



Folkestone  
EDUCATION TRUST

FOLKESTONE EDUCATION TRUST  
ANNUAL REPORT  
2016





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## KEY HIGHLIGHTS

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# \$2.14

NTA PER UNIT

---

▲ 17.6 %

---

# \$103.4m

DEVELOPMENT PIPELINE

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# 34.8%

RETURN TO  
UNITHOLDERS

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---

# 13.4cpu

DISTRIBUTION

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▲ 4.7 %

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# \$34.5m

DISTRIBUTABLE INCOME

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▲ 16.2 %

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# \$106.8m

STATUTORY PROFIT

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▲ 20.5 %





# CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S REPORT



The Directors of the Responsible Entity, Folkestone Investment Management Limited ("FIML") provide the results of the Folkestone Education Trust ("FET" or "the Trust") for the year ended 30 June 2016. FET is an ASX listed property trust investing in early learning property assets.

## KEY ACHIEVEMENTS

FET has had a successful financial year delivering a statutory profit of \$106.8 million, an increase of 20.5 per cent from the previous financial year.

The key driver of the increase was the positive revaluation movements of \$72.8 million on the investment property portfolio during the year, which also resulted in a 17.6 per cent increase in NTA per unit to \$2.14 as at 30 June 2016.

The Trust delivered a 16.2 per cent increase in distributable income, resulting in an increase in distributions from 12.8 cpu to 13.4 cpu.

FET provided a total return of 34.8 per cent for the year to 30 June 2016, outperforming the S&P/ASX 300 A-REIT Accumulation Index ("Index") return of 24.6 per cent for the same period. FET has also significantly outperformed the Index over three years at 32.8 per cent per annum (v 18.5 per cent per annum) and five years at 37.4 per cent per annum (v 18.0 per cent per annum).

FET's market capitalisation increased from \$515 million at 30 June 2015 to \$663 million at 30 June 2016.

## Property Portfolio

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

- 61 of 69 five year options were renewed, effectively increasing the term remaining on these leases from 5 to 10 years. The remaining 8 properties are currently being reviewed by management with negotiations underway on a number of the assets to provide the best outcome to the Trust;
- market rent reviews were negotiated in respect of 65 leases achieving an

overall increase of 5.5% over the previous year's rental. This growth is further supported by the continued rise in daily fees per place. Of these, 51 reviews were subject to a cap of 5.0 per cent over the previous year's rent and achieved an average 4.6 per cent increase on 41 Australian assets, and a 5.0 per cent increase on 10 New Zealand assets, with the remaining 14 reviews not subject to a cap achieving an average 8.3 per cent increase;

- the WALE of the portfolio increased from 7.9 years at 30 June 2015 to 8.2 years at 30 June 2016 due to new centre completions and lease extensions;
- acquired four existing childcare centres (value of \$12.8 million) of which two settled in FY16;
- settled the disposal of six properties totalling \$9.5 million at an average yield of 7.0 per cent and a 25.3 per cent premium to carrying value at 30 June 2015;
- six centres developed by FET commenced operations with a completion value of \$26.3 million; and
- four development sites settled with a total completion value of \$24.7 million.

## PROPERTY VALUATIONS

During the year, a total of 351 childcare properties and one commercial property in the portfolio were revalued. Of these, 125 properties were independently revalued as part of the Trust's three year independent rolling valuation cycle and 227 were Director's valuations. The Director's valuations were adopted utilising the parameters drawn from the current independent valuations to ensure a consistent valuation methodology across the portfolio.

The outcome is an overall increase of \$72.8 million over the previous carrying values. This result is a function of on-going yield compression in the marketplace driven by continued market

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S REPORT CONT.

recognition and investor appetite for this asset class, combined with growth in income from annual and market rental increases.

The largest increases of the freehold independent valuations occurred in Victoria (17.6 per cent), South Australia (16.8 per cent), New South Wales (16.0 per cent), and Queensland (11.3 per cent). The overall passing yield achieved on the freehold independent valuations was 6.9 per cent, a 90 basis points improvement on the passing yield on these same assets as at 30 June 2015.

Overall yield compression achieved on the portfolio for the year to 30 June 2016 was 70 basis points on 30 June 2015, reducing the overall yield from 8.0 per cent at 30 June 2015 to 7.3 per cent at 30 June 2016.

### ACQUISITIONS

FET's pipeline consists of development sites as well as the purchase of existing centres. The total pipeline value is now \$109.9 million that comprises development sites (\$103.4 million) and further existing centre acquisitions (\$6.5 million) where the sites are owned by FET or a contract of sale/exclusivity agreement has been executed.

#### Development Sites

At 30 June 2015, FET owned 12 development sites. During the year, FET settled four more development sites with an aggregate completion value of \$24.7 million. Six development sites commenced childcare operations with a completion value of \$26.3 million. All completions were on time and on/under budget and yielded an overall development margin of approximately 16%.

During FY16, FET contracted a further ten development sites, all with committed leasing arrangements, with a completion value of \$46.9 million with settlement of the sites due to occur in FY17. In addition, two development sites at North Manly and Frenchs Forest, which will not proceed to development due to

unexpected planning constraints, have been sold with the proceeds exceeding all costs incurred by FET in relation to these sites.

The current development pipeline of 18 sites when complete, will generate a net rental income of approximately \$7.2 million, an increase of approximately 14 per cent on FET's existing lease income (excluding site rent payable during the construction period) and have an upon completion value of \$103.4 million. FET receives a site rental during the construction period on its accruing investment.

#### Existing Centres

In FY16, FET settled the acquisition of two operating centres with a value of \$6.4 million. A further two operating centres are contracted with a value of \$6.5 million and are due to be settled in the first half of FY17.

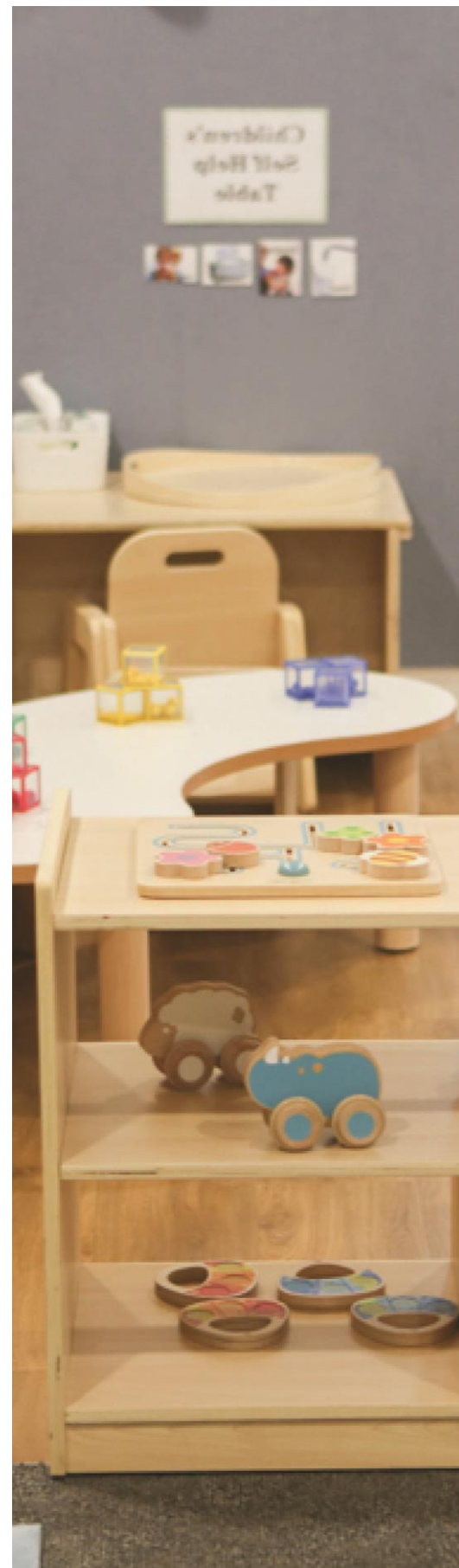
FET continues to target new opportunities based on our demographic led strategy, with a key focus on selecting high quality real estate supported by sound childcare demand and supply fundamentals. FET's acquisition programme is a key component of its strategy of enhancing the quality of the property portfolio and increasing earnings.

FET has also considered and assessed a number of stand-alone investment opportunities together with a portfolio of assets in Victoria & ACT and another portfolio in NSW, neither of which met FET's investment criteria.

### PROPERTY DISPOSALS

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

FET settled the sale of six operating centres in the year ending 30 June 2016 totalling \$9.5 million. The sales achieved a 25.3 per cent premium to 30 June



# CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S REPORT CONT.

## PROPERTY DISPOSALS CONT.

2015 carrying value with an average passing yield of 7.0 per cent. This compares to the average yield on the same properties at 30 June 2015 of 8.8 per cent, an improvement of 180 basis points.

Subject to market conditions, it is expected that FET will dispose of a small number of centres during FY17.

## CAPITAL MANAGEMENT

### Debt Funding

In June 2016, the Trust successfully refinanced its \$227 million debt facility with Australia and New Zealand Banking Group Limited ("ANZ") and Hongkong and Shanghai Banking Corporation Limited ("HSBC") after the completion of a competitive process.

This replaced the previous \$193 million syndicated debt facility with National Australia Bank Limited ("NAB") and Australia and New Zealand Banking Group ("ANZ") which was due to mature in June 2017 and a separate facility of \$34.3 million with ANZ, assumed as part of the Folkestone Social Infrastructure Trust merger in January 2015, that was due to mature in July 2017.

