
RECOMMENDED MERGER WITH FOLKESTONE EDUCATION TRUST – NOTICE OF MEETING AND EXPLANATORY MEMORANDUM

On 13 November 2014 Folkestone Real Estate Management Limited (“FREML”), in its capacity as responsible entity of Folkestone Social Infrastructure Trust (“FST”) (ASX:FST), 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 Notice of Meeting and the accompanying Explanatory Memorandum including the Independent Expert Report is now attached and a copy is expected to be mailed to FST Unitholders on 25 November 2014.

The Independent Expert, Deloitte Corporate Finance Pty Ltd, has concluded that the Proposal is both fair and reasonable and in the best interests of FST Unitholders. Additionally, the Independent Expert has concluded that the sale of FST’s units in FET to Folkestone Limited is fair and reasonable to non-associated FST Unitholders.

The meeting of FST Unitholders is scheduled to be held on 19 December 2014. If the Proposal is approved, it is expected that it will be implemented on 6 January 2015.

For further enquiries, please contact:

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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, <http://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 approximately \$850 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



NOTICE OF MEETING & EXPLANATORY MEMORANDUM

IN RELATION TO THE MERGER OF THE FOLKESTONE SOCIAL INFRASTRUCTURE TRUST AND THE FOLKESTONE EDUCATION TRUST

Your Independent Directors representing FST unanimously recommend that you vote in favour of the Proposal.

The Independent Expert considers that the Proposal is both **fair and reasonable**, and in your best interests. Additionally, the Independent Expert considers the FET Unit Sale to be fair and reasonable to non associated FST Unitholders.



IMPORTANT NOTICES

PURPOSE OF THIS EXPLANATORY MEMORANDUM

This Explanatory Memorandum is the explanatory memorandum dated 24 November 2014 issued by FREML in connection with the Scheme under which FET proposes to acquire all of the FST Units on issue. This Explanatory Memorandum provides FST Unitholders with information about the Proposal and provides such information as is prescribed or otherwise material to the decision of FST Unitholders on how to vote on the Proposal at the Meeting.

The Notice of Meeting is in Annexure 1 to this Explanatory Memorandum. The Supplemental Deed which will effect the Scheme is in Annexure 3 to this Explanatory Memorandum. FIML is offering New FET Units as consideration under the Scheme. Accordingly, this Explanatory Memorandum is also the product disclosure statement issued by FIML under Part 7.9 of the Corporations Act in respect of New FET Units (PDS).

GENERAL

FST Unitholders should read this Explanatory Memorandum in its entirety before making a decision as to how to vote on the Resolutions to be considered at the Meeting. If you have any questions, you should contact FST Investor Relations on +61 3 8601 2668 or visit the website www.sitrust.folkestone.com.au. Alternatively, you can contact your financial, legal, tax or other professional adviser.

FIML may be contacted at Level 12, 15 William Street, Melbourne VIC 3000, telephone: +61 3 8601 2668, fax: +61 3 9200 2282.

NO INVESTMENT ADVICE

This Explanatory Memorandum contains general financial product advice only and has been prepared without taking account of the investment objectives, financial situation, tax position or particular needs of any FST Unitholder or any other person.

Before acting on any of the matters described in this Explanatory Memorandum, you should have regard to your investment objectives, financial situation, tax position or particular needs and obtain your own financial advice by contacting your financial, legal, tax or other professional adviser.

Your investment in FST is subject to investment and other risks, including possible loss of income and principal invested. FREML gives no guarantee or assurance as to the performance of FST or the repayment of capital.

Your investment in FET is subject to investment and other risks, including loss of principal invested. Neither FREML nor FIML gives any guarantee or assurance as to the performance of FET.

Neither this Explanatory Memorandum nor the Taxation Report in Section 10 constitute tax advice. You will need to consult your own independent professional tax adviser regarding the consequences of the Scheme in light of your particular circumstances.

RESPONSIBILITY STATEMENT

FREML has provided, and is responsible for, the FST Information in this Explanatory Memorandum and FIML and its Directors, officers, employees and advisers do not assume any responsibility for the accuracy or completeness of the FST Information.

