Folkestone

Appendix 4E

Preliminary final report

Period ending 30 June 2010

1. Details of the reporting period and the previous corresponding period

Current period:	1 July 2009 to 30 June 2010
Prior corresponding period:	1 July 2008 to 30 June 2009

2. Results for announcement to the market

	Key Information				$A'000
2.1	Revenues from continuing operations	Down	85%	To	$2,925
2.2a	Profit (loss) from continuing operations after tax attributable to members	Down	40%	To	$(3,364)
2.2b	Profit (loss) from discontinuing operations after tax attributable to members	Down	108%	To	$(131)
2.3	Net profit (loss) for the period attributable to members	Down	5%	To	$(3,495)

2.4 **Dividends**

The Board has resolved not to pay a dividend in respect of the year ended 30 June 2010 and no final dividend was paid for the year ended 30 June 2009. No interim dividend was paid in respect of the current or prior period.

2.5 **Record date for determining entitlement to dividends**

Not applicable

2.6 **Brief explanation of the figures reported above**

The Group's net loss after tax for the year ended 30 June 2010 is $3.5 million compared to a net loss after tax of $3.7 million in the previous financial year. This represents basic earnings per share of negative (4.8) cents, compared with (11.8) cents previously.

During the current period, the company announced a 2 for 1 rights issue at 15 cents per share. The equity raising was completed on 8 October 2009 and as a result a further 54,666,667 shares were issued.

In addition to the equity raising, on 4 May 2010, Folkestone completed a placement of 12,970,204 shares to the principals of EREP, together with other sophisticated private investors, increasing the total shares on issue to 99,438,228.

The result for the full year has been impacted by a provision made against the carrying value of inventory relating to our project at 300 Millers Road Altona. The carrying value at 30 June 2010 has been determined with reference to an independent valuation.

During the period Folkestone exited its equity investment in Access Constructions and the result includes an after tax loss of $0.131 million from the construction division which is presented as a loss from discontinued operations.

For further information in relation to the figures reported above, please refer to the attached Audited Financial Report.

3. **Statement of Comprehensive Income**
Refer to the 2010 Annual Report

4. **Statement of Financial Position**
Refer to the 2010 Annual Report

5. **Statement of Cash Flows**
Refer to the 2010 Annual Report

6. **Dividend details**
Not Applicable

7. **Dividend or distribution reinvestment plan details**
Not applicable

8. **Statement of Changes in Equity**
Refer to the 2010 Annual Report

9. **Net tangible asset backing per ordinary security**

Security	Current period	Previous corresponding period
Ordinary shares	27¢	66¢

During the current period, the company announced a 2 for 1 rights issue at 15 cents per share. The equity raising was completed on 8 October 2009 and as a result a further 54,666,667 shares were issued.

In addition to the equity raising, on 4 May 2010, Folkestone completed a placement of 12,970,204 shares to the principals of EREP, together with other sophisticated private investors, increasing the total shares on issue to 99,438,228.

Shares on issue at reporting date	Current period	Previous corresponding period
Ordinary shares	99,438,228	31,438,857

10. **Control gained or lost over entities in the financial year**
Not applicable

11. **Details of associates and joint venture entities**
Refer to the 2010 Annual Report

12. **Other information**
Refer to the commentary in section 2.6

13. **Foreign entities**
Not applicable

14. **Commentary on results for the financial year**
Refer to the 2010 Annual Report

15. **Audited report**
The report is based on audited accounts. The audit opinion is unqualified.

16. Statement if Financial Report is not audited
Not applicable as the financial report is audited.

17. Statement if Financial Report is audited
The financial report has been audited and is not subject to any disputes or qualifications.

Folkestone Limited
ABN 21 004 715 226

Annual report
30 June 2010

Contents

COMPANY PARTICULARS – FOLKESTONE LIMITED

Directors	Alister TL Maitland *(Chairman)* Oscar Guglielmi *(Managing Director & Chief Executive Officer)* Michael W Parkinson CBE Kaye H Dening AM Gregory J Paramor Alastair Hugh Gurner
Chief Financial Officer & Company Secretary	Scott N Martin
Registered Office	Suite 8 14 Lionel Road Mt Waverley Victoria 3149
Principal Place of Business	Suite 8 14 Lionel Road Mt Waverley Victoria 3149
Share Register	Link Market Services Ltd 333 Collins Street Melbourne Victoria 3000
Auditor	Deloitte Touche Tohmatsu 550 Bourke Street Melbourne Victoria 3000
Stock Exchange Listing	Folkestone Ltd shares are listed on the Australian Stock Exchange. The ASX code is FLK.
Website Address	www.folkestone.com.au

Folkestone Limited and its controlled entities
Chairman's Report
For the year ended 30 June 2010

The 2010 financial year continued to be a difficult time for small property development companies.

Overall the company reported a loss of $3.495m, compared to a $3.696m loss the previous year. There will be no dividends paid for the year.

Following the completion of the 2 for 1 renounceable rights issue in October 2009, the Company has focussed its resources on completing an orderly sell through of existing projects within a timeframe that would maximise shareholder returns.

The current market conditions together with the Company's limited capital base continue to adversely impact the ability of the Company to execute the realisation of existing projects in a manner and within a timeframe that will maximise shareholder returns.

The residential development at Noone Street, Clifton Hill is proceeding in line with expectations, however the Company has been unable to find a suitable buyer for the bulky goods development site at Millers Road Altona. Settlement on the Donnybrook Road Mickleham project is scheduled for December 2010 and the joint venture continues to assess the optimum strategy for the realisation of this asset. All three projects are in joint venture with the AMP Capital Investors' managed Select Property Portfolio Number 2 Fund and I would like to thank AMP for their continued support for each of these projects and constructive input as we pursue our stated strategies.

During the past financial year, the Company has also explored opportunities to pursue a transition into a larger listed real estate development, investment and funds management company.

In April 2010, the Company announced that it had made a 15% Placement to the principals of Equity Real Estate Partners Pty Ltd (EREP), a real estate management company owned by Greg Paramor, Jonathan Sweeney and Adrian Harrington, together with other sophisticated private investors.

The Company also appointed Mr Greg Paramor and Mr Hugh Gurner as non-executive directors following the completion of the Placement. On behalf of the Board, I welcome Mr Paramor and Mr Gurner and look forward to working with them to progress Folkestone's strategies.

The parties are pursuing the proposal brought to Folkestone by EREP to purchase their company, employ the EREP Principals and undertake a very significant recapitalisation of Folkestone which could coincide with a restructure of the composition of the Folkestone Board and EREP Principals assuming management control. This would introduce new management with property funds management skills and proven property development expertise.

These discussions have advanced since the announcement of the Placement however they are yet to be concluded. The Folkestone Board remains committed to finalizing the negotiations with EREP as it continues to work through the realisation of existing projects. The Board intends to take these proposals to shareholders and assess the benefits of a capital raising against the asset realisation strategy so that shareholders have a clear choice before them.

The Company remains committed to extracting value out of the existing development projects and pursuing discussions with EREP to expand the Company in order to maximise shareholder returns.

Alister T L Maitland
Chairman

Alister Maitland

Melbourne
24 August 2010

Folkestone Limited and its controlled entities
Financial Highlights
For the year ended 30 June 2010

	2010 $'000	2009 $'000	2008 $'000	2007 $'000	2006 $'000
Profit/(loss) from continuing operations before income tax (expense)/credit	**(2,428)**	(7,125)	5,128	6,656	2,635
Income tax (expense)/credit	**(918)**	1,543	(1,667)	(2,066)	(804)
Profit/(loss) from discontinued operations	**(131)**	1,709	-	-	-
(Profit)/loss attributable to minority equity interest	**(18)**	177	(333)	(285)	-
Profit/(loss) from ordinary activities attributable to members of the parent entity	**(3,495)**	(3,696)	3,128	4,305	1,831

STATISTICAL DATA

Ordinary shares on issue - year end ('000)	**99,438**	31,439	31,177	30,427	30,041
Basic earnings per ordinary share (cents)	**(4.8)**	(11.8)	10.1	14.2	6.1
Dividend rate on fully paid shares (cents)	**-**	-	6.5	6.5	6.0
Special dividend (cents)	**-**	-	-	1.5	-
Net assets attributable to members of the company ($'000)	**26,956**	21,468	25,918	24,626	21,797
Net asset backing per ordinary share - book value (cents)	**27**	68	83	81	73
Net tangible asset backing per ordinary share – book value (cents)	**27**	66	76	74	66
ASX Closing Price 30 June (cents)	**12**	30.5	70.5	80	55

Folkestone Limited and its controlled entities
Review of Operations
For the year ended 30 June 2010

About Folkestone

Folkestone Ltd is a Melbourne based property company which listed on the Australian Stock Exchange as an independent company in 2000.

Full year result

The Group's net loss after tax for the year ended 30 June 2010 is $3.5 million compared to a net loss after tax of $3.7 million in the previous financial year. This represents basic earnings per share of negative (4.8) cents, compared with (11.8) cents previously.

The result for the full year has been impacted by a provision made against the carrying value of inventory relating to our project at 300 Millers Road Altona. The carrying value at 30 June 2010 has been determined with reference to an independent valuation.

During the period Folkestone exited its equity investment in Access Constructions and the result includes an after tax loss of $0.131 million from the construction division which is presented as a loss from discontinued operations.

Dividends Paid or Recommended

There was no interim dividend paid during the year and the Board has resolved not to pay a final dividend in respect of the year ended 30 June 2010.

Financial Conditions

Folkestone is in compliance with its debt facilities.

The finance facility in respect of the project at 300 Millers Road Altona expires on 17 November 2010. The joint venture has accepted an offer from St George Bank to extend this facility until 30 November 2011.

In respect of the Donnybrook Road Mickleham project the final land payment is due to the Vendor in December 2010. Folkestone's component of this payment is approximately $12m.

Folkestone is managing its resources to ensure that it has sufficient liquidity to fulfil its commitments.

Information in relation to cash flows from operations is contained in the Statement of Cash Flows on page 37 and the associated notes.

Development Division

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

135, 225 & 285 Donnybrook Rd, Mickleham

In December 2006 Folkestone acquired 320 hectares of future industrial land at 135, 225 & 285 Donnybrook Rd, Mickleham in a 20:80 joint venture with the AMP Capital Investors' managed Select Property Portfolio Number 2 Fund ("SPP No:2"). Folkestone is the development manager for the joint venture. Located within the Urban Growth Boundary, the land enjoys excellent links to Melbourne's road transport infrastructure in particular the Hume Highway and Craigieburn bypass.

The land was rezoned in December 2008 from farmland to Business 1 and 3 which will enable the land to be developed for employment uses. The earlier than expected rezoning of the land was a response by the local and state government authorities to the lack of appropriately zoned employment land in the northern growth corridor of Melbourne.

The joint venture is currently undertaking works to bring infrastructure services to the site which should be completed by December 2010. Settlement and the final land payment to the Vendor will take place in December 2010. Folkestone's component of this payment is approximately $12m.

The property was valued by an external valuer in February 2010 and the current book value of this investment is recorded at the lower of cost and net realisable value. The Company's stated strategy is to realise its interest in this project some time in the 2011 calendar year consistent with the realisation strategy announced to the market in August 2009. The Company's ability to realise its interest in this project within the stated timeframe is continuing to be impacted by current market conditions not being conducive for the sale of an asset of this nature and size. Folkestone's limited capital base also impacts its ability to continue to hold this asset in the longer term. The Company continues to work with its joint venture partner to determine the optimum strategy for the realisation of this asset.