The key feature of the new bilateral facilities is its two tranche structure split over three and five year terms. One tranche (\$113.5 million or 50 per cent) will mature in June 2019 and the second tranche (\$113.5 million or 50 per cent) will mature in June 2021, resulting in an increased weighted debt maturity of 4 years. Key covenants regarding LVR and ICR remain unchanged.

As at 30 June 2016, FET currently has \$193 million of drawn debt and undrawn capacity of \$34 million, which will be utilised to assist in funding future acquisitions and developments. Gearing as at 30 June 2016 is 26.6 per cent, which is below the targeted long term range of 30 - 40 per cent.

### Hedging

As part of FET's interest rate management policy, additional hedging positions were taken out, extending the hedge profile to June 2021, supplementing FET's existing positions from FY17 to FY20.

For FY17, 66 per cent of the drawn debt or \$127 million is now hedged at an average rate of 3.27 per cent per annum. The average hedging position over a five year period to June 2021 is 53 per cent hedged also at an average rate of 3.27 per cent per annum.

The hedging arrangements have been restructured by combining the existing positions with new longer-term positions, at lower rates. This strategy provides the benefits of lower overall hedged rates whilst avoiding any dilution of capital and NTA per Unit, which would result from breaking the existing hedges.

### Cost of Debt

As at 30 June 2016, based on the new debt arrangements, 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 4.8 per cent per annum (30 June 2015: 5.0 per cent per annum) which includes the amortisation of borrowing costs.

## OUTLOOK & DISTRIBUTION FORECAST

The FY17 forecast distribution is estimated to be 14.2 cpu, an increase of 6.0 per cent on the FY16 level of 13.4 cpu. The forecast is based on continued tenant performance. FET will continue to pay quarterly distributions, one month in arrears.

FET continues with its strategy to be recognised as the leading provider of childcare 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



# DIRECTORS' REPORT

## For the year ended 30 June 2016

The Directors of Folkestone Investment Management Limited ("the Responsible Entity"), the Responsible Entity of the Folkestone Education Trust and its controlled entities ("the Trust"), present their report together with the financial report of the Trust for the year ended 30 June 2016.

## THE RESPONSIBLE ENTITY

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

### Structure of Trust/Responsible Entity

#### Directors of the Responsible Entity

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

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

### Company Secretary Qualifications and Experience

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

### Remuneration of the Responsible Entity

During the financial year the Responsible Entity received fees totalling \$6.103 million (2015: \$3.527 million). Refer Note 13.

## PRINCIPAL ACTIVITIES

The Trust is a specialist early learning property owner which at 30 June 2016 owned a total of 393 early learning properties (including 8 development sites) in locations around Australia and New Zealand. The Trust also owns a medical centre and a portfolio of property securities.

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

### Tenants

The Trust has 29 tenants, 28 in Australia and 1 in New Zealand. Major tenants are the not-for-profit group Goodstart Early Learning Limited ("Goodstart") which leases 59 per cent of the Trust's properties, G8 Education Limited (8 per cent) and Best Start Educare Limited which leases the 51 New Zealand properties (9 per cent). The medical centre is tenanted by Primary Health Care Limited (ASX:PRY).

### Lease Structure

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

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

As at 30 June 2016 the Trust holds \$29.6 million in bank guarantees.

# DIRECTORS' REPORT CONT.

## REVIEW AND RESULTS OF OPERATIONS

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

- distributable income of \$34.5 million, an increase of 16.2 per cent on the previous corresponding period ("pcp").
- statutory profit of \$106.8 million compared to a profit of \$88.6 million in the pcp.
- net tangible asset (NTA) per unit increased from \$1.82 at 30 June 2015 to \$2.14 at 30 June 2016 due to the positive movements in property values.

Full year ended 30 June (\$m's)	2016	2015
<b>Revenue</b>		
Lease income	52.4	47.0
Property outgoings recoverable	8.0	7.0
Distribution income	1.7	0.7
	<b>62.1</b>	<b>54.7</b>
<b>Expenses</b>		
Finance costs	10.0	9.4
Property expenses	11.8	10.4
Responsible entity's remuneration	4.0	3.4
Other expenses	1.8	1.8
	<b>27.6</b>	<b>25.0</b>
<b>Distributable income*</b>	<b>34.5</b>	<b>29.7</b>
Amortisation of lease incentive asset/ straight line rental adjustments (Lease income)	(0.1)	(0.1)
Net revaluation increment of investment properties	72.8	59.2
Change in fair value of derivative financial instruments	(2.4)	(2.0)
Gain on sale of investment properties	2.0	3.2
Merger costs	-	(1.4)
<b>Net profit attributable to Unitholders</b>	<b>106.8</b>	<b>88.6</b>

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

Key points to note are:

- Lease income has increased by \$5.4 million or 11.5 per cent predominantly due to a full year benefit of the merger with Folkestone Social Infrastructure Trust (increase of \$3.5 million), income derived from new acquisitions and completed development sites partially offset by income foregone on disposed properties (increase of \$0.9 million) and increases on existing properties (\$1.0 million) in accordance with the leases with average rental growth during the year of 2.8 per cent.
- Property outgoings recoverable revenue and property expenses have both increased predominantly due to the inclusion of the Folkestone Social Infrastructure Trust properties for 12 months compared with 6 months in the prior year.
- Distribution income has increased by \$1.0 million due to a full year benefit of securities acquired during the prior year.
- Finance costs have increased by \$0.6 million due to higher level of borrowings with the average debt during the year of \$192.3 million compared to \$166.4 million in the prior year.
- Revaluation increments of \$72.8 million were achieved during the year which comprised of a \$25.5 million increment (13.8 per cent increase) due to 116 external revaluations in Australia and a \$0.9 million increment (10.9 per cent increase) due to 9 external revaluations in New Zealand. In addition, Directors valuations were adopted for a further 227 properties resulting in an additional \$43.2 million increment. The Directors' valuations were undertaken due to movements in valuations across the early learning property sector, evidenced by strong sales evidence and positive external valuation movements and to reflect the time tag in undertaking the external valuations. Further revaluation increments of \$3.6 million were achieved on 6 development sites that became operational during the year which was partially offset by acquisition costs (predominantly stamp duty) of \$0.4 million which were expensed during the year In relation to 2 operational properties acquired.



## DISTRIBUTIONS

The distribution for the year ended 30 June 2016 was 13.4 cents per Unit (2015: 12.8 cents per Unit).

Distributions declared by the Trust since the end of 30 June 2015 were:

Period	Paid/ Payable	Cents per Unit	Amount \$'000
Quarter ended 30 September 2015	20 October 2015	3.35	8,238
Quarter ended 31 December 2015	20 January 2016	3.35	8,264
Quarter ended 31 March 2016	20 April 2016	3.35	8,285
Quarter ended 30 June 2016	20 July 2016	3.35	8,313
<b>Total</b>		<b>13.4</b>	<b>33,100</b>

## STATE OF AFFAIRS

### Capital Management and Financial Position

As at 30 June 2016 the total assets of the Trust were \$753.6 million, gross borrowings were \$200.4 million and net assets were \$531.8 million. The net tangible asset per unit is \$2.14 (30 June 2015: \$1.82). The Trust has gearing (Borrowings and Cash Overdraft / Total Assets) of 26.6 per cent (30 June 2015: 29.5 per cent). The basis for valuation of the Trust's assets is disclosed in Note 1 to the financial statements.

On 30 June 2016, the Trust refinanced a \$227 million debt facility with Australia and New Zealand Banking Group Limited ("ANZ") and Hongkong and Shanghai Banking Corporation Limited ("HSBC"). This facility replaces the previous \$193 million syndicated debt facility with National Australia Bank Limited ("NAB") and Australia and New Zealand Bank Group ("ANZ") and a separate facility of \$34.3 million with ANZ, assumed as part of the Folkestone Social Infrastructure Trust merger in January 2015.

The key feature of the new bilateral facilities is its two tranche structure split over three and five year terms.

As at 30 June 2016 the Trust has the following debt facilities with key commercial terms summarised as follows.

<b>Financiers</b>	ANZ/HSBC	ANZ/HSBC
<b>Facility</b>	A	B
<b>Facility Limit</b>	\$113.5 million	\$113.5 million
<b>Drawn Amount</b>	\$113.5 million	\$79.5 million
<b>Facility Maturity</b>	June 2019	June 2021
<b>Maximum Loan to Value</b>	50%	50%
<b>Interest Cover Ratio</b>	Greater than 2.0 times	Greater than 2.0 times

As at 30 June 2016, the Trust complied with all of its debt covenant ratios and obligations.

The Trust also has an overdraft facility with ANZ of \$10 million (\$7.4 million drawn at 30 June 2016). The overdraft facility that was assumed as part of the Folkestone Social Infrastructure Trust merger of \$2 million was cancelled on 30 June 2016.

