

## Appendix 4E

### Preliminary final report

#### Period ending 30 June 2013

#### 1. Details of the reporting period and the prior corresponding period

Current period: 1 July 2012 to 30 June 2013

Prior corresponding period: 1 July 2011 to 30 June 2012

#### 2. Results for announcement to the market

	Key Information			\$A'000 Current Period	\$A'000 Previous corresponding period	
2.1	Revenues from continuing operations	Down	41%	To	10,061	17,025
2.2(a)	Profit (loss) from continuing operations after tax attributable to members	Up	1,710%	To	1,176	(73)
2.2(b)	Profit (loss) from discontinuing operations after tax attributable to members	Up	100%	To	-	(46)
2.3	Net profit (loss) for the period attributable to members	Up	1,088%	To	1,176	(119)

#### 2.4 Dividends

The Board has resolved not to pay a dividend in respect of the year ended 30 June 2013 and no final dividend was paid for the year ended 30 June 2012. 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 profit after tax for the year ended 30 June 2013 was \$1.2 million compared to a net loss after tax of \$0.1 million in the prior corresponding period. This represents basic earnings per share of 0.3 cents, compared with negative 0.0 cents previously.

The full year result includes the following material items:

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

# Folkestone

Last year's result included the following material items:

- \$1.4 million of development profits from the Noone Street Clifton Hill project; and
- a \$0.8 million net profit on the disposal of its 20% interest in the Donnybrook Road, Mickleham project which occurred on 29 June 2012.

**3. Statement of Comprehensive Income**

Refer to the 2013 Financial Report

**4. Statement of Financial Position**

Refer to the 2013 Financial Report

**5. Statement of Cash Flows**

Refer to the 2013 Financial Report

**6. Dividend details**

Not Applicable

**7. Dividend or distribution reinvestment plan details**

Not applicable

**8. Statement of Changes in Equity**

Refer to the 2013 Financial Report

**9. Net tangible asset backing per ordinary security as at 30 June 2013**

Security	Current period	Previous corresponding period
Ordinary shares	9.2¢	11.9¢

Shares on issue at reporting date	Current period	Previous corresponding period
Ordinary shares	370,286,124	370,286,124

**10. Control gained or lost over entities in the financial year**

Name	Ownership interest %	
	Current period	Previous corresponding period
Folkestone Investment Management Ltd	100%	0%
Folkestone Real Estate Management Ltd	100%	0%
Folkestone SI 1 Pty Ltd	100%	0%
Folkestone SI 1 Pty Ltd	100%	0%
Millers Road (Altona) Pty Ltd	100%	50%

# Folkestone

## 11. Details of associates and joint venture entities

Name	Ownership interest %	
	Current period	Previous corresponding period
Greenvalley Asset Property Trust	25%	25%

## 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 2013 Financial Report

## 15. Audited report

The report is based on audited accounts. The audit opinion is unqualified.

## 16. Statement if Financial Report is not yet audited and likely to contain an independent audit report that is modified opinion, emphasis of matter or other matter paragraph

Not applicable as the financial report is audited and is not subject to a modified opinion, emphasis of matter or other matter paragraph.

## 17. Statement if Financial Report is audited and subject to modified opinion, emphasis of matter or other matter paragraph

The financial report has been audited and is not subject to a modified opinion, emphasis of matter or other matter paragraph.

**Folkestone Limited**  
**ABN 21 004 715 226**

**Directors Report &**  
**Financial Statements**  
**30 June 2013**

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# **Folkestone Limited and its Controlled Entities**

## **Directors Report**

### **For the year ended 30 June 2013**

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 2013 and the auditor's report thereon.

#### **A. DIRECTORS**

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

- Garry R Sladden (B.Bus, CPA, FINSA)
- Mark W Baillie (B.Com, CA) (appointed 19 Feb 2013)
- Gregory J Paramor (FAPI, FAICD, FRICS)
- K Ross Strang (LLB (HONS), MAICD)
- A Hugh Gurner (BA, FAICD) (resigned 16 April 2013)

#### **B. COMPANY SECRETARY**

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

Scott N Martin (B.Com, CA) was appointed as Company Secretary and Chief Financial Officer of Folkestone Ltd on 10 December 2005.

Jonathan W Sweeney (B.Comm, LLB, CFA, MAICD) resigned as joint Company Secretary on 28 February 2013.

#### **C. REVIEW OF BOARD PERFORMANCE**

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

#### **D. ABOUT FOLKESTONE - PRINCIPAL ACTIVITIES**

Folkestone is an ASX listed real estate funds management, investment and development company which listed on the ASX on 14 June 2000.

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

#### **E. DIVIDENDS**

There was no interim dividend paid during the year and the Board has resolved not to pay a final dividend in respect of the year ended 30 June 2013.

# Folkestone Limited and its Controlled Entities

## Directors Report

For the year ended 30 June 2013

### F. REVIEW OF OPERATIONS

#### FULL YEAR RESULT

The Group's net profit after tax for the year ended 30 June 2013 was \$1.2 million compared to a net loss after tax of \$0.1 million in the prior corresponding period. This represents basic earnings per share of 0.3 cents, compared with negative 0.0 cents previously.

The full year result includes the following material items:

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

Last year's result included the following material items:

- \$1.4 million of development profits from the Noone Street Clifton Hill project; and
- a \$0.8 million net profit on the disposal of its 20% interest in the Donnybrook Road, Mickleham project which occurred on 29 June 2012.

#### ASSET BACKING

Folkestone's net asset value (NAV) was 12.8 cents per share at 30 June 2013, up from 12.2 cents per share at 30 June 2012. Net tangible asset (NTA) backing was 9.2 cents per share at 30 June 2013 compared with 11.9 cents per share at 30 June 2012. During the reporting period, Folkestone acquired the Austock property funds management platform which resulted in intangible assets of \$11.2 million and goodwill of \$0.2 million being recognised on acquisition and a resultant 3.0 cents reduction in NTA per share.

#### FINANCIAL CONDITIONS

As at the date of this report, Folkestone and its associated entities are in full compliance with all of its debt facilities and have sufficient liquidity to fund all of its commitments.

The finance facility with the Bank of Melbourne in respect of the project at 302-330 Millers Road Altona North was extended during the year to 30 November 2013. As at 30 June 2013, an application for development funding for Stage 1 of this project had been submitted to Bank of Melbourne for approval. The submission included a recommendation for any outstanding facility conditions to be waived on the existing loan facility agreement. Subsequent to the end of the financial year, Folkestone has made arrangements for a principal repayment to be made on the existing loan facility of \$2.115 million which has reduced the LVR from 50% to 35%, and will be able to be re-drawn as part of the new facility for the development of Stage 1.

The St George Bank finance facility for the Karratha project has been repaid to \$2.3 million as at 30 June 2013 following settlement of 36 of the 41 units in Stage 1a during the year. The expiry date of the existing facility is 31 August 2013. The joint venture is in discussions with regard to a new facility for the development of Stage 1b.

In respect of the Potters Grove land subdivision project at Officer, the Bank of Melbourne provided the joint venture with a \$10.6m facility for Stage 1 with an original expiry date of 10 July 2013. The balance owing of this facility as at 30 June 2013 was \$3.3m following settlement of 42 lots in Stage 1 during May and June 2013. Bank of Melbourne has provided a three month extension to the Stage 1 facility to enable the settlement of the remaining 14 Stage 1 lots as well as providing an amount of \$1.5m to commence Stage 2 early works. Indicative funding terms have been agreed for the next stage of the development which is commenced in late July 2013.

Information in relation to cash flows from operations is contained in the Statement of Cash Flows on page 32 and the associated notes.

# **Folkestone Limited and its Controlled Entities**

## **Directors Report**

**For the year ended 30 June 2013**

### **F. REVIEW OF OPERATIONS CONTINUED**

#### **SHARE BUYBACK**

As reported in the Half Year Report, the share buyback concluded on 31 December 2012. Between 30 January 2012 and 30 June 2012, the Company bought back a total of 550,000 shares at an average price of 8.2 cents per share.

Given the increase in share price between July 2012 and December 2012 and other initiatives being pursued by the Company during this time, no shares were purchased in the six months ending 31 December 2012 as it was the Board's belief that the repurchase of shares at these increased levels was an inappropriate use of the Company's capital.

#### **DIRECT INVESTMENTS**

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

##### **Noone Street, Clifton Hill**

Noone Street, Clifton Hill, an 87 dwelling residential development in an inner suburb of Melbourne was acquired in June 2007. The development was a 50/50 joint venture between Folkestone and AMP Capital Investors. This project was completed in September 2012 following the settlement of the last remaining apartment. The project returned a further \$0.3 million in cash to Folkestone during the financial year in addition to the \$8.7 million returned in the 2012 financial year.

##### **Millers Road, Altona North**

Millers Road, Altona North was acquired in December 2007 and is a 13.9 hectare parcel of land, located approximately 13 kilometres from the Melbourne CBD and 2.5 kilometres from the Westgate Freeway and Western Ring Road.

Construction of the internal road was completed in October 2012 significantly improving visibility and access to the site. The rezoning of the site from "Industrial 3" to "Business 3" was formally approved by the Minister for Planning and came into operation on 9 May 2013. On 15 July 2013, the Victorian Government implemented reforms to the planning system. Under these changes, "Business 3" becomes "Commercial 2" which is focused on light industry, some retailing including allowing supermarkets up to 1,800sqm and bulky goods which significantly enhances the site's development potential.

On 13 May 2013, Folkestone announced that it had acquired its joint venture partner's (AMP Capital Investors) 50% interest in the project.

##### **Potters Grove, Officer**

Potters Grove, Officer is a 14.1 hectare site located in the Cardinia Shire, in south-east Melbourne. Potters Grove is a 50/50 joint venture between Folkestone and ID Land, a Melbourne based property development company specialising in land subdivision and mixed-use.

The land was settled by the joint venture on 10 July 2012 and construction site works for Stage 1 (56 lots) commenced in October 2012. Stage 1 works were completed in April 2013. As at 30 June 2013, 53 of the 56 lots in Stage 1 had sold and 43 of these lots had settled. Construction works for Stage 2 (43 lots) commenced in late July 2013. The joint venture is targeting a completion date in early 2014. As at the date of this Directors Report, the joint venture had sold a total of 26 Stage 2 lots representing 60 per cent of the total lots in this stage and the joint venture anticipates Stage 2 settlements to commence in early 2014.



# **Folkestone Limited and its Controlled Entities**

## **Directors Report**

**For the year ended 30 June 2013**

### **F. REVIEW OF OPERATIONS CONTINUED**

#### **DIRECT INVESTMENTS CONTINUED**

##### **The Ranges, Karratha**

The Ranges, Karratha is conveniently located 1.5 kilometres from Karratha's CBD. Folkestone's 25% interest in The Ranges is a joint venture with a consortium including real estate developers and investors who have extensive experience in developing and marketing real estate in Western Australia, including the North West of Western Australia.

Stage 1 of The Ranges comprises 2.2 hectares with a "Tourism" zoning and DA approval for 108 single level, one bedroom villas with pool and BBQ facilities.

The first 41 dwellings in Stage 1a opened for occupation in December 2012. The opening of The Ranges has provided much needed accommodation for business travellers to Karratha. Occupancy levels since the opening date have been strong with stabilised occupancy rates from April 2013 to July 2013 averaging 75 per cent. As at 30 June 2013, 36 of the 41 dwellings had settled and a further 2 dwellings settled in July 2013. The Stage 1b marketing campaign is underway with 14 of the 35 villas in this stage sold and construction anticipated to commence in late 2013.

In January 2013, the joint venture acquired an adjoining 7.1 hectare parcel of land for \$1.7 million from the WA Government. The site is zoned "Urban Development" allowing a mix of uses including long term residential, tavern, restaurant, gym and amenities. This flexible zoning has the capacity to yield a further 369 villas and a range of development options that can be released in stages as demand requires.

##### **Funds Management Division**

Folkestone's funds management division (FFM) is a specialist real estate funds manager for private clients and select institutional investors. As at 30 June, Folkestone had more than \$630 million of total funds under management

##### **Social Infrastructure Funds**

During the period, Folkestone acquired the Austock property funds management business. The total price paid for the acquisition was \$11.45 million plus an amount of \$3.02 million for regulatory and working capital settlement adjustments in accordance with the terms of the share sale agreement.

The acquisition provided \$555 million in funds under management across four listed and unlisted funds specialising in real estate related social infrastructure – childcare centres, medical centres, police stations and courthouses together with a team of ten staff. The Social Infrastructure funds under management have grown from the date of acquisition to \$570 million as at 30 June 2013.

