Folkestone (PMD) Pty Ltd has a 50% interest with a subsidiary of MAB Corporation Pty Ltd, in the development of a site on the corner of Bertie and Fennel Street, Port Melbourne, which has now been completed.		
The economic entity's share of assets employed in the jointly controlled operations is:		
CURRENT ASSETS		
Cash at bank and on hand	-	60
Amounts receivable from associated entities	-	73
Inventories – developments in progress	-	-
Total current assets	-	133
NON-CURRENT ASSETS		
Total non-current assets	-	-
Share of total assets of jointly controlled operations	-	133
Net interest in jointly controlled operations	-	(50)
ii) A controlled entity, Folkestone No: 1 Pty Ltd has a 50% interest with the Select Property Portfolio Fund No:2 Ltd, in the development of a site at 720–808 Kororoit Creek Road, Altona, which has now been completed.		
The economic entity's share of assets employed in the jointly controlled operations is:		
CURRENT ASSETS		
Cash at bank and on hand	13	2,601
Trade debtors	-	18,795
Total current assets	13	21,396
NON-CURRENT ASSETS		
Total non-current assets	-	-
Share of total assets of jointly controlled operations	13	21,396
Net interest in jointly controlled operations	11	8,428
iii) A controlled entity, Folkestone No: 4 Pty Ltd has a 50% interest with the Select Property Portfolio Fund No:2 Ltd, in the development of a site at 169 Noone Street, Clifton Hill.		
The economic entity's share of assets employed in the jointly controlled operations is:		
CURRENT ASSETS		
Cash at bank and on hand	807	750
Inventories – developments in progress	7,655	5,863
Other current assets	16	1,258
Total current assets	8,478	7,871
NON-CURRENT ASSETS		
Total non-current assets	26	-
Share of total assets of jointly controlled operations	8,504	7,871
Net interest in jointly controlled operations	5,908	5,540

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2008

NOTE 15: JOINTLY CONTROLLED OPERATIONS (CONTINUED)	ECONOMIC ENTITY	
	2008 \$000	2007 \$000
iv) A controlled entity, Folkestone No:7 Pty Ltd has a 50% interest with the Select Property Portfolio Fund No:2 Ltd, in the development of a site in Millers Road, Altona.		
The economic entity's share of assets employed in the jointly controlled operations is:		
CURRENT ASSETS		
Cash at bank and on hand	2	-
Inventories – developments in progress	12,936	-
Other current assets	12	-
Total current assets	12,950	-
NON-CURRENT ASSETS		
Total non-current assets	-	-
Share of total assets of jointly controlled operations	12,950	-
Net interest in jointly controlled operations	4,739	-

NOTE 16: OTHER NON-CURRENT FINANCIAL ASSETS	ECONOMIC ENTITY		PARENT ENTITY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Shares in controlled entities at cost	-	-	3,901	3,901
Shares in associated entities at cost	-	-	1,713	1,079
	-	-	5,614	4,980

All shares in controlled entities are reflected at cost. Non-current financial assets comprise investments in the ordinary issued capital of various controlled entities. There are no fixed returns or fixed maturity dates attached to these investments.

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NOTE 17: CONTROLLED ENTITIES

a. Controlled Entities Consolidated

	COUNTRY OF INCORPORATION	PERCENTAGE OWNED (%)*	
		2008	2007
Parent Entity:			
Folkestone Limited	Australia		
<i>Subsidiaries of Folkestone Limited:</i>			
Folkestone Freeholds Pty Ltd	Australia	100	100
Folkestone Developments Pty Ltd	Australia	100	100
Folkestone Project Management Pty Ltd	Australia	100	100
Fenchurch Pty Ltd	Australia	100	100
Folkestone (EMT) Pty Ltd	Australia	100	100
Folkestone East Melbourne Trust	Australia	100	100
Ceres House Pty Ltd	Australia	100	100
Access Constructions Pty Ltd	Australia	100	100
Folkestone (PMD) Pty Ltd	Australia	100	100
Bertie Bridge Pty Ltd	Australia	75	75
Sorrento (VIC) Pty Ltd	Australia	100	100
Folkestone (Bayside) Pty Ltd	Australia	100	100
Folkestone No: 1 Pty Ltd	Australia	100	100
Folkestone No: 2 Pty Ltd	Australia	100	100
Folkestone No: 3 Pty Ltd	Australia	100	100
Folkestone No: 4 Pty Ltd	Australia	100	100
Folkestone No: 5 Pty Ltd	Australia	100	-
Folkestone No: 6 Pty Ltd	Australia	100	-
Folkestone No: 7 Pty Ltd	Australia	100	-
Folkestone No: 8 Pty Ltd	Australia	100	-
Folkestone No: 9 Pty Ltd	Australia	100	-
Folkestone No: 10 Pty Ltd	Australia	100	-

