Folkestone

Appendix 4E

Preliminary final report
Period ending 30 June 2009

Name of entity

Folkestone Limited

ABN or equivalent company reference	Half yearly *(tick)*	Preliminary final *(tick)*	Half year/financial year ended ('current period')
21 004 715 226		✓	30 June 2009

For announcement to the market
Extracts from this report for announcement to the market (see note 1). *$A'000*

Revenues from ordinary activities	Up	30%	to	56,618
Profit (loss) from ordinary activities after tax attributable to members	Down	218%	to	(3,696)
Net profit (loss) for the period attributable to members *(item 1.11)*	Down	218%	to	(3,696)

Dividends (distributions)	Amount per security	Franked amount per security
Final dividend	-	-
Previous Corresponding Period	3.5¢	3.5 ¢
Special Dividend	-	-
Previous Corresponding Period	-	-
Record Date		

Brief Explanation of any figures reported above.

The result for the full year has been impacted by the following material items:

- Provisions made against the carrying value of inventories relating to the toyotagreen Port Melbourne and 300 Millers Road Altona projects; and
- In respect of Access Constructions, impairment of goodwill paid on acquisition in March 2005 as well as a favourable one-off settlement of the copyright infringement claim which was disclosed in the Half Year Report.

The net effect on profit of these material items was ($5.558)m, of which over ($5)m related to non-cash items.

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

DIVIDENDS

Date the dividend is payable	N/A
+Record date to determine entitlements to the dividend (ie, on the basis of proper instruments of transfer received by 5.00 pm if +securities are not +CHESS approved, or security holding balances established by 5.00 pm or such later time permitted by SCH Business Rules if +securities are +CHESS approved)	N/A
If it is a final dividend, has it been declared?	N/A

DIVIDENDS PER SECURITY

		Amount per security	Franked amount per security at 30% tax	Amount per security of foreign source dividend
Final dividend:	Current year	-	-	-
	Previous year	3.5¢	3.5¢	-
Special dividend:	Current year	-	-	-
	Previous year	-	-	-
(Half yearly and preliminary final reports) **Interim dividend:**	Current year	-	-	-
	Previous year	-	-	-

TOTAL DIVIDEND (DISTRIBUTION) PER SECURITY (INTERIM PLUS FINAL)

	Current year	Previous year
Ordinary securities	-¢	6.5¢

NTA backing	Current period	Previous corresponding Period
Net tangible asset backing per ordinary security	68 Cents	76 Cents

PRELIMINARY FINAL REPORT

Refer to the attached Audited Financial Report.

Scott N Martin
Company Secretary
19 August 2009

Folkestone Limited
ABN 21 004 715 226

Annual report
30 June 2009

Contents

COMPANY PARTICULARS – FOLKESTONE LIMITED

Directors	Alister TL Maitland *(Chairman)* Oscar Guglielmi *(Managing Director & Chief Executive Officer)* Michael W Parkinson CBE Kaye H Dening AM Mr BR Kean *AM (Dip ChemEng, FIE Aust, FTS, FAICD)* retired from the Board of Directors on 16 October 2008.
Chief Financial Officer & Company Secretary	Scott N Martin
Registered Office	Level 24 360 Collins Street Melbourne Victoria 3000
Principal Places of Business	Folkestone Ltd Level 24 360 Collins Street Melbourne Victoria 3000 Access Constructions Pty Ltd Suite 8 14 Lionel Road Mt Waverley Victoria 3149
Share Register	Link Market Services Ltd 333 Collins Street Melbourne Victoria 3000
Auditor	Deloitte Touche Tohmatsu 550 Bourke Street Melbourne Victoria 3000
Stock Exchange Listing	Folkestone Ltd shares are listed on the Australian Stock Exchange. The ASX code is FLK.
Website Address	www.folkestone.com.au

Folkestone Limited and its controlled entities
Chairman's Report
For the year ended 30 June 2009

Last financial year and the earlier months of the current year have witnessed one of the more difficult operating environments for property development companies for many decades. Apart from the well documented decline in economic conditions internationally and in Australia, the position was exacerbated for companies such as Folkestone by the shortage of new debt funding following the pull back of lending by a range of foreign banks and the more conservative credit policies adopted by local banks. This coupled with a significant reduction in property valuations has had a negative impact on many property companies.

Despite these conditions Folkestone did well to achieve an operating profit of $1.862m prior to asset impairment charges compared to $3.128m in the previous year. The company has continued to trade within the terms of its various funding arrangements and has met key development milestones.

Asset value impairment charges resulted in a non-cash write down of $3.737m, principally on the valuation of the Millers Road and the toyotagreen projects. Furthermore, it was decided to exit the Access Constructions business. Access Constructions recorded an after tax second half loss of $0.103m having been impacted by declining work flow in the absence of new orders. This trend has continued into the new financial year and the outlook for the next 12 months remains challenging. The net effect of the sale of the business including the write-off of goodwill was $2.255 million against book values.

Overall the Company reported a loss of $3.696m and no dividends will be paid for the year.

On a positive note we saw the successful completion and sale of our Sorrento project. The Donnybrook Road Mickleham project was rezoned for employment purposes during the year and the Millers Road, Altona project received planning approval for a major bulky goods centre. In the current economic climate these significant planning achievements are not reflected in improved valuations but they do auger well for the future.

The residential development at Noone Street, Clifton Hill is proceeding in line with expectations. Financing has also been arranged up to March 2011.

It is believed that if the economy were to improve there could be considerable benefit to the values for all of our joint venture properties.

The combination of tightening credit markets and a very small capital base has restricted Folkestone's ability to build a diversified portfolio of development projects capable of delivering consistent earnings for shareholders.

The Board has therefore undertaken a detailed review of the company's strategic direction in conjunction with external advisors and endorsed a strategy of transitioning the company from pure property development and construction activities to one focused on income producing property assets. This new strategy is designed to ensure that Folkestone achieves sufficient scale that will position the company to generate reliable and transparent earnings and distributions.

In what has been a difficult year, the Board would like to acknowledge the unflagging efforts of the Managing Director Oscar Guglielmi and his staff and those of our joint venture partner AMP for its willing and constructive cooperation.

While the 2009 financial year posed many challenges, Directors and Management are committed to returning value to shareholders and I look forward to outlining more fully the Company's plans at the Annual General Meeting.

Alister Maitland

Alister T L Maitland
Chairman

Melbourne
19 August 2009

Folkestone Limited and its controlled entities
Financial Highlights
For the year ended 30 June 2009

	2009	2008	2007	2006	2005
	$'000	$'000	$'000	$'000	$'000
Profit/(loss) from ordinary activities before income tax (expense)/credit	**(4,624)**	5,128	6,656	2,635	650
Income tax (expense)/credit	**751**	(1,667)	(2,066)	(804)	(212)
(Profit)/loss attributable to minority equity interest	**177**	(333)	(285)	-	-
Profit/(loss) from ordinary activities attributable to members of the parent entity	**(3,696)**	3,128	4,305	1,831	438

STATISTICAL DATA

Ordinary shares on issue - year end ('000)	**31,439**	31,177	30,427	30,041	29,668
Basic earnings per ordinary share (cents)	**(11.8)**	10.1	14.2	6.1	1.5
Dividend rate on fully paid shares (cents)	**-**	6.5	6.5	6.0	6.0
Special dividend (cents)	**-**	-	1.5	-	-
Net assets attributable to members of the company ($'000)	**21,468**	25,918	24,626	21,797	21,539
Net asset backing per ordinary share - book value (cents)	**68**	83	81	73	73
Net tangible asset backing per ordinary share – book value (cents)	**68**	76	74	66	66
ASX Closing Price 30 June (cents)	**30.5**	70.5	80	55	58

Folkestone Limited and its controlled entities
Review of Operations
For the year ended 30 June 2009

About Folkestone

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

Since March 2005, Folkestone has operated through two divisions; Folkestone Developments and Access Constructions. These operations create value throughout the development process, from land acquisition, through planning and approvals, financing, construction, marketing and sales. The company's objective at all times, is to deliver high quality products that meet the needs of purchasers and tenants.

Strategic Review

The significant deterioration in financial and property markets over the past 12 months has required Folkestone to re-assess its strategic direction. The market has particularly changed for property developers in terms of access to debt capital and joint ventures.

The combination of tightening credit markets and a very small capital base has restricted Folkestone's ability to build a diversified portfolio of development projects capable of delivering consistent earnings for shareholders.

The Board has therefore undertaken a detailed review of the company's strategic direction over the past few months in conjunction with external advisors.

Folkestone believes demand exists within the listed investment market for a mid scale, lowly geared property company which provides shareholders with reliable and transparent earnings and distributions. Folkestone is focused on transitioning from pure property development and construction activities to become a company with these attributes over the next 12 months.

Following the review, it has been determined that the strategic direction of Folkestone will be to:

- Lock in inherent value of existing assets by:
  - Ensuring that the company has an equity base sufficient to meet its commitments under existing projects;
  - Undertaking an orderly sell through of existing development projects in a manner and a timeframe which retains and maximizes the value of Folkestone's investment;
- Transition into a mid-scale, lowly geared property company which provides shareholders with reliable and transparent earnings in an orderly fashion over the next 12 months enabling the company to;
  - Increase its scale so that it can attract Institutional Investors and ensure that shareholder returns are not eroded through corporate costs . This is likely to be achieved through merger with or integration of an existing portfolio ; and
  - Position the company with a portfolio of income producing property assets; and

To the extent that it does not re-invest capital released from the realisation of development assets into new assets – distribute the returns or buy back capital as appropriate.

In working through and realising its existing developments in an orderly manner, Folkestone will position itself to achieve incremental returns should property markets recover further during this period and to take advantage of opportunistic acquisitions as they present.

Consistent with this strategy and the changing economic environment, Folkestone has decided to exit its equity investment in the Access Constructions business. This has been executed by way of a Management Buy Out signed on 19 August 2009 but with effect from 1 July 2009. The financial and balance sheet impacts of exiting the Access Constructions business are reflected in the Annual Report.

Full year profit result and dividend announcement

The Group's net loss after tax for the year ended 30 June 2009 is $3.7 million compared to a net profit after tax of $3.1 million in the previous financial year. This represents basic earnings per share of negative (11.8) cents, compared with 10.1 cents previously.

Folkestone Limited and its controlled entities
Review of Operations
For the year ended 30 June 2009

The result for the full year has been impacted by the following material items:

- Provisions made against the carrying value of inventories relating to the toyotagreen Port Melbourne and 300 Millers Road Altona projects.

- In respect of Access Constructions, impairment of goodwill paid on acquisition in March 2005 as well as a favourable one-off settlement of the copyright infringement claim which was disclosed in the Half Year Report.

The net effect on profit of these material items was ($5.558)m, of which over ($5)m related to non-cash items. As foreshadowed in the Half Year Report, the Board has resolved not to pay a dividend in respect of the year ended 30 June 2009.

DIVIDENDS PAID OR RECOMMENDED

Dividends paid or declared for payment during the year are as follows:

	$000's
Final ordinary dividend of 3.5 cents paid on 1 October 2008	1,091

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 2009.

DIVIDEND REINVESTMENT PLAN ("DRP")

This mechanism provides an opportunity for shareholders to reinvest in the Company at a discount to the prevailing market price.

During the year the company issued 261,436 shares through the DRP, retaining $211,770.

FINANCIAL CONDITIONS

Folkestone is in compliance with its debt facilities.

The finance facility in respect of the project 300 Millers Road Altona expires on 17 November 2009. The joint venture is currently in negotiation with its bankers to extend this facility.

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

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

Information in relation to cash flows from operations is contained in the Cash Flow Statement on page 33 and the associated notes.

DEVELOPMENT DIVISION

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

AMP Joint Venture Projects

The changing debt market conditions have impacted the relative positions of AMP and Folkestone. To ensure that the parties' interests remain aligned the joint venture partners have agreed to restructure the joint venture arrangements so that each joint venturer's profit entitlements now represent their respective equity investments and management fees have been reset to market rates. The previous arrangements with respect to success fees will no longer apply.

135, 225 & 285 Donnybrook Rd, Mickleham

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

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

The joint venture is now bringing infrastructure services to the site. The positive zoning outcome and the availability of services will position the joint venture to meet the emerging demand for employment land in the northern corridor.

169 Noone Street, Clifton Hill

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

During the past 12 months, the site has been prepared for development and sales during this time have been very positive. Pre-sales totaling $20.572 million have been signed to date which represents 58% of the product (by value) released to the market. There continues to be strong demand in product up to $700,000 which has been positively impacted by the boost in the State & Federal Government's first home owner grants. Interest has also returned for the project's limited number of higher end product.

