Folkestone
EDUCATION TRUST

ASX ANNOUNCEMENT
17 FEBRUARY 2015

FOLKESTONE EDUCATION TRUST
RESULTS FOR THE HALF YEAR ENDED 31 DECEMBER 2014

Folkestone Investment Management Limited as Responsible Entity of the Folkestone Education Trust ("FET" or the "Trust") provides the results of the Trust for the half year ended 31 December 2014. These results do not include the impact of the merger with the Folkestone Social Infrastructure Trust implemented on 6 January 2015 unless specifically stated.

KEY HIGHLIGHTS FOR THE HALF YEAR

- Statutory profit of $52.3 million, up 144.8% from $21.3 million in the previous corresponding period ("pcp")
- Distributable income of $13.1 million, an increase of 15.9% on pcp
- Distribution of 6.35 cents per unit ("cpu"), an increase of 5.8% on pcp
- NTA per unit of $1.69, an increase of 12.7% from 30 June 2014
- Total Unitholders' return[1] for the half year to 31 December 2014 of 25.0%
- Successful merger with Folkestone Social Infrastructure Trust ("FST"), completed January 2015

FINANCIAL SUMMARY

The tables below provide a summary of the Trust's 31 December 2014 results in comparison to the previous corresponding period:

Half Year Ended 31 December	2014	2013	Var. %
Total operating revenue ($m)	24.4	21.1	15.6
Total operating expenses ($m)	11.3	9.8	15.3
Distributable income ($m)	13.1	11.3	15.9
Distribution (cpu)	6.35	6.0	5.8

As at	Dec 14	Jun 14	Var. %
Total Assets ($m)	518.5	464.6	11.6
Investment Properties[2] ($m)	515.3	461.2	11.7
Borrowings[3] ($m)	156.4	147.3	6.2
Net Assets ($m)	347.6	306.7	13.3
Gearing[4] (%)	30.2	31.7	-1.5
NTA per unit ($)	1.69	1.50	12.7

[1] *Total return includes distributions and change in unit price for the period.*
[2] *Includes $1.0 million of transaction costs in relation to properties contracted and not settled.*
[3] *Borrowings as at 31 December 2014 include loans of $152.0 million and bank overdraft of $4.4 million.*
[4] *Gearing is calculated by borrowings / total assets.*

PORTFOLIO PERFORMANCE

Key portfolio performance criteria as at 31 December 2014:

As at 31 December	2014
Value of Investment Properties ($m)	514.3
Current Annual Income ($m)	43.8
Average Lease Income Increase (y-o-y) (%)	2.5
Property Yield – Freehold Properties (%)	8.0
Property Yield – Leasehold Properties (%)	13.0
Total Property Yield (%)	8.3
Occupancy Rate (%)	99.7
Weighted Average Lease Expiry (yrs) (by income)	8.4

PROPERTY SUMMARY

The Trust's early learning centre portfolio as at 31 December 2014:

	No of Centres	Carrying Value ($m)	Current Annual Income ($m)
Australia	294	431.7	37.3[5]
New Zealand	51	55.6	4.4[6]
Total Improved Properties	**345**	**487.3**	**41.7**
Development Sites	10	27.0	2.1
Total Properties	**355**	**514.3**	**43.8**

TRUST PERFORMANCE

FET paid distributions of 6.35 cpu for the half year in accordance with its forecast.

FET provided a total return of 25.0% for the half year to 31 December 2014, outperforming the S&P/ASX 300 A-REIT Accumulation Index ("Index") return of 12.7% for the same period. Historical returns have also outperformed the Index with one year at 39.7% pa (v 26.8%), three years at 40.3% pa (v 21.8%) and for five years at 43.2% pa (v 12.0% pa).

The Trust's market capitalisation has increased from $337 million at 30 June 2014 to $410 million at 31 December 2014. Post the settlement of the FST merger, FET's market capitalisation is $506 million[7].

PROPERTY PORTFOLIO

As at 31 December 2014, the Trust has 355 properties, comprising 345 improved properties and 10 development sites. Occupancy rate across the portfolio was 99.7%

During the half, 42 of 47 five year options commencing December 2019 were renewed effectively increasing the term remaining on these leases from 5 to 10 years.

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[5] *Includes head-lease rent on leasehold properties of $1.1m.*
[6] *Based on NZD rent of $4.6 million at an exchange rate of 1.0453 as at 31 December 2014.*
[7] *As at 16 February 2015 based on price of $2.07 per Unit.*

Market rent reviews (effective December 2014) are currently being negotiated in respect of 51 leases, which include all 47 option leases with a potential rental increase outcome ranging between 3 – 5% (cap).

The WALE of the portfolio has increased from 8.0 years at June 2014 to 8.4 years at 31 December 2014.

There are no major lease expiries in the portfolio until 2020 (10% of portfolio by income) and 2021 (24% of the portfolio by income) of the portfolio by income. The tenants are typically required to provide 5 years notice in relation to the 5 year option renewal.

PROPERTY VALUATIONS

During the half year to 31 December 2014, 64 properties were independently revalued as part of the Trust's three year independent rolling valuation cycle:

- the valuations of the 60 Australian properties increased by $9.8 million or 13.4%, largely driven by improvements in capitalisation rates since 30 June 2014. The largest valuation increases were achieved in Queensland of $3.6 million or 13.3% on 21 properties, New South Wales of $3.3 million or 17.7% on 16 properties and Victoria of $2.6 million or 15.2% on 12 properties. Both New South Wales and Victorian markets have continued their strong capital growth driven by yield compression. The Queensland market is showing increased demand for early learning property assets, which is now translating to firmer yields being achieved for recent sales transactions. Given the ongoing buyer appetite across the eastern seaboard, there is expected to be a continued strengthening of demand for Queensland assets and hence we are expecting further tightening of yields applied by valuers in this market in 2015; and
- valuations of the 4 New Zealand properties increased by $0.3 million or 14.2%.

As a result of the firming up of yields in early learning assets, Directors' valuations have been adopted with respect to 200 Australian properties and 47 New Zealand properties that did not have independent valuations performed during the period. This has resulted in an increase of $32.4 million or 10.1%. The largest valuation increases were achieved in Queensland of $12.7 million or 13.0% on 79 properties, New South Wales of $9.1 million or 12.4% on 56 properties and Victoria of $6.2 million or 8.8% on 41 properties.

The Director's valuations were adopted utilising the metrics drawn from current valuation reports to ensure consistency with the independent assessments.

Importantly, the Trust expects the yield compression which has characterised the early learning market place over the last 12 months to enhance the expected returns on the development sites FET has purchased since late 2013.