* Percentage of voting power is in proportion to ownership

b. Acquisition of Controlled Entities

The following entities were incorporated during the year and Folkestone Limited owns 100% of the issued shares:

	DATE OF INCORPORATION
Folkestone No: 5 Pty Ltd	9 July 2007
Folkestone No: 6 Pty Ltd	25 July 2007
Folkestone No: 7 Pty Ltd	25 July 2007
Folkestone No: 8 Pty Ltd	3 December 2007
Folkestone No: 9 Pty Ltd	3 December 2007
Folkestone No: 10 Pty Ltd	3 December 2007

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NOTE 18: PROPERTY, PLANT AND EQUIPMENT	ECONOMIC ENTITY		PARENT ENTITY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
PLANT AND EQUIPMENT				
Plant and equipment:				
At cost	732	721	387	417
Accumulated depreciation	(499)	(485)	(332)	(358)
Total Property, Plant and Equipment	233	236	55	59

a. Movements in Carrying Amounts

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

	ECONOMIC ENTITY		PARENT ENTITY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Opening balance of plant & equipment at cost	721	656	417	434
Opening balance of accumulated depreciation	(485)	(436)	(358)	(368)
Additions	125	99	20	18
Disposals	(40)	(1)	-	(1)
Depreciation expense	(88)	(82)	(24)	(24)
Carrying amount at the end of year	233	236	55	59

Aggregate depreciation allocated during the year is recognised as an expense and disclosed in Note 4 to the financial statements.

No impairment loss is recognised in the income statement in respect of property, plant and equipment.

NOTE 19: GOODWILL	ECONOMIC ENTITY		PARENT ENTITY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Goodwill				
At cost	2,120	2,120	-	-
Total goodwill	2,120	2,120	-	-
Goodwill				
Balance at the beginning of year	2,120	2,120	-	-
Balance at the end of year	2,120	2,120	-	-

Goodwill relates to the acquisition of Access Constructions Pty Ltd on 31 March 2005. For the purpose of impairment testing, goodwill is allocated to the cash generating unit consisting of Access Constructions Pty Ltd. The analysis completed is based upon a multiple of 3–3.5 times the future maintainable earnings of the business. In determining future maintainable earnings, the Company has given consideration to the prior three years actual results, together with the current forecast for future years. Based upon this analysis, no impairment loss has been recognised in respect of goodwill for the year ended 30 June 2008.

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NOTE 20: TRADE AND OTHER PAYABLES	NOTE	ECONOMIC ENTITY		PARENT ENTITY	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
Trade payables	1a	2,134	4,737	140	415
Sundry payables and accrued expenses		1,081	16,091	135	154
		3,215	20,828	275	569

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

NOTE 21: BORROWINGS	NOTE	ECONOMIC ENTITY		PARENT ENTITY	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
CURRENT					
Unsecured liabilities					
Advances from associated entities	31	-	694	722	1,453
Advances from related entities	31	-	-	4,300	3,323
		-	694	5,022	4,776
Secured liabilities					
Bills payable	21a,c	10,717	2,250	-	-
Hire purchase liability	26a	7	13	-	-
		10,724	2,263	-	-
		10,724	2,957	5,022	4,776

NON-CURRENT

Secured liabilities

Hire purchase liability	26a	-	12	-	-
		-	12	-	-

a. Total current and non-current secured liabilities:

Bills payable		10,717	2,250	-	-
Hire purchase liability		7	25	-	-
		10,724	2,275	-	-

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

Bills payable are secured by freehold land and buildings (developments in progress) in Australia and a mortgage debenture over the assets of the borrowing entity. In some instances a guarantee is also provided by Folkestone Limited.