Civil works commenced on site in July 2009 and construction works in respect of Stage 1 (13 apartments) have also commenced. Based upon the current construction timetable, it is anticipated that settlements will start to take place in the first quarter of the 2011 financial year.

300 Millers Road, Altona

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

During the year, council approval was received for a 2-stage 3 lot sub-division of the site. Lot 1, comprising 1.04 hectares, was sold to the adjoining owner (Bunnings Property Management Limited) in March 2009. Lot 2, comprising 4.4 hectares will be developed for industrial uses consistent with its zoning and Lot 3, comprising 85,820sqm was granted a permit to develop a 36,693sqm restricted retail (bulky goods) centre and the joint venture is currently in the process of seeking pre lease commitments.

As disclosed in the Half Year Report, there has been a deterioration in consumer sentiment over the past 12 months which has resulted in reduced demand for and a subsequent decline in the value of retail property. The carrying value of this asset has been independently assessed as at year end.

Other projects

108 Ocean Beach Rd, Sorrento

As disclosed in the Half Year Report, this 2100m² retail complex, including a 1695m² Coles Supermarket and 206m² Liquorland in the main street of Sorrento was completed in November 2008 and settlement of the property took place on 15 December 2008.

"Parcel B" - toyotagreen Business Park, Port Melbourne

Parcel B is a joint venture between Folkestone, MAB Corporation and Goodman International and forms part of the toyotagreen Business Park. As reported at the half year, the final stage of the project, comprising five units totaling approximately 6,500m2 of office, warehouse and showroom space, was postponed by the joint venture due to the current volatility of the financial and property markets which have continued to deteriorate. The joint venture has not yet committed to a commencement date for the final stage of the project and continues to assess market conditions. The Board has reviewed the carrying value of this asset and has made appropriate provisions to reflect the expected realisable value of this asset.

Hume Central, Broadmeadows

As reported in the Half Year Report, Hume City Council announced Folkestone as preferred developer for the Hume Central precinct in October 2008. Following an exhaustive selection process, Folkestone was chosen for its credentials and ability to create commercial, housing and retail spaces on three sites totaling 1.79 hectares in the heart of Broadmeadows.

Recently, Broadmeadows has been designated a Central Activities District (CAD). It received over $80m in the State Budget handed down in May 2009 to fund a number of initiatives for the district.

One such initiative is the delivery of a government services building within the vicinity of the Broadmeadows Railway Station. Folkestone has been invited to tender on this 10,800sqm government requirement as a result of a recent EOI campaign run by the State Government. Tender documents are currently being prepared. The expected long term lease to State Government departments and agencies provide Folkestone with the opportunity to secure a major income producing asset in line with its new strategy.

Other

The final townhouse at our residential development at Jolimont Square settled in January 2009 and finalisation of outstanding issues in respect of the development are in the process of being completed.

Construction division

Access Constructions result for the year ended 30 June 2009 was an after-tax profit of $1.515m compared with $1.380m last year. This was positively impacted by a one off settlement of the copyright infringement claim disclosed in the 2008 Annual Report. The result for the second half was a loss of $0.103m having been impacted by declining work flow. This trend has continued into the new financial year and the outlook for the next 12 months remains challenging.

Given this position and consistent with the new strategic direction of the company and the changing economic environment, Folkestone has decided to exit its equity investment in the Access Constructions business. This has been executed by way of a Management Buy Out signed 19 August 2009 but with effect from 1 July 2009. The net effect of the sale of the business including the write-off of goodwill was $2.255m against book value. This is reflected in the 2009 financial statements.

Outlook

The key economic factor impacting Folkestone's business has been the availability and cost of debt and other capital for development projects. This position has not substantially changed and Folkestone's view is that this is not likely to change over the next six months. Folkestone remains positive in respect of individual residential sales and its Clifton Hill project, however the outlook for the commercial and industrial market remains challenging.

MANAGEMENT TEAM

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

Oscar Guglielmi
Managing Director & Chief Executive Officer

Oscar's qualifications and experience are detailed on page 10 of the Directors Report.

Scott Martin
Chief Financial Officer and Company Secretary

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

John Lincoln
General Manager – Industrial &Commercial

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

Tony Cariss
Managing Director – Access Constructions

Tony joined Access Constructions in April 1991 when the company was in its infancy, and has held the position of Managing Director since April 2005.

Folkestone Limited and its controlled entities
Directors' Report
For the year ended 30 June 2009

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 2009 and the auditor's report thereon.

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

- Alister TL Maitland *(BCom, FAICD, FAIM, SF Fin)* (Chairman)
- Oscar Guglielmi (*B.Bus*, *CPA*) (Managing Director & Chief Executive Officer)
- Michael W Parkinson *CBE (MA, MBA, FAICD)*
- Kaye Dening *AM (BEc AAPI (Val), AAIB, JP)*

Mr BR Kean *AM (Dip ChemEng, FIE Aust, FTS, FAICD)* retired from the Board of Directors on 16 October 2008.

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

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

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

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

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

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

E. Dividends

Dividends paid to members during the year were as follows:

	2009	2008
	$'000	$'000
Final ordinary dividend for the year ended 30 June 2008 of 3.5 cents (2007 – 4 cents) per fully paid share paid on 1 October 2008	**1,091**	1,217
No special ordinary dividend was paid for the year ended 30 June 2008 (2007 – 1.5 cents)	**-**	456
No interim ordinary dividend was paid for the year ended 30 June 2009 (2008 – 3 cents)	**-**	929
Total dividends paid in the year	**1,091**	2,602

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

F. Review of Operations

A review of the Folkestone Group's operations and activities is contained on pages 2 to 6.

G. Earnings per Share

	Note	2009 Cents	2008 Cents
Basic Earnings per share	**9**	**(11.8)**	10.1
Diluted Earnings per share	**9**	**(11.8)**	10.0

H. After Balance Date Events

Since the end of the financial year the following matters or circumstances have occurred:

- Sale of Access Constructions

Consistent with the new strategic direction and the changing economic environment, Folkestone has decided to exit its equity investment in the Access Constructions business. This has been executed by way of a Management Buy Out signed on 19 August 2009 but with effect from 1 July 2009. The net effect of the sale of the business including the write-off of goodwill was $2.255m against book value. This is reflected in the 2009 financial statements.

I. Likely Developments and Expected Results of Operations:

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

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

J. Environmental Regulation

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

K. Occupation Health and Safety Regulations

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

L. DIRECTOR PROFILES

Alister TL Maitland (68)

BCom, FAICD, FAIM, SF Fin

Chairman

Alister was appointed as a Non-Executive Director of Folkestone in 1998 and has held the position of Chairman since January 1999. He is also Chairman of the Remuneration Committee and a member of the Audit and Risk Management Committee. He is a former Executive Director of the ANZ Banking Group Ltd. He is also a Non-Executive Director of Lihir Gold Ltd.

Oscar Guglielmi (49)

B.Bus, CPA

Managing Director & Chief Executive Officer ("CEO")

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

Michael W Parkinson (66)

CBE, MA, MBA (Stanford), FAICD

Non Executive Director

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

Kaye H Dening (64)

AM, BEc, AAPI (Val), AAIB, JP

Non Executive Director

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

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

M. REMUNERATION REPORT

This report details the nature and amount of remuneration for each director of Folkestone Ltd and for key management personnel receiving the highest remuneration. Remuneration of directors and key management personnel is referred to as compensation as defined in AASB 124 'Related Party Disclosures'. Details of Directors shareholdings are disclosed in Note 6 to the financial statements on page 49 of the Financial Report.

Remuneration Policy

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

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

M. REMUNERATION REPORT CONTINUED

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

Alignment to shareholders' interests:
- has profit as a core component of plan design;
- focuses on sustained growth and delivering consistent return on shareholders' funds; and
- is focused on attracting and retaining high calibre executives.

Alignment to program participants' interests:
- rewards capability and experience;
- reflects competitive reward for contribution to shareholder growth;
- provides a clear structure for earning rewards; and
- provides recognition for contribution.

The managing director and executives receive a superannuation guarantee contribution as required by legislation and do not receive any other retirement benefits.

All remuneration paid to directors and executives is valued at the cost to the company and expensed.

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 2009, which is considered when setting the remuneration policy for the Group:

	2009	2008	2007	2006	2005
	$'000	$'000	$'000	$'000	$'000
Profit/(loss) from ordinary activities before income tax (expense)/credit	**(4,624)**	5,128	6,656	2,635	650
Income tax (expense)/credit	**751**	(1,667)	(2,066)	(804)	(212)
(Profit)/loss attributable to minority equity interest	**177**	(333)	(285)	-	-
Profit /(loss) from ordinary activities attributable to members of the parent entity	**(3,696)**	3,128	4,305	1,831	438
Basic earnings per ordinary share (cents)	**(11.8)**	10.1	14.2	6.1	1.5
Dividend rate on fully paid shares (cents)	**-**	6.5	6.5	6.0	6.0
Special dividend (cents)	**-**	**-**	1.5	-	-
ASX Closing Price 30 June (cents)	**30.5**	70.5	80	55	58

a) Folkestone Limited has paid key management personnel a combination of fixed remuneration and performance based remuneration. Performance based remuneration has been paid based upon predetermined KPI's relevant to each key management personnel. There has been a focus on attracting and retaining appropriate personnel to enable the financial performance of the Group to improve.

b) There have been share based payments made to key management personnel in accordance with the achievement of pre set KPI's as summarised within this report. The KPI's have been established to increase profitability and therefore shareholder wealth.

M. REMUNERATION REPORT CONTINUED

c) As the table above indicates, earnings have varied significantly over the past five financial years. It has been the focus of the Board of Directors to retain management personnel essential to the profitable operations of the Group and to attract suitable executives to maximize profitability.

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

Non Executive Director Remuneration

The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The remuneration committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting (currently $400,000). To align directors' interests with shareholder interest, the directors are encouraged to hold shares in the company. Details of directors' interests in shares and rights over shares of the company as at the date of this report are contained in Note 6 to the accounts on pages 45 to 49.

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

Performance Based Remuneration

The executive pay and reward framework has two components:

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

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

i) Base pay, benefits and superannuation

Executive Base Pay

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

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

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

M. REMUNERATION REPORT CONTINUED

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

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

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

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

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

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

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

ii) Performance Incentives

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

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

The targets are determined by the Board and are set on the basis that the senior executive will have a combination of short and long term incentives. The proportion of salary that links with performance varies according to contractual arrangements and is summarised in the table on page 17. For executives of Folkestone Ltd it is expected that the percentage of remuneration that will be performance based in future years will be between the ranges of 30%-50% of the total remuneration package under ordinary circumstances. For executives of Access Constructions, the percentage of remuneration that will be performance based cannot be quantified as it is dependent upon the performance of that business segment in any financial year.

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

These targets may include goals set to achieve defined:
- after tax profits;
- returns on shareholder funds;
- pre tax contributions (from divisions of the company or a subsidiary of the company);
- profit measures of projects such as internal rate of return and margins;
- management of compliance with policies concerning OH&S, environmental and human resources.

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

M. Remuneration Report Continued

Long Term Incentives - Performance Rights

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

As a result of the recent budget announcements surrounding share based payments, the Board of Folkestone Limited have suspended the Long Term Incentives component of the Executive Bonus Scheme until the proposed changes have been passed by Federal Parliament. Any performance rights that are currently in a vesting period will continue to vest.