##### **Folkestone Real Estate Income Fund at Sydney Olympic Park**

The Folkestone Real Estate Income Fund at Sydney Olympic Park was established in September 2012 and is the first in a series of Folkestone real estate income funds. The Fund acquired a new 5,918 square metre commercial building at 7 Murray Rose Avenue, Sydney Olympic Park. Thales Australia, part of the Thales Group, a leading international electronics and systems group serving the defence, aerospace, space, security, and transport markets has leased 5,227 square metres (100 per cent) of the office space, 42 square metres of the retail space and 47 car spaces for their new Australian headquarters.

The quality of the asset, strong tenant covenant and commencing annualised yield of 8.1 per cent resulted in the Fund closing for applications oversubscribed.

The Folkestone balance sheet was used to underwrite \$8.0 million of the Offer and the underwritten units were fully redeemed by 31 December 2012. The equity raising for the Fund was \$16.5 million. The gross asset value of the Fund as at 30 June 2013 was \$31.0 million.

# Folkestone Limited and its Controlled Entities

## Directors Report

For the year ended 30 June 2013

### F. REVIEW OF OPERATIONS CONTINUED

#### Folkestone Real Estate Income Fund at Wollongong

The Folkestone Real Estate Income Fund at Wollongong was established in June 2013 and is the second in its series of real estate income funds. The Fund acquired an A Grade commercial office building at 43 Burelli Street and 34 Stewart Street, Wollongong. Constructed in 1988, the six level building has a ground floor with five levels of office accommodation together with parking for 90 vehicles. The Asset comprises a strong tenancy mix anchored by Commonwealth and State Government tenants who currently contribute 79 per cent of the Asset's income.

The applications for the Fund closed approximately 50% oversubscribed and as a result Folkestone increased the equity raising for the Fund from \$14.5 million to \$15.5m to accommodate some of the oversubscription. The Folkestone balance sheet was used to underwrite \$8.0 million of the Offer and the underwritten units were fully redeemed by 30 June 2013. The gross asset value of the Fund as at 30 June 2013 was \$26.4 million.

#### Tivoli Development Fund

The Tivoli Development Fund is undertaking, in joint venture with Urban Inc, a 65 apartment residential development in Roden Street, West Melbourne. To date, 63 of the 65 apartments have been sold and construction is still on track to be completed by the end of September 2013. The gross asset value of the Fund as at 30 June 2013 was \$5.0 million.

### OUTLOOK

Folkestone has completed the transformation of the Company from a real estate developer to a real estate funds manager, investor and developer providing real estate wealth solutions.

Folkestone remains focused on its strategy of growing its suite of listed and unlisted real estate funds and seeking value-add and opportunistic investments for its balance sheet activities.

Given the low interest rate environment, we continue to see growing investor interest in real estate, especially from self managed super funds that are looking for reliable income. The strong support of our funds from investors is testament that capital is available for funds that offer quality assets, simple and transparent structures and fees and attractive risk-adjusted returns to investors. Folkestone plans in the coming year to continue to roll out funds in its income and development series, seek accretive acquisitions for its ASX listed social infrastructure funds and progress the development of our existing balance sheet assets.

We believe Folkestone, with its strong balance sheet and access to third party capital from its funds management platform, is well positioned to take advantage of the selected opportunities that become available during the coming year.

### G. EARNINGS PER SHARE

	Note	2013 Cents	2012 Cents
Basic earnings per share from continuing and discontinued operations	9	0.3	(0.0)
Diluted earnings per share from continuing and discontinued operations	9	0.3	(0.0)
Basic earnings per share from continuing operations	9	0.3	(0.0)
Diluted earnings per share from continuing operations	9	0.3	(0.0)

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

# **Folkestone Limited and its Controlled Entities**

## **Directors Report**

**For the year ended 30 June 2013**

### **H. AFTER BALANCE DATE EVENTS**

On 29 July 2013, the Officer joint venture accepted an offer to extend the current facility with Bank of Melbourne until 10 October 2013 to enable settlement of the remaining Stage 1 lots as well as providing an amount of \$1.5 million to commence Stage 2 early works.

### **I. CHANGE IN STATE OF AFFAIRS:**

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

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

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

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

The Company has processes in place which are focussed on the identification and management of risk through regular Board Reporting and exception reporting between meetings. Note 33 of the attached financial statements provides further detail on some of the financial risks faced by the Company. Other material business risks of the Company include:

**Real Estate Market Risk** – The Company's asset values and earnings are subject to real estate market conditions. The Company does not anticipate any significant slowdown in the real estate market. The Company will continue to diversify its exposure to this risk by investing its capital into a range of opportunities across type, geography and sector.

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

**Regulatory Risk** – The Company holds three Australian Financial Services Licences which permit it to carry on a financial services business. As at 30 June 2013, the Company has more than \$630 million in funds under management. The Company must comply with its obligations under its AFSL in order to continue to manage its funds management platform. The Company has in place a Compliance Program to monitor compliance with our AFSL obligations and compliance requirements for the managed investment schemes managed by the Company.

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

# **Folkestone Limited and its Controlled Entities**

## **Directors Report**

**For the year ended 30 June 2013**

### **K. ENVIRONMENTAL REGULATION**

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

### **L. WORKPLACE HEALTH AND SAFETY REGULATIONS**

The consolidated entity complies with all relevant legislation and regulations in respect of workplace health and safety matters and regularly reports to the relevant board. Systems and processes are in place to identify, resolve and monitor Work, Health and Safety issues that may arise.

# Folkestone Limited and its Controlled Entities

## Directors Report

For the year ended 30 June 2013

### M. DIRECTOR PROFILES

#### **Garry R Sladden**

**B.Bus, CPA, FINSA**

#### **Non-Executive Chairman**

Garry was appointed as a Non-Executive Chairman of Folkestone in March 2011. Garry is a business and strategic adviser who has a diversified business background in the areas of real estate, private equity, business operations, banking and finance, having held the position of General Manager Operations at Consolidated Press Holdings for six years and more recently (2007) the role of Group Operations Executive for a real estate investment, development and funds management group. Garry is Chairman of Ashton Manufacturing Pty Limited, and a non-executive director of the Melanoma Institute of Australia.

#### **Mark W Baillie**

**B.Com, CA**

#### **Non-Executive Deputy Chairman**

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

#### **K Ross Strang**

**LLB (HONS), MAICD**

#### **Non-Executive Director**

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

#### **Gregory J Paramor**

**FAPI, FAICD, FRICS**

#### **Managing Director**

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

#### **A Hugh Gurner**

**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. Hugh resigned from the Board on 16 April 2013.

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.

# **Folkestone Limited and its Controlled Entities**

## **Directors Report**

**For the year ended 30 June 2013**

### **N. REMUNERATION REPORT**

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

#### **Remuneration Policy**

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

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

The Board of Folkestone has established a Remuneration Committee comprised of the three non-executive directors of the Company. The Remuneration Committee operates under the charter as outlined in the Corporate Governance Statement which is contained on pages 20 to 24 of this report.

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

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

#### ***Service agreements and contract details***

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

#### ***Relationship between the remuneration policy and company performance***

The table set out below summarises information about the consolidated entity's earnings and movements in shareholder wealth for the five years to June 2013, which is considered when setting the remuneration policy for the Group:

# Folkestone Limited and its Controlled Entities

## Directors Report

For the year ended 30 June 2013

### N. REMUNERATION REPORT CONTINUED

#### *Relationship between the remuneration policy and company performance continued*

	2013 \$'000	2012 \$'000	2011 \$'000	2010 \$'000	2009 \$'000
Profit/(loss) from continuing operations before income tax (expense)/credit	1,545	(73)	(12,224)	(2,428)	(7,125)
Income tax (expense)/credit	(369)	-	(2)	(918)	1,543
Profit/(loss) from discontinued operations	-	(46)	6	(131)	1,709
(Profit)/loss attributable to minority equity interest	-	-	(1)	(18)	177
Profit/(loss) from ordinary activities attributable to members of the parent entity	<b>1,176</b>	<b>(119)</b>	<b>(12,221)</b>	<b>(3,495)</b>	<b>(3,696)</b>
Basic earnings per ordinary share (cents)	<b>0.3</b>	(0.0)	(7.5)	(4.8)	(11.8)
Dividend rate on fully paid shares (cents)	-	-	-	-	-
ASX Closing Price 30 June (cents)	<b>16</b>	8.7	10.5	12	30.5

- a) During the past five years, Folkestone Limited has paid key management personnel a combination of fixed remuneration and performance based remuneration. Performance based remuneration has been paid based upon KPI's relevant to each key management personnel. During the period 2009-2012, the Company was in a loss position, and as such the majority of remuneration paid to key management personnel during this period was fixed remuneration. In 2013, the Company has recorded a Net Profit after tax of \$1.2 million, the first profit result achieved by the Company since 2008. Since the re-capitalisation of the Company in April 2011, significant efforts by executives and staff have gone into rebuilding and transforming the Company. In recognition of the contribution made by staff during this period, a bonus pool of \$0.5 million was approved by the Board and is included in the 2013 result summarised above.
- b) During the past five years, there have been share based payments made to key management personnel in accordance with the achievement of pre set KPI's which have been summarised in prior period Annual Reports. The long term incentive scheme was amended and approved by shareholders at the general meeting of shareholders held on 9 March 2011. There are currently 3,942,053 performance rights on issue to executives (please refer to following sections of the Remuneration Report for further detail). All rights issued under the previous Executive Bonus Scheme have either lapsed or vested based upon the achievement of the KPI's which were set for the share based payments. The KPI's which have been set for the share based payments are set at a level to reward performance for increases in profitability of the Company and total returns to shareholders
- c) As the table above indicates, the Company has recorded its first operating profit since 2008. It is the focus of the Board of Directors to recruit and retain management personnel essential to continue to build the business which provides profitable operations for the Group and to attract suitable executives to maximize profitability. Folkestone will continue to offer key management personnel a combination of fixed remuneration and performance based remuneration based upon predetermined KPI's as outlined further below.

#### **Executive Remuneration**

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

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

# Folkestone Limited and its Controlled Entities

## Directors Report

For the year ended 30 June 2013

### N. REMUNERATION REPORT CONTINUED

#### Executive Remuneration continued

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 associated entity activities.

#### i) Fixed Remuneration

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

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

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

#### ii) Performance Linked Remuneration

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

The performance targets are determined by the Board and are set on the basis that the Managing Director and executive's remuneration will have a combination of short and long term incentives so that the Company can attract, retain and motivate appropriately qualified and experienced executives. Where performance targets are satisfied, success will be rewarded through the payment of a cash bonus (STI) and/or the grant of specified long-term incentives determined by the Board (LTI).

The proportion of salary that links with performance varies according to contractual arrangements. The proportion of remuneration paid to Directors and executives that was performance related for the current and prior financial year is summarised in the table on pages 14-15.

#### **Short Term Incentives**

Short term incentives ('STI') will generally be paid in cash and measured against the achievement of individual performance targets and group performance targets generally described in the annual budget of the Company or relevant division of the Company (as applicable to the executive's responsibilities).

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

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

Incentives set for the achievement of short term targets are unlikely to exceed the value of the base salary of the relevant executive in one year.



# Folkestone Limited and its Controlled Entities

## Directors Report

For the year ended 30 June 2013

### N. REMUNERATION REPORT CONTINUED

#### *Long Term Incentives – Executive Incentive Performance Rights Plan*

Shareholders approved the current Executive Performance Rights Plan at the general meeting of shareholders which was held on 9 March 2011.

The Executive Incentive Performance Rights Plan (“Plan”) is designed to:

- assist with the attraction and retention of directors, executives, managers and employees;
- continue to motivate and drive performance at both the individual and corporate level; and
- strengthen the alignment between employee and Shareholder interests.

Only two executives have been granted performance rights under the Plan. Subsequent to the initial grant of performance rights, one of these executives has resigned from the Company. As such, there is now only one executive who has currently been granted performance rights under the Plan

A summary of the Plan Rules is set out below.

#### **Summary of the Plan Rules**

##### **Eligibility**

Eligibility is restricted to those employees who the Board determines in its discretion are eligible and should be invited to participate in the Plan. Employees are defined in the Plan as a person who is in the full or part time employment of Folkestone or its subsidiaries (including Directors).

##### **Securities offered under the Plan**

Employees selected for participation in the Plan will be offered Performance Rights.

A Performance Right is the right to receive a Share. On the vesting date, if the performance hurdles and tenure conditions are satisfied in respect of a Performance Right, the Performance Right immediately vests and Folkestone must procure the issue or transfer of a Share either directly to the participant or their nominee. In either case, the Share will be subject to disposal conditions if in the relevant terms of any offer it is specified that such conditions will apply.