	29,423	5,863	-	-
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The hire purchase liabilities are secured by a registered mortgage over the assets to which they relate

	24	29	-	-
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	29,447	5,892	-	-
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c. Bills Payable

Prevailing interest rates at 30 June 2008 on bills drawn range from 7.64%–9.21% (2007: 6.45%–6.63%) excluding margins. The total bill facility available at 30 June 2008 was \$56.525m and subject to continuing compliance with the facility conditions, the bill facilities may be drawn at any time and have an expiry in line with each specific project. Bill facilities are specific to each project and the total bill facility available represents the Group's share of these facilities. As new projects are secured, further bill facilities will be acquired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2008

NOTE 22: TAX	ECONOMIC ENTITY		PARENT ENTITY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
a. Liabilities				
CURRENT				
Income tax	2,473	946	1,779	920
	2,473	946	1,779	920
b. Assets				
NON-CURRENT				
Deferred tax assets/(liability):				
Provisions	653	670	59	46
Accrued income	(543)	(465)	-	-
Other	(5)	-	(5)	-
	105	205	54	46
c. Reconciliations				
i Gross Movements				
The overall movement in the deferred tax asset account is as follows:				
Opening balance	205	210	46	81
Movement for the year	(100)	(5)	8	(35)
Closing balance	105	205	54	46
ii Deferred Tax Assets				
The movement in deferred tax assets for each temporary difference during the year is as follows:				
Provisions				
Opening balance	670	1,857	46	81
Credited/(charged) to the income statement	(17)	(1,187)	13	(35)
Closing balance	653	670	59	46
Accrued Income				
Opening balance	(465)	(1,647)	-	-
Credited/(charged) to the income statement	(78)	1,182	-	-
Closing balance	(543)	(465)	-	-
Other				
Opening balance	-	-	-	-
Credited/(charged) to the income statement	(5)	-	(5)	-
Closing balance	(5)	-	(5)	-
	105	205	54	46

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NOTE 23: PROVISIONS	ECONOMIC ENTITY		PARENT ENTITY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
CURRENT				
Employee benefits				
Opening balance	204	298	53	129
Additional provision	299	308	100	83
Amounts used	(279)	(402)	(91)	(159)
Total	224	204	62	53
Future losses on developments in progress				
Opening balance	366	199	-	-
Additional provision	-	366	-	-
Amounts used	-	(199)	-	-
Total	366	366	-	-
Total Current Provisions	590	570	62	53
NON-CURRENT				
Employee benefits				
Opening balance	82	159	-	93
Additional provision	-	16	-	-
Amounts written back to P&L	(29)	(26)	-	(26)
Amounts used	(13)	(67)	-	(67)
Total Non-current Provisions	40	82	-	-
Analysis of Total Provisions				
CURRENT	590	570	62	53
NON-CURRENT	40	82	-	-
	630	652	62	53

NOTE 24: ISSUED CAPITAL	ECONOMIC ENTITY		PARENT ENTITY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
31,177,421 (2007: 30,427,492) fully paid ordinary shares of no par value	19,115	18,505	19,115	18,505
	19,115	18,505	19,115	18,505

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2008

NOTE 24: ISSUED CAPITAL (CONTINUED)	2008		2007	
	SHARES (THOUSAND)	\$000	SHARES (THOUSAND)	\$000
a. Ordinary shares				
At the beginning of reporting period	30,427	18,505	30,041	18,235
Shares issued during the year				
– Dividend reinvestment plan	750	610	386	270
At reporting date	31,177	19,115	30,427	18,505

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.

