FOLKESTONE EDUCATION TRUST

ANNUAL REPORT 2017

Folkestone
EDUCATION TRUST

East Brighton, Victoria

CONTENTS

Folkestone Investment Management Limited
ABN 46 111 338 937

KEY HIGHLIGHTS

$2.51
NTA PER UNIT
▲ 17.3 %

$179.0m
DEVELOPMENT PIPELINE

9.1 yrs
WALE

14.2cpu
DISTRIBUTION
▲ 6.0 %

$37.8m
DISTRIBUTABLE INCOME
▲ 9.6 %

$122.3m
STATUTORY PROFIT
▲ 14.5 %

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S REPORT

The Directors of the Responsible Entity, Folkestone Investment Management Limited ("FIML") provide the results of the Folkestone Education Trust ("FET" or "the Trust") for the year ended 30 June 2017. FET is an ASX listed property trust investing in early learning property assets.

KEY HIGHLIGHTS FOR THE YEAR

- Statutory profit of $122.3 million, an increase of 14.5% from $106.8 million on the previous corresponding period ("pcp");
- Distributable income of $37.8 million, an increase of 9.6% on pcp;
- Distribution of 14.2 cents per Unit ("cpu"), an increase of 6.0% on pcp;
- NTA per Unit of $2.51, an increase of 17.3% on pcp;
- FET's development pipeline increased to 31 sites[1] with an approximate value of $179 million;
- 112 of 113 five year options were exercised, which with new leasing transactions, resulted in an increase in the portfolio's WALE from 8.2 years to 9.1 years;
- 127 market rent reviews were completed, achieving an average increase in rent of 4.7%; and
- 7 existing centres were sold for a total of $11.2 million, a 17.7% premium to carrying values.

TRUST PERFORMANCE

FET paid distributions of 14.2 cpu for the year, an increase of 6.0 per cent from the prior year. Since 2011, FET's distributions have risen by an average 8.6 per cent per annum and its NTA has risen by an average 13.4 per cent per annum.

FET provided a total return of 10.1 per cent for the year to 30 June 2017, outperforming the S&P/ASX 300 A-REIT Accumulation Index ("Index") negative return of 5.6 per cent for the same period. FET has also outperformed the Index over three years at 26.3 per cent per annum (vs 12.2 per cent per annum), five years at 30.7 per cent per annum (vs 14.2 per cent per annum) and ten years at 13.0 per cent per annum (vs negative 0.1 per cent per annum)[2].

FET has been the best performed A-REIT in the S&PASX 300 Index over a 5 and 10 year period to 30 June 2017[2].

PROPERTY PORTFOLIO

Rent Reviews

During the year, the Trust completed 127[3] market rent reviews achieving an increase of 4.7 per cent over the prior year's rent, noting that the majority of these leases have a capped rental increase of 5.0 per cent over the previous years' rent. The cap has restricted potential rental increases with some properties considered to have revised rents significantly below their market equivalents.

Of the market rent reviews completed, 100 were for Australian based properties, which achieved an average increase of 4.9 per cent, with the remaining 27 being New Zealand based properties, which achieved an average increase of 4.3 per cent.

The like-for-like rental growth across the portfolio for the year was 3.1 per cent taking into account both market and CPI based reviews. That is an increase of 0.3 per cent on FY16 where the like-for-like rental growth was 2.8 per cent. There are 44 market rent reviews scheduled for FY18.

Lease Renewals

During the year, 112 of 113 five year options were exercised, increasing the lease term remaining on these properties from 5 to 10 years. This included 15 option renewals which were not due to be exercised until FY18. For the one lease option that was not exercised, our strategy is to find an alternate operator now rather than wait until the lease term expires in 2022. We are confident of achieving that outcome.

The Trust has entered into three 15 year leases with new tenants for existing FET properties. A 28 per cent increase in rent over that paid by the previous tenant was achieved.

These transactions, together with the completion of five new developments and the acquisition of two existing centres, has resulted in the weighted average lease expiry for the portfolio increasing from 8.2 years to 9.1 years over the year. There are a further 32 option renewals remaining for FY18.

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[1]. *Including five sites with Heads of Agreements signed with an estimated value of $25.5 million.*

[2] *UBS Australian REIT Month in Review – June 2017.*

[3] *26 market reviews were FY16 reviews subject to expert determination.*

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S REPORT CONT.

Property Valuations

During the year, a total of 362 properties in the portfolio were revalued. Of these, 117 properties were independently revalued as part of the Trust's three year independent rolling valuation cycle, with the remainder being Director's valuations. The Director's valuations were adopted utilising the parameters drawn from the current independent valuations, to ensure consistency across the portfolio.

The outcome is an overall increase in value of $81.7 million over the 30 June 2016 carrying values. This has been driven by yield compression, combined with income growth from annual and market rental reviews. Overall, yield compression achieved across the entire portfolio (including leasehold assets) for the year to 30 June 2017 was 60 basis points, decreasing the overall portfolio yield from 7.3 per cent to 6.7 per cent.

Of the 117 properties independently valued for FY17, the largest increase occurred in Victoria (up 30.4 per cent), followed by New South Wales (15.9 per cent), South Australia (15.5 per cent) and Queensland (9.7 per cent). As a result, FET's overall passing yield on the freehold independent valuations was 6.3 per cent, a 90 basis point improvement on a like for like basis from 30 June 2016.

During FY17, there was an increase in the quantum of childcare centres sold across Australia with approximately $277 million worth of transactions throughout the eastern seaboard states. These achieved an average initial yield of 5.6 per cent and an average sale price of $3.7 million. The average yield achieved on metropolitan transactions was 5.2 per cent and 6.4 per cent for regional transactions. The margin between metropolitan and regional yields widened from 80 to 120 basis points during FY17. This is a function of yields for metropolitan properties strengthening at a faster rate than regional properties.

Subsequent to 30 June 2017, a further 22 independent valuations have been instructed. Indicative valuations received to date, show an approximate increase of six per cent in value compared with the Directors' valuations adopted at 30 June 2017.

Development Program

Five developments were completed and commenced operations during the year, with a completion value of $35.5 million. These properties were delivered on time and on budget providing FET with a yield on cost of 7.0 per cent and a development margin, allowing for all costs of 11.3 per cent.

During the year, FET settled a further 14 development sites with an aggregate expected completion value of $73.8 million. Additionally, FET has contracted or has Heads of Agreements signed for a further 14 development sites with an expected completion value of $80.4 million. Settlement of these sites is expected during FY18.

Folkestone Limited has invested in management expertise and capacity over the past four years and this is evident in the quantum and quality of the development program. During FY17, satisfactory development approval was achieved on all sites where planning authorities made a decision. All of FET's development sites are pre-committed by quality operators, in accordance with an operator specific design and specification level.

The current development pipeline of 31 sites has a forecast total value of $179.0 million and is expected upon completion, to add approximately $11.8 million per annum of net rental income, an increase of 21.3 per cent on FET's existing FY17 lease income.

The average overall yield on cost for the development pipeline has increased to 7.4 per cent through disciplined adherence to our acquisition strategy and diligent management of developments. Quality locations, more efficient designs and building methodologies as well as an improved 'speed to market' make them leading opportunities for quality childcare operators. These transactions are expected to provide a positive arbitrage of up to 200 basis points or more over equivalent on-market transactions for completed centres.

FET continues to target new opportunities based on strategy, as opposed to opportunity alone. The strategy is based upon a strong understanding of the respective childcare markets, a focus on selecting high quality real estate, knowledge of operators and a sound appreciation of early learning demand and supply factors.

The developments are consistent with FET's strategy of enhancing the quality of the property portfolio, in locations that should provide a greater probability of rental and capital value growth, thereby increasing earnings as well as providing higher long term alternate use value.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S REPORT CONT.

Disposals

FET's capital and portfolio management strategy includes the selective sale of non-core properties, with proceeds redeployed to new property purchases and/or developments.

FET contracted the disposal of seven properties during the year, totalling $11.2 million of gross proceeds, at an average yield of 6.8 per cent and a 17.7 per cent premium to 30 June 2016 carrying values. Three of the properties settled during the year with the balance scheduled to settle by September 2017.

The disposals consisted of four regional Queensland assets, one regional Victorian asset, one vacant ACT asset and one South Australian regional asset.

Over the past four years, FET has sold 31 properties for gross proceeds of $43.4 million, generating a premium to book value of 26 per cent or a profit of $9.0 million. These funds have been recycled into FET's development program at an average yield of 7.4 per cent in substantially stronger metropolitan demographics which are consistent with FET's "best site, best operator and best lease" strategy.

At a positive yield arbitrage, the recycling program provides upside to investors in addition to substantially superior real estate with lower long term risk. Retaining ownership of these assets would result in a slightly higher distribution growth however, it positions the Trust is in a considerably stronger long term position. It is these new locations where demand, rental and capital growth, and underlying land values are expected to be significantly stronger.

Innovation

FET's development management capabilities have continued to produce higher quality centres, in stronger demographics, at better yields to investors. Innovations such as the completion of FET's first pre-fabricated centre in under seven months from land settlement, created a quality centre with a time saving of approximately five months relative to conventional construction methodologies.

Investors are invited to take a video tour of some of the newly completed centres developed by FET. Videos of new centres recently completed, include centres at South Morang (VIC), Brighton East (VIC), Camberwell (VIC), Cheltenham (VIC) and Gledswood Hills (NSW). Each centre's design varies to reflect their respective operating and demographic environment. The videos, including a time lapse video of the pre-fabricated site at South Morang are available on FET's website at http://educationtrust.folkestone.com.au/centre-tours-2/.

CAPITAL MANAGEMENT

Debt Funding

As at 30 June 2017, FET's debt facilities totalled $317 million, comprising bilateral facilities with Australia and New Zealand Banking Group Limited and Hongkong and Shanghai Banking Corporation Limited. The facilities are drawn to $245 million as at 30 June 2017. The facilities are split into separate tranches with maturities between June 2019 and June 2022 with a weighted debt maturity of 3.5 years.

In June 2017, the facilities were increased by $50 million to $317 million to provide further capacity to fund existing developments and future opportunities. The Trust has significant headroom under its debt covenants with gearing at 30 June 2017 of 27.7 per cent, which is below the Trust's targeted long term range of 30 to 40 per cent.

Hedging

As part of the Trust's interest rate management policy, FET has staggered hedging positions through to June 2022. The average hedged position is 55 per cent based on the existing debt of $245 million at an average rate of 2.95 per cent per annum (30 June 2016: 3.27 per cent per annum). For FY18, FET has hedged 70 per cent of its interest rate exposure at a hedged rate of 2.8 per cent per annum.

Cost of Debt

As at 30 June 2017, FET's cost of debt is 4.2 per cent per annum (30 June 2016: 4.5 per cent per annum), which is based on prevailing interest rates, existing swap arrangements and bank margins. The all-in-cost of debt is 4.5 per cent per annum (30 June 2016: 4.8 per cent per annum) which includes the amortisation of deferred borrowing costs.

EARLY LEARNING MARKET

The year in childcare saw increased business pressures on the sector driven by increased competitiveness, partly due to an increase in competition, but predominantly through the erosion of the $7,500 childcare rebate. As the cost of living and cost of childcare has risen, the effectiveness in the funding provided by the childcare rebate has diminished. The passing of the Commonwealth Government's "Jobs for Families" package, supported by all the political parties, will assist in alleviating this pressure however, not until July 2018.

The importance of early learning to children and families, as well as its relevance as a labour supply mechanism saw a further $3.5 billion extended to support the industry. The package brings work and means testing as part of a greater funding package to those who need it most. The long term significance of the package is that it brings further stability through a defined funding platform for the future.

The combination of population growth (Australia and New Zealand up 1.6% and 2.1% respectively in the 12 months to December 2016) and the increasing participation rate, has resulted in an increase in the construction of new childcare centres. This has added to an under supplied market and is in our view, consistent with the increase in demand over the medium term. There are however, a small number of centres built and operated on speculation as opposed to vigorous planning and due diligence.

In 2016, there was a net increase of 205 new centres across Australia (+3%). Folkestone's analysis indicates there are approximately 239 development approvals across Australia (at May 2017) for new centres which we expect could be completed over the next two years. Anecdotal evidence received through our operator base, is that many have reduced their expansion plans to more specific locations and numbers. With this cautious approach from operators (and their bankers), we expect that it will only be centres with a tenant pre-commitment that will complete. Accordingly, we expect a moderate number of new centres in the next two years, generally in line with demand requirements. Some will be in locations that are already adequately supplied and will put pressure on existing centres however, based on experience to date, the quality operators will work harder to maintain occupancy and parents will gravitate toward them.

Outlook

Industry data indicates that childcare fees have risen by an average of up to approximately 6% per annum (dependent upon location) since 2013. The rising cost of childcare together with, the deferral of the government's new funding package to July 2018 (originally proposed for July 2017), has seen the $7,500 per annum per child rebate limit reached earlier this year than in previous years. When instigated in 2007, the rebate was to be indexed annually to inflation. This has not occurred. In real terms, the rebate has effectively reduced to approximately $5,580[4] per annum. Alternatively, had the rebate been indexed at CPI as proposed, it would have grown to approximately $9,570 per annum today.