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

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

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

##### **Performance Hurdles**

Performance Rights will not vest and the holders of Performance Rights will not be entitled to Shares, unless the performance hurdles associated with those Performance Rights are satisfied or waived. The performance rights that were issued on 29 June 2011 have the following performance hurdles:

50% of the Rights will vest based on the achievement of compound annual growth in Total Shareholder Return over the performance period ranging from 10% - 15% per annum on a sliding scale with:

- full vesting where Total Shareholder Return is 15% per annum or above;
- 50% vesting where Total Shareholder Return is 10% per annum; and
- where Total Shareholder Return is between 10% and 15% per annum, the number of Performance Rights that will vest will be calculated on a straight line basis ; and

# Folkestone Limited and its Controlled Entities

## Directors Report

For the year ended 30 June 2013

### N. REMUNERATION REPORT CONTINUED

#### *Long Term Incentives – Executive Incentive Performance Rights Plan continued*

- 50% of the rights will vest based on the achievement of compound annual growth in Folkestone's Net Total Assets per share over the performance period ranging from 10% - 15% per annum on a sliding scale with:
  - full vesting where the growth in Net Total Assets per share is 15% per annum or above;
  - 50% vesting where the growth in Net Total Assets per share is 10% per annum; and
  - where the growth in Net Total Assets per share is between 10% and 15% per annum, the number of Performance Rights that will vest will be calculated on a straight line basis.

The performance period for the performance rights issued on 29 June 2011 is 1 July 2011 to 30 June 2014.

The Board will determine the applicable performance hurdles prior to future Performance Rights being granted.

#### **Early Vesting of Performance Rights**

Performance Rights may vest or lapse earlier than the Vesting Date in certain circumstances. Where a participant ceases employment with Folkestone prior to the Expiry Date, the Performance Rights will normally lapse. However, the Board has the discretion to vest part or all of a participant's Performance Rights, including where:

- the participant's employment ceases due to death, retirement, total and permanent disablement or redundancy; or
- an event occurs in respect of Folkestone such as a change of control, receipt of a takeover bid, a court ordering the holding of a meeting in relation to a compromise or arrangement, a voluntary or compulsory winding up or Shares ceasing to be quoted on any exchange.

#### **Early lapse of Performance Rights**

Performance Rights, that have not vested, lapse on the earlier of:

- the Expiry Date specified in the invitation for the Performance Rights;
- the Board determining that a participant's Performance Rights should lapse where it is of the opinion the participant has committed an act of fraud, dishonesty or willful misconduct or is convicted of a criminal offence which may injure Folkestone's reputation or the participant leaves Folkestone and is not a good leaver (or is otherwise a bad leaver);
- the participant becoming bankrupt; or
- the participant ceasing to be an employee and the Board not making a determination that the Performance Rights vest or that the employee is to be treated as remaining employed for the purposes of assessing the vesting of the Performance Rights.

#### **New issues and reorganisations of capital**

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

#### **Further issues of long term incentives**

The issue of further long term incentives under the current Plan is on hold pending the outcome of a review currently being undertaken by the Board of the optimum structure for the Company's long term incentive scheme. Should the outcome of this review result in a recommendation for a change to the long term incentive scheme that requires shareholder approval or issue of long term incentives to the Managing Director, the appropriate resolutions will be put forward at the AGM for approval by shareholders.

# Folkestone Limited and its Controlled Entities

## Directors Report

For the year ended 30 June 2013

### N. REMUNERATION REPORT CONTINUED

#### Non-Executive Director Remuneration

In accordance with corporate governance best practice, the structure for non-executive director remuneration is separate from the structure for executive remuneration. The Board's policy is to remunerate non-executive directors at market rates for comparable companies and reflects their time, commitment and responsibilities. The Remuneration Committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. The Remuneration Committee undertook a review of the remuneration of non-executive directors in February 2013 and resolved to increase the amount of fees paid to non-executive directors with effect from 1 January 2013. Prior to this review, there had been no adjustments to the levels of remuneration paid to non-executive directors since December 2007. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting (currently \$400,000). Details of the Directors' interests in shares and rights over shares of the Company as at the date of this report are contained in Note 7 to the accounts on pages 52 to 53.

#### Details of Remuneration for the year ended 30 June 2013

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.

		Short Term			Post Employment Benefits	Share Based Payment	Termination Payments	Total \$	Proportion of remuneration performance related %
		Salary & fees \$	STI cash bonus \$	Non- monetary benefits \$	Superannuation benefits \$	Perf. Rights (A)			
<b>Directors (Non-executive)</b>									
GR Sladden Chairman	2013	76,147	-	-	6,853	-	-	83,000	-
	2012	60,550	-	-	5,450	-	-	66,000	-
MW Baillie (appointed 19 February 2013)	2013	16,702	-	-	1,503	-	-	18,205	-
	2012	-	-	-	-	-	-	-	-
KR Strang	2013	28,000	-	-	24,000	-	-	52,000	-
	2012	-	-	-	44,000	-	-	44,000	-
AH Gurner (resigned 16 April 2013)	2013	50,434	-	-	3,039	-	-	53,473	-
	2012	40,367	-	-	3,633	-	-	44,000	-
<b>Directors (Executive)</b>									
GJ Paramor	2013	183,530	-	-	16,470	-	-	200,000	-
	2012	284,225	-	-	15,775	-	-	300,000	-

# Folkestone Limited and its Controlled Entities

## Directors Report

For the year ended 30 June 2013

### N. REMUNERATION REPORT CONTINUED

		Short Term			Post Employment Benefits	Share Based Payment	Termination Payments	Total \$	Proportion of remuneration performance related %
		Salary & fees \$	STI cash bonus \$(A)	Non- monetary benefits \$	Superannuation benefits \$	Perf. Rights (B)			
<b>Executives</b>									
NJ Anagnostou, CEO - Social Infrastructure Funds #	2013	263,944	50,000	-	12,352	-	-	326,296	15%
	2012	-	-	-	-	-	-	-	-
BP Dodwell, Head of Real Estate	2013	283,530	50,000	-	16,470	-	-	350,000	14%
	2012	260,539	-	-	39,461	-	-	300,000	-
AJ Harrington, Head of Funds Management	2013	283,530	50,000	-	16,470	36,793	-	386,793	22%
	2012	284,225	-	-	15,775	36,793	-	336,793	11%
SN Martin, CFO & Company Secretary	2013	223,530	50,000	-	16,470	-	-	290,000	17%
	2012	204,225	-	-	15,775	-	-	220,000	-
TS Butcher, CFO Funds #	2013	194,206	40,000	-	12,584	-	-	246,790	16%
	2012	-	-	-	-	-	-	-	-
JW Sweeney, COO <sup>^</sup>	2013	181,000	-	-	20,886	(36,793)	194,154	359,247	(10%)
	2012	282,585	-	-	15,775	36,793	-	335,153	11%
Total compensation: key management personnel (consolidated)	2013	1,784,553	240,000	-	147,097	-	194,154	2,365,804	10%
	2012	1,416,716	-	-	155,644	73,586	-	1,645,946	4%

A In relation to the STI cash bonuses paid to executives detailed in the above table, an amount of \$138,000 of the \$500,000 bonus pool has yet to be allocated by the Remuneration Committee. The allocation of this amount will be determined by the Remuneration Committee during the 2014 financial year.

B The accounting standards require that Performance Rights be valued at fair value on the grant date. The fair value of performance rights granted under the Executive Performance Rights Plan are calculated at the date of grant by an independent expert using an appropriate valuation model and allocated to each reporting period evenly over the period from grant date to vesting date. The Board has adopted the fair value calculation as the cost basis for issuing the Rights and for shares on vesting of any Rights awarded. The value disclosed above is the portion of the fair value of the performance rights expensed in this reporting period.

# Employees remuneration post 28 September 2012 acquisition.

<sup>^</sup> Jonathan Sweeney resigned on 19 February 2013.

# Folkestone Limited and its Controlled Entities

## Directors Report

For the year ended 30 June 2013

### N. REMUNERATION REPORT CONTINUED

#### **Performance Rights issued as part of Remuneration for the year ended 30 June 2013**

There have been no performance rights issued as part of remuneration for the year ended 30 June 2013.

The last issue of performance rights as part of Remuneration took place on 29 June 2011 and the following factors and assumptions were used in determining the fair value of rights on the grant date:

<b>Grant Date</b>	<b>Expiry Date</b>	<b>*Fair Value per Right</b>	<b>Exercise Price</b>	<b>Price of Shares on Grant Date</b>	<b>Estimated Volatility</b>	<b>Risk free interest rate</b>	<b>Dividend yield</b>
29 Jun 11	30 Jun 2014	\$0.104	\$0	\$0.105	40%	4.71%	-
29 Jun 11	30 Jun 2014	\$0.056	\$0	\$0.105	40%	4.71%	-

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

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

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

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

#### **Performance rights over equity instruments granted as compensation**

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

<b>Executive</b>	<b>Granted during prior period</b>	<b>Grant date</b>	<b>Vested/Lapsed during 2013</b>	<b>Fair value per right at grant date</b>	<b>Expiry date</b>
A Harrington	1,971,026	29 Jun 2011	-	\$0.104	30 June 2014
	1,971,027	29 Jun 2011	-	\$0.056	30 June 2014
J Sweeney	1,971,026	29 Jun 2011	(1,971,026)	\$0.104	Lapsed due to resignation of executive
	1,971,027	29 Jun 2011	(1,971,027)	\$0.056	

There were no performance rights granted during the 2013 financial year.

The above performance rights issued under the Executive Incentive Performance Rights Plan expire on the termination of the individual's employment and vest three years from grant date subject to performance criteria met.

# Folkestone Limited and its Controlled Entities

## Directors Report

For the year ended 30 June 2013

### N. REMUNERATION REPORT CONTINUED

#### Analysis of share-based payments granted as compensation

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

Performance Rights Granted							
	Number	Date	% Vested in year	% Vested in total	% Forfeited in year	% Forfeited in total	Financial years to which grant vests
<b>Executives</b>							
A Harrington	3,942,053	29 Jun 2011	-	-	-	-	30 Jun 2014
J Sweeney	3,942,053	29 Jun 2011	-	-	100%	100%	Not applicable, rights have lapsed

#### Number of Shares held by Key Management Personnel

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

<sup>1)</sup> Net Change Other refers to shares purchased or sold during the financial year.

<sup>2)</sup> The closing balance reflects the shares held as at the date of departure.

#### Number of Shares held by Key Management Personnel

2012	Balance 1.7.2011	Received as Compensation	Performance Rights Exercised	Net Change Other <sup>1</sup>	Balance 30.6.2012
<i>GR Sladden</i>	416,667	-	-	-	416,667
<i>AH Gurner</i>	1,000,000	-	-	-	1,000,000
<i>GJ Paramor</i>	42,230,204	-	-	(880,000)	41,350,204
<i>BP Dodwell</i>	489,035	-	-	-	489,035
<i>AJ Harrington</i>	2,916,666	-	-	440,000	3,356,666
<i>SN Martin</i>	560,698	-	-	-	560,698
<i>JW Sweeney</i>	3,332,666	-	-	440,000	3,772,666
<b>Total</b>	<b>50,945,936</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>50,945,936</b>

<sup>1)</sup> Net Change Other refers to shares purchased or sold during the financial year.

# Folkestone Limited and its Controlled Entities

## Directors Report

For the year ended 30 June 2013

### N. REMUNERATION REPORT CONTINUED

#### 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 executives is detailed below:

	Opening Balance (i)	Granted in Year (ii) (iii)	Vested in Year (iv)	Lapsed in Year (v)	Closing Balance
<b>Executives</b>					
A Harrington					
Number of Rights	3,942,053	-	-	-	3,942,053
Value of Rights \$	315,365	-	-	-	315,365
J Sweeney					
Number of Rights	3,942,053	-	-	(3,942,053)	-
Value of Rights \$	315,365	-	-	(315,365)	-
<b>Total</b>					
Number of Rights	7,884,106	-	-	(3,942,053)	3,942,053
Value of Rights	630,730	-	-	(315,365)	315,365

(i) Opening balance of performance rights were granted on 29 June 2011.

(ii) The number of performance rights is the number of performance rights granted during the reporting period.

(iii) The value of performance rights granted during the year is their fair value at grant date. There were no performance rights granted during the current year.

(iv) The value of performance rights vested during the year is calculated as the fair value at grant date of those rights vested during the period. There were no performance rights that vested during the current year.

(v) 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 at the grant date of these rights. Jonathan Sweeney's performance rights lapsed on 28 February 2013 at the date of his resignation of employment.

No options have been issued or are on issue.