NOTE 25: RESERVES	ECONOMIC ENTITY		PARENT ENTITY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
At the beginning of the reporting period	63	–	63	–
– Performance rights granted	156	63	156	63
At the reporting date	219	63	219	63

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

NOTE 26: CAPITAL AND LEASING COMMITMENTS

a. Hire Purchase Commitments				
– not later than 12 months	7	13	–	–
– between 12 months and 3 years	–	12	–	–
Total Hire Purchase Commitments	7	25	–	–
b. 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	217	185	120	115
– between 12 months and 5 years	323	266	146	266
	540	451	266	381

The Group has three lease commitments:

- Level 24, 360 Collins Street, Melbourne is for a five year term and expires on 5 September 2010. Rent is payable monthly in advance with 4% per annum fixed increases on the anniversary date. There is no option period.
- Suite 8, 14 Lionel Road, Mount Waverley was for an initial 3 year term which expired on 31 March 2008. The option was exercised for a further three years which now expires on 31 March 2011. Rent is payable monthly in advance with 3.5% per annum fixed increases on the anniversary date. The lease provides for one further three year option periods.
- A Samsung Office Serv 100 telephone system is held under operating lease for a four year term and expires on 19 May 2010. The lease payments are payable monthly in advance.

The Group has hire purchase commitments as follows:

- Access Constructions have purchased two motor vehicles under hire purchase agreements. The hire purchase agreements commenced in December 2005 and each run for a term of 3 years. The hire purchase payments are paid monthly in arrears.

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NOTE: 27: CONTINGENT LIABILITIES

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

- Folkestone (Bayside) Pty Ltd – Folkestone Limited owns 20% of the share capital of Folkestone (Bayside) Pty Ltd and has provided a guarantee in favour of Capital Finance Australia Limited in relation to a loan facility for \$43.250m (drawn \$29.091m) for the acquisition of Donnybrook Rd, Mickleham. The guarantee provided is several from the other shareholder of Folkestone (Bayside) Pty Ltd and is limited to 20% of the loan facility only.
- Access Constructions Pty Ltd – Folkestone Limited has provided a parent company guarantee in favour of ING Industrial Custodian Pty Ltd in relation to the due and punctual performance by Access Constructions Pty Ltd of its obligations under the design and construct contracts with ING Industrial Custodian Pty Ltd for the following project:
 - Parkwest: Signorino Tiles Warehouse and Building B (construction completed, defects liability period expires 15 February 2009)
- Bertie Bridge Pty Ltd – Folkestone Limited owns 75% of the share capital in Bertie Bridge Pty Ltd. Folkestone Limited has provided a several guarantee in favour of Trust Company of Australia Limited in relation to the due and punctual performance by Bertie Bridge Pty Ltd of its obligations under the Development Agreement for Toyota Business Park (Parcel B).
- Sorrento (Vic) Pty Ltd – Folkestone Limited owns 100% of the share capital of Sorrento (Vic) Pty Ltd and has provided a guarantee in favour of St George Bank Ltd in relation to a loan facility for \$10m (drawn \$0.5m) for the development of 108 Ocean Beach Road, Sorrento.
- Noone St Clifton Hill Pty Ltd – Folkestone Limited holds 50% of the share capital in Noone St Clifton Hill Pty Ltd. Folkestone Limited has provided a guarantee in favour of BOS International (Australia) Limited in relation to a loan facility for \$20m (drawn \$4.5m) for the development of 169 Noone Street, Clifton Hill.

b) Access Constructions Pty Ltd has a \$4m surety bond facility with QBE Insurance. As at balance date, QBE had issued \$1.8m in surety bonds to clients of Access Constructions. The surety bond facility expires on 30 November 2008.

The maximum bond value for any one contract must not exceed 50% of the \$4m facility limit and the maximum term of each bond is 24 months plus 12 months maintenance.

