Folkestone
EDUCATION TRUST

HALF YEAR FINANCIAL REPORT
31 DECEMBER 2015

CONTENTS

Folkestone Investment Management Limited
ABN 46 111 338 937 AFSL 281544

FOLKESTONE EDUCATION TRUST
IS AN ASX LISTED (ASX:FET) A-REIT
AND THE LEADING PROVIDER OF
EARLY LEARNING ACCOMMODATION IN
AUSTRALIA AND NEW ZEALAND

KEY HIGHLIGHTS

- STATUTORY PROFIT OF $59.5 MILLION, UP 13.8% FROM $52.3 MILLION IN THE PREVIOUS CORRESPONDING PERIOD ("PCP")
- DISTRIBUTABLE INCOME OF $16.9 MILLION, AN INCREASE OF 29.0% ON PCP
- DISTRIBUTION OF 6.7 CENTS PER UNIT ("CPU"), AN INCREASE OF 5.5% ON PCP
- NTA PER UNIT OF $2.00, AN INCREASE OF 9.9% FROM 30 JUNE 2015
- TOTAL UNITHOLDERS' RETURN FOR THE HALF YEAR TO 31 DECEMBER 2015 OF 11.0%

FINANCIAL SUMMARY

	Dec 2015	Jun 2015	Jun 2014
Total Assets ($m)	708.7	654.5	464.6
Gearing (%)	27.6	29.5	31.7
Units on Issue (m)	246.7	245.2	205.1
NTA per unit ($)	2.00	1.82	1.50

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 2015. FET is an ASX listed property trust investing in early learning property assets.

KEY ACHIEVEMENTS

- Statutory profit of $59.5 million, an increase of 13.8% from $52.3 million in the previous corresponding period ("pcp")
- Distributable income of $16.9 million, an increase of 29.0% on pcp
- Distribution of 6.7 cents per unit ("cpu"), an increase of 5.5% on pcp
- NTA per unit of $2.00, an increase of 9.9% from 30 June 2015
- Total Unitholders' return[1] for the half year to 31 December 2015 of 11.0%
- Development pipeline of 18 centres with a total value of $88.9 million. Three development sites commenced operations during the half year with a completion value of $12.9 million
- Four existing centres were acquired (1 settled) with a total value of $12.8 million

TRUST PERFORMANCE

FET paid distributions to investors of 6.7 cpu for the half year, in accordance with its annual FY16 forecast of 13.4 cpu.

FET provided a total return of 11.0 per cent for the half year to 31 December 2015, outperforming the S&P/ASX 300 A-REIT Accumulation Index ("Index") return of 7.2 per cent for the same period. FET has also outperformed the Index over one year at 20.6 per cent per annum (v 14.4 per cent per annum), three years at 29.5 per cent per annum (v 15.9 per cent per annum) and five years at 31.7 per cent per annum (v 15.3 per cent per annum).

The Trust's market capitalisation increased from $515 million at 30 June 2015 to $558 million at 31 December 2015.

PORTFOLIO PERFORMANCE

Key highlights in relation to the property portfolio during the half year were as follows:

- acquisition of four existing childcare centres (value of $12.8 million) of which one has settled. Two further development sites also settled with a total completion value of $9.5 million;
- three centres developed by FET commenced operations with a completion value of $12.9 million;
- settled the disposal of 3 properties totalling $6.6 million at an average yield of 6.9 per cent and at a 27.8 per cent premium to carrying value at 30 June 2015;
- eighteen five year options were renewed, effectively increasing the term remaining on these leases from 5 to 10 years;
- market rent reviews were negotiated in respect of 24 leases. Of these, 12 reviews were subject to a cap of 5 per cent over the previous year's rent and achieved an average 3.4 per cent increase on 6 Australian assets, and a 5.0 per cent increase on 6 New Zealand assets, with the remaining 12 reviews not subject to a cap achieving an average 8.2 per cent increase; and
- the WALE of the portfolio decreased slightly from 7.9 years at 30 June 2015 to 7.8 years at 31 December 2015.

PROPERTY VALUATIONS

During the year, a total of 350 early learning properties in the portfolio were revalued. Of these, 61 properties were independently revalued as part of the Trust's three year independent rolling valuation cycle. The remainder were Director's valuations. The Director's valuations were adopted utilising the

[1] Total return includes distributions and change in unit price for the half year.

parameters drawn from the current independent valuations to ensure consistency across the portfolio.