The rising cost of living, combined with low wage growth in recent years and the increasing cost of childcare may force some parents into a purely financial decision regarding their childcare activities. We expect to see some parents withdraw from services as a result however, the increased funding at the middle and lower end of the income spectrum may provide much needed relief, albeit not until July 2018. Alternatively, as the cost of living rises, we expect that more families may seek a second income. This could add to demand although it is recognised that this does not address the families who may be forced to forgo the educational benefits of childcare.

These factors have led to marginally softer occupancy levels in the latter part of the year for some, the impact varying between locations and operators. Those operators prepared to reinvest in staff, systems and premises appear to be having greater success, with many centres/operators lifting occupancy for the year. From 1 July 2017, the rebate will reset and the removal of the existing limit in July 2018 for families earning under $185,000 per annum is expected to provide a further impetus. In the meantime, we expect some pricing pressure linked to the increased cost of living and its impact on household disposable income.

[4] *Based on a conservative childcare fee growth of 3 per cent per annum over that period.*

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S REPORT CONT.

OUTLOOK AND DISTRIBUTION FORECAST

The FY18 forecast distribution is 15.1 cpu. This is a 6.3% increase on FY17 distributions. It is based on continued tenant performance. FET will continue to pay quarterly distributions.

FET continues to execute its strategy to be recognised as the leading provider of early learning accommodation and together with quality operating partners, focusing on providing a healthy and safe learning environment for future generations. Investors benefit from predictable and secure long term income with the opportunity for capital growth.

FET is committed to active management of its portfolio to capitalise on future growth prospects. Unitholders should note that any investment opportunity is assessed with respect to its consistency with the Trust’s characteristics and overall investment objectives.

Grant Hodgetts
Chairman

Nick Anagnostou
Chief Executive Officer

For the year ended 30 June 2017

The Directors of Folkestone Investment Management Limited ("the Responsible Entity"), the Responsible Entity of the Folkestone Education Trust and its controlled entities ("the Trust"), present their report together with the financial report of the Trust for the year ended 30 June 2017.

THE RESPONSIBLE ENTITY

The registered office and principal place of business of the Responsible Entity and the Trust is Level 14, 357 Collins Street, Melbourne Victoria 3000.

Structure of Trust/Responsible Entity

Directors of the Responsible Entity

The Directors of the Responsible Entity during the financial year and to the date of this report comprise:

- Mr Grant Bartley Hodgetts - Appointed 24 October 2012
- Mr Michael Francis Johnstone - Appointed 22 December 2004
- Mr Victor (Vic) David Cottren - Appointed 22 December 2004
- Mr Nicholas (Nick) James Anagnostou - Appointed 4 August 2008

Joint Company Secretaries Qualifications and Experience

Scott Nicholas Martin, BCom, CA - appointed 28 September 2012. Scott joined Folkestone Limited in December 2005. Scott is the Chief Financial Officer of Folkestone Limited. Scott has over 20 years' experience in finance, specialising in the property and construction industries having previously held positions at R. Corporation and Higgins Coatings. Scott is a Chartered Accountant who began his career at Deloitte providing specialist accounting and taxation advice to a variety of clients in a broad range of sectors.

Travis Scott Butcher, B.Acc, CA, Grad. Dip. AFI SIA - appointed 6 September 2016. Travis joined Folkestone Limited in September 2012 following Folkestone's acquisition of Austock's property business (Travis joined Austock in 2006). Travis is the Chief Financial Officer – Funds across Folkestone's property funds. Travis has over 15 years financial experience in Australia and overseas. Travis is a Chartered Accountant who began his career at PricewaterhouseCoopers specialising in transaction services and audit.

Remuneration of the Responsible Entity

During the financial year the Responsible Entity received fees totalling $6.023 million (2016: $6.103 million). Refer Note 13.

PRINCIPAL ACTIVITIES

The Trust is a specialist early learning property owner which at 30 June 2017 owned a total of 406 early learning properties (including 17 development sites) in locations around Australia and New Zealand. The Trust also owns a medical centre and a portfolio of property securities. The Trust derives its revenue from both lease income received from its investment properties and investment income (distributions) received from its property securities.

Tenants

The Trust has 28 tenants, 27 in Australia and 1 in New Zealand. Major tenants are the not-for-profit group Goodstart Early Learning Limited ("Goodstart") which leases 56 per cent of the Trust's properties, OAC Operations Pty Ltd ATF OAC Operations Trust (9 per cent), G8 Education Limited (7 per cent) and Best Start Educare Limited which leases the 51 New Zealand properties (8 per cent). The medical centre is tenanted by Primary Health Care Limited (ASX:PRY).

Lease Structure

The majority of the Trust's leases are structured as follows:

- triple net in structure, the tenant is responsible for rent and outgoings, structural repairs, general repairs and maintenance, rates and taxes (except Queensland land tax). In addition, the tenant is required to redecorate/refurbish the property once every 5 years as directed by the Trust;
- a typical lease term is 15 years from commencement plus two 5 year options;
- most leases include a 5 year notice period regarding option take-up by the tenants;
- rental growth is indexed annually to CPI with a market review at the beginning of year 11 of the lease; and
- the leases contain security clauses in the form of a bank guarantee to be provided by its tenants, typically 6 months' rent.

As at 30 June 2017 the Trust holds $31.0 million in bank guarantees.

DIRECTORS' REPORT CONT.

REVIEW AND RESULTS OF OPERATIONS

A summary of the key results for the financial year include:

- distributable income of $37.8 million, an increase of 9.6 per cent on the previous corresponding period ("pcp").
- statutory profit of $122.3 million compared to a profit of $106.8 million in the pcp.
- net tangible asset (NTA) per unit increased from $2.14 at 30 June 2016 to $2.51 at 30 June 2017 due primarily to the positive movements in property values.

Full year ended 30 June ($m's)	2017	2016
Revenue		
Lease income	56.0	52.4
Property outgoings recoverable	9.4	8.0
Distribution income	1.7	1.7
	67.1	**62.1**
Expenses		
Finance costs	10.4	10.0
Property expenses	12.5	11.8
Responsible entity's remuneration	4.7	4.0
Other expenses	1.7	1.8
	29.3	**27.6**
Distributable income*	**37.8**	**34.5**
Amortisation of lease incentive asset/ straight line rental adjustments (Lease income)	-	(0.1)
Net revaluation increment of investment properties	81.7	72.8
Change in fair value of derivative financial instruments	2.9	(2.4)
(Loss)/gain on sale of investment properties	(0.1)	2.0
Net profit attributable to Unitholders	**122.3**	**106.8**

** Distributable income is not a statutory measure of profit.*

Key points to note are:

- Lease income has increased by $3.6 million or 6.9 per cent predominantly due to additional income derived from new acquisitions, completed development sites and development site rental net of income foregone on disposed properties (increase of $2.4 million) and increases on existing properties ($1.5 million) in accordance with the leases with average rental growth during the year of 3.1 per cent.
- Property outgoings recoverable revenue has increased primarily due to the one-off recovery of land tax in Queensland in the year of $0.6 million.
- Finance costs have increased by $0.4 million due to higher level of borrowings with the average debt during the year of $225 million compared to $192 million in the prior year offset by the decrease in the average interest rate to 4.3 per cent compared to 4.7 per cent in the prior year.
- Revaluation increments of $81.7 million were achieved during the year which comprised of a $23.6 million increment (14.6 per cent increase) due to 95 external revaluations in Australia and a $3.4 million increment (12.7 per cent increase) due to 22 external revaluations in New Zealand. In addition, Directors valuations were adopted for a further 244 properties resulting in an additional $46.5 million increment (10.3 per cent increase). A further 2 Directors valuations were completed for properties which were sold during the second half of the financial year ($0.2 million increment). The Directors' valuations were undertaken due to movements in valuations across the early learning property sector, evidenced by strong sales evidence and positive external valuation movements and to reflect the time tag in undertaking the external valuations. Further revaluation increments of $6.4 million were achieved on acquisition and development sites that became operational during the year. In addition, a Directors valuation was adopted in relation to the medical centre resulting in an increment of $1.6 million or 13.9 per cent reflecting the strong market for these assets.

DISTRIBUTIONS

The distribution for the year ended 30 June 2017 was 14.2 cents per Unit (2016: 13.4 cents per Unit).

Distributions declared by the Trust since the end of 30 June 2017 were:

Period	Paid/ Payable	Cents per Unit	Amount $'000
Quarter ended 30 September 2016	20 October 2016	3.55	8,829
Quarter ended 31 December 2016	20 January 2017	3.55	8,851
Quarter ended 31 March 2017	20 April 2017	3.55	8,875
Quarter ended 30 June 2017	20 July 2017	3.55	8,895
Total		**14.2**	**35,450**

STATE OF AFFAIRS

Capital Management and Financial Position

As at 30 June 2017 the total assets of the Trust were $903.3 million, gross borrowings were $249.9 million and net assets were $629.7 million. The net tangible asset per unit is $2.51 (30 June 2016: $2.14). The Trust has gearing (Borrowings and Cash Overdraft / Total Assets) of 27.7 per cent (30 June 2016: 26.6 per cent). The basis for valuation of the Trust's assets is disclosed in Note 1 to the financial statements.

Effective from 29 June 2017, the Trust increased the facility limits of its bilateral banking facilities by $50 million to $317 million. The increase in facilities was provided equally by the Trust's current lenders, Australia and New Zealand Banking Group Limited ("ANZ") and Hongkong and Shanghai Banking Corporation Limited ("HSBC"). As part of the increase in the facility limit, the Trust also increased the maturity of debt facilities totalling $133.5 million by one year. Key covenants regarding LVR and ICR remain unchanged at Maximum Loan to Value Ratio 50% and Interest Cover Ratio being greater than 2.0 times.

As at 30 June 2017 the Trust has the following debt facilities:

Facility Maturity	Facility Limit ($m's)	Drawn Amount ($m's)
June 2019	76.75	70.25
June 2020	101.75	70.25
June 2021	56.75	52.25
June 2022	81.75	52.25
TOTAL	**317.0**	**245.0**

As at 30 June 2017, the Trust complied with all of its debt covenant ratios and obligations.

The Trust also has an overdraft facility with ANZ of $10 million ($4.9 million drawn at 30 June 2017).

Hedging Arrangements

In accordance with the Trusts policy to hedge a proportion of its debt, additional hedging positions were taken out to extend the hedging profile through to June 2022 and to supplement the Trust's existing positions between FY18 and FY21. The following interest rate swaps are in place:

Period	Hedged Amount ($m's)	Hedged Rate %	% Hedged of Drawn Debt
FY18: July 2017 - June 2018	172.0	2.80	70
FY19: July 2018 - June 2019	157.0	3.00	64
FY20: July 2019 - June 2020	130.0	3.00	53
FY21: July 2020 - June 2021	110.0	3.00	45
FY22: July 2021 - June 2022	100.0	3.00	41

DIRECTORS' REPORT CONT.

ENVIRONMENTAL REGULATION

The Trust is not subject to any significant environmental regulations under Commonwealth, State or Territory legislation other than those relevant to the specific assets held by the Trust. However, the Directors believe that the Trust has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Trust.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

The Trust entered into an underwriting agreement with Moelis Australia Advisory Pty Ltd (“Moelis”) to fully underwrite the DRP take up for the distribution for the quarter ending 30 June 2017 to 100 per cent. This resulted in an additional 2.8 million units being issued on 20 July 2017 at an issue price of $2.60 resulting in total cash proceeds of $7.3 million which will be utilised to fund existing developments.

There are no other events that have occurred which the Directors believe significantly affect the operations of the Trust, the results of those operations, or the state of affairs of the Trust.

INTEREST OF THE RESPONSIBLE ENTITY

Interests of both the Responsible Entity and its Directors in the Trust are disclosed in Notes 13 and 14 to the financial statements.

UNITS ON ISSUE

The number of interests in the Trust as the end of the financial year consist of 250,561,196 fully paid ordinary units (2016: 248,148,711).

During the year, the Trust operated a Distribution Reinvestment Plan ("DRP") with 2,412,485 units issued at an average issue price of $2.63 during the year.

No options have been granted over any unissued units in the Trust.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Trust will continue with its strategy to provide predictable and secure long-term cash-flows with the opportunity for capital growth. The Trust’s stable financial position with minimal vacancy, long term leases and secured debt financing with an average debt maturity of 3.5 years, positions the Trust to maintain sustainable income for investors. The Responsible Entity is focused on pro-actively managing its portfolio to ensure it is strategically positioned for sustainable growth.

There are a number of risk factors that could have a materially adverse impact upon the future operating and financial performance of the Trust, the ability of the Trust to effectively implement its business strategy and the value of the Trusts units. These risks are both specific to the Trust and also relate to the general business and economic climate in Australia and New Zealand.

The Responsible Entity has a Risk Management Program that identifies the Trust’s risk and the effectiveness of mitigation strategies. This is continually reviewed by Management and reported to the Board on a regular basis.