169 Noone Street, Clifton Hill

In June 2007 Folkestone acquired a 1.13 hectare parcel of land at 169 Noone Street in the inner Melbourne suburb of Clifton Hill in a 50:50 joint venture with SPP No: 2. Folkestone is the development manager for the joint venture. The development, known as The Terraces Clifton Hill, is a 103 residential dwelling project comprising 58 townhouses and 45 apartments.

Pre-sales totaling $53.398 million have been signed to date which includes the sale of the Stage 6 townhouse site, as a super lot. The one remaining property has been retained for later sale.

The debt facility has been re-financed with St George Bank during the current period and now runs until December 2011.

The Company's stated strategy is to realize its interest in this project by completing the development of the project. The construction programme is being completed on a staged basis with 5 of the 7 stages currently under construction. Based upon the current construction timetable, it is anticipated that settlements will commence in the first quarter of the 2011 financial year, with the final stages scheduled to be completed by December 2011. The key risks associated with achieving this strategy include adverse movements in interest rates and managing construction costs and the construction programme.

300 Millers Road, Altona

In December 2007, Folkestone acquired a 15 hectare parcel of land at 300 Millers Road in Altona in a 50:50 joint venture with SPP No: 2. Folkestone has been appointed development manager by the joint venture. This site is zoned Industrial 3 and is located approximately 11km from the Melbourne CBD and 2.5km from the Westgate Freeway and Western Ring Road.

The Company's stated strategy was to realise its interest in this project by December 2009. In this regard, the property was put to the market in November 2009 via an expression of interest campaign but a satisfactory result has not been achieved.

The joint venture, in conjunction with its agents, have continued to field enquiries for the property, however no sale has been concluded.

The property was valued by an independent valuer in July 2010 in accordance with normal year-end reporting procedures and the book value at 30 June 2010 of this investment has been written down to reflect the current valuation.

The external valuation assumes an arm's length transaction between a willing buyer and a willing seller with no time constraints. The Company has been working for the past 12 months to realize this asset within a timeframe consistent with the realization strategy and its ability to do so is clearly being impacted by current market conditions within the bulky goods and industrial property sector.

Given the difficulty in finding a purchaser for the site over the past 12 months, the optimum strategy for the realization of this asset may be to develop the site as the potential tenants remain interested in the site, however this would require additional capital from the Company.

Other past projects & operations

"Parcel B" - toyotagreen Business Park, Port Melbourne

Parcel B was a joint venture between Folkestone, MAB Corporation and Goodman International that formed part of the toyotagreen Business Park. As reported at the half year, the joint venture partners agreed to terminate the Development Agreement with effect from 29 January 2010. Folkestone and MAB Corporation are required to provide ongoing indemnifications to Goodman in respect to various aspects of the project, however these indemnifications do not give rise to any future liabilities based upon current information.

Construction division

Folkestone exited its equity investment in the Access Constructions business by way of a Management Buy Out with effect from 1 July 2009. Folkestone continue to have ongoing obligations with respect to the construction division including construction obligations for projects completed whilst it owned the construction business and holding appropriate run-off insurance cover required for past projects. The current period after tax loss of $0.131m from the construction division reflects defect rectification costs on past projects and ongoing insurance and rental obligations. The key risks associated with these discontinued operations is defect issues arising from past projects, however this risk is mitigated by having the appropriate run-off insurance cover.

Outlook

Realisation Strategy
In August 2009, Folkestone announced that its strategy was to complete an orderly sell through of existing projects in a manner and within a timeframe that would maximize shareholder returns. The stated timeframe was for this process to be completed by December 2011.

The Noone Street project remains on track to be completed by this date, however the ability of the Company to achieve this timeframe for the Millers Road and Donnybrook Road projects in a manner that will maximize shareholders returns continues to be impacted by the subdued state of the bulky goods and industrial property markets. The current market conditions together with the Company's limited capital base continue to adversely impact the underlying assumptions relating to both the estimated timing for the completion of the Realisation Strategy and the value upon its completion.

Transition Strategy
Folkestone's other stated strategy has been to pursue a transition to a mid-scale, lowly geared property company. Folkestone has been active in identifying and assessing such opportunities as it has been working through the realization programme.

In this regard, in April 2010 Folkestone announced that it had made a 15% Placement, comprising 12,970,204 shares at an issue price of $0.12, to the principals of Equity Real Estate Partners Pty Ltd, a real estate management company owned by Greg Paramor, Jonathan Sweeney and Adrian Harrington, together with other sophisticated private investors.

The parties have also been involved in discussions surrounding the potential purchase of EREP, the employment of EREP Principals and a significant recapitalisation of Folkestone which would coincide with a restructure of the composition of the Folkestone Board and EREP Principals assuming management control.

These discussions have advanced since the announcement of the Placement however they are yet to be concluded. The Folkestone Board remains committed to finalising the negotiations with EREP as it continues to work through the realisation of existing projects and hopes to be in a position to provide further details to shareholders shortly.

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 9 of the Directors Report.

Scott Martin
Chief Financial Officer and 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 eight years of which have been in the property and construction industry.

Folkestone Limited and its controlled entities
Directors' Report
For the year ended 30 June 2010

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 2010 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)
- Michael W Parkinson *CBE (MA, MBA, FAICD)*
- Kaye H Dening *AM (BEc AAPI (Val), AAIB, JP)*

Mr Gregory J Paramor *(FAPI, FAICD, FRICS)* and Mr Alastair Hugh Gurner (*BA, FAICD*) were appointed as Directors of the company on 4 May 2010 and continue in office to the date of this report.

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

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

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

D. Principal activities
The principal activity of the consolidated entity during the financial year was property development. Previously, the principal activities of the consolidated entity have also included the design and construction of industrial and commercial premises. During the year Folkestone exited its equity investment in Access Constructions and as such the results of the construction division are presented as discontinued operations.

E. Dividends

Dividends paid to members during the year were as follows:

	2010	2009
	$'000	$'000
Nil final dividend for the year ended 30 June 2009 (2008: 3.5 cents per share paid on 1 October 2008)	**-**	1,091
Total dividends paid in the year	**-**	1,091

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

F. Review of Operations

A review of the Folkestone Group's operations and activities is contained on pages 2 to 5.

G. Earnings per Share

	Note	2010 Cents	2009 Cents
Basic earnings per share from continuing and discontinued operations	**10**	**(4.8)**	(11.8)
Diluted earnings per share from continuing and discontinued operations	**10**	**(4.8)**	(11.8)
Basic earnings per share from continuing operations	**10**	**(4.6)**	(17.2)
Diluted earnings per share from continuing operations	**10**	**(4.6)**	(17.2)

H. After Balance Date Events

The finance facility in respect of the project at 300 Millers Road Altona expires on 17 November 2010. On 24 August 2010, the joint venture accepted an offer from St George Bank to extend this facility until 30 November 2011.

I. Likely Developments and Expected Results of Operations:

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

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

J. Environmental Regulation

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

K. 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.

L. DIRECTOR PROFILES

Alister TL Maitland (69)
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. He is also a Non-Executive Director of Lihir Gold Ltd and Malayan Banking Berhad Malaysia (Maybank).

Oscar Guglielmi (50)
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.

Michael W Parkinson (67)
CBE, MA, MBA (Stanford), FAICD
Non Executive Director
Michael was appointed as a Non-Executive Director in December 2005 and is the Chairman of the Audit and Risk Management Committee and a member of the Remuneration Committee. 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 Dening (65)
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 Dening Group and has worked with Stockland Limited and NSW Government Landcom.

Gregory J Paramor (60)
FAPI, FAICD, FRICS
Non Executive Director
Greg was appointed as a Non-Executive Director in May 2010. Greg is a founding partner of Equity Real Estate Partners. Greg has been involved in the real estate and funds management industry for more than 35 years, and was the co-founder of Growth Equities Mutual, Paladin Australia and the James Fielding Group. Greg was the CEO of Mirvac between 2004 and 2008. Greg is a past president of the Property Council of Australia and past president of Investment Funds Association, a Fellow of the Australian Property Institute and The Royal Institute of Chartered Surveyors. Greg is a director of a number of not-for-profit organisations, including the Garvan Institute of Medical Research and the National Breast Cancer Foundation. Greg is also a board member of the Sydney Swans and a director of LJ Hooker and Firstfolio Ltd.

Alastair Hugh Gurner (54)
BA, FAICD
Non Executive Director
Hugh was appointed as a Non-Executive Director in May 2010. Hugh has extensive experience in the property sector as an analyst and corporate adviser and has held board positions in a number of ASX listed and unlisted companies including executive and non-executive roles as a founding director of listed property funds management and venture capital companies. He is a Fellow of the Australian Institute of Company Directors and holds a Bachelor of Arts degree.

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

M. Remuneration Report

This report details the nature and amount of remuneration for each director of Folkestone Ltd and for key management personnel receiving the highest remuneration. Remuneration of directors and key management personnel is referred to as compensation as defined in AASB 124 'Related Party Disclosures'. Details of Directors shareholdings are disclosed in Note 7 to the financial statements on page 53 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 shareholders' funds; 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.

M. Remuneration Report Continued

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 2010, which is considered when setting the remuneration policy for the Group:

	2010 $'000	2009 $'000	2008 $'000	2007 $'000	2006 $'000
Profit/(loss) from continuing operations before income tax (expense)/credit	**(2,428)**	(7,125)	5,128	6,656	2,635
Income tax (expense)/credit	**(918)**	1,543	(1,667)	(2,066)	(804)
Profit/(loss) from discontinued operations	**(131)**	1,709			
(Profit)/loss attributable to minority equity interest	**(18)**	177	(333)	(285)	-
Profit /(loss) from ordinary activities attributable to members of the parent entity	**(3,495)**	(3,696)	3,128	4,305	1,831
Basic earnings per ordinary share (cents)	**(4.8)**	(11.8)	10.1	14.2	6.1
Dividend rate on fully paid shares (cents)	**-**	-	6.5	6.5	6.0
Special dividend (cents)	**-**	-	**-**	1.5	-
ASX Closing Price 30 June (cents)	**12**	30.5	70.5	80	55

a) Folkestone Limited has paid key management personnel a combination of fixed remuneration and performance based remuneration. 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.

b) 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.

c) As the table above indicates, earnings have varied significantly over the past five 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

M. REMUNERATION REPORT CONTINUED

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 7 to the accounts on pages 50 to 53.

The Chairman receives car parking, with the company meeting the cost of the fringe benefits tax.

Performance Based Remuneration
The executive pay and reward framework has two components:

i. base pay, benefits and superannuation; and
ii. 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.

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 in lieu of notice.

Benefits
Executives receive car parking, 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 & CFO of Folkestone Ltd
The service contracts for both Mr Oscar Guglielmi and Mr Scott Martin are for a fixed term which cease on 31 December 2012 and allow for specified payouts, a summary of which is provided below.

If either Mr Guglielmi or Mr Martin's employment is terminated without cause, they will receive the following payments:

- In the remaining period of employment by providing compensation equal to 100% of their total current remuneration package, plus any unvested Performance Rights to which they are 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 the 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.