The outcome is an overall increase of $41.5 million over the previous carrying values. This result has been driven by further yield compression in the marketplace, combined with growth in income from annual and market rental increases.

The largest increases of the independent valuations occurred in New South Wales (22.0 per cent), South Australia (16.7 per cent), Victoria (12.1 per cent) and Queensland (10.0 per cent). The overall passing yield achieved on the freehold independent valuations was 7.1 per cent, a 100 basis points improvement on the passing yield on these same assets as at 30 June 2015.

Overall yield compression based upon the independent and Directors' valuations achieved for the half year to 31 December 2015 was 40 basis points on 30 June 2015, reducing the overall yield from 8.0 per cent at 30 June 2015 to 7.6 per cent at 31 December 2015. The yield compression is largely driven by the continued market recognition and investor appetite for this asset class. With daily fees per place continuing to increase, this has also led to growth in rental income.

Subsequent to 31 December 2015, a further 20 independent valuations have been completed. These valuations have resulted in a 10.7 per cent increase on the Directors' valuations adopted at 31 December 2015.

ACQUISITIONS

FET's pipeline consists of development sites as well as the purchase of existing centres. The total pipeline value is now $98.6 million that comprises development sites ($88.9 million) and further existing centre acquisitions ($9.7 million).

Development Sites

At 30 June 2015, FET owned 12 development sites. During the half year, FET purchased two more development sites with an aggregate completion value of $9.5 million. Three development sites commenced operations in the half year ending 31 December 2015 with a completion value of $12.9 million. All completions were on time and on/under budget and yielded an overall development margin of ~12%. FET has contracted a further 7 development sites with a completion value of $29.4 million with settlement due during FY16 and FY17.

The current development pipeline of 18 sites has a forecast upon completion value of $88.9 million and is expected to add, when complete, approximately $6.3 million of net rental income to FET, an increase of 12.6 per cent on FET's existing lease income. One development site is no longer proceeding to construction due to planning constraints and is expected to be sold. FET's interest in this site is underwritten, ensuring a return of all FET's costs incurred on the property.

Existing Centres

In addition to the development sites, FET settled one existing centre with a value of $3.1 million with a further 3 existing centres contracted with a value of $9.7 million, with settlement due to complete in the second half of FY16.

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.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S REPORT CONT.

DISPOSALS

FET's capital management plan includes the selective sale of centres with proceeds redeployed to new asset purchases and/or developments.

FET settled the sale of 3 properties in the half year ending 31 December 2015 totalling $6.6 million. The sales achieved a 27.8 per cent premium to 30 June 2015 carrying value with an average passing yield of 6.9 per cent. This compares to the average yield on the same properties at 30 June 2015 of 8.9 per cent, an improvement of 200 basis points.

Subject to market conditions, it is expected that the Trust will dispose of a small number of properties during the second half of FY16.

CAPITAL MANAGEMENT

Debt Funding

As at 31 December 2015, FET's debt facilities total $207.3 million comprising a $173.0 million syndicated debt facility with National Australia Bank Limited ("NAB") and the Australia and New Zealand Banking Group Limited ("ANZ") and a separate facility of $34.3 million with the ANZ which was assumed as part of the FST merger. The facilities are currently drawn to $193.0 million as at 31 December 2015.

In February 2016, the facilities were increased by $20 million to $227.3 million, increasing the undrawn amount to $34.3 million which will be utilised to assist in funding future acquisitions and developments. The Trust has significant headroom under its debt covenants with gearing at 31 December 2015 of 27.6 per cent. FET's gearing currently sits below the targeted 30 - 40 per cent range. During the second half of FY16, we will look to extend the maturity of the facility including the evaluation of longer maturity debt options and non-traditional debt financing.

Hedging

As part of the Trust's interest rate management policy, FET has staggered hedging positions through to June 2020. The average hedged position is 51 per cent based on the existing debt of $193 million at an average rate of 3.64 per cent per annum (30 June 2015: 3.64 per cent per annum). For FY16, FET has hedged 65 per cent of its interest rate exposure at a hedged rate of 3.59 per cent per annum.