### Hedging Arrangements

In accordance with the Trusts policy to hedge a proportion of its debt, additional hedging positions were taken out in June 2016, to extend the hedge profile through to June 2021 and to supplement the Trust's existing positions between FY17 and FY20. The new hedging arrangements were restructured by combining the existing positions with new longer-term positions, at lower rates. The following interest rate swaps are in place:

Period	Hedged Amount \$'000	Hedged Rate %	% Hedged of Drawn Debt
<b>FY17:</b> July 2016 - June 2017	127,000	3.27	66
<b>FY18:</b> July 2017 - June 2018	112,000	3.27	58
<b>FY19:</b> July 2018 - June 2019	97,000	3.27	50
<b>FY20:</b> July 2019 - June 2020	90,000	3.27	47
<b>FY21:</b> July 2020 - June 2021	90,000	3.27	47

# DIRECTORS' REPORT CONT.

## ENVIRONMENTAL REGULATION

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

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

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

## INTEREST OF THE RESPONSIBLE ENTITY

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

## UNITS ON ISSUE

The number of interests in the Trust as the end of the financial year consist of 248,148,711 fully paid ordinary units (2015: 245,167,923).

During the year, the Trust operated a Distribution Reinvestment Plan ("DRP") with 2,980,788 units issued at an average issue price of \$2.13 during the year.

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

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Trust will continue with its strategy to provide predictable and secure long-term cash-flows with the opportunity for capital growth. The Trust's stable financial position with minimal vacancy, long term leases and secured debt financing with an average debt maturity of 4 years, positions the Trust to maintain sustainable income for investors. The Responsible Entity is focused on pro-actively managing its portfolio to ensure it is strategically positioned for sustainable growth.

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

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

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

- **Tenant Risk:** The Trust relies on tenants to generate the majority of its revenue under the lease agreements entered into with respect of its properties. If a tenant is unable to meet its rental or contractual obligations, this may lead to a loss of rental income or losses to the value of the Trust's properties. The Trust's leases typically contain security clauses in the form of bank guarantees provided by tenants, typically 6 months rent. As at 30 June 2016, the Trust holds approximately \$29.6 million in bank guarantees.
- **Concentration Risk:** The Trust's properties are predominately early learning properties and therefore any adverse events in the early learning sector may impact on the tenants' ability to meet their lease obligations and also the future growth prospects of the portfolio. As at 30 June 2016, Goodstart Early Learning Limited ("Goodstart") contributes 59% of the Trust's rental income. Non-performance of Goodstart's rental or leasing obligations would significantly impact on the Trust's financial performance. The Trust's leases with Goodstart contain financial reporting obligations that allow regular monitoring of the financial performance of Goodstart.
- **Interest Rate Risk:** The Trust's main interest rate risk arises from long-term borrowings which are issued at variable rates. The Responsible Entity continually analyses the Trust's interest rate exposure and has adopted a hedging position that effectively manages this risk.

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



## INFORMATION ON DIRECTORS OF THE RESPONSIBLE ENTITY

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

Name and qualification	Age	Experience
<b>Mr Grant Bartley Hodgetts</b> Independent Director and Chairman Bachelor of Arts (Legal Studies and Economics) Associate Diploma in Valuations Advanced Certificate in Business Studies (Real Estate) Associate of the Australian Property Institute Licenced Estate Agent (Vic) Member of the Australian Institute of Company Directors	59	Grant was appointed on 24 October 2012. Grant has been involved in real estate and funds management since 1979. He is currently Non-Executive Chairman of Folkestone Funds Management Limited, Non Executive Director of Knight Capital Group Limited and Director of all of its subsidiaries, Director of Bethley Group Pty Ltd, Director of Cedar Woods Wellard Pty Ltd and Principal of Hodgetts and Partners. Between early 2006 and 2010 he held various positions within the Investment and Funds Management Division of Mirvac Limited including that of CEO – Australia for Mirvac Investment Management. Prior to joining Mirvac, he was Head of Property in the Specialised Capital Group of Westpac Institutional Bank; a Division Director of Property Investment Banking at Macquarie Bank; a Director of Richard Ellis (Vic) Pty Ltd; and an executive of the AMP Society's Property Division. Holding a Bachelor of Arts (Legal Studies and Economics) from La Trobe University, an Associate Diploma in Valuations from RMIT and an Advanced Certificate in Business Studies (Real Estate), also from RMIT, he is an Associate of the Australian Property Institute, a licensed real estate agent in Victoria and a member of the Australian Institute of Company Directors. He was a founding Director of the Property Industry Foundation in Victoria.
<b>Mr Michael Francis Johnstone</b> Independent Director Bachelor of Town & Regional Planning Licensed Land Surveyor Advanced Management Program (Harvard)	74	Michael was appointed on 22 December 2004. Michael has almost 40 years of global business experience in Chief Executive and General Management roles and more recently in non executive Directorships. He has lived and worked in overseas locations including the USA, has been involved in a range of industries and has specialized in corporate and property finance and investment, property development and funds management. His career has included lengthy periods in corporate roles including 10 years as one of the Global General Managers of the National Australia Bank Group. Michael is currently a Non Executive Director of a number of companies in both listed and private environments, including board appointments in the not for profit sector.
<b>Mr Victor (Vic) David Cottren</b> Independent Director and past Chairman Bachelor of Commerce (Melbourne) Fellow of Australian Insurance Institute Fellow of the Australian Society of Certified Practising Accountants Fellow of the Australian Institute of Company Directors	74	Vic was appointed on 22 December 2004. Vic has over 50 years industry experience, with an extensive background in share broking, financial planning, life insurance, superannuation and investment management gained with AMP, Australian Eagle Insurance Company, Norwich Union, The Investors Life Group and National Australia Bank. He held various senior posts including Chief Executive and Director within these companies and their subsidiaries. Since 1995, Vic has worked as a consultant to financial service companies in relation to investment, superannuation and financial planning. Vic was also appointed as a Professorial Fellow at RMIT University in 1993 with responsibility for researching and establishing Australia's first undergraduate degree in financial planning.
<b>Mr Nicholas (Nick) James Anagnostou</b> Executive Director - Chief Executive Officer Bachelor of Business in Property Associate of the Australian Property Institute Affiliate FINSIA Certified Fund Manager Qualified Valuer Licensed Estate Agent (Vic)	47	Nick joined Folkestone in September 2012 following Folkestone's acquisition of Austock's property business (Nick joined Austock in 2006). Nick is CEO of Folkestone's Social Infrastructure Funds business across two funds comprising approximately \$840 million of assets. Nick has 25 years of experience in the Australian commercial property and Funds Management industries. Nick holds a Bachelor of Business in Property and is an Associate of the Australian Property Institute and Affiliate of FINSIA. He is a Certified Funds Manager, qualified property valuer and a Licensed Estate Agent and was previously a Director of an international real estate agency where he focussed on Premium and A-grade office markets.

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

# DIRECTORS' REPORT CONT.

## DIRECTORS' MEETINGS

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

	Board Meetings	
	A	B
Mr Grant Bartley Hodgetts	7	7
Mr Michael Francis Johnstone	7	7
Mr Victor David Cottren	7	6
Mr Nicholas James Anagnostou	7	6

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

B – Number of meetings attended.

## AUDIT AND COMPLIANCE COMMITTEE MEETINGS

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

- Mr Michael Francis Johnstone (Chairman)
- Mr Grant Bartley Hodgetts (Member)
- Mr Victor David Cottren (Member) appointed on 25 August 2015
- Mr Warner Kenneth Bastian (past Chairman) retired on 25 August 2015

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

	Audit and Compliance Committee Meetings	
	A	B
Mr Michael Francis Johnstone	4	4
Mr Grant Bartley Hodgetts	4	4
Mr Victor David Cottren	3	2
Mr Warner Kenneth Bastian	1	1

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

B - Number of meetings attended.

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

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



## REMUNERATION REPORT

### Remuneration of Directors of the Responsible Entity

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

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

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

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

### Loans to Directors of the Responsible Entity

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

## DETAILS OF THE UNITHOLDINGS IN THE TRUST

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

	GB Hodgetts	MF Johnstone	VD Cottren	NJ Anagnostou
Opening balance of units held	8,951	71,092	609,100	30,625
Acquisitions of units	427	-	-	-
Disposals of units	-	-	(300,000)	-
<b>Closing balance of units held</b>	<b>9,378</b>	<b>71,092</b>	<b>309,100</b>	<b>30,625</b>

## INDEMNITIES AND INSURANCE PREMIUMS FOR OFFICERS AND AUDITORS

### Indemnification

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

The Trust has not indemnified any auditor of the Trust.

### Insurance Premiums

The Responsible Entity has paid insurance premiums in respect of its officers for liability and legal expenses insurance contracts for the year ended 30 June 2016.

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

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

## DIRECTORS' REPORT CONT.

### PROCEEDINGS ON BEHALF OF RESPONSIBLE ENTITY

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

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

### NON-AUDIT SERVICES

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

### ROUNDING

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

### AUDITORS' INDEPENDENCE DECLARATION

A copy of the Auditors independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 15.

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



**Grant Bartley Hodgetts**

Chairman

Folkestone Investment Management Limited

Melbourne, 9 August 2016



## CORPORATE GOVERNANCE STATEMENT

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

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

The 2016 corporate governance statement is dated as at 9 August 2016 and reflects the corporate governance practices in place throughout the 2016 financial year. The 2016 corporate governance statement was approved by the board on 9 August 2016. A description of the Responsible Entity's current corporate governance practices is set out in the group's corporate governance statement which can be viewed at <http://educationtrust.folkestone.com.au/about-us/corporate-governance/>.

# AUDITOR'S INDEPENDENCE DECLARATION



## Auditor's Independence Declaration

As lead auditor for the audit of Folkestone Education Trust for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to read 'Charles Christie'.