ACQUISITIONS

FET's growth strategy is based on locating prime sites with quality operators. The focus on acquisitions is to provide accretive earnings and capital growth by focussing on sites within 15km of CBD's, in rapidly expanding growth areas and opportunistic purchases.

FET settled the acquisition of an existing centre at Gungahlin, ACT in October 2014 at a cost of $5.4 million. The yield on this centre was 8.03%.

During the period, FET entered into a further 7 agreements to acquire development sites for new early learning centres. These centres, upon completion, are expected to have an end value of approximately $35.5 million. These development sites are in Camberwell, Hawthorn and Armstrong Creek in VIC, Frenchs Forest, North Manly and Brookvale in NSW and Nedlands in WA. The sites are a good fit to FET's strategy of selecting only quality locations with high underlying demand and proven early learning operators, backed by FET's standard leases.

These transactions will add to FET's weighted average lease expiry profile as well as provide the benefits of introducing quality new properties to the portfolio.

The initial term of the new development site leases is either 15 or 20 years. These leases are triple net in nature, unless prohibited by tenancy laws. Rent increases are annual to a fixed amount of 3.25% or CPI and will provide FET with predictable income growth over time. No incentives are provided and therefore FET's additional income will be truly net effective.

FET's current development pipeline consists of 14 sites with an end value of approximately $68.1 million. A summary is as follows:

	No.	Rent[8] ($m)	Cost ($m)
Development Sites – contracted during half year	7	2.7	35.5
Development Sites – contracted prior to 30 June 2014	7	2.6	32.6
Total Development Sites	**14**	**5.3**	**68.1**

Settlement had not occurred for 4 development sites at 31 December 2014 with these expected to occur in the second half of FY15, subject to various conditions such as satisfactory due diligence and DA approval.

As at 31 December 2014, $27.0 million of costs had been incurred on 10 developments, with the balance of $41.1 million to be funded on a fund-through basis, with completions expected through to December 2016.

Collectively, the average yield on cost of the development pipeline upon completion is 7.8%. This excludes the higher yielding site rent payable during the development phase.

Incorporating the most recent contracted acquisitions, FET's development pipeline of 14 sites is now expected to add approximately $5.3 million of net revenue (up 13%) to FET's lease income, upon completion. The acquisitions are forecast to be accretive to FET's future earnings and distributions.

One development at Baldivis in WA was completed during the period and is now operating as an early learning centre.

Negotiations with other site vendors are progressing and we are confident that FET's pipeline of development opportunities will continue, providing FET with sound opportunities to increase earnings and enhance the quality of the property portfolio.

[8] *Rent on completion*

DISPOSALS

FET's capital management plan includes the selective sale of a number of investment properties with proceeds redeployed to new asset purchases.

FET has sold eight properties in the half year period totalling $9.3 million, of which three have settled ($3.7 million), with the balance to settle in the second half of FY15. Inclusive of sales that occurred immediately prior to 30 June 2014 and which settled in the current financial period, FET has sold 14 properties, with a gross value of $17.2 million. The average passing yield on the sales has been 6.98% with the lowest yield achieved at 6.23%. Notably, seven properties were in regional locations, providing further evidence of yield compression in regional markets as well as in metropolitan markets.

It is expected that the Trust will dispose of a small number of properties in the remainder of FY15. This is driven by a redeployment of capital as well as our on-going portfolio management, whereby we dispose of centres that we believe will not return as well due to age, location, competition or strength of the lease covenant.

CAPITAL MANAGEMENT

Distribution Re-investment Plan ("DRP")

On 9 September 2014, FET re-activated its DRP effective from the September quarter distribution with a discount of 1.5% to the traded FET unit price. For the:

- September quarter - unitholder participation was 26% resulting in 923,261 units being issued at an issue price of $1.83 per unit and a reinvestment of $1.7 million; and
- December quarter - unitholder participation was 24% resulting in 831,834 units being issued at an issue price of $1.92 per unit and a reinvestment of $1.6 million.

Debt Funding

FET has a $173 million syndicated debt facility with National Australia Bank Limited ("NAB") and the Australia and New Zealand Banking Group Limited ("ANZ") which was drawn to $152 million as at 31 December 2014. The undrawn amount of $21 million will be available for FET to assist in funding of future acquisitions and developments.

Hedging

As part of the Trust's interest rate management policy, additional hedging positions were entered into in July 2014. As a result, FET has staggered hedging positions through to June 2019 with an averaged hedged position of 55% based on the existing debt of $152 million. FET has currently hedged 71% of its interest rate exposure for the remainder of FY15 and 62% for FY16.

It is expected that further hedging will be put in place to both top-up existing positions in the later stages of the current hedging profile and also extend the hedging through to June 2020.

Cost of Debt

As at 31 December 2014, the cost of debt is 5.1% pa, which is based on prevailing interest rates, existing swap arrangements and bank margins. The all-in-cost of debt is 5.6% pa which includes the amortisation of deferred borrowing costs.

FST MERGER

On 13 November 2014, FET announced a merger by way of trust scheme that would result in the Trust merging with Folkestone Social Infrastructure Trust ("FST"). At the meeting of FST unitholders on 19 December 2014, the scheme was approved overwhelmingly (over 98% acceptance). Effective 6 January 2015 the scheme was implemented, with ownership of FST transferring to FET.

FST has approximately $93 million of total assets, total liabilities of $25 million and net assets of $68 million. FST owns 47 early learning properties, 1 medical centre and a 15% holding in Folkestone CIB Fund ("FCIB"), which holds a portfolio of police stations and courthouses. A summary of the portfolio is as follows:

As at 31 December 2014	No.	Value ($m)	Rent ($m)	Yield (%)	WALE (yrs)
Early Learning Properties					
Queensland	37	63.1	5.5	8.7	7.0
New South Wales	3	3.0	0.2	7.3	8.0
Western Australia	3	4.5	0.4	8.1	8.0
Northern Territory	2	2.8	0.2	8.6	8.6
Victoria	1	2.6	0.2	7.6	6.2
South Australia	1	1.4	0.1	8.7	8.5
Total Early Learning Properties	**47**	**77.4**	**6.6**	**8.5**	**7.2**
Medical centre	1	7.4	0.6	8.1	5.6[9]
Total – All properties	**48**	**84.8**	**7.2**	**8.5**	**7.0**
FCIB units		8.0			
Total – All properties & securities		**92.8**			

FET considers both the FCIB holding and the medical centre to be non-core, and to maximise their value will assess the disposal of these assets over time.