Cost of Debt

As at 31 December 2015, FET's cost of debt is 4.5 per cent per annum (30 June 2015: 4.6 per cent per annum), which is based on prevailing interest rates, existing swap arrangements and bank margins. The all-in-cost of debt is 4.9 per cent per annum (30 June 2015: 5.0 per cent per annum) which includes the amortisation of deferred borrowing costs.

OUTLOOK & DISTRIBUTION FORECAST

The FY16 forecast distribution is based on continued tenant performance and is estimated to be 13.4 cpu. FET will continue to pay quarterly distributions, one month in arrears.

FET continues with 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 environment for future generations. Investors benefit from predictable and secure long term cash-flows with the opportunity for capital growth.

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

Grant Hodgetts
Chairman

Nick Anagnostou
Chief Executive Officer

For the half year ended 31 December 2015

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 2015.

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 2015 owns a total of 395 early learning properties (including 11 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 acquired one early learning property and 2 development sites and disposed of 3 properties in Australia. During the period 3 development sites were completed and are now operational.

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 $16.9 million, an increase of 29.0% on the previous corresponding period (“pcp”);
- gearing reduced (Borrowings and Cash Overdraft / Total Assets) to 27.6%;
- statutory profit of $59.5 million compared to a profit of $52.3 million in the pcp;
- net tangible asset (NTA) per unit increased from $1.82 at 30 June 2015 to $2.00 at 31 December 2015; and
- weighted average lease expiry at 31 December 2015 of 7.8 years.

DIRECTORS' REPORT CONT.

REVIEW AND RESULTS OF OPERATIONS CONT.

Half Year Ended 31 December ($m's)	2015	2014
Revenue		
Lease income	25.8	21.2
Property outgoings recoverable	4.0	3.2
Distributions	0.7	-
	30.5	**24.4**
Expenses		
Finance costs	5.0	4.3
Property outgoings	5.6	4.6
Property valuation fees	0.3	0.2
Responsible entity's remuneration	1.9	1.4
Other expenses	0.8	0.8
	13.6	**11.3**
Distributable income*	**16.9**	**13.1**
Net revaluation increment of investment properties	42.6	41.4
Change in fair value of derivative financial instruments	(0.5)	(2.2)
Gain on sale of investment properties	0.5	0.6
Merger costs	-	(0.6)
Net profit attributable to Unitholders for the half year	**59.5**	**52.3**

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

DISTRIBUTIONS

Distributions paid for the half year ended 31 December 2015 totalled 6.7 cents per unit (2014: 6.35 cents per unit).

Distributions declared by the Trust since 30 June 2015 were:

Period	Paid/Payable	Cents per Unit	Amount $'000
Quarter ending 30 September 2015	20 October 2015	3.35	8,238
Quarter ending 31 December 2015	20 January 2016	3.35	8,264
Total		**6.7**	**16,502**

STATE OF AFFAIRS

Capital Management and Financial Position

As at 31 December 2015 the total assets of the Trust were $708.7 million, gross borrowings were $195.6 million and net assets were $493.8 million. The net tangible asset per unit is $2.00 (30 June 2015: $1.82). The Trust has gearing (Borrowings and Cash Overdraft / Total Assets) of 27.6 per cent (30 June 2015: 29.5 per cent).

The Trust has 246,690,152 units on issue as at 31 December 2015. During the period, as part of the Trust's Distribution Reinvestment Plan ("DRP"), 1,522,229 units were issued at an average issue price of $2.02.

As at 31 December 2015 the Trust has the following debt facilities with key commercial terms summarised below.

	FET	FET Sub-Trust No. 1	Total
Financiers	NAB/ANZ	ANZ	
Facility Limit	$173 million	$34.3 million	$207.3 million
Drawn Amount	$170 million	$23 million	$193 million
Facility Maturity	June 2017	July 2017	
Maximum Loan to Value Ratio	50%	50%	
Interest Cover Ratio	Greater than 2.0 times	Greater than 2.0 times	

In February 2016, the Trust increased the FET facility limit by $20 million to $193 million on the same terms as the existing facility.

As at 31 December 2015, the Trust complied with all of its debt covenant ratios and obligations.

The Trust also has overdraft facilities with ANZ of $12 million ($2.6 million drawn at 31 December 2015).