The following entities within the Folkestone consolidated group have provided a Deed of Indemnity of Guarantee securing the performance of Access Constructions under the surety bond facility with QBE:

Access Constructions Pty Ltd	Folkestone Freeholds Pty Ltd
Folkestone Developments Pty Ltd	Folkestone Project Management Pty Ltd
Fenchurch Pty Ltd	Folkestone (EMT) Pty Ltd in its own right and as trustee for the Folkestone East Melbourne Trust
Folkestone (PMD) Pty Ltd	Ceres House Pty Ltd
Folkestone Limited	
Sorrento (Vic) Pty Ltd	

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

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

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

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2008

NOTE 28: SEGMENT REPORTING	PROJECT DEVELOPMENT		CONSTRUCTION		ELIMINATIONS/ UNALLOCATED		CONSOLIDATED	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Primary Reporting – Business Segments								
Revenue from external customers:								
Sales	9,478	31,623	39,911	48,757	(6,491)	–	42,898	80,380
Other revenue	188	33	211	263	359	359	758	655
Total revenue from external customers	9,666	31,656	40,122	49,020	(6,132)	359	43,656	81,035
Total revenue	9,666	31,656	40,122	49,020	(6,132)	359	43,656	81,035
Segment result	3,729	3,813	1,972	3,261	(573)	(418)	5,128	6,656
Income tax expense							(1,667)	(2,066)
Profit for the period							3,461	4,590
Segment assets	36,285	37,581	5,998	8,708	–	–	42,283	46,289
Unallocated assets	–	–	–	–	1,295	4,017	1,295	4,017
Total assets	36,285	37,581	5,998	8,708	1,295	4,017	43,578	50,306
Segment liabilities	12,466	17,229	2,461	5,172	–	–	14,927	22,401
Unallocated liabilities	–	–	–	–	2,115	2,994	2,115	2,994
Total liabilities	12,466	17,229	2,461	5,172	2,115	2,994	17,042	25,395
Capital expenditure	–	–	105	80	20	18	125	98
Depreciation and amortisation	–	–	64	58	24	24	88	82
Investment in associates	1,716	1,079	–	–	–	–	1,716	1,079

Accounting Policies

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of payables, employee benefits, accrued expenses, provisions and borrowings.

Intersegment Transfers

Segment revenues, expenses and results include transfers between segments. The prices charged on intersegment transactions are the same as those charged for similar goods to parties outside of the economic entity at an arm's length. These transfers are eliminated on consolidation.

Business segments

The economic entity has the following two business segments, both operating in Australia:

- Project Development
- Construction

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NOTE 29: NOTES TO THE CASH FLOW STATEMENT	ECONOMIC ENTITY		PARENT ENTITY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
a. Reconciliation of profit for the period to net cash flows from operations:				
Profit after income tax	3,461	4,590	4,149	1,541
Non-cash flows in profit				
Amortisation & depreciation	88	82	24	24
Expensing of performance rights	156	63	156	63
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
(Increase)/decrease in trade and other receivables	17,834	(10,226)	36	(262)
(Increase)/decrease in other operating assets	(288)	779	(117)	-
(Increase)/decrease in inventories	(17,992)	(2,161)	-	262
Increase/(decrease) in trade and other payables	(17,613)	16,126	(294)	(66)
Increase/(decrease) in income taxes payable	1,527	772	859	746
(Increase)/decrease in deferred tax assets	100	6	(8)	36
Increase/(decrease) in provisions	(22)	(4)	9	(169)
Net cash from operations	(12,749)	10,027	4,814	2,175
b. Credit Standby Arrangements with Banks:				
Bank Loan Facilities	56,525	18,000	-	-
Amount utilised	(10,717)	(2,250)	-	-
	45,808	15,750	-	-

The major facilities are summarised as follows:

Bill facility

Prevailing interest rates at 30 June 2008 on bills drawn range from 7.64%–9.21% (2007: 6.45%–6.63%) excluding margins. The total bill facility available at 30 June 2008 was \$56.525m and subject to continuing compliance with the facility conditions, the bill facilities may be drawn at any time and have an expiry in line with each specific project. Bill facilities are specific to each project and the total bill facility available represents the Group's share of these facilities. As new projects are secured, further bill facilities will be acquired.