FIML has provided, and is responsible for, the FET Information in this Explanatory Memorandum and FREML and its Directors, officers, employees and advisers do not assume any responsibility for the accuracy or completeness of the FET Information.

The FET Information which relates to FET post implementation of the Scheme has been prepared by FIML based in part on information provided by FREML to FIML. FIML has compiled the Pro Forma Balance Sheet and Pro Forma Forecast Income Statement of FET, which is included in Section 7.

Subject to FREML taking responsibility for the information which FREML has provided to FIML for this purpose, FIML takes responsibility for the information concerning FET after implementation of the Scheme and the Pro Forma Balance Sheet and Pro Forma Forecast Income Statement of FET after the implementation of the Scheme.

Deloitte Corporate Finance Pty Limited has prepared the Independent Expert's Report in relation to the Proposal and the FET Unit Sale contained in Section 9 and takes responsibility for that report. FREML, FIML and their respective Directors, officers, employees and advisers do not assume any responsibility for the accuracy or completeness of the Independent Expert's Report.

PwC has prepared the taxation report included in Section 10 (Taxation Report). FREML, FIML and their respective Directors, officers, employees and advisers do not assume any responsibility for the accuracy of the Taxation Report, except to the extent that those parties are responsible for the information provided to PwC in the preparation of the Taxation Report. PwC does not assume any responsibility for the accuracy or completeness of any other part of this Explanatory Memorandum.

REGULATORY INFORMATION

This Explanatory Memorandum is the explanatory statement issued by FREML, as the responsible entity of FST, for the Scheme whereby FET proposes to acquire all of the FST Units on issue. The Notice of Meeting in relation to the Meeting where FST Unitholders will vote on the Proposal is set out in Annexure 1 to this Explanatory Memorandum.

FIML, as the responsible entity of FET, is the issuer of New FET Units. This Explanatory Memorandum is a product disclosure statement issued by FIML, as the responsible entity of FET, under Part 7.9 of the Corporations Act for the New FET Units.

A copy of this Explanatory Memorandum was lodged with ASIC on 24 November 2014. Neither ASIC nor any of its officers takes any responsibility for the contents of this Explanatory Memorandum.

A copy of this Explanatory Memorandum has been provided to ASX. Neither ASX nor any of its officers takes any responsibility for the contents of this Explanatory Memorandum.

FORWARD LOOKING STATEMENTS

Certain statements in this Explanatory Memorandum relate to the future. The forward looking statements in this Explanatory Memorandum are not based on historical facts, but rather reflect the current expectations of FREML or, in relation to the FET Information, of FIML concerning future results and events. These statements generally may be identified by the use of forward-looking words or phrases such as "believe", "aim", "expect", "anticipated", "intending", "foreseeing", "likely", "should", "planned", "may", "estimate", "potential", or other similar words and phrases. Similarly, statements that describe FREML's or FIML's objectives, plans, goals or expectations are or may be forward-looking statements.

These forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual results, performance or achievements of FST or FET to be materially different from future results, performance or achievements expressed or implied by such statements. Such forward looking statements are based on numerous assumptions regarding present and future operating strategies and the environment in which FST or FET will operate in the future. The Risk Factors described in Section 8 could affect future results of FST or FET, causing these results to differ materially from those expressed, implied or projected in any forward looking statements. These factors are by no means all of the important factors that could cause actual results to differ materially from those expressed in any forward looking statement. Other unknown factors could also have a materially adverse effect on future results of FST or FET. Forward looking statements should, therefore, be construed in light of such risk factors and undue reliance should not be placed on forward looking statements.

FST Unitholders should note that the historical financial performance of FST and FET is no assurance or indicator of future financial performance of FST and/or FET (whether or not the Proposal proceeds). Neither FREML nor FIML guarantee any particular rate of return or the performance of FST or FET nor do they guarantee the repayment of capital from FST or FET or any particular tax treatment.

All subsequent written and oral forward-looking statements attributable to FST or FET or any person acting on their behalf are qualified by this cautionary statement.