### O. MEETINGS OF DIRECTORS

The number of meetings of the Company's Board of Directors and each Board Committee held during the year ended 30 June 2013 and the number of meetings attended by each director was as follows:

Meetings of Directors	Full Meeting of Directors	Audit Committee	Remuneration Committee
Number of meetings held	16	4	2
Number of meetings attended by:			
Garry R Sladden	16	4	2
Mark W Baillie #	4	1	1
Gregory J Paramor	16	*	*
K Ross Strang	16	4	2
A Hugh Gurner ^	14	3	1

\* Not a member of the relevant committee

# Appointed as Non-Executive Director on 19 February 2013, since which time Mr Baillie has attended all Directors, Audit Committee and Remuneration Committee meetings held.

^ Resigned as a Director on 16 April 2013. Mr Gurner attended all Directors, Audit Committee and Remuneration Committee meetings held up to the date of his resignation.

# Folkestone Limited and its Controlled Entities

## Directors Report

For the year ended 30 June 2013

### P. INDEMNIFICATION OF OFFICERS AND AUDITORS

During the financial year ended 30 June 2013, Folkestone Limited paid a premium of \$44,475 plus GST (2012 - \$37,328 plus GST) to insure each of the directors and executives of the Company and related bodies corporate. The liabilities insured include legal costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the directors and officers in their capacity as office bearers of entities in the economic entity. The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify the auditor of the Company or of any related body corporate against a liability incurred as the auditor.

### Q. PROCEEDINGS ON BEHALF OF THE COMPANY

There are currently no proceedings on behalf of the Company.

### R. NON-AUDIT SERVICES

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

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

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

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

### S. AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 30 June 2013 has been received and is found on page 25 of the Annual Report.

### T. ROUNDING OF AMOUNTS TO NEAREST THOUSAND DOLLARS

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

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



**Garry Sladden**  
Non-Executive Chairman



**Greg Paramor**  
Director

Sydney  
22 August 2013



## **Folkestone Limited and its Controlled Entities**

### **Corporate Governance Statement**

#### **For the year ended 30 June 2013**

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

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

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

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

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

#### **Lay Solid Foundations for Management and Oversight:**

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

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

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

#### **BOARD CHARTER**

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

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

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

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

## Folkestone Limited and its Controlled Entities

### Corporate Governance Statement

#### For the year ended 30 June 2013

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

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

#### Structure the Board to Add Value:

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

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

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

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

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

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

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

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

#### Promote Ethical and Responsible Decision Making:

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

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

## **Folkestone Limited and its Controlled Entities**

### **Corporate Governance Statement**

#### **For the year ended 30 June 2013**

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

Directors and senior management are made aware of their obligation to comply with the Law in regard to trading in the Company's shares so as not to take advantage of information or position, or opportunities arising from these, for personal gain. The Company's Share Trading Policy is reviewed at least annually and the last review was undertaken in May 2013. The Share Trading Policy covers both the trading in securities in Folkestone and the trading in securities of managed investment schemes which are managed by Folkestone.

#### **SHARE TRADING POLICY**

Under Folkestone's share trading policy Directors and Employees:

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

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

#### **AUDIT AND RISK MANAGEMENT COMMITTEE CHARTER**

The responsibilities of the Audit and Risk Management Committee include:

- Reviewing the financial reports and integrity and processes associated with their preparation.
- Monitoring compliance with internal management and financial control systems.
- Reviewing the scope of activities, performance and remuneration of the external auditors.
- Ensuring that any deficiencies identified in processes 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.

## **Folkestone Limited and its Controlled Entities**

### **Corporate Governance Statement**

**For the year ended 30 June 2013**

#### **Make Timely and Balanced Disclosure:**

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

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

#### **Respect the Rights of 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 website ([www.folkestone.com.au](http://www.folkestone.com.au)) which also contains up to date information on the business operations, annual reports, news and other corporate information.

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

#### **Recognise and Manage Risk:**

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

The Company's Audit and Risk Management Committee has formulated a Risk Management Plan that formalises the current culture and processes of the Company which is focused on the identification and management of risk through regular Board reporting and exception reporting in between.

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

#### **Remunerate Fairly and Responsibly:**

##### **REMUNERATION COMMITTEE CHARTER**

The functions and responsibilities include:

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

## **Folkestone Limited and its Controlled Entities**

### **Corporate Governance Statement**

#### **For the year ended 30 June 2013**

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

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

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

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

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

A summary of the Company's Executive Bonus Scheme are fully disclosed in the Remuneration Report.

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

22 August 2013

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 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Craig Bryan  
Partner  
Chartered Accountants

# Independent Auditor's Report to the members of Folkestone Limited

## Report on the Financial Report

We have audited the accompanying financial report of Folkestone Limited, which comprises the statement of financial position as at 30 June 2013, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 28 to 79.

### *Directors' Responsibility for the Financial Report*

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

### *Auditor's Responsibility*

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

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

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

## *Auditor's Independence Declaration*

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

## *Opinion*

In our opinion:

- (a) the financial report of Folkestone Ltd is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

## **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 9 to 18 of the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## *Opinion*

In our opinion the Remuneration Report of Folkestone Ltd for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



Craig Bryan  
Partner  
Chartered Accountants  
Melbourne, 22 August 2013



**Folkestone Limited and its Controlled Entities**  
**Financial Report**  
**For the year ended 30 June 2013**

**FINANCIAL REPORT**

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

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

Folkestone Limited  
Level 12  
15 William Street  
Melbourne Vic 3000

A description of the nature of the economic entity's operations and its principal activities is included within the Directors' Report on pages 1 to 19.

**Folkestone Limited and its Controlled Entities**  
**Statement of Profit or Loss and Other Comprehensive Income**  
**For the year ended 30 June 2013**

	Note	Economic Entity	
		2013 \$000	2012 \$000
<b><i>Continuing Operations</i></b>			
Revenue	2	10,061	17,025
Development expenses		(2,074)	(13,968)
Employee benefits expense		(4,248)	(2,555)
Depreciation and amortisation expense		(222)	(128)
Consultants' expenses		(483)	(91)
Due diligence and acquisition costs		(373)	(266)
Rental expense on operating leases		(260)	(103)
Gain on sale of interests in associated entities	14	-	7
Share of net gain of associated entities	14	315	787
Administration expenses		(1,161)	(766)
Finance costs	3	(10)	(15)
Profit /(loss) before income tax		1,545	(73)
Income tax expense	6	(369)	-
Profit /(loss) for the year from continuing operations		1,176	(73)
<b><i>Discontinued operations</i></b>			
Profit /(loss) from discontinued operations	5	-	(46)
Profit /(loss) for the year		1,176	(119)
Other comprehensive income		-	-
Total comprehensive income		1,176	(119)
Attributable to			
Owners of the company		1,176	(119)
Non-controlling interests		-	-
		1,176	(119)
<b>Earnings per share</b>			
From continuing and discontinued operations:			
Basic earnings per share (cents per share)	9	0.3	(0.0)
Diluted earnings per share (cents per share)	9	0.3	(0.0)
From continuing operations:			
Basic earnings per share (cents per share)	9	0.3	(0.0)
Diluted earnings per share (cents per share)	9	0.3	(0.0)

The statement of comprehensive income is to be read in conjunction with the notes of the financial statements set out on pages 33 to 78.

**Folkestone Limited and its Controlled Entities**  
**Statement of Financial Position**  
**As at 30 June 2013**

	Note	Economic Entity	
		2013	2012
		\$000	\$000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	10	13,082	34,988
Trade and other receivables	11	8,377	3,307
Inventories	12	17,937	8,394
Other current assets	13	396	632
<b>TOTAL CURRENT ASSETS</b>		<b>39,792</b>	<b>47,321</b>
NON-CURRENT ASSETS			
Trade and other receivables	11	3,667	-
Shares in associated entities	14	1,868	1,553
Property, plant and equipment	17	274	374
Intangibles	18	11,117	-
Goodwill	19	1,433	1,225
Deferred Tax Assets	22	773	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>19,132</b>	<b>3,152</b>
<b>TOTAL ASSETS</b>		<b>58,924</b>	<b>50,473</b>
CURRENT LIABILITIES			
Trade and other payables	20	1,407	894
Short-term borrowings	21	9,728	4,150
Current tax liability	22	113	-
Short-term provisions	23	234	62
<b>TOTAL CURRENT LIABILITIES</b>		<b>11,482</b>	<b>5,106</b>
NON-CURRENT LIABILITIES			
Long-term provisions	23	177	72
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>177</b>	<b>72</b>
<b>TOTAL LIABILITIES</b>		<b>11,659</b>	<b>5,178</b>
<b>NET ASSETS</b>		<b>47,265</b>	<b>45,295</b>
EQUITY			
Issued capital	24	59,683	58,889
Reserves	25	443	443
Accumulated losses		(12,862)	(14,038)
Parent interest		47,264	45,294
Non-controlling interest		1	1
<b>TOTAL EQUITY</b>		<b>47,265</b>	<b>45,295</b>

The statement of financial position is to be read in conjunction with the notes of the financial statements set out on pages 33 to 78.

**Folkestone Limited and its Controlled Entities**  
**Statement of Changes in Equity**  
**For the year ended 30 June 2013**

	Note	Issued Capital \$000	Accumulated Losses \$000	Reserves \$000	Attributable to holders of the parent \$000	Non- controlling Interest \$000	Total \$000
<b>Economic Entity</b>							
<b>Balance at 1 July 2011</b>		58,970	(13,919)	369	45,420	1	45,421
Loss for the year		-	(119)	-	(119)	-	(119)
Other comprehensive income		-	-	-	-	-	-
<b>Total comprehensive loss for the year</b>		-	(119)	-	(119)	-	(119)
Share buy back	24	(81)	-	-	(81)	-	(81)
Issue of performance rights	25	-	-	74	74	-	74
<b>Balance at 30 June 2012</b>		58,889	(14,038)	443	45,294	1	45,295
Profit for the year		-	1,176	-	1,176	-	1,176
Other comprehensive income		-	-	-	-	-	-
<b>Total comprehensive profit for the year</b>		-	1,176	-	1,176	-	1,176
Tax effect on share issue costs not previously recognised	24	794	-	-	794	-	794
<b>Balance at 30 June 2013</b>		59,683	(12,862)	443	47,264	1	47,265

The statement of changes in equity is to be read in conjunction with the notes of the financial statements set out on pages 33 to 78.

**Folkestone Limited and its Controlled Entities**  
**Statement of Cash Flows**  
**For the year ended 30 June 2013**

	Note	Economic Entity	
		2013 \$000	2012 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		<b>8,546</b>	15,143
Payments to suppliers and employees		<b>(10,292)</b>	(9,689)
Interest received - continuing operations	2	<b>692</b>	1,264
Finance costs - continuing operations	3	<b>(10)</b>	(15)
Interest and line fees capitalised to property developments included in inventory	3	<b>(732)</b>	(310)
Income tax paid		<b>(225)</b>	-
Net cash (used in)/ provided by operating activities	29	<b>(2,021)</b>	6,393
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		<b>(36)</b>	(68)
Payment for investment in subsidiary net of cash acquired	4	<b>(11,485)</b>	-
Payment for interest in joint venture net of cash acquired	4	<b>(3,444)</b>	-
Trust distributions received		<b>130</b>	-
Payment for investment in associated entity		-	(3,762)
Proceeds from sale of interest in associate entity		-	10,000
Net cash provided by/ (used in) investing activities		<b>(14,835)</b>	3,818
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings		<b>7,771</b>	3,022
Repayment of borrowings		<b>(6,243)</b>	(5,440)
Loans advanced to associated entities		<b>(7,692)</b>	(3,197)
Repayment of loans by associated entities		<b>1,114</b>	845
Payment for share buyback	24	-	(81)
Net cash (used in)/provided by financing activities		<b>(5,050)</b>	(2,499)
Net (decrease)/ increase in cash and cash equivalents		<b>(21,906)</b>	7,712
Cash and cash equivalents at beginning of financial year		<b>34,988</b>	27,276
Cash and cash equivalents at end of financial year	10	<b>13,082</b>	34,988

The statement of cash flows is to be read in conjunction with the notes of the financial statements set out on pages 33 to 78.

# **Folkestone Limited and its Controlled Entities**

## **Notes to the Financial Statements**

### **For the year ended 30 June 2013**

#### **NOTE 1: SIGNIFICANT ACCOUNTING POLICIES**

##### **Statement of Compliance**

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

The financial statements were approved by the Board on 22 August 2013 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.

**Folkestone Limited and its Controlled Entities**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2013**

**NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

Amendments to AASB 101 'Presentation of Financial Statements'	The amendment (part of AASB 2011-9 'Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income' introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to AASB 101, the statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and the income statement is renamed as a statement of profit or loss. The amendments to AASB 101 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to AASB 101 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to AASB 101 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.
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The amendments (part of AASB 2012-5 'Further Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle') requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position), when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The related notes to the third statement of financial position are not required to be disclosed.