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

NOTE 30: EVENTS AFTER BALANCE DATE

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in future financial years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2008

NOTE 31: RELATED PARTY TRANSACTIONS

Controlling Entity

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

Wholly-owned Group

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

Transactions between Folkestone Limited and other entities in the wholly-owned group during the years ended 30 June 2008 and 2007 consisted of:

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

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

	ECONOMIC ENTITY		PARENT ENTITY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Total amounts receivable from and payable to related parties in the wholly-owned group at balance date were as follows:				
Current receivables	-	-	22,448,461	17,679,695
Current borrowings	-	-	4,300,152	3,322,958

The above transactions between the parent entity and its controlled entities consist of funds transferred for day to day financing and investment of surplus funds which result in inter-entity receivables and payables. Such balances are unsecured and interest free.

Other Related Parties

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

Transactions between Folkestone Limited and other related parties during the years ended 30 June 2008 and 2007 consisted of:

- a) loans advanced by Folkestone Limited;
- b) loans repaid to Folkestone Limited; and
- c) the payment of arms length Project Management Fees to Folkestone Limited as per formal agreements with joint venture partners.

	ECONOMIC ENTITY		PARENT ENTITY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Income from joint ventures and associated entities				
Project management fees	4,208,963	1,344,560	4,208,963	1,344,560
Total amounts receivable from, and payable to, joint ventures and associated entities at balance date:				
Current receivables:				
Trade Receivables	428,923	257,641	428,923	257,641
Loans	5,487	-	5,487	-
	434,410	257,641	434,410	257,641
Current borrowings:				
Loans	-	694,468	721,748	1,452,512

Transactions with Directors

No transactions with Directors or key management personnel occurred during the period other than those disclosed in Note 6.

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NOTE 32: FINANCIAL INSTRUMENTS

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

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

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

- credit risk
- market risk
- liquidity risk

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

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

a) Capital Risk Management

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

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

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

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

	ECONOMIC ENTITY		PARENT ENTITY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Debt	10,724	2,263	-	-
Cash and Cash Equivalents	(4,756)	(12,466)	(1,045)	(3,406)
Net Debt	5,968	(10,203)	(1,045)	(3,406)
Equity	26,536	24,912	22,668	22,355
Net debt to equity ratio	22%	-41%	-5%	-15%

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

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

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

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

b) Credit Risk

Credit risk is the risk of financial loss to the Group if a customer fails to meet its contractual obligations, and arises principally from the Group's trade and other receivables. The main exposure to credit risk is within the construction division of the business. Prior to entering into a contract with a customer, the construction division makes an assessment of their creditworthiness based upon past relationships with the customer, the type of customer (e.g. public company or private company) or external credit evaluation tools (e.g. Dunn and Bradstreet).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2008

NOTE 32: FINANCIAL INSTRUMENTS (CONTINUED)

Where the Company feels it is necessary they will request further information or security to satisfy creditworthiness such as:

- Letters of finance from the customer's financial institution.
- Insertion of special clauses within the construction contracts which provide for personal guarantees.
- Taking out a charge or lien over the customer's land upon which the building is being constructed.

In addition to the above, all progress claims for construction contracts are made under the *Building and Construction Industry Security of Payments Act 2002*.

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

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

c) Market Risk

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

The Group manages interest rate risk by:

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

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

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

Sensitivity Analysis

As disclosed in Note 3, all interest paid on secured bills payable during the year has been capitalised to property developments in progress included in inventory. Therefore a change in interest rates at the reporting date would not affect profit or loss or equity in the current period. In future periods where revenue is recognised in respect of these developments, changes in interest rates would have an impact on consolidated earnings.