M. Remuneration Report Continued

ii) Performance Incentives

Executive Bonus Scheme
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 17. For executives of Folkestone Ltd 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.

Discussions are currently underway with Equity Real Estate Partners Pty Ltd ("EREP") which involve the potential purchase of EREP, the employment of EREP Principals and a significant recapitalisation of Folkestone which may coincide with a restructure of the composition of the Folkestone Board and EREP Principals assuming management control. As part of this process, the terms of the Executive Bonus Scheme will be reviewed and any changes to the scheme which require shareholder approval will be put to a meeting of shareholders.

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 achieve 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;

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 (the "Plan") to provide additional incentives for executives to reach targets set by the Board. The Plan provides for 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.

M. Remuneration Report Continued

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

Financial Year to which target relates	Issued to	Tranche	Performance criteria	Entitlement	Status	Vesting Date	Date Exercised by Employee
2006-2007	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	N/A	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	N/A	N/A
	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	20 July 2009
		4.	TSR ranking exceeds the 50th 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	20 July 2009

M. Remuneration Report Continued

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

Financial Year to which target relates	Issued to	Tranche	Performance criteria	Entitlements	Status	Vesting Date	Date Exercised by Employee
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	20 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	20 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	16 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	16 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	16 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	16 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)	Part Achieved	14 July 2010	16 July 2010

** Following the completion of the 30 June 2008 Annual Report, it was determined by the Board that the Tranche 7 performance rights were part achieved. The respective employees were subsequently issued with the performance rights with the vesting period commencing on 30 June 2008. The performance rights are being expensed evenly over the remaining vesting period.*

M. REMUNERATION REPORT CONTINUED

The following performance rights were granted in the period ending 30 June 2009

Financial Year to which target relates	Issued to	Tranche	Performance criteria	Entitlements	Status	Vesting Date	Date Exercised by Employee
2008-2009	Oscar Guglielmi	8	Earnings per share increases more than 10% above base of $0.132 for the financial year ending 30 June 2009	Up to 100,000 Performance Rights (as determined by the Board)	Not Achieved	14 July 2011	N/A
	Oscar Guglielmi	9	TSR ranking that exceeds 70th percentile in the ASX Real Estate Management and Development Listing (excluding Australand and Lendlease) as at 30 June 2009	Up to 100,000 Performance Rights (as determined by the Board)	Not Achieved	14 July 2011	N/A

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 tables 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.

Following balance date, the performance rights granted under Tranche 5, 6 and 7 vested on 14 July 2010. On 16 July 2010, 261,000 performance rights were exercised and converted into shares in accordance with the terms of the Executive Bonus Scheme. The balance of the rights relating to Tranches 7 (42,000 performance rights) were not exercised as the employees who received the rights were no longer employees of Folkestone Limited at the vesting date.

M. Remuneration Report Continued

Details of Remuneration for the year ended 30 June 2010

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 ceased employment with the Consolidated Group with effect from 19 August 2009.

		Short Term			*Post Employment Benefits*	*Share Based Payment*		
		Salary & fees $	*STI cash bonus $(A)*	*Non-monetary benefits $*	*Superannuation benefits $*	*Perf. Rights (B)*	*Total $*	*S300A (1)(e)(i) Proportion of remuneration performance related %*
Directors (Non-executive)								
ATL Maitland	**2010**	**60,550**	**-**	**4,212**	**5,450**		**70,212**	**-**
(Chairperson)	2009	60,550	-	3,766	5,450		69,766	-
MW	**2010**	**40,367**	**-**	**-**	**3,633**	**-**	**44,000**	**-**
Parkinson	2009	40,367	-	-	3,633	-	44,000	-
KH Dening	**2010**	**40,367**	**-**	**-**	**3,633**	**-**	**44,000**	**-**
	2009	40,367	-	-	3,633	-	44,000	-
GJ Paramor	**2010**	**6,262**	**-**	**-**	**564**	**-**	**6,826**	**-**
(appointed 4 May 2010)	2009	-	-	-	-	-	-	-
AH Gurner	**2010**	**6,262**	**-**	**-**	**564**	**-**	**6,826**	**-**
(appointed 4 May 2010)	2009	-	-	-	-	-	-	-
BR Kean	**2010**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
(retired 16 October 2008)	2009	13,031	-	-	-	-	13,031	-
Directors (Executive)								
O Guglielmi, CEO	**2010**	**250,000**	**-**	**2,430**	**50,000**	**36,089**	**338,519**	**11%**
	2009	265,000	-	5,624	35,000	67,756	373,380	18%
Executives								
SN Martin, CFO & Company Secretary	**2010**	**185,539**	**-**	**-**	**14,461**	**18,098**	**218,098**	**8%**
	2009	186,255	-	-	13,745	41,723	241,723	17%
AS Cariss, Managing Director, Access Constructions (resigned 19th August 2009)	**2010**	**37,290**	**-**	**-**	**3,514**	**-**	**40,804**	**-**
	2009	103,381	884,872	15,230	35,055	-	1,038,538	85%
Total compensation: key management personnel (consolidated)	**2010**	**626,637**	**-**	**6,642**	**81,819**	**54,187**	**769,285**	**7%**
	2009	708,951	884,872	24,620	96,516	109,479	1,824,438	55%
Total compensation: key management personnel (company)	**2010**	**589,347**	**-**	**6,642**	**78,305**	**54,187**	**728,481**	**7%**
	2009	605,570	-	9,390	61,461	109,479	785,900	14%

M. REMUNERATION REPORT CONTINUED

A *The short-term cash incentive bonus is for performance during the relevant financial year using the criteria set out on page 13*

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. The values disclosed above relate to performance rights that have vested in prior years.*

Performance Rights Issued as part of Remuneration for the year ended 30 June 2010

There were no performance rights over ordinary shares in the company that were issued to the CEO and other staff during the reporting period.

The following performance rights were granted in previous years.

Executive	*Tranche*	*Granted during prior periods*	*Grant date*	*Vested during 2010*	*Fair value per right at grant date*	*Expiry date*
Oscar Guglielmi	1	100,000	25 Oct 2006	-	$0.53	25 Oct 2009
	2	200,000	25 Oct 2006	-	$0.53	25 Oct 2009
	3	100,000	25 Oct 2006	100,000	$0.53	21 Jul 2009
	4	100,000	25 Oct 2006	100,000	$0.42	21 Jul 2009
	5	100,000	11 Oct 2007	-	$0.709	21 Jul 2010
	6	100,000	11 Oct 2007	-	$0.50	21 Jul 2010
	8	100,000	16 Oct 2008	-	$0.40	21 July 2011
	9	100,000	16 Oct 2008	-	$0.21	21 July 2011
Scott Martin	3A	62,500	31 Jul 2007	62,500	$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	100,000	$0.756	21 Jul 2009
	7	450,000	11 Oct 2007	-	$0.709	21 Jul 2010

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*

3. *TSR ranking that exceeds 50th percentile in S&P/ASX 200 Real Estate Index (excluding Australand and Lendlease) as at 30 June 2007*
4. *Earnings per share increases more than 10% above the base of $0.12 for the financial year ending30 June 2007*
5. *TSR ranking that exceeds 60th percentile in the ASX Real Estate Management and Development listing (excluding Australand and Lend Lease) as of 30th June 2008*
6. *Net profit after tax and Performance Right expense for the Development Division exceeds $2,107,500 for the financial year ending 30 June 2008*
7. *Earnings per share increases more than 10% above base of $0.132 for the financial year ending 30 June 2009*
8. *TSR ranking that exceeds 70th percentile in the ASX Real Estate Management and Development Listing (excluding Australand and Lendlease) as at 30 June 2009*

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.

M. REMUNERATION REPORT CONTINUED

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	25 Oct 2009	$0.53	$0	$0.665	32%	5.97%	8.64%
2	25 Oct 06	25 Oct 2009	$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%
8	16 Oct 08	21 Jul 2011	$0.40	$0	$0.55	47%	4.34%	11.8%
9	16 Oct 08	21 Jul 2011	$0.21	$0	$0.55	47%	4.34%	11.8%

**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.

M. Remuneration Report Continued

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 in year*	*Number forfeited in current or prior year*	*Financial years to which grant vests*	*Value yet to vest*	
								Min (A)	*Max (B)*
								$	*$*
Oscar Guglielmi	1	100,000	25 Oct 2006	Not achieved	-	(100,000)	N/A	-	-
	2	200,000	25 Oct 2006	Not achieved	-	(200,000)	N/A	-	-
	3	100,000	25 Oct 2006	Achieved	(100,000)	-	30 Jun 2010	-	-
	4	100,000	25 Oct 2006	Achieved	(100,000)	-	30 Jun 2010	-	-
	5	100,000	11 Oct 2007	Part Achieved	-	(48,000)	30 Jun 2011	66,646	66,646
	6	100,000	11 Oct 2007	Achieved	-	-	30 Jun 2011	50,000	50,000
	8	100,000	16 Oct 2008	Not achieved	-	(100,000)	N/A	-	-
	9	100,000	16 Oct 2008	Not achieved	-	(100,000)	N/A	-	-
Scott Martin	3A	62,500	31 July 2007	Achieved	(62,500)	-	30 Jun 2010	-	-
	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	(100,000)	(125,000)	30 Jun 2010	-	-
Other Staff	7	450,000	11 Oct 2007	Part Achieved*	-	(436,000)	30 Jun 2011	9,926	9,926

M. Remuneration Report continued

A *The minimum value in respect of Tranches 1, 2, 8 & 9 is nil as the performance criteria has not been met and consequently the performance rights will 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 yet to vest.*

B *The maximum value in respect of Tranches 1, 2, 8 & 9 is nil as the performance criteria has not been met and consequently the performance rights will not vest. 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 yet to vest.*

* *Following the completion of the 30 June 2008 Annual Report, it was determined by the Board that the Tranche 7 performance rights were part achieved. The respective employees have subsequently been issued with the performance rights with the vesting period commencing on 30 June 2008. The performance rights are being expensed evenly over the remaining vesting period*

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	652,000	-	(200,000)	(300,000)	152,000
Value of Rights $	340,868	-	(95,000)	(159,000)	86,868
Executives					
Scott Martin					
Number of Rights	157,500	-	(62,500)	-	95,000
Value of Rights $	101,543	-	(47,250)	-	54,293
Other Staff					
Number of Rights	156,000	-	(100,000)	(42,000)	14,000
Value of Rights $	115,304	-	(75,600)	(29,778)	9,926
Total					
Number of Rights	965,500	-	(362,500)	(342,000)	261,000
Value of Rights	557,715	-	(217,850)	(188,778)	151,087

(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 of the performance rights that were issued to Directors and have lapsed had a fair value of nil. The company has assessed that the fair value of the performance rights that were issued to Other Staff and have lapsed is the same value as the 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 2010, 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	16	6	-
Number of meetings attended by:			
Alister TL Maitland *(Chairman)*	16	6	-
Michael W Parkinson *(Chairman of Audit Committee)*	16	6	-
Oscar Guglielmi *(Managing Director)*	16	*	-
Kaye H Dening	16	6	-
Greg Paramor (appointed 4 May 2010)[#]	3	*	*
Hugh Gurner (appointed 4 May 2010)[#]	3	*	*

* *not a member of the relevant committee*
[#] *since their appointment, 3 Board Meetings have been held*

O. INDEMNIFICATION OF OFFICERS AND AUDITORS
During the financial year ended 30 June 2010, Folkestone Limited paid a premium of $17,234 plus GST (2009 - $16,650) to insure each of the directors and executives of the company and related bodies corporate. The liabilities insured include legal costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the economic entity. The company has not otherwise, during or since the financial year, indemnified or agreed to indemnify the auditor of the company or of any related body corporate against a liability incurred as the auditor.