The merger of FET and FST provides the following benefits to FET:

- increases FET's portfolio of early learning properties from 355 to 402 and the value from $515.3 million to $592.7 million;
- increases the NTA per unit from $1.69 to $1.71, an accretion of 1.2%;
- increases FET's market capitalisation and enhances liquidity;
- reduced transaction cost base through lower stamp duty rates applicable to the merger compared to an outright purchase on market; and

[9] *Based on exercising of 5 year option which occurred subsequent to 31 December 2014*

Folkestone
EDUCATION TRUST

- no additional capital was required from FET's investors or financiers.

The transaction is consistent with FET's overall strategy of acquiring portfolios and individual assets that add to earnings, portfolio quality and both tenant and geographic diversification.

OUTLOOK AND DISTRIBUTION FORECAST

The distribution forecast for FY15 is estimated to be **12.8 cpu**. This is a 6.7% increase on the FY14 distribution level of 12.0 cpu. The forecast is based on continued tenant performance. FET will continue to pay quarterly distributions, one month in arrears.

FET will continue to execute its strategy to be recognised as the leading provider of early learning accommodation and in doing so, providing investors with predictable and secure long term cash-flows with the opportunity for capital growth.

FET will continue to build on its relationships with leading early learning operators in Australia and to strengthen the Trust's profile as the "go to" landlord in the early learning sector.

Sector performance is strengthening, indicated by increases in market rents well in excess of CPI. FET's development site pipeline is expected to add further growth to earnings as those sites are completed, in addition to enhancing FET's overall portfolio quality and WALE.

Management is focused on proactively managing its portfolio to ensure it is positioned for future growth. Unitholders should note that any investment opportunity is assessed with respect to its consistency with the Trust's characteristics and overall investment objectives.

For further information contact:

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Folkestone Education Trust

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TRAVIS BUTCHER
Chief Financial Officer - Funds
Folkestone Education Trust

FURTHER INFORMATION

Folkestone Education Trust
The Folkestone Education Trust is the largest Australian ASX listed (ASX:FET) real estate investment trust (A-REIT) that invests in early learning properties. www.educationtrust.folkestone.com.au

About Folkestone
Folkestone (ASX:FLK) is an ASX listed real estate funds manager and developer providing real estate wealth solutions. Folkestone's funds management platform, with more than $850 million under management, offers listed and unlisted real estate funds to private clients and select institutional investors, while it's on balance sheet activities focus on value-add and opportunistic (development) real estate investments.
www.folkestone.com.au

Appendix 4D

Half Year Report
For the Period Ended 31 December 2014

Name of entity:

Folkestone Education Trust

ABN:

58 102 955 939

1. Details of the reporting period

This report details the results of Folkestone Education Trust (the "Trust") for the half year ended 31 December 2014 (previous corresponding period: half year ended 31 December 2013).

2. Results for announcement to the market

			$A'000			$A'000
2.1	Revenue from ordinary activities	Up	35,377	113.7%	to	66,490
2.2	Profit (loss) from ordinary activities after tax attributable to members	Up	30,906	144.8%	to	52,256
2.3	Net profit (loss) for the period attributable to members	Up	30,906	144.8%	to	52,256
2.4	Interim Distributions – Quarter ending 31 December 2014 – 3.175 cents per unit					
2.5	Record date – 31 December 2014					
2.6	Brief explanation of the figures reported above: For further explanation of the results refer to the ASX Release and the Directors' Report of the half-year report.					

2.7	**Earnings Per Unit (EPU)**	**Dec 2014**	**Dec 2013**
	Basic earnings per unit	25.44	11.83
	Diluted earnings per unit	25.44	11.83

3. Net tangible assets per unit

	Dec 2014	Jun 2014
Net tangible asset backing per ordinary unit	$1.69	$1.50

4. Details of entities over which control has been gained or lost during the period

Not applicable.

5. Details of distributions

Period	Paid	Cents per unit
Quarter ending 30 September 2014	20 October 2014	3.175
Quarter ending 31 December 2014	20 January 2015	3.175
Total		6.35

6. Distribution Reinvestment Plan

The Distribution Reinvestment Plan ("DRP") was re-activated on 9 September 2014 and will apply to future distributions unless notice is given of its suspension or termination.

Applications to participate in or to cease or vary participation in the DRP were required to be correctly completed and lodged by 2 January 2015 if they were to apply to the December quarter distribution.

The key terms of the DRP are as follows:

- A 1.50% discount is applicable to units issued under the DRP.
- No brokerage, commission or other transaction costs will be payable by participants on units acquired under the DRP.
- Units acquired under the DRP rank equally with existing units on issue.
- The price at which units are allocated under the DRP is the daily volume weighted average market price of Folkestone Education Trust units sold in the ordinary course of trading on the ASX during the 10 trading day period starting on the second business day after the record date.

7. Details of associates and joint venture entities

Not applicable.

8. Foreign entities

None.

9. Disputes with auditors or qualifications

Nil

Victor David Cottren
Chairman
Folkestone Investment Management Limited
Melbourne, 17 February 2015

Folkestone
EDUCATION TRUST

HALF YEAR FINANCIAL REPORT
31 DECEMBER 2014

CONTENTS

Folkestone Investment Management Limited
ABN 46 111 338 937 AFSL 281544

KEY HIGHLIGHTS

- STATUTORY PROFIT OF $52.3 MILLION, UP 144.8% FROM $21.3 MILLION IN THE PREVIOUS CORRESPONDING PERIOD (“PCP”)
- DISTRIBUTABLE INCOME OF $13.1 MILLION, AN INCREASE OF 15.9% ON PCP
- DISTRIBUTION OF 6.35 CENTS PER UNIT (“CPU”), AN INCREASE OF 5.8% ON PCP
- NTA PER UNIT OF $1.69, AN INCREASE OF 12.7% FROM 30 JUNE 2014
- TOTAL UNITHOLDERS’ RETURN FOR THE HALF YEAR TO 31 DECEMBER 2014 OF 25.0%
- SUCCESSFUL MERGER WITH FOLKESTONE SOCIAL INFRASTRUCTURE TRUST (“FST”) IN JANUARY 2015

FINANCIAL SUMMARY

	Dec 2014	**Jun 2014**	**Jun 2013**
Total Assets	$518.5m	$464.6m	$368.5m
Investment Property	$515.3m	$461.2m	$366.8m
Gross Debt	$156.4m	$147.3m	$125.8m
Net Assets	$347.6m	$306.7m	$233.5m
Gearing	30.2%	31.7%	34.1%
Units on Issue	206.0m	205.1m	175.5m
NTA per unit	$1.69	$1.50	$1.33

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 2014. FET is an ASX listed property trust investing in early learning property assets.

