



RECOMMENDED MERGER WITH FOLKESTONE EDUCATION TRUST

Key Summary

Folkestone Real Estate Management Limited ("FREML"), in its capacity as responsible entity of Folkestone Social Infrastructure Trust ("FST") (ASX:FST), today announced a merger by way of a trust scheme that, if approved, would result in FST merging with Folkestone Education Trust ("FET") (ASX:FET) ("Proposal").

The Proposal is designed to provide FST Unitholders with considerable benefits as follows:

- increases exposure to early learning properties with the number of early learning properties increasing from 47 in FST to 401¹ in FET post the merger;
- increases geographic and operator diversification with reduction in exposure to Queensland from 64% to 35% in FET post the merger and an increase in the number of operators from 6 to 27 in FET post the merger;
- reduces ongoing management expenses including a reduction in management fees payable in respect of the FST assets from 1.0% per annum to 0.5% per annum, resulting in an annual saving of \$0.6 million², removal of acquisition and disposal fees on FST assets and duplicated administrative costs³;
- enhances the growth profile via access to the active development pipeline of early learning properties within FET;
- significant increase in market capitalisation and enhanced liquidity including inclusion in the S&P/ASX 300 A-REIT Index; and
- improves cost of capital and financial flexibility.

Offer Terms

FREML, the responsible entity of FST, has entered into a Merger Implementation Deed with Folkestone Investment Management Limited ("FIML"), in its capacity as responsible entity of FET, in relation to a recommended merger between FST and FET. The Proposal, subject to FST Unitholder approval, will be implemented by way of a trust scheme and will result in FST becoming a wholly owned sub-trust of FET.

The Proposal offers FST Unitholders at the Record Date⁴:

- 1.32 New FET Units for every one FST Unit ("Scheme Consideration"), equating to an implied value of \$2.47 per FST unit⁵; and
 - \$0.675 in cash for every 1 FST Unit ("Implementation Distribution").
- collectively, the "Transaction Value".

The Transaction Value of \$3.14 per FST unit⁵ represents a premium of:

- 15.6 per cent premium to the closing price of FST Units of \$2.72;
- 16.1 per cent premium to the 30 day VWAP of FST Units of \$2.71;

¹ Includes three early learning properties FET has under contract for sale.

² Based on FST pro forma balance sheet.

³ The change will take effect on FIML replacing FREML as responsible entity of FST. In accordance with the FST constitution, FREML will be entitled to receive a fee of 2% of FST's gross assets on its replacement being approximately \$1.8 million. FREML has agreed to defer payment of this fee until such time as the responsible entity of FET is no longer a member of the Folkestone Group.

⁴ The Record Date for determining FST Unitholder entitlements under the scheme and the Implementation Distribution is expected to be 31 December 2014.

⁵ Based on the closing price of FET units as at 12 November 2014 of \$1.87. FST Unitholders with registered addresses outside Australia and New Zealand will not receive the Scheme Consideration but will instead receive the cash proceeds from the sale of New FET Units which would have otherwise been issued to them in accordance with a Foreign Unitholder Sale Facility.



- 16.2 per cent premium to the 90 day VWAP of FST Units of \$2.71; and
- 4.8 per cent premium to the FST's pro forma 30 June 2014 NTA per unit of \$3.00.

The Record Date for determining FST Unitholder entitlements under the Scheme and the Implementation Distribution is expected to be 31 December 2014. FST Unitholders at the Record Date will remain entitled to the distribution for the quarter ending 31 December 2014.

FST Asset Sales

FST has successfully settled the sale of the following non core assets:

- its holding in the Stockland Direct Retail Trust 1 (SDRT1) was sold for \$2.4 million, representing a 8% premium to the 30 June 2014 book value of \$2.2 million; and
- its holding in the Australian Property Growth Fund (APGF) was sold for \$0.3 million, representing a 55% premium to the 30 June 2014 book value of \$0.2 million.

In addition, FST has entered into the following conditional sale agreements which will only be completed if the Proposal proceeds:

- the sale of the Glen Iris storage facility for \$12.0 million (\$11.7 million net of costs), representing a 13% premium to the 30 June 2014 book value of \$10.4 million; and
- the sale of 9,035,268 FET Units it holds to Folkestone Limited for a price of \$1.86 per FET Unit amounting to \$16.8 million, subject to FST Unitholder approval. The price was determined based on a 30 day VWAP of FET Units prior to the date of the Proposal being announced. This not only provides FST with price certainty but further aligns the ongoing interests between the Folkestone Group and the merged FET.

The proceeds from the sale of FET Units will be used to fund the majority of the Implementation Distribution.