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

Financial Year to which target relates	Issued to	Tranche	Performance criteria	Entitlement	Status	Vesting Date
Ongoing	Oscar Guglielmi	1.	Execution and completion of a new corporate acquisition with a value between $2,000,000 and $10,000,000	Up to 100,000 Performance Rights (as determined by the Board)	Not achieved in 2007 or 2008 or 2009	N/A
		2.	Execution and completion of a new corporate acquisition with a value between $10,000,000 and $25,000,000 together with associated fund raising requirements	Up to 200,000 Performance Rights (as determined by the Board)	Not achieved in 2007 or 2008 or 2009	N/A
2006-2007	Oscar Guglielmi	3.	Earnings per share exceeds $0.12 for the financial year ending 30 June 2007	Up to 100,000 Performance Rights (as determined by the Board)	Achieved	14 July 2009
		4.	TSR ranking exceeds the 50th percentile in the ASX Real Estate Management and Development Listing (excluding Australand and Lendlease) as published in the Australian Financial Review	Up to 100,000 Performance Rights (as determined by the Board)	Achieved	14 July 2009

M. REMUNERATION REPORT CONTINUED

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

Financial Year to which target relates	Issued to	Tranche	Performance criteria	Entitlements	Status	Vesting Date
2006-2007	Scott Martin	3A	Earnings per share exceeds $0.12 for the financial year ending 30 June 2007	62,500 Performance Rights	Achieved	14 July 2009
2006-2007	Other Staff	3A	Earnings per share exceeds $0.12 for the financial year ending 30 June 2007	225,000 Performance Rights	Achieved	14 July 2009
2007-2008	Oscar Guglielmi	5	Earnings per share increases more than 10% above base of $0.12 for the financial year ending 30 June 2008	Up to 100,000 Performance Rights (as determined by the Board)	Part Achieved	14 July 2010
	Oscar Guglielmi	6	TSR ranking exceeds the 60th percentile in the ASX Real Estate Management and Development Listing (excluding Australand and Lendlease) as published in the Australian Financial Review.	Up to 100,000 Performance Rights (as determined by the Board)	Achieved	14 July 2010
2007-2008	Scott Martin	5	Earnings per share increases more than 10% above base of $0.12 for the financial year ending 30 June 2008	Up to 62,500 Performance Rights (as determined by the Board)	Part Achieved	14 July 2010
	Scott Martin	6	TSR ranking exceeds the 60th percentile in the ASX Real Estate Management and Development Listing (excluding Australand and Lendlease) as published in the Australian Financial Review.	Up to 62,500 Performance Rights (as determined by the Board)	Achieved	14 July 2010
	Other Staff	7	Net after tax profit of the Development Division exceeds $2,107,500 * for the financial year ending 30 June 2008	Up to 450,000 Performance Rights (as determined by the Board)	Part Achieved	14 July 2010

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

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

2008-2009	Oscar Guglielmi	8	Earnings per share increases more than 10% above base of $0.132 for the financial year ending 30 June 2009	Up to 100,000 Performance Rights (as determined by the Board)	Not Achieved	14 July 2011
	Oscar Guglielmi	9	TSR ranking that exceeds 70th percentile in the ASX Real Estate Management and Development Listing (excluding Australand and Lendlease) as at 30 June 2009	Up to 100,000 Performance Rights (as determined by the Board)	Not Achieved	14 July 2011

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

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

M. Remuneration Report Continued

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

Following balance date, the performance rights granted under Tranche 3, 3A & 4 vested on 14 July 2009. On 20 July 2009, 362,500 performance rights were exercised and converted into shares in accordance with the terms of the Executive Bonus Scheme. The balance of the rights relating to Tranches 3A (125,000 performance rights) were not exercised as the employees who received the rights were no longer employees of Folkestone Limited at the vesting date.

Executive Incentives – Access Constructions

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

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

M. Remuneration Report Continued

Details of Remuneration for the year ended 30 June 2009

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

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

		Short Term			*Post Employment Benefits*	*Share Based Payment*		
		Salary & fees $	*STI cash bonus $(A)*	*Non-monetary benefits $*	*Superannuation benefits $*	*Performance Rights (B)*	*Total $*	*S300A (1)(e)(i) Proportion of remuneration performance related %*
Directors (Non-executive)								
ATL Maitland	**2009**	**60,550**	**-**	**3,766**	**5,450**		**69,766**	**-**
(Chairperson)	2008	58,257	-	4,798	5,243		68,298	-
BR Kean (*Retired 16*	**2009**	**13,031**	**-**	**-**	**-**	**-**	**13,031**	**-**
October 2008)	2008	42,333	-	-	-	-	42,333	-
MW	**2009**	**40,367**	**-**	**-**	**3,633**	**-**	**44,000**	**-**
Parkinson	2008	38,838	-	-	3,495	-	42,333	-
KH Dening	**2009**	**40,367**	**-**	**-**	**3,633**	**-**	**44,000**	**-**
	2008	38,838	-	-	3,495	-	42,333	**-**
Directors (Executive)								
O Guglielmi, CEO	**2009**	**265,000**	**-**	**5,624**	**35,000**	**67,756**	**373,380**	**18%**
	2008	265,000	70,000	6,359	35,000	60,623	436,982	30%
Executives								
SN Martin, CFO & Company Secretary	**2009**	**186,255**	**-**	**-**	**13,745**	**41,723**	**241,723**	**17%**
	2008	171,871	-	-	13,129	41,723	226,723	18%
AS Cariss, Managing Director, Access Constructions	**2009**	**103,381**	**884,872**	**15,230**	**35,055**	**-**	**1,038,538**	**85%**
	2008	99,676	472,532	14,769	49,999	-	636,976	74%
Total compensation: key management personnel (consolidated)	**2009**	**708,951**	**884,872**	**24,620**	**96,516**	**109,479**	**1,824,438**	**55%**
	2008	714,813	542,532	25,926	110,361	102,346	1,495,978	43%
Total compensation: key management personnel (company)	**2009**	**605,570**	**-**	**9,390**	**61,461**	**109,479**	**785,900**	**14%**
	2008	615,137	70,000	11,157	60,362	102,346	859,002	20%

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

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

M. Remuneration Report Continued

Performance Rights Issued as part of Remuneration for the year ended 30 June 2009

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

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

Executive	*Tranche*	*Granted during 2009*	*Grant date*	*Vested during 2009*	*Fair value per right at grant date*	*Expiry date*
Oscar Guglielmi	8	100,000	16 Oct 2008	-	$0.40	21 Jul 2011
	9	100,000	16 Oct 2008	-	$0.21	21 Jul 2011

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

Executive	*Tranche*	*Granted during prior periods*	*Grant date*	*Vested during 2009*	*Fair value per right at grant date*	*Expiry date*
Oscar Guglielmi	1	100,000	25 Oct 2006	-	$0.53	21 Jul 2012
	2	200,000	25 Oct 2006	-	$0.53	21 Jul 2012
	3	100,000	25 Oct 2006	-	$0.53	21 Jul 2009
	4	100,000	25 Oct 2006	-	$0.42	21 Jul 2009
	5	100,000	11 Oct 2007	-	$0.709	21 Jul 2010
	6	100,000	11 Oct 2007	-	$0.50	21 Jul 2010
Scott Martin	3A	62,500	31 Jul 2007	-	$0.756	21 Jul 2009
	5	62,500	11 Oct 2007	-	$0.709	21 Jul 2010
	6	62,500	11 Oct 2007	-	$0.50	21 Jul 2010
Other Staff	3A	225,000	31 Jul 2007	-	$0.756	21 Jul 2009
	7	450,000	11 Oct 2007	-	$0.709	21 Jul 2010

Summary of Tranches performance criteria:

1. Execute and complete a new corporate acquisition with value between A$2.0-A$10.0m
2. Execute and complete a new corporate acquisition with value between A$10.0-A$25.0m
3&3A. Earnings per share exceed $0.12 for the year ended 30 June 2007
4. TSR ranking that exceeds 50th percentile in S&P/ASX 200 Real Estate Index (excluding Australand and Lendlease) as at 30 June 2007
5. Earnings per share increases more than 10% above the base of $0.12 for the financial year ending30 June 2007
6. TSR ranking that exceeds 60th percentile in the ASX Real Estate Management and Development listing (excluding Australand and Lend Lease) as of 30th June 2008
7. Net profit after tax and Performance Right expense for the Development Division exceeds $2,107,500 for the financial year ending 30 June 2008
8. Earnings per share increases more than 10% above base of $0.132 for the financial year ending 30 June 2009
9. TSR ranking that exceeds 70th percentile in the ASX Real Estate Management and Development Listing (excluding Australand and Lendlease) as at 30 June 2009

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

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

Tranche	*Grant Date*	*Expiry Date*	**Fair Value per Right*	*Exercise Price*	*Price of Shares on Grant Date*	*Estimated Volatility*	*Risk free interest rate*	*Dividend yield*
1	25 Oct 06	21 Jul 2012	$0.53	$0	$0.665	32%	5.97%	8.64%
2	25 Oct 06	21 Jul 2012	$0.53	$0	$0.665	32%	5.97%	8.64%
3	25 Oct 06	21 Jul 2009	$0.53	$0	$0.665	32%	5.97%	8.64%
4	25 Oct 06	21 Jul 2009	$0.42	$0	$0.665	32%	5.97%	8.64%
3A	31 Jul 07	21 Jul 2009	$0.756	$0	$0.87	37%	6.31%	7.21%
5	11 Oct 07	21 Jul 2010	$0.709	$0	$0.865	36%	6.44%	7.25%
6	11 Oct 07	21 Jul 2010	$0.50	$0	$0.865	36%	6.44%	7.25%
7	11 Oct 07	21 Jul 2010	$0.709	$0	$0.865	36%	6.44%	7.25%
8	16 Oct 08	21 Jul 2011	$0.40	$0	$0.55	47%	4.34%	11.8%
9	16 Oct 08	21 Jul 2011	$0.21	$0	$0.55	47%	4.34%	11.8%

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

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

M. Remuneration Report Continued

Analysis of Share-based Payments Granted as Compensation

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

Executive	Tranche	Number	Date	Status	% vested in year	Forfeited in year	Financial years to which grant vests	Value yet to vest Min (A) $	Value yet to vest Max (B) $
Oscar Guglielmi	1	100,000	25 Oct 2006	Not achieved in 2007 or 2008 or 2009	-	-	30 Jun 2013	-	53,000
	2	200,000	25 Oct 2006	Not achieved in 2007 or 2008 or 2009	-	-	30 Jun 2013	-	106,000
	3	100,000	25 Oct 2006	Achieved	-	-	30 Jun 2010	53,000	53,000
	4	100,000	25 Oct 2006	Achieved	-	-	30 Jun 2010	42,000	42,000
	5	100,000	11 Oct 2007	Part Achieved	-	(48,000)	30 Jun 2011	66,646	66,646
	6	100,000	11 Oct 2007	Achieved	-	-	30 Jun 2011	50,000	50,000
	8	100,000	16 Oct 2008	Not achieved	-	(100,000)	30 Jun 2012	-	-
	9	100,000	16 Oct 2008	Not achieved	-	(100,000)	30 Jun 2012	-	-
Scott Martin	3A	62,500	31 July 2007	Achieved	-	-	30 Jun 2010	47,250	47,250
	5	62,500	11 Oct 2007	Part Achieved	-	(30,000)	30 Jun 2011	41,654	41,654
	6	62,500	11 Oct 2007	Achieved	-	-	30 Jun 2011	31,250	31,250
Other Staff	3A	225,000	31 Jul 2007	Achieved	-	-	30 Jun 2010	170,100	170,100
Other Staff	7	450,000	11 Oct 2007	Part Achieved*	-	(394,000)	30 Jun 2011	39,704	39,704

A *The minimum value of performance rights yet to vest in respect of Tranches 1 & 2 is $nil as the performance criteria may not be met and consequently the performance rights may not vest. The minimum value in respect of Tranches 8 & 9 is nil as the performance criteria has not been met and consequently the performance rights will not vest. The minimum value in respect of all other Tranches is as stated above as the target has been achieved and reflects the fair value of the performance rights.*

B *The maximum value of Tranches 1 & 2 performance rights yet to vest is the fair value of those rights as the performance criteria may be achieved in future periods. The maximum value in respect of Tranches 8 & 9 is nil as the performance criteria has not been met and consequently the performance rights will not vest. The maximum value in respect of all other Tranches is as stated above as the target has been achieved reflecting the fair value of the performance rights.*

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

M. Remuneration Report Continued

Analysis of movements in performance rights and options during the year

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

	Opening Balance	*Granted in Year (i) (ii)*	*Vested in Year (iii)*	*Lapsed in Year (iv)*	*Closing Balance*
Directors					
Oscar Guglielmi					
Number of Rights	652,000	200,000	-	(200,000)	652,000
Value of Rights $	340,868	61,800	-	(61,800)	340,868
Executives					
Scott Martin					
Number of Rights	157,500	-	-	-	157,500
Value of Rights $	101,543	-	-	-	101,543
Other Staff					
Number of Rights	225,000	56,000	-	(125,000)	225,000
Value of Rights $	170,100	39,704	-	(94,500)	115,304
Total					
Number of Rights	1,034,500	256,000	-	(325,000)	965,500
Value of Rights	612,511	101,504	-	(156,300)	557,715

(i) The number of performance rights is the maximum number of performance rights approved for issue during the reporting period.
(ii) The value of performance rights granted in year is their fair value at grant date.
(iii) The value of performance rights exercised during the year is calculated as the fair value at grant date of those rights exercised during the period. No performance rights were available for exercise during the year.
(iv) The value of the performance rights that lapsed during the year represents the benefit foregone and is calculated at the date the performance rights lapsed using their fair value on the date lapsed. The company has assessed that the fair value on the date lapsed is the same as the fair value at grant date.

No options have been issued or are on issue.