KEY ACHIEVEMENTS

- Statutory profit of $52.3 million, up 144.8% from $21.3 million in the previous corresponding period ("pcp")
- Distributable income of $13.1 million, an increase of 15.9% on pcp
- Distribution of 6.35 cents per unit ("cpu"), an increase of 5.8% on pcp
- NTA per unit of $1.69, an increase of 12.7% from 30 June 2014
- Total Unitholders' return for the half year to 31 December 2014 of 25.0%
- Successful merger with Folkestone Social Infrastructure Trust ("FST") in January 2015

TRUST PERFORMANCE

The FET paid distributions of 6.35 cpu for the half year in accordance with its forecast.

FET provided a total return of 25.0% for the half year to 31 December 2014, outperforming the S&P/ASX 300 A-REIT Accumulation Index ("Index") of 12.7% for the same period. Historical returns have also outperformed the Index with one year at 39.7% pa (v 26.8%), three years at 40.3% pa (v 21.8%) and for five years at 43.2% pa (v 12.0%).

The Trust's market capitalisation has increased from $337 million at 30 June 2014 to $410 million at 31 December 2014. Post the settlement of the FST merger, FET's market capitalisation is $506 million[1].

[1] *As at 16 February 2015 based on price of $2.07 per Unit.*

PORTFOLIO PERFORMANCE

As at 31 December 2014, the Trust has 355 properties, comprising 345 improved properties and 10 development sites. Occupancy rate across the portfolio was 99.7%

During the half, 42 of 47 five year options commencing December 2019 were renewed effectively increasing the term remaining on these leases from 5 to 10 years.

Market rent reviews (effective December 2014) are currently being negotiated in respect of 51 leases, which include all 47 option leases with a potential rental increase outcome ranging between 3 – 5% (cap).

The WALE of the portfolio has increased from 8.0 years at June 2014 to 8.4 years at 31 December 2014.

There are no major expiries in the portfolio until 2020 (10% of portfolio by income) and 2021 (24% of the portfolio by income) of the portfolio by income with the tenant typically required to provide 5 years notice in relation to the 5 year option renewal.

PROPERTY VALUATIONS

During the half year to 31 December 2014, 64 properties were independently revalued as part of the Trust's three year independent rolling valuation cycle.

The valuations of the 60 Australian properties increased by $9.8 million or 13.4%, largely driven by improvements in capitalisation rates since 30 June 2014. The largest valuation increases were achieved in Queensland of $3.6 million or 13.3% on 21 properties, New South Wales of $3.3 million or 17.7% on 16 properties and Victoria of $2.6 million or 15.2% on 12 properties. Both New South Wales and Victorian markets have continued their strong capital growth driven by yield compression. The Queensland market is showing increased demand for early learning property assets, which is now translating to firmer yields being achieved for recent sales transactions. Given the ongoing buyer appetite across the eastern seaboard, there is expected to be a continued strengthening of demand for Queensland assets and hence we are expecting further tightening of yields applied by valuers in this market in 2015.

Valuations of the 4 New Zealand properties increased by $0.3 million or 14.2%.

As a result of the firming up of yields in early learning assets, 247 Directors' valuations have been adopted with respect to 200 Australian properties and 47 New Zealand properties that did not have independent valuations performed during the period. This has resulted in an increase of $32.4 million or 10.1%. The largest valuation increases were achieved in Queensland of $12.7 million or 13.0% on 79 properties, New South Wales of $9.1 million or 12.4% on 56 properties and Victoria of $6.2 million or 8.8% on 41 properties.

The Director's valuations were adopted utilising the metrics drawn from current valuation reports to ensure consistency with the independent assessments.

Importantly, we expect the yield compression which has characterised the early learning market place over the last 12 months to enhance the returns of the development sites FET has purchased since late 2013.

ACQUISITIONS

FET's growth strategy is based on locating prime sites with quality operators. The focus on acquisitions is to provide accretive earnings and capital growth by focussing on sites within 15km of CBD's, in rapidly expanding growth areas and opportunistic purchases.

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During the period, FET entered into a further 7 agreements to acquire development sites for new early learning

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S REPORT

centres. These centres, upon completion, are expected to have an end value of approximately $35.5 million. These development sites are in Camberwell, Hawthorn and Armstrong Creek in VIC, Frenchs Forest, North Manly and Brookvale in NSW and Nedlands in WA. The sites are a good fit to FET's strategy of selecting only quality locations with high underlying demand and proven early learning operators, backed by FET's standard leases.

These transactions will add to FET's weighted average lease expiry profile as well as provide the benefits of introducing quality new properties to the portfolio.

The initial term of the new development site leases is either 15 or 20 years. These leases are triple net in nature, unless prohibited by tenancy laws. Rent increases are annual to a fixed amount of 3.25% or CPI and will provide FET with predictable income growth over time. No incentives are provided and therefore FET's additional income will be truly net effective.

FET's current development pipeline consists of 14 sites with an end value of approximately $68.1 million.

Settlement had not occurred for 4 development sites at 31 December 2014 with these expected to occur in the second half of FY15, subject to various conditions such as satisfactory due diligence and DA approval.

As at 31 December 2014, $27.0 million of costs had been incurred on 10 developments, with the balance of $41.1 million to be funded on a fund-through basis, with completions expected through to December 2016.

Collectively, the average yield on cost of the development pipeline upon completion is 7.8%. This excludes the higher yielding site rent payable during the development phase.

Incorporating the most recent contracted acquisitions, FET's development pipeline of 14 sites is now expected to add approximately $5.3 million of net revenue (up 13%) to FET's lease income, upon completion. The acquisitions are forecast to be accretive to FET's future earnings and distributions.

One development at Baldivis in WA was completed during the period and is now operating as an early learning centre.

Negotiations with other site vendors are progressing and we are confident that FET's pipeline of development opportunities will continue, providing FET with sound opportunities to increase earnings and enhance the quality of the property portfolio.

DISPOSALS

FET's capital management plan includes the selective sale of a number of investment properties with proceeds redeployed to new asset purchases.

FET has sold eight properties in the half year period totalling $9.3 million, of which three have settled ($3.7 million), with the balance to settle in the second half of FY15. Inclusive of sales that occurred immediately prior to 30 June 2014 and which settled in the current financial period, FET has sold 14 properties, with a gross value of $17.2 million. The average passing yield on the sales has been 6.98% with the lowest yield achieved at 6.23%. Notably, seven properties were in regional locations, providing further evidence of yield compression in regional markets as well as in metropolitan markets.

It is expected that the Trust will dispose of a small number of properties in the remainder of FY15. This is driven by a redeployment of capital as well as our on-going portfolio management, whereby we dispose of centres that we believe will not return as well due to age, location, competition or strength of the lease covenant.