The material business risks faced by the Trust in its future operating and financial performance and how the Trust manages these risks are as follows:

- Tenant Risk: The Trust relies on tenants to generate the majority of its revenue under the lease agreements entered into with respect of its properties. If a tenant is unable to meet its rental or contractual obligations, this may lead to a loss of rental income or losses to the value of the Trust’s properties. The Trust’s leases typically contain security clauses in the form of bank guarantees provided by tenants, typically 6 months rent. As at 30 June 2017, the Trust holds approximately $31.0 million in bank guarantees.
- Concentration Risk: The Trust’s properties are predominately early learning properties and therefore any adverse events in the early learning sector may impact on the tenants’ ability to meet their lease obligations and also the future growth prospects of the portfolio. As at 30 June 2017, Goodstart Early Learning Limited (“Goodstart”) contributes 56% of the Trust’s rental income. Non-performance of Goodstart’s rental or leasing obligations would significantly impact on the Trust’s financial performance. The Trust’s leases with Goodstart contain financial reporting obligations that allow regular monitoring of the financial performance of Goodstart.
- Interest Rate Risk: The Trust’s main interest rate risk arises from long-term borrowings which are issued at variable rates. The Responsible Entity continually analyses the Trust’s interest rate exposure and has adopted a hedging position that effectively manages this risk.

Other Trust specific-risks such as changes to licensing of early learning properties and government policies which could have a substantial impact on the Trust are continually monitored.

INFORMATION ON DIRECTORS OF THE RESPONSIBLE ENTITY

The Directors of the Responsible Entity at the time of this report are:

Name and qualification	Experience
Mr Grant Bartley Hodgetts Independent Director and Chairman Bachelor of Arts (Legal Studies and Economics) Associate Diploma in Valuations Advanced Certificate in Business Studies (Real Estate) Associate of the Australian Property Institute Licenced Estate Agent (Vic) Member of the Australian Institute of Company Directors	Grant was appointed on 24 October 2012. Grant has been involved in real estate and funds management since 1979. He is currently Non-Executive Chairman of Folkestone Funds Management Limited, Executive Director of Knight Capital Group Limited and Director of all of its subsidiaries, Director of Bethley Group Pty Ltd, Director of Cedar Woods Wellard Pty Ltd and Principal of Hodgetts and Partners. Between early 2006 and 2010 he held various positions within the Investment and Funds Management Division of Mirvac Limited including that of CEO – Australia for Mirvac Investment Management. Prior to joining Mirvac, he was Head of Property in the Specialised Capital Group of Westpac Institutional Bank; a Division Director of Property Investment Banking at Macquarie Bank; a Director of Richard Ellis (Vic) Pty Ltd; and an executive of the AMP Society's Property Division. Holding a Bachelor of Arts (Legal Studies and Economics) from La Trobe University, an Associate Diploma in Valuations from RMIT and an Advanced Certificate in Business Studies (Real Estate), also from RMIT, he is an Associate of the Australian Property Institute, a licensed real estate agent in Victoria and a member of the Australian Institute of Company Directors. He was a founding Director of the Property Industry Foundation in Victoria.
Mr Michael Francis Johnstone Independent Director Bachelor of Town & Regional Planning Licensed Land Surveyor Advanced Management Program (Harvard)	Michael was appointed on 22 December 2004. Michael has almost 40 years of global business experience in Chief Executive and General Management roles and more recently in non executive Directorships. He has lived and worked in overseas locations including the USA, has been involved in a range of industries and has specialized in corporate and property finance and investment, property development and funds management. His career has included lengthy periods in corporate roles including 10 years as one of the Global General Managers of the National Australia Bank Group. Michael is currently a Non Executive Director of a number of companies in both listed and private environments, including board appointments in the not for profit sector.
Mr Victor (Vic) David Cottren Independent Director and past Chairman Bachelor of Commerce (Melbourne) Fellow of Australian Insurance Institute Fellow of the Australian Society of Certified Practising Accountants Fellow of the Australian Institute of Company Directors	Vic was appointed on 22 December 2004. Vic has over 50 years industry experience, with an extensive background in share broking, financial planning, life insurance, superannuation and investment management gained with AMP, Australian Eagle Insurance Company, Norwich Union, The Investors Life Group and National Australia Bank. He held various senior posts including Chief Executive and Director within these companies and their subsidiaries. Since 1995, Vic has worked as a consultant to financial service companies in relation to investment, superannuation and financial planning. Vic was also appointed as a Professorial Fellow at RMIT University in 1993 with responsibility for researching and establishing Australia's first undergraduate degree in financial planning.
Mr Nicholas (Nick) James Anagnostou Executive Director - Chief Executive Officer Bachelor of Business in Property Associate of the Australian Property Institute Affiliate FINSIA Certified Fund Manager Qualified Valuer Licensed Estate Agent (Vic)	Nick joined Folkestone in September 2012 following Folkestone's acquisition of Austock's property business (Nick joined Austock in 2006). Nick is CEO of Folkestone's Social Infrastructure Funds business across two funds comprising approximately $1.0 billion of assets. Nick has 25 years of experience in the Australian commercial property and Funds Management industries. Nick holds a Bachelor of Business in Property and is an Associate of the Australian Property Institute and Affiliate of FINSIA. He is also a Non-Executive Director of the Vision Australia Trust. He is a Certified Funds Manager, qualified property valuer and a Licensed Estate Agent and was previously a Director of an international real estate agency where he focussed on Premium and A-grade office markets.

The Trust's Constitution does not require Directors to retire and seek re-election.

DIRECTORS' REPORT CONT.

DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of Directors) and the number of meetings attended by each of the Directors of the Responsible Entity during the year were:

	Board Meetings	
	A	**B**
Mr Grant Bartley Hodgetts	10	9
Mr Michael Francis Johnstone	10	10
Mr Victor David Cottren	10	10
Mr Nicholas James Anagnostou	10	10

A – Number of meetings held during the time the Director held office during the year.
B – Number of meetings attended.

AUDIT AND COMPLIANCE COMMITTEE MEETINGS

The members of the Audit and Compliance Committee during the financial year and to the date of this report were:

- Mr Michael Francis Johnstone (Chairman)
- Mr Grant Bartley Hodgetts (Member)
- Mr Victor David Cottren (Member)

Details of meetings held during the year and member's attendance are as follows:

	Audit and Compliance Committee Meetings	
	A	**B**
Mr Michael Francis Johnstone	4	4
Mr Grant Bartley Hodgetts	4	4
Mr Victor David Cottren	4	4

A - Number of meetings held during the year the member was eligible to attend.
B - Number of meetings attended.

The experience of the Audit and Compliance Committee is set out as follows:

Name and qualification	Experience
Mr Michael Francis Johnstone	See Information on Directors.
Mr Grant Bartley Hodgetts	See Information on Directors.
Mr Victor David Cottren	See Information on Directors.

REMUNERATION REPORT

Remuneration of Directors of the Responsible Entity

The Responsible Entity does not have a Remuneration Committee as the Trust's Constitution prescribes the Trust's remuneration arrangement with the Responsible Entity. In relation to remuneration of the Directors of the Responsible Entity this is a matter for the Board and the ultimate parent entity of the Responsibility Entity.

It is the objective that the Board comprises Directors with an appropriate mix of skills, experience and personal attributes that allow the Directors individually and the Board collectively to supervise the operations of the Trust with excellence. All fees and expenses of the Responsible Entity are approved by the Board and remuneration of the Responsible Entity is dealt with comprehensively in the Trust's Constitution.

Remuneration of the Directors is paid either directly by the Responsible Entity or by entities associated with the ultimate parent entity of the Responsible Entity. The Directors are not provided with any remuneration by the Trust itself. Directors are not entitled to any equity interests in the Trust, or any rights to or options for equity interests in the Trust, as a result of the remuneration provided by the Responsible Entity.

The Responsible Entity determines remuneration levels and ensures they are competitively set to attract and retain appropriately qualified and experienced Directors and senior executives.

Loans to Directors of the Responsible Entity

The Trust has not made, guaranteed or secured, directly or indirectly, any loans to the Directors of their personally-related entities at any time during the reporting period.

DETAILS OF THE UNITHOLDINGS IN THE TRUST

The interests of the Directors of the Responsible Entity in units of the Trust during the year are set out as follows:

	GB Hodgetts	MF Johnstone	VD Cottren	NJ Anagnostou
Opening balance of units held	9,378	71,092	309,100	30,625
Acquisitions of units	15,915	-	-	-
Disposals of units	-	-	-	-
Closing balance of units held	**25,293**	**71,092**	**309,100**	**30,625**

INDEMNITIES AND INSURANCE PREMIUMS FOR OFFICERS AND AUDITORS

Indemnification

Under the Trust Constitution, the Responsible Entity, including its officers and employees, is indemnified out of the Trust's assets for any loss, damage, expense or other liability incurred by it in properly performing or exercising any of its powers, duties or rights in relation the Trust.

The Trust has not indemnified any auditor of the Trust.

Insurance Premiums

The Responsible Entity has paid insurance premiums in respect of its officers for liability and legal expenses insurance contracts for the year ended 30 June 2017.

Such insurance contracts insure against certain liability (subject to specified exclusions) for persons who are or have been officers of the Responsible Entity.

Details of the nature of the liabilities covered or the amount of the premium paid has not been included as such disclosure is prohibited under the terms of the contracts.

DIRECTORS' REPORT CONT.

PROCEEDINGS ON BEHALF OF RESPONSIBLE ENTITY

No person has applied for leave of Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Responsible Entity, or intervene in any proceedings to which the Responsible Entity is a party, for the purpose of taking responsibility on behalf of the Responsible Entity for all or any part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Responsible Entity with leave of the Court under section 237 of the *Corporations Act 2001*.

NON-AUDIT SERVICES

Details of the amounts paid and payable to the auditor (PricewaterhouseCoopers Australia) for audit and non-audit services provided during the year are contained in Note 19 to the financial statements.

ROUNDING

The Trust is an entity of a kind referred to in Legislative instrument 2016/91 issued by the Australian Securities and Investments Commission relating to the 'rounding off' of amounts in the Directors' Report. Amounts in the Directors Report have been rounded to the nearest thousand dollars in accordance with that Legislative instrument, unless otherwise indicated.

AUDITORS' INDEPENDENCE DECLARATION

A copy of the Auditors independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 17.

Signed in accordance with a resolution of the Board of Directors of the Responsible Entity:

Grant Bartley Hodgetts
Chairman
Folkestone Investment Management Limited
Melbourne, 9 August 2017

CORPORATE GOVERANCE STATEMENT

The Folkestone Education Trust ("the Trust") is a managed investment scheme that is registered under the *Corporations Act 2001*. Folkestone Investment Management Limited ("the Responsible Entity") was appointed the Responsible Entity of the Trust on 17 December 2004.

The Responsible Entity is committed to achieving and demonstrating the highest standards of corporate governance. The Responsible Entity has reviewed its corporate governance practices against the Corporate Governance principles and Recommendations (3rd edition) published by the ASX Corporate Governance Council.

The 2017 corporate governance statement is dated as at 9 August 2017 and reflects the corporate governance practices in place throughout the 2017 financial year. The 2017 corporate governance statement was approved by the board on 9 August 2017. A description of the Responsible Entity's current corporate governance practices is set out in the group's corporate governance statement which can be viewed at http://educationtrust.folkestone.com.au/about-us/corporate-governance/.

AUDITOR'S INDEPENDENCE DECLARATION

Auditor's Independence Declaration

As lead auditor for the audit of Folkestone Education Trust for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Folkestone Education Trust and its controlled entities during the period.

Andrew Cronin
Partner
PricewaterhouseCoopers

Melbourne
9 August 2017

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOLKESTONE EDUCATION TRUST AND ITS CONTROLLED ENTITIES

For the year ended 30 June 2017

Consolidated Group	Notes	2017 $'000	2016 $'000
Revenue			
Lease income		55,976	52,255
Property outgoings recoveries		9,378	8,062
Distribution income		1,711	1,659
Interest income		8	13
Net property revaluation increment		81,707	72,810
Gain on sale of investment properties		-	1,960
Change in fair value of derivative financial instruments		2,932	-
Realised and unrealised foreign exchange gains		14	59
Total revenue		**151,726**	**136,818**
Expenses			
Finance costs		10,447	10,039
Property outgoings		10,518	9,791
Property valuation fees		474	478
Responsible Entity's fees		4,725	4,022
Rent on leasehold properties		1,489	1,483
Other expenses		1,688	1,827
Change in fair value of derivative financial instruments		-	2,407
Loss on sale of investment properties		75	-
Total expenses		**29,416**	**30,047**
Net profit attributable to unitholders		**122,310**	**106,771**
Other comprehensive income			
Gain on revaluation of available-for-sale financial assets		4,706	6,784
Other comprehensive income		**4,706**	**6,784**
Total comprehensive income attributable to unitholders		**127,016**	**113,555**
Earnings per unit		Cents	Cents
Basic earnings per unit	3	49.02	43.25
Diluted earnings per unit	3	49.02	43.25

The above consolidated statement of comprehensive income should be read in conjunction with the notes to the financial statements.