Charles Christie  
Partner  
PricewaterhouseCoopers

Melbourne  
9 August 2016

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**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](http://www.pwc.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## FOLKESTONE EDUCATION TRUST AND ITS CONTROLLED ENTITIES

For the year ended 30 June 2016

Consolidated Group	Notes	2016 \$'000	2015 \$'000
<b>Revenue</b>			
Lease income		52,255	46,840
Property outgoings recoveries		8,062	7,009
Distribution income		1,659	750
Interest income		13	37
Net property revaluation increment		72,810	59,214
Gain on sale of investment properties		1,960	3,199
Realised and unrealised foreign exchange gains		59	-
<b>Total revenue</b>		<b>136,818</b>	<b>117,049</b>
<b>Expenses</b>			
Finance costs		10,039	9,391
Property outgoings		9,791	8,469
Property valuation fees		478	489
Responsible Entity's fees		4,022	3,233
Merger costs		-	1,412
Rent on leasehold properties		1,483	1,519
Other expenses		1,827	1,900
Change in fair value of derivative financial instruments		2,407	1,979
Realised and unrealised foreign exchange losses		-	78
<b>Total expenses</b>		<b>30,047</b>	<b>28,470</b>
<b>Net profit attributable to unitholders</b>		<b>106,771</b>	<b>88,579</b>
<b>Other comprehensive income</b>			
Gain/(loss) on revaluation of available-for-sale financial assets		6,784	(1,047)
<b>Other comprehensive income</b>		<b>6,784</b>	<b>(1,047)</b>
<b>Total comprehensive income attributable to unitholders</b>		<b>113,555</b>	<b>87,532</b>
<b>Earnings per unit</b>		Cents	Cents
Basic earnings per unit	3	43.25	39.50
Diluted earnings per unit	3	43.25	39.50

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

# CONSOLIDATED BALANCE SHEET

## FOLKESTONE EDUCATION TRUST AND ITS CONTROLLED ENTITIES

As at 30 June 2016

Consolidated Group	Notes	2016 \$'000	2015 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	11(a)	790	967
Trade and other receivables	4	538	431
Other current assets	5	1,405	1,375
Investment properties expected to be sold within 12 months		-	5,960
<b>Total current assets</b>		<b>2,733</b>	<b>8,733</b>
<b>Non-current assets</b>			
Investment properties	6	716,132	617,835
Investment properties straight line rental asset		3,412	3,490
Available-for-sale financial assets	7	31,283	24,390
<b>Total non-current assets</b>		<b>750,827</b>	<b>645,715</b>
<b>Total assets</b>		<b>753,560</b>	<b>654,448</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	8	6,899	3,115
Distribution payable		8,425	8,060
Derivative financial instruments		1,901	1,613
Rent received in advance		504	697
<b>Total current liabilities</b>		<b>17,729</b>	<b>13,485</b>
<b>Non-current liabilities</b>			
Borrowings	9	198,254	192,280
Derivative financial instruments		5,777	3,658
<b>Total non-current liabilities</b>		<b>204,031</b>	<b>195,938</b>
<b>Total liabilities</b>		<b>221,760</b>	<b>209,423</b>
<b>Net assets</b>		<b>531,800</b>	<b>445,025</b>
<b>EQUITY</b>			
Contributed equity	10	324,088	317,768
Available-for-sale financial assets reserve		5,737	(1,047)
Undistributed profit		201,975	128,304
<b>Total equity</b>		<b>531,800</b>	<b>445,025</b>

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



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOLKESTONE EDUCATION TRUST AND ITS CONTROLLED ENTITIES

For the year ended 30 June 2016

Consolidated Group	Notes	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
Units issued	10	79,708	-	-	79,708
Unit issue transaction costs	10	(82)	-	-	(82)
Profit attributable to unitholders		-	88,579	-	88,579
Other comprehensive income		-	-	(1,047)	(1,047)
Distribution paid or provided for		-	(28,839)	-	(28,839)
<b>Balance at 30 June 2015</b>		<b>317,768</b>	<b>128,304</b>	<b>(1,047)</b>	<b>445,025</b>
Balance at 1 July 2015		317,768	128,304	(1,047)	445,025
Units issued	10	6,347	-	-	6,347
Unit issue transaction costs	10	(27)	-	-	(27)
Profit attributable to unitholders		-	106,771	-	106,771
Other comprehensive income		-	-	6,784	6,784
Distribution paid or provided for		-	(33,100)	-	(33,100)
<b>Balance at 30 June 2016</b>		<b>324,088</b>	<b>201,975</b>	<b>5,737</b>	<b>531,800</b>

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

## FOLKESTONE EDUCATION TRUST AND ITS CONTROLLED ENTITIES

For the year ended 30 June 2016

Consolidated Group	Notes	2016 \$'000	2015 \$'000
<b>Cash flows from operating activities</b>			
Property income received (inclusive of GST)		66,133	59,423
Cash payments in the course of operations (inclusive of GST)		(21,341)	(21,044)
Distributions received		1,525	292
Interest received		13	37
Finance costs paid		(11,421)	(8,740)
<b>Net cash inflow from operating activities</b>	11(b)	<b>34,909</b>	<b>29,968</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of investment properties		15,495	22,647
Payments for acquisition of investment properties (including construction costs)		(31,423)	(36,606)
Payments for acquisition of available-for-sale financial assets		-	(17,215)
<b>Net cash outflow from investing activities</b>		<b>(15,928)</b>	<b>(31,174)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		200,260	22,716
Repayment of borrowings		(193,000)	-
Distributions paid		(26,418)	(22,375)
<b>Net cash (outflow)/inflow from financing activities</b>		<b>(19,158)</b>	<b>341</b>
<b>Net decrease in cash held</b>		<b>(177)</b>	<b>(865)</b>
<b>Cash at the beginning of the financial year</b>		<b>967</b>	<b>1,832</b>
<b>Cash at the end of the financial year</b>	11(a)	<b>790</b>	<b>967</b>

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

# NOTES TO THE FINANCIAL STATEMENTS

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements were authorised for issue by the Directors on 9 August 2016. The Directors have the power to amend and reissue the financial statements.

### a) Basis of Preparation

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

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

### Compliance with International Financial Reporting Standards

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

### New and Amended Standards Adopted by the Trust

The Trust has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2015:

- AASB 2014-1 *Amendments to Australian Accounting Standards* (including Part A: *Annual Improvements 2010-2012 and 2011-*

*2013 Cycles* and part B: *Defined Benefit Plans: Employee Contributions – Amendments to AASB 119*)

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

The Trust also elected to adopt the following amendments early:

- AASB 2015-1 *Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle*, and
- AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101*.

As these amendments merely clarify the existing requirements, they do not affect the Trust's accounting policies or any of the disclosures.

### New standards and interpretatives not yet adopted by the Trust

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods and have not been early adopted by the Trust. The new standards and interpretations are set out as follows:

- AASB 9 *Financial Instruments*  
AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. AASB 9 must be applied for financial years commencing on or after 1 January 2018.  
The Trust does not expect significant impact of these new rules on the Trust's financial statements.
- AASB 15 *Revenue from Contracts with Customers*  
The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers revenue arising from the sale of goods and the rendering of services and AASB 111 which covers construction contracts. The

new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

AASB 15 is mandatory for financial years commencing on or after 1 January 2018. The Trust has not yet assessed the impact of the new rules on the Trust's financial statements.

- AASB 16 *Leases*  
On 13 January the IASB issued IFRS 16 *Leases*. The changes under IFRS 16 are significant and will predominately affect lessees, with almost all leases going on their balance sheet. This is because the balance sheet distinction between operating and finance leases are removed for lessees. Instead, under the new standard an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exemptions are short-term and low-value leases.  
The new standard will be effective from 1 January 2019. Early adoption is allowed if the new revenue standard has also been applied. Given pre-existing leases are not grandfathered under the new standard, all leases will need to be reassessed when IFRS 16 is adopted. The Trust has not yet assessed the impact of the new rules on the Trust's financial statements.

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

### Critical Accounting Estimates

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

# NOTES TO THE FINANCIAL STATEMENTS CONT.



## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.

### b) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Folkestone Education Trust as at 30 June 2016 and the results of all subsidiaries for the year then ended. The Folkestone Education Trust and its subsidiaries together are referred to in this financial report as the Trust.

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

Details of the subsidiaries are contained in Note 15 to the financial statements. The subsidiaries have a June financial year-end.

### c) Investments in Controlled Entities

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

### d) Comparative Information

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

### e) Revenue and Expenditure Recognition

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

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

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

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

Revenue is recognised for the major business activities as follows:

#### Lease Income

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

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

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



## NOTES TO THE FINANCIAL STATEMENTS CONT.

### Lease Incentives

Lease incentives provided by the Trust to lessees are excluded from the measurement of fair value of investment property and are recognised as an asset. The amounts are recognised over the lease periods as a reduction in rental income.

### Distribution Income

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

### Interest Income

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

### Responsible Entity's Remuneration

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

### f) Investment Properties

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

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

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

The costs of assets constructed/redeveloped internally

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

### Valuations

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

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

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

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

### g) Income Tax

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

FET NZ Sub-Trust is subject to New Zealand tax on its earnings. A tax expense of \$849,000 is included in Other expenses in the Consolidated Statement of Comprehensive Income.