CAPITAL MANAGEMENT

Distribution Re-investment Plan ("DRP")

On 9 September 2014, FET re-activated its DRP effective from the September quarter distribution with a discount of 1.5% to the traded FET unit price. The unitholder participation rate was 26% resulting in 923,261 units being issued at an issue price of $1.83 per unit and a reinvestment of $1.7 million.

Debt Funding

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Hedging

As part of the Trust's interest rate management policy, additional hedging positions were entered into in July 2014. As a result, FET has staggered hedging positions through to June 2019 with an averaged hedged position of 55% based on the existing debt of $152 million. FET has currently hedged 71% of its interest rate exposure for the remainder of FY15 and 62% for FY16.

Further hedging will be put in place to both top-up existing positions in the later stages of the current hedging profile and also extend the hedging through to June 2020.

Cost of Debt

As at 31 December 2014, the cost of debt is 5.1% pa, which is based on prevailing interest rates, existing swap arrangements and bank margins. The all-in-cost of debt is 5.6% pa which includes the amortisation of deferred borrowing costs.

FST MERGER

On 13 November 2014, FET announced a merger by way of trust scheme that would result in the Trust merging with Folkestone Social Infrastructure Trust ("FST"). At the meeting of FST unitholders on 19 December 2014, the scheme was approved overwhelmingly (over 98% acceptance). Effective 6 January 2015 the scheme was implemented, with ownership of FST transferring to FET.

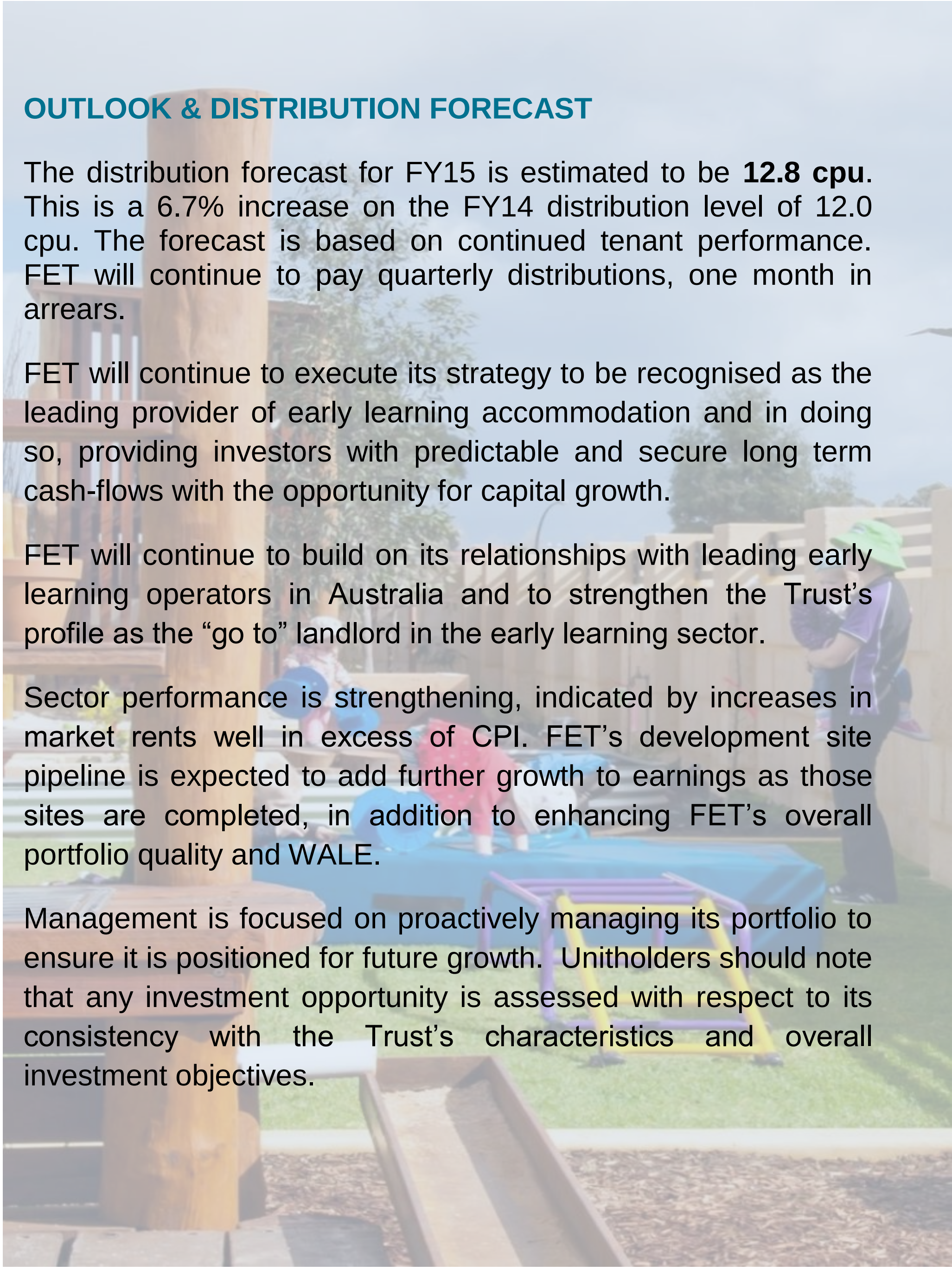
FST has approximately $93 million of total assets, total liabilities of $25 million and net assets of $68 million. FST owned 47 early learning properties, 1 medical centre and a 15% holding in Folkestone CIB Fund ("FCIB"), which holds a portfolio of police stations and courthouses.

FET considers both the FCIB holding and the medical centre to be non-core, and to maximise their value will assess the disposal of these assets over time.

The merger of FET and FST provides the following benefits to FET:

- increases FET's portfolio of early learning properties from 355 to 402 and the combined value from $515.3 million to $592.7 million;
- increases the NTA per unit from $1.69 to $1.71, an accretion of 1.2%;
- increases FET's market capitalisation and enhances liquidity;
- reduced transaction cost base through lower stamp duty rates applicable to the merger compared to an outright purchase on market; and
- no additional capital was required from FET's investors or financiers.

The transaction is consistent with FET's overall strategy of acquiring portfolios and individual assets that add to earnings, portfolio quality and both tenant and geographic diversification.



OUTLOOK & DISTRIBUTION FORECAST

The distribution forecast for FY15 is estimated to be **12.8 cpu**. This is a 6.7% increase on the FY14 distribution level of 12.0 cpu. The forecast is based on continued tenant performance. FET will continue to pay quarterly distributions, one month in arrears.