CONSOLIDATED BALANCE SHEET

FOLKESTONE EDUCATION TRUST AND ITS CONTROLLED ENTITIES

As at 30 June 2017

Consolidated Group	Notes	2017 $'000	2016 $'000
ASSETS			
Current assets			
Cash and cash equivalents	11(a)	2,431	790
Trade and other receivables	4	1,246	538
Other current assets	5	2,400	1,405
Investment properties expected to be sold within 12 months		8,728	-
Total current assets		**14,805**	**2,733**
Non-current assets			
Investment properties	6	849,153	716,132
Investment properties straight line rental asset	6	3,358	3,412
Available-for-sale financial assets	7	35,989	31,283
Total non-current assets		**888,500**	**750,827**
Total assets		**903,305**	**753,560**
LIABILITIES			
Current liabilities			
Trade and other payables	8	12,124	6,899
Distribution payable		9,049	8,425
Derivative financial instruments		1,432	1,901
Rent received in advance		425	504
Total current liabilities		**23,030**	**17,729**
Non-current liabilities			
Borrowings	9	247,290	198,254
Derivative financial instruments		3,315	5,777
Total non-current liabilities		**250,605**	**204,031**
Total liabilities		**273,635**	**221,760**
Net assets		**629,670**	**531,800**
EQUITY			
Contributed equity	10	330,392	324,088
Available-for-sale financial assets reserve		10,443	5,737
Undistributed profit		288,835	201,975
Total equity		**629,670**	**531,800**

The above consolidated balance sheet should be read in conjunction with the notes to the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOLKESTONE EDUCATION TRUST AND ITS CONTROLLED ENTITIES

For the year ended 30 June 2017

Consolidated Group	Notes	Contributed Equity $'000	Available-for-sale financial assets reserve $'000	Undistributed Profit $'000	Total $'000
Balance at 1 July 2015		317,768	(1,047)	128,304	445,025
Units issued	10	6,347	-	-	6,347
Unit issue transaction costs	10	(27)	-	-	(27)
Profit attributable to unitholders		-	-	106,771	106,771
Other comprehensive income		-	6,784	-	6,784
Distribution paid or provided for		-	-	(33,100)	(33,100)
Balance at 30 June 2016		**324,088**	**5,737**	**201,975**	**531,800**
Balance at 1 July 2016		324,088	5,737	201,975	531,800
Units issued	10	6,338	-	-	6,338
Unit issue transaction costs	10	(34)	-	-	(34)
Profit attributable to unitholders		-	-	122,310	122,310
Other comprehensive income		-	4,706	-	4,706
Distribution paid or provided for		-	-	(35,450)	(35,450)
Balance at 30 June 2017		**330,392**	**10,443**	**288,835**	**629,670**

The above consolidated statement of changes in equity should be read in conjunction with the notes to the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOLKESTONE EDUCATION TRUST AND ITS CONTROLLED ENTITIES

For the year ended 30 June 2017

Consolidated Group	Notes	2017 $'000	2016 $'000
Cash flows from operating activities			
Property income received (inclusive of GST)		71,375	66,133
Cash payments in the course of operations (inclusive of GST)		(23,013)	(21,341)
Distributions received		1,453	1,525
Interest received		8	13
Finance costs paid		(10,169)	(11,421)
Net cash inflow from operating activities	11(b)	**39,654**	**34,909**
Cash flows from investing activities			
Proceeds from sale of investment properties		4,060	15,495
Payments for acquisition of investment properties (including construction costs)		(62,955)	(31,423)
Net cash outflow from investing activities		**(58,895)**	**(15,928)**
Cash flows from financing activities			
Proceeds from borrowings		49,405	200,260
Repayment of borrowings		-	(193,000)
Distributions paid		(28,523)	(26,418)
Net cash inflow/(outflow) from financing activities		**20,882**	**(19,158)**
Net increase/(decrease) in cash held		**1,641**	**(177)**
Cash at the beginning of the financial year		**790**	**967**
Cash at the end of the financial year	11(a)	**2,431**	**790**

The above consolidated statement of cash flows should be read in conjunction with the notes to the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out as follows. These policies have been consistently applied to all years presented, unless otherwise stated. The financial statements are for the Consolidated Group ("the Trust") consisting of Folkestone Education Trust ("the Parent") and its subsidiaries. The financial statements are presented in the Australian currency.

The financial statements were authorised for issue by the Directors on 9 August 2017. The Directors have the power to amend and reissue the financial statements.

a) Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board, the *Corporations Act 2001* and the requirements of the Trust Constitution dated 8 July 2002 (as amended).

The financial statements are presented on a historical basis unless otherwise stated.

Compliance with International Financial Reporting Standards

The financial statements of the Trust also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

New and Amended Standards Adopted by the Trust

The Trust has applied the following standards and amendments for the first time for the annual reporting period commencing 1 July 2016:

- AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations
- AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable methods of Depreciation and Amortisation
- AASB 2015-1 *Amendments to Australian Accounting Standards – Annual improvements to Australian Accounting Standards 2012-2014 cycle, and*
- AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101.*

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

New standards and interpretatives not yet adopted by the Trust

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods and have not been early adopted by the Trust. The new standards and interpretations are set out as follows:

- AASB 9 *Financial Instruments*

  AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. AASB 9 must be applied for financial years commencing on or after 1 January 2018.

  The Trust holds equity instruments which are currently classified as available-for-sale financial assets and currently measured at fair value through other comprehensive income, as such The Trust does not expect significant impact of these new rules on the Trust's financial statements. The Trust does not intent to adopt AASB 9 before its mandatory date.

- AASB 15 *Revenue from Contracts with Customers*

  The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers revenue arising from the sale of goods and the rendering of services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

  AASB 15 is mandatory for financial years commencing on or after 1 January 2018. The Trust does not expect significant impact of these new rules on the Trust's financial statements. The Trust does not intent to adopt AASB 15 before its mandatory date.

NOTES TO THE FINANCIAL STATEMENTS CONT.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.

- AASB 16 *Leases*

  AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance lease is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

  AASB 16 is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Trust does not intend to adopt the standard before its effective date. The Trust does not expect significant impact of these new rules on the Trust's financial statements as the accounting for lessors will not significantly change.

There are no other standards that are not yet effective and would be expected to have a material impact on the Trust in the current or future reporting periods and on foreseeable future transactions.

Critical Accounting Estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 1(w).

b) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Folkestone Education Trust as at 30 June 2017 and the results of all subsidiaries for the year then ended. The Folkestone Education Trust and its subsidiaries together are referred to in this financial report as the Trust.

Subsidiaries are all entities (including special purpose entities) over which the Trust has control. The Trust controls an entity when the Trust is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Trust.

Details of the subsidiaries are contained in Note 13 to the financial statements. The subsidiaries have a June financial year-end.

c) Investments in Controlled Entities

The Trust's direct investment in its subsidiaries are carried at cost. Balances and transactions between the Trust and the subsidiaries have been eliminated in preparing the consolidated financial statements.

d) Comparative Information

Where applicable, certain comparative figures are restated in order to comply with the current period's presentation of the financial statements.

e) Revenue and Expenditure Recognition

Revenue is measured at the fair value of consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Trust recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities as described below. The group bases its estimates on historical results, taking of transaction and the specifics of each arrangement.

Expenses including rates, taxes and other outgoings are brought to account on an accruals basis and any related payables are carried at cost.

All income and expenditure are stated net of the amount of goods and services tax ("GST").

Revenue is recognised for the major business activities as follows:

Lease Income

Rental income due but not received at balance date is reflected in the Consolidated Balance Sheet as a receivable.

Rental income from operating leases is recognised as income on a straight-line basis over the lease term, where a lease has fixed annual increases. This results in more income being recognised early in the lease term compared to the lease conditions. The difference between the lease income recognised and actual lease payments received is included in non-current assets.

For leases where the revenue is determined with reference to market reviews, inflationary measures or other variables, revenue is not straight-lined and is recognised in accordance with the lease terms applicable for the period.

Lease Incentives

Lease incentives provided by the Trust to lessees are excluded from the measurement of fair value of investment property and are recognised as an asset.

The amounts are recognised over the lease periods as a reduction in rental income.

Distribution Income

Distribution income is recognised when the right to receive the income has been established.

Interest Income

Interest income is recognised in the income statement on a time proportion basis using the effective interest rate method when earned and if not received at balance date, is reflected in the Consolidated Balance Sheet as a receivable.

Responsible Entity's Remuneration

Under the Trust Constitution, the Responsible Entity is entitled to a management fee amounting to 0.5 per cent per annum of the Total Tangible Assets of the Trust.

f) Investment Properties

Investment properties comprise investment interests in land and buildings (including integral plant and equipment) held for the purpose of letting to produce rental income and which are not occupied by the consolidated group. Property interests held under operating leases are deemed investment property.

Land and buildings comprising the investment properties are considered composite assets and are disclosed as such in the accompanying notes to the financial statements.

Investment properties acquired are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

The costs of assets constructed/redeveloped internally include the costs of materials and direct labour. Directly attributable overheads and other incidental costs, including interest costs incurred during construction are also capitalised to the asset.

Valuations

After initial recognition, investment properties are measured at fair value and revalued with sufficient regularity to ensure the carrying amount of each property does not differ materially from its fair value at the reporting date. The Trust's Constitution requires the Responsible Entity to have the Trust's property investments independently valued at intervals of not more than three years. These valuations are considered by the Directors of the Responsible Entity when determining fair value. When assessing fair value, the Directors will also consider the discounted cash flow of the property, the highest and best use of the property and sales of similar properties.

Fair value is based on the price, at which a property might reasonably be expected to be sold at the date of valuation, assuming:

- a willing, but not anxious, buyer and seller on an arm's length basis;
- a reasonable period in which to negotiate the sale, having regard to the nature and situation of the property and the state of the market for property of the same kind;
- that no account is taken of the value or other advantage or benefit, additional to market value, to the buyer incidental to ownership of the property being valued; and
- it only takes into account instructions given by the Responsible Entity and is based on all the information that the valuer needs for the purposes of the valuation being made available by or on behalf of the Responsible Entity.

All investment properties are considered one class of asset. Under AASB 140: *Investment Property*, adjustments to fair value are to be recognised directly in the Consolidated Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS CONT.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT

g) Income Tax

Under current income tax legislation, the Trust is not liable for Australian income tax, provided Unitholders are presently entitled to all of the Trust's taxable income at 30 June each year and any capital gain derived from the sale of assets is fully distributed to Unitholders. Tax allowances for building, plant and equipment depreciation are distributed to Unitholders in the form of tax deferred components of distributions. The Trust is taxed on a flow through basis.

FET NZ Sub-Trust is subject to New Zealand tax on its earnings. A tax expense of $530,000 is included in Other expenses in the Consolidated Statement of Comprehensive Income.

h) Borrowing Costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings and amortisation of ancillary costs incurred in connection with arrangement of borrowings. Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than twelve months to get ready for their intended use or sale.

Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of borrowing costs capitalised are those incurred in relation to that borrowing, net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

i) Provisions

Provisions for legal claims and make good obligations are recognised when the Trust has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

j) Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash on hand,

deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

k) Financial Assets and Liabilities

Classification

The Trust classifies its financial assets in the following categories: loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

The Trust's investments are classified both as financial assets at fair value through comprehensive income and available-for-sale financial assets. They comprise:

- Financial instruments designated at fair value through either comprehensive income upon initial recognition.

These include financial assets and financial liabilities that are not held for trading purposes and commercial paper.

- Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium or long term.

Recognition and Derecognition

Regular purchases and sales of financial assets are recognised on trade date, the date on which the Trust commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value plus transaction costs for all financial assets not carried at fair value through comprehensive income. Financial assets carried at fair value through comprehensive income are initially recognised at fair value and transaction costs are expensed in comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Trust has transferred substantially all the risks and rewards of ownership.

Available-for-sale Financial Assets

Available-for-sale financial assets are initially recognised at fair value plus transaction costs and are subsequently measured at fair value. When securities increase at fair value, the increments are recognised directly in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the Consolidated Statement of Comprehensive Income as gains and losses. Distribution income from financial assets at fair value through profit and loss is recognised in the Consolidated Statement of Comprehensive Income as part of revenue when the Trust's right to receive payments is established.

Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

l) Trade and Other Receivables

Trade receivables are recognised at fair value, less provision for impairment. Trade receivables are due as specified within the individual property's lease or in accordance with distribution or dividend payment dates.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Trust will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the Consolidated Statement of Comprehensive Income as a reduction in lease income. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against lease income in the Consolidated Statement of Comprehensive Income.

m) Trade and Other Payables

These amounts represent liabilities for goods or services provided to the Trust prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

The distribution amount payable to Unitholders as at the end of each reporting period is recognised separately in the balance sheet when Unitholders are presently entitled to the distributable income under the Trust Constitution.