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
FY16: Jan 2016 - June 2016	125,000	3.59	65
FY17: July 2016 - June 2017	107,000	3.58	55
FY18: July 2017 - June 2018	92,000	3.75	48
FY19: July 2018 - June 2019	87,000	3.76	45
FY20: July 2019 - June 2020	80,000	3.52	41

DIRECTORS' REPORT CONT.

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 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 12.

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

Grant Hodgetts
Chairman
Folkestone Investment Management Limited
Melbourne, 16 February 2016

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Auditor's Independence Declaration

As lead auditor for the review of Folkestone Education Trust for the half-year ended 31 December 2015, 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
16 February 2016

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOLKESTONE EDUCATION TRUST AND ITS CONTROLLED ENTITIES

For the half year ended 31 December 2015

Consolidated Group	31 Dec 2015 $'000	31 Dec 2014* $'000
Revenue		
Lease income	25,674	21,200
Property outgoings recoveries	4,004	3,209
Distributions	723	-
Interest income	2	29
Gain on sale of investment properties	496	604
Net property revaluation increment	42,635	41,448
Realised foreign exchange gains	53	-
Total revenue	**73,587**	**66,490**
Expenses		
Finance costs	4,962	4,341
Property outgoings	4,931	3,761
Property valuation fees	261	232
Responsible Entity's remuneration	1,931	1,425
Merger costs	-	598
Rent on leasehold properties	754	788
Change in fair value of derivative financial instruments	509	2,254
Realised foreign exchange losses	-	33
Other expenses	769	802
Total expenses	**14,117**	**14,234**
Net profit attributable to unitholders for the half year	**59,470**	**52,256**
Gain on revaluation of available-for-sale financial assets	2,750	-
Total comprehensive income for the half year	**62,220**	**52,256**
Earnings per unit	Cents	Cents
Basic earnings per unit	24.16	25.44
Diluted earnings per unit	24.16	25.44

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

** Prior period numbers exclude FET Sub Trust No. 1, which was acquired on 6 January 2015. Refer to the annual report for the year ended 30 June 2015 for further information.*

CONSOLIDATED BALANCE SHEET

FOLKESTONE EDUCATION TRUST AND ITS CONTROLLED ENTITIES

As at 31 December 2015

Consolidated Group	Notes	31 Dec 2015 $'000	30 Jun 2015 $'000
ASSETS			
Current assets			
Cash and cash equivalents		1,115	967
Trade and other receivables		595	431
Other current assets	2	2,784	1,375
Investment properties expected to be sold within 12 months	3	4,555	5,960
Total current assets		**9,049**	**8,733**
Non-current assets			
Investment properties	3	669,171	617,835
Investment properties straight line rental asset	3	3,370	3,490
Available-for-sale financial assets	4	27,140	24,390
Total non-current assets		**699,681**	**645,715**
Total assets		**708,730**	**654,448**
LIABILITIES			
Current liabilities			
Trade and other payables		4,650	3,115
Distribution payable		8,414	8,060
Derivative financial instruments	5(a)	1,747	1,613
Rent received in advance		1,009	697
Total current liabilities		**15,820**	**13,485**
Non-current liabilities			
Borrowings	6	195,072	192,280
Derivative financial instruments	5(b)	4,033	3,658
Total non-current liabilities		**199,105**	**195,938**
Total liabilities		**214,925**	**209,423**
Net assets		**493,805**	**445,025**
EQUITY			
Contributed equity	7	320,830	317,768
Available-for-sale financial assets reserve		1,703	(1,047)
Undistributed profit		171,272	128,304
Total equity		**493,805**	**445,025**

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 2015

Consolidated Group	Contributed Equity $'000	Undistributed Profit $'000	Available-for-sale financial assets reserve $'000	Total $'000
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**
Balance at 1 July 2015	317,768	128,304	(1,047)	445,025
Profit attributable to unitholders	-	59,470	-	59,470
Other comprehensive income	-	-	2,750	2,750
Units issued	3,075	-	-	3,075
Unit issue transaction costs	(13)	-	-	(13)
Distribution paid or provided for	-	(16,502)	-	(16,502)
Balance at 31 December 2015	**320,830**	**171,272**	**1,703**	**493,805**

