Folkestone
EDUCATION TRUST

HALF YEAR FINANCIAL REPORT
31 DECEMBER 2017

CONTENTS

Folkestone Investment Management Limited
ABN 46 111 338 937 AFSL 281544

KEY HIGHLIGHTS

$55.4M
STATUTORY PROFIT
▼ 19.9%

26.8%
GEARING
▼ 0.9%

$21.0M
DISTRIBUTABLE INCOME
▲ 12.3%

$2.67
NTA PER UNIT
▲ 6.4%

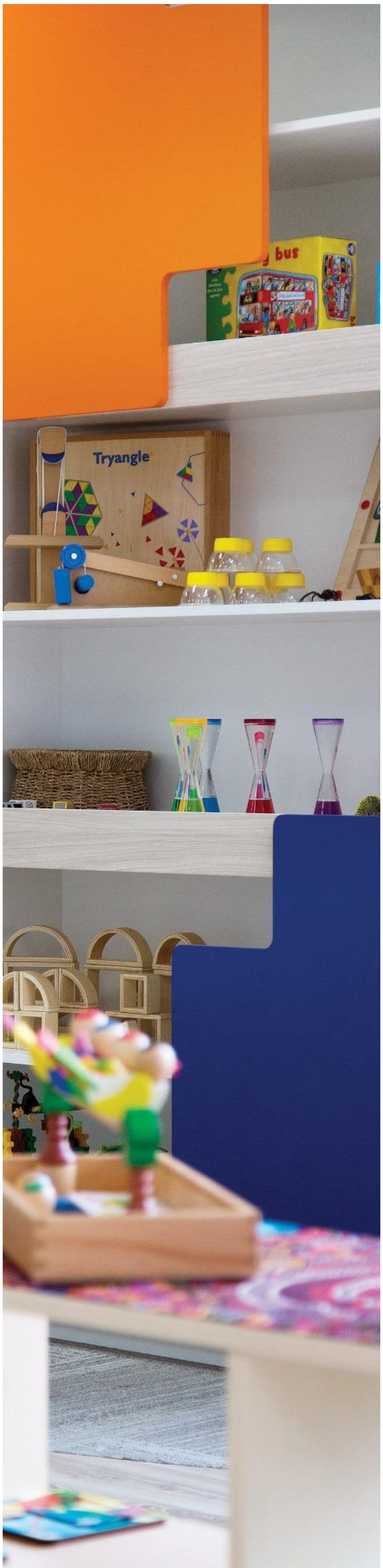
7.55cpu
SIX MONTH DISTRIBUTION
▲ 6.3%

100%
OCCUPANCY

FINANCIAL SUMMARY

	Dec 2017	Jun 2017	Jun 2016
Total Assets ($m)	954.1	903.3	753.6
Gearing (%)	26.8	27.7	26.6
Units on Issue (m)	254.6	250.6	248.1
NTA per unit ($)	2.67	2.51	2.14

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 half year ended 31 December 2017. FET is an ASX listed property trust investing in early learning property assets.

KEY HIGHLIGHTS FOR THE HALF YEAR

- Distributable income of $21.0 million, an increase of 12.3% on pcp;
- Distribution of 7.55 cents per Unit (“cpu”), an increase of 6.3% on pcp;
- NTA per Unit of $2.67, an increase of 6.4% from 30 June 2017;
- FET’s development pipeline, post completions, is now 26 sites (+7) with a total value of $156.3 million;
- 3 developments were completed, with a completion value of $16.5 million;
- 14 five year options were exercised and 10 new leasing transactions were completed;
- 21 market rent reviews were completed, achieving an average rent increase of 4.8%; and
- 7 properties were sold for a total of $10.9 million, at an 11.2% premium to carrying values[1].

TRUST PERFORMANCE

FET paid distributions to investors of 7.55 cpu for the half year, in accordance with the annual FY18 forecast of 15.1 cpu.