### h) Borrowing Costs

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

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

### i) Provisions

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is

# NOTES TO THE FINANCIAL STATEMENTS CONT.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.

determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

### j) Cash and Cash Equivalents

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

### k) Financial Assets and Liabilities

#### Classification

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

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

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

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

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

#### Recognition and Derecognition

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

#### Available-for-sale Financial Assets

Available-for-sale financial assets are initially recognised at fair value plus transaction costs and are subsequently measured at fair value. When securities increase at fair value, the increments are recognised directly in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the Statement of Comprehensive Income as gains and losses. Distribution income

from financial assets at fair value through profit and loss is recognised in the Consolidated Statement of Comprehensive Income as part of revenue when the Trust's right to receive payments is established.

#### Offsetting Financial Instruments

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

#### l) Trade and Other Receivables

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

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

The amount of the impairment loss is recognised in the Consolidated Statement of Comprehensive Income as a reduction in lease income. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent

## NOTES TO THE FINANCIAL STATEMENTS CONT.

period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against lease income in the Consolidated Statement of Comprehensive Income.

### m) Trade and Other Payables

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

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

### n) Borrowings

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

Borrowings are removed from the Consolidated Balance Sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is

recognised in Consolidated Statement of Comprehensive Income as finance costs. Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

### o) Derivatives

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

### p) Distributions

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

### q) Impairment of Assets

At each reporting date, the Trust reviews the carrying values of its tangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the assets' fair value less costs to sell and value in use, is compared to the assets' carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the Consolidated Statement of Comprehensive Income.

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

### r) Contributed Equity

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

### s) Goods and Services Tax

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

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

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

### t) Earnings Per Unit ("EPU")

#### Basic Earnings Per Unit

Basic earnings per unit are calculated by dividing:

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

#### Diluted Earnings Per Unit

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

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

### u) Foreign Currency Translation

#### Functional and Presentation Currency

Items included in the Trust's financial statements are measured using the



## NOTES TO THE FINANCIAL STATEMENTS CONT.



### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.

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

#### Transactions and Balances

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

#### v) Rounding of Amounts

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

#### w) Critical Accounting Estimates and Judgements

The Directors evaluate estimates and judgements incorporated into the financial report based upon historical knowledge and best available current information. Estimates assume a reasonable expectation of future events

and are based upon current trends and economic data, obtained both externally and within the Trust.

#### Key Estimates — Valuation of Investment Properties

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

#### x) Segment Reporting

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

#### y) Parent Entity Financial Information

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

#### Investments in Subsidiaries, Associates and Joint Venture Entities

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

#### z) Going Concern

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

The going concern basis is appropriate for the Trust based upon the Folkestone Education Trust debt facilities having an average debt maturity of 4 years (refer Note 9). The Trust is in full compliance with its facilities.



## NOTES TO THE FINANCIAL STATEMENTS CONT.

### 2. DISTRIBUTIONS

Distributions were payable during the financial year as follows:

Period	Paid/Payable	Cents per Unit	2016 Amount \$'000	Cents per Unit	2015 Amount \$'000
Quarter ended 30 September	20 October 2015	3.35	8,238	3.175	6,511
Quarter ended 31 December	20 January 2016	3.35	8,264	3.175	6,540
Quarter ended 31 March	20 April 2016	3.35	8,285	3.225	7,881
Quarter ended 30 June	20 July 2016	3.35	8,313	3.225	7,907
<b>Total</b>		<b>13.4</b>	<b>33,100</b>	<b>12.8</b>	<b>28,839</b>

### 3. EARNINGS PER UNIT ("EPU")

Consolidated Group	2016 Cents	2015 Cents
Basic EPU	43.25	39.50
Diluted EPU	43.25	39.50

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

Consolidated Group	2016 Number of Units '000	2015 Number of Units '000
Weighted average number of ordinary units used in calculating basic EPU	246,858	224,235
Weighted average number of ordinary units used in calculating diluted EPU	246,858	224,235

Consolidated Group	2016 \$'000	2015 \$'000
Earnings used in calculating basic EPU	106,771	88,579
Earnings used in calculating diluted EPU	106,771	88,579

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

### 4. TRADE AND OTHER RECEIVABLES

Consolidated Group	2016 \$'000	2015 \$'000
Lease debtors	559	608
Provision for impairment	(421)	(551)
Distributions receivable	400	374
	<b>538</b>	<b>431</b>

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

## NOTES TO THE FINANCIAL STATEMENTS CONT.

### 4. TRADE AND OTHER RECEIVABLES CONT.

#### Trade Receivables that are Past Due but not Impaired

As at 30 June 2016, trade receivables of \$137,978 (2015: \$56,657) were past due but not impaired. The ageing of these receivables is as follows:

	\$'000 0-30 days	\$'000 31-60 days	\$'000 61-90 days	\$'000 90+ days
<b>2016</b>				
Consolidated Group	26	12	9	91
<b>2015</b>				
Consolidated Group	15	-	-	42

#### Impairment of Receivables

During the year, the Trust decreased the provision for impairment by \$129,715 to \$420,925, due to the partial collection of amounts owing. This amount was recognised in the Consolidated Statement of Comprehensive Income. No receivables were written off during the year.

#### Related Party Receivables

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

#### Fair Value and Credit Risk

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

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

#### Foreign Exchange and Interest Rate Risk

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

### 5. OTHER CURRENT ASSETS

Consolidated Group	2016 \$'000	2015 \$'000
Prepayments	905	835
GST receivable	57	-
Lease incentive asset	443	540
	<b>1,405</b>	<b>1,375</b>

## NOTES TO THE FINANCIAL STATEMENTS CONT.

### 6. INVESTMENT PROPERTIES

Consolidated Group	2016 \$'000	2015 \$'000
<b>Valuations and carrying amounts</b>		
Freehold properties - at valuation	657,649	563,495
Development properties - at valuation/cost	32,338	35,432
Leasehold properties - at valuation	27,840	28,045
Capitalised transaction costs in relation to properties contracted and not settled	1,717	313
Total investment properties	719,544	627,285
Less: Investment properties expected to be sold within 12 months	-	(5,960)
Less: Straight line rental asset	(3,412)	(3,490)
<b>Carrying amount at the end of the year</b>	<b>716,132</b>	<b>617,835</b>
<b>Movements during the financial year - at fair value</b>		
Balance at the beginning of the year	617,835	449,937
Acquisition of properties (including construction costs)	32,667	34,830
Acquisition of properties (merger with Folkestone Social Infrastructure Trust)	-	90,814
Disposal of properties*	(7,180)	(11,000)
Investment properties expected to be sold in 12 months	-	(5,960)
Net revaluation increment	72,810	59,214
<b>Carrying amount at the end of the year</b>	<b>716,132</b>	<b>617,835</b>

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

- I. Investment properties are carried at fair value. The determination of fair value is based on independent valuations where appropriate. This includes the original acquisition costs together with capital expenditure since acquisition and either the latest independent update. Total acquisition costs include incidental costs of acquisition such as stamp duty and legal fees. Refer to Note 1(f) for further details on valuations.
- II. A full independent valuation of a property is carried out at least once every three years. Independent valuations are prepared using both the capitalisation of net income method and the discounting of future net cash flows to their present value.
- III. Independent valuations as at 30 June 2016 were conducted by numerous valuers. The valuation methodologies used were capitalisation of net income method and direct comparison approaches, which were consistent with the requirements of relevant Accounting Standards and property valuation guidelines.
- IV. Key valuation parameters adopted for independent and director valuations are as follows:
  - Passing rent
  - Market rents
  - Capitalisation rates
  - Weighted average lease expiry

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS CONT.

## 6. INVESTMENT PROPERTIES CONT.

Key assumptions - early learning properties are as follows:

Consolidated Group	2016	2015
<b>Average yield:</b>		
- Australia - Freehold properties	7.0%	7.8%
- Australia - Leasehold properties	13.7%	13.3%
- New Zealand - Freehold properties	7.4%	7.4%
<b>Passing rent per licenced place:</b>		
- Australia - Freehold properties	\$997 - \$5,304	\$770 - \$5,150
- Australia - Leasehold properties	\$654 - \$4,480	\$558 - \$4,349
- New Zealand - Freehold properties*	\$1,073 - \$6,138	\$1,072 - \$6,102

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

During the year, 125 external property valuations were conducted, 116 in Australia and 9 in New Zealand.

Valuations on the 116 Australian properties increased by \$25.5 million or 13.8 per cent on the carrying value as at 30 June 2015, which included Director valuations.

In addition to the external Australian valuations, 185 Directors valuations have been adopted resulting in an increment of \$37.7 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 the external valuations.

Valuations of the 9 New Zealand properties increased by \$0.9 million or 10.9 per cent on the carrying value as at 30 June 2015, which included Director's valuations. This reflects both the increase in valuations of \$0.7 million and an increase of \$0.2 million due to a higher exchange rate than as at 30 June 2015. In New Zealand dollars the valuations of the New Zealand properties increased by NZD\$0.7 million or 8.0 per cent on the carrying value as at 30 June 2015, which included Director's valuations.

In addition to the New Zealand external valuations, 42 Directors valuations have been adopted resulting in an increment of \$5.5 million due to yield compression, rental increases and exchange rate movements since the last external valuation. This reflects both the increase in valuations of \$2.9 million and an increase of \$2.6 million due to higher exchange rate than at 30 June 2015. In New Zealand Dollars, the valuations of the New Zealand properties increased by NZD\$3.2 million or 6.2 per cent on the carrying value as at 30 June 2015, which included Director's valuations.