NOTES TO THE FINANCIAL STATEMENTS CONT.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT

n) Borrowings

Interest-bearing borrowings are initially recognised at fair value, net of transaction costs incurred. Subsequent to initial recognition, interest-bearing debt is stated at amortised cost. Any difference between proceeds (net of transaction costs) and the redemption amount is recognised in the Consolidated Statement of Comprehensive Income over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the Consolidated Balance Sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in Consolidated Statement of Comprehensive Income as finance costs. Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

o) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The Trust's derivatives do not qualify for hedge accounting and therefore changes in the fair value of any derivative instrument are recognised immediately in the Consolidated Statement of Comprehensive Income.

p) Distributions

A provision is made for the amount of any distribution declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting date.

q) Impairment of Assets

At each reporting date, the Trust reviews the carrying values of its tangible 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 assets' fair value less costs to sell and value in use, is compared to the assets' carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the Consolidated Statement of Comprehensive Income.

Where it is not possible to estimate the recoverable amount of an individual asset, the Trust estimates the recoverable amount of the cash-generating unit to which the asset belongs.

r) Contributed Equity

Ordinary units are classified as equity. Incremental costs directly attributable to the issue of new units are shown in equity as a deduction, net of tax, from the proceeds.

s) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables to the Consolidated Balance Sheet.

Cash flows are included in the Consolidated Cash Flow Statement on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

t) Earnings Per Unit ("EPU")

Basic Earnings Per Unit

Basic earnings per unit are calculated by dividing:

- the profit attributable to the Unitholders, excluding any costs of servicing equity other than ordinary units.
- by the weighted average number of ordinary units outstanding during the financial year.

Diluted Earnings Per Unit

Diluted earnings per unit adjust the figures used in the determination of basic earnings per unit to take into account:

- the interest and other financing costs associated with dilutive potential ordinary units, and
- the weighted average number of additional ordinary units that would have been outstanding assuming the conversion of all dilutive potential ordinary units.

u) Foreign Currency Translation

Functional and Presentation Currency

Items included in the Trust's financial statements are measured using the currency of the primary economic environment in which it operates (the 'functional currency'). This is the Australian dollar, which reflects the currency of the economy in which the Trust competes for funds and is regulated. The Australian dollar is also the Trust's presentation currency.

Transactions and Balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Statement of Comprehensive Income. Foreign exchange gains and losses are presented in the Consolidated Statement of Comprehensive Income on a net basis.Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

v) Rounding of Amounts

The Trust is of a kind referred to in Legislation instrument 2016/91, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

w) Critical Accounting Estimates and Judgements

The Directors evaluate estimates and judgements incorporated into the financial report based upon historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based upon current trends and economic data, obtained both externally and within the Trust.

Key Estimates — Valuation of Investment Properties

The valuation methodologies used were capitalisation, discounted cashflows and direct comparison approaches, and were consistent with the requirements of relevant Accounting Standards.

x) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is responsible for allocating resources and assessing performance of the operating segments.

y) Parent Entity Financial Information

The financial information for the parent entity, Folkestone Education Trust, disclosed in Note 20 has been prepared on the same basis as the consolidated financial statements, except as set out as follows.

Investments in Subsidiaries, Associates and Joint Venture Entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Folkestone Education Trust. Distributions received from associates are recognised in the parent entity's Statement of Comprehensive Income, rather than being deducted from the carrying amount of these investments.

z) Going Concern

The Directors have prepared the financial statements on a going concern basis, which contemplates the continuity of business activities, through the realisation of assets and settlement of liabilities in the normal course of business.

The going concern basis is appropriate for the Trust based upon the Folkestone Education Trust debt facilities having an average debt maturity of 3.5 years (refer Note 9). The Trust is in full compliance with its facilities.

NOTES TO THE FINANCIAL STATEMENTS CONT.

2. DISTRIBUTIONS

Distributions were payable during the financial year as follows:

Period	Paid/Payable	Cents per Unit	2017 Amount $'000	Cents per Unit	2016 Amount $'000
Quarter ended 30 September	20 October 2016	3.55	8,829	3.35	8,238
Quarter ended 31 December	20 January 2017	3.55	8,851	3.35	8,264
Quarter ended 31 March	20 April 2017	3.55	8,875	3.35	8,285
Quarter ended 30 June	20 July 2017	3.55	8,895	3.35	8,313
Total		**14.2**	**35,450**	**13.4**	**33,100**

3. EARNINGS PER UNIT ("EPU")

Consolidated Group	2017 Cents	2016 Cents
Basic EPU	49.02	43.25
Diluted EPU	49.02	43.25

The following information reflects the income and unit numbers used in the calculations of basic and diluted EPU.

Consolidated Group	2017 Number of Units '000	2016 Number of Units '000
Weighted average number of ordinary units used in calculating basic EPU	249,511	246,858
Weighted average number of ordinary units used in calculating diluted EPU	249,511	246,858

Consolidated Group	2017 $'000	2016 $'000
Earnings used in calculating basic EPU	122,310	106,771
Earnings used in calculating diluted EPU	122,310	106,771

There have been no conversions to, calls of, or subscriptions for ordinary units or issues of potential ordinary units since the reporting date and before the completion of this report.

4. TRADE AND OTHER RECEIVABLES

Consolidated Group	2017 $'000	2016 $'000
Lease debtors	1,213	559
Provision for impairment	(625)	(421)
Distributions receivable	658	400
	1,246	**538**

Trade receivables are recognised at amortised cost less any provision for impairment. Trade receivables are due in accordance with the individual property's lease terms.

4. TRADE AND OTHER RECEIVABLES CONT.

Trade Receivables that are Past Due but not Impaired

As at 30 June 2017, trade receivables of $587,682 (2016: $137,978) were past due but not impaired. The ageing of these net receivables is as follows:

	$'000 0-30 days	$'000 31-60 days	$'000 61-90 days	$'000 90+ days
2017				
Consolidated Group	530	-	-	58
2016				
Consolidated Group	26	12	9	91

Impairment of Receivables

During the year, the Trust increased the provision for impairment by $203,955 to $624,880. This amount was recognised in the Consolidated Statement of Comprehensive Income. No receivables were written off during the year.

Related Party Receivables

For terms and conditions of related party receivables, refer to Note 13.

Fair Value and Credit Risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

The maximum exposure to credit risk is the carrying value of receivables. Collateral is not held as security, nor is it the Trust's policy to transfer (on-sell) receivables to special purpose entities.

Foreign Exchange and Interest Rate Risk

Detail regarding foreign exchange and interest rate risk exposure is disclosed in Note 16.

5. OTHER CURRENT ASSETS

Consolidated Group	2017 $'000	2016 $'000
Prepayments	641	905
Accrued income	383	-
GST receivable	514	57
Lease incentive/fee asset	862	443
	2,400	**1,405**

NOTES TO THE FINANCIAL STATEMENTS CONT.

6. INVESTMENT PROPERTIES

Consolidated Group	2017 $'000	2016 $'000
Valuations and carrying amounts		
Freehold properties - at valuation	773,586	657,649
Development properties - at valuation/cost	56,625	32,338
Leasehold properties - at valuation	28,580	27,840
Capitalised transaction costs in relation to properties contracted and not settled	2,448	1,717
Total investment properties	861,239	719,544
Less: Investment properties expected to be sold within 12 months	(8,728)	-
Less: Straight line rental asset	(3,358)	(3,412)
Carrying amount at the end of the year	**849,153**	**716,132**
Movements during the financial year - at fair value		
Balance at the beginning of the year	716,132	617,835
Acquisition of properties (including construction costs)	64,177	32,667
Disposal of properties	(4,135)	(7,180)
Investment properties expected to be sold in 12 months	(8,728)	-
Net revaluation increment	81,707	72,810
Carrying amount at the end of the year	**849,153**	**716,132**

I. Investment properties are carried at fair value. The determination of fair value is based on independent valuations where appropriate. This includes the original acquisition costs together with capital expenditure since acquisition or the latest independent update. Total acquisition costs include incidental costs of acquisition such as stamp duty and legal fees. Refer to Note 1(f) for further details on valuations.

II. A full independent valuation of a property is carried out at least once every three years. Independent valuations are prepared using both the capitalisation of net income method and the discounting of future net cash flows to their present value.

III. Independent valuations as at 30 June 2017 were conducted by numerous valuers. The valuation methodologies used were capitalisation of net income method and direct comparison approaches, which were consistent with the requirements of relevant Accounting Standards and property valuation guidelines.

IV. Key valuation parameters adopted for independent and director valuations are as follows:
- Passing rent
- Market rents
- Capitalisation rates
- Weighted average lease expiry

The key inputs into the valuation are based on market information for comparable properties in similar markets and condition. The majority of freehold, development and leasehold properties are located in markets with evidence to support valuation inputs and methodology. The independent valuers have experience in valuing similar assets and have access to market evidence to support their conclusions.

Investment properties have been classified as Level 2 in the fair value hierarchy.

There have been no transfers between the levels in the fair value hierarchy during the year.

Key assumptions - early learning properties are as follows:

Consolidated Group	2017	2016
Average yield:		
- Australia - Freehold properties	6.5%	7.0%
- Australia - Leasehold properties	13.8%	13.7%
- New Zealand - Freehold properties	6.6%	7.4%
Passing rent per licenced place:		
- Australia - Freehold properties	$917 - $5,463	$997 - $5,304
- Australia - Leasehold properties	$674 - $4,614	$654 - $4,480
- New Zealand - Freehold properties*	$1,093 - $6,271	$1,073 - $6,138

* New Zealand properties passing rent per licenced place is in NZD

During the year, 117 external property valuations were conducted, 95 in Australia and 22 in New Zealand.

Valuations on the 95 Australian properties increased by $23.6 million or 14.6 per cent on the carrying value as at 30 June 2016, which included Director valuations.

In addition to the external Australian valuations, 215 Directors valuations have been adopted resulting in an increment of $42.8 million or 10.3 per cent. The Directors' valuations were undertaken due to movements in valuations across the early learning property sector, evidenced by strong sales evidence and positive valuation movements and to reflect the time lag in undertaking the external valuations. In addition, during the year there were 2 Directors valuations on properties that were subsequently sold during the year which resulted in an increment of $0.2 million.

Valuations of the 22 New Zealand properties increased by $3.4 million or 12.7 per cent on the carrying value as at 30 June 2016, which included Director's valuations. This reflects both the increase in valuations of $3.9 million and a decrease of $0.5 million due to a higher exchange rate at the time of valuation than as at 30 June 2016. In New Zealand dollars the valuations of the New Zealand properties increased by NZD$4.0 million or 14.6 per cent on the carrying value as at 30 June 2016, which included Director's valuations.

In addition to the New Zealand external valuations, 29 Directors valuations have been adopted resulting in an increment of $3.7 million or 10.6 per cent due to yield compression, rental increases and exchange rate movements since the last external valuation. This reflects both the increase in valuations of $3.5 million and an increase of $0.2 million due to a lower exchange rate at 30 June 2017 than at 30 June 2016. In New Zealand Dollars, the valuations of the New Zealand properties increased by NZD$3.6 million or 9.7 per cent on the carrying value as at 30 June 2016, which included Director's valuations.

In relation to the 3 acquisitions and 5 completed development sites that became operational during the year there was an increment of $6.4 million resulting from the difference in the cost to complete the development and the external valuation obtained. In addition, a Directors valuation was adopted in relation to the medical centre resulting in an increment of $1.6 million or 13.9 per cent reflecting the strong market for these assets.

The table below sets out a summary of amounts recognised in net profit for investment properties:

Consolidated Group	2017 $'000	2016 $'000
Rental income	55,867	52,177
Other rental income (recognised on a straight line basis)	109	78
Direct operating expenses from property that generated rental income	(10,857)	(10,118)
Direct operating expenses from property that did not generated rental income	(135)	(151)
Revaluation gain on investment properties	81,707	72,810

NOTES TO THE FINANCIAL STATEMENTS CONT.

6. INVESTMENT PROPERTIES CONT.

The table below sets out the major operators who have leases to operate from the investment properties:

Consolidated group	% of Investment Property Portfolio by Income
Operator:	
Goodstart Early Learning Limited	56%
OAC Operations Pty Ltd as Trustee for OAC Operations Trust	9%
BestStart Educare Limited	8%
G8 Education Limited	7%

All of the above tenants are experienced childcare centre operators. The leases contain security clauses in the form of a bank guarantee to be provided by its tenants, typically 6 months rent.

Set out below are details of the major tenants who lease properties from the Trust:

Goodstart Early Learning Limited ("Goodstart") - representing 56% of the Trust's investment property portfolio by income was formed in 2009 when it acquired the ABC Learning business. The 4 members are 4 Australian charitable organisations, consisting of The Benevolent Society, Mission Australia, the Brotherhood of St Laurence and Social Ventures Australia. Goodstart is a not-for-profit organisation and as 30 June 2016 employed approximately 13,500 staff across 643 childcare centres nationwide.

OAC Operations Pty Ltd as Trustee for OAC Operations Trust ("OAC") - representing 9% of the Trust's investment portfolio by income is a premium private operator of 38 centres throughout NSW and VIC.

BestStart Educare Limited ("BestStart") - representing 8% of the Trust's investment property portfolio by income is the largest provider of childcare in New Zealand. BestStart is a not-for-profit organisation with over 250 centres operating under different brands from Kaitaia to Invercargill. These brands include EduKids, TopKids, First Steps, Early Years, Community Kindy, Montessori, Kids to Five, ABC and Kiwicare Preschool.