FET provided a total return of 19.5 per cent for the year to 31 December 2017, outperforming the S&P/ASX 300 A-REIT Accumulation Index (“Index”) return of 6.5 per cent for the same period. FET has also outperformed the Index over three years at 19.6 per cent per annum (v 11.3 per cent per annum), five years at 25.2 per cent per annum (v 13.4 per cent per annum) and ten years at 14.6 per cent per annum (v 1.8 per cent per annum).

PROPERTY PORTFOLIO

Rent Reviews

During the half year, FET completed 21 market rent reviews achieving an average increase of 4.8 per cent over the prior year’s rent, noting that 95 per cent of these leases have a capped rental increase of 5.0 per cent over the prior year’s rent. The cap has restricted potential rental increases with some properties considered to have revised rents, still significantly below their market equivalents.

The like-for-like rental growth across the portfolio for the year was 3.0 per cent taking into account both market, CPI based reviews and new leasing transactions. For the remainder of FY18, there are a further 23 market rent reviews scheduled to be completed.

Lease Renewals

During the half year, all 14 option renewals were exercised, increasing the term remaining on these properties from 5 to 10 years. In addition, FET has entered into 10 new 15 year leases for existing FET properties, resulting in a 17.3 per cent increase in rent payable.

These transactions, together with the completion of three new developments has resulted in the weighted average lease expiry for the portfolio increasing from 9.1 years to 9.2 years over the half year. There are a further 18 option renewals remaining for FY18.

[1] Carrying value at contract date.

Property Valuations

During the half year, a total of 355 properties in the portfolio were revalued. Of these, 62 properties were independently revalued as part of FET's three year independent rolling valuation cycle, with the remainder being Directors' valuations. The Directors' valuations were adopted utilising the parameters drawn from the current independent valuations, to ensure consistency across the portfolio.

The outcome is an overall increase of $33.9 million over the 30 June 2017 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 half year to 31 December 2017 was 20 basis points, decreasing the overall portfolio yield from 6.7 per cent to 6.5 per cent. The overall passing yield achieved on the freehold independent valuations was 6.3 per cent, a 50 basis point improvement on the passing yield on the same assets from 30 June 2017.

Subsequent to 31 December 2017, a further 13 independent valuations have been completed. These valuations have resulted in a 6.4 per cent increase in value ($1 million) compared with the Directors' valuations adopted at 31 December 2017.

DEVELOPMENT PIPELINE

At 30 June 2017, FET owned 17 development sites. During the half year, FET settled 7 more development sites with an aggregate completion value of $43.8 million. Three development sites commenced operations in the half year ending 31 December 2017 with a completion value of $16.5 million. The completed development sites were delivered on time and on budget and provides FET with a yield on cost of 7.5 per cent. FET has contracted a further 7 development sites with a completion value of $42.4 million, with settlement of these sites expected during FY18 and FY19.

The current development pipeline of 26 sites has a forecast upon completion value of $156.3 million and is expected to add approximately $10.0 million per annum of net rental income to FET, an increase of 17.8 per cent on FET's existing lease income.

FET continues to target new opportunities based on our strong understanding of the market, with the key focus on selecting high quality real estate supported by sound early learning demand and supply fundamentals. The acquisitions are consistent with FET's strategy of enhancing the quality of the property portfolio and increasing earnings.

DISPOSALS

FET's capital and portfolio management strategy includes the sale of selective non-core properties, with proceeds redeployed to new property purchases and/or developments. This provides longer-term benefits to investors in the form of substantially superior real estate where demand, rental and capital growth and underlying land values are expected to be significantly stronger with lower long term risk.

FET settled the sale of 7 properties during the half year, four of which were contracted in the prior financial year. The gross proceeds of the disposals totalled $10.9 million, at an average yield of 7.5 per cent and an 11.2 per cent premium to carrying values as at the date contracted.

The disposals consisted of five regional Queensland assets (one with a WALE of less than three years), one ACT asset and one South Australian regional asset (WALE of less than 1.5 years).

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S REPORT CONT.

CAPITAL MANAGEMENT

Debt Funding

As at 31 December 2017, FET's debt facilities totalled $317 million, comprising bilateral facilities with ANZ and HSBC. The facilities are drawn to $255 million as at 31 December 2017. The facilities are split into various tranches ranging from June 2019 to June 2022 with a weighted debt maturity of 3.0 years. FET is exploring options of longer-dated debt maturities and non-bank debt financing which are consistent with FET's predictable income and a weighted average lease expiry of 9.2 years.