In relation to the 6 completed development sites that became operational during the year there was an increment of \$3.6 million, which was partially offset by property acquisition costs (predominantly stamp duty) in excess of the fair value of 2 operational properties acquired during the year of \$0.4 million, which were expensed.

Consolidated Group	2016 \$'000	2015 \$'000
<b>Amounts recognised in net profit for investment properties</b>		
Rental income	52,177	46,726
Other rental income (recognised on a straight line basis)	78	114
Direct operating expenses from property that generated rental income	(10,118)	(8,882)
Direct operating expenses from property that did not generated rental income	(151)	(76)
Revaluation gain on investment properties	72,810	59,214



## NOTES TO THE FINANCIAL STATEMENTS CONT.

Consolidated group	% of Investment Property Portfolio by Income
Tenancy risk	
Operator:	
Goodstart Early Learning Limited	59%
BestStart Educare Limited	9%
G8 Education Limited	8%

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

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

Goodstart Early Learning Limited ("Goodstart") - representing 59% of the Trust's investment property portfolio by income was formed in 2009 when it acquired the ABC Learning business. The 4 members are 4 Australian charitable organisations, consisting of The Benevolent Society, Mission Australia, the Brotherhood of St Laurence and Social Ventures Australia. Goodstart is a not-for-profit organisation and as 30 June 2015 employed approximately 13,500 staff across 643 childcare centres nationwide.

BestStart Educare Limited ("BestStart") - representing 9% of the Trust's investment property portfolio by income is the largest provider of childcare in New Zealand. BestStart is a not-for-profit organisation with over 250 centres operating under different brands from Kaitia to Invercargill. These brands include EduKids, TopKids, First Steps, Early Years, Community Kindy, Montessori, Kids to Five, ABC and Kiwicare Preschool.

G8 Education Limited ("G8") - representing 8% of the Trust's investment property portfolio by income is a publicly listed company on the ASX (ASX code: GEM). As at 31 December 2015, G8 operated 471 centres across Australia and Singapore, with a combined licenced capacity of 35,221 places.

### Assets pledged as security

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

## 7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Consolidated Group	2016 \$'000	2015 \$'000
Units in listed securities (Arena REIT - ASX:ARF) - at market valuation	20,585	15,919
Units in unlisted securities (Folkestone CIB Fund) - at Directors' valuation	10,698	8,471
<b>Carrying amount at the end of the year</b>	<b>31,283</b>	<b>24,390</b>
Movements in available-for-sale financial assets:		
Balance at the beginning of the year	24,390	-
Distribution re-invested in units	109	112
Purchase of available-for-sale financial assets	-	25,325
Movement in available-for-sale financial assets reserve	6,784	(1,047)
<b>Carrying amount at the end of the year</b>	<b>31,283</b>	<b>24,390</b>

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

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

# NOTES TO THE FINANCIAL STATEMENTS CONT.

## 8. TRADE AND OTHER PAYABLES

Consolidated Group	2016 \$'000	2015 \$'000
Trade creditors*	4,074	923
Accrued interest	31	127
GST payable	-	294
Accruals*	2,794	1,771
	<b>6,899</b>	<b>3,115</b>

\*Trade creditor and Accruals include provisions for construction and development costs incurred.

### Fair Value and Credit Risk

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

### Financial Guarantees

There are no financial guarantees in place.

### Interest Rate, Foreign Exchange and Liquidity Risk

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

## 9. BORROWINGS

Consolidated Group	2016 \$'000	2015 \$'000
Bank loans - secured	193,000	190,000
Less: up front transaction costs	(2,197)	(2,297)
Plus: amortised up front transaction costs	2	1,388
	<b>190,805</b>	<b>189,091</b>
Bank Overdraft	7,449	3,189
	<b>198,254</b>	<b>192,280</b>

On 30 June 2016, the Trust refinanced a \$227 million debt facility with Australia and New Zealand Banking Group Limited ("ANZ") and Hongkong and Shanghai Banking Corporation Limited ("HSBC"). This facility replaces the previous \$193 million syndicated debt facility with National Australia Bank Limited ("NAB") and Australia and New Zealand Bank Group ("ANZ") and a separate facility of \$34.3 million with ANZ, assumed as part of the Folkestone Social Infrastructure Trust merger in January 2015.

The key feature of the new bilateral facilities is its two tranche structure split over three and five year terms.

As at 30 June 2016 the Trust has the following debt facilities with key commercial terms summarised as follows.

Financiers	ANZ/HSBC	ANZ/HSBC
Facility	A	B
Facility Limit	\$113.5 million	\$113.5 million
Drawn Amount	\$113.5 million	\$79.5 million
Facility Maturity	June 2019	June 2021
Maximum Loan to Value Ratio	50%	50%
Interest Cover Ratio	Greater than 2.0 times	Greater than 2.0 times

As at 30 June 2016, the Trust complied with all of its debt covenant ratios and obligations.

The Trust also has an overdraft facility with ANZ of \$10 million (\$7.4 million drawn at 30 June 2016), with the overdraft facility that was assumed as part of the Folkestone Social Infrastructure Trust merger of \$2 million cancelled on 30 June 2016.

## NOTES TO THE FINANCIAL STATEMENTS CONT.

### Hedging Arrangements

In accordance with the Trusts policy to hedge a proportion of its debt, additional hedging positions were taken out in June 2016, to extend the hedge profile through to June 2021 and to supplement the Trust's existing positions between FY17 and FY20. The new hedging arrangements were restructured by combining the existing positions with new longer-term positions, at lower rates. The following interest rate swaps are in place:

Period	Hedged Amount \$'000	Hedged Rate %	% Hedged of Drawn Debt
<b>FY17:</b> July 2016 - June 2017	127,000	3.27	66
<b>FY18:</b> July 2017 - June 2018	112,000	3.27	58
<b>FY19:</b> July 2018 - June 2019	97,000	3.27	50
<b>FY20:</b> July 2019 - June 2020	90,000	3.27	47
<b>FY21:</b> July 2020 - June 2021	90,000	3.27	47

### Interest Rate, Foreign Exchange and Liquidity Risk

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

### Fair Values

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

### Unused Financing Facilities

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

### Assets Pledged as Security

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

Consolidated Group	2016 \$'000	2015 \$'000
<b>Assets pledged as security:</b>		
Collateral that has been pledged for secured liabilities is as follows:		
i) Financial assets pledged		
Cash and cash equivalents	790	967
Trade and other receivables	538	431
ii) Other assets pledged		
Other current assets	1,405	1,375
Investment properties	719,544	627,285
<b>Total assets pledged</b>	<b>722,277</b>	<b>630,058</b>

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

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

## NOTES TO THE FINANCIAL STATEMENTS CONT.

### 9. BORROWINGS CONT.

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

### 10. CONTRIBUTED EQUITY

Consolidated Group	Units on Issue No '000	Units on Issue \$'000
<b>Balance at 1 July 2014</b>	205,070	238,142
Units issued	40,098	79,708
Transaction costs	-	(82)
<b>Balance at 30 June 2015</b>	<b>245,168</b>	<b>317,768</b>
<b>Balance at 1 July 2015</b>	245,168	317,768
Units issued	2,981	6,347
Transaction costs	-	(27)
<b>Balance at 30 June 2016</b>	<b>248,149</b>	<b>324,088</b>

During the year, the Trust operated a Distribution Reinvestment Plan ("DRP") with 2,980,788 units issued at an average issue price of \$2.13 for the year.

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

#### Capital Risk Management

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS CONT.

### 11. CASH AND CASH EQUIVALENTS

Consolidated Group	2016 \$'000	2015 \$'000
<b>(a) Components of cash and cash equivalents</b>		
Cash	790	967
<b>Total cash and cash equivalents</b>	<b>790</b>	<b>967</b>
<b>(b) Reconciliation of net profit to net cash flows provided by operating activities</b>		
Net profit	106,771	88,579
(Gain)/Loss on sale of investment properties	(1,960)	(3,199)
Realised/Unrealised foreign exchange (gains) / losses	(59)	78
Change in fair value of derivative financial instruments	2,407	1,979
Net property revaluation (increment) / decrement	(72,810)	(59,214)
Straight line rental adjustments	(78)	(64)
Distributions re-invested in units	(109)	(112)
(Increase)/decrease in debtors	(107)	(270)
(Increase)/decrease in other current assets	(127)	1,001
Increase/(decrease) in rent received in advance	(193)	162
Increase/(decrease) in trade and other payables	1,174	1,028
<b>Net cash flows provided by operating activities</b>	<b>34,909</b>	<b>29,968</b>
<b>(c) Financing facilities</b>		
Committed financing facilities available to the Trust:		
Bank loans - secured	227,000	207,300
Overdraft facility	10,000	12,000
	237,000	219,300
Amounts utilised	(200,449)	(193,189)
Available financing facilities	36,551	26,111
Cash	790	967
<b>Financing resources available at the end of the year</b>	<b>37,341</b>	<b>27,078</b>
<b>Maturity profile of financing facilities</b>		
Due within one year	-	-
Due between one year and five years	237,000	219,300
Due after five years	-	-
	237,000	219,300

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



# NOTES TO THE FINANCIAL STATEMENTS CONT.

## 12. SEGMENT INFORMATION

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

	2016 \$'000	2015 \$'000
<b>Total revenue</b>		
Australia	125,386	108,176
New Zealand	11,432	8,873
	<b>136,818</b>	<b>117,049</b>
<b>Investments excluding Available-for-sale financial assets</b>		
Australia	657,695	571,815
New Zealand	61,849	55,470
	<b>719,544</b>	<b>627,285</b>