N. Meetings of Directors

The number of meetings of the company's Board of Directors and each Board Committee held during the year ended 30 June 2009, and the number of meetings attended by each director were as follows:

Meetings of Directors	**Full Meeting of Directors**	**Audit Committee**	**Remuneration Committee**
Number of meetings held	10	7	3
Number of meetings attended by:			
Alister TL Maitland *(Chairman)*	10	7	3
Bruce R Kean *(retired 16 October 2008)*	4	2	2
Michael W Parkinson	10	7	3
Oscar Guglielmi *(Managing Director)*	10	*	*
Kaye H Dening	9	7	3

* *not a member of the relevant committee*

O. Indemnification of Officers and Auditors

During the financial year ended 30 June 2009, Folkestone Limited paid a premium of $16,650 plus GST (2008 - $16,650) to insure each of the directors and executives of the company and related bodies corporate. The liabilities insured include legal costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the economic entity. The company has not otherwise, during or since the financial year, indemnified or agreed to indemnify the auditor of the company or of any related body corporate against a liability incurred as the auditor.

P. PROCEEDINGS ON BEHALF OF THE COMPANY

Folkestone Ltd was party to VCAT proceedings on 18 August 2009 in respect of the development at Parcel B, toyotagreen Business Park, Port Melbourne. The proceedings related to a claim made by a tenant, Flowers @ 3 Degrees Pty Ltd against the property owner, Goodman International, with respect to building defects and tenancy issues. Goodman International joined fellow joint venture partners Folkestone Ltd, Bertie Bridge Pty Ltd and MAB Corporation as parties to the proceedings.

Q. NON-AUDIT SERVICES

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

Details of the amounts paid to the auditor Deloitte Touche Tohmatsu for audit and non-audit services provided during the year are set out in Note 7 to the financial statements on page 49.

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

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

R. AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 30 June 2009 has been received and is found on page 26 of the Annual Report.

S. ROUNDING OF AMOUNTS TO NEAREST THOUSAND DOLLARS

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

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

Alister Maitland	**Oscar Guglielmi**
Chairman	Director

Melbourne
19 August 2009

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

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

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

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

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

Lay Solid Foundations for Management and Oversight:

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

The Board delegates the executive management of the company to the CEO with regular reporting to the Board and operating within approved budgets. Some matters are delegated jointly to the chairman and the managing director to act on between Board meetings.

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

BOARD CHARTER

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

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

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

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

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

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

Structure the Board to Add Value:

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

The Chair of the company is an independent director and the role of the Chair and Chief Executive Officer are not exercised by the same individual.

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

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

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

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

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

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

Promote Ethical and Responsible Decision Making:

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

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

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

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

SHARE TRADING POLICY

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

- 45 days prior to the release of the company's half-year and annual results to the ASX (except where a prospectus has been issued).
- At any time whilst in possession of price sensitive information.
- All trades must be advised to the chairman before dealing and confirmed afterwards (except for dividend reinvestment plans and new issues).

Safeguard Integrity in Financial Reporting:

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

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

AUDIT AND RISK MANAGEMENT COMMITTEE CHARTER

The responsibilities of the Audit and Risk Management Committee include:

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

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

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

Make Timely and Balanced Disclosure:

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

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

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

Respect the Rights of Shareholders:

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

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

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

Recognise and Manage Risk:

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

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

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

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

Remunerate Fairly and Responsibly:

REMUNERATION COMMITTEE CHARTER

The functions and responsibilities include:

- Reviewing the performance of the CEO and senior executives.
- Reviewing and recommending to the Board the remuneration packages of the CEO and senior executives.
- Recommending the company's remuneration policy.
- Reviewing and recommending non-executive Directors fees.

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

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

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

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

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

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

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

19 August 2009

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 2009, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu.

DELOITTE TOUCHE TOHMATSU

Craig Bryan
Partner
Chartered Accountant

Deloitte.

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Independent Auditor's Report
to the members of Folkestone Limited

We have audited the accompanying financial report of Folkestone Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 29 to 74.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Deloitte.

Auditor's Opinion

In our opinion:

(a) the financial report of Folkestone Limited is in accordance with the *Corporations Act 2001*, including:
  (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 20 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Folkestone Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu.

DELOITTE TOUCHE TOHMATSU

Craig Bryan
Partner
Chartered Accountants
Melbourne, 19 August 2009

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 and principal place of business is:

Folkestone Limited
Level 24
360 Collins Street
Melbourne Vic 3000

A description of the nature of the economic entity's operations and its principal activities is included in the review of operations on pages 2 to 6 and within the Directors' Report on pages 8 to 21.

Folkestone Limited and its Controlled Entities
Income Statement
For the year ended 30 June 2009

	Note	Economic Entity		Parent Entity	
		2009	2008	**2009**	2008
		$000	$000	**$000**	$000
Revenue	2	**56,618**	43,656	**4,608**	7,567
Other income		**619**	-	**-**	-
Development expenses		**(16,565)**	(1,173)	**-**	-
Construction expenses		**(31,553)**	(30,893)	**-**	-
Employee benefits expense	4	**(4,614)**	(4,702)	**(1,776)**	(1,870)
Depreciation and amortisation expense	4	**(62)**	(88)	**(15)**	(24)
Changes in inventories of finished goods and work in progress	4	**(5,616)**	-	**-**	-
Consultants' expenses		**(108)**	(174)	**(25)**	(38)
Rental expense on operating leases	4	**(285)**	(269)	**(163)**	(155)
Impairment of non-current assets	4	**(2,255)**	-	**(2,120)**	-
Other expenses		**(798)**	(1,147)	**(1,876)**	(746)
Finance costs	3	**(5)**	(85)	**(2)**	(1)
Share of net profits of associates and joint ventures	14	**-**	3	**-**	-
Profit/(loss) before income tax	4	**(4,624)**	5,128	**(1,369)**	4,733
Income tax (expense)/credit	5	**751**	(1,667)	**440**	(584)
Profit/(loss) for the year		**(3,873)**	3,461	**(929)**	4,149
(Profit)/loss attributable to minority equity interest		**177**	(333)	-	-
Profit/(loss) attributable to members of the parent entity		**(3,696)**	3,128	**(929)**	4,149

Overall Operations			
Basic earnings per share (cents per share)	9	**(11.8)**	10.1
Diluted earnings per share (cents per share)	9	**(11.8)**	10.0
Ordinary Dividends per share (cents)		**-**	6.5

The income statement is to be read in conjunction with the notes of the financial statements set out on pages 34 to 73.

Folkestone Limited and its Controlled Entities
Balance Sheet
For the year ended 30 June 2009

	Note	Economic Entity		Parent Entity	
		2009 $000	2008 $000	**2009 $000**	2008 $000
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	10	**8,707**	4,756	**7,028**	1,045
Trade and other receivables	11	**1,001**	2,258	**13,824**	22,903
Inventories	12	**18,333**	32,081	**-**	-
Current tax assets	22b	**482**	-	**515**	-
Other current assets	13	**15**	309	**1**	135
TOTAL CURRENT ASSETS		**28,538**	39,404	**21,368**	24,083
NON-CURRENT ASSETS					
Financial assets	16	**-**	-	**4,604**	5,614
Shares in associated entities	14	**2,826**	1,716	**-**	-
Property, plant and equipment	18	**40**	233	**40**	55
Deferred tax assets	22b	**865**	105	**475**	54
Goodwill	19	**-**	2,120	**-**	-
TOTAL NON-CURRENT ASSETS		**3,731**	4,174	**5,119**	5,723
TOTAL ASSETS		**32,269**	43,578	**26,487**	29,806
CURRENT LIABILITIES					
Trade and other payables	20	**2,050**	3,215	**204**	275
Short-term borrowings	21	**8,161**	10,724	**5,242**	5,022
Current tax liabilities	22a	**-**	2,473	**-**	1,779
Short-term provisions	23	**198**	590	**56**	62
TOTAL CURRENT LIABILITIES		**10,409**	17,002	**5,502**	7,138
NON-CURRENT LIABILITIES					
Other long-term provisions	23	**-**	40	**-**	-
TOTAL NON-CURRENT LIABILITIES		**-**	40	**-**	-
TOTAL LIABILITIES		**10,409**	17,042	**5,502**	7,138
NET ASSETS		**21,860**	26,536	**20,985**	22,668
EQUITY					
Issued capital	24	**19,326**	19,115	**19,326**	19,115
Reserves	25	**345**	219	**345**	219
Retained earnings		**1,797**	6,584	**1,314**	3,334
Parent interest		**21,468**	25,918	**20,985**	22,668
Minority equity interest		**392**	618	**-**	-
TOTAL EQUITY		**21,860**	26,536	**20,985**	22,668

The balance sheet is to be read in conjunction with the notes of the financial statements set out on pages 34 to 73.

Folkestone Limited and its Controlled Entities
Statement of Changes in Equity
For the year ended 30 June 2009

	Note	Issued Capital	Retained Earnings	Reserves	Attributable to holders of the parent	Minority Interest	Total
Economic Entity		**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Balance at 1 July 2007		18,505	6,058	63	24,626	285	24,911
Profit for the year		-	3,128	-	3,128	333	3,461
Total recognised income and expense		-	3,128	-	3,128	333	3,461
Issue of share capital	24	610	-	-	610	-	610
Net issue/forfeiture of performance rights	25	-	-	156	156	-	156
Dividends paid	8	-	(2,602)	-	(2,602)	-	(2,602)
Balance at 30 June 2008		19,115	6,584	219	25,918	618	26,536
Loss for the year		-	(3,696)	-	(3,696)	(177)	(3,873)
Total recognised income and expense		-	(3,696)	-	(3,696)	(177)	(3,873)
Issue of share capital	24	211	-	-	211	-	211
Net issue/forfeiture of performance rights	25	-	-	126	126	-	126
Dividends paid	8	-	(1,091)	-	(1,091)	(49)	(1,140)
Balance at 30 June 2009		19,326	1,797	345	21,468	392	21,860

	Note	Issued Capital	Retained Earnings	Reserves	Attributable to holders of the parent	Minority Interest	Total
Parent Entity		**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Balance at 1 July 2007		18,505	1,787	63	20,355	-	20,355
Profit for the year		-	4,149	-	4,149	-	4,149
Total recognised income and expense		-	4,149	-	4,149	-	4,149
Issue of share capital	24	610	-	-	610	-	610
Net issue/forfeiture of performance rights	25	-	-	156	156	-	156
Dividends paid	8	-	(2,602)	-	(2,602)	-	(2,602)
Balance at 30 June 2008		19,115	3,334	219	22,668	-	22,668
Loss for the year		-	(929)	-	(929)	-	(929)
Total recognised income and expense		-	(929)	-	(929)	-	(929)
Issue of share capital	24	211	-	-	211	-	211
Net issue/forfeiture of performance rights	25	-	-	126	126	-	126
Dividends paid	8	-	(1,091)	-	(1,091)	-	(1,901)
Balance at 30 June 2009		19,326	1,314	345	20,985	-	20,985

The balance sheet is to be read in conjunction with the notes of the financial statements set out on pages 34 to 73.

Folkestone Limited and its Controlled Entities
Cash Flow Statement
For the year ended 30 June 2009

	Note	Economic Entity		Parent Entity	
		2009	2008	**2009**	2008
		$000	$000	**$000**	$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		**57,632**	60,731	**2,477**	4,271
Payments to suppliers and employees		**(46,634)**	(74,113)	**(3,615)**	(3,056)
Dividends received		**-**	-	**2,353**	2,952
Interest received	2	**528**	758	**175**	380
Finance costs	3	**(5)**	(85)	**(2)**	(1)
Income tax paid		**(2,964)**	(40)	**(2,269)**	268
Net cash provided by/(used in) operating activities	29	**8,557**	(12,749)	**(881)**	4,814
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		**-**	41	**-**	-
Purchase of property, plant and equipment		**(4)**	(125)	**-**	(20)
Payment for investment in associate		**(1,110)**	(634)	**(1,110)**	(634)
Net cash used in investing activities		**(1,114)**	(718)	**(1,110)**	(654)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		**7,856**	8,467	**-**	-
Repayment of borrowings		**(10,419)**	(18)	**-**	-
Repayment of loans by controlled entities		**-**	-	**12,102**	7,609
Repayment of loans by associated entities		**-**	-	**5**	10
Loans to controlled entities		-	-	**(3,253)**	(10,729)
Repayment of loans from associated entities		**-**	(700)	**-**	(1,419)
Proceeds from the issue of shares		**211**	610	**211**	610
Dividends paid	8	**(1,140)**	(2,602)	**(1,091)**	(2,602)
Net cash provided by/(used in) financing activities		**(3,492)**	5,757	**7,974**	(6,521)
Net increase/(decrease) in cash and cash equivalents		**3,951**	(7,710)	**5,983**	(2,361)
Cash and cash equivalents at beginning of financial year		**4,756**	12,466	**1,045**	3,406
Cash and cash equivalents at end of financial year	10	**8,707**	4,756	**7,028**	1,045

The balance sheet is to be read in conjunction with the notes of the financial statements set out on pages 34 to 73.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

The financial statements were approved by the Board on 19 August 2009 and were authorised for issue.

