



Folkestone

**CORPORATE
GOVERNANCE
STATEMENT**

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FOLKESTONE LIMITED AND ITS CONTROLLED ENTITIES

For the year ended 30 June 2018

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

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

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

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

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

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

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

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

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

BOARD CHARTER

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

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

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

A Director is invited to join the Board by a formal letter which details the key terms of their appointment including remuneration and requires a written acceptance. Prior to appointment, appropriate checks are undertaken with respect to character, experience, education, criminal record and bankruptcy history. 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.

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

The Board is responsible for the appointment of the Managing Director and ratifies the appointment of senior executives. Upon commencement with the Company, each senior executive is provided with a letter of appointment which outlines their duties and responsibilities. The Board reviews and evaluates the performance of the Managing Director and senior executives in line with their respective duties and responsibilities on an annual basis. Adopting this process, the performance of senior executives was evaluated during the financial year.

The Company does not have a Diversity Policy. This is due to the small and stable nature of the Company's workforce, and therefore it is not considered appropriate or useful to set gender specific, or other diversity specific, performance targets that relate specifically to the Company's operations.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

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

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

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

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

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

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

Directors are invited to join the Board on the basis of their experience and skills in relation to the Company's activities. The Board is fully 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. The following table summarises the key skills of the Directors as a group:

Skills and Experience

- Real estate and valuation experience
- Funds management / financial services
- Financial acumen
- Strategy
- Corporate governance
- Debt and equity markets
- Legal, risk and compliance
- ASX listed entity experience

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

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PRINCIPLE 3: ACT ETHICALLY AND RESPONSIBLY

The Company requires high ethical standards and integrity in all its dealings. In particular Directors and senior management are expected to actively and fully comply with all Laws and Regulations. Fair dealing with the Company's suppliers, advisors, customers, employees and competitors is expected at all levels of the group. Systems are in place to ensure the protection and proper use of the Company's assets. Systems and policies are in place covering the acquisition and use of assets and the incurring of expenses as well as reporting of unethical or unfair trading.

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

Directors and senior management are made aware of their obligation to comply with the Law in regard to trading in the Company's shares so as not to take advantage of information or position, or opportunities arising from these, for personal gain. The Company's Share Trading Policy is reviewed at least annually and the last review was undertaken in March 2018. The Share Trading Policy covers both the trading in securities in Folkestone and the trading in securities of managed investment schemes which are managed by Folkestone.

SHARE TRADING POLICY

Under Folkestone's share trading policy Directors and Employees:

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

PRINCIPLE 4: SAFEGUARD INTEGRITY IN CORPORATE REPORTING

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

The Board has established an Audit and Risk Management Committee, comprised solely of Non-Executive Directors. The Chair of the Audit and Risk Management Committee is required to be a different person to the Chair of the Company. Details of the members of the Audit and Risk Management Committee and meetings held during the year are disclosed in the Directors' Report contained within the Company's Annual Report prepared each year.

AUDIT AND RISK MANAGEMENT COMMITTEE CHARTER

The responsibilities of the Audit and Risk Management Committee include:

- Reviewing the financial reports and integrity and processes associated with their preparation.
- Monitoring compliance with internal management and financial control systems.
- Reviewing the scope of activities, performance and remuneration of the external auditors.
- Ensuring that any deficiencies identified in processes are subject to prompt remedial action by management.
- Monitoring compliance with the Corporations Act, ASX and related reporting requirements.

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- Identifying the risks inherent in the Company's business activities and establishing policies and procedures to monitor these risks.

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

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

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

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

The Folkestone Group has a Communications Policy which applies to all entities within the Group including all Trusts managed by the Group. The Communications Policy has been adopted by the Board and includes a policy in relation to Continuous Disclosure. This policy reflects the Board's commitment to ensuring that information that is expected to have a material effect on the price or value of the Company's securities is immediately notified to the ASX for dissemination to the market in accordance with the continuous disclosure requirements of the Corporations Act 2001 and ASX Listing Rules. A copy of the Policy is available on the Company's website.

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

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

PRINCIPLE 6: RESPECT THE RIGHTS OF SECURITY HOLDERS

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

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

Unitholders have the option to receive communication from both the Company and the share registry electronically. Shareholders are able to email queries to the Company regarding the Company's activities with prompt responses to be provided by the Company.

The Company has a pro-active investor relations program which includes meetings with institutional investors, private investors, research analysts and financial media.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

The Board identifies and establishes processes to manage the significant operating, financial and regulatory risks through the formal adoption of a medium term Strategic Plan, annual business plans and budgets. The Company does not have an internal audit function due to the Company's size, however, the Board may elect to request an independent review of its accounting systems and processes by an accounting organisation not aligned to the

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Auditor. This independent review, if deemed necessary, coupled with the comprehensive nature of the monthly reporting systems assists in the Company's risk minimisation process.

The Company's Audit and Risk Management Committee has formulated a Risk Management Plan that formalises the current culture and processes of the Company which is focused on the annual review of the risk management framework and identification and management of risk through regular Board reporting and exception reporting in between. The Directors Report and Financial Statements contained and within the Company's Annual Report includes a summary of the financial risks and other material business risks faced by the Company.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

REMUNERATION COMMITTEE CHARTER

The functions and responsibilities of the Remuneration Committee include:

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

The Board has established a Remuneration Committee comprised of the three non-executive Directors and chaired by the Company Chairman. Further details of the members of the Remuneration Committee and of meetings held are included in the Directors' Report contained within the Company's Annual Report each year. 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 where appropriate.

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

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

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

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

A summary of the Company's Executive Incentive Plan is fully disclosed in the Remuneration Report contained within the Company's Annual Report each year. This summary includes details in respect of the prohibition of participants from entering into any arrangement to hedge or otherwise affect their economic exposure to the participation in the scheme.