Other than as required by law, none of FREML, FIML or any of their respective Directors or any other person gives any representation, assurance, warranty (whether express or implied) or guarantee that the accuracy, likelihood or occurrence of the events or results expressed or implied in any forward looking statements in this Explanatory Memorandum will actually occur.

The forward looking statements in this Explanatory Memorandum reflect views held only at the date of this

Explanatory Memorandum. Subject to any continuing obligations under ASX Listing Rules or the Corporations Act, and except as otherwise specifically stated in this Explanatory Memorandum, FREML, FIML and their respective Directors disclaim any obligation or undertaking to distribute after the date of this Explanatory Memorandum any updates or revisions to any forward looking statements to reflect any change in expectations in relation thereto or any change in events, conditions or circumstances on which any such statement is based.

UPDATED INFORMATION

Information in the PDS component of this Explanatory Memorandum may change from time to time. Information that has changed in relation to FET that is not materially adverse but which FIML wishes to provide to FST Unitholders, will be made available on FET's website at www.educationtrust.folkestone.com.au. A printed copy of any updated information will be available from FIML free of charge upon request.

FIML may issue a supplementary PDS to supplement any relevant information not contained in the PDS component of this Explanatory Memorandum, in accordance with its obligations under the Corporations Act. Any supplementary PDS and updated information should be read together with this Explanatory Memorandum. A copy of any supplementary PDS and other information regarding FET will be made available on FET's website at www.educationtrust.folkestone.com.au and a printed copy will be available from FIML free of charge upon request.

Notice to persons outside Australia (except New Zealand)

The Scheme relates to the securities of Australian entities. This Explanatory Memorandum complies with the disclosure requirements of Australia, which may be different from the requirements applicable in other jurisdictions. The financial information included in this document is either based on financial statements that have been prepared in accordance with Australian Accounting Standards or in the case of pro forma consolidated financial information, policies adopted by FET, both of which may differ from generally accepted accounting principles in other jurisdictions.

If you are a Foreign Unitholder you are not eligible to receive New FET Units under the Scheme. Foreign Unitholders should refer to Section 4.3.

This Explanatory Memorandum does not constitute an offer to sell, or the solicitation of an offer to buy, any securities in the United States or to any 'US person' (as defined in Regulation S under the US Securities Act of 1933, as amended (Securities Act) (US Person)).

New FET Units have not been, and will not be, registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States, and may not be offered or sold in the United States or to any US Person without being so registered or pursuant to an exemption from registration.

NOTICE TO PERSONS IN NEW ZEALAND

The offer of New FET Units under the Scheme to Scheme Unitholders, who on the Record Date have an address on the FST Register which is in New Zealand, is a regulated offer made under Australian and New Zealand law. In Australia, this is Chapter 8 of the Corporations Act and Corporations Regulations. In New Zealand, this is Part 5 of the Securities Act 1978 and the Securities Act (Overseas Companies) Exemption Notice 2013.

The Proposal and the content of this Explanatory Memorandum are principally governed by Australian rather than New Zealand law. The Corporations Act and Corporations Regulations set out how the offer must be made.

There are differences in how securities are regulated under Australian law. For example, the disclosure of fees for collective investment schemes is different under the Australian regime. The rights, remedies, and compensation arrangements available to New Zealand investors in Australian securities may differ from the rights, remedies, and compensation arrangements for New Zealand securities.

Both the Australian and New Zealand securities regulators have enforcement responsibilities in relation to the Offer. If you need to make a complaint about this offer, please contact the Securities Commission, Wellington, New Zealand. The Australian and New Zealand regulators will work together to settle your complaint.

The taxation treatment of Australian securities is not the same as for New Zealand securities.

The currency for the New FET Units is not New Zealand dollars. The value of the New FET Securities will go up or down according to changes in the exchange rate between that currency and New Zealand dollars. These changes may be significant. If you expect the New FET Units to pay any amounts in a currency that is not New Zealand dollars, you may incur significant fees in having the funds credited to a bank account in New Zealand in New Zealand dollars.