FET has significant headroom under its debt covenants with gearing at 31 December 2017 of 26.8 per cent, which is below the targeted long term range 30 – 40 per cent.

As part of FET's interest rate management policy, FET has staggered hedging positions through to June 2022. The average hedged position is 51 per cent based on the existing debt of $255 million at an average rate of 2.97 per cent per annum (30 June 2017: 2.95 per cent per annum).

As at 31 December 2017, FET's cost of debt is 4.2 per cent per annum (30 June 2017: 4.2 per cent per annum) and the all-in-cost of debt is 4.5 per cent per annum (30 June 2017: 4.5 per cent per annum) which includes the amortisation of deferred borrowing costs.

EARLY LEARNING MARKET

As previously indicated, operators are currently facing tougher trading conditions resulting in marginally softer occupancy levels. The impact varies between locations and operators, with operators prepared to reinvest in their business and improve their service offering having greater success at being able to maintain/increase occupancies. Operator trading conditions have been negatively impacted by a combination of two key factors:

- increased competition through the supply of new centres; and
- increased cost of living increases including childcare combined with the diminished effectiveness of the $7,613 per annum childcare rebate which has had minimal indexation since July 2008.

The passing of the Commonwealth Government's "Jobs for Families" package, supported by all political parties, will assist in alleviating this pressure. This package which includes an additional $3.5 billion of funding to the industry provides a defined funding platform for the future. From 1 July 2018, the rebate will reset and the removal of the existing cap for families earning under $185,000 per annum is expected to provide some positive impetus to the sector.

For calendar year 2017, there was a net increase of 318[2] new centres across Australia (+4.5%). Following the March 2017 quarter when 113[2] new centres were completed, 205 new centres were completed for the remaining 9 months at an average rate of 68 centres per quarter, indicating that the growth in the supply of new childcare centres appears to have slowed as operators have reduced their expansion plans to more specific locations and numbers. Lending criteria for debt funding, for both operators and developers has also tightened. As a result, we expect the increase in the number of new centres to moderate and revert back to a similar growth rate in line with demand requirements.

OUTLOOK AND DISTRIBUTION FORECAST

Management reconfirms the FY18 forecast distribution guidance of 15.1 cpu. This is based on continued tenant performance. FET will continue to pay quarterly distributions, one month in arrears.

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 FET's characteristics and overall investment objectives.

Grant Hodgetts
Chairman

Nick Anagnostou
Chief Executive Officer

[2] Canaccord data

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 half year and to the date of this report comprise:

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

PRINCIPAL ACTIVITIES

The Trust is a specialist early education property owner which as at 31 December 2017 owns a total of 406 early learning properties (including 21 development sites) in locations around Australia and New Zealand. The Trust also owns a medical centre and a portfolio of property securities.

During the period the Trust settled 7 development sites. During the period 3 development sites in Wyndham Vale (Victoria), South Morang (Victoria) and Williams Landing (Victoria) were completed and are now operational. During the period, the Trust settled the disposal of 7 existing early learning properties.

The Trust derives its revenue from both lease income received from its investment properties and investment income (distributions) received from its property securities.

REVIEW AND RESULTS OF OPERATIONS

A summary of the key results during the half year are as follows:

- distributable income of $21.0 million, an increase of 12.3% on the previous corresponding period (“pcp”);
- gearing decreased (Borrowings and Cash Overdraft / Total Assets) to 26.8%;
- statutory profit of $55.4 million compared to a profit of $69.1 million in the pcp;
- net tangible asset (NTA) per unit increased from $2.51 at 30 June 2017 to $2.67 at 31 December 2017; and
- weighted average lease expiry at 31 December 2017 of 9.2 years.

REVIEW AND RESULTS OF OPERATIONS CONT.