Basis of Preparation

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

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

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

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

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Preparation (continued)

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

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

Standards	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 101 'Presentation of Financial Statements' (revised September 2007), AASB 2007-8 'Amendments to Australian Accounting Standards arising from AASB 101', AASB 2007-10 'Further Amendments to Australian Accounting Standards arising from AASB 101'	1 January 2009	30 June 2010

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

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 123 'Borrowing Costs' (revised), AASB 2007-6 'Amendments to Australian Accounting Standards arising from AASB 123'	1 January 2009	30 June 2010
• AASB 3 'Business Combinations' (revised), AASB 127 'Consolidated and Separate Financial Statements' (revised) and AASB 2008-3 'Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127'	AASB 3 (business combinations occurring after the beginning of annual reporting periods beginning 1 July 2009), AASB 127 and AASB 2008-3 (1 July 2009)	30 June 2010
• AASB 2008-1 'Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations'	1 January 2009	30 June 2010
• AASB 2008-2 'Amendments to Australian Accounting Standards - Puttable Financial Instruments and Obligations arising on Liquidation'	1 January 2009	30 June 2010
• AASB 2008-5 'Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	1 January 2009	30 June 2010
• AASB 2008-6 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	1 July 2009	30 June 2010
• AASB 2008-7 'Amendments to Australian Accounting Standards– Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2009	30 June 2010

• AASB 2008-8 'Amendments to Australian Accounting Standards– Eligible Hedged Items'	1 July 2009	30 June 2010
• AASB Interpretation 15'Agreements for the Construction of Real Estate'	1 January 2009	30 June 2010
• AASB Interpretation 16 'Hedges of a Net Investment in a Foreign Operation'	1 October 2008	30 June 2010
• AASB Interpretation 17 'Distributions of Non-cash Assets to Owners', AASB 2008-13 'Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – Distributions of Non-cash Assets to Owners'	1 July 2009	30 June 2010

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

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• INT 18 'Transfers of Assets from Customers'	1 July 2009	30 June 2010

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

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

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

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

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

b) **Investments in Associates**

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

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

c) **Jointly controlled operations and assets**

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

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

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

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

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.

Revenue (continued)

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

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

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

f) **Income Tax**

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

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

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

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

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

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

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

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

g) **Cash and Cash Equivalents**

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

h) **Financial instruments**

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

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

i) **Inventories**

i) Developments in Progress

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

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

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) **Construction Contracts and Work in Progress**

Where the outcome of a construction contract can be estimated reliably, construction work in progress is valued at cost, plus profit recognised to date less any provision for anticipated future losses. Cost includes both variable and fixed costs relating to specific contracts, and those costs that are attributable to the contract activity in general and that can be allocated on a reasonable basis.

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

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

k) **Property, Plant and Equipment**

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

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

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

l) **Depreciation on plant and equipment**

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

m) **Finance Costs**

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

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

n) **Leases**

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

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

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

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

o) **Intangibles**

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

p) **Impairment of Assets**

i) Non financial assets

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

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

ii) Financial assets

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

q) **Employee Benefits**

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

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

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

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

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

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

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

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

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

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

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

r) **Provisions**

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

i) Rectification and warranties
A provision for rectification and warranties is recognised when the underlying products or services (including construction contracts) are sold or completed. The provision is based on historical rectification and warranty data, known claims and a weighting of all possible outcomes against their associated probabilities.
ii) Contract losses
When it is probable that total contract cost will exceed total contract revenue, a provision for the expected loss is recognised immediately.

s) **Earnings per Share**

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

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

t) **Comparative Figures**

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

u) **Rounding of Amounts**

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

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

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

i) Impairment of goodwill

Goodwill relates to the acquisition of Access Constructions Pty Ltd. Determining whether goodwill is impaired requires an estimation of the value in use and fair value less costs to sell of the cash generating unit (Access Constructions Pty Ltd). The carrying amount of goodwill at balance sheet date was $nil (2008: $2.120 million). Details of the estimation of value in use are included in note 19. An impairment loss of $2.120m has been recognised this financial year.

ii) Inventories

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

NOTE 2: REVENUE

	Note	Economic Entity 2009 $000	Economic Entity 2008 $000	Parent Entity 2009 $000	Parent Entity 2008 $000
Revenue consists of the following items:					
- Revenue from the sale of goods - development activities		**19,199**	6,956	**2,080**	4,225
- Construction revenue		**36,891**	35,942		
- Dividends received	2a	**-**	-	**2,353**	2,952
- Interest received	2b	**528**	758	**175**	380
- Management and other fees received/receivable		**-**	-	**-**	10
Total Revenue		**56,618**	43,656	**4,608**	7,567
a. Dividend revenue from:					
- Subsidiaries		**-**	-	**2,353**	2,952
Total dividend revenue		**-**	-	**2,353**	2,952
b. Interest revenue from:					
- bank deposits		**528**	758	**175**	380
Total interest revenue		**528**	758	**175**	380

NOTE 3: FINANCE COSTS

	Economic Entity 2009 $000	Economic Entity 2008 $000	Parent Entity 2009 $000	Parent Entity 2008 $000
Finance costs consist of the following items:				
- Interest on bills payable	**918**	592	**-**	-
- Financial institution charges	**4**	4	**2**	1
- Interest on obligation under hire purchase liability	**-**	3	**-**	-
- Other interest expense	**1**	78	**-**	-
Total Finance Costs	**923**	677	**2**	1
Less:				
Interest capitalised to property developments included in inventory	**(720)**	(592)	**-**	-
Interest expense included within development expenses	**(198)**	-	**-**	-
	5	85	**2**	1

The weighted average capitalisation rate (including margins) on funds borrowed at balance date is 6.19% (2008: 9.62%)

NOTE 4: PROFIT FOR THE YEAR

	Note	Economic Entity		Parent Entity	
		2009	2008	**2009**	2008
		$000	$000	**$000**	$000
a. Expenses					
Development expenses		**16,565**	1,173	**-**	-
Construction expenses		**31,553**	30,893	**-**	-
Finance costs (external)		**5**	85	**2**	1
Changes in inventories of finished goods and work in progress		**5,616**	**-**	**-**	**-**
Impairment of goodwill & non-current assets		**2,255**	**-**	**2,120**	**-**
Impairment of trade receivables		**-**	**-**	**1,404**	**-**
Depreciation – plant & equipment		**62**	88	**15**	24
Provisions					
- Employee entitlements		**(29)**	99	**(7)**	30
Rental expense on operating leases					
- minimum lease payments		**285**	269	**163**	155
b. Employee benefits expense					
Post employment benefits					
- Contribution plans		**201**	220	**89**	92
Equity settled share based payments		**126**	156	**126**	156
Other		**4,287**	4,326	**1,561**	1,622
		4,614	4,702	**1,776**	1,870

NOTE 5: INCOME TAX EXPENSE

	Economic Entity		Parent Entity	
	2009 $000	2008 $000	**2009 $000**	2008 $000
a. The components of tax expense comprise:				
Current tax expense/(income)	**(1,429)**	1,767	**(861)**	576
Deferred tax (benefit)/expense	**760**	(100)	**421**	8
Overprovision of income tax in respect of prior year	**(82)**	-	**-**	-
	(751)	1,667	**(440)**	584

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

	Economic Entity 2009 $000	Economic Entity 2008 $000	Parent Entity 2009 $000	Parent Entity 2008 $000
Profit/(loss) from operations	**(4,624)**	5,128	**(1,369)**	4,733
Income tax calculated at 30%	**(1,387)**	1,539	**(411)**	1,420
Add:				
- Entertainment	**4**	4	**3**	3
- Impairments losses that are not deductible	**676**	**-**	**636**	**-**
- Other assessable income	**-**	77	**-**	-
- Other non-allowable expenses	**38**	47	**38**	47
	718	128	**677**	50
Less:				
- Other non-assessable income	**-**	-	**706**	886
Sub Total	**(669)**	1,667	**(440)**	584
Overprovision of income tax in respect of prior year	**(82)**	-	**-**	-
Income tax attributable to entity	**(751)**	1,667	**(440)**	584

NOTE 6: KEY MANAGEMENT PERSONNEL COMPENSATION

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

Key Management Person	**Position**
ATL Maitland	*Chairman*
BR Kean	*Non-executive director (retired 16 October 2008)*
MW Parkinson	*Non-executive director*
KH Dening	*Non-executive director*
O Guglielmi	*Managing Director*
SN Martin	*CFO & Company Secretary*
AS Cariss	*Managing Director, Access Constructions Pty Ltd*

Information regarding individual directors and executives compensation is provided below:

NOTE 6: KEY MANAGEMENT PERSONNEL COMPENSATION CONTINUED

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

	Economic Entity		Parent Entity	
	2009 **$**	2008 $	**2009** **$**	2008 $
Short-term employee benefits	**1,618,443**	1,283,271	**614,960**	696,294
Post-employment benefits	**96,516**	110,361	**61,461**	60,362
Share-based payment	**109,479**	102,346	**109,479**	102,346
	1,824,438	1,495,978	**785,900**	859,002

Long Term Incentives - Performance Rights

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

As a result of the recent Federal budget announcements surrounding share based payments, the Board of Folkestone Limited have suspended the Long Term Incentives component of the Executive Bonus Scheme until the proposed changes have been passed by Federal Parliament. Any performance rights that are currently in a vesting period will continue to vest.

NOTE 6: KEY MANAGEMENT PERSONNEL COMPENSATION CONTINUED

Compensation /Performance Rights

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

Director	*Tranche*	*Number*	*Date*	*Status*	*% vested in year*	*Forfeited in year*	*Financial years to which grant vests*	*Value yet to vest*	
								Min (A)	*Max (B)*
								$	*$*
Oscar Guglielmi	1	100,000	25 Oct 2006	Not achieved in 2007 or 2008 or 2009	-	-	30 Jun 2013	-	53,000
	2	200,000	25 Oct 2006	Not achieved in 2007 or 2008 or 2009	-	-	30 Jun 2013	-	106,000
	3	100,000	25 Oct 2006	Achieved	-	-	30 Jun 2010	53,000	53,000
	4	100,000	25 Oct 2006	Achieved	-	-	30 Jun 2010	42,000	42,000
	5	100,000	11 Oct 2007	Part Achieved	-	(48,000)	30 June 2011	66,646	66,646
	6	100,000	11 Oct 2007	Achieved	-	-	30 June 2011	50,000	50,000
	8	100,000	16 Oct 2008	Not Achieved	-	(100,000)	30 June 2012	-	-
	9	100,000	16 Oct 2008	Not Achieved	-	(100,000)	30 June 2012	-	-
		900,000				(248,000)		211,646	370,646
Scott Martin	3A	62,500	31 July 2007	Achieved	-	-	30 Jun 2010	47,250	47,250
	5	62,500	11 Oct 2007	Part Achieved	-	(30,000)	30 Jun 2011	41,654	41,654
	6	62,500	11 Oct 2007	Achieved	-	-	30 Jun 2011	31,250	31,250
		187,500				(30,000)		120,154	120,154

A *The minimum value of performance rights yet to vest in respect of Tranches 1 & 2 is $nil as the performance criteria may not be met and consequently the performance rights may not vest. The minimum value in respect of Tranches 8 & 9 is nil as the performance criteria has not been met and consequently the performance rights will not vest. The minimum value in respect of all other Tranches is as stated above as the target has been achieved and reflects the fair value of the performance rights.*

B *The maximum value of Tranches 1 & 2 performance rights yet to vest is the fair value of those rights as the performance criteria may be achieved in future periods. The maximum value in respect of Tranches 8 & 9 is nil as the performance criteria has not been met and consequently the performance rights will not vest. The maximum value in respect of all other Tranches is as stated above as the target has been achieved reflecting the fair value of the performance rights.*

Summary of Tranches performance criteria:

1. Execute and complete a new corporate acquisition with value between A$2.0-A$10.0m
2. Execute and complete a new corporate acquisition with value between A$10.0-A$25.0m
3&3A. Earnings per share exceed $0.12 for the year ended 30 June 2007
4. TSR ranking that exceeds 50th percentile in S&P/ASX 200 Real Estate Index (excluding Australand and Lendlease) as at 30 June 2007
5. Earnings per share increases more than 10% above the base of $0.12 for the financial year ending 30 June 2008.
6. TSR ranking that exceeds 60th percentile in the ASX Real Estate Management and Development listing (excluding Australand and Lend Lease) as of 30th June 2008
8. Earnings per share increases more than 10% above the base of $0.132 for the financial year ending 30 June 2009.
9. TSR ranking that exceeds 70th percentile in the ASX Real Estate Management and Development Listing (excluding Australand and Lendlease) as at 30 June 2009.