FET will continue to execute its strategy to be recognised as the leading provider of early learning accommodation and in doing so, providing investors with predictable and secure long term cash-flows with the opportunity for capital growth.

FET will continue to build on its relationships with leading early learning operators in Australia and to strengthen the Trust's profile as the "go to" landlord in the early learning sector.

Sector performance is strengthening, indicated by increases in market rents well in excess of CPI. FET's development site pipeline is expected to add further growth to earnings as those sites are completed, in addition to enhancing FET's overall portfolio quality and WALE.

Management is focused on proactively managing its portfolio to ensure it is positioned for future growth. Unitholders should note that any investment opportunity is assessed with respect to its consistency with the Trust's characteristics and overall investment objectives.

Vic Cottren
Chairman

Nick Anagnostou
Chief Executive Officer

DIRECTORS' REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2014

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 half year ended 31 December 2014.

THE RESPONSIBLE ENTITY

The registered office and principal place of business of the Responsible Entity and the Trust is Level 12, 15 William 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 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
- Mr Grant Bartley Hodgetts - Appointed 24 October 2012

PRINCIPAL ACTIVITIES

The Trust is a specialist early education property owner which as at 31 December 2014 owns a total of 355 early learning properties in locations around Australia and New Zealand.

During the period the Trust acquired 2 early learning centres and 5 development sites and disposed of 6 properties in Australia and 3 properties in New Zealand. During the period a further 5 properties have been contracted for sale with settlement occurring in the second half of the financial year.

On 13 November 2014, the Responsible Entity announced a merger by way of a trust scheme that would result in the Trust merging with Folkestone Social Infrastructure Trust ("FST"). The meeting of FST Unitholders was held on 19 December 2014 and the scheme was approved. Effective from 6 January 2015 the scheme was implemented and the Trust will own FST.

On 6 January 2015, the Trust issued 37,554,110 units at an issue price of $1.99 per unit to acquire 100% of the units in FST for total consideration of $74.7 million. At this time, FST owned 47 early learning centres, a medical centre and an investment in an unlisted property fund with total assets of $93 million, total liabilities of $25 million and net assets of $68 million.

REVIEW AND RESULTS OF OPERATIONS

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

- distributable income* of $13.1 million, an increase of 15.9% on the previous corresponding period (“pcp”);
- gearing reduced (Borrowings and Cash Overdraft / Total Assets) to 30.2%;
- statutory profit of $52.3 million compared to a profit of $21.3 million in the pcp;
- net tangible asset (NTA) per unit increased from $1.50 at 30 June 2014 to $1.69 at 31 December 2014;
- weighted average lease expiry at 31 December 2014 of 8.4 years;
- occupancy rate of 99.7%;
- Distribution Reinvestment Plan (DRP) reactivated from the quarterly distribution period ending 30 September 2014, resulting in cash retention of $1.7 million.

Half Year Ending 31 December ($m's)	2014	2013
Revenue		
Lease income	21.2	18.0
Property outgoings recoverable	3.1	3.0
Other income	0.1	0.1
	24.4	**21.1**
Expenses		
Finance costs	4.3	4.0
Property expenses	4.6	4.2
Responsible entity's remuneration	1.4	1.1
Other expenses	1.0	0.5
	11.3	**9.8**
Distributable income*	**13.1**	**11.3**
Amortisation of lease incentive asset & liability (lease income)	-	(0.1)
Straight line rental adjustments (lease income)	-	0.1
Merger costs	(0.6)	-
Net revaluation increment of investment properties	41.4	9.2
Change in fair value of derivative financial instruments	(2.2)	0.5
Gain on sale of investment properties	0.6	0.3
Net profit attributable to Unitholders for the half year	**52.3**	**21.3**

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

DISTRIBUTIONS

Distributions paid for the half year ended 31 December 2014 totalled 6.35 cents per unit (2013: 6.0 cents per unit).

Distributions declared by the Trust since 30 June 2014 were:

Period	Paid/Payable	Cents per Unit	Amount $'000
Quarter ending 30 September 2014	20 October 2014	3.175	6,510
Quarter ending 31 December 2014	20 January 2015	3.175	6,540
Total		**6.350**	**13,050**

DIRECTORS' REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2014

STATE OF AFFAIRS

Capital Management and Financial Position

As at 31 December 2014 the total assets of the Trust were $518.5 million, gross borrowings were $156.4 million and net assets were $347.6 million. The net tangible asset per unit is $1.69 (30 June 2014: $1.50). The Trust has gearing (Borrowings and Cash Overdraft / Total Assets) of 30.2%.

The Trust has 205,992,922 units on issue as at 31 December 2014. During the period, the Trust reactivated the Distribution Reinvestment Plan ("DRP") with 923,261 units issued at an issue price of $1.83 for the September quarter distribution.

The Trust has a syndicated debt facility with National Australia Bank ("NAB") and Australia and New Zealand Bank ("ANZ") expiring in June 2017.

The key commercial terms of the syndicated facility are as follows:

Facility Limit	$173 million as at 31 December 2014
Drawn Amount	$152 million as at 31 December 2014
Facility Maturity	June 2017
Maximum Loan to Value Ratio	50% of all Secured Property
Interest Cover Ratio	Not to be less than 2.0x measured on a six monthly basis
Alternate Use Ratio	Debt is not to exceed 100% of Alternate Use Values for portfolio

As at 31 December 2014, the Trust complied with all its debt covenant ratios and obligations.

The Trust also has an overdraft facility with ANZ in order to more efficiently manage its working capital position.

Key commercial terms of the facility are as follows:

Facility Limit	$10 million
Drawn Amount	$4.4 million as at 31 December 2014
Maturity	June 2017
Purpose	Working capital requirements
Covenants	Same as debt facility

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
FY15			
Jan 2015 - June 2015	108,000	4.01	71
FY16			
July 2015 - June 2016	94,000	3.96	62
FY17			
July 2016 - June 2017	82,000	3.92	54
FY18			
July 2017 - June 2018	72,000	4.04	47
FY19			
July 2018 - June 2019	72,000	3.90	47

MATTERS SUBSEQUENT TO THE END OF THE PERIOD

On 13 November 2014, the Responsible Entity announced a merger by way of a trust scheme that would result in the Trust merging with Folkestone Social Infrastructure Trust ("FST"). The meeting of FST Unitholders was held on 19 December 2014 and the scheme was approved. Effective from 6 January 2015 the scheme was implemented and the Trust will own FST.

On 6 January 2015, the Trust issued 37,554,110 units at an issue price of $1.99 per unit to acquire 100% of the units in FST for total consideration of $74.7 million. At this time, FST owned 47 early learning centres, a medical centre and an investment in an unlisted property fund with total assets of $93 million, total liabilities of $25 million and net assets of $68 million.