Half Year Ended 31 December ($m's)	2017	2016
Revenue		
Lease income	29.7	27.7
Property outgoings recoverable	4.9	4.2
Distributions	1.1	0.7
	35.7	**32.6**
Expenses		
Finance costs	4.6	5.0
Property outgoings	6.7	5.8
Responsible entity's remuneration	2.6	2.3
Other expenses	0.8	0.8
	14.7	**13.9**
Distributable income*	**21.0**	**18.7**
Net revaluation increment of investment properties	33.9	47.3
Change in fair value of derivative financial instruments	0.6	3.2
Gain on sale of investment properties	0.1	-
Other	(0.2)	(0.1)
Net profit attributable to Unitholders for the half year	**55.4**	**69.1**

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

DISTRIBUTIONS

Distributions paid for the half year ended 31 December 2017 totalled 7.55 cents per unit (2016: 7.1 cents per unit).

Distributions declared by the Trust since 30 June 2017 were:

Period	Paid/Payable	Cents per Unit	Amount $'000
Quarter ending 30 September 2017	20 October 2017	3.775	9,589
Quarter ending 31 December 2017	22 January 2018	3.775	9,591
Total		**7.55**	**19,180**

STATE OF AFFAIRS

Capital Management and Financial Position

As at 31 December 2017 the total assets of the Trust were $954.1 million, gross borrowings were $255.0 million and net assets were $680.2 million. The net tangible asset per unit is $2.67 (30 June 2017: $2.51). The Trust has gearing (Borrowings and Cash Overdraft / Total Assets) of 26.8 per cent (30 June 2017: 27.7 per cent).

The Trust has 254,551,016 units on issue as at 31 December 2017. During the period, as part of the Trust's Distribution Reinvestment Plan ("DRP"), 3,989,820 units were issued at an average issue price of $2.62 per unit.

DIRECTORS' REPORT CONT.

STATE OF AFFAIRS CONT.

The Trust has bilateral banking facilities of $317 million provided equally by Australia and New Zealand Banking Group Limited ("ANZ") and Hongkong and Shanghai Banking Corporation Limited ("HSBC"). Key covenants are Loan to Value Ratio of 50 per cent and Interest Cover Ratio being greater than 2.0 times. As at 31 December 2017, the Trust complied with all of its debt covenant ratios and obligations.

As at 31 December 2017 the Trust's debt facilities are summarised below:

Facility Maturity	Facility Limit ($000's)	Drawn Amount ($000's)
June 2019	76,750	75,250
June 2020	101,750	75,250
June 2021	56,750	52,250
June 2022	81,750	52,250
TOTAL	317,000	255,000

The Trust also has an overdraft facility with ANZ of $10 million ($0.8 million drawn at 31 December 2017).

Hedging Arrangements

In accordance with the Trusts policy to hedge a proportion of its debt it has the following interest rate swaps in place:

Period	Hedged Amount $'000	Hedged Rate %	% Hedged of Drawn Debt
FY18: July 2017 - June 2018	172,000	2.80	67
FY19: July 2018 - June 2019	157,000	3.00	62
FY20: July 2019 - June 2020	130,000	3.00	51
FY21: July 2020 - June 2021	110,000	3.00	43
FY22: July 2021 - June 2022	100,000	3.00	39

MATTERS SUBSEQUENT TO THE END OF THE PERIOD

Subsequent to the period end, there are no obvious 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 not otherwise disclosed in this report.

ROUNDING OF AMOUNTS

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 and financial report. Amounts in the Directors' report and financial report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 9.

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

Grant Hodgetts
Chairman
Folkestone Investment Management Limited
Melbourne, 14 February 2018

Auditor's Independence Declaration

As lead auditor for the review of Folkestone Education Trust for the half-year ended 31 December 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 review; and