**Folkestone Limited and its Controlled Entities**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2013**

**NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (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 9 'Financial Instruments', and the relevant amending standards	1 January 2015	30 June 2016
AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 11 'Joint Arrangements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 127 'Separate Financial Statements' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 128 'Investments in Associates and Joint Ventures' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	30 June 2014
AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'	1 January 2013	30 June 2014
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 July 2013	30 June 2014
AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'	1 January 2014	30 June 2015
AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle'	1 January 2013	30 June 2014
AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments'	1 January 2013	30 June 2014

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



# Folkestone Limited and its Controlled Entities

## Notes to the Financial Statements

### For the year ended 30 June 2013

#### 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 profit or loss and other 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 non-controlling 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 non-controlling 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.

# Folkestone Limited and its Controlled Entities

## Notes to the Financial Statements

### For the year ended 30 June 2013

#### b) Investments in Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with AASB 139. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

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

# Folkestone Limited and its Controlled Entities

## Notes to the Financial Statements

### For the year ended 30 June 2013

#### c) **Jointly controlled operations and assets**

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

When a group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

The Group's interests in assets where the Group does not have joint control are accounted for in accordance with the substance of the Group's interest. Where such arrangements give rise to an undivided interest in the individual assets and liabilities of the joint venture, the Group recognises its undivided interest in each asset and liability and classifies and presents those items according to their nature.

#### d) **Goods and Services Tax (GST)**

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

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

#### e) **Revenue**

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

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

##### 1. Land Sub-division

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

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

##### 2. Project Development

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

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

## **Folkestone Limited and its Controlled Entities**

### **Notes to the Financial Statements**

#### **For the year ended 30 June 2013**

##### **f) Income Tax**

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

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

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

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

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

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

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

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

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

# Folkestone Limited and its Controlled Entities

## Notes to the Financial Statements

### For the year ended 30 June 2013

#### f) **Income Tax (Continued)**

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

#### g) **Cash and Cash Equivalents**

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

#### h) **Financial instruments**

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

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

#### i) **Inventories**

##### i) **Developments in Progress**

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

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

##### ii) **Land Held for Resale**

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

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

#### j) **Property, Plant and Equipment**

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

##### **Plant and equipment**

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

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

# Folkestone Limited and its Controlled Entities

## Notes to the Financial Statements

### For the year ended 30 June 2013

#### k) Depreciation on plant and equipment

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

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

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

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

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another Standard.

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

## **Folkestone Limited and its Controlled Entities**

### **Notes to the Financial Statements**

#### **For the year ended 30 June 2013**

##### **m) Business Combinations (Continued)**

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

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

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

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

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

##### **n) Goodwill**

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

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

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

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

# Folkestone Limited and its Controlled Entities

## Notes to the Financial Statements

### For the year ended 30 June 2013

#### o) Impairment of Assets

##### i) Non financial assets

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

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

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

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

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

##### ii) Financial assets

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

#### p) Employee Benefits

##### i) Wages and Salaries and Annual Leave

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



# Folkestone Limited and its Controlled Entities

## Notes to the Financial Statements

### For the year ended 30 June 2013

#### p) Employee Benefits (Continued)

##### ii) Long Service Leave

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

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

##### iii) Profit Sharing and Bonus Plans

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

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

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

##### iv) Superannuation

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

##### v) Employee Benefit On-costs

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

##### vi) Performance Rights

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.

# Folkestone Limited and its Controlled Entities

## Notes to the Financial Statements

### For the year ended 30 June 2013

#### q) Provisions

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

##### i) Rectification and warranties

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

#### r) Earnings per Share

##### i) Basic Earnings per Share

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

##### ii) Diluted Earnings per Share

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

#### s) Comparative Figures

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

#### t) Rounding of Amounts

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

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

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

##### i) Inventories

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

##### ii) Shares in associated entities.

Note 14 sets out the value of shares in associated entities. Under the equity method, investments in associates are carried in the consolidated Statement of Financial Position at cost as adjusted for post acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Shares in associated entities are assessed for indicators of impairment at each reporting date. All impairment losses are expensed to the income statement.

**Folkestone Limited and its Controlled Entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2013**

**NOTE 2: REVENUE**

	Note	Economic Entity	
		2013 \$000	2012 \$000
<b>Revenue from continuing operations consists of the following items:</b>			
- Revenue from land and property development activities		<b>2,880</b>	15,327
- Interest received	2a	<b>1,905</b>	1,597
- Management fees		<b>5,094</b>	100
- Other income		<b>182</b>	1
Total Revenue		<b>10,061</b>	17,025
a. Interest received from:			
- bank deposits		<b>692</b>	1,264
- preferred equity loans for development projects		<b>1,213</b>	333
Total interest revenue		<b>1,905</b>	1,597

**NOTE 3: FINANCE COSTS**

**Finance costs from continuing operations consist of the following items:**

- Interest and line fees on bills payable		<b>732</b>	438
- Financial institution charges		<b>10</b>	15
Total Finance Costs		<b>742</b>	453
Less:			
Interest and line fees capitalised to property developments included in inventory		<b>(732)</b>	(310)
Interest and line fees expense included within development expenses		-	(128)
		<b>10</b>	15

The weighted average capitalisation rate (including margins) on funds borrowed at balance date is 5.95% (2012: 6.10%)

**Folkestone Limited and its Controlled Entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2013**

**NOTE 4: BUSINESS COMBINATIONS**

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

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

	<b>\$'000</b>
<b>Consideration transferred</b>	
Cash	<u>14,470</u>
	<u>14,470</u>

Acquisition costs amounting to approximately \$525,000 have been excluded from the consideration transferred and have been recognised as an expense in either the current financial year or the prior financial year.

**Assets acquired and liabilities assumed at the date of acquisition** **\$'000**

**Current assets**

Cash & cash equivalents	2,985
Other assets	690

**Non-current assets**

Intangibles - management rights <sup>1</sup>	11,200
Deferred tax asset	211

**Current liabilities**

Trade & other payables	(332)
Provision for annual leave	(190)
Other liabilities	(202)

**Non-current liabilities**

Provision for long service leave	(100)
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<b>Net assets</b>	<u><u>14,262</u></u>
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**Goodwill arising on acquisition**

Consideration transferred	14,470
Less: fair value of net assets acquired	<u>(14,262)</u>
Goodwill arising on acquisition <sup>2</sup>	<u>208</u>

**Net cash outflow on acquisition of subsidiaries**

Consideration paid or payable	14,470
Less: cash and cash equivalents acquired	<u>(2,985)</u>
	<u>11,485</u>

<sup>1</sup> The Group is amortising the management rights that relate to funds that have a finite life. The amortisation expense for the year ended 30 June 2013 was \$0.08m. The carrying value of management rights at 30 June 2013 is \$11.117m. The value attributable to intangible management rights has been determined in accordance with the valuation methodology summarised in Note 18: Intangibles.

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

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**NOTE 4: BUSINESS COMBINATIONS CONTINUED**

On 13 May 2013, Folkestone announced that it had acquired its joint venture partner's (AMP Capital Investors), 50% interest in the development project at 302-330 Millers Road Altona North. This asset is now 100% owned by the Folkestone Group. The total cash price paid for the acquisition was \$3.4 million. In addition to the cash price paid, Folkestone has taken over the 100% of the obligations of the loan facility associated with the project.

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

<b>Summary of consideration transferred</b>	<b>\$'000</b>
Cash	3,450
	<u>3,450</u>
<b>Assets acquired and liabilities assumed at the date of acquisition</b>	<b>\$'000</b>
<b>Current assets</b>	
Cash & cash equivalents	12
Trade and other receivables	6
Inventories	16,593
Other assets	528
<b>Current liabilities</b>	
Trade & other payables	(6)
Short term borrowings	(8,100)
<b>Net assets</b>	<u>9,033</u>
<b>Discount arising on acquisition</b>	
Consideration transferred	3,450
Plus: fair value of net assets previously held	4,517
Less: fair value of identifiable net assets recognised	(9,033)
Discount arising on acquisition	<u>(1,066)</u>
<b>Net cash outflow on acquisition of interest in joint venture</b>	
Consideration paid or payable	3,450
Less: cash and cash equivalents acquired	(6)
	<u>3,444</u>

**Folkestone Limited and its Controlled Entities**  
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**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 results of the discontinued operations which are included in the statement of comprehensive income for the year ended 30 June 2013 are as follows:

	<b>30 June 2013</b>	30 June 2012
	<b>\$000</b>	\$000
<b>(Loss)/profit from discontinued operations</b>		
Revenue	-	-
Expenses	-	(46)
(Loss)/profit before tax	-	(46)
Income tax credit/(expense)	-	-
Net (loss)/profit from discontinued operations after income tax	-	(46)

**NOTE 6: INCOME TAX EXPENSE**

	<b>Economic Entity</b>	
	<b>2013</b>	2012
	<b>\$000</b>	\$000
<b>Income tax recognised in profit or loss</b>		
Current tax expense/(credit)	<b>448</b>	-
Deferred tax (benefit)/expense	<b>(79)</b>	-
Income tax expense/(credit)	<b>369</b>	-

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:

	<b>Economic Entity</b>	
	<b>2013</b>	2012
	<b>\$000</b>	\$000
Profit/(loss) from operations	<b>1,545</b>	(73)
Income tax calculated at 30%	<b>463</b>	(22)
Add/(Subtract):		
- Entertainment	<b>4</b>	3
- Current year tax losses not recognised as deferred tax assets	-	31
- Re-recognition of Deferred Tax Asset charged to income tax expense	<b>162</b>	-
- Effect of utilisation of carried forward tax losses	<b>(241)</b>	-
- Temporary differences not recognised as deferred tax assets	-	(2,200)
- Other non-assessable income	<b>(19)</b>	-
- Other non-allowable expenses	-	2,188
Income tax attributable to entity	<b>369</b>	-

**Folkestone Limited and its Controlled Entities**  
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**NOTE 7: KEY MANAGEMENT PERSONNEL COMPENSATION**

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

Key Management Person	Position
<i>GR Sladden</i>	<i>Non-Executive Chairman</i>
<i>MW Baillie</i>	<i>Non-executive Deputy Chairman (appointed 19 February 2013)</i>
<i>KR Strang</i>	<i>Non-executive director</i>
<i>AH Gurner</i>	<i>Non-executive director (resigned 26 April 2013)</i>
<i>GJ Paramor</i>	<i>Managing Director</i>
<i>NJ Anagnostou</i>	<i>Chief Executive Officer - Social Infrastructure Funds (joined 28 September 2012)</i>
<i>BP Dodwell</i>	<i>Head of Real Estate</i>
<i>AJ Harrington</i>	<i>Head of Funds Management</i>
<i>SN Martin</i>	<i>Chief Financial Officer &amp; Company Secretary</i>
<i>TS Butcher</i>	<i>Chief Financial Officer - Funds (joined 28 September 2012)</i>
<i>JW Sweeney</i>	<i>Chief Operating Officer (resigned 28 February 2013)</i>

*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:

	<b>Economic Entity</b>	
	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	<b>1,784,553</b>	1,416,716
Post-employment benefits	<b>147,097</b>	155,644
Short-term incentive cash bonus	<b>240,000</b>	-
Termination payments	<b>194,154</b>	-
Net share-based payment	-	73,586
	<b>2,365,804</b>	1,645,946

**Long Term Incentives - Performance Rights**

The Executive Incentive Performance Rights Plan ("Plan") is designed to:

- assist with the attraction and retention of directors, executives, senior managers and employees;
- continue to motivate and drive performance at both the individual and corporate level; and
- strengthen the alignment between employee and Shareholder interests.

A summary of the Plan Rules is set out in the Remuneration Report section of the Director's Report on pages 8 to 18.

**Folkestone Limited and its Controlled Entities**  
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**NOTE 7: KEY MANAGEMENT PERSONNEL COMPENSATION CONTINUED**

**Performance Rights issued as part of Remuneration for the year ended 30 June 2013**

There has been no performance rights issued as part of remuneration for the year ended 30 June 2013.

The following factors and assumptions were used in determining the fair value of rights on the grant date; which were granted on 29 June 2011:

<i>Grant Date</i>	<i>Expiry Date</i>	<i>*Fair Value per Right</i>	<i>Exercise Price</i>	<i>Price of Shares on Grant Date</i>	<i>Estimated Volatility</i>	<i>Risk free interest rate</i>	<i>Dividend yield</i>
29 Jun 11	30 Jun 2014	\$0.104	\$0	\$0.105	40%	4.71%	-
29 Jun 11	30 Jun 2014	\$0.056	\$0	\$0.105	40%	4.71%	-

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

The Board's policy in respect of the accounting treatment of performance rights is to engage the services of an independent expert to calculate the fair value of performance rights at the date of grant using an appropriate valuation model.