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.

ROUNDING OF AMOUNTS

The Trust is an entity of a kind referred to in Class order 98/100 (as amended) 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 11.

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

Vic Cottren
Chairman
Folkestone Investment Management Limited
Melbourne, 17 February 2015

pwc

Auditor's Independence Declaration

As lead auditor for the review of Folkestone Education Trust at for the half-year ended 31 December 2014, 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.

Charles Christie
Partner
PricewaterhouseCoopers

Melbourne
17 February 2015

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOLKESTONE EDUCATION TRUST AND ITS CONTROLLED ENTITIES

For the half year ended 31 December 2014

Consolidated Group	31 Dec 2014 $'000	31 Dec 2013 $'000
Revenue		
Lease income	21,200	18,006
Property outgoings recoveries	3,160	3,045
Interest income	29	21
Gain on sale of investment properties	604	283
Net property revaluation increment	41,448	9,169
Change in fair value of derivative financial instruments	-	525
Realised foreign exchange gains	-	29
Other income	49	35
Total revenue	**66,490**	**31,113**
Expenses		
Finance costs	4,341	3,993
Property outgoings	3,761	3,477
Responsible Entity's remuneration	1,425	1,141
Merger costs	598	-
Rent on leasehold properties	788	687
Change in fair value of derivative financial instruments	2,254	-
Realised foreign exchange losses	33	-
Other expenses	1,034	465
Total expenses	**14,234**	**9,763**
Net profit attributable to unitholders for the half year	**52,256**	**21,350**
Other comprehensive income	-	-
Total comprehensive income for the half year	**52,256**	**21,350**
Earnings per unit	Cents	Cents
Basic earnings per unit	25.44	11.83
Diluted earnings per unit	25.44	11.83

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 2014

Consolidated Group	Notes	31 Dec 2014 $'000	30 Jun 2014 $'000
ASSETS			
Current assets			
Cash and cash equivalents		364	1,832
Trade and other receivables		14	161
Other current assets	2	2,804	1,373
Investment properties expected to be sold within 12 months	3	5,470	7,857
Total current assets		**8,652**	**11,223**
Non-current assets			
Investment properties	3	506,460	449,937
Investment properties straight line rental asset	3	3,385	3,392
Total non-current assets		**509,845**	**453,329**
Total assets		**518,497**	**464,552**
LIABILITIES			
Current liabilities			
Trade and other payables		3,049	2,227
Distribution payable		6,644	6,249
Derivative financial instruments	4(a)	1,502	1,319
Other current liabilities		638	535
Total current liabilities		**11,833**	**10,330**
Non-current liabilities			
Borrowings	5	155,201	145,709
Derivative financial instruments	4(b)	3,878	1,807
Total non-current liabilities		**159,079**	**147,516**
Total liabilities		**170,912**	**157,846**
Net assets		**347,585**	**306,706**
EQUITY			
Contributed equity	6	239,815	238,142
Undistributed profit		107,770	68,564
Total equity		**347,585**	**306,706**

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 2014

Consolidated Group	Contributed Equity $'000	Undistributed Profit $'000	Total $'000
Balance at 1 July 2013	195,013	38,497	233,510
Profit attributable to unitholders	-	21,350	21,350
Units issued	44,998	-	44,998
Unit issue transaction costs	(1,860)	-	(1,860)
Distribution paid or provided for	-	(11,416)	(11,416)
Balance at 31 December 2013	**238,151**	**48,431**	**286,582**
Balance at 1 July 2014	238,142	68,564	306,706
Profit attributable to unitholders	-	52,256	52,256
Units issued	1,690	-	1,690
Unit issue transaction costs	(17)	-	(17)
Distribution paid or provided for	**-**	(13,050)	(13,050)
Balance at 31 December 2014	**239,815**	**107,770**	**347,585**

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 2014

Consolidated Group	31 Dec 2014 $'000	31 Dec 2013 $'000
Cash flows from operating activities		
Lease income received (inclusive of GST)	27,117	23,240
Cash payments in the course of operations (inclusive of GST)	(10,357)	(8,599)
Interest received	29	21
Finance costs paid	(3,645)	(3,771)
Net cash inflow from operating activities	**13,144**	**10,891**
Cash flows from investing activities		
Proceeds from sale of investment properties	11,502	683
Payments for acquisition of investment properties	(24,245)	(20,640)
Payments for acquisition of subsidiary trust, net of cash acquired	-	(16,279)
Net cash outflow from investing activities	**(12,743)**	**(36,236)**
Cash flows from financing activities		
Proceeds from borrowings	9,116	28,000
Repayment of borrowings	-	(30,802)
Proceeds from issue of units	-	44,998
Payment of issue of unit costs	(17)	(1,860)
Distributions paid	(10,968)	(10,363)
Net cash (outflow)/inflow from financing activities	**(1,869)**	**29,973**
Net (decrease)/increase in cash held	**(1,468)**	**4,628**
Cash at the beginning of the half year	**1,832**	**187**
Cash at the end of the half year	**364**	**4,815**

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

1. BASIS OF PREPARATION OF HALF YEAR REPORT

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2014 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 2014 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 accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Impact of standards issued but not yet applied by the Trust

AASB9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2017 but is available for early adoption. AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. The Trust does not expect that any adjustments will be necessary as a result of applying the revised rules.

2. OTHER CURRENT ASSETS

Consolidated Group	31 Dec 2014 $'000	30 June 2014 $'000
Lease incentive asset	681	689
Other debtors	329	-
GST receivable	233	365
Prepayments	1,561	319
Total	**2,804**	**1,373**

3. INVESTMENT PROPERTIES

Consolidated Group	31 Dec 2014 $'000	30 Jun 2014 $'000
Freehold properties - at valuation	485,856	434,796
Leasehold properties - at valuation	28,425	25,720
Capitalised transaction costs In relation to properties contracted and not settled	1,034	670
Total investment properties	515,315	461,186
Less: Investment properties expected to be sold within 12 months	(5,470)	(7,857)
Less: Straight line rental asset	(3,385)	(3,392)
Carrying amount at the end of the half year	**506,460**	**449,937**
Movement in investment properties:		
Balance at the beginning of the period	449,937	362,653
Acquisition of properties	23,395	65,468
Disposal of properties	(10,707)	(399)
Movement in investment properties expected to be sold in 12 months	2,387	(6,975)
Net revaluation increment	41,448	29,190
Carrying amount at the end of the half year	**506,460**	**449,937**

3. INVESTMENT PROPERTIES

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 2014 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 ending 31 December 2014, 64 external property valuations were conducted, 60 in Australia and 4 in New Zealand.