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

NOTE 6: KEY MANAGEMENT PERSONNEL COMPENSATION CONTINUED

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

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

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

Tranche	*Grant Date*	*Expiry Date*	*Fair Value per Right*	*Exercise Price*	*Price of Shares on Grant Date*	*Estimated Volatility*	*Risk free interest rate*	*Dividend yield*
1	25 Oct 06	21 Jul 2012	$0.53	$0	$0.665	32%	5.97%	8.64%
2	25 Oct 06	21 Jul 2012	$0.53	$0	$0.665	32%	5.97%	8.64%
3	25 Oct 06	21 Jul 2009	$0.53	$0	$0.665	32%	5.97%	8.64%
4	25 Oct 06	21 Jul 2009	$0.42	$0	$0.665	32%	5.97%	8.64%
3A	31 Jul 07	21 Jul 2009	$0.756	$0	$0.87	37%	6.31%	7.21%
5	11 Oct 07	21 Jul 2010	$0.709	$0	$0.865	36%	6.44%	7.25%
6	11 Oct 07	21 Jul 2010	$0.50	$0	$0.865	36%	6.44%	7.25%
8	16 Oct 08	21 Jul 2011	$0.40	$0	$0.55	47%	4.34%	11.8%
9	16 Oct 08	21 Jul 2011	$0.21	$0	$0.55	47%	4.34%	11.8%

Analysis of movements in performance rights

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

	Opening Balance	*Awarded in Year (i) (ii)*	*Exercised in Year (iii)*	*Lapsed in Year (iv)*	*Closing Balance*
Directors					
Oscar Guglielmi					
Number of Rights	652,000	200,000	-	(200,000)	652,000
Value of Rights $	340,868	61,800	-	(61,800)	340,868
Executives					
Scott Martin					
Number of Rights	157,500	-	-	-	157,500
Value of Rights $	101,543	-	-	-	101,543
Total					
Number of Rights	809,500	200,000	-	(200,000)	809,500
Value of Rights	442,411	61,800	-	(61,800)	442,411

(i) The number of performance rights is the maximum number of performance rights approved for issue during the reporting period.
(ii) The value of performance rights granted in year is their fair value at grant date.
(iii) The value of performance rights exercised during the year is calculated as the fair value at grant date of those rights exercised during the period. No performance rights were available for exercise during the year.
(iv) The value of the performance rights that lapsed during the year represents the benefit foregone and is calculated at the date the performance rights lapsed using their fair value on the date lapsed. The company has assessed that the fair value on the date lapsed is the same as the fair value at grant date.

NOTE 6: KEY MANAGEMENT PERSONNEL COMPENSATION CONTINUED

Number of Shares held by Key Management Personnel

2009	**Balance 1.7.2008**	**Received as Compensation**	**Performance Rights Exercised**	**Net Change Other***	**Balance 30.6.2009**
ATL Maitland	323,860	-	-	-	323,860
BR Kean (retired 16 Oct 2008)	17,143	-	-	-	17,143
MW Parkinson	18,913	-	-	817	19,730
KH Dening	34,238	-	-	1,479	35,717
O Guglielmi	426,592	-	-	-	426,592
SN Martin	104,875	-	-	2,335	107,210
AS Cariss	-	-	-	-	-
Total	925,621	-	-	4,631	930,252

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

2008	**Balance 1.7.2007**	**Received as Compensation**	**Performance Rights Exercised**	**Net Change Other***	**Balance 30.6.2008**
ATL Maitland	323,860	-	-	-	323,860
BR Kean	17,143	-	-	-	17,143
MW Parkinson	17,085	-	-	1,828	18,913
KH Dening	-	-	-	34,238	34,238
O Guglielmi	292,195	-	-	134,397	426,592
SN Martin	11,850	-	-	93,025	104,875
AS Cariss	-	-	-	-	-
Total	662,133	-	-	263,488	925,621

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

NOTE 7: AUDITORS' REMUNERATION

	Economic Entity		**Parent Entity**	
	2009	2008	**2009**	2008
	$	$	$	**$**
Remuneration of the auditor of the parent entity for:				
- auditing or reviewing the financial report	**80,294**	78,800	**77,278**	74,450
- taxation services	**18,953**	21,290	**12,128**	11,450

NOTE 8: DIVIDENDS

	Economic Entity/Parent Entity	
Recognised amounts	**2009 $000**	2008 $000
Dividends paid		
Nil interim fully franked ordinary dividend (2008: 3 cents per share franked at the tax rate of 30%, paid on 11 March 2008)	**-**	929
Final dividend for the year ended 30 June 2008 of 3.5 (2008: 4) cents per share paid on 1 October 2008 (2007: 2 October 2007)	**1,091**	1,217
Nil special dividend (2008: 1.5 cents per share franked at the tax rate of 30% paid on 2 October 2007)	**-**	456
	1,091	2,602
Dividends Proposed but not recognised as a liability		
No final dividend has been proposed (2008: final fully franked ordinary dividend of 3.5 cents per share franked at the tax rate of 30%)	**-**	1,091
	-	1,091
Franking Account		
Balance of franking account at year end	**10,504**	8,704
Adjusted for franking credits arising from:		
- payment/(refund) of provision for income tax	**(515)**	1,779
Payment of proposed dividend detailed above	**-**	(468)
	9,989	10,015

NOTE 9: EARNINGS PER SHARE

	Economic Entity	
	2009 $000	2008 $000
Earnings per share		
Basic EPS	**(11.8)**	10.1
Dilutive EPS	**(11.8)**	10.0

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:

Profit/(loss) attributable to members of the parent entity	**(3,696)**	**3,128**
Earnings used in the calculation of basic EPS	**(3,696)**	**3,128**

	2009 No.	**2008 No.**
Weighted average number of ordinary shares for the purposes of basic earnings per share	**31,372,961**	30,887,941

NOTE 9: EARNINGS PER SHARE CONTINUED

Diluted earnings per share

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

	2009 $000	2008 $000
Profit/(loss) attributable to members of the parent entity	**(3,696)**	3,128
Earnings used in the calculation of diluted EPS	**(3,696)**	3,128

	2009 No.	2008 No.
Weighted average number of ordinary shares used in the calculation of basic EPS	**31,372,961**	30,887,941
Shares deemed to be issued for no consideration in respect of:		
Employee performance rights	**665,500**	440,638
Weighted average number of ordinary shares used in the calculation of diluted EPS	**32,038,461**	31,328,579

NOTE 10: CASH AND CASH EQUIVALENTS

	Note	Economic Entity		Parent Entity	
		2009 $000	2008 $000	**2009 $000**	2008 $000
Cash at bank and in hand		**8,699**	4,746	**7,028**	1,045
Deposits at call		**8**	10	**-**	-
		8,707	4,756	**7,028**	1,045

Reconciliation of cash

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

Cash and cash equivalents	**8,707**	4,756	**7,028**	1,045
	8,707	4,756	**7,028**	1,045

NOTE 11: TRADE AND OTHER RECEIVABLES

	Note	Economic Entity 2009 $000	Economic Entity 2008 $000	Parent Entity 2009 $000	Parent Entity 2008 $000
CURRENT					
Trade receivables		**-**	452	**9**	441
Amounts due from customers for construction contracts	11a	**925**	1,782	**-**	-
Other receivables		**76**	19	**2**	9
Amounts receivable from:					
- wholly-owned subsidiaries	31	**-**	-	**15,217**	22,448
- associated companies	31	**-**	5	**-**	5
Allowance for doubtful debts					
- wholly-owned subsidiaries		**-**	-	**(1,404)**	-
		1,001	2,258	**13,824**	22,903

NOTE 11: TRADE AND OTHER RECEIVABLES CONTINUED

	Economic Entity		Parent Entity	
	2009	2008	**2009**	2008
	$000	$000	**$000**	$000
a. Construction Contracts				
Contract costs incurred	**31,553**	30,893	**-**	**-**
Recognised profits	**5,338**	5,047	**-**	**-**
	36,891	35,940	**-**	**-**
Progress billings	**(35,966)**	(34,158)	**-**	**-**
Amounts due from customers for contract work	**925**	1,782	**-**	**-**
Retentions on construction contracts in progress	**21**	13	**-**	**-**
Progress billings and advances received and receivable on construction contracts in progress	**35,966**	34,158	**-**	**-**

Trade Receivables

Ageing of past due but not impaired

	2009	2008	**2009**	2008
	$000	$000	**$000**	$000
Not past due	**-**	440	**9**	429
Past due 0-30 days	**-**	-	**-**	-
Past due 31-60 days	**-**	-	**-**	-
Past due 61-90 days	**-**	12	**-**	12
Past due 91-120 days	**-**	-	**-**	-
Past 120 days	**-**	-	**-**	-
	-	452	**9**	441

NOTE 11: TRADE AND OTHER RECEIVABLES CONTINUED

	Economic Entity		Parent Entity	
Amounts due from customers for construction contracts	**2009**	2008	**2009**	2008
Ageing of past due but not impaired	**$000**	$000	**$000**	$000
Not past due	**840**	1,624	**-**	-
Past due 0-30 days	**69**	-	**-**	-
Past due 31-60 days	**-**	-	**-**	-
Past due 61-90 days	**-**	31	**-**	-
Past due 91-120 days	**-**	-	**-**	-
Past 120 days	**16**	127	**-**	-
	925	1,782	**-**	-

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

As at 30 June 2009, amounts due from customers for construction contracts with a carrying amount of $0.085m (2008: ($0.158m) were past due but not doubtful. These amounts due comprise customers who have good debt history and are considered recoverable. No collateral is held over these balances.

NOTE 12: INVENTORIES

	2009 **$000**	2008 $000	**2009** **$000**	2008 $000
CURRENT				
Developments in progress	**18,333**	32,081	**-**	**-**
	18,333	32,081	**-**	**-**

NOTE 13: CURRENT ASSETS – OTHER

Other assets	**-**	135	**1**	135
Prepayments	**15**	174	**-**	-
	15	309	**1**	135

NOTE 14: ASSOCIATED ENTITIES

Interests are held in the following associated entities

Name	Principal Activities	Country of Incorporation	Shares	Ownership Interest		Carrying amount of investment	
				2009	2008	**2009**	2008
				%	%	**$000**	$000
Unlisted:							
Folkestone Docklands Unit Trust[1]	Property Development	Australia	B Class Units	**80**	80	**10**	**10**
Folkestone (Bayside) Pty Ltd[2]	Property Development	Australia	Ordinary shares	**20**	20	**2,816**	**1,706**
						2,826	**1,716**

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

(2) Folkestone holds 2,812,502 of the 14,062,510 ordinary shares on issue. They also hold 1 B class share, however this is for profit sharing entitlements only.

	Economic Entity	
	2009	2008
	$000	$000
a. Movements during the year in equity accounted investment in associated entities		
Balance at beginning of the financial year	**1,716**	1,079
Add: Share of associated company's profit after income tax	**-**	3
Capital issued	**1,110**	634
Less: Distribution of profits from associated entity	**-**	-
Balance at end of the financial year	**2,826**	1,716
b. Equity accounted profits of associates are broken down as follows:		
Share of associate's profit before income tax expense	**-**	3
Share of associate's income tax expense	**-**	-
Share of associate's profit after income tax	**-**	3
c. Summarised Presentation of the economic entity's share of Aggregate Assets, Liabilities and Performance of Associates		
Current assets	**20,738**	15,219
Total assets	**20,738**	15,219
Current liabilities	**5,883**	103
Non-current liabilities	**12,029**	13,400
Total liabilities	**17,912**	13,503
Net assets	**2,826**	1,716
Revenues	**2**	4
Profit after income tax of associates	**-**	3

NOTE 14: ASSOCIATED ENTITIES CONTINUED

Ownership interest in Folkestone Docklands Unit Trust was 80% of Issued B Class Units. The reporting date of Folkestone Docklands Unit Trust is 30 June 2009. This reporting date coincides with Folkestone Limited.

Ownership interest in Folkestone (Bayside) Pty Ltd was 20% of issued ordinary shares. The reporting date of Folkestone (Bayside) Pty Ltd is 30 June 2009. This reporting date coincides with Folkestone Limited.