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

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

Andrew Cronin
Partner
PricewaterhouseCoopers

Melbourne
14 February 2018

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOLKESTONE EDUCATION TRUST AND ITS CONTROLLED ENTITIES

For the half year ended 31 December 2017

Consolidated Group	31 Dec 2017 $'000	31 Dec 2016 $'000
Revenue		
Lease income	29,493	27,609
Property outgoings recoveries	4,924	4,206
Distribution income	1,097	734
Interest income	-	2
Gain on sale of investment properties	107	-
Net property revaluation increment	33,902	47,323
Change in fair value of derivative financial instruments	562	3,190
Realised and unrealised foreign exchange gains	-	2
Total revenue	**70,085**	**83,066**
Expenses		
Finance costs	4,577	5,068
Property outgoings	5,630	4,801
Property valuation fees	235	191
Responsible Entity's remuneration	2,606	2,262
Rent on leasehold properties	789	769
Other expenses	803	809
Realised and unrealised foreign exchange losses	64	-
Loss on sale of investment properties	-	19
Total expenses	**14,704**	**13,919**
Net profit attributable to unitholders for the half year	**55,381**	**69,147**
Gain/(loss) on revaluation of available-for-sale financial assets	3,986	(1,103)
Total comprehensive income for the half year	**59,367**	**68,044**
Earnings per unit	Cents	Cents
Basic earnings per unit	21.82	27.78
Diluted earnings per unit	21.82	27.78

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

CONSOLIDATED BALANCE SHEET

FOLKESTONE EDUCATION TRUST AND ITS CONTROLLED ENTITIES

As at 31 December 2017

Consolidated Group	Notes	31 Dec 2017 $'000	30 Jun 2017 $'000
ASSETS			
Current assets			
Cash and cash equivalents		1,205	2,431
Trade and other receivables		729	1,246
Other current assets	2	3,853	2,400
Investment properties expected to be sold within 12 months	3	9,471	8,728
Total current assets		**15,258**	**14,805**
Non-current assets			
Investment properties	3	895,577	849,153
Investment properties straight line rental asset	3	3,269	3,358
Available-for-sale financial assets	4	39,974	35,989
Total non-current assets		**938,820**	**888,500**
Total assets		**954,078**	**903,305**
LIABILITIES			
Current liabilities			
Trade and other payables		5,235	12,124
Distribution payable		9,781	9,049
Derivative financial instruments		1,226	1,432
Rent received in advance		1,045	425
Total current liabilities		**17,287**	**23,030**
Non-current liabilities			
Borrowings	5	253,592	247,290
Derivative financial instruments		2,959	3,315
Total non-current liabilities		**256,551**	**250,605**
Total liabilities		**273,838**	**273,635**
Net assets		**680,240**	**629,670**
EQUITY			
Contributed equity	6	340,775	330,392
Available-for-sale financial assets reserve		14,429	10,443
Undistributed profit		325,036	288,835
Total equity		**680,240**	**629,670**

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOLKESTONE EDUCATION TRUST AND ITS CONTROLLED ENTITIES

For the half year ended 31 December 2017

Consolidated Group	Contributed Equity $'000	Available-for-sale financial assets reserve $'000	Undistributed Profit $'000	Total $'000
Balance at 1 July 2016	324,088	5,737	201,975	531,800
Profit attributable to unitholders	-	-	69,147	69,147
Other comprehensive income	-	(1,103)	-	(1,103)
Units issued	3,063	-	-	3,063
Unit issue transaction costs	(20)	-	-	(20)
Distribution paid or provided for	-	-	(17,679)	(17,679)
Balance at 31 December 2016	**327,131**	**4,634**	**253,443**	**585,208**
Balance at 1 July 2017	330,392	10,443	288,835	629,670
Profit attributable to unitholders	-	-	55,381	55,381
Other comprehensive income	-	3,986	-	3,986
Units issued	10,442	-	-	10,442
Unit issue transaction costs	(59)	-	-	(59)
Distribution paid or provided for	-	-	(19,180)	(19,180)
Balance at 31 December 2017	**340,775**	**14,429**	**325,036**	**680,240**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOLKESTONE EDUCATION TRUST AND ITS CONTROLLED ENTITIES