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 2015

Consolidated Group	31 Dec 2015 $'000	31 Dec 2014 $'000
Cash flows from operating activities		
Lease income received (inclusive of GST)	32,784	27,117
Cash payments in the course of operations (inclusive of GST)	(10,597)	(10,357)
Distributions received	792	-
Interest received	2	29
Finance costs paid	(4,115)	(3,645)
Net cash inflow from operating activities	**18,866**	**13,144**
Cash flows from investing activities		
Proceeds from sale of investment properties	6,580	11,502
Payments for acquisition of investment properties	(14,620)	(24,245)
Net cash outflow from investing activities	**(8,040)**	**(12,743)**
Cash flows from financing activities		
Proceeds from borrowings	2,411	9,116
Distributions paid	(13,089)	(10,985)
Net cash outflow from financing activities	**(10,678)**	**(1,869)**
Net increase/(decrease) in cash held	**148**	**(1,468)**
Cash at the beginning of the half year	**967**	**1,832**
Cash at the end of the half year	**1,115**	**364**

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 condensed consolidated interim financial report for the half-year reporting period ended 31 December 2015 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 2015 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.

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 2016 annual report as a consequence of these amendments.

Impact of standards issued but not yet applied by the Trust

(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. The standard is not applicable until 1 January 2018 but is available for early adoption.

The Trust does not expect significant impact of these new rules on the Trust's financial statements.

(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 contracts for goods and 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 - so the notion of control replaces the existing notion of risks and rewards.

The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application (e.g. 1 July 2017), i.e. without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.

The Trust does not expect significant impact of the new rules on the Trust's financial statements and does not expect to adopt the new standard before 1 July 2017.

2. OTHER CURRENT ASSETS

Consolidated Group	31 Dec 2015 $'000	30 June 2015 $'000
Lease incentive asset	574	540
Prepayments	2,210	835
Total	**2,784**	**1,375**

3. INVESTMENT PROPERTIES

Consolidated Group	31 Dec 2015 $'000	30 Jun 2015 $'000
Freehold properties - at valuation	613,282	563,495
Development properties - at cost	34,501	35,432
Leasehold properties - at valuation	28,045	28,045
Capitalised transaction costs in relation to properties contracted and not settled	1,268	313
Total investment properties	677,096	627,285
Less: Investment properties expected to be sold within 12 months	(4,555)	(5,960)
Less: Straight line rental asset	(3,370)	(3,490)
Carrying amount at the end of the half year	**669,171**	**617,835**
Movement in investment properties:		
Balance at the beginning of the period	617,835	449,937
Acquisition of properties (including construction costs)	13,256	34,830
Acquisition of properties (merger with Folkestone Social Infrastructure Trust)	-	90,814
Disposal of properties*	-	(11,000)
Investment properties expected to be sold in 12 months	(4,555)	(5,960)
Net revaluation increment	42,635	59,214
Carrying amount at the end of the half year	**669,171**	**617,835**

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

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 2015 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 2015, 61 external property valuations were conducted, 58 in Australia and 3 in New Zealand.

Valuations on the 58 Australian properties increased by $27.5 million or 38.9% on the previous external valuations and $10.9 million or 12.5% on the carrying value as at 30 June 2015, which included Directors valuations. The 56 Australian freehold operating properties increased by $27.3 million or 39.2% (increase of $10.7 million or 12.4% on the carrying value as at 30 June 2015, which included Directors valuations) and the 2 leasehold operating properties increased by $0.2 million or 18.0%.

In addition to the external valuations, 241 Directors valuations have been adopted in Australia resulting in an increment of $26.3 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 3 New Zealand properties increased by $0.2 million or 6.1% on carrying value as at 30 June 2015, which included Directors valuations. In New Zealand Dollars, the valuations of the New Zealand properties increased by NZD$0.1 million or 4.5% on the carrying value as at 30 June 2015, which included Directors valuations.

NOTES TO THE FINANCIAL STATEMENTS CONT.

3. INVESTMENT PROPERTIES CONT.

In addition to the New Zealand external valuations, 48 Directors valuations have been adopted resulting in an increment of $4.2 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$2.6 million or 4.5% on the carrying value as at 30 June 2015, which included Directors valuations.