G8 Education Limited ("G8") - representing 7% of the Trust's investment property portfolio by income is a publicly listed company on the ASX (ASX code: GEM). As at 31 December 2016, G8 operated 471 centres across Australia and Singapore, with a combined licenced capacity of 35,221 places.

Assets pledged as security

Refer to note 9 for information on investment properties and other assets pledged as security by the Trust.

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Consolidated Group	2017 $'000	2016 $'000
Units in listed securities (Arena REIT - ASX:ARF) - at market valuation	23,126	20,585
Units in unlisted securities (Folkestone CIB Fund) - at Directors' valuation	12,863	10,698
Carrying amount at the end of the year	**35,989**	**31,283**
Movements in available-for-sale financial assets:		
Balance at the beginning of the year	31,283	24,390
Distribution re-invested in units	-	109
Purchase of available-for-sale financial assets	-	-
Movement in available-for-sale financial assets reserve	4,706	6,784
Carrying amount at the end of the year	**35,989**	**31,283**

Listed securities are valued at the closing bid price on the last business day of the financial year.

In assessing the fair value of investments held in unlisted securities, the value is determined by the entity’s net assets.

8. TRADE AND OTHER PAYABLES

Consolidated Group	2017 $'000	2016 $'000
Trade creditors*	2,648	4,074
Accrued interest	677	31
Accruals*	8,799	2,794
	12,124	**6,899**

**Trade creditors and Accruals include amounts for construction and development costs incurred.*

Fair Value and Credit Risk

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

Financial Guarantees

There are no financial guarantees in place.

Interest Rate, Foreign Exchange and Liquidity Risk

Detail regarding interest rate, foreign exchange and liquidity risk exposure is disclosed in Note 16.

9. BORROWINGS

Consolidated Group	2017 $'000	2016 $'000
Bank loans - secured	245,000	193,000
Less: up front transaction costs	(3,311)	(2,197)
Plus: amortised up front transaction costs	747	2
	242,436	**190,805**
Bank Overdraft	4,854	7,449
	247,290	**198,254**

Effective from 29 June 2017, the Trust increased the facility limits of its bilateral banking facilities by $50 million to $317 million. The increase in facilities was provided equally by the Trust's current lenders, Australia and New Zealand Banking Group Limited ("ANZ") and Hongkong and Shanghai Banking Corporation Limited ("HSBC"). As part of the increase in the facility limit, the Trust also increased the maturity of debt facilities totalling $133.5 million by one year. Key covenants regarding LVR and ICR remain unchanged at Maximum Loan to Value Ratio 50% and Interest Cover Ratio being greater than 2.0 times.

As at 30 June 2017 the Trust has the following debt facilities:

Facility Maturity	Facility Limit ($m's)	Drawn Amount ($m's)
June 2019	76.75	70.25
June 2020	101.75	70.25
June 2021	56.75	52.25
June 2022	81.75	52.25
TOTAL	**317.0**	**245.0**

As at 30 June 2017, the Trust complied with all of its debt covenant ratios and obligations.

The Trust also has an overdraft facility with ANZ of $10 million ($4.9 million drawn at 30 June 2017).

9. BORROWINGS CONT

Hedging Arrangements

In accordance with the Trusts policy to hedge a proportion of its debt, additional hedging positions were taken out to extend the hedging profile through to June 2022 and to supplement the Trust's existing positions between FY18 and FY21. The following interest rate swaps are in place:

Period	Hedged Amount ($m's)	Hedged Rate %	% Hedged of Drawn Debt
FY18: July 2017 - June 2018	172.0	2.80	70
FY19: July 2018 - June 2019	157.0	3.00	64
FY20: July 2019 - June 2020	130.0	3.00	53
FY21: July 2020 - June 2021	110.0	3.00	45
FY22: July 2021 - June 2022	100.0	3.00	41

Interest Rate, Foreign Exchange and Liquidity Risk

Refer to Note 16 for information on interest rate, foreign exchange and liquidity risk.

Fair Values

The carrying amounts of the Trust's borrowings approximate their fair value.

Unused Financing Facilities

Refer to Note 11(c) for details of unused financing facilities.

Assets Pledged as Security

A Security Trustee has been appointed to administer the security arrangements of the Trust and to facilitate any future debt issuing on behalf of the Trust. Financers share security in the form of real property mortgages. In addition, the Security Trustee has a registered security interest over the assets of the Trust as further security.

Consolidated Group	2017 $'000	2016 $'000
Assets pledged as security:		
Collateral that has been pledged for secured liabilities is as follows:		
i) Financial assets pledged		
Cash and cash equivalents	2,431	790
Trade and other receivables	907	538
Available-for-sale financial assets	35,989	31,283
ii) Other assets pledged		
Other current assets	2,740	1,405
Investment properties	861,238	719,544
Total assets pledged	**903,305**	**753,560**

The principal terms and conditions with respect to the assets pledged are:

- to conduct the business of the Trust (including collecting debts owed) in a proper, orderly and efficient manner;
- not, without lenders' consent, to cease conducting the business of the Trust;
- not, without lenders' consent (such consent not to be unreasonably withheld) raise any Financial Accommodation from any other party other than Permitted Financial Accommodation or give any Encumbrance over Trust Assets as security for Financial Accommodation other than Permitted Financial Accommodation;

- to maintain or, ensure that the tenant maintains (in relation to Trust Assets for which a tenant under a Lease is obliged to effect insurance) all risk insurance over the physical assets of the Trust;
- not, without lenders' consent (such consent not to be unreasonably withheld), make any material amendments to any Lease;
- except for those assets which the tenant under a Lease is obliged to maintain, to maintain the Trust Assets in a state of good repair, fair wear and tear excepted;
- not, without the prior written consent of lender, to sell, mortgage, transfer or deal with in any way the units in the sub-Trust held by the Trust;
- not to do anything which effects or facilitates the resettlement of the Trust Assets;
- without lenders' consent, not to create an Encumbrance or allow one to exist on the whole or any part of its present or future property other than any Permitted Encumbrance; and
- subject to the terms of any Security, without lenders' consent, not to dispose of (or agree to dispose of) all or a substantial part of the Trust Assets (either in a single transaction or in a series of transactions whether related or not and whether voluntarily or involuntarily).

10. CONTRIBUTED EQUITY

Consolidated Group	Units on Issue No '000	Units on Issue $'000
Balance at 1 July 2015	245,168	317,768
Units issued	2,981	6,347
Transaction costs	-	(27)
Balance at 30 June 2016	**248,149**	**324,088**
Balance at 1 July 2016	248,149	324,088
Units issued	2,412	6,338
Transaction costs	-	(34)
Balance at 30 June 2017	**250,561**	**330,392**

During the year, the Trust operated a Distribution Reinvestment Plan ("DRP") with 2,412,485 units issued at an average issue price of $2.63 for the year.

All units on issue rank equally for the purpose of distributions and on termination of the Trust. All units entitle the holders to one vote, either in person or by proxy, at a meeting of the Trust.

Capital Risk Management

The Responsible Entity's objective when managing capital objective is to ensure the Trust continues as a going concern as well as to maintain optimal returns to Unitholders and benefits for other stakeholders. The Responsible Entity also aims to maintain a capital structure that ensures the lowest cost of capital available to the Trust.

The proportion of capital is largely determined by the loan-to-value ratio as specified under the Folkestone Education Trust's debt facilities (refer Note 9). The maximum debt to property value ratio is 50 per cent for all secured properties.

The Responsible Entity has a policy of paying out as distributions only net income earned by the Trust for the year.

11. CASH AND CASH EQUIVALENTS

Consolidated Group	2017 $'000	2016 $'000
(a) Components of cash and cash equivalents		
Cash	2,431	790
Total cash and cash equivalents	**2,431**	**790**
(b) Reconciliation of net profit to net cash flows from operating activities		
Net profit	122,310	106,771
Loss/(Gain) on sale of investment properties	75	(1,960)
Realised/Unrealised foreign exchange (gains)	(14)	(59)
Change in fair value of derivative financial instruments	(2,932)	2,407
Net property revaluation (increment)	(81,707)	(72,810)
Straight line rental adjustments	(109)	(78)
Distributions re-invested in units	-	(109)
(Increase)/decrease in debtors	(708)	(107)
(Increase)/decrease in other current assets	(873)	(127)
Increase/(decrease) in rent received in advance	(79)	(193)
Increase/(decrease) in trade and other payables	3,691	1,174
Net cash flows from operating activities	**39,654**	**34,909**
(c) Financing facilities		
Committed financing facilities available to the Trust:		
Bank loans - secured	317,000	227,000
Overdraft facility	10,000	10,000
	327,000	237,000
Amounts utilised	(249,854)	(200,449)
Available financing facilities	77,146	36,551
Cash	2,431	790
Financing resources available at the end of the year	**79,577**	**37,341**
Maturity profile of financing facilities		
Due within one year	-	-
Due between one year and five years	317,000	237,000
Due after five years	-	-
	317,000	237,000

Refer to Note 9 for details on the conditions of the financing facilities.

12. SEGMENT INFORMATION

The Trust operates as one business segment being the investment in early learning properties and in one geographic segment being Asia Pacific. The Trust's segments are based on reports used by both management and directors in making key decisions within the Asia Pacific geographic region. The Trust owns property in both Australia and New Zealand. The detail of the geographic segment is as follows:

	2017 $'000	2016 $'000
Total revenue		
Australia	139,287	125,386
New Zealand	12,439	11,432
	151,726	**136,818**
Investments excluding Available-for-sale financial assets		
Australia	792,288	657,695
New Zealand	68,950	61,849
	861,238	**719,544**

13. RELATED PARTY DISCLOSURES

The Trust

The consolidated financial statements include the financial statements of Folkestone Education Trust and its wholly owned subsidiaries FET Sub-Trust No.1, FET Sub-Trust No.2 and FET NZ Sub-Trust.

Transactions between the parent entity and its subsidiaries during the financial year are set out as follows:

Consolidated Group	2017 $'000	2016 $'000
Interest from subsidiary trusts	3,504	1,468
Expense reimbursement from subsidiary trusts	97	31
Distributions paid from subsidiary trusts	9,721	10,847
Loan to subsidiary trusts	61,252	60,560

The amount due from FET Sub-Trust No.1, FET Sub-Trust No.2 and FET NZ Sub-Trust are long term loans with no fixed date for repayment. Interest is payable on the FET Sub-Trust No.1, FET Sub-Trust No.2 and FET NZ Sub-Trust loan balances and is based on the average interest rate on loans held by the Parent Entity.

Responsible Entity

The Responsible Entity of the Trust is Folkestone Investment Management Limited, a subsidiary of Folkestone Limited.

In accordance with the Trust constitution and other agreements the Responsible Entity is entitled to claim asset management fees, reimbursement for all expenses reasonably and properly incurred in relation with the trust or in performing its obligations under the constitution, debt arrangement fees, leasing fees, development fees and property acquisition due diligence fees. Under the Trust Constitution, the Responsible Entity is entitled to a management fee amounting to 0.5 per cent per annum of the Total Tangible Assets of the Trust.

NOTES TO THE FINANCIAL STATEMENTS CONT.

13. RELATED PARTY DISCLOSURES CONT.

The following table provides the total amount of transactions that have been entered into with the Responsible Entity for the relevant financial year:

Consolidated Group	2017 $'000	2016 $'000
Amounts paid or payable during the year		
Responsible Entity asset management fees	4,215	3,523
Responsible Entity cost recoveries	510	500
Responsible Entity leasing fees*	238	442
Responsible Entity acquisition/due diligence fees	116	43
Responsible Entity development fees*	694	445
Responsible Entity debt arrangement fee	250	1,150
	6,023	6,103
Amounts included in accruals or payables at balance date	**1,465**	**1,172**

*: These fees would have been otherwise payable to external providers in the event that Folkestone Limited or its subsidiaries were not able to perform these roles as a necessary part of the development process. All fees are based on normal commercial terms and conditions for transactions of this nature.

Custodian

The Custodian of the Trust assets is The Trust (Australia) Company Limited. The Custodian is entitled to fees for its services.

Consolidated Group	2017 $'000	2016 $'000
Amounts paid or payable during the year		
Custodian fees	244	215
Amounts included in accruals or payables at balance date	**62**	**55**

Terms and Conditions of Transactions with Related Parties

All transactions between related parties were made on normal commercial terms and conditions, except that there are no fixed terms for the repayment of the loan between the parent entity and its subsidiaries.

Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables.

Units Held in the Trust by Related Entity

The ultimate parent entity of the Responsible Entity is Folkestone Limited ("FLK").

Name	FLK
Opening balance of units held	30,687,878
Acquisitions of units	-
Disposals of units	-
Closing balance of units held	30,687,878

An amount of $1,089,420 was receivable at balance date by Folkestone Limited from FET in relation to the 30 June 2017 quarterly distribution.