For the half year ended 31 December 2017

Consolidated Group	31 Dec 2017 $'000	31 Dec 2016 $'000
Cash flows from operating activities		
Property income received (inclusive of GST)	38,856	33,895
Cash payments in the course of operations (inclusive of GST)	(11,967)	(10,169)
Distributions received	1,207	809
Interest received	-	2
Finance costs paid	(5,221)	(4,607)
Net cash inflow from operating activities	**22,875**	**19,930**
Cash flows from investing activities		
Proceeds from sale of investment properties	10,824	-
Payments for acquisition of investment properties (including construction costs)	(32,731)	(33,682)
Net cash outflow from investing activities	**(21,907)**	**(33,682)**
Cash flows from financing activities		
Proceeds from borrowings	10,000	30,000
Repayment of borrowings	(4,094)	(2,690)
Proceeds from issue of units	7,356	-
Distributions paid	(15,456)	(14,046)
Net cash (outflow)/inflow from financing activities	**(2,194)**	**13,264**
Net (decrease) in cash held	**(1,226)**	**(488)**
Cash at the beginning of the half year	**2,431**	**790**
Cash at the end of the half year	**1,205**	**302**

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

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION OF HALF YEAR REPORT

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial report to the extent they have not already been disclosed in the other notes below. These policies have been consistently applied to all the years presented, unless otherwise stated. The report for the half-year reporting period ended 31 December 2017 has been prepared in accordance with the Australian Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Act 2001*.

This condensed consolidated interim financial report does not include all notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by the Trust during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The consolidated financial report also complies with International Financial Reporting Standards (IFRS) as Issued by the International Accounting Standards Board (IASB).

New and amended standards adopted by the Trust

A number of new or amended standards became applicable for the current reporting period, however, the Trust did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards. There may be some changes to the disclosures in the 30 June 2018 annual report as a consequence of these amendments.

The Trust has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2017:

- AASB 2016-1 *Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for Unrealised Losses*
- AASB 2016-2 *Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107, and*
- AASB 2017-2 *Amendments to Australian Accounting Standards - Further Annual Improvements to Australian 2014 - 2016 cycle*.

The adoption of these amendments did not have any impact on the amounts on the amounts recognised in prior periods and will also not affect the current period or future periods.

New standards and interpretations not yet adopted by the Trust

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Trust. The Trust's assessment of the impact of these new standards and Interpretations are set out below.

(i) AASB 9 Financial instruments

AASB 9 *Financial Instruments* 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. The standard must be applied for financial years on or after 1 January 2018. The Trust does not intend to adopt AASB 9 before its mandatory date.

The Trust has assessed the effects of applying the new standard on the Trust's financial statements and has determined that as at 1 January 2018, the impact is not expected to be material.

(ii) AASB 15 Revenue from contracts with customers

The AASB 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.

The Trust has assessed the effects of applying the new standard on the Trust's financial statements and has determined that as at 1 January 2018, the impact is not expected to be material. The Trust does not expect to adopt the new standard before its mandatory date.

(iii) 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 leases is removed. Under the new standard, an asset (the right to use the lease item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

1. BASIS OF PREPARATION OF HALF YEAR REPORT CONT.

The Trust has assessed the effects of applying the new standard on the Trust's financial statements and has determined that as at 1 January 2019, the impact is not expected to be material. The Trust does not expect to adopt the new standard before its mandatory date.

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

2. OTHER CURRENT ASSETS

Consolidated Group	31 Dec 2017 $'000	30 Jun 2017 $'000
Prepayments	1,686	641
Accrued income	100	383
GST receivable	170	514
Lease incentive/fee asset	1,897	862
Total	**3,853**	**2,400**

3. INVESTMENT PROPERTIES

Consolidated Group	31 Dec 2017 $'000	30 Jun 2017 $'000
Freehold properties - at valuation	807,915	773,586
Development properties - at cost**	68,098	56,625
Leasehold properties - at valuation	30,750	28,580
Capitalised transaction costs in relation to properties contracted and not settled	1,554	2,448
Total investment properties	908,317	861,239
Less: Investment properties expected to be sold within 12 months	(9,471)	(8,728)
Less: Straight line rental asset	(3,269)	(3,358)
Carrying amount at the end of the half year	**895,577**	**849,153**
Movement in investment properties:		
Balance at the beginning of the period	849,153	716,132
Acquisition of properties (including construction costs)**	23,983	64,177
Disposal of properties*	(1,990)	(4,135)
Investment properties expected to be sold in 12 months	(9,471)	(8,728)
Net revaluation increment	33,902	81,707
Carrying amount at the end of the half year	**895,577**	**849,153**