NOTE 15: JOINTLY CONTROLLED OPERATIONS

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

	Economic Entity	
	2009	2008
	$000	$000
i) A controlled entity, Folkestone No:1 Pty Ltd has a 50% interest with the Select Property Portfolio Fund No:2 Ltd, in the development of a site at 720-808 Kororoit Creek Road, Altona, which has now been completed.		
The economic entity's share of assets employed in the jointly controlled operations is:		
CURRENT ASSETS		
Cash at bank and on hand	**12**	13
Total current assets	**12**	13
Share of total assets of jointly controlled operations	**12**	13
Net interest in jointly controlled operations	**11**	11
ii) A controlled entity, Folkestone No:4 Pty Ltd has a 50% interest with the Select Property Portfolio Fund No:2 Ltd, in the development of a site at 169 Noone Street, Clifton Hill.		
The economic entity's share of assets employed in the jointly controlled operations is:		
CURRENT ASSETS		
Cash at bank and on hand	**104**	807
Inventories – developments in progress	**9,468**	7,655
Other current assets	**37**	16
Total current assets	**9,609**	8,478
NON-CURRENT ASSETS		
Total non-current assets	**1**	26
Share of total assets of jointly controlled operations	**9,610**	8,504
Net interest in jointly controlled operations	**6,940**	5,908

NOTE 15: JOINTLY CONTROLLED OPERATIONS CONTINUED

iii) A controlled entity, Folkestone No:7 Pty Ltd has a 50% interest with the Select Property Portfolio Fund No:2 Ltd, in the development of a site in Millers Road, Altona.

	Economic Entity	
The economic entity's share of assets employed in the jointly controlled operations is:	**2009 $000**	2008 $000
CURRENT ASSETS		
Cash at bank and on hand	**58**	2
Inventories – developments in progress	**8,865**	12,936
Other current assets	**2**	12
Total current assets	**8,925**	12,950
NON-CURRENT ASSETS		
Total non-current assets	**1,352**	-
Share of total assets of jointly controlled operations	**10,277**	12,950
Net interest in jointly controlled operations	**3,940**	4,739

NOTE 16: OTHER NON-CURRENT FINANCIAL ASSETS

	Economic Entity		Parent Entity	
	2009 $000	2008 $000	**2009 $000**	2008 $000
Shares in controlled entities at cost	**-**	-	**1,781**	3,901
Shares in associated entities at cost	**-**	**-**	**2,823**	1,713
	-	**-**	**4,604**	5,614

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

NOTE 17: CONTROLLED ENTITIES

a. Controlled Entities Consolidated

	Country of Incorporation	Percentage Owned (%)*	
		2009	**2008**
Parent Entity:			
Folkestone Limited	Australia		
Subsidiaries of Folkestone Limited:			
Folkestone Freeholds Pty Ltd	Australia	100	100
Folkestone Developments Pty Ltd	Australia	100	100
Folkestone Project Management Pty Ltd	Australia	100	100
Fenchurch Pty Ltd	Australia	100	100
Folkestone (EMT) Pty Ltd	Australia	100	100
Folkestone East Melbourne Trust	Australia	100	100
Ceres House Pty Ltd	Australia	100	100
Access Constructions Pty Ltd	Australia	100	100
Folkestone (PMD) Pty Ltd	Australia	100	100
Bertie Bridge Pty Ltd	Australia	75	75
Sorrento (VIC) Pty Ltd	Australia	100	100
Folkestone (Bayside) Pty Ltd	Australia	100	100
Folkestone No. 1 Pty Ltd	Australia	100	100
Folkestone No. 2 Pty Ltd	Australia	100	100
Folkestone No. 3 Pty Ltd	Australia	100	100
Folkestone No. 4 Pty Ltd	Australia	100	100
Folkestone No: 5 Pty Ltd	Australia	100	100
Folkestone No: 6 Pty Ltd	Australia	100	100
Folkestone No: 7 Pty Ltd	Australia	100	100
Folkestone No: 8 Pty Ltd	Australia	100	100
Folkestone No: 9 Pty Ltd	Australia	100	100
Folkestone No: 10 Pty Ltd	Australia	100	100

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

NOTE 18: PROPERTY, PLANT AND EQUIPMENT

	Note	Economic Entity		Parent Entity	
		2009	2008	**2009**	2008
		$000	$000	**$000**	$000
PLANT AND EQUIPMENT					
Plant and equipment:					
At cost		**740**	732	**387**	387
Accumulated depreciation		**(565)**	(499)	**(347)**	(332)
Impairment losses charged to profit	(i)	**(135)**	-	**-**	-
Total Property, Plant and Equipment		**40**	233	**40**	55

a. Movements in Carrying Amounts

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

		Economic Entity		Parent Entity	
		2009	2008	**2009**	2008
		$000	$000	**$000**	$000
Opening balance of plant & equipment at cost		**732**	721	**387**	417
Opening balance of accumulated depreciation		**(499)**	(485)	**(332)**	(358)
Additions		**8**	125	**-**	20
Disposals		**(4)**	(40)	**-**	-
Depreciation expense	(ii)	**(62)**	(88)	**(15)**	(24)
Impairment losses charged to profit		**(135)**	-	**-**	-
Carrying amount at the end of year		**40**	233	**40**	55

(i) The Property, Plant and Equipment of Access Constructions has been written down to its realisable value at balance date.

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

NOTE 19: GOODWILL

	Economic Entity		Parent Entity	
	2009	2008	**2009**	2008
	$000	$000	**$000**	$000
Goodwill				
At cost	**-**	2,120	**-**	-
Total goodwill	**-**	2,120	**-**	**-**

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

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

Access Constructions result for the year ended 30 June 2009 was an after-tax profit of $1.515m compared with $1.380m last year. This was positively impacted by a one off settlement of the copyright infringement claim disclosed in the 2008 Annual Report. The result for the second half was a loss of $0.103m having been impacted by declining work flow and new orders. This trend has continued into the new financial year and the outlook for the next 12 months is similar to the recent months trading.

Given this position and consistent with the new strategic direction of the company and the changing economic environment, Folkestone has decided to exit its equity investment in the Access Constructions business. This has been executed by way of a Management Buy Out signed on 19 August 2009 but with effect from 1 July 2009. The net effect of the sale of the business including the write-off of goodwill was $2.255m against book value. This is reflected in the 2009 financial statements.

NOTE 20: TRADE AND OTHER PAYABLES

	Note	Economic Entity		Parent Entity	
		2009	2008	**2009**	2008
		$000	$000	**$000**	$000
Trade payables	a	**1,824**	2,134	**64**	140
Sundry payables and accrued expenses		**226**	1,081	**140**	135
		2,050	3,215	**204**	275

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

NOTE 21: BORROWINGS

		Economic Entity		Parent Entity	
		2009	2008	**2009**	2008
		$000	$000	**$000**	$000
CURRENT					
Unsecured liabilities					
Advances from related entities	31	**-**	-	**5,242**	5,022
		-	-	**5,242**	5,022
Secured liabilities					
Bills payable	21a,c	**8,161**	10,717	**-**	-
Hire purchase liability	26a	**-**	7	**-**	-
		8,161	10,724	**-**	-
		8,161	10,724	**5,242**	5,022
NON-CURRENT					
Secured liabilities					
Hire purchase liability	26a	**-**	-	**-**	-
		-	-	**-**	-

a. Total current and non-current secured liabilities:

	Economic Entity 2009 $000	Economic Entity 2008 $000	Parent Entity 2009 $000	Parent Entity 2008 $000
Bills payable	**8,161**	10,717	**-**	-
Hire purchase liability	**-**	7	**-**	-
	8,161	10,724	**-**	-

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

	Economic Entity 2009 $000	Economic Entity 2008 $000	Parent Entity 2009 $000	Parent Entity 2008 $000
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).	**18,333**	29,423	**-**	-
The hire purchase liabilities were secured by a registered mortgage over the assets to which they relate. The hire purchase liabilities have been paid out during the financial year	**-**	24	**-**	-
	18,333	29,447	**-**	-

c. Bills Payable

Prevailing interest rates at 30 June 2009 on bills drawn range from 4.10%-6.99% (2008: 8.54%-9.96%) including margins. The total bill facility available at 30 June 2009 was $15.911m (2008: $56.525m) 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.

NOTE 22: TAX

	Economic Entity		Parent Entity	
	2009	2008	**2009**	2008
	$000	$000	**$000**	$000
a. Liabilities				
CURRENT				
Income tax	**-**	2,473	**-**	1,779
	-	2,473	**-**	1,779
b. Assets				
CURRENT				
Income tax	**482**	-	**515**	-
	482	-	**515**	-
NON-CURRENT				
Deferred tax assets/(liability):				
Provisions	**1,464**	653	**475**	59
Accrued income	**-**	(543)	**-**	-
Other	**(599)**	(5)	**-**	(5)
	865	105	**475**	54
c. Reconciliations				
i Gross Movements				
The overall movement in the deferred tax asset account is as follows:				
Opening balance	**105**	205	**54**	46
Movement for the year	**760**	(100)	**421**	8
Closing balance	**865**	105	**475**	54
ii Deferred Tax Assets				
The movement in deferred tax assets for each temporary difference during the year is as follows:				
Provisions				
Opening balance	**653**	670	**59**	46
Credited/(charged) to the income statement	**811**	(17)	**416**	13
Closing balance	**1,464**	653	**475**	59
Accrued Income				
Opening balance	**(543)**	(465)	**-**	-
Credited/(charged) to the income statement	**543**	(78)	**-**	-
Closing balance	**-**	(543)	**-**	-
Other				
Opening balance	**(5)**	-	**(5)**	-
Credited/(charged) to the income statement	**(594)**	(5)	**5**	(5)
Closing balance	**(599)**	(5)	**-**	(5)
	865	105	**475**	54

NOTE 23: PROVISIONS

	Economic Entity		Parent Entity	
	2009	2008	**2009**	2008
	$000	$000	**$000**	$000
Current				
Employee benefits				
Opening balance	**224**	204	**62**	53
Additional provision	**250**	299	**89**	100
Reclassification of non-current liability as current liability	**31**	-	**-**	-
Amounts used	**(307)**	(279)	**(95)**	(91)
Total	**198**	224	**56**	62
Future losses on developments in progress				
Opening balance	**366**	366	**-**	**-**
Amounts written back to P&L	**(366)**	-	**-**	-
Total	**-**	366	**-**	-
Total Current Provisions	**198**	590	**56**	62
Non-Current				
Employee benefits				
Opening balance	**40**	82	**-**	**-**
Additional provision	**4**	-	**-**	**-**
Reclassification of non-current liability as current liability	**(31)**	-	**-**	**-**
Amounts written back to P&L	**-**	(29)	**-**	**-**
Amounts used	**(13)**	(13)	**-**	**-**
Total Non-Current Provisions	**-**	40	**-**	**-**
Analysis of Total Provisions				
Current	**198**	590	**56**	62
Non-current	**-**	40	**-**	-
	198	630	**56**	62

NOTE 24: ISSUED CAPITAL

	Economic Entity		Parent Entity	
	2009	2008	**2009**	2008
	$000	$000	**$000**	$000
31,438,857 (2008: 31,177,421) fully paid ordinary shares of no par value	**19,326**	19,115	**19,326**	19,115
	19,326	19,115	**19,326**	19,115

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.

	2009		2008	
	Shares (thousand)	**$000**	Shares (thousand)	$000
Ordinary shares				
At the beginning of reporting period	**31,177**	**19,115**	30,427	18,505
Shares issued during the year				
- Dividend reinvestment plan	**262**	**211**	750	610
At reporting date	**31,439**	**19,326**	31,177	19,115

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

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

NOTE 25: RESERVES

	Economic Entity		Parent Entity	
	2009	2008	**2009**	2008
	$000	$000	**$000**	$000
At the beginning of the reporting period	**219**	63	**219**	63
- Performance rights granted/(forfeited)	**126**	156	**126**	156
At the reporting date	**345**	219	**345**	219

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

NOTE 26: CAPITAL AND LEASING COMMITMENTS

	Economic Entity		Parent Entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
a. Hire Purchase Commitments				
- not later than 12 months	**-**	7	**-**	-
Total Hire Purchase Commitments	**-**	7	**-**	-
b. Operating Lease Commitments				
Non-cancellable operating leases contracted for but not capitalised in the financial statements				
Payable - minimum lease payments				
- not later than 12 months	**224**	217	**124**	120
- between 12 months and 5 years	**99**	323	**22**	146
	323	540	**146**	266

The Group has three lease commitments:

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

NOTE: 27: CONTINGENT LIABILITIES

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

- Folkestone (Bayside) Pty Ltd - Folkestone Limited owns 20% of the share capital of Folkestone (Bayside) Pty Ltd and has provided a guarantee in favour of Capital Finance Australia Limited in relation to a loan facility for $43.250m (drawn $29.091m) for the acquisition of135,225 &285 Donnybrook Rd, Mickleham. The loan facility has a maturity date of 21 December 2011 which may be extended by mutual agreement. The guarantee provided is several from the other shareholder of Folkestone (Bayside) Pty Ltd and is limited to 20% of the loan facility only.