## 13. RELATED PARTY DISCLOSURES

### The Trust

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

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

<b>Consolidated Group</b>	2016 \$'000	2015 \$'000
Interest from subsidiary trusts	1,468	1,377
Expense reimbursement from subsidiary trusts	31	48
Distributions paid from subsidiary trusts	10,847	8,653
Loan to subsidiary trusts	60,560	23,957

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

### Responsible Entity

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

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

## NOTES TO THE FINANCIAL STATEMENTS CONT.

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

Consolidated Group	2016 \$'000	2015 \$'000
<b>Amounts paid or payable during the year</b>		
Responsible Entity asset management fees	3,523	2,797
Responsible Entity cost recoveries	500	436
Responsible Entity leasing fees*	442	27
Responsible Entity acquisition/due diligence fees	43	98
Responsible Entity development fees*	445	169
Responsible Entity debt arrangement fee	1,150	-
	6,103	3,527
<b>Amounts included in accruals or payables at balance date</b>	<b>1,405</b>	<b>1,172</b>

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

### Custodian

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

Consolidated Group	2016 \$'000	2015 \$'000
<b>Amounts paid or payable during the year</b>		
Custodian fees	215	163
<b>Amounts included in accruals or payables at balance date</b>	<b>55</b>	<b>54</b>

### Terms and Conditions of Transactions with Related Parties

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

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

### Units Held in the Trust by Related Entity

The ultimate parent entity of the Responsible Entity is Folkestone Limited ("FLK"). The following entities form part of the Folkestone Group: Folkestone Real Estate Management Limited ("FREML"), Folkestone Investment Management Limited ("FIML") and Folkestone Funds Management Limited ("FFM").

Name	FLK	FREML	FIML	FFM
Opening balance of units held	30,361,131	272,936	619,357	68,234
Acquisitions of units	454,166	17,488	39,682	4,371
Disposals of units	(127,419)	(290,424)	(659,039)	(72,605)
Closing balance of units held	30,687,878	-	-	-

An amount of \$1,028,044 was receivable at balance date by Folkestone Limited from FET in relation to the 30 June 2016 quarterly distribution.

# NOTES TO THE FINANCIAL STATEMENTS CONT.

## 13. RELATED PARTY DISCLOSURES CONT.

### Payment to Related Entity

For the year ended 30 June 2016, the Trust has not raised any provision for doubtful debts relating to amounts owed by related parties as the payment history does not suggest otherwise. This assessment will be undertaken each financial year through examining the financial position of the related party and the market in which the related party operates. When assessed as required the Trust raises such a provision.

### Investments

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

#### Unlisted Investment

	2016	2015
<i>Folkestone CIB Fund</i>		
Number of units held	4,245,126	4,193,694
Interest percentage held	15.0%	15.0%
Number of units acquired during the year	51,432	4,137,833
Value of units acquired during the year	\$109,036	\$8,221,875
Distributions received / receivable by the Trust	\$528,573	\$360,075
Distributions receivable as at 30 June	\$111,846	\$110,356
Net fair value of investment	\$10,697,718	\$8,471,262

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

## 14. KEY MANAGEMENT PERSONNEL

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

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

### Remuneration

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

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

## NOTES TO THE FINANCIAL STATEMENTS CONT.

### Units held in the Trust by Directors

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

Name	GB Hodgetts	MF Johnstone	VD Cottren	NJ Anagnostou
Opening balance of units held	8,951	71,092	609,100	30,625
Acquisition of units	427	-	-	-
Disposal of units	-	-	(300,000)	-
Closing balance of units held	9,378	71,092	309,100	30,625

## 15. CAPITAL AND LEASE COMMITMENTS

### Capital Expenditure Commitments – Centre Acquisitions and Development

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

Consolidated Group	2016 \$'000	2015 \$'000
not later than 1 year	38,565	2,211

\*Capital expenditure commitments only include contracts executed as at 30 June 2016 and does not include future development costs not yet contracted.

### Lease Revenue Commitments

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

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

Consolidated Group	2016 \$'000	2015 \$'000
Receivable:		
not later than 1 year	55,983	47,637
later than 1 year but no later than 5 years	245,558	219,773
later than 5 years	217,127	170,092
	<b>518,668</b>	<b>437,502</b>

### Leasehold Property Commitments

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

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

Consolidated Group	2016 \$'000	2015 \$'000
Payable:		
not later than 1 year	1,241	1,154
later than 1 year but no later than 5 years	5,531	5,141
later than 5 years	9,733	9,102
	<b>16,505</b>	<b>15,397</b>

# NOTES TO THE FINANCIAL STATEMENTS CONT.

## 16. FINANCIAL RISK MANAGEMENT

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

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

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

### Risk Exposures and Responses

#### I. Market Risk

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

#### - Interest Rate Risk

The Trust's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Trust to cash flow interest rate risk. During 2016 and 2015, the Trust's borrowings at variable rate were denominated in Australian Dollars.

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

Consolidated Group	2016 \$'000	2015 \$'000
<b>Financial assets</b>		
Cash and cash equivalents	790	967
	<b>790</b>	<b>967</b>
<b>Financial liabilities</b>		
Borrowings (Gross)	200,449	193,189
	<b>200,449</b>	<b>193,189</b>
<b>Net exposure</b>	<b>(199,659)</b>	<b>(192,222)</b>

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

Consolidated Group	2016 %	2015 %
<b>Financial assets</b>		
Cash and cash equivalents	0.25%	0.60%
<b>Financial liabilities</b>		
Borrowings	4.48%	4.69%

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



## NOTES TO THE FINANCIAL STATEMENTS CONT.

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

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

As at 30 June 2016, borrowings of \$66.0 million are unhedged and the weighted average variable interest rate is 1.9 per cent per annum (excluding margin)..

At 30 June 2016, if interest rates had moved, as illustrated in the table as follows, with all other variables held constant, net profit and equity would have been affected as follows:

Consolidated Group	Net Profit		Equity	
	Increase/(decrease)		Increase/(decrease)	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Judgements of reasonably possible movements:				
Increase in variable interest rates of 1.00%	4,323	4,101	4,323	4,101
Decrease in variable interest rates of 0.50%	(2,161)	(2,132)	(2,161)	(2,132)

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

### - Foreign currency risk

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

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

With respect to property investments in New Zealand, there is currently no relevant hedging in place. Of the total value of property investments held by the Trust, 8.6 per cent is represented by properties held in New Zealand. The intention is to hold New Zealand properties on an on-going basis.

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

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

Consolidated Group	2016 \$'000	2015 \$'000
<b>Financial assets</b>		
Cash and cash equivalents	259	808
	259	808
<b>Financial liabilities</b>		
Payables	-	78
	-	78
<b>Net exposure</b>	<b>259</b>	<b>730</b>

# NOTES TO THE FINANCIAL STATEMENTS CONT.

## 16. FINANCIAL RISK MANAGEMENT CONT.

Consolidated Group	Net Profit		Equity	
	Increase/(decrease)		Increase/(decrease)	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Judgements of reasonably possible movements:				
AUD/NZD + 15.00%	(9,316)	(8,430)	(9,316)	(8,430)
AUD/NZD - 15.00%	9,316	8,430	9,316	8,430

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

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

### - Price risk

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

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

At 30 June 2016, if prices had moved, as illustrated in the table as follows, with all other variables held constant, profit and other comprehensive income would have been affected as follows:

		Equity	
		Increase/(Decrease)	
		2016 \$'000	2015 \$'000
Judgements of reasonably possible movements:			
Increase in property security prices	15.00%	4,692	3,658
Decrease in property security prices	15.00%	(4,692)	(3,658)

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

## II. Liquidity risk

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

The table following reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial liabilities, including derivative financial instruments as at 30 June 2016. For derivative financial instruments, the market value is presented, whereas for the other obligations the respective undiscounted cash flows for the respective upcoming fiscal years are presented. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing as at 30 June 2016.

## NOTES TO THE FINANCIAL STATEMENTS CONT.

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

Consolidated Group	2016 \$'000	2015 \$'000
6 months or less	9,979	6,136
6 to 12 months	2,720	3,052
1 to 5 years	218,323	210,733
Later than 5 years	-	-
	<b>231,022</b>	<b>219,921</b>

### Maturity analysis of financial assets and liability based on management expectations

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

Consolidated Group	6 months or less \$'000	6 to 12 months \$'000	1 to 5 years \$'000	Later than 5 years \$'000	Total \$'000
<b>2016</b>					
Payables	6,899	-	-	-	6,899
Borrowings	-	-	200,449	-	200,449
Interest payments on hedged borrowings	2,072	1,828	12,096	-	15,996
Derivative financial instruments	1,009	892	5,777	-	7,678
	<b>9,980</b>	<b>2,720</b>	<b>218,322</b>	<b>-</b>	<b>231,022</b>
<b>2015</b>					
Payables	3,115	-	-	-	3,115
Borrowings	-	-	193,189	-	193,189
Interest payments on hedged borrowings	2,216	2,244	13,886	-	18,346
Derivative financial instruments	805	808	3,658	-	5,271
	<b>6,136</b>	<b>3,052</b>	<b>210,733</b>	<b>-</b>	<b>219,921</b>

### III. Credit Risk

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

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

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

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

The Trust's credit exposure is concentrated with one debtor, Goodstart Early Learning Limited, who contributed 59 per cent of rental income. The total credit risk for financial instruments contained in the Balance Sheet is limited to the carrying amount disclosed in the Consolidated Balance Sheet, net of any provisions for doubtful debts.