P. PROCEEDINGS ON BEHALF OF THE COMPANY
There are currently no proceedings on behalf of the company.

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

Details of the amounts paid to the auditor Deloitte Touche Tohmatsu for audit and non-audit services provided during the year are set out in Note 8 to the financial statements on page 54.

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

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

R. AUDITOR'S INDEPENDENCE DECLARATION
The auditor's independence declaration for the year ended 30 June 2010 has been received and is found on page 29 of the Annual Report.

S. Rounding of Amounts to Nearest Thousand Dollars

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

This report is made in accordance with a resolution of the directors in accordance with s.298(2) of the Corporations Act 2001.

Alister Maitland
Chairman

Oscar Guglielmi
Director

Melbourne
24 August 2010

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

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

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

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the 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 Stock 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 directors interests and trading policy governing dealing in the company's securities are covered with the new director during their induction.

At the Annual General Meeting, one third (by number) of the directors, other than the 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 Chief Executive Officer 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. 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.

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 & 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 chief executive officer 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. 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.

Deloitte.

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The Board of Directors
Folkestone Limited
Suite 8, 14 Lionel Road
Mount Waverley VIC 3149

24 August 2010

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 2010, 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 review; and

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Craig Bryan
Partner
Chartered Accountants

Deloitte.

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Independent Auditor's Report
to the members of Folkestone Limited

We have audited the accompanying financial report of Folkestone Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 32 to 76.

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.

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 2010 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 10 to 21 of the directors' report for the year ended 30 June 2010. 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 2010, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Craig Bryan
Partner
Chartered Accountants
Melbourne, 24 August 2010

Folkestone Limited and its Controlled Entities
Financial Report
For the year ended 30 June 2010

FINANCIAL REPORT

CONTENTS **Page**

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

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

Folkestone Limited
Suite 8
14 Lionel Road
Mt Waverley Vic 3149

A description of the nature of the economic entity's operations and its principal activities is included in the review of operations on pages 2 to 5 and within the Directors' Report on pages 7 to 23.

Folkestone Limited and its Controlled Entities
Statement of Comprehensive Income
For the year ended 30 June 2010

	Note	Economic Entity		Parent Entity	
		2010	2009	**2010**	2009
		$000	$000	**$000**	$000
Continuing Operations					
Revenue	2	**2,925**	19,594	**2,715**	4,608
Development expenses		**(2,052)**	(16,565)	**-**	-
Employee benefits expense	4	**(1,231)**	(1,776)	**(1,231)**	(1,776)
Depreciation and amortisation expense	4	**(24)**	(15)	**(24)**	(15)
Changes in inventories of finished goods and work in progress	4	**(1,357)**	(5,616)	**-**	-
Consultants' expenses		**(47)**	(25)	**(47)**	(25)
Rental expense on operating leases	4	**(147)**	(163)	**(147)**	(163)
Impairment of non-current assets	4, 20	**-**	(2,120)	**-**	(2,120)
Other expenses		**(492)**	(437)	**(5,621)**	(1,876)
Finance costs	3	**(3)**	(2)	**(1)**	(2)
Profit/(loss) before income tax	4	**(2,428)**	(7,125)	**(4,356)**	(1,369)
Income tax (expense)/credit	6	**(918)**	1,543	**(1,048)**	440
Profit/(loss) for the year from continuing operations		**(3,346)**	(5,582)	**(5,404)**	(929)
Discontinued operations					
(Loss)/profit from discontinued operations	5	**(131)**	1,709	**-**	-
Profit/(loss) for the year		**(3,477)**	(3,873)	**(5,404)**	(929)
Total comprehensive income		**(3,477)**	(3,873)	**(5,404)**	(929)
Attributable to					
Owners of the company		**(3,495)**	(3,696)	**(5,404)**	(929)
Non controlling interests		**18**	(177)	**-**	-
		(3,477)	(3,873)	**(5,404)**	(929)
Earnings per share					
From continuing and discontinued operations:					
Basic earnings per share (cents per share)	10	**(4.8)**	(11.8)		
Diluted earnings per share (cents per share)	10	**(4.8)**	(11.8)		
From continuing operations:					
Basic earnings per share (cents per share)	10	**(4.6)**	(17.2)		
Diluted earnings per share (cents per share)	10	**(4.6)**	(17.2)		

The statement of comprehensive income is to be read in conjunction with the notes of the financial statements set out on pages 38 to 75.

Folkestone Limited and its Controlled Entities
Statement of Financial Position
For the year ended 30 June 2010

	Note	Economic Entity		Parent Entity	
		2010 **$000**	2009 $000	**2010** **$000**	2009 $000
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	11	**15,648**	8,707	**13,077**	7,028
Trade and other receivables	12	**46**	1,001	**10,359**	13,824
Inventories	13	**21,017**	18,333	**-**	-
Current tax assets	23a	**12**	482	**21**	515
Other current assets	14	**3**	15	**1**	1
TOTAL CURRENT ASSETS		**36,726**	28,538	**23,458**	21,368
NON-CURRENT ASSETS					
Financial assets	17	**-**	-	**5,017**	4,604
Shares in associated entities	15	**3,239**	2,826	**-**	-
Property, plant and equipment	19	**18**	40	**18**	40
Deferred tax assets	23a	**-**	865	**-**	475
TOTAL NON-CURRENT ASSETS		**3,257**	3,731	**5,035**	5,119
TOTAL ASSETS		**39,983**	32,269	**28,493**	26,487
CURRENT LIABILITIES					
Trade and other payables	21	**1,248**	2,050	**282**	204
Short-term borrowings	22	**11,688**	8,161	**3,591**	5,242
Short-term provisions	24	**56**	198	**56**	56
TOTAL CURRENT LIABILITIES		**12,992**	10,409	**3,929**	5,502
TOTAL NON-CURRENT LIABILITIES		**-**	-	**-**	-
TOTAL LIABILITIES		**12,992**	10,409	**3,929**	5,502
NET ASSETS		**26,991**	21,860	**24,564**	20,985
EQUITY					
Issued capital	25	**28,271**	19,326	**28,271**	19,326
Reserves	26	**383**	345	**383**	345
Retained earnings/(Accumulated losses)		**(1,698)**	1,797	**(4,090)**	1,314
Parent interest		**26,956**	21,468	**24,564**	20,985
Minority equity interest		**35**	392	**-**	-
TOTAL EQUITY		**26,991**	21,860	**24,564**	20,985

The statement of financial position is to be read in conjunction with the notes of the financial statements set out on pages 38 to 75.

Folkestone Limited and its Controlled Entities
Statement of Changes in Equity
For the year ended 30 June 2010

	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 2008		19,115	6,584	219	25,918	618	26,536
Loss for the year		-	(3,696)	-	(3,696)	(177)	(3,873)
Total comprehensive income		-	(3,696)	-	(3,696)	(177)	(3,873)
Issue of share capital – dividend reinvestment plan	25	211	-	-	211	-	211
Net issue/forfeiture of performance rights	26	-	-	126	126	-	126
Dividends paid	9	-	(1,091)	-	(1,091)	(49)	(1,140)
Balance at 30 June 2009		19,326	1,797	345	21,468	392	21,860
Profit/(loss) for the year		-	(3,495)	-	(3,495)	18	(3,477)
Total comprehensive income		-	(3,495)	-	(3,495)	18	(3,477)
Issue of share capital - placement	25	1,556	-	-	1,556	-	1,556
Issue of share capital – equity raising	25	8,200	-	-	8,200	-	8,200
Share issue costs	25	(811)	-	-	(811)	-	(811)
Net issue/forfeiture of performance rights	26	-	-	38	38	-	38
Dividends paid		-	-	-	-	(375)	(375)
Balance at 30 June 2010		28,271	(1,698)	383	26,956	35	26,991

The statement of changes in equity is to be read in conjunction with the notes of the financial statements set out on pages 38 to 75.

Folkestone Limited and its Controlled Entities
Statement of Changes in Equity
For the year ended 30 June 2010

	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 2008		19,115	3,334	219	22,668	-	22,668
Loss for the year		-	(929)	-	(929)	-	(929)
Total comprehensive income		-	(929)	-	(929)	-	(929)
Issue of share capital – dividend reinvestment plan	25	211	-	-	211	-	211
Net issue/forfeiture of performance rights	26	-	-	126	126	-	126
Dividends paid	9	-	(1,091)	-	(1,091)	-	(1,091)
Balance at 30 June 2009		19,326	1,314	345	20,985	-	20,985
Loss for the year		-	(5,404)	-	(5,404)	-	(5,404)
Total comprehensive income		-	(5,404)	-	(5,404)	-	(5,404)
Issue of share capital - placement	25	1,556	-	-	1,556	-	1,556
Issue of share capital – equity raising	25	8,200	-	-	8,200	-	8,200
Share issue costs	25	(811)	-	-	(811)	-	(811)
Net issue/forfeiture of performance rights	26	-	-	38	38	-	38
Balance at 30 June 2010		28,271	(4,090)	383	24,564	-	24,564

The statement of changes in equity is to be read in conjunction with the notes of the financial statements set out on pages 38 to 75.

Folkestone Limited and its Controlled Entities
Statement of Cash Flows
For the year ended 30 June 2010

	Note	Economic Entity		Parent Entity	
		2010	2009	**2010**	2009
		$000	$000	**$000**	$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		**3,714**	57,632	**192**	2,477
Payments to suppliers and employees		**(9,402)**	(46,634)	**(1,722)**	(3,615)
Dividends received		**-**	-	**490**	2,353
Interest received – continuing operations	2	**472**	395	**439**	175
Interest received – discontinued operations		**12**	133	**-**	-
Finance costs– continuing operations	3	**(3)**	(2)	**(1)**	(2)
Finance costs– discontinued operations		**-**	(3)	**-**	-
Income tax (paid)/refunded		**466**	(2,964)	**520**	(2,269)
Net cash provided by/(used in) operating activities	30	**(4,741)**	8,557	**(82)**	(881)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		**(2)**	(4)	**(2)**	-
Payment for investment in associate		**(413)**	(1,110)	**(413)**	(1,110)
Net cash used in investing activities		**(415)**	(1,114)	**(415)**	(1,110)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		**4,938**	7,856	**-**	-
Repayment of borrowings		**(1,411)**	(10,419)	**-**	-
Repayment of loans by controlled entities		**-**	-	**-**	12,102
Repayment of loans by associated entities		**-**	-	**-**	5
Loans to controlled entities		-	-	**(2,399)**	(3,253)
Proceeds from the issue of shares	25	**9,756**	211	**9,756**	211
Payment for share issue costs	25	**(811)**	-	**(811)**	
Dividends paid to members	9	**-**	(1,091)	**-**	(1,091)
Dividends paid to minority interests		**(375)**	(49)	**-**	-
Net cash provided by/(used in) financing activities		**12,097**	(3,492)	**6,546**	7,974
Net increase in cash and cash equivalents		**6,941**	3,951	**6,049**	5,983
Cash and cash equivalents at beginning of financial year		**8,707**	4,756	**7,028**	1,045
Cash and cash equivalents at end of financial year	11	**15,648**	8,707	**13,077**	7,028

The statement of cash flows is to be read in conjunction with the notes of the financial statements set out on pages 38 to 75.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

The financial statements were approved by the Board on 24 August 2010 and were authorised for issue.