New FET Units will be able to be traded on a securities market. If you wish to trade the New FET Units through that market, you will have to make arrangements for a participant in that market to sell the New FST Units on your behalf. If the securities market does not operate in New Zealand, the way in which the market operates, the regulation of participants in that market, and the information available to you about the New FST Units and trading may differ from securities markets that operate in New Zealand.

PRIVACY AND PERSONAL INFORMATION

FIML, FREML, the FST Registry and the FET Registry may collect personal information in the process of implementing the Proposal. The personal information may include the names, addresses, other contact details, bank account details and details of the holdings of FST Unitholders, and the names of individuals appointed by FST Unitholders as proxies, corporate representatives or attorneys at the Meeting.

FST Unitholders who are individuals and the other individuals in respect of whom personal information is collected as outlined above have certain rights to access the personal information collected in relation to them. Such individuals should contact the FST Registry on 1300 737 760 in the first instance if they wish to request access to that personal information.

The personal information is collected for the primary purpose of assisting FIML and FREML to implement the Proposal and conduct the Meeting. The personal information may also be disclosed to the related bodies corporate of FIML, FREML, the FET Registry and the FST Registry, third party service providers, including print and mail service providers, authorised securities brokers and professional advisers and to ASX and other regulatory authorities, and in any case, where disclosure is required or allowed by law or where the individual FST Unitholder has consented. Personal information of FST Unitholders may also be used to contact them in relation to their FST Units or the Proposal.

FST Unitholders who appoint an individual as their proxy, corporate representative or attorney to vote at the Meeting should ensure that they inform that person of the matters outlined above.

DEFINED TERMS AND INTERPRETATION

Capitalised terms used in this Explanatory Memorandum and the Proxy Form are defined in the Glossary in Section 13 or in the body of this Explanatory Memorandum. Some Annexures to this Explanatory Memorandum use their own terms and abbreviations, which may have different defined meanings to those set out in the Glossary in Section 13.

Unless otherwise indicated, all references to Sections and annexes are references to Sections and annexes of this Explanatory Memorandum.

CURRENCY AND FINANCIAL INFORMATION

Unless stated otherwise, all references to dollars, \$, cents or c in this Explanatory Memorandum are to Australian currency.

Unless stated otherwise or implied, references to dates or years are financial year references. All financial and operational information contained in this Explanatory Memorandum is stated as at the date of this Explanatory Memorandum unless otherwise specified. Any discrepancies between sums and components in tables contained in this Explanatory Memorandum are due to rounding.

TIME

Unless stated otherwise, all references to time in this Explanatory Memorandum are to Melbourne Time.

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KEY DATES FOR THE PROPOSAL

KEY DATES

Event	Date
Date for determining eligibility of FST Unitholders to vote at the Meeting	Wednesday, 17 December 2014, 3:00pm
Latest date and time for receipt of Proxy Forms for the Meeting	Wednesday, 17 December 2014, 3:00pm
Meeting of FST Unitholders	Friday, 19 December 2014, 3:00pm

IF THE RESOLUTIONS CONSIDERED AT THE MEETING ARE APPROVED BY FST UNITHOLDERS:

Event	Date
Effective Date – amendments to the FST Constitution to give effect to the Scheme are lodged with ASIC	Friday, 19 December 2014
Last day of trading of FST Units on ASX and suspension of FST Units at close of trading	Monday, 22 December 2014
New FET Units commence trading on a deferred settlement basis	Monday, 29 December 2014
Record Date – date for determining entitlements to Scheme Consideration, the Implementation Distribution and the Quarterly Distribution	Wednesday, 31 December 2014, 5:00pm
Implementation Date – date on which: <ul style="list-style-type: none">• the New FET Units will be issued;• payment of the Implementation Distribution will be made¹; and• payment of the Quarterly Distribution will be made.	Tuesday, 6 January 2015
Despatch of holding statements for New FET Units to Scheme Unitholders	By Tuesday, 6 January 2015
Deferred settlement trading on New FET Units ends at close of trading	Tuesday, 6 January 2015
Trading of New FET Units commences on ASX on a normal settlement basis	Wednesday, 7 January 2015

All times are references to Melbourne time.