* *Disposal of properties excludes prior year's investment properties classified as expected to be sold within 12 months.*

** *For the half year ended 31 December 2017, in accordance with AASB123, acquisition of properties (including construction costs) includes $1.1 million of capitalised interest. Capitalised interest was calculated using 4.2%, being the weighted average interest rate applicable to the Trust's borrowings during the period.*

a) 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 and either the latest full independent valuation or latest independent update. Total acquisition costs include incidental costs of acquisition such as stamp duty and legal fees.

b) 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.

c) Independent valuations as at 31 December 2017 were conducted by numerous valuers. The valuation methodologies used were capitalisation and direct comparison approaches and were consistent with the requirements of relevant Accounting Standards and property valuation guidelines.

d) During the half year ended 31 December 2017, 62 external property valuations were conducted, 59 in Australia and 3 in New Zealand.

Valuations on the 59 Australian properties increased by $10.7 million or 9.4% on the carrying value as at 30 June 2017. The 52 Australian freehold operating properties increased by $8.5 million or 8.6% on the carrying value as at 30 June 2017 and the 7 leasehold operating properties increased by $2.2 million or 14.5%.

Valuations on the 3 New Zealand properties increased by $0.1 million or 4.5% on carrying value as at 30 June 2017. In New Zealand Dollars, the valuations of the New Zealand properties increased by NZD$0.2 million or 8.1% on the carrying value as at 30 June 2017, which included Directors' valuations.

In addition to the external valuations, 293 Directors' valuations have been adopted, 245 in Australia and 48 in New Zealand.

Directors' valuations on the 245 Australia properties resulted in an increment of $20.3 million. The Directors' valuations were undertaken due to continued 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 external valuations.

Directors' valuations on the 48 New Zealand resulted in a decrement of $0.7 million, which was due to a decrement of $2.7 million due to movements in exchange rates since the last external valuation, partially offset by an increment of $2.0 million due to evidence of an increase in value due to rental increase and yield compression. In New Zealand Dollars, the Directors' valuations of the New Zealand properties resulted in an increment of NZD$2.1 million or 3.0% on the carrying value as at 30 June 2017.

During the period, there were valuation increases of $3.5 million on the three completed development sites based upon the fair value of the properties upon completion.

4. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Consolidated Group	31 Dec 2017 $'000	30 Jun 2017 $'000
Units in listed securities (Arena REIT - ASX:ARF) - at market valuation	23,333	23,126
Units in unlisted securities (Folkestone CIB Fund) - at Directors' valuation	16,641	12,863
Carrying amount at the end of the half year	**39,974**	**35,989**
Movements in available-for-sale financial assets:		
Balance at the beginning of the half year	35,989	31,283
Movement in available-for-sale financial assets reserve	3,985	4,706
Carrying amount at the end of the half year	**39,974**	**35,989**

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

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

5. BORROWINGS

Consolidated Group	31 Dec 2017 $'000	30 Jun 2017 $'000
Bank loans - secured	255,000	245,000
Less: up front transaction costs	(2,563)	(3,311)
Plus: amortised up front transaction costs	395	747
	252,832	**242,436**
Bank overdraft	760	4,854
	253,592	**247,290**

5. BORROWINGS CONT.

The Trust has bilateral banking facilities of $317 million provided equally by Australia and New Zealand Banking Group Limited ("ANZ") and Hongkong and Shanghai Banking Corporation Limited ("HSBC"). Key covenants are Loan to Value Ratio of 50 per cent and Interest Cover Ratio being greater than 2.0 times. As at 31 December 2017, the Trust complied with all of its debt covenant ratios and obligations.

As at 31 December 2017 the Trust's debt facilities are summarised below:

Facility Maturity	Facility Limit ($000's)	Drawn Amount ($000's)
June 2019	76,750	75,250
June 2020	101,750	75,250
June 2021	56,750	52,250
June 2022	81,750	52,250
TOTAL	**317,000**	**255,000**

The Trust also has an overdraft facility with ANZ of $10 million ($0.8 million drawn at 31 December 2017).