The Board has adopted the fair value calculation as the cost basis for issuing the rights and to shares on vesting of any rights awarded. Please refer to the accounting policy note on page 44 for further detail.

**Performance rights over equity instruments granted as compensation**

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

<i>Executive</i>	<i>Granted during prior period</i>	<i>Grant date</i>	<i>Vested/Lapsed during 2013</i>	<i>Fair value per right at grant date</i>	<i>Expiry date</i>
A Harrington	1,971,026	29 Jun 2011	-	\$0.104	30 June 2014
	1,971,027	29 Jun 2011	-	\$0.056	30 June 2014
J Sweeney	1,971,026	29 Jun 2011	(1,971,026)	\$0.104	Lapsed due to resignation of executive
	1,971,027	29 Jun 2011	(1,971,027)	\$0.056	

There were no performance rights granted during the 2013 financial year.

The above performance rights issued under the Executive Incentive Performance Rights Plan expire on the termination of the individual's employment and vest three years from grant date subject to performance criteria met.

**Analysis of share-based payments granted as compensation**

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

<i>Performance Rights Granted</i>							
	<i>Number</i>	<i>Date</i>	<i>% Vested in year</i>	<i>% Vested in total</i>	<i>% Forfeited in year</i>	<i>% Forfeited in total</i>	<i>Financial years to which grant vests</i>
<b>Executives</b>							
A Harrington	3,942,053	29 Jun 2011	-	-	-	-	30 Jun 2014
J Sweeney	3,942,053	29 Jun 2011	-	-	100%	100%	Not applicable, rights have lapsed



**Folkestone Limited and its Controlled Entities**  
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**NOTE 7: KEY MANAGEMENT PERSONNEL COMPENSATION CONTINUED**

***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 executives is detailed below:

	<b>Opening Balance (i)</b>	<b>Granted in Year (ii) (iii)</b>	<b>Vested in Year (iv)</b>	<b>Lapsed in Year (v)</b>	<b>Closing Balance</b>
<b>Executives</b>					
A Harrington					
Number of Rights	3,942,053	-	-	-	3,942,053
Value of Rights \$	315,365	-	-	-	315,365
J Sweeney					
Number of Rights	3,942,053	-	-	(3,942,053)	-
Value of Rights \$	315,365	-	-	(315,365)	-
<b>Total</b>					
Number of Rights	7,884,106	-	-	(3,942,053)	3,942,053
Value of Rights	630,730	-	-	(315,365)	315,365

(i) *Opening balance of performance rights were granted on 29 June 2011.*

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

(iii) *The value of performance rights granted during the year is their fair value at grant date. There were no performance rights granted during the current year.*

(iv) *The value of performance rights vested during the year is calculated as the fair value at grant date of those rights vested during the period. There were no performance rights that vested during the current year.*

(v) *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 at the grant date of these rights. Jonathan Sweeney's performance rights lapsed on 28 February 2013 at the date of his resignation of employment.*

No options have been issued or are on issue.

**Folkestone Limited and its Controlled Entities**  
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**NOTE 7: KEY MANAGEMENT PERSONNEL COMPENSATION CONTINUED**

**Number of Shares held by Key Management Personnel**

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

<sup>1)</sup> Net Change Other refers to shares purchased or sold during the financial year.

<sup>2)</sup> The closing balance reflects the shares held as at the date of departure.

**Number of Shares held by Key Management Personnel**

<b>2012</b>	<b>Balance 1.7.2011</b>	<b>Received as Compensation</b>	<b>Performance Rights Exercised</b>	<b>Net Change Other<sup>1</sup></b>	<b>Balance 30.6.2012</b>
<i>GR Sladden</i>	416,667	-	-	-	416,667
<i>AH Gurner</i>	1,000,000	-	-	-	1,000,000
<i>GJ Paramor</i>	42,230,204	-	-	(880,000)	41,350,204
<i>BP Dodwell</i>	489,035	-	-	-	489,035
<i>AJ Harrington</i>	2,916,666	-	-	440,000	3,356,666
<i>SN Martin</i>	560,698	-	-	-	560,698
<i>JW Sweeney</i>	3,332,666	-	-	440,000	3,772,666
<b>Total</b>	<b>50,945,936</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>50,945,936</b>

<sup>1)</sup> Net Change Other refers to shares purchased or sold during the financial year.

**Folkestone Limited and its Controlled Entities**  
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**NOTE 8: AUDITORS' REMUNERATION**

	Economic Entity	
	2013	2012
	\$	\$
Remuneration of the auditor for:		
- auditing or reviewing the financial report	121,750	86,795
- due diligence	18,000	55,000
- other	600	-
Total basic earnings per share	140,350	141,795

The auditor of Folkestone Ltd is Deloitte Touche Tohmatsu

**NOTE 9: EARNINGS PER SHARE**

	Economic Entity	
	2013	2012
<b>Basic earnings per share</b>		
From continuing operations	0.3	(0.0)
From discontinued operations	-	(0.0)
Total basic earnings per share	0.3	(0.0)
<b>Diluted earnings per share</b>		
From continuing operations	0.3	(0.0)
From discontinued operations	-	(0.0)
Total diluted earnings per share	0.3	(0.0)

**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:

	2013	2012
	\$000	\$000
Profit / (loss) attributable to members of the parent entity	1,176	(119)
Earnings used in the calculation of basic EPS	1,176	(119)
(Profit)/loss for the year from discontinued operations used in the calculation of basic earnings per share from discontinued operations	-	46
Earnings used in the calculation of basic earnings per share from continuing operations	1,176	(73)

	2013	2012
	No.	No.
Weighted average number of ordinary shares for the purposes of basic earnings per share (all measures)	370,286,124	370,696,599

**Folkestone Limited and its Controlled Entities**  
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**NOTE 9: EARNINGS PER SHARE CONTINUED**

**Diluted earnings per share**

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

	<b>2013</b>	2012
	<b>\$000</b>	\$000
Profit/(loss) attributable to members of the parent entity	<b>1,176</b>	(119)
Earnings used in the calculation of diluted EPS	<b>1,176</b>	(119)
(Profit)/loss for the year from discontinued operations used in the calculation of diluted earnings per share from discontinued operations	-	46
Earnings used in the calculation of diluted earnings per share from continuing operations	<b>1,176</b>	(73)
	<b>2013</b>	2012
	<b>No.</b>	No.
Weighted average number of ordinary shares used in the calculation of diluted EPS	<b>372,257,151</b>	370,696,599

There are 1,971,027 market based employee performance rights which have been issued for no consideration. These are dilutive in a profit making position.

**Folkestone Limited and its Controlled Entities**  
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**NOTE 10: CASH AND CASH EQUIVALENTS**

	<b>Economic Entity</b>	
	<b>2013</b>	2012
	<b>\$000</b>	\$000
Cash at bank and in hand	<b>13,082</b>	34,988
	<b>13,082</b>	34,988

**Reconciliation of cash**

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

Cash and cash equivalents	<b>13,082</b>	34,988
	<b>13,082</b>	34,988

**NOTE 11: TRADE AND OTHER RECEIVABLES**

	<b>Economic Entity</b>	
	<b>2013</b>	2012
	<b>\$000</b>	\$000
<b>CURRENT</b>		
Trade receivables	<b>1,159</b>	73
Other receivables	<b>7,218</b>	3,234
	<b>8,377</b>	<b>3,307</b>
<b>NON CURRENT</b>		
Other receivables	<b>3,667</b>	-
	<b>3,667</b>	-

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 recognised an allowance for doubtful receivables because there has not been significant change in credit quality and the amounts are considered recoverable. No collateral is held over these balances.

**Trade Receivables**

**Ageing of past due but not impaired**

	<b>Economic Entity</b>	
	<b>2013</b>	2012
	<b>\$000</b>	\$000
Not past due	<b>845</b>	7
Past due 0-30 days	<b>9</b>	28
Past due 31-120 days	<b>9</b>	34
Past 120 days	<b>296</b>	4
	<b>1,159</b>	73

**Folkestone Limited and its Controlled Entities**  
**Notes to the Consolidated Financial Statements**  
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**NOTE 12: INVENTORIES**

	Economic Entity	
	2013 \$000	2012 \$000
<b>CURRENT</b>		
Land and property developments in progress	17,937	8,394
	<b>17,937</b>	<b>8,394</b>

**NOTE 13: OTHER CURRENT ASSETS**

	Economic Entity	
	2013 \$000	2012 \$000
Prepayments	33	101
Other assets	363	531
	<b>396</b>	<b>632</b>

**NOTE 14: INVESTMENTS IN ASSOCIATED ENTITIES**

**Interests are held in the following associated entities**

Name	Principal Activities	Country of Incorporation	Equity Held	Ownership Interest		Carrying amount of investment	
				2013 %	2012 %	2013 \$000	2012 \$000
Unlisted:							
Greenvalley Asset Property Trust <sup>(1)</sup>	Property Development	Australia	Units	25	25	1,868	1,553
						<b>1,868</b>	<b>1,553</b>

<sup>(1)</sup> The Ranges Holdings Karratha Pty Ltd, a wholly owned subsidiary of Folkestone Ltd, owns 6 of the 24 units on issue. The units were acquired on 3 June 2011.

**Folkestone Limited and its Controlled Entities**  
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**NOTE 14: INVESTMENTS IN ASSOCIATED ENTITIES CONTINUED**

	<b>Economic Entity</b>	
	<b>2013</b>	2012
	<b>\$000</b>	\$000
This balance comprises		
Share of net assets in associated entities (a)	<b>1,456</b>	1,141
Consideration paid greater than reported carrying value of net assets	<b>412</b>	412
	<b>1,868</b>	1,553
a. Summarised Presentation of the economic entity's share of Aggregate Assets, Liabilities and Performance of Associates		
Current assets	<b>5,691</b>	4,012
Total assets	<b>5,691</b>	4,012
Current liabilities	<b>4,235</b>	2,871
Non-current liabilities	-	-
Total liabilities	<b>4,235</b>	2,871
Net assets	<b>1,456</b>	1,141
Revenues		
Gain on sale of interests in associated entities	-	7
Share of net gain of associated entities	<b>315</b>	787
Total Revenues	<b>315</b>	794

Ownership interest in Greenvalley Asset Property Trust was 25% of issued units. The reporting date of Greenvalley Asset Property Trust is 30 June 2013. This reporting date coincides with Folkestone Limited.

**Folkestone Limited and its Controlled Entities**  
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**NOTE 15: JOINTLY CONTROLLED OPERATIONS**

The Group's interest, as a joint 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**

**2013**                      2012  
**\$000**                      \$000

- i) A controlled entity, Folkestone No:4 Pty Ltd has a 50% interest with the Select Property Portfolio Fund No:2 Ltd, a development at 169 Noone Street, Clifton Hill which was completed in the reporting period.

The economic entity's share of assets employed in the jointly controlled operations is:

**CURRENT ASSETS**

Cash at bank and on hand	<b>26</b>	221
Inventories – developments in progress	-	170
Other current assets	-	14
Total current assets	<b>26</b>	405
Share of total assets of jointly controlled operations	<b>26</b>	405
Net interest in jointly controlled operations	<b>11</b>	352

- ii) A controlled entity, Folkestone No:10 Pty Ltd has a 50% interest with I.D Land in the development of a site in Princes Highway, Officer.

The economic entity's share of assets employed in the jointly controlled operations is:

**2013**                      2012  
**\$000**                      \$000

**TOTAL ASSETS**

Inventories - developments in progress	<b>1,344</b>	465
Other current assets	<b>1,615</b>	250
Total current assets	<b>2,959</b>	715
Non-current assets	<b>3,667</b>	-
Total assets	<b>6,626</b>	715
Share of total assets of jointly controlled operations	<b>6,626</b>	715
Net interest in jointly controlled operations	<b>4,807</b>	715



**Folkestone Limited and its Controlled Entities**  
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**NOTE 16: CONTROLLED ENTITIES**

a. Controlled Entities Consolidated

	Country of Incorporation	Percentage Owned (%)*	
		2013	2012
Parent Entity:			
<b>Folkestone Limited</b>	Australia		
<u>Subsidiaries of Folkestone Limited:</u>			
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	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
Corporate Square Wollongong Pty Ltd (formerly Folkestone No: 9 Pty Ltd)	Australia	100	100
Folkestone No: 10 Pty Ltd	Australia	100	100
Equity Real Estate Partners Pty Ltd	Australia	100	100
Folkestone Funds Management Ltd	Australia	100	100
Equity Real Estate Services Pty Ltd	Australia	100	100
The Ranges Holdings Karratha Pty Ltd	Australia	100	100
Folkestone Investment Management Ltd	Australia	100	0
Folkestone Real Estate Management Ltd	Australia	100	0
Folkestone SI 1 Pty Ltd	Australia	100	0
Folkestone SI 2 Pty Ltd	Australia	100	0
Millers Road (Altona) Pty Ltd	Australia	100	50

\* Percentage of voting power is in proportion to ownership

b. De-registration of controlled entities in 2013.