Changes in interest rates in respect of outstanding hire purchase liabilities would have no material effect on current year profit.

d) Liquidity Risk

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

Ultimate responsibility for liquidity risk management rests with the Board of Directors, based on an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Note 21(c) details additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

The contractual maturities of our financial liabilities are shown below. The amounts presented represent the future undiscounted principal and interest cash flows relating to the amounts drawn at reporting date:

Economic Entity

	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %	LESS THAN 3 MONTHS \$000	3 MONTHS TO 1 YEAR \$000	1-5 YEARS \$000
2008				
Non-interest bearing trade and other payables	-	3,215	-	-
Hire purchase liability	8.46%	4	3	-
Variable interest rate instruments	8.01%	258	1,272	10,907
	-	3,477	1,275	10,907
2007				
Non-interest bearing trade and other payables	-	20,828	-	-
Hire purchase liability	8.46%	4	12	7
Variable interest rate instruments	7.30%	41	123	2,564
	-	20,873	135	2,571

Parent Entity

	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %	LESS THAN 3 MONTHS \$000	3 MONTHS TO 1 YEAR \$000	1-5 YEARS \$000
2008				
Non-interest bearing trade and other payables	-	275	-	-
Non-interest bearing loans to subsidiaries	-	-	-	5,022
	-	275	-	5,022
2007				
Non-interest bearing trade and other payables	-	569	-	-
Non-interest bearing loans to subsidiaries	-	-	-	4,776
	-	569	-	4,776

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DIRECTORS' DECLARATION

The Directors of Folkestone Limited (the Company) declare that:

- (a) the financial statements and notes set out on pages 29 to 65, are in accordance with the *Corporations Act 2001*, and:
 - (i) give a true and fair view of the financial position of the Company and the economic entity as at 30 June 2008 and of their performance for the financial year ended on that date; and
 - (ii) comply with *Australian Accounting Standards and the Corporations Regulations 2001*; and
- (b) the Chief Executive Officer and Chief Financial Officer have declared that:
 - (i) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - (ii) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - (iii) the financial statements and notes for the financial year give a true and fair view; and
- (c) in the Directors' opinion, there are reasonable grounds to believe that the Company and the controlled entities identified in Note 17 will be able to pay their debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors



Alister T L Maitland
Chairman

Melbourne
21 August 2008



Oscar Guglielmi
Director

ASX ADDITIONAL INFORMATION

The shareholder information set out below was applicable as at 21 August 2008:

A Distribution of Equity Securities

Analysis of number of equity security holders by size of holding

			ORDINARY SHARES
1	–	1,000	55
1,001	–	5,000	156
5,001	–	10,000	144
10,001	–	100,000	358
100,001	and	Over	35
			748

There were 33 holders of less than a marketable parcel of ordinary shares

B Equity Security Holders

Twenty Largest Quoted Equity Security Holders

	ORDINARY SHARES	
	NUMBER HELD	% OF ISSUED SHARES
ANZ Nominees Ltd	6,196,510	19.87
Kingsley Developments Pty Ltd	2,970,247	9.53
Wilbow Pty Ltd	1,966,518	6.31
Herzog Family Super Fund A/c	1,368,510	4.39
Tesset Pty Ltd	553,485	1.78
Mr Benjamin Paul Jones	515,581	1.65
Mr Oscar Guglielmi	426,592	1.37
Mr A T L Maitland	323,860	1.04
Davwall Pty Ltd	322,870	1.04
Mr David Charles Leslie Gibbs	301,299	0.97
Newsboys Foundation	300,000	0.96
The Private Fiduciary Corporation	261,815	0.84
Mr Douglas George Wade & Mrs Maisie Jean Wade	260,000	0.83
Marlton Investments Pty Ltd	249,068	0.80
Mr Peter Howells	241,276	0.77
Mr Peter & Mrs Ann Lovas	230,000	0.74
Mr Jonathan Martin Daniels	193,680	0.62
Mr Ian Redvers Morrison & Mr Roger Maxwell Blythman & Mr Robert Cole	192,823	0.62
Corlah Pty Ltd	179,010	0.57
Mirlex Pty Ltd	178,911	0.57
	17,232,055	55.27%

C Substantial Holders

Substantial holders in the company are set out below

	NUMBER HELD	PERCENTAGE %
ANZ Nominees Ltd	6,196,510	19.87
Kingsley Developments Pty Ltd	2,970,247	9.53
Wilbow Pty Ltd	1,966,518	6.31

D Voting Rights

Ordinary Shares

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

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