Hedging Arrangements

In accordance with the Trusts policy to hedge a proportion of its debt it has the following interest rate swaps in place:

Period	Hedged Amount $'000	Hedged Rate %	% Hedged of Drawn Debt
FY18: July 2017 - June 2018	172,000	2.80	67
FY19: July 2018 - June 2019	157,000	3.00	62
FY20: July 2019 - June 2020	130,000	3.00	51
FY21: July 2020 - June 2021	110,000	3.00	43
FY22: July 2021 - June 2022	100,000	3.00	39

6. CONTRIBUTED EQUITY

Consolidated Group	Units on issue No '000	Units on issue $ '000
Balance at 1 July 2016	248,149	324,088
Units issued	1,171	3,063
Transaction costs	-	(20)
Balance at 31 December 2016	**249,320**	**327,131**
Balance at 1 July 2017	250,561	330,392
Units issued	3,990	10,442
Transaction costs	-	(59)
Balance at 31 December 2017	**254,551**	**340,775**

NOTES TO THE FINANCIAL STATEMENTS CONT.

7. 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 both in Australia and New Zealand. Details of the geographic segment is as follows:

	31 Dec 2017 $'000	31 Dec 2016 $'000
Total revenue		
Australia	67,430	75,640
New Zealand	2,655	7,426
	70,085	**83,066**

	31 Dec 2017 $'000	30 Jun 2017 $'000
Investment properties		
Australia	839,987	792,289
New Zealand	68,330	68,950
	908,317	**861,239**

8. 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	31 Dec 2017 $'000	31 Dec 2016 $'000
Not later than 1 year	32,889	27,276

**Capital expenditure commitments only include contracts executed as at 31 December 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 below:

The property leases are typically 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	31 Dec 2017 $'000	31 Dec 2016 $'000
Receivable:		
not later than 1 year	62,445	58,683
later than 1 year but not later than 5 years	272,560	261,265
later than 5 years	309,612	252,570
	644,617	**572,518**

8. CAPITAL AND LEASE COMMITMENTS CONT.

Leasehold property commitments

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

The property leases are typically 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 to be increased by the minimum of CPI to a maximum of 5% pa. A right or option exists to renew the leases for a further term. The lease allows for subletting of all lease areas.

Consolidated Group	31 Dec 2017 $'000	31 Dec 2016 $'000
Payable:		
not later than 1 year	1,292	1,261
later than 1 year but not later than 5 years	5,700	5,592
later than 5 years	6,214	7,040
	13,206	**13,893**

9. CONTINGENT LIABILITIES

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

10. EVENTS OCCURRING AFTER THE REPORTING PERIOD

The financial report was authorised on 14 February 2018 by the Board of Directors of the Responsible Entity.

There are no obvious 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, not otherwise disclosed in this report.

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:
   i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
   ii) giving a true and fair view of the Trust's financial position as at 31 December 2017 and of its performance for the half 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 half year ended 31 December 2017 in accordance with the provisions of the Trust Constitution dated 8 July 2002 (as amended).

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

Grant Hodgetts
Chairman
Folkestone Investment Management Limited
Melbourne, 14 February 2018

Independent auditor's review report to the unitholders of Folkestone Education Trust

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Folkestone Education Trust (the Trust), which comprises the consolidated balance sheet as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the Directors' declaration for Folkestone Education Trust (the consolidated entity). The consolidated entity comprises the Trust and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The Directors of Folkestone Investment Management Limited, the Responsible Entity of the Folkestone Education Trust and its controlled entities of the Trust are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Folkestone Education Trust, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

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INDEPENDENT AUDITOR'S REPORT CONT.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Folkestone Education Trust is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

Andrew Cronin
Partner

Melbourne
14 February 2018

RESPONSIBLE ENTITY AND PRINCIPAL PLACE OF BUSINESS OF THE TRUST

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Michael Francis Johnstone
Victor David Cottren
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Folkestone
EDUCATION TRUST