Basis of Preparation

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

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

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

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

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

- Presentation of the financial statements - as a consequence of the adoption of AASB 101 Presentation of Financial Statements (2007) and its associated amending standards, the company no longer presents an income statement, cash flow statement and balance sheet but presents in lieu thereof a statement of comprehensive income, statement of cash flows and a statement of financial position.

- Information about the company's operation segments – the adoption of AASB 8 Operating Segments and AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 8 has not resulted in any amendments to the reportable segments of the Group as its sole reportable segment is Property Development.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Preparation (continued)

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

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 January 2010	30 June 2011
• AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions	1 January 2010	30 June 2011
• AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues	1 February 2010	30 June 2011
• AASB 124 Related Party Disclosures (revised December 2009), AASB 2009-12 Amendments to Australian Accounting Standards	1 January 2011	30 June 2012
• AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9	1 January 2013	30 June 2014
• AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	1 January 2011	30 June 2012
• Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010	30 June 2011
• AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 July 2010	30 June 2011
• AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 January 2011	30 June 2012

The initial application of the expected issue of an Australian equivalent accounting standard is not expected to have a material impact on the financial statements of the Group and the company.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Accounting Policies

a) **Principles of Consolidation**

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

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

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

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

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

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

b) **Investments in Associates**

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

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.

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.

f) **Income Tax (Continued)**

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 the date. The head entity within the tax-consolidated group is Folkestone Limited. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group).

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

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

g) **Cash and Cash Equivalents**

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

h) **Financial instruments**

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

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

i) **Inventories**

i) Developments in Progress

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

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

i) **Inventories (Continued)**

ii) Land Held for Resale

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

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

j) **Property, Plant and Equipment**

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

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

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

k) **Depreciation on plant and equipment**

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

l) **Finance Costs**

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

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

m) **Intangibles**

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

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

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying

m) **Intangibles (Continued)**

amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

n) **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.

o) **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.

o) **Employee Benefits (Continued)**

iii) Profit Sharing and Bonus Plans
A liability of employee benefits in the form of profit sharing is recognised in other creditors when one of the following conditions is met:

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

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

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

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

vi) Performance Rights
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.

p) **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.

q) **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.

r) **Comparative Figures**

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

s) **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.

t) **Critical judgements in applying the entity's accounting policies**

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

i) Inventories

Note 13 sets out the category and value of inventory carried. The net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs to sell which approximates fair value less costs to sell. The key assumptions require the use of management judgement and are reviewed annually. These key assumptions are the variables affecting the estimated costs to develop and sell and the expected selling price. Any reassessment of cost to develop and sell or selling price in a particular year will affect the cost of goods sold.

NOTE 2: REVENUE

	Note	Economic Entity		Parent Entity	
		2010	2009	**2010**	2009
		$000	$000	**$000**	$000
Revenue from continuing operations consists of the following items:					
- Revenue from the sale of goods - development activities		**2,453**	19,199	**217**	2,080
- Dividends received	2a	**-**	-	**2,059**	2,353
- Interest received	2b	**472**	395	**439**	175
Total Revenue		**2,925**	19,594	**2,715**	4,608
a. Dividend revenue from:					
- Subsidiaries		**-**	-	**2,059**	2,353
Total dividend revenue		**-**	-	**2,059**	2,353
b. Interest revenue from:					
- bank deposits		**472**	395	**439**	175
Total interest revenue		**472**	395	**439**	175

NOTE 3: FINANCE COSTS

	Economic Entity 2010 $000	Economic Entity 2009 $000	Parent Entity 2010 $000	Parent Entity 2009 $000
Finance costs from continuing operations consist of the following items:				
- Interest on bills payable	**689**	918	**-**	-
- Line fees on bills payable	**108**	57	**-**	-
- Financial institution charges	**3**	1	**1**	2
- Other interest expense	**-**	1	**-**	-
Total Finance Costs	**800**	977	**1**	2
Less:				
Interest capitalised to property developments included in inventory	**(549)**	(720)	**-**	-
Interest expense included within development expenses	**(140)**	(198)	**-**	-
Line fees capitalised to property developments included in inventory	**(108)**	(57)	**-**	-
	3	2	**1**	2

The weighted average capitalisation rate (including margins) on funds borrowed at balance date is 7.09% (2009: 6.19%)

NOTE 4: PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS

	Economic Entity		Parent Entity	
	2010	2009	**2010**	2009
	$000	$000	**$000**	$000
a. Expenses				
Development expenses	**2,052**	16,565	**-**	-
Finance costs (external)	**3**	2	**1**	2
Changes in inventories of finished goods and work in progress	**1,357**	5,616	**-**	-
Impairment of goodwill & non-current assets	**-**	2,120	**-**	2,120
Impairment of trade receivables	**-**	-	**5,213**	1,404
Provisions				
- Employee entitlements	**(1)**	(7)	**(1)**	(7)
Rental expense on operating leases				
- minimum lease payments	**147**	163	**147**	163
b. Depreciation expense				
Depreciation – plant & equipment	**8**	15	**8**	15
Loss on disposal of plant & equipment	**16**	-	**16**	-
	24	15	**24**	-
c. Employee benefits expense				
Post employment benefits				
- Contribution plans	**76**	89	**76**	89
Equity settled share based payments	**38**	126	**38**	126
Other	**1,117**	1,561	**1,117**	1,561
	1,231	1,776	**1,231**	1,776

NOTE 5: DISCONTINUED OPERATIONS

Sale of Access Constructions

As disclosed in the 2009 Annual Report, Folkestone has exited its equity investment in the Access Constructions business. This was executed by way of a Management Buy Out signed on 19 August 2009 but with effect from 1 July 2009. The net effect of the sale of the business including the write-off of goodwill was $2.255m against book value. This was reflected in the financial statements for the year ended 30 June 2009.

The results of the discontinued operations which are included in the statement of comprehensive income for the year ended 30 June 2010 are as follows:

	30 June 2010	30 June 2009
	$000	$000
(Loss)/profit from discontinued operations		
Revenue	152	37,024
Expenses	(333)	(34,523)
(Loss)/profit before tax	(181)	2,501
Income tax credit/(expense)	50	(792)
Net (loss)/profit from discontinued operations after income tax	(131)	1,709

NOTE 6: INCOME TAX EXPENSE

	Economic Entity		Parent Entity	
	2010	2009	**2010**	2009
	$000	$000	**$000**	$000
Income tax recognised in profit or loss				
Current tax expense/(credit)	**103**	(444)	**573**	(20)
Deferred tax (benefit)/expense	**815**	(1,017)	**54**	(420)
Under/(Over) provision of income tax in respect of prior year	**-**	(82)	**421**	-
Income tax expense/(credit)	**918**	(1,543)	**1,048**	(440)

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:

Profit/(loss) from operations	**(2,428)**	(7,125)	**(4,356)**	(1,369)
Income tax calculated at 30%	**(728)**	(2,137)	**(1,307)**	(411)
Add:				
- Entertainment	**-**	2	**1**	3
- Impairments losses that are not deductible	**-**	636	**-**	636
- Provision for receivables that are not deductible	**-**	-	**1,564**	-
- Effect of unused tax losses not recognised as deferred tax assets	**444**	-	**444**	-
- De-recognition of deferred tax assets	**708**	-	**49**	-
- Other assessable income	**483**	-	**-**	-
- Other non-allowable expenses	**11**	38	**11**	38
	1,646	676	**2,069**	677
Less:				
- Other non-assessable income	**-**	-	**135**	706
Sub Total	**918**	(1,461)	**627**	(440)
Under/(Over) provision of income tax in respect of prior year	**-**	(82)	**421**	-
Income tax attributable to entity	**918**	(1,543)	**1,048**	(440)

Folkestone Limited and its Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2010

NOTE 7: KEY MANAGEMENT PERSONNEL COMPENSATION

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

Key Management Person	Position
ATL Maitland	*Chairman*
MW Parkinson	*Non-executive director*
KH Dening	*Non-executive director*
GJ Paramor	*Non-executive director (appointed 4 May 2010)*
AH Gurner	*Non-executive director (appointed 4 May 2010)*
O Guglielmi	*Managing Director*
SN Martin	*CFO & Company Secretary*
AS Cariss	*Managing Director, Access Constructions Pty Ltd (resigned 19 August 2009)*

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**	
	2010	2009	**2010**	**2009**
	$	$	**$**	**$**
Short-term employee benefits	**633,279**	1,618,443	**595,989**	**614,960**
Post-employment benefits	**81,819**	96,516	**78,305**	**61,461**
Share-based payment	**54,187**	109,479	**54,187**	**109,479**
	769,285	1,824,438	**728,481**	**785,900**

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 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.

The terms of the Executive Bonus Scheme are currently being reviewed and any changes to the scheme which require shareholder approval will be put to a meeting of shareholders.

NOTE 7: 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 in current or prior year*	*Number forfeited in current or prior year*	*Financial years to which grant vests*	*Value yet to vest*	
								Min (A)	*Max (B)*
								$	*$*
Oscar Guglielmi	1	100,000	25 Oct 2006	Not achieved	-	(100,000)	30 Jun 2013	-	-
	2	200,000	25 Oct 2006	Not achieved	-	(200,000)	30 Jun 2013	-	-
	3	100,000	25 Oct 2006	Achieved	(100,000)	-	30 Jun 2010	-	-
	4	100,000	25 Oct 2006	Achieved	(100,000)	-	30 Jun 2010	-	-
	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
	8	100,000	16 Oct 2008	Not Achieved	-	(100,000)	30 June 2012	-	-
	9	100,000	16 Oct 2008	Not Achieved	-	(100,000)	30 June 2012	-	-
		900,000			(200,000)	(548,000)		116,646	116,646
Scott Martin	3A	62,500	31 July 2007	Achieved	(62,500)	-	30 Jun 2010	-	-
	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
		187,500			(62,500)	(30,000)		72,904	72,904

A The minimum value in respect of Tranches 1,2,8 & 9 is nil as the performance criteria has not been met and consequently the performance rights will 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 in respect of Tranches 1,2,8 & 9 is nil as the performance criteria has not been met and consequently the performance rights will not vest. 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.

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 30th June 2008
8. Earnings per share increases more than 10% above the base of $0.132 for the financial year ending 30 June 2009.
9. TSR ranking that exceeds 70th percentile in the ASX Real Estate Management and Development Listing (excluding Australand and Lendlease) as at 30 June 2009.

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

NOTE 7: KEY MANAGEMENT PERSONNEL COMPENSATION CONTINUED

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".