No entities de-registered in 2013.

**Folkestone Limited and its Controlled Entities**  
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**NOTE 17: PROPERTY, PLANT AND EQUIPMENT**

	Note	Economic Entity	
		2013 \$000	2012 \$000
PLANT AND EQUIPMENT			
Office equipment:			
At cost		616	617
Accumulated depreciation and impairment		(342)	(243)
Total Property, Plant and Equipment		<u>274</u>	<u>374</u>

a. Movements in Carrying Amounts

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

	Economic Entity	
	2013 \$000	2012 \$000
Carrying amount at the start of the year	374	434
Additions at cost	36	68
Disposals at cost	(33)	-
Accumulated depreciation eliminated on disposal	28	-
Depreciation expense	(131)	(128)
Carrying amount at the end of year	<u>274</u>	<u>374</u>

**Folkestone Limited and its Controlled Entities**  
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**NOTE 18: INTANGIBLES**

	Economic Entity	
	2013 \$000	2012 \$000
Management rights	11,200	
Accumulated amortisation	(83)	-
Total management rights	<u>11,117</u>	<u>-</u>

**Management Rights**

Balance at the beginning of year	-	-
Acquisition of management rights through business combinations with indefinite useful life	10,942	-
Acquisition of management rights through business combinations with finite life	258	-
Accumulated Amortisation of management rights with finite life	(83)	-
Balance at the end of year	<u>11,117</u>	<u>-</u>

During the year, Folkestone acquired the Austock property funds management business which at the date of acquisition had \$555 million of funds under management. The fair value of intangible management rights with an indefinite life assessed as at the date of acquisition was \$10.9 million. The fair value of intangible management rights with a finite life assessed as at the date of acquisition was \$0.3m.

The intangible assets with a finite life are being amortised on a straight line basis between the date of the acquisition of the management rights by Folkestone (September 2012) and the end date of the Fund (January 2015).

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

For the purposes of impairment testing, intangibles have been allocated to the cash generating business unit of property funds management. The analysis completed is based upon a value in use calculation of the forecast earnings over a five year period into perpetuity on the basis that the funds have an infinite life. For the purposes of the analysis we have assumed a 2% growth in funds under management, a revenue growth rate of 3%, a cost escalation assumption of 5% and a discount factor of 19%. Based upon this analysis no impairment loss has been recognised in respect of intangible management rights for the year ended 30 June 2013.

**Folkestone Limited and its Controlled Entities**  
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**NOTE 19: GOODWILL**

	<b>Economic Entity</b>	
	<b>2013</b>	<b>2012</b>
	<b>\$000</b>	<b>\$000</b>
Goodwill		
At cost	<b>1,433</b>	1,225
Total goodwill	<b>1,433</b>	1,225

**Goodwill**

Balance at the beginning of year	<b>1,225</b>	<b>1,225</b>
Acquisitions through business combinations	<b>208</b>	-
Balance at the end of year	<b>1,433</b>	1,225

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

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

For the purposes of impairment testing, the carrying value of goodwill associated with the acquisition of the Austock Property Funds management business (\$0.2 million) has been assessed in conjunction with the assessment of intangibles as disclosed in Note 18.

For the purposes of impairment testing the balance of the goodwill which relates to the acquisition of EREP, \$0.6m goodwill has been allocated to the cash generating unit of property development and \$0.6m has been allocated to the property funds management cash generating business unit. The analysis completed is based upon a value in use calculation of the forecast earnings of each cash-generating unit using a discount factor of 19%.

Based upon the above analysis no impairment loss has been recognised in respect of goodwill for the year ended 30 June 2013.

**NOTE 20: TRADE AND OTHER PAYABLES**

	<b>Note</b>	<b>Economic Entity</b>	
		<b>2013</b>	<b>2012</b>
		<b>\$000</b>	<b>\$000</b>
Trade payables	a	<b>180</b>	223
Sundry payables and accrued expenses		<b>1,227</b>	671
		<b>1,407</b>	894

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

**Folkestone Limited and its Controlled Entities**  
**Notes to the Consolidated Financial Statements**  
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**NOTE 21: SHORT TERM BORROWINGS**

		<b>Economic Entity</b>	
		<b>2013</b>	2012
		<b>\$000</b>	\$000
Secured liabilities			
Bills payable	19a,b,c	<b>9,728</b>	4,150
		<b>9,728</b>	4,150

- 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 27; Contingent Liabilities).

<b>23,353</b>	7,759
<b>23,353</b>	7,759

- b. Bills Payable

The prevailing interest rate at 30 June 2013 on bills drawn was 5.95% (2012: 6.10%) including margins. The total bill facility available at 30 June 2013 was \$10.418m (2012: \$4.150m) 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 finance facility with the Bank of Melbourne in respect of the project at 302-330 Millers Road, Altona North was extended during the year to 30 November 2013. As at 30 June 2013, an application for development funding for Stage 1 of this project had been submitted to Bank of Melbourne for approval. The submission included a recommendation for any outstanding facility conditions to be waived on the existing loan facility agreement. Subsequent to the end of the financial year, Folkestone has made arrangements for a principal repayment to be made on the existing loan facility of \$2.115 million which has reduced the LVR from 50% to 35%, and will be able to be re-drawn as part of the new facility for the development of Stage 1.

- c. Maturity and classification of bills payable

- The finance facility in respect of the project at 302-330 Millers Road, Altona North expires on 30 November 2013.
- The finance facility in respect of the project at 330 Princes Highway, Officer expires on 10 October 2013.
- The borrowings have been classified as current to align with the classification of inventory to which the borrowings relate and as at reporting date the finance facility was due to expire within 12 months.

**Folkestone Limited and its Controlled Entities**  
**Notes to the Consolidated Financial Statements**  
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**NOTE 22: TAX**

	<b>Economic Entity</b>	
	<b>2013</b>	2012
	<b>\$000</b>	\$000
<b>a. Assets</b>		
CURRENT		
Income tax	-	-
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>
NON-CURRENT		
Deferred Tax Asset	<b>773</b>	-
	<u><b>773</b></u>	<u>-</u>
	<u><b>773</b></u>	<u>-</u>
<b>b. Liabilities</b>		
CURRENT		
Income Tax	<b>113</b>	-
	<u><b>113</b></u>	<u>-</u>
	<u><b>113</b></u>	<u>-</u>

**c. Deferred Tax Assets**

The balance of the deferred tax asset comprises temporary differences attributable to:

Accrued expenses	<b>234</b>	-
S.40-880 deductible expenditure	<b>381</b>	-
Management rights	<b>42</b>	-
Employee benefits	<b>123</b>	-
Other	<b>(7)</b>	-
Closing balance	<u><b>773</b></u>	<u>-</u>

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

Opening balance	-	-
Re-recognition of deferred tax assets charged to income statement	<b>(162)</b>	-
Re-recognition of deferred tax assets charged to equity	<b>794</b>	-
Recognition of deferred tax assets acquired as part of business combination	<b>211</b>	-
Movement for the year charged to the income statement	<b>(70)</b>	-
Closing balance	<u><b>773</b></u>	<u>-</u>

**Folkestone Limited and its Controlled Entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2013**

**NOTE 22: TAX CONTINUED**

	<b>Economic Entity</b>	
	<b>2013</b>	2012
	<b>\$000</b>	\$000
<b>d. Unrecognised Deferred Tax Assets</b>		
Deferred tax assets not recognised at reporting date comprise:		
Temporary Differences	<b>1,542</b>	<b>2,205</b>
Carried forward tax losses	<b>3,880</b>	<b>4,232</b>
	<b>5,422</b>	<b>6,437</b>

**NOTE 23: PROVISIONS**

**Current**

**Employee benefits**

Provision for annual leave	<b>234</b>	<b>62</b>
Total Current Provisions	<b>234</b>	<b>62</b>

**Non-Current**

**Employee benefits**

Provision for long service leave	<b>177</b>	<b>72</b>
Total Non-Current Provisions	<b>177</b>	<b>72</b>

**NOTE 24: ISSUED CAPITAL**

<b>370,286,124</b> (2012: <b>370,286,124</b> ) fully paid ordinary shares of no par value	<b>59,465</b>	58,889
	<b>59,465</b>	58,889

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.

**Folkestone Limited and its Controlled Entities**  
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**NOTE 24: ISSUED CAPITAL CONTINUED**

	2013		2012	
	Shares (thousand)	\$000	Shares (thousand)	\$000
<b>Ordinary shares</b>				
At the beginning of reporting period	<b>370,286</b>	<b>58,889</b>	370,836	58,970
Shares issued during the year				
- Share Buy Back (a)	-	-	(550)	(45)
Less: share buy back costs	-	-	-	(36)
Tax effect of share issue costs not previously recognised (b)	-	<b>794</b>	-	-
<b>At reporting date</b>	<b>370,286</b>	<b>59,683</b>	370,286	58,889

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 22 December 2011, Folkestone announced its intention to buy back up to 9,969,923 shares, being 10% of the minimum shares outstanding during the prior twelve months. During the year ended 30 June 2012, 550,000 shares were bought back at an average price of 8.2 cents per share. The share buyback was concluded on 31 December 2012. Given the increase in share price between July 2012 and December 2012 and other initiatives being pursued by the Company during this time, no shares were purchased in the six months ending 31 December 2012 as it was the Board's belief that the repurchase of shares at these increased levels was an inappropriate use of the Company's capital.

(b) As at 30 June 2013, the Company has re-recognised a deferred tax asset of \$632,000 on the basis that it is likely that there will be future taxable profits available against which the consolidated entity can utilise the benefits of the re-recognised deferred tax asset. The amount of \$794,000 relates to share issue costs previously booked through Issued Capital in prior periods.

**Franking Account**

**Economic Entity**

	2013 \$000	2012 \$000
Balance of franking account at year end	<b>10,545</b>	10,545

**NOTE 25: RESERVES**

**Economic Entity**

	2013 \$000	2012 \$000
At the beginning of the reporting period	<b>443</b>	369
- Net performance rights (forfeited)/granted	-	74
At the reporting date	<b>443</b>	443

The employee performance rights reserve records the amounts in respect of performance rights granted / (forfeited).



**Folkestone Limited and its Controlled Entities**  
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**NOTE 26: CAPITAL AND LEASING COMMITMENTS**

	<b>Economic Entity</b>	
	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
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	<b>313</b>	194
- between 12 months and 5 years	<b>501</b>	469
	<b>814</b>	663

The Group has the following lease commitments:

1. Level 9, 350 Collins Street, Melbourne which expires on 1 June 2014. Rent is payable monthly in advance with 4% per annum fixed increases on the anniversary date.
2. Level 10, 60 Carrington St, Sydney which expires on 1 Feb 2016. Rent is payable monthly in advance with 4% per annum fixed increases on the anniversary date. The Group has sub-let approximately 37% of this office space to a sub-tenant.
3. Level 12, 15 William Street, Melbourne, sublease which expires on 30 May 2016. Rent is payable monthly in advance with 3.75% per annum fixed increases on the anniversary date.

b. Group's share of associated entities Capital Commitments

- not later than 12 months	<b>50</b>	7,305
	<b>50</b>	7,305

The Group has the following capital commitments:

1. As part of the joint venture agreement for the Officer project, a controlled entity, Folkestone No. 10 Pty Ltd, has a loan agreement with ID Princess Highway Pty Ltd, the joint venture partner, for a maximum amount of \$2.120m excluding capitalised interest. The undrawn balance of this loan at 30 June 2013 was \$0.050m.

## **Folkestone Limited and its Controlled Entities**

### **Notes to the Consolidated Financial Statements**

#### **For the year ended 30 June 2013**

#### **NOTE 27: CONTINGENT LIABILITIES**

- a) Folkestone Limited has guaranteed the performance of certain controlled entities in relation to development agreements. These include:
- Millers Road (Altona) Pty Ltd - Folkestone Limited has a 100% interest in the development of land at 302-330 Millers Road, Altona North. Folkestone Limited has provided a guarantee in favour of Bank of Melbourne in relation to a loan facility for \$8.1m (drawn to 30 June 2013: \$8.1m) for this development. The loan facility runs to 30 November 2013. As part of the security for the facility, Folkestone Limited has provided Bank of Melbourne with an unlimited guarantee and indemnity for 100% of the loan.
  - 330 Princes Highway Pty Ltd - Folkestone Limited has a 50% interest in the development of 330 Princes Highway Officer. On 10 July 2012, Folkestone Limited provided a limited guarantee in favour of Bank of Melbourne in relation to a loan facility for \$4.6m (drawn to 30 June 2013: \$3.3m) for this development. The loan facility runs to 10 October 2013. As part of the security for the facility, Folkestone Limited has provided Bank of Melbourne with a guarantee and indemnity limited to \$2.0m plus costs.