All dates following the date of the Meeting are indicative only and may be changed by FREML subject to the approval of FIML and the ASX where required. Any changes to the above timetable will be announced on ASX and notified on FST's website at www.sitrust.folkestone.com.au.

1. Payment of the Implementation Distribution to Foreign Unitholders will be made at the same time as payments are made under the Sale Facility. Please refer to Section 4.3.

LETTER FROM THE INDEPENDENT DIRECTORS REPRESENTING FST

24 November 2014

Dear FST Unitholder

On 13 November 2014, Folkestone Real Estate Management Limited (**FREML**) announced that it had entered into a Merger Implementation Deed with Folkestone Investment Management Limited (**FIML**) in relation to a proposal to merge the Folkestone Social Infrastructure Trust (**FST**) with the Folkestone Education Trust (**FET**) by way of the Scheme. FET is a listed A-REIT owning a large diversified portfolio of early learning centres.

The implementation of the Scheme is subject to FST Unitholders approving the Resolutions set out in the attached Notice of Meeting.

Your Independent Directors representing FST¹ **unanimously recommend** that you vote in favour of the Proposal for the merger of FST with FET in the absence of a Superior Proposal. The Independent Expert considers that the Proposal is both **fair and reasonable**, and in your best interests. Additionally, the Independent Expert considers the FET Unit Sale to be **fair and reasonable** to non associated FST Unitholders.

The Proposal

If FST Unitholders approve the Scheme and it is implemented, FST Unitholders on the Record Date (**Scheme Unitholders**), other than Foreign Unitholders, will receive:

- 1.32 New FET Units for every 1 FST Unit held (**Scheme Consideration**); and
- a 67.5 cent special cash distribution from FST in relation to each FST Unit held (**Implementation Distribution**).

Based on the closing price of FET as at 12 November of \$1.87, the day prior to announcement of the Proposal, this will result in Scheme Unitholders receiving an implied value of \$3.14 per FST Unit from a combination of the Scheme Consideration and the Implementation Distribution. This represents a premium to the trading price of FST Units on the day prior to the announcement of the Proposal by FET and FST as follows:

- 15.6% premium to the closing price of FST Units of \$2.72;
- 16.1% premium to the 30 day VWAP of FST Units of \$2.71;
- 16.2% premium to the 90 day VWAP of FST Units of \$2.71; and
- 4.8% premium to the FST's pro forma 30 June 2014 NTA of \$3.00.

In addition, FST Unitholders on the Record Date will also receive a 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.

Foreign Unitholders will not receive any New FET Units under the Scheme but will receive the proceeds from the sale by the Sale Nominee of the New FET Units to which the Foreign Unitholder would otherwise be entitled, the Implementation Distribution and the Quarterly Distribution. Please refer to Section 4.3 for further details.

Independent Expert's opinion

The Independent Directors representing FST appointed Deloitte Corporate Finance Pty Limited to prepare the Independent Expert's Report to assess the merits of the Proposal and the FET Unit sale. The Independent Expert has concluded that the Proposal is both **fair and reasonable**, and in your best interests. Additionally, the Independent Expert has concluded the FET Unit Sale to be fair and reasonable to non associated FST Unitholders.

A copy of the Independent Expert's Report, including the reasons for the Independent Expert's opinion, is set out in Section 9.

Independent Directors representing FST' Recommendation

The Independent Directors representing FST **unanimously recommend** the Proposal to FST Unitholders in the absence of a Superior Proposal after careful consideration of:

- the value of the Scheme Consideration and the Implementation Distribution to be received by Scheme Unitholders;
- the potential benefits to FST Unitholders as investors in FET (following implementation of the Scheme);
- the prospects for FST as a standalone entity;
- the alternative strategies available to FST; and
- the conclusion of the Independent Expert that the Proposal is both fair and reasonable, and in the best interests of Scheme Unitholders and the FET Unit Sale is fair and reasonable to non associated FST Unitholders.