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	25 Oct 2009	$0.53	$0	$0.665	32%	5.97%	8.64%
2	25 Oct 06	25 Oct 2009	$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%
8	16 Oct 08	21 Jul 2011	$0.40	$0	$0.55	47%	4.34%	11.8%
9	16 Oct 08	21 Jul 2011	$0.21	$0	$0.55	47%	4.34%	11.8%

Analysis of movements in performance rights

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

	Opening Balance	***Granted in Year (i) (ii)***	***Vested in Year (iii)***	***Lapsed in Year (iv)***	***Closing Balance***
Directors					
Oscar Guglielmi					
Number of Rights	652,000	-	(200,000)	(300,000)	152,000
Value of Rights $	340,868	-	(95,000)	(159,000)	86,868
Executives					
Scott Martin					
Number of Rights	157,500	-	(62,500)	-	95,000
Value of Rights $	101,543	-	(47,250)	-	54,293
Other Staff					
Number of Rights	156,000	-	(100,000)	(42,000)	14,000
Value of Rights $	115,304	-	(75,600)	(29,778)	9,926
Total					
Number of Rights	965,500	-	(362,500)	(342,000)	261,000
Value of Rights	557,715	-	(217,850)	(188,778)	151,087

(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.*

NOTE 7: KEY MANAGEMENT PERSONNEL COMPENSATION CONTINUED

(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 of the performance rights that were issued to Directors and have lapsed had a fair value of nil. The company has assessed that the fair value of the performance rights that were issued to Other Staff and have lapsed is the same value as the value at grant date.

Number of Shares held by Key Management Personnel

2010	**Balance 1.7.2009**	**Received as Compensation**	**Performance Rights Exercised**	**Net Change Other***	**Balance 30.6.2010**
ATL Maitland	323,860	-	-	647,720	971,580
MW Parkinson	19,730	-	-	39,460	59,190
KH Dening	35,717	-	-	71,434	107,151
O Guglielmi	426,592	-	200,000	1,253,184	1,879,776
SN Martin	107,210	-	62,500	295,988	465,698
AH Gurner (appointed 4 May 2010)	-	-	-	1,000,000	1,000,000
GJ Paramor (appointed 4 May 2010)	-	-	-	4,730,205	4,730,205
AS Cariss (resigned 19 August 2009)	-	-	-	-	-
Total	913,109	-	262,500	8,037,991	9,213,600

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

2009	**Balance 1.7.2008**	**Received as Compensation**	**Performance Rights Exercised**	**Net Change Other***	**Balance 30.6.2009**
ATL Maitland	323,860	-	-	-	323,860
MW Parkinson	18,913	-	-	817	19,730
KH Dening	34,238	-	-	1,479	35,717
O Guglielmi	426,592	-	-	-	426,592
SN Martin	104,875	-	-	2,335	107,210
AS Cariss	-	-	-	-	-
Total	908,478	-	-	4,631	913,109

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

NOTE 8: AUDITORS' REMUNERATION

	Economic Entity		Parent Entity	
	2010	2009	**2010**	2009
	$	$	**$**	$
Remuneration of the auditor of the parent entity for:				
- auditing or reviewing the financial report	**63,088**	80,294	**59,588**	77,278
- taxation services	**19,320**	18,953	**13,125**	12,128

NOTE 9: DIVIDENDS

	Economic Entity/Parent Entity	
	2010	2009
Recognised amounts	**$000**	$000
Dividends paid		
Nil final dividend for the year ended 30 June 2009 (2008: 3.5 cents per share paid on 1 October 2008)	**-**	1,091
	-	1,091
Franking Account		
Balance of franking account at year end	**10,529**	10,504
Adjusted for franking credits arising from:		
- payment/(refund) of provision for income tax	**(21)**	(515)
	10,508	9,989

NOTE 10: EARNINGS PER SHARE

	Economic Entity	
	2010	2009
	$000	$000
Basic earnings per share		
From continuing operations	**(4.6)**	(17.2)
From discontinued operations	**(0.2)**	5.4
Total basic earnings per share	**(4.8)**	(11.8)
Diluted earnings per share		
From continuing operations	**(4.6)**	(17.2)
From discontinued operations	**(0.2)**	5.4
Total diluted earnings per share	**(4.8)**	(11.8)

NOTE 10: EARNINGS PER SHARE CONTINUED

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:

	2010 $000	2009 $000
Profit/(loss) attributable to members of the parent entity	**(3,495)**	(3,696)
Earnings used in the calculation of basic EPS	**(3,495)**	(3,696)
(Profit)/loss for the year from discontinued operations used in the calculation of basic earnings per share from discontinued operations	**131**	(1,709)
Earnings used in the calculation of basic earnings per share from continuing operations and discontinued operations	**(3,364)**	(5,405)

	2010 No.	2009 No.
Weighted average number of ordinary shares for the purposes of basic earnings per share (all measures)	73,576,171	31,372,961

Diluted earnings per share

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

	2010 $000	2009 $000
Profit/(loss) attributable to members of the parent entity	**(3,495)**	(3,696)
Earnings used in the calculation of diluted EPS	**(3,495)**	(3,696)
(Profit)/loss for the year from discontinued operations used in the calculation of diluted earnings per share from discontinued operations	**131**	(1,709)
Earnings used in the calculation of diluted earnings per share from continuing operations and discontinued operations	**(3,364)**	(5,405)

	2010 No.	2009 No.
Weighted average number of ordinary shares used in the calculation of basic EPS	**73,576,171**	31,372,961
Shares deemed to be issued for no consideration in respect of:		
Employee performance rights	**261,000**	665,500
Weighted average number of ordinary shares used in the calculation of diluted EPS	**73,837,171**	32,038,461

NOTE 11: CASH AND CASH EQUIVALENTS

	Economic Entity		Parent Entity	
	2010	2009	**2010**	2009
	$000	$000	**$000**	$000
Cash at bank and in hand	**15,645**	8,699	**13,077**	7,028
Deposits at call	**3**	8	**-**	-
	15,648	8,707	**13,077**	7,028

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	**15,648**	8,707	**13,077**	7,028
	15,648	8,707	**13,077**	7,028

NOTE 12: TRADE AND OTHER RECEIVABLES

	Note	Economic Entity		Parent Entity	
CURRENT		**2010**	2009	**2010**	2009
		$000	$000	**$000**	$000
Trade receivables		**45**	-	**40**	9
Amounts due from customers for construction contracts		**15**	925	**-**	-
Other receivables		**1**	76	**1**	2
Amounts receivable from:					
- wholly-owned subsidiaries	32	**-**	-	**16,935**	15,217
Allowance for doubtful debts					
- Amounts due from customers for construction contracts		**(15)**	-	**-**	-
- wholly-owned subsidiaries		**-**	-	**(6,617)**	(1,404)
		46	1,001	**10,359**	13,824

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

NOTE 12: TRADE AND OTHER RECEIVABLES CONTINUED

Trade Receivables
Ageing of past due but not impaired

	Economic Entity		Parent Entity	
	2010 $000	2009 $000	**2010 $000**	2009 $000
Not past due	**22**	-	21	9
Past due 0-30 days	**23**	-	19	-
Past due 31-60 days	**-**	-	-	-
Past due 61-90 days	**-**	-	-	-
Past due 91-120 days	**-**	-	-	-
Past 120 days	**-**	-	-	-
	45	-	40	9

Amounts due from customers for construction contracts
Ageing of past due but not impaired

	Economic Entity		Parent Entity	
	2010	2009	**2010**	2009
	$000	$000	**$000**	$000
Not past due	**-**	840	**-**	-
Past due 0-30 days	**-**	69	**-**	-
Past due 31-60 days	**-**	-	**-**	-
Past due 61-90 days	**-**	-	**-**	-
Past due 91-120 days	**-**	-	**-**	-
Past 120 days	**-**	16	**-**	-
	-	925	**-**	-

NOTE 13: INVENTORIES

	2010 $000	2009 $000	**2010 $000**	2009 $000
CURRENT				
Developments in progress	**21,017**	18,333	**-**	**-**
	21,017	18,333	**-**	**-**

NOTE 14: CURRENT ASSETS – OTHER

Other assets	**3**	-	**1**	1
Prepayments	**-**	15	**-**	-
	3	15	**1**	1

NOTE 15: ASSOCIATED ENTITIES

Interests are held in the following associated entities

Name	**Principal Activities**	**Country of Incorporation**	**Shares**	**Ownership Interest**		**Carrying amount of investment**	
				2010	2009	**2010**	2009
				%	%	**$000**	$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	**3,229**	2,816
						3,239	2,826

(1) Folkestone holds 170,804 (2009: 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 3,225,502 of the 16,127,510 ordinary shares on issue.

		Economic Entity	
		2010 **$000**	2009 $000
a.	Movements during the year in equity accounted investment in associated entities		
	Balance at beginning of the financial year	**2,826**	1,716
Add:	Share of associated company's profit after income tax	**-**	-
	Capital issued	**413**	1,110
Less:	Distribution of profits from associated entity	**-**	-
	Balance at end of the financial year	**3,239**	2,826
b.	Summarised Presentation of the economic entity's share of Aggregate Assets, Liabilities and Performance of Associates		
	Current assets	**21,136**	20,738
	Total assets	**21,136**	20,738
	Current liabilities	**17,897**	5,883
	Non-current liabilities	**-**	12,029
	Total liabilities	**17,897**	17,912
	Net assets	**3,239**	2,826
	Revenues	**3**	2
	Profit after income tax of associates	**-**	-

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 2010. This reporting date coincides with Folkestone Limited.

Ownership interest in Folkestone (Bayside) Pty Ltd was 20% of issued ordinary shares. The reporting date of Folkestone (Bayside) Pty Ltd is 30 June 2010. This reporting date coincides with Folkestone Limited.

NOTE 16: JOINTLY CONTROLLED OPERATIONS

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

	Economic Entity 2010 $000	2009 $000
i) 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	**3**	12
Total current assets	**3**	12
Share of total assets of jointly controlled operations	**3**	12
Net interest in jointly controlled operations	**3**	11

ii) 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.	2010 $000	2009 $000
The economic entity's share of assets employed in the jointly controlled operations is:		
CURRENT ASSETS		
Cash at bank and on hand	**2,293**	104
Inventories – developments in progress	**12,862**	9,468
Other current assets	**5**	37
Total current assets	**15,160**	9,609
NON-CURRENT ASSETS		
Total non-current assets	**-**	1
Share of total assets of jointly controlled operations	**15,160**	9,610
Net interest in jointly controlled operations	**7,299**	6,940

iii) 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:	2010 $000	2009 $000
CURRENT ASSETS		
Cash at bank and on hand	**67**	58
Inventories – developments in progress	**8,155**	8,865
Other current assets	**-**	2
Total current assets	**8,222**	8,925
NON-CURRENT ASSETS		
Total non-current assets	**-**	1,352
Share of total assets of jointly controlled operations	**8,222**	10,277
Net interest in jointly controlled operations	**3,718**	3,940

NOTE 17: OTHER NON-CURRENT FINANCIAL ASSETS

	Economic Entity		Parent Entity	
	2010	2009	**2010**	2009
	$000	$000	**$000**	$000
Shares in controlled entities at cost	**-**	-	**1,781**	1,781
Shares in associated entities at cost	**-**	**-**	**3,236**	2,823
	-	**-**	**5,017**	4,604

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.