FST Pro forma Net Tangible Asset ("NTA")

FST's pro forma 30 June 2014 NTA per Unit has increased by 7% to \$3.00. The uplift in FST's pro forma NTA per Unit has primarily been driven by:

- the sale of unit holdings in SDRT1 (\$2.4 million) and APGF (\$0.3 million);
- the revaluation of FST's unit holding in FET to \$16.8 million (from \$14.8 million) to reflect the above sale price;
- revaluation uplift of Glen Iris self storage facility by \$1.3 million to \$11.7 million to reflect the above sale price (net of costs); and
- revaluation uplift of \$2.2 million on 24 early learning properties and the Melton medical centre portfolio to reflect the recent completion of 25 independent valuations.

FREML Corporate Governance

The FREML Board has adopted a formal corporate governance protocol (as has the FIML Board) which documents the procedures for the proper management of conflicts in considering and negotiating the Proposal.

Independent Directors' Recommendation

Michael Johnstone and Warner Bastian, the two FREML directors who were appointed to the special sub-committee convened by the FREML Board to consider the Proposal on behalf of FST Unitholders under the corporate governance protocol, believe that the Proposal is in the best interests of FST Unitholders and unanimously recommend that FST Unitholders vote in favour of the resolutions required to approve the Proposal, in the absence of a superior offer and subject to the independent expert engaged by FREML concluding that the Proposal is fair and reasonable and in the best interests of FST Unitholders.

FREML Independent Director, Michael Johnstone said, "Having carefully considered the prospects of FST as a standalone entity and the alternative strategies available to FST, we believe the Proposal is attractive and represents a premium to both the recent trading prices and NTA".

"The Proposal will provide FST Unitholders, through receipt of units in FET, the opportunity to significantly improve their exposure to the early learning sector, greater geographic and operator diversification, lower management expenses and access to FET's development pipeline. Additionally, FST Unitholders will benefit from increased market capitalisation, liquidity and inclusion in the S&P/ASX 300 A-REIT Index".

Distribution Entitlement

FST Unitholders on the Record Date will receive a full distribution from FST for the quarter ending 31 December 2014 (Quarterly Distribution), which is expected to be 5.25 cents for each FST Unit held.

In addition, FST Unitholders will receive a \$0.675 special cash distribution per FST Unit if the Proposal proceeds.

Merger Implementation Deed

A copy of the Merger Implementation Deed between FREML and FIML will be uploaded on the ASX Market Announcements Platform shortly. As is customary, the conditions precedent to implementation of the Proposal are included in the Merger Implementation Deed.

Explanatory Memorandum and Investor Meeting

The Proposal is subject to approval at a meeting of FST Unitholders. It is expected that the notice of meeting and the accompanying Explanatory Memorandum including the Independent Expert Report will be sent to Unitholders on 25 November 2014 and that the Unitholders' meeting will be held on 19 December 2014. If the Proposal is approved, it is expected that it will be implemented on 6 January 2015.

Indicative Timetable

Event	Date
Transaction announcement	13 November 2014
Explanatory Memorandum available	25 November 2014
FST Unitholder meeting to consider the scheme	19 December 2014
Record date for determining entitlements to Scheme Consideration and Implementation Distribution	31 December 2014
Implementation Date	6 January 2015

Foreign Unitholders

If the Proposal is approved, FST Unitholders who, on the Record Date for the scheme (expected to be 31 December 2014), have a registered address which is outside Australia and New Zealand and their respective external territories, will be a Foreign Unitholder for the purposes of the scheme.

Restrictions in certain foreign countries make it impractical or unlawful for FIML to make available New FET Units in those countries. If you are a Foreign Unitholder, you will automatically participate in a sale facility under which the New FET Units which would otherwise be issued to you will be sold and the cash proceeds will be paid to you. Foreign Unitholders will be entitled to the Implementation Distribution.

Further details regarding Foreign Unitholders will be available in the Explanatory Memorandum.



Further Information

FST Investors who have questions before the Explanatory Memorandum is available, are invited to contact the FST Investor Relations on +61 3 8601 2668.

For further enquiries, please contact:

MARK STEWIEN

Fund Manager
Folkestone Social Infrastructure Trust

LULA LIOSI

Investor Relations Manager
Folkestone Social Infrastructure Trust
t: +61 3 8601 2668

About Folkestone Social Infrastructure Trust

The Folkestone Social Infrastructure Trust (FST) is a listed real estate investment trust (A-REIT) that invests in Australian social infrastructure property and securities. FST's website, www.sitrust.folkestone.com.au provides information on FST, its Manager, announcements, current activities and historical information.

About Folkestone

Folkestone (ASX:FLK) is an ASX listed real estate funds manager and developer providing real estate wealth solutions. Folkestone's funds management platform, with over \$800 million under management, offers listed and unlisted real estate funds to private clients and select institutional investors, while its on balance sheet activities focus on value-add and opportunistic (development) real estate investments. www.folkestone.com.au