Valuations on the 60 Australian properties increased by $14.4 million or 21.0% on the previous external valuations and $9.8 million or 13.4% on the carrying value as at 30 June 2014, which included Directors valuations. The 55 Australian freehold operating properties increased by $14.7 million or 22.8% (increase of $10.0 million or 14.6% on the carrying value as at 30 June 2014, which included Directors valuations) and the 5 leasehold operating properties decreased by $0.2 million or 5.5%.

In addition to the external valuations, 200 Directors valuations have been adopted resulting in an increment of $28.8 million. 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 last external valuations.

Valuations of the 4 New Zealand properties increased by $0.3 million or 14.2% on carrying value as at 30 June 2014, which included Directors valuations. In New Zealand Dollars, the valuations of the New Zealand properties increased by NZD$0.4 million or 16.0% on the carrying value as at 30 June 2014, which included Directors valuations.

In addition to the New Zealand external valuations, 47 Directors valuations have been adopted resulting in an increment of $3.7 million, where there is evidence of an increase in value due to rental increase, yield compression and exchange rate movements since the last external valuation. In New Zealand Dollars, the valuations of the New Zealand properties increased by NZD$2.3 million or 4.3% on the carrying value as at 30 June 2014, which included Directors valuations.

During the period, property acquisition costs (predominantly stamp duty) in excess of the fair value of the properties were expensed.

4. DERIVATIVE FINANCIAL INSTRUMENTS

Consolidated Group	31 Dec 2014 $'000	30 Jun 2014 $'000
(a) Current		
Derivative financial instruments - interest rate swaps contracts	1,502	1,319
	1,502	**1,319**
(b) Non-current		
Derivative financial instruments - interest rate swaps contracts	3,878	1,807
	3,878	**1,807**

The Trust uses derivative financial instruments (comprising of interest rate swaps) to swap its risk associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured to fair value.

Refer to note 5 for further information on these contracts.

5. BORROWINGS

Consolidated Group	31 Dec 2014 $'000	30 Jun 2014 $'000
Bank loans - secured	152,000	147,000
Less: up front transaction costs	(2,200)	(2,200)
Plus: amortised up front transaction costs	980	604
	150,780	**145,404**
Bank overdraft	4,421	305
	155,201	**145,709**

The Trust has a syndicated debt facility with National Australia Bank ("NAB") and Australia and New Zealand Bank ("ANZ") expiring in June 2017.

The key commercial terms of the syndicated facility are as follows:

Facility Limit	$173 million as at 31 December 2014
Drawn Amount	$152 million as at 31 December 2014
Facility Maturity	June 2017
Maximum Loan to Value Ratio	50% of all Secured Property
Interest Cover Ratio	Not to be less than 2.0x measured on a six monthly basis
Alternate Use Ratio	Debt is not to exceed 100% of Alternate Use Values for portfolio

As at 31 December 2014, the Trust complied with all its debt covenant ratios and obligations.

The Trust also has an overdraft facility with ANZ in order to more efficiently manage its working capital position.

Key commercial terms of the facility are as follows:

Facility Limit	$10 million
Drawn Amount	$4.4 million as at 31 December 2014
Maturity	June 2017
Purpose	Working capital requirements
Covenants	Same as debt facility

5. BORROWINGS CONT.

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
FY15			
Jan 2015 - June 2015	108,000	4.01	71
FY16			
July 2015 - June 2016	94,000	3.96	62
FY17			
July 2016 - June 2017	82,000	3.92	54
FY18			
July 2017 - June 2018	72,000	4.04	47
FY19			
July 2018 - June 2019	72,000	3.90	47

6. CONTRIBUTED EQUITY

Consolidated Group	Units on issue No '000	Units on issue $ '000
Balance at 1 July 2013	175,466	195,013
Units issued	29,604	44,998
Transaction costs	-	(1,860)
Balance at 31 December 2013	**205,070**	**238,151**
Balance at 1 July 2014	205,070	238,142
Units issued	923	1,690
Transaction costs	-	(17)
Balance at 31 December 2014	**205,993**	**239,815**

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. Total revenue comprises revenue from Australia of $58.2 million (31 December 2013: $23.1 million) and revenue from New Zealand of $8.3 million (31 December 2013: $8.0 million). Investment properties held by the Trust comprise Australian properties of $459.7 million (30 June 2014: $407.7 million) and New Zealand properties of $55.6 million (30 June 2014: $53.5 million).

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 2014 $'000	31 Dec 2013 $ '000
Not later than 1 year	8,639	13,911

**Capital expenditure commitments only include contracts executed as at 31 December 2014 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 2014 $'000	31 Dec 2013 $'000
Receivable:		
not later than 1 year	45,212	41,529
later than 1 year but not later than 5 years	196,553	177,422
later than 5 years	182,274	161,453
	424,039	**380,404**

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 shall 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 2014 $'000	31 Dec 2013 $'000
Payable:		
not later than 1 year	1,146	1,110
later than 1 year but not later than 5 years	5,186	5,025
later than 5 years	9,958	11,556
	16,290	**17,691**

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 17 February 2015 by the Board of Directors of the Responsible Entity.

On 13 November 2014, the Responsible Entity announced a merger by way of a trust scheme that would result in the Trust merging with Folkestone Social Infrastructure Trust ("FST"). The meeting of FST Unitholders was held on 19 December 2014 and the scheme was approved. Effective from 6 January 2015 the scheme was implemented and the Trust will own FST.

On 6 January 2015, the Trust issued 37,554,110 units at an issue price of $1.99 per unit to acquire 100% of the units in FST for total consideration of $74.7 million. At this time, FST owned 47 early learning centres, a medical centre and an investment in an unlisted property fund with total assets of $93 million, total liabilities of $25 million and net assets of $68 million.

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.

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 2014 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 2014 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.

Dated at Melbourne this 17 February 2015.

Vic Cottren
Chairman
Folkestone Investment Management Limited

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 balance sheet as at 31 December 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of the Folkestone Real Estate Management Limited (the Responsible Entity 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 (including the Australian Accounting Interpretations) 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 financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the entity's financial position as at 31 December 2014 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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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:

a) giving a true and fair view of the entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date;

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

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of the Folkestone Education Trust for the half-year ended 31 December 2014 included on Folkestone Education Trust's web site. The Responsible Entity's directors are responsible for the integrity of the Folkestone Education Trust web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

PricewaterhouseCoopers

Charles Christie
Partner

Melbourne
17 February 2015


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Folkestone
EDUCATION TRUST