NOTE 18: CONTROLLED ENTITIES

a. Controlled Entities Consolidated

	Country of Incorporation	Percentage Owned (%)*	
		2010	**2009**
Parent Entity:			
Folkestone Limited	Australia		
Subsidiaries of Folkestone Limited:			
Folkestone Freeholds Pty Ltd	Australia	100	100
Folkestone Developments Pty Ltd	Australia	100	100
Folkestone Project Management Pty Ltd	Australia	100	100
Fenchurch Pty Ltd	Australia	100	100
Folkestone (EMT) Pty Ltd	Australia	100	100
Folkestone East Melbourne Trust	Australia	100	100
Ceres House Pty Ltd	Australia	100	100
Lionel Road (Vic) Pty Ltd (formerly Access Constructions Pty Ltd)	Australia	100	100
Folkestone (PMD) Pty Ltd	Australia	100	100
Bertie Bridge Pty Ltd	Australia	75	75
Sorrento (VIC) Pty Ltd	Australia	100	100
Folkestone No. 1 Pty Ltd	Australia	100	100
Folkestone No. 2 Pty Ltd	Australia	100	100
Folkestone No. 3 Pty Ltd	Australia	100	100
Folkestone No. 4 Pty Ltd	Australia	100	100
Folkestone No: 5 Pty Ltd	Australia	100	100
Folkestone No: 6 Pty Ltd	Australia	100	100
Folkestone No: 7 Pty Ltd	Australia	100	100
Folkestone No: 8 Pty Ltd	Australia	100	100
Folkestone No: 9 Pty Ltd	Australia	100	100
Folkestone No: 10 Pty Ltd	Australia	100	100

** Percentage of voting power is in proportion to ownership*

NOTE 19: PROPERTY, PLANT AND EQUIPMENT

	Note	Economic Entity		Parent Entity	
		2010	2009	**2010**	2009
		\$000	\$000	**\$000**	\$000
PLANT AND EQUIPMENT					
Plant and equipment:					
At cost		**142**	740	**142**	387
Accumulated depreciation and impairment		**(124)**	(565)	**(124)**	(347)
Impairment losses charged to profit	(i)	**-**	(135)	**-**	-
Total Property, Plant and Equipment		**18**	40	**18**	40

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

	Note	Economic Entity		Parent Entity	
		2010	2009	**2010**	2009
		\$000	\$000	**\$000**	\$000
Opening balance of plant & equipment at cost		**740**	732	**387**	387
Opening balance of accumulated depreciation		**(565)**	(499)	**(347)**	(332)
Opening balance of impairment losses		**(135)**	-	**-**	-
Additions at cost		**2**	8	**2**	-
Disposals at cost		**(600)**	(4)	**(247)**	-
Accumulated depreciation eliminated on disposal		**449**	-	**231**	-
Reversal of impairment losses		**135**	-	**-**	-
Depreciation expense	(ii)	**(8)**	(62)	**(8)**	(15)
Impairment losses charged to profit		**-**	(135)	**-**	-
Carrying amount at the end of year		**18**	40	**18**	40

(i) The Property, Plant and Equipment of Access Constructions was written down to its realisable value at 30 June 2009.

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

NOTE 20: GOODWILL

	Economic Entity		Parent Entity	
	2010 $000	2009 $000	**2010 $000**	2009 $000
Goodwill				
At cost	**-**	-	**-**	-
Total goodwill	**-**	-	**-**	**-**

	Economic Entity		Parent Entity	
Goodwill				
Balance at the beginning of year	-	2,120	-	-
Impairment losses for the year	-	(2,120)	-	-
Balance at the end of year	**-**	-	-	-

An impairment loss was recognised in the prior financial year in respect of the goodwill paid on acquisition of Access Constructions Pty Ltd in March 2005.

NOTE 21: TRADE AND OTHER PAYABLES

	Note	Economic Entity		Parent Entity	
		2010 $000	2009 $000	**2010 $000**	2009 $000
Trade payables	a	**969**	1,824	**162**	64
Sundry payables and accrued expenses		**279**	226	**120**	140
		1,248	2,050	**282**	204

(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 22: BORROWINGS

	Note	Economic Entity		Parent Entity	
		2010 $000	2009 $000	**2010 $000**	2009 $000
CURRENT					
Unsecured liabilities					
Advances from related entities	32	**-**	**-**	**3,591**	5,242
		-	**-**	**3,591**	5,242
Secured liabilities					
Bills payable	22a,b,c	**11,688**	8,161	**-**	**-**
		11,688	8,161	**-**	**-**
		11,688	8,161	**3,591**	5,242

NOTE 22: BORROWINGS CONTINUED

	Economic Entity		Parent Entity	
	2010	2009	**2010**	2009
	$000	$000	**$000**	$000
a. The carrying amounts of current assets pledged as security are:				
Bills payable are secured by freehold land and buildings (developments in progress) in Australia and a mortgage debenture over the assets of the borrowing entity. In some instances a guarantee is also provided by Folkestone Limited (Refer Note 28).	**21,017**	18,333	**-**	-
	21,017	18,333	**-**	-

b. Bills Payable

Prevailing interest rates at 30 June 2010 on bills drawn range from 7.01%-7.15% (2009: 4.10%-6.99%) including margins. The total bill facility available at 30 June 2010 was $17.838m (2009: $15.911m) and subject to continuing compliance with the specific conditions of the facility for each project, the bill facilities may be drawn at any time and have an expiry in line with each specific project. Bill facilities are specific to each project and the total bill facility available represents the Group's share of these facilities. As new projects are secured, further bill facilities will be acquired.

c. Maturity and classification of bills payable

- The finance facility in respect of the project at 300 Millers Road Altona expires on 17 November 2010. On 24 August 2010, the joint venture accepted an offer from St George Bank to extend this facility until 30 November 2011.
- The finance facility in respect of the project at Noone St Clifton Hill expires on 31 December 2011.
- The borrowings have been classified as current to align with the classification of inventory to which the borrowings relate.

NOTE 23: TAX

	Economic Entity		Parent Entity	
	2010	2009	**2010**	2009
	$000	$000	**$000**	$000
a. Assets				
CURRENT				
Income tax	**12**	482	**21**	515
	12	482	**21**	515
NON-CURRENT				
Deferred tax assets/(liability):				
Provisions	**-**	1,464	**-**	475
Other	**-**	(599)	**-**	-
	-	865	**-**	475

NOTE 23: TAX CONTINUED

b. Reconciliations

i Gross Movements

The overall movement in the deferred tax asset account is as follows:

Opening balance	**865**	105	**475**	54
Movement for the year	**(153)**	760	**(426)**	421
De-recognition of deferred tax assets	**(712)**	-	**(49)**	-
Closing balance	**-**	865	**-**	475

ii Deferred Tax Assets

The movement in deferred tax assets for each temporary difference during the year is as follows:

Provisions				
Opening balance	**1,464**	653	**475**	59
Credited/(charged) to the income statement	**358**	811	**(426)**	416
De-recognition of deferred tax asset charged to the income statement	**(1,822)**	-	**(49)**	-
Closing balance	**-**	1,464	**-**	475
Accrued Income				
Opening balance	**-**	(543)	**-**	-
Credited/(charged) to the income statement	**-**	543	**-**	-
Closing balance	**-**	-	**-**	-
Other				
Opening balance	**(599)**	(5)	**-**	(5)
Credited/(charged) to the income statement	**(511)**	(594)	**-**	5
De-recognition of deferred tax asset credited to the income statement	**1,110**	-	**-**	-
Closing balance	**-**	(599)	**-**	-
	-	865	**-**	475

NOTE 24: PROVISIONS

	Economic Entity		Parent Entity	
	2010	2009	**2010**	2009
	$000	$000	**$000**	$000
Current				
Employee benefits				
Opening balance	**198**	224	**56**	62
Additional provision	**73**	250	**73**	89
Reclassification of non-current liability as current liability	**-**	31	**-**	-
Amounts used	**(215)**	(307)	**(73)**	(95)
Total	**56**	198	**56**	56
Future losses on developments in progress				
Opening balance	**-**	366	**-**	-
Amounts written back to P&L	**-**	(366)	**-**	-
Total	**-**	-	**-**	-
Total Current Provisions	**56**	198	**56**	56
Non-Current				
Employee benefits				
Opening balance	**-**	40	**-**	-
Additional provision	**-**	4	**-**	-
Reclassification of non-current liability as current liability	**-**	(31)	**-**	-
Amounts used	**-**	(13)	**-**	-
Total Non-Current Provisions	**-**	-	**-**	-
Analysis of Total Provisions				
Current	**56**	198	**56**	56
	56	198	**56**	56

NOTE 25: ISSUED CAPITAL

	Economic Entity		Parent Entity	
	2010	2009	**2010**	2009
	$000	$000	**$000**	$000
99,438,228 (2009: ***31,438,857***) fully paid ordinary shares of no par value	**28,271**	19,326	**28,271**	19,326
	28,271	19,326	**28,271**	19,326

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

NOTE 25: ISSUED CAPITAL CONTINUED

	2010		2009	
	Shares (thousand)	**$000**	Shares (thousand)	$000
Ordinary shares				
At the beginning of reporting period	**31,439**	**19,326**	31,177	19,115
Shares issued during the year				
- Issue of Performance Rights	**362**	**-**	-	-
- Equity raising (a)	**54,667**	**8,200**	-	-
Less: share issue costs	**-**	**(681)**	-	-
- Share placement (b)	**12,970**	**1,556**	-	-
Less: share issue costs	**-**	**(130)**	-	-
- Dividend reinvestment plan	**-**	-	262	211
At reporting date	**99,438**	**28,271**	31,439	19,326

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

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

(a) On 26 August 2009, Folkestone announced a 2 for 1 renounceable rights offer to shareholders at an issue price of 15 cents per share. The equity raising was completed on 8 October 2009 and resulted in 54,666,667 new ordinary shares being issued, resulting in cash proceeds of $8.2m. Costs associated with the equity raising were $0.681m, resulting in net cash proceeds of $7.519m.

(b) On 4 May 2010, Folkestone completed a placement of 12,970,204 shares at an issue price of 12 cents per share to the principals of EREP and other sophisticated private investors.

NOTE 26: RESERVES

	Economic Entity		**Parent Entity**	
	2010 $000	2009 $000	**2010 $000**	2009 $000
At the beginning of the reporting period	**345**	219	**345**	219
- Net performance rights granted/(forfeited)	**38**	126	**38**	126
At the reporting date	**383**	345	**383**	345

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

NOTE 27: CAPITAL AND LEASING COMMITMENTS

	Economic Entity		Parent Entity	
	2010	2009	**2010**	2009
	$	$	**$**	$
a. Operating Lease Commitments				
Non-cancellable operating leases contracted for but not capitalised in the financial statements				
Payable - minimum lease payments				
- not later than 12 months	**77**	224	**77**	124
- between 12 months and 5 years	**-**	99	**-**	22
	77	323	**77**	146

The Group has the following lease commitment:

1. Suite 8, 14 Lionel Road, Mount Waverley which expires on 31 March 2011. Rent is payable monthly in advance with 3.5% per annum fixed increases on the anniversary date. Folkestone Limited has subleased the major component of this space to Access Constructions Pty Ltd.

NOTE: 28: 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 of135,225 &285 Donnybrook Rd, Mickleham. The loan facility has a maturity date of 21 December 2011 which may be extended by mutual agreement. The guarantee provided is several from the other shareholder of Folkestone (Bayside) Pty Ltd and is limited to 20% of the loan facility only and will lapse upon settlement of the property on 21 December 2010.