Payment to Related Entity

For the year ended 30 June 2017, the Trust has not raised any provision for doubtful debts relating to amounts owed by related parties as the payment history does not suggest otherwise. This assessment will be undertaken each financial year through examining the financial position of the related party and the market in which the related party operates. When assessed as required the Trust raises such a provision.

Investments

The Trust held investments in the following schemes managed by the Responsible Entity or its affiliates:

Unlisted Investment

	2017	2016
Folkestone CIB Fund		
Number of units held	4,245,126	4,245,126
Interest percentage held	15.0%	15.0%
Number of units acquired during the year	-	51,432
Value of units acquired during the year	-	$109,036
Distributions received / receivable by the Trust	$573,092	$528,573
Distributions receivable as at 30 June	$339,610	$111,846
Net fair value of investment	$12,862,732	$10,697,718

The Folkestone CIB Fund owns a portfolio of Victorian police stations and law court complexes. The fund has strong financial metrics with 100 per cent occupancy and conservative gearing levels with secured loan term borrowings.

14. KEY MANAGEMENT PERSONNEL

The following is a summary of the Key Management Personnel (KMP) of the Responsible Entity. The Directors of the Responsible Entity are considered to be KMP.

Chairman – Non-Executive	Grant Hodgetts	Appointed 24 October 2012
Non-Executive Director	Michael Johnstone	Appointed 22 December 2004
Non-Executive Director	Vic Cottren	Appointed 22 December 2004
Executive Director	Nick Anagnostou	Appointed 4 August 2008
Other KMP	Travis Butcher	Chief Financial Officer/Company Secretary Appointed 1 October 2008
Other KMP	Scott Martin	Company Secretary Appointed 28 September 2012

Remuneration

No KMP were remunerated directly by the Trust. The KMP of the Responsible Entity receive remuneration in their capacity as Directors and senior management of the Responsible Entity and these amounts are paid from an entity related to the Responsible Entity.

The names of each person holding the position of Director of the Responsible Entity during the financial year were Mr Grant Bartley Hodgetts, Mr Michael Francis Johnstone, Mr Victor David Cottren, and Mr Nicholas James Anagnostou. No Director of the Responsible Entity received or became entitled to receive any benefit because of a contract made by the Trust with a Director or with a firm of which a Director is a member, or with an entity in which the Director has a substantial interest.

NOTES TO THE FINANCIAL STATEMENTS CONT.

14. KEY MANAGEMENT PERSONNEL CONT.

Units held in the Trust by Directors

The relevant interests of each Director of the Responsible Entity (including Director related entities) acquired in the unit capital of the Trust are set out as follows.

Name	GB Hodgetts	MF Johnstone	VD Cottren	NJ Anagnostou
Opening balance of units held	9,378	71,092	309,100	30,625
Acquisition of units	15,915	-	-	-
Disposal of units	-	-	-	-
Closing balance of units held	25,293	71,092	309,100	30,625

15. CAPITAL AND LEASE COMMITMENTS

Capital Expenditure Commitments – Centre Acquisitions and Development

Estimated capital expenditure commitments contracted at balance date but not provided for:

Consolidated Group	2017 $'000	2016 $'000
not later than 1 year	43,236	38,565

**Capital expenditure commitments only include contracts executed as at 30 June 2017 and does not include future development costs not yet contracted.*

Lease Revenue Commitments

Details of non-cancellable operating leases contracted but not capitalised in the financial statements are shown as follows:

The property leases are non cancellable with a fifteen year term and rent is reviewed annually in accordance with CPI movements. Further, two five year options exist to renew the leases for further terms.

Consolidated Group	2017 $'000	2016 $'000
Receivable:		
not later than 1 year	60,276	55,983
later than 1 year but no later than 5 years	270,314	245,558
later than 5 years	229,688	217,127
	560,278	**518,668**

Leasehold Property Commitments

Details of non-cancellable property leases contracted for but not capitalised in the financial statements are shown as follows:

The property leases are non-cancellable leases with a twenty year term, with rent payable quarterly or monthly in advance. Contingent rental provisions within the lease agreements require the minimum lease payments shall be increased by the minimum of CPI to a maximum of 5 per cent per annum. A right or option exists to renew the leases for a further term. The lease allows for subletting of all lease areas.

Consolidated Group	2017 $'000	2016 $'000
Payable:		
not later than 1 year	1,269	1,241
later than 1 year but no later than 5 years	5,604	5,531
later than 5 years	6,175	9,733
	13,048	**16,505**

16. FINANCIAL RISK MANAGEMENT

The Trust's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest risk), credit risk and liquidity risk. The Trust's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Trust. The Trust uses derivative financial instruments such as interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, not as trading or other speculative instruments. The Trust uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange, and aging analysis for credit risk. The Trust's financial instruments consist of deposits with banks, accounts receivable and payable, derivatives, loans from banks and other financial intermediaries and a loan to a subsidiary.

The Responsible Entity manages the Trust's exposure to key financial risks in accordance with its Risk Management Plan. The objective of the plan is to support the delivery of the Trust's financial targets whilst protecting future financial security.

The Board has a Risk Management Program which complies with the requirements of the Australian Standard on Risk Management (AS/NZ ISO 31000) and a Compliance Program which meets the Australian Standard for Compliance Programs (AS/NZ 3806). The Programs reflect the Board's commitment to identifying, monitoring and mitigating risks as well as capturing opportunities. Day to day responsibility for risk management has been delegated to executive management, with review at Board level.

Risk Exposures and Responses

I. Market Risk

The Trust is exposed to interest rate, foreign currency, liquidity, price and credit risks. Details are provided in the following paragraphs. There are no known exposures to other risks that are material to the financial statements.

- Interest Rate Risk

The Trust's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Trust to cash flow interest rate risk. During 2017 and 2016, the Trust's borrowings at variable rate were denominated in Australian Dollars.

The Trust has the following classes of financial assets and financial liabilities that are exposed to interest rate risk:

Consolidated Group	2017 $'000	2016 $'000
Financial assets		
Cash and cash equivalents	2,431	790
	2,431	**790**
Financial liabilities		
Borrowings (Gross)	249,854	200,449
	249,854	**200,449**
Net exposure	**(247,423)**	**(199,659)**

The weighted average interest rates relating to the above financial assets and financial liabilities were as follows:

Consolidated Group	2017 %	2016 %
Financial assets		
Cash and cash equivalents	0.25%	0.25%
Financial liabilities		
Borrowings	4.17%	4.48%

Financial assets are not hedged and are exposed to variable rate risk. The Responsible Entity believes that this exposure is relatively low and does not pose a material risk to the Trust.

NOTES TO THE FINANCIAL STATEMENTS CONT.

16. FINANCIAL RISK MANAGEMENT CONT.

The Responsible Entity analyses the Trust's interest rate exposure on a dynamic basis. Within this analysis consideration is given to potential renewals of existing positions, alternative financing, alternative hedging positions and the mix of fixed and variable interest rates. Based on the analysis, the Responsible Entity manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps arrangements. Interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the Trust agrees with other parties to exchange, at specific intervals, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

Refer to Note 9 for details on the fair value of derivatives as at the reporting date.

As at 30 June 2017, borrowings of $123.0 million are unhedged and the weighted average variable interest rate is 1.7 per cent per annum (excluding margin).

At 30 June 2017, if interest rates had moved, as illustrated in the table as follows, with all other variables held constant, net profit and equity would have been affected as follows:

Consolidated Group	Net Profit Increase/(decrease) 2017 $'000	2016 $'000	Equity Increase/(decrease) 2017 $'000	2016 $'000
Judgements of reasonably possible movements:				
Increase in variable interest rates of 1.00%	5,469	4,323	5,469	4,323
Decrease in variable interest rates of 0.50%	(2,735)	(2,161)	(2,735)	(2,161)

The movements in profit are due to the net impact of higher/lower interest costs from variable rate debt and cash balances and the increase/decrease in the fair value of derivative instruments. Due to the hedging arrangements, with the majority of the Trust's debt hedged, increases in interest rates increase profit due to increases in the fair value of derivative financial instruments. Such movements are reflected in the Consolidated Statement of Comprehensive Income.

- Foreign currency risk

The Trust has exposure to foreign currency movements through its investment in New Zealand properties.

It is a policy of the Responsible Entity not to expose the Trust to any material risks relating to movements in foreign currencies.

With respect to property investments in New Zealand, there is currently no relevant hedging in place. Of the total value of property investments held by the Trust, 8.0 per cent is represented by properties held in New Zealand. The intention is to hold New Zealand properties on an on-going basis.

The Trust also has transactional New Zealand Dollar ("NZD") exposures. Such exposures arise from rental income and purchases of services in NZD. Further, the Trust holds some cash, receivables and payables which are denominated in NZD. In the opinion of the Directors of the Responsible Entity the level of the Trust's transactions in NZD is relatively low and does not constitute a material risk to the Trust.

The Trust's exposure to foreign currency risk and the relevant classes of financial assets and financial liabilities is set out as follows:

Consolidated Group	2017 $'000	2016 $'000
Financial assets		
Cash and cash equivalents	569	259
	569	259
Financial liabilities		
Payables	-	-
	-	-
Net exposure	**569**	**259**

Consolidated Group	Net Profit Increase/(decrease) 2017 $'000	2016 $'000	Equity Increase/(decrease) 2017 $'000	2016 $'000
Judgements of reasonably possible movements:				
AUD/NZD + 15.00%	(10,428)	(9,316)	(10,428)	(9,316)
AUD/NZD - 15.00%	10,428	9,316	10,428	9,316

The movements in profit are due to variations in the AUD/NZD exchange rate impacting valuations of assets and liabilities denominated in NZD. Such movements are reflected in the statement of comprehensive income and equity.

The exposure of the parent entity to NZD movements is via its investment in FET NZ Sub-Trust, being the entity which holds the New Zealand-based investments.

- Price risk

The Trust is exposed to movements in the market values of property securities held, both listed and unlisted. These movements may be significant from one year to the next. A variety of factors may cause movements, such as activity in general financial markets and the state of the property market and the economy generally. The Trust has no form of hedging in place to mitigate such movements.

The following sensitivity analysis is based on the price risk exposures on securities held at the reporting date.

At 30 June 2017, if prices had moved, as illustrated in the table as follows, with all other variables held constant, profit and other comprehensive income would have been affected as follows:

		Equity Increase/(Decrease) 2017 $'000	2016 $'000
Judgements of reasonably possible movements:			
Increase in property security prices	15.00%	5,398	4,692
Decrease in property security prices	15.00%	(5,398)	(4,692)

Changes in fair value are recognised directly in equity, when there is an expected long term increment in the value of the security. Where there is an expected long term decrement in the value of the security, changes in fair value are recognised directly in the Consolidated Statement of Comprehensive Income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses. For the purposes of this analysis it has been assumed that all movements are adjusted through the Consolidated Statement of Comprehensive Income.

II. Liquidity risk

Liquidity risk is managed by adhering to restrictions under the Trust's investment strategy from entering into contractual arrangements that produce an exposure not covered by sufficient liquid assets or a total investment exposure in excess of total Unitholders' funds. Further, the Responsible Entity ensures that sufficient cash and cash equivalents are maintained to meet the needs of the Trust through cash flow monitoring and forecasting.

The table following reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial liabilities, including derivative financial instruments as at 30 June 2017. For derivative financial instruments, the market value is presented, whereas for the other obligations the respective undiscounted cash flows for the respective upcoming fiscal years are presented. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing as at 30 June 2017.

16. FINANCIAL RISK MANAGEMENT CONT.

The remaining contractual maturities of the Trust's financial liabilities are:

Consolidated Group	2017 $'000	2016 $'000
6 months or less	15,391	9,979
6 to 12 months	2,910	2,720
1 to 5 years	267,830	218,323
Later than 5 years	-	-
	286,131	**231,022**

Maturity analysis of financial assets and liability based on management expectations

The table as follows is a maturity analysis of financial assets and financial liabilities based on management's expectations. Apparent shortfalls in cash are due to the maturity of debt facilities at various points in time. Prior to the maturity of these facilities, the Trust will either negotiate to extend the term of these facilities or arrange new facilities on terms appropriate at that time.

Consolidated Group	6 months or less $'000	6 to 12 months $'000	1 to 5 years $'000	Later than 5 years $'000	Total $'000
2017					
Payables	12,119	-	-	-	12,119
Borrowings	-	-	249,854	-	249,854
Interest payments on hedged borrowings	2,497	2,253	14,661	-	19,411
Derivative financial instruments	775	657	3,315	-	4,747
	15,391	**2,910**	**267,830**	**-**	**286,131**
2016					
Payables	6,899	-	-	-	6,899
Borrowings	-	-	200,449	-	200,449
Interest payments on hedged borrowings	2,072	1,828	12,096	-	15,996
Derivative financial instruments	1,009	892	5,777	-	7,678
	9,980	**2,720**	**218,322**	**-**	**231,022**

III. Credit Risk

Credit risk arises from the financial assets of the Trust, which comprise cash and cash equivalents, trade and other receivables and derivative instruments. The Trust's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable Note.