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

# NOTES TO THE FINANCIAL STATEMENTS CONT.

## 16. FINANCIAL RISK MANAGEMENT CONT.

### IV. Fair Value Measurements

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

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

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- input for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Trust's assets and liabilities measured and recognised at fair value at 30 June 2016 and 30 June 2015.

Consolidated Group	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>2016</b>				
Available-for-sale financial assets	20,585	10,698	-	31,283
<b>Total Assets</b>	<b>20,585</b>	<b>10,698</b>	<b>-</b>	<b>31,283</b>
<b>Liabilities</b>				
Derivatives used for hedging	-	7,678	-	7,678
<b>Total Liabilities</b>	<b>-</b>	<b>7,678</b>	<b>-</b>	<b>7,678</b>
<b>2015</b>				
Available-for-sale financial assets	15,919	8,471	-	24,390
<b>Total Assets</b>	<b>15,919</b>	<b>8,471</b>	<b>-</b>	<b>24,390</b>
<b>Liabilities</b>				
Derivatives used for hedging	-	5,271	-	5,271
<b>Total Liabilities</b>	<b>-</b>	<b>5,271</b>	<b>-</b>	<b>5,271</b>

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

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



## NOTES TO THE FINANCIAL STATEMENTS CONT.

Specific valuation techniques used to value financial instruments include:

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

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

### Net Fair Values

Recognised financial instruments:

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

Unrecognised financial instruments:

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

### 17. NET TANGIBLE ASSETS

Consolidated Group	2016	2015
Net tangible assets (\$'000)	531,800	445,025
Units used (No'000)	248,149	245,168
Net tangible assets at carrying value per unit (\$)	2.143	1.815

### 18. CONTINGENT LIABILITIES

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

### 19. AUDITORS REMUNERATION

Consolidated Group	2016 \$	2015 \$
<i>Audit and other assurance service</i>		
Audit or review of financial report – PricewaterhouseCoopers, Australia firm	74,000	84,000
Audit of compliance plan – PricewaterhouseCoopers, Australia firm	6,000	6,000
<i>Taxation services</i>		
Taxation – PricewaterhouseCoopers, Australia firm	10,150	10,150
<b>Total auditors remuneration</b>	<b>90,150</b>	<b>100,150</b>

# NOTES TO THE FINANCIAL STATEMENTS CONT.

## 20. PARENT ENTITY FINANCIAL INFORMATION

### Summary Financial Information

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

Consolidated Group	2016 \$'000	2015 \$'000
<b>Balance Sheet</b>		
Current assets	5,350	6,073
Total assets	604,619	520,577
Current liabilities	14,384	10,182
Total liabilities	194,849	176,730
Shareholders' equity		
Contributed equity	241,872	235,550
Undistributed profits	167,898	108,297
	409,770	343,847
<b>Profit for the year</b>	88,038	79,220
<b>Total comprehensive income</b>	88,038	79,220

### Guarantees Entered into by the Parent Entity

As at 30 June 2016, the parent entity has not provided guarantees in relation to its subsidiaries, FET Sub-Trust No.1, FET Sub-Trust No.2 and FET NZ Sub-Trust.

### Contingent Liabilities

The parent entity did not have any contingent liabilities as at 30 June 2016 or 30 June 2015.

### Contractual Commitments for the Acquisition of Property, Plant or Equipment

The parent entity's contractual commitments for the acquisition of the property, plant or equipment as at 30 June 2016 was \$38.6 million (30 June 2015: \$2.2 million), refer Note 15.

## 21. SUBSEQUENT EVENTS

The financial report was authorised on 9 August 2016 by the Board of Directors of the Responsible Entity.

There have been no other significant events since 30 June 2016 that have or may significantly affect the results and operations of the Trust.

## 22. TRUST DETAILS

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

## DIRECTORS' DECLARATION

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

1. the financial statements and notes are in accordance with the *Corporations Act 2001*, including:
  - complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
  - giving a true and fair view of the Trust's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
2. there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable, and
3. the Trust has operated during the year ended 30 June 2016 in accordance with the provisions of the Trust Constitution dated 8 July 2002 (as amended).

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

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

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



**Grant Bartley Hodgetts**

Chairman

Folkestone Investment Management Limited

Melbourne, 9 August 2016

# INDEPENDENT AUDITOR'S REPORT



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

### *Report on the financial report*

We have audited the accompanying financial report of Folkestone Education Trust (the Trust), which comprises the consolidated balance sheet as at 30 June 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Folkestone Education Trust (the consolidated entity). The consolidated entity comprises the Trust and the entities it controlled at year's end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

The directors of the trust are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### *Independence*

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

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**PricewaterhouseCoopers, ABN 52 780 433 757**

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### *Auditor's opinion*

In our opinion:

- (a) the financial report of Folkestone Education Trust is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the trust's financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

### ***Report on the Remuneration Report***

We have audited the remuneration report included on page 12 of the directors' report for the year ended 30 June 2016. The directors of the trust are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Auditor's opinion*

In our opinion, the remuneration report of Folkestone Education Trust for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Charles Christie'.

Charles Christie  
Partner

Melbourne  
9 August 2016

## ADDITIONAL STOCK EXCHANGE INFORMATION

### AS AT 2 AUGUST 2016

There were 248,715,234 fully paid ordinary units on issue, held by 5,398 Unitholders.

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

- (a) on a show of hands every person present who is a Unitholder has one vote; and
- (b) on a poll each Unitholder present in person or by proxy or attorney has one vote for each dollar of value of the total interests they have in the Trust.

### DISTRIBUTION OF UNITHOLDERS

Number of Units Held	Number of Unitholders
1-1,000	664
1,001-5,000	1,748
5,001-10,000	1,047
10,001-100,000	1,787
100,001 and over	152
<b>Total</b>	<b>5,398</b>
Holdings less than a marketable parcel	339

### SUBSTANTIAL UNITHOLDERS

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

## ADDITIONAL STOCK EXCHANGE INFORMATION CONT.

### TWENTY LARGEST UNITHOLDERS

Holder Name	Number of Units	Fully Paid Percentage
J P MORGAN NOMINEES AUSTRALIA LIMITED	31,128,850	12.516%
FOLKESTONE LIMITED	30,687,878	12.339%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	29,164,135	11.726%
NATIONAL NOMINEES LIMITED	12,208,460	4.909%
CITICORP NOMINEES PTY LIMITED	9,962,061	4.005%
MR LOUIS PIERRE LEDGER	7,511,380	3.020%
BNP PARIBAS NOMS PTY LTD <DRP>	6,178,942	2.484%
SANDHURST TRUSTEES LTD <DMP ASSET MANAGEMENT A/C>	4,664,995	1.876%
CHEMICAL TRUSTEE LIMITED	4,550,000	1.829%
MR LOUIS PIERRE LEDGER	2,430,285	0.977%
ACRES HOLDINGS PTY LTD <NOEL EDWARD KAGI FAMILY A/C>	2,081,584	0.837%
MR DAVID CALOGERO LOGGIA	2,011,287	0.809%
REDBROOK NOMINEES PTY LTD	1,795,600	0.722%
SANDHURST TRUSTEES LTD <FREEHOLD APF A/C>	1,768,354	0.711%
REDBROOK NOMINEES PTY LTD	1,266,333	0.509%
MELBOURNE CORPORATION OF AUSTRALIA PTY LTD	1,073,654	0.432%
MR LOUIS PIERRE LEDGER	1,066,387	0.429%
AUSTRAL CAPITAL PTY LTD <AUSTRAL EQUITY FUND A/C>	1,050,000	0.422%
HERRO INTERNATIONAL PTY LIMITED	973,218	0.391%
MR ALFRED ZUEGN & MRS ELISABETH ZUEGN <A & E ZUEGN SUPER FUND A/C>	920,000	0.370%
	<b>152,493,403</b>	<b>61.312%</b>

### ON MARKET BUY BACK

There is no current on-market buy back.

**RESPONSIBLE ENTITY AND  
PRINCIPAL PLACE OF BUSINESS  
OF THE TRUST**

Folkestone Investment  
Management Limited  
Level 14, 357 Collins Street  
Melbourne VIC 3000

**DIRECTORS OF THE  
RESPONSIBLE ENTITY**

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

**LAWYERS**

Clayton Utz  
Level 15, 1 Bligh Street  
Sydney NSW 2000

**UNIT REGISTRY**

Boardroom Pty Limited  
Level 12 Grosvenor Place  
225 George Street  
Sydney NSW 2000  
T: 1300 737 760

**AUDITORS/TAXATION ADVISORS**

PricewaterhouseCoopers  
Freshwater Place  
2 Southbank Boulevard  
Southbank VIC 3000

**BANK**

The Hongkong and Shanghai  
Banking Corporation Limited  
580 George Street  
Sydney NSW 2000

Australia & New Zealand Banking  
Group Limited  
Level 2, 100 Queen Street  
Melbourne VIC 3000

**CUSTODIAN**

The Trust Company (Australia) Limited  
Level 15, 20 Bond Street  
Sydney NSW 2000

**SECRETARY**

Scott Martin  
Level 14, 357 Collins Street  
Melbourne VIC 3000

**INVESTOR RELATIONS**

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**Folkestone**  
EDUCATION TRUST