- 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 St George Bank in relation to a loan facility for $26.675m (drawn to 30 June 2010: $14.377m) for the development of 169 Noone Street, Clifton Hill. The loan facility runs to 31 December 2011. As part of the security for the facility, Folkestone Limited has provided St George Bank with an unlimited guarantee and indemnity for 100% of the loan. Folkestone's joint venture partner, SPP No 2, has provided a limited undertaking of $2.25m to Folkestone Limited in respect of the guarantee and indemnity provided to St George Bank

Folkestone Limited and its Controlled Entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2010

NOTE: 28: CONTINGENT LIABILITIES CONTINUED

- Millers Road (Altona) Pty Ltd - Folkestone Limited holds 50% of the share capital in Millers Road (Altona) Pty Ltd. Folkestone Limited has provided a guarantee in favour of St George Bank in relation to a loan facility for \$9.0m (drawn to 30 June 2010: \$9.0m) for the development of 300 Millers Road, Altona. The loan facility runs to November 2010. On 24 August 2010, the joint venture accepted an offer from St George Bank to extend this facility until 30 November 2011. As part of the security for the facility, Folkestone Limited has provided St George Bank with an unlimited guarantee and indemnity for 100% of the loan. Folkestone's joint venture partner, SPP No 2, has provided a limited undertaking of \$4.5m to Folkestone Limited in respect of the guarantee and indemnity provided to St George Bank

- Bertie Bridge Pty Ltd – Folkestone Limited owns 75% of the share capital in Bertie Bridge Pty Ltd. The development agreement between Folkestone Limited and Trust Company Australia Ltd was terminated on 29 January 2010 and in accordance with the Terms of the Deed of Termination Folkestone continues to provide ongoing indemnifications to Goodman.

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.

NOTE 29: SEGMENT REPORTING

The economic entity's sole reportable segment under AASB 8 is Property Development.

In prior periods, the economic entity also operated a Construction division which was reported as a separate segment under AASB 114. That operation was discontinued with effect from 1 July 2009 (see Note 5).

	Segment Revenue		Segment Profit	
	30 June 2010	30 June 2009	**30 June 2010**	30 June 2009
	$000	$000	**$000**	$000
Continuing operations				
Property development	**2,925**	19,594	**(484)**	(2,587)
	2,925	19,594	**(484)**	(2,587)
Administration costs			**(1,944)**	(4,538)
Loss before income tax			**(2,428)**	(7,125)
Discontinued operations				
Construction	**152**	36,891	**(86)**	5,321
	152	36,891	**(86)**	5,321
Administration costs			**(95)**	(2,820)
(Loss)/profit before income tax			**(181)**	2,501
Income tax (expense)/credit (continuing and discontinued operations)			**(868)**	751
Consolidated segment revenue and profit for the year	**3,077**	56,485	**(3,477)**	(3,873)

NOTE 30: NOTES TO THE CASH FLOW STATEMENT

	Economic Entity		Parent Entity	
	2010	2009	**2010**	2009
	$000	$000	**$000**	$000
a. Reconciliation of profit for the period to net cash flows from operations				
Profit/(loss) after income tax	**(3,477)**	(3,873)	**(5,404)**	(929)
Non-cash flows in profit				
Amortisation & depreciation	**24**	62	**24**	15
Expensing of performance rights	**38**	126	**38**	126
Inter-company dividends and distributions	**-**	-	**(1,569)**	-
Provision for doubtful debts	**-**	-	**5,213**	-
Unused tax losses of the members expensed by the parent entity	**-**	-	**599**	-
Impairment of non-current assets	**-**	2,255	**-**	2,120
(Increase)/decrease in trade and other receivables	**955**	1,257	**(30)**	445
Decrease in other operating assets	**12**	294	**-**	134
(Increase)/decrease in inventories	**(2,684)**	13,748	**-**	-
Increase/(decrease) in trade and other payables	**(802)**	(1,165)	**78**	(71)
(Increase)/decrease in income taxes receivable	**470**	(2,955)	**494**	(2,294)
(Increase)/decrease in deferred tax assets	**865**	(760)	**475**	(421)
Decrease in provisions	**(142)**	(432)	**-**	(6)
Net cash provided by/(used in) operations	**(4,741)**	8,557	**(82)**	(881)

b. Credit Standby Arrangements with Banks

Bank Loan Facilities	**17,838**	15,911	**-**	-
Amount utilised	**(11,688)**	(8,161)	**-**	-
	6,150	7,750	**-**	-

The major facilities are summarised as follows:

Bill facility

Prevailing interest rates at 30 June 2010 on bills drawn range from 7.01%-7.15% (2009: 4.10%-6.99%) including margins. The total bill facility available at 30 June 2010 was $17.838m (2009: $15.911m) and subject to continuing compliance with the specific conditions of the facility for each project, the bill facilities may be drawn at any time and have an expiry in line with each specific project. Bill facilities are specific to each project and the total bill facility available represents the Group's share of these facilities. As new projects are secured, further bill facilities will be acquired.

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

NOTE 31: EVENTS AFTER BALANCE DATE

The finance facility in respect of the project at 300 Millers Road Altona expires on 17 November 2010. On 24 August 2010, the joint venture accepted an offer from St George Bank to extend this facility until 30 November 2011.

NOTE 32: 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 18.

Transactions between Folkestone Limited and other entities in the wholly-owned group during the years ended 30 June 2010 and 2009 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	
	2010	2009	**2010**	2009
	$	$	**$**	$
Total amounts receivable from and payable to related parties in the wholly-owned group at balance date were as follows:				
Current receivables	**-**	-	**16,935,008**	15,216,762
Allowance for doubtful receivables	**-**	-	**(6,617,478)**	(1,404,421)
	-	-	**10,317,530**	13,812,341
Current borrowings	**-**	-	**3,591,146**	5,241,747

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.

An expense of $5,213,057 was recognised by the parent entity during the period for doubtful debts in respect of the amounts owed by wholly owned entities.

Other Related Parties

Other related parties include investment in associates as set out in Note 15 and interest in joint venture operations as set out in Note 16.

Transactions between Folkestone Limited and other related parties during the years ended 30 June 2010 and 2009 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.

NOTE 32: RELATED PARTY TRANSACTIONS CONTINUED

	Economic Entity		Parent Entity	
	2010	2009	**2010**	2009
	$	$	**$**	$
Income from joint ventures and associated entities				
Project management fees	**207,276**	2,062,940	**207,276**	2,062,940
Total amounts receivable from, and payable to, joint ventures and associated entities at balance date:-				
Current receivables:				
Trade Receivables	**38,000**	-	**38,000**	-
Loans	**201**	681	**201**	681
	38,201	681	**38,201**	681

Transactions with Directors

No transactions with directors or key management personnel occurred during the period other than those disclosed in Note 7.

NOTE 33: 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.

NOTE 33: FINANCIAL INSTRUMENTS CONTINUED

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	
	2010 **$000**	2009 $000	**2010** **$000**	2009 $000
Debt	**11,688**	8,161	**-**	-
Cash and Cash Equivalents	**(15,648)**	(8,707)	**(13,077)**	(7,028)
Net Debt	**(3,960)**	(546)	**(13,077)**	(7,028)
Equity (Parent interest)	**26,956**	21,468	**24,564**	20,985
Net debt to equity ratio	**-15%**	-3%	**-53%**	-33%

The above analysis does not take into account Folkestone's share of debt in respect of the Donnybrook Road, Mickleham project as this disclosed on the face of the balance sheet as an investment in an associated entity. Allowing for Folkestone's share of this assets debt, the debt for the economic entity for the current year would increase to $29.5m (2009:$26.1m) and net debt would increase to $13.9m (2009: $17.3m), reflecting a net debt to equity ratio of 52% (2009: 81%).

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

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

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

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

b) Credit Risk

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

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

For further information regarding trade and other receivables refer to note 12.

NOTE 33: FINANCIAL INSTRUMENTS CONTINUED

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

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

d) Liquidity Risk

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

Ultimate responsibility for liquidity risk management rests with the Board of Directors, based on an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Note 30(b) details additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

NOTE 33: FINANCIAL INSTRUMENTS CONTINUED

The contractual maturities of our financial liabilities are shown below. The amounts presented represent the future undiscounted principal and interest cash flows relating to the amounts drawn at reporting date. The amounts presented do not include the financial guarantees provided for the Millers Road Altona and Noone St Clifton Hill projects as disclosed in Note 28, as the company has reviewed and determined that there is no value attributable to the financial guarantees provided.

Economic Entity

	Weighted average effective interest rate %	Less than 3 months $000	3 months to 1 year $000	1-5 years $000
2010				
Non-interest bearing trade and other payables	-	1,248	-	-
Variable interest rate instruments	7.09%	207	12,126	-
		1,455	12,126	-
2009				
Non-interest bearing trade and other payables	-	2,050	-	-
Variable interest rate instruments	6.19%	126	8,291	-
		2,176	8,291	-

Parent Entity

	Weighted average effective interest rate %	Less than 3 months $000	3 months to 1 year $000	1-5 years $000
2010				
Non-interest bearing trade and other payables	-	282	-	-
Non-interest bearing loans to subsidiaries	-	-	3,591	-
		282	3,591	-
2009				
Non-interest bearing trade and other payables	-	204	-	-
Non-interest bearing loans to subsidiaries	-	-	5,242	-
		204	5,242	-

Directors' Declaration

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

(a) the financial statements and notes set out on pages 33 to 75, 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 2010 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

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

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

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

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

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

(c) in the directors' opinion, there are reasonable grounds to believe that the company and the controlled entities identified in Note 18 will be able to pay their debts as and when they become due and payable.

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

ATL Maitland	**Oscar Guglielmi**
Director	Director

Melbourne
24 August 2010

ASX Additional information

The shareholder information set out below was applicable as at 23 August 2010:

A Distribution of Equity Securities

Analysis of number of equity security holders by size of holding

			Ordinary Shares
1	-	1,000	53
1,001	-	5,000	122
5,001	-	10,000	116
10,001	-	100,000	354
100,001	and	Over	141
			786

There were 151 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**
Wilbow Group Pty Ltd	10,698,968	10.73
ANZ Nominees Limited	9,537,550	9.57
National Nominees Limited	8,197,035	8.22
GJP Investments Pty Ltd	4,730,205	4.74
Chimaera Capital Limited	3,532,528	3.54
Kingsley Developments Pty Ltd	2,970,247	2.98
Mr Oscar Guglielmi	2,031,776	2.04
Mr Peter Howells	1,425,103	1.43
Bt Portfolio Services Limited	1,300,000	1.30
Mr Gim Tong Teo & Madam Beng Hua Kwah	1,200,000	1.20
Mr John Mallon	1,108,741	1.11
Marlton Investments Pty Ltd	1,075,830	1.08
Advance Publicity Pty Ltd	1,000,000	1.00
Gurner Superannuation Nominees Pty Ltd	1,000,000	1.00
Mr ATL Maitland	971,580	0.97
Cini Investments Pty Ltd	949,929	0.95
Jonathan Sweeney	833,333	0.84
Adkar Investments Pty Ltd	833,333	0.84
Wallace Macarthur King & Denise Susan King	833,333	0.84
Gemco Investments Pty Ltd	833,333	0.84
	55,062,824	55.23%

C Substantial Holders

Substantial holders in the company are set out below	**Number Held**	**Percentage %**
Wilbow Pty Ltd	10,698,968	10.73
ANZ Nominees Ltd	9,537,550	9.57
National Nominees Limited	8,197,035	8.22
GJP Investments Pty Ltd & other associated shareholders	6,396,871	6.43

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.