- Access Constructions Pty Ltd - Folkestone Limited has provided a parent company guarantee in favour of ING Industrial Custodian Pty Ltd in relation to the due and punctual performance by Access Constructions Pty Ltd of its obligations under the design and construct contracts with ING Industrial Custodian Pty Ltd for the following project:
  - Stramit : Office & Factory Development, Rear 1464 Ferntree Gully Road, Knoxfield (construction completed, defects liability period expires 26 February 2010)

- Bertie Bridge Pty Ltd – Folkestone Limited owns 75% of the share capital in Bertie Bridge Pty Ltd. Folkestone Limited has provided a several guarantee in favour of Trust Company of Australia Limited in relation to the due and punctual performance by Bertie Bridge Pty Ltd of its obligations under the Development Agreement for Toyota Business Park (Parcel B).

NOTE: 27: CONTINGENT LIABILITIES CONTINUED

- Noone St Clifton Hill Pty Ltd - Folkestone Limited holds 50% of the share capital in Noone St Clifton Hill Pty Ltd. Folkestone Limited has provided a guarantee in favour of BOS International (Australia) Limited in relation to a loan facility for $20m (drawn $4.5m) for the development of 169 Noone Street, Clifton Hill. Subsequent to balance date, the joint venture signed a facility offer with St George Bank. The refinance of the existing loan with BOS International (Australia) Limited took place on 10 August 2009 which extinguished all amounts owing to them including the guarantee provided by Folkestone Limited. The St George loan facility is for an amount of $25.630 million (drawn to 19 August 2009: $4.95m) and the facility runs to March 2011. As part of the security for the facility, Folkestone Limited has provided St George Bank with an unlimited guarantee and indemnity for 100% of the loan. Folkestone's joint venture partner, SPP No 2, has provided a limited undertaking of $2.25m to Folkestone Limited in respect of the guarantee and indemnity provided to St George Bank

b) Access Constructions Pty Ltd has a $4m surety bond facility with QBE Insurance. As at balance date, QBE had issued $0.84m in surety bonds to clients of Access Constructions.

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

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

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

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

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

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

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

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

NOTE 28: SEGMENT REPORTING

Primary Reporting – Business Segments

	Project Development		Construction		Eliminations/ Unallocated		Consolidated	
	2009 $000	2008 $000	**2009 $000**	2008 $000	**2009 $000**	2008 $000	**2009 $000**	2008 $000
Revenue from external customers:								
Sales	**19, 199**	9,478	**32,660**	39,911	**4,231**	(6,491)	**56,090**	42,898
Other revenue	**377**	188	**770**	211	**-**	359	**1,147**	758
Total revenue from external customers	**19,576**	9,666	**33,430**	40,122	**4,231**	(6,132)	**57,237**	43,656
Total revenue	**19,576**	9,666	**33,430**	40,122	**4,231**	(6,132)	**57,237**	43,656
Segment result	**(4,258)**	3,729	**2,225**	1,972	**(2,591)**	(573)	**(4,489)**	5,128
Income tax expense							**751**	(1,667)
Profit/(loss) for the period							**(3,873)**	3,461
Segment assets	**22,822**	36,285	**1,808**	5,998	**-**	-	**24,630**	42,283
Unallocated assets	**-**	-	**-**	-	**7,639**	1,295	**7,639**	1,295
Total assets	**22,822**	36,285	**1,808**	5,998	**7,639**	1,295	**32,269**	43,578
Segment liabilities	**8,192**	12,466	**1,958**	2,461	**-**	-	**10,150**	14,927
Unallocated liabilities	**-**	-	**-**	-	**259**	2,115	**259**	2,115
Total liabilities	**8,192**	12,466	**1,958**	2,461	**259**	2,115	**10,409**	17,042
Capital expenditure	**-**	-	**8**	105	**-**	20	**8**	125
Depreciation and amortisation	**-**	-	**46**	64	**15**	24	**62**	88
Investment in associates	**2,826**	1,716	**-**	-	**-**	-	**2,826**	1,716

Accounting Policies

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

Intersegment Transfers

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

Business segments

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

- Project Development
- Construction

NOTE 29: NOTES TO THE CASH FLOW STATEMENT

	Economic Entity		Parent Entity	
	2009	2008	**2009**	2008
	$000	$000	**$000**	$000
a. Reconciliation of profit for the period to net cash flows from operations				
Profit/(loss) after income tax	**(3,873)**	3,461	**(929)**	4,149
Non-cash flows in profit				
Amortisation & depreciation	**62**	88	**15**	24
Expensing of performance rights	**126**	156	**126**	156
Impairment of non-current assets	**2,255**	-	**2,120**	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
(Increase)/decrease in trade and other receivables	**1,257**	17,834	**445**	36
(Increase)/decrease in other operating assets	**294**	(288)	**134**	(117)
(Increase)/decrease in inventories	**13,748**	(17,992)	**-**	-
Increase/(decrease) in trade and other payables	**(1,165)**	(17,613)	**(71)**	(294)
Increase/(decrease) in income taxes payable	**(2,955)**	1,527	**(2,294)**	859
(Increase)/decrease in deferred tax assets	**(760)**	100	**(421)**	(8)
Increase/(decrease) in provisions	**(432)**	(22)	**(6)**	9
Net cash provided by/(used in) operations	**8,557**	(12,749)	**(881)**	4,814

b. Credit Standby Arrangements with Banks				
Bank Loan Facilities	**15,911**	56,525	**-**	-
Amount utilised	**(8,161)**	(10,717)	**-**	-
	7,750	45,808	**-**	-

The major facilities are summarised as follows:

Bill facility

Prevailing interest rates at 30 June 2009 on bills drawn range from 4.10%-6.99% (2008: 8.54%-9.96%) excluding margins. The total bill facility available at 30 June 2009 was $15.911m and subject to continuing compliance with the specific conditions of the facility for each project, the bill facilities may be drawn at any time and have an expiry in line with each specific project. Bill facilities are specific to each project and the total bill facility available represents the Group's share of these facilities. As new projects are secured, further bill facilities will be acquired.

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

NOTE 30: EVENTS AFTER BALANCE DATE

Since the end of the financial year the following matters or circumstances have occurred:

- Sale of Access Constructions

Consistent with the new strategic direction and the changing economic environment, Folkestone has decided to exit its equity investment in the Access Constructions business. This has been executed by way of a Management Buy Out signed on 19 August 2009 but with effect from 1 July 2009. The net effect of the sale of the business including the write-off of goodwill was $2.255m against book value. This is reflected in the 2009 financial statements.

NOTE 31: RELATED PARTY TRANSACTIONS

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

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

Transactions between Folkestone Limited and other entities in the wholly-owned group during the years ended 30 June 2009 and 2008 consisted of:

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

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

	Economic Entity		Parent Entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Total amounts receivable from and payable to related parties in the wholly-owned group at balance date were as follows:				
Current receivables	**-**	-	**15,216,762**	22,448,461
Allowance for doubtful receivables	**-**	-	**(1,404,421)**	-
	-	-	**13,812,341**	22,448,461
Current borrowings	**-**	-	**5,241,747**	5,021,900

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

An expense of $1,404,421 was recognised by the parent entity during the period for doubtful debts in respect of the amounts owed by wholly owned entities.

NOTE 31: RELATED PARTY TRANSACTIONS CONTINUED

Other Related Parties

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

Transactions between Folkestone Limited and other related parties during the years ended 30 June 2009 and 2008 consisted of:

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

	Economic Entity		Parent Entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Income from joint ventures and associated entities				
Project management fees	**2,062,940**	4,208,963	**2,062,940**	1,344,560

Total amounts receivable from, and payable to, joint ventures and associated entities at balance date:-				
Current receivables:				
Trade Receivables	**-**	428,923	**-**	428,923
Loans	**681**	5,487	**681**	5,487
	681	434,410	**681**	434,410
Current borrowings:				
Loans	**-**	-	**-**	-

Transactions with Directors

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

NOTE 32: FINANCIAL INSTRUMENTS

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

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

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

- credit risk
- market risk
- liquidity risk

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

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

a) Capital Risk Management

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

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

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

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

	Economic Entity		**Parent Entity**	
	2009	2008	**2009**	2008
	$000	$000	**$000**	$000
Debt	**8,161**	10,724	**-**	-
Cash and Cash Equivalents	**(8,707)**	(4,756)	**(7,028)**	(1,045)
Net Debt	**(546)**	5,968	**(7,028)**	(1,045)
Equity (Parent interest)	**21,468**	25,918	**20,985**	22,668
Net debt to equity ratio	**-3%**	23%	**-33%**	-5%

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

NOTE 32: FINANCIAL INSTRUMENTS CONTINUED

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

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

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

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

b) Credit Risk

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

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

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

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

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

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

c) Market Risk

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

The Group manages interest rate risk by:-

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

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

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

NOTE 32: FINANCIAL INSTRUMENTS CONTINUED

Sensitivity Analysis

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

d) Liquidity Risk

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

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

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

Economic Entity

	Weighted average effective interest rate %	Less than 3 months $000	3 months to 1 year $000	1-5 years $000
2009				
Non-interest bearing trade and other payables	-	2,050	-	-
Variable interest rate instruments	6.19%	126	8,291	-
		2,176	8,291	-
2008				
Non-interest bearing trade and other payables	-	3,215	-	-
Hire purchase liability	8.46%	4	3	-
Variable interest rate instruments	9.62%	258	12,179	-
		3,477	12,182	-

NOTE 32: FINANCIAL INSTRUMENTS CONTINUED

Parent Entity

	Weighted average effective interest rate %	Less than 3 months $000	3 months to 1 year $000	1-5 years $000
2009				
Non-interest bearing trade and other payables	-	204	-	-
Non-interest bearing loans to subsidiaries	-	-	5,242	-
		204	5,242	-
2008				
Non-interest bearing trade and other payables	-	275	-	-
Non-interest bearing loans to subsidiaries	-	-	5,022	-
		275	5,022	-

Directors' Declaration

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

(a) the financial statements and notes set out on pages 27 to 70, are in accordance with the Corporations Act 2001, and:

   (i) give a true and fair view of the financial position of the company and the economic entity as at 30 June 2009 and of their performance for the financial year ended on that date; and

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

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

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

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

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

(c) in the directors' opinion, there are reasonable grounds to believe that the company and the controlled entities identified in Note 17 will be able to pay their debts as and when they become due and payable.

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

ATL Maitland	**Oscar Guglielmi**
Director	Director

Melbourne
19 August 2009

ASX Additional information

The shareholder information set out below was applicable as at 19 August 2009:

A Distribution of Equity Securities

Analysis of number of equity security holders by size of holding

			Ordinary Shares
1	-	1,000	54
1,001	-	5,000	157
5,001	-	10,000	126
10,001	-	100,000	327
100,001	and	Over	39
			703

There were 80 holders of less than a marketable parcel of ordinary shares

B Equity Security Holders

Twenty Largest quoted Equity Security Holders

	Ordinary Shares	
	Number Held	**% of issued Shares**
ANZ Nominees Ltd	6,208,969	19.52
Wilbow Pty Ltd	3,420,001	10.75
Kingsley Developments Pty Ltd	2,970,247	9.34
Mr Oscar Guglielmi	626,592	1.97
Tesset Pty Ltd	553,485	1.74
Mr Benjamin Paul Jones	515,581	1.62
Mr John Mallon	383,692	1.21
Mr Peter Howells	341,701	1.07
Mr ATL Maitland	323,860	1.02
Davwall Pty Ltd	322,870	1.02
Mr David Charles Leslie Gibbs	301,299	0.95
Newsboys Foundation	300,000	0.94
Corlah Pty Ltd	277,532	0.87
The Private Fiduciary Corporation	261,815	0.82
Marlton Investments Pty Ltd	259,830	0.82
Mr Douglas George Wade & Mrs Maisie Jean Wade	246,261	0.77
Mr Peter & Mrs Ann Lovas	225,333	0.71
Mr Jonathan Martin Daniels	202,048	0.64
HSBC Custody Nominees	193,495	0.61
Mr Ian Redvers Morrison & Mr Roger Maxwell Blythman & Mr Robert Cole	192,823	0.61
	18,127,434	57.00%

C Substantial Holders

Substantial holders in the company are set out below	**Number Held**	**Percentage %**
ANZ Nominees Ltd	6,208,969	19.52
Wilbow Pty Ltd	3,420,001	10.75
Kingsley Developments Pty Ltd	2,970,247	9.34

D Voting Rights

Ordinary Shares

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