The potential benefits to FST Unitholders as investors in FET (after implementation of the Scheme)

The Independent Directors representing FST believe that there are several potential benefits to FST Unitholders in being FET Unitholders following the merger including:

- increased geographic diversification with reduction in exposure to Queensland from 64% to 35% in FET by asset value;
- reduction in 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 and removal of duplicated administrative costs;

1. The Independent Directors representing FST comprise the Directors of the FREML Board Subcommittee established for the purpose of representing FST Unitholders in assessing the Proposal (refer to Section 11.2)

INDEPENDENT DIRECTORS REPRESENTING FST LETTER CONT.

- significant increase in market capitalisation and enhanced liquidity including inclusion in the S&P/ASX 300 A-REIT Index;
- improved cost of capital and financial flexibility; and
- enhanced growth profile via access to the active development pipeline within FET.

Further details on the reasons why you might vote for the Proposal are outlined in Section 2.1.

FST's standalone prospects

FST has significantly outperformed the S&P/ASX 300 A-REIT Index and delivered an 81.3% unit price return to 12 November 2014 since listing on the ASX in 2011. While FST continues to benefit from exposure to the fast growing early learning sector, on a standalone basis, FST faces the following challenges that may limit growth and impact earnings and distributions in the future:

- lack of scale;
- limited diversification of assets;
- low liquidity; and
- raising new equity without significant dilution to existing FST Unitholders is challenging.

Having regard to the above, the FREML Directors have consistently explored opportunities to maximise value for FST Unitholders. The FREML Directors believe that current market conditions have enabled a scenario where the Proposal has the potential to deliver such an outcome. Similar conditions may or may not exist at some future time.

Further details on each of these issues affecting FST are outlined in Section 2.

Alternative strategies for FST

The Independent Directors representing FST **unanimously recommend** the Proposal in the absence of a Superior Proposal, after having considered the following alternative strategies for FST:

- status quo and pursuit of organic growth;
- a capital raising followed by accretive asset or portfolio acquisitions;
- managed wind up; and
- portfolio sale of FST's assets.

In the opinion of the Independent Directors representing FST, the Proposal provides a superior outcome to Scheme Unitholders compared to these alternative strategies.

Further details on the alternative strategies explored by the FREML Board are outlined in Section 5.6.

Reasons why you may vote against the Proposal

FST Unitholders will be asked to approve the Proposal at an FST Unitholders meeting on Friday, 19 December 2014.

Reasons why FST Unitholders may vote against the Proposal include:

- you may disagree with the conclusions of the Independent Directors representing FST and Independent Expert;
- you may believe that a Superior Proposal may emerge;
- the pro forma NTA of FET on an effective per FST Unit basis

(following the implementation of the Scheme) is lower than the current pro forma NTA of FST; or

- you may not wish for gearing to increase or may not consider it to be the right time to exit your investment in FST.

Further details on the reasons why you might vote against the Proposal are outlined in Section 2.2.

Risks associated with the Proposal

If the Proposal is implemented, Scheme Unitholders (other than Foreign Unitholders) will receive New FET Units.

Scheme Unitholders should be aware that there are a number of risks associated with investing in New FET Units. There are many risk factors that could adversely affect FET's financial performance, financial position and cash flows after implementation of the Proposal, including:

- risks that are specific to FET's existing business and which will therefore be risks to which Scheme Unitholders will be exposed;
- general business risks common to A-REITs; and
- other general risks (e.g. general economic conditions and stock market movements).

FST Unitholders are encouraged to read the Risk Factors outlined in Section 8.

How to vote

The Proposal will only proceed if approved by FST Unitholders at a Meeting to be held on 3:00pm (Melbourne time), Friday, 19 December 2014, at Level 12, 15 William Street, Melbourne VIC 3000.

The Independent Directors representing FST encourage FST Unitholders to attend the Meeting, in person or by proxy, and vote in favour of the Resolutions.

Further information

This Explanatory Memorandum contains important information in relation to the Proposal, including the reasons for the Independent Directors representing FST's recommendation and a summary of the advantages, disadvantages and risks associated with the Proposal. Please read the Explanatory Memorandum carefully before making your decision