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

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

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

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

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

**Folkestone Limited and its Controlled Entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2013**

**NOTE 28: SEGMENT REPORTING**

The economic entity's reportable segments under AASB 8 are Property Development and Funds Management.

In prior periods, the economic entity also operated a Construction division which was reported as a separate segment under AASB 8. That operation was discontinued with effect from 1 July 2009 (see Note 5).

	Segment Revenue		Segment Profit	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
	\$000	\$000	\$000	\$000
<b>Continuing operations</b>				
Property development	4,409	15,660	2,335	2,489
Funds management	5,223	100	5,223	100
	<u>9,632</u>	<u>15,760</u>	<u>7,558</u>	<u>2,589</u>
Other revenue			744	1,265
Administration costs			(6,757)	(3,927)
Loss before income tax			<u>1,545</u>	<u>(73)</u>
<b>Discontinued operations</b>				
Construction	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Administration costs			-	(46)
(Loss)/profit before income tax			<u>-</u>	<u>(46)</u>
Income tax (expense)/credit (continuing and discontinued operations)			<u>(369)</u>	-
Consolidated segment revenue and profit for the year	<u>9,632</u>	<u>15,760</u>	<u>1,176</u>	<u>(119)</u>

	30 June 2013	30 June 2012
	\$000	\$000
<b>Segment assets</b>		
Funds management	16,762	331
Property development	31,864	13,626
Unallocated	10,447	36,516
	<u>59,073</u>	<u>50,473</u>
<b>Segment liabilities</b>		
Funds management	646	1
Property development	10,012	4,275
Unallocated	1,029	902
	<u>11,687</u>	<u>5,178</u>

**Folkestone Limited and its Controlled Entities**  
**Notes to the Consolidated Financial Statements**  
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**NOTE 29: NOTES TO THE CASH FLOW STATEMENT**

	Economic Entity	
	2013 \$000	2012 \$000
a. Reconciliation of profit for the period to net cash flows from operations		
Profit /(loss) after income tax	1,176	(119)
Non-cash flows in profit		
Amortisation & depreciation	222	128
Expensing of performance rights	-	74
Accrued interest on preferred equity loans	(1,213)	(333)
Trust distribution classified as investing activity	(130)	-
Gain on sale of interests in associated entities	-	(7)
Share of net gain of associated entities	(315)	(787)
Movement in assets and liabilities		
Increase in trade and other receivables	(257)	(286)
Decrease/(Increase) in other operating assets	508	31
(Increase) / Decrease in inventories	(2,314)	8,203
Increase / (Decrease) in trade and other payables	178	(551)
(Increase)/decrease in deferred tax asset	225	-
Increase/(decrease) in provisions	(12)	40
Increase/(decrease) in current tax liability	(89)	-
Net cash provided by/(used in) operations	<u>(2,021)</u>	<u>6,393</u>
b. Credit Standby Arrangements with Banks		
Bank Loan Facilities	10,418	4,150
Amount utilised	(9,728)	(4,150)
	<u>690</u>	<u>-</u>

The major facilities are summarised as follows:

Bill facility

The prevailing interest rate at 30 June 2013 on bills drawn range was 5.95% (2012: 6.10%) including margins. The total bill facility available at 30 June 2013 was \$10.418m (2012: \$4.15m) 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.

**Folkestone Limited and its Controlled Entities**  
**Notes to the Consolidated Financial Statements**  
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**NOTE 30: EVENTS AFTER BALANCE DATE**

On 29 July 2013, the Officer joint venture accepted an offer to extend the current facility with Bank of Melbourne until 10 October 2013 to enable settlement of the remaining Stage 1 lots as well as providing an amount of \$1.5 million to commence Stage 2 early works.

**NOTE 31: PARENT ENTITY INFORMATION**

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

<b>Financial position</b>	<b>Parent Entity</b>	
	<b>2013</b>	2012
	<b>\$000</b>	\$000
<b>ASSETS</b>		
Current assets	<b>9,156</b>	41,524
Non-current assets	<b>29,012</b>	3,135
Total assets	<b>38,168</b>	44,659
<b>LIABILITIES</b>		
Current liabilities	<b>730</b>	3,851
Non-current liabilities	<b>56</b>	72
Total liabilities	<b>786</b>	3,923
<b>NET ASSETS</b>	<b>37,382</b>	40,736
<b>EQUITY</b>		
Issued capital	<b>59,683</b>	58,889
Accumulated losses	<b>(22,744)</b>	(18,596)
Reserves	<b>443</b>	443
<b>TOTAL EQUITY</b>	<b>37,382</b>	40,736

**Folkestone Limited and its Controlled Entities**  
**Notes to the Consolidated Financial Statements**  
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**NOTE 31: PARENT ENTITY INFORMATION CONTINUED**

<b>Financial performance</b>	<b>Parent Entity</b>	
	<b>2013</b>	<b>2012</b>
	<b>\$000</b>	<b>\$000</b>
Profit/(loss) for the year	<b>(4,149)</b>	(1,608)
Total comprehensive loss for the year	<b>(4,149)</b>	(1,608)

**Guarantees entered into by the parent entity in relation to the debts of its subsidiaries**

	<b>2013</b>	<b>2012</b>
	<b>\$000</b>	<b>\$000</b>
Guarantee provided by the parent entity in relation to the debts of its subsidiaries (i)	-	-

**Contingent liabilities of the parent entity**

	<b>2013</b>	<b>2012</b>
	<b>\$000</b>	<b>\$000</b>
Contingent liabilities of the parent entity (i)	-	-

(i) Please refer to Note 27: Contingent liabilities for a summary of the guarantees and contingent liabilities that have been provided by the parent entity.

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

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

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

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

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

# Folkestone Limited and its Controlled Entities

## Notes to the Consolidated Financial Statements

### For the year ended 30 June 2013

#### 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 16.

Transactions between Folkestone Limited and other entities in the wholly-owned group during the years ended 30 June 2013 and 2012 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(f).

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

##### Other Related Parties

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

Transactions between Folkestone Limited and other related parties during the years ended 30 June 2013 and 2012 consisted of fees received and cost recoveries from unlisted funds for whom the Company acts as Corporate Trustee and fees and cost recoveries from managed investment schemes for whom the Company acts as Responsible Entity. The following is a summary of the fees and cost recoveries received from funds management activities:

	<b>2013</b>	2012
	<b>\$000</b>	\$000
Management Fees	<b>2,722</b>	100
Acquisition Fees	<b>970</b>	-
Administration Fees / Cost Recoveries	<b>732</b>	-
Debt Refinance	<b>670</b>	-
	<b>5,094</b>	100

## **Folkestone Limited and its Controlled Entities**

### **Notes to the Consolidated Financial Statements**

#### **For the year ended 30 June 2013**

#### **NOTE 32: RELATED PARTY TRANSACTIONS CONTINUED**

##### **Transactions with Directors**

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

The underwriting occurred through the subscription by the underwriters for underwrite units. The Managing Director subscribed for 500,000 Underwrite Units and all these units were fully re-deemed by 1 July 2013. The Managing Director received a fee of \$10,000 for his underwriting and the calculation of this fee was commensurate with the fee paid to the other third party underwriter.

2. During the year, Folkestone Funds Management Limited entered into an underwriting agreement for the offer of units in the Folkestone Real Estate Income Fund at Sydney Olympic Park. The underwriting agreement was with Folkestone Limited and two third party entities, one of which was an entity associated with the Managing Director.

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

3. During the year, Folkestone Funds Management Limited undertook an equity raising for the Folkestone Real Estate Income Fund at Sydney Olympic Park. A total of 250,000 ordinary units in the Fund were subscribed for and issued to the Managing Director of the Company. These units rank equally and have the same rights as all ordinary units which have been issued in the Fund.

4. During the year, Folkestone Funds Management Limited undertook an equity raising for the Folkestone Real Estate Income Fund at Wollongong. A total of 610,050 ordinary units in the Fund were subscribed for and issued to the Managing Director and Non-Executive Deputy Chairman of the Company. These units rank equally and have the same rights as all ordinary units which have been issued in the Fund.

5. During the year, the Company entered into a consultancy agreement with Mr Mark Baillie, a non-executive Director of Folkestone Limited, to provide property funds management advisory services to the Company. Total fees paid during the year under the agreement were \$40,000.

6. Folkestone Limited has engaged Daniels Printing to provide a range of printing services (annual reports, shareholder updates etc). The Managing Director, Mr Greg Paramor, is a co-owner of Daniels Printing. During the year, Daniels Printing provided services totalling \$15,227 (2012: \$23,400). The Company regularly seeks alternate costings on a periodic basis to ensure the costs are commensurate with market conditions.



## **Folkestone Limited and its Controlled Entities**

### **Notes to the Consolidated Financial Statements**

#### **For the year ended 30 June 2013**

#### **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.

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

#### a) Capital Risk Management

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

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

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

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

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

**Folkestone Limited and its Controlled Entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2013**

**NOTE 33: FINANCIAL INSTRUMENTS CONTINUED**

	<b>Economic Entity</b>	
	<b>2013</b>	2012
	<b>\$000</b>	\$000
Debt	<b>9,728</b>	4,150
Cash and Cash Equivalents	<b>(13,082)</b>	(34,988)
Net Debt	<b>(3,354)</b>	(30,838)
Equity (Parent interest)	<b>47,264</b>	45,294
Net debt to equity ratio	<b>-7%</b>	-68%

The above analysis does not take into account Folkestone's share of debt in respect of the Karratha project as this investment is disclosed on the face of the statement of financial position as an investment in an associated entity.

Allowing for Folkestone's share of this project's debt, the debt for the economic entity for the current year would increase to \$10.3m (2012: \$5.4m) and net debt would increase to \$(2.8)m (2012: \$(29.5)m), reflecting a net debt to equity ratio of -6% (2012: -65%). It should be noted that the Karratha debt facility is non-recourse to Folkestone.

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

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

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

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

b) 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 11.

c) Market Risk

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

**Folkestone Limited and its Controlled Entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2013**

**NOTE 33: FINANCIAL INSTRUMENTS CONTINUED**

The Group manages interest rate risk by:-

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

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

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

Sensitivity Analysis

A 1% change in interest rates at the reporting date would not have a material impact on profit or loss or equity in the current period.

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.

The contractual maturities of our financial liabilities are shown below. The amounts presented represent the future undiscounted principal and interest cash flows relating to the amounts drawn at reporting date. The amounts presented do not include the financial guarantee provided for the Millers Road, Altona North or Officer projects as disclosed in Note 27, as the Company has reviewed and determined that there is no value attributable to the financial guarantees provided.

**Economic Entity**

	<b>Weighted Average effective Interest rate %</b>	<b>Less than 3 months \$000</b>	<b>3 months to 1 year \$000</b>	<b>1 to 5 years \$000</b>
<b>2013</b>				
Non-interest bearing trade and other payables	-	1,435	-	-
Variable interest rate instruments	5.95%	146	9,811	-
		<b>1,581</b>	<b>9,811</b>	<b>-</b>
<b>2012</b>				
Non-interest bearing trade and other payables	-	894	-	-
Variable interest rate instruments	6.10%	63	4,192	-
		<b>957</b>	<b>4,192</b>	<b>-</b>

## Directors' Declaration

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

- (a) the financial statements and notes set out on pages 28 to 78, are in accordance with the Corporations Act 2001, and:
  - (i) give a true and fair view of the financial position of the economic entity as at 30 June 2013 and of its performance for the financial year ended on that date; and
  - (ii) comply with Australian Accounting Standards and the Corporations Regulations 2001; and
  - (iii) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 1 to the financial statements.
- (b) the Managing Director and Chief Financial Officer have declared that:
  - (iv) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
  - (v) the financial statements and notes for the financial year comply with the Accounting Standards; and
  - (vi) the financial statements and notes for the financial year give a true and fair view.
- (c) in the directors' opinion, there are reasonable grounds to believe that the Company and the controlled entities identified in Note 16 will be able to pay their debts as and when they become due and payable.

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



**Garry Sladden**  
Non-Executive Chairman



**Greg Paramor**  
Director

Sydney  
22 August 2013