During the period, there were valuation increases of $1.0 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 2015 $'000	30 Jun 2015 $'000
Units in listed securities (Arena REIT - ASX:ARF) - at market valuation	18,459	15,919
Units in unlisted securities (Folkestone CIB Fund) - at Directors' valuation	8,681	8,471
Carrying amount at the end of the half year	**27,140**	**24,390**
Movements in available-for-sale financial assets:		
Balance at the beginning of the half year	24,390	-
Purchase of available-for-sale financial assets	-	25,325
Distribution re-invested in units	-	112
Movement in available-for-sale financial assets reserve	2,750	(1,047)
Carrying amount at the end of the half year	**27,140**	**24,390**

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. DERIVATIVE FINANCIAL INSTRUMENTS

Consolidated Group	31 Dec 2015 $'000	30 Jun 2015 $'000
(a) Current		
Derivative financial instruments - interest rate swaps contracts	1,747	1,613
	1,747	**1,613**
(b) Non-current		
Derivative financial instruments - interest rate swaps contracts	4,033	3,658
	4,033	**3,658**

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 6 for further information on these contracts.

6. BORROWINGS

Consolidated Group	31 Dec 2015 $'000	30 Jun 2015 $'000
Bank loans - secured	193,000	190,000
Less: up front transaction costs	(2,297)	(2,297)
Plus: amortised up front transaction costs	1,769	1,388
	192,472	**189,091**
Bank overdraft	2,600	3,189
	195,072	**192,280**

As at 31 December 2015 the Trust has the following debt facilities with key commercial terms summarised below.

	FET	FET Sub-Trust No. 1	Total
Financiers	NAB/ANZ	ANZ	
Facility Limit	$173 million	$34.3 million	$207.3 million
Drawn Amount	$170 million	$23 million	$193 million
Facility Maturity	June 2017	July 2017	
Maximum Loan to Value Ratio	50%	50%	
Interest Cover Ratio	Greater than 2.0 times	Greater than 2.0 times	

In February 2016, the Trust increased the FET facility limit by $20 million to $193 million on the same terms as the existing facility.

As at 31 December 2015, the Trust complied with all of its debt covenant ratios and obligations.

The Trust also has overdraft facilities with ANZ of $12 million ($2.6 million drawn at 31 December 2015).

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
FY16: Jan 2016 - June 2016	125,000	3.59	65
FY17: July 2016 - June 2017	107,000	3.58	55
FY18: July 2017 - June 2018	92,000	3.75	48
FY19: July 2018 - June 2019	87,000	3.76	45
FY20: July 2019 - June 2020	80,000	3.52	41

NOTES TO THE FINANCIAL STATEMENTS CONT.

7. CONTRIBUTED EQUITY

Consolidated Group	Units on issue No '000	Units on issue $ '000
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**
Balance at 1 July 2015	245,168	317,768
Units issued	1,522	3,075
Transaction costs	-	(13)
Balance at 31 December 2015	**246,690**	**320,830**

8. 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 $66.7 million (31 December 2014: $58.2 million) and revenue from New Zealand of $6.9 million (31 December 2014: $8.3 million). Investment properties held by the Trust comprise Australian properties of $617.3 million (30 June 2015: $571.8 million) and New Zealand properties of $59.8 million (30 June 2015: $55.5 million).

9. 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 2015 $'000	31 Dec 2014 $'000
Not later than 1 year	15,797	8,639

**Capital expenditure commitments only include contracts executed as at 31 December 2015 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 2015 $'000	31 Dec 2014 $'000
Receivable:		
not later than 1 year	54,431	45,212
later than 1 year but not later than 5 years	237,523	196,553
later than 5 years	178,741	182,274
	470,695	**424,039**

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 2015 $'000	31 Dec 2014 $'000
Payable:		
not later than 1 year	1,211	1,146
later than 1 year but not later than 5 years	5,399	5,186
later than 5 years	9,512	9,958
	16,122	**16,290**

10. CONTINGENT LIABILITIES

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

11. EVENTS OCCURRING AFTER THE REPORTING PERIOD

The financial report was authorised on 16 February 2016 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 2015 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 2015 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 16 February 2016.

Grant Hodgetts
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 2015, 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 Investment 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 2015 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*.

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
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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 2015 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 2015 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
16 February 2016


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CREATE, DISCOVER
EXPLORE, GROW

RESPONSIBLE ENTITY AND PRINCIPAL PLACE OF BUSINESS OF THE TRUST

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Folkestone
EDUCATION TRUST