Receivables are received within the terms of the individual property lease, except for the amounts due to the Parent Entity from FET Sub-Trust No.1, FET Sub-Trust No. 2 and FET NZ Sub-Trust which have no fixed date of repayment (refer to Note 13).

The Trust does not hold any credit derivatives to offset its credit exposure.

The Trust trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Trust's policy to secure its trade and other receivables.

The Trust's credit exposure is concentrated with one debtor, Goodstart Early Learning Limited, who contributed 56 per cent of rental income. The total credit risk for financial instruments contained in the Balance Sheet is limited to the carrying amount disclosed in the Consolidated Balance Sheet, net of any provisions for doubtful debts.

In addition, receivable balances are monitored on an ongoing basis with the result that the Trust's exposure to bad debts is not significant (refer to Note 4).

IV. Fair Value Measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and

c) input for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Trust's assets and liabilities measured and recognised at fair value at 30 June 2017 and 30 June 2016.

Consolidated Group	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2017				
Available-for-sale financial assets	23,126	12,863	-	35,989
Total Assets	**23,126**	**12,863**	**-**	**35,989**
Liabilities				
Derivatives used for hedging	-	4,747	-	4,747
Total Liabilities	**-**	**4,747**	**-**	**4,747**
2016				
Available-for-sale financial assets	20,585	10,698	-	31,283
Total Assets	**20,585**	**10,698**	**-**	**31,283**
Liabilities				
Derivatives used for hedging	-	7,678	-	7,678
Total Liabilities	**-**	**7,678**	**-**	**7,678**

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined using valuation techniques. The Trust uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for long term debt for disclosure purposes. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps are calculated as the present value of the estimated future cash flows. These instruments are included in level 2 and comprise debt investments and derivative financial instruments.

In the circumstances where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in level 3.

NOTES TO THE FINANCIAL STATEMENTS CONT.

16. FINANCIAL RISK MANAGEMENT CONT.

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes of similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The carrying amounts of bank deposits, receivables, other debtors, accounts payable, bank loans, lease liabilities and distributions payable approximate net fair value.

Net Fair Values

Recognised financial instruments:

- The Trust's financial assets and liabilities included in current and non-current assets and liabilities on the Balance Sheet are carried at amounts that approximate net fair value.

Unrecognised financial instruments:

- The Trust has no off-balance sheet financial instruments.

17. NET TANGIBLE ASSETS

Consolidated Group	2017	2016
Net tangible assets ($'000)	629,676	531,800
Units used (No'000)	250,562	248,149
Net tangible assets at carrying value per unit ($)	2.51	2.14

18. CONTINGENT LIABILITIES

No contingent liabilities to the Trust exist of which the Responsible Entity is aware.

19. AUDITORS REMUNERATION

Consolidated Group	2017 $	2016 $
Audit and other assurance service		
Audit or review of financial report – PricewaterhouseCoopers, Australia firm	75,500	74,000
Audit of compliance plan – PricewaterhouseCoopers, Australia firm	6,300	6,000
Taxation services		
Taxation – PricewaterhouseCoopers, Australia firm	10,650	10,150
Total auditors remuneration	**92,450**	**90,150**

20. PARENT ENTITY FINANCIAL INFORMATION

Summary Financial Information

The individual financial statements for the parent entity show the following aggregate amounts:

Consolidated Group	2017 $'000	2016 $'000
Balance Sheet		
Current assets	3,957	5,350
Total assets	760,787	604,619
Current liabilities	20,550	14,384
Total liabilities	272,622	194,849
Shareholders' equity		
Contributed equity	248,177	241,872
Undistributed profits	239,988	167,898
	488,165	409,770
Profit for the year	105,000	88,038
Total comprehensive income	105,000	88,038

Guarantees Entered into by the Parent Entity

As at 30 June 2017, the parent entity has not provided guarantees in relation to its subsidiaries, FET Sub-Trust No.1, FET Sub-Trust No.2 and FET NZ Sub-Trust.

Contingent Liabilities

The parent entity did not have any contingent liabilities as at 30 June 2017 or 30 June 2016.

Contractual Commitments for the Acquisition of Property, Plant or Equipment

The parent entity's contractual commitments for the acquisition of the property, plant or equipment as at 30 June 2017 was $43.2 million (30 June 2016: $38.6 million), refer Note 15.

21. SUBSEQUENT EVENTS

The financial report was authorised on 9 August 2017 by the Board of Directors of the Responsible Entity.

The Trust entered into an underwriting agreement with Moelis Australia Advisory Pty Ltd ("Moelis") to fully underwrite the DRP take up for the distribution for the quarter ending 30 June 2017 to 100 per cent. This resulted in an additional 2.8 million units being issued on 20 July 2017 at an issue price of $2.60 resulting in total cash proceeds of $7.3 million which will be utilised to fund existing developments.

There have been no other significant events since 30 June 2017 that have or may significantly affect the results and operations of the Trust.

22. TRUST DETAILS

The registered office and principal place of business of the Trust is Level 14, 357 Collins Street, Melbourne Victoria 3000 and the principal activity being a specialist early learning centre property owner. The domicile of the Trust is Australia.

DIRECTORS' DECLARATION

In the opinion of the Directors of Folkestone Investment Management Limited, the Responsible Entity of Folkestone Education Trust and its controlled entities ("the Trust"):

1. the financial statements and notes are in accordance with the *Corporations Act 2001*, including:
   - complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
   - giving a true and fair view of the Trust's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
2. there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable, and
3. the Trust has operated during the year ended 30 June 2017 in accordance with the provisions of the Trust Constitution dated 8 July 2002 (as amended).

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors of Folkestone Investment Management Limited.

Grant Bartley Hodgetts
Chairman
Folkestone Investment Management Limited
Melbourne, 9 August 2017

Independent auditor's report

To the unitholders of Folkestone Education Trust

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Folkestone Education Trust (the Trust) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards *and the Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the consolidated balance sheet as at 30 June 2017
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the declaration of the directors of the Responsible Entity of the Trust.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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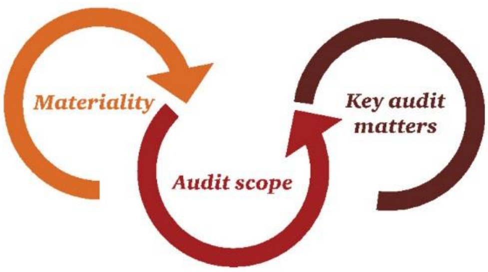
Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality	*Audit scope*	*Key audit matters*
• For the purpose of our audit we used overall Group materiality of $1.89 million, which represents approximately 5% of the Group's profit before tax, adjusted for significant non-cash items such as investment property and financial instrument revaluations. • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. • We chose Group profit before tax adjusted for significant	• Our audit focused on where the directors of the Responsible Entity of the Trust made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events, like the valuation of investment properties. • The Group's accounting processes and controls are performed at its Melbourne head office, where we predominately performed our audit procedures.	• Amongst other relevant topics, we communicated the following key audit matter to the Audit and Compliance Committee: – Valuation of investment properties • This is further described in the *key audit matters* section of our report.

non-cash items because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	*How our audit addressed the key audit matter*
Valuation of investment properties *(Refer to note 1 & 6) $861m* The Group's investment property portfolio consists of 407 childcare properties and one commercial property across Australia and New Zealand. At 30 June 2017 the carrying value of the Trust's total investment property portfolio in the financial report was $861m. The valuation of investment properties was a key audit matter because of: • the magnitude of the investment property balance in the consolidated balance sheet • the quantum of revaluation gains that could directly impact the consolidated statement of comprehensive income through the net fair value gain/loss of investment properties • the inherently subjective nature of investment property valuations due to the use of assumptions in the valuations, and • the sensitivity of valuations to key inputs and assumptions.	**Fair value at period end - External Valuations** In respect of those properties where the Group was assisted by external valuations, for a sample of the external valuation reports we: • assessed the competency and capabilities of the valuer and relied on their work as an expert • read the valuer's terms of engagement - we did not identify any terms that might affect their objectivity or impose limitations on their work relevant to the valuation • assessed the valuation reports based on our industry knowledge • agreed key inputs and assumptions in the valuation report back to lease contracts, including passing yield, lease term and lease end date. • agreed the external valuation to the accounting records.

Key audit matter	*How our audit addressed the key audit matter*
The key assumptions in estimating fair values are yield and passing rent. External valuations were obtained for 117 properties during the year resulting in an increment of $27 million. For the remaining properties, 245 directors' valuations have been adopted resulting in an increment of $48.3 million. Further valuation increments of $6.4 million resulted from acquisition and development sites that became operational in the year.	**Fair value at period end - Director's Valuations** In respect of those properties subject to directors' valuations, we met with members of executive management including both the Chief Executive Officer and Chief Financial Officer to discuss the key inputs and assumptions. For a sample of valuations we: • agreed key inputs back to lease contracts, including passing rent, yield, lease term and lease end date. • compared inputs to the directors' valuation in the external valuations to look for unusual trends or anomalies in the directors' valuation outcomes. • evaluated the outcomes of a sample of independent property valuations subsequent to 30 June 2017 to check there were no material inconsistencies with the valuation positions adopted at 30 June 2017. • agreed the director valuation adopted to the accounting records.

Other information

The directors of the Responsible Entity of the Trust, Folkestone Investment Management Limited, are responsible for the other information. The other information comprises the Key Highlights, Chairman and Chief Executive Officer's Report and Directors' Report, Corporate Governance Statement and additional stock exchange information included in the Group's annual report for the year ended 30 June 2017 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors of the Responsible Entity of the Trust for the financial report

The directors of Folkestone Investment Management Limited (the directors), are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar1.pdf. This description forms part of our auditor's report.

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Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in page 14 of the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Folkestone Education Trust for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Responsible Entity of the Folkestone Education Trust 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.

PricewaterhouseCoopers

PricewaterhouseCoopers

Andrew Cronin
Partner

Melbourne
9 August 2017

ADDITIONAL STOCK EXCHANGE INFORMATION

AS AT 3 AUGUST 2017

There were 253,981,893 fully paid ordinary units on issue, held by 6,097 Unitholders.

The voting rights attaching to the ordinary units, set out in section 253C of the *Corporations Act 2001*, are:

(a) on a show of hands every person present who is a Unitholder has one vote; and

(b) on a poll each Unitholder present in person or by proxy or attorney has one vote for each dollar of value of the total interests they have in the Trust.

DISTRIBUTION OF UNITHOLDERS

Number of Units Held	Number of Unitholders
1-1,000	809
1,001-5,000	2,093
5,001-10,000	1,173
10,001-100,000	1,880
100,001 and over	142
Total	**6,097**
Holdings less than a marketable parcel	399

SUBSTANTIAL UNITHOLDERS

Name of Substantial Unitholder	Number
Folkestone Limited and its Associates	31,460,950
The Vanguard Group Inc.	15,643,083
Mr Louis Pierre Ledger	10,892,026

ADDITIONAL STOCK EXCHANGE INFORMATION CONT.

TWENTY LARGEST UNITHOLDERS

Holder Name	Number of Units	Fully Paid Percentage
J P MORGAN NOMINEES AUSTRALIA LIMITED	31,188,141	12.280%
FOLKESTONE LIMITED	30,687,878	12.083%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	29,132,173	11.470%
CITICORP NOMINEES PTY LIMITED	13,767,703	5.421%
NATIONAL NOMINEES LIMITED	9,367,063	3.688%
BNP PARIBAS NOMS PTY LTD <DRP>	8,450,147	3.327%
SANDHURST TRUSTEES LTD <DMP ASSET MANAGEMENT A/C>	5,405,018	2.128%
MR LOUIS PIERRE LEDGER	5,261,380	2.072%
CHEMICAL TRUSTEE LIMITED	4,550,000	1.791%
MR LOUIS PIERRE LEDGER	2,560,723	1.008%
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	2,458,714	0.968%
MR DAVID CALOGERO LOGGIA	2,112,287	0.832%
MR LOUIS PIERRE LEDGER	2,111,017	0.831%
ACRES HOLDINGS PTY LTD <NOEL EDWARD KAGI FAMILY A/C>	2,081,584	0.820%
MR LOUIS PIERRE LEDGER	1,998,781	0.787%
REDBROOK NOMINEES PTY LTD	1,795,600	0.707%
MR DAVID STEWART FIELD	1,451,000	0.571%
REDBROOK NOMINEES PTY LTD	1,266,333	0.499%
MELBOURNE CORPORATION OF AUSTRALIA PTY LTD	1,132,883	0.446%
HERRO INTERNATIONAL PTY LIMITED	973,218	0.383%
	157,751,643	**62.111%**

ON MARKET BUY BACK

There is no current on-market buy back.


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RESPONSIBLE ENTITY AND PRINCIPAL PLACE OF BUSINESS OF THE TRUST

Folkestone Investment Management Limited
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Melbourne VIC 3000

DIRECTORS OF THE RESPONSIBLE ENTITY

Grant Bartley Hodgetts (Chairman)
Michael Francis Johnstone
Victor David Cottren
Nicholas James Anagnostou

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Sydney NSW 2000

Australia & New Zealand Banking Group Limited
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Folkestone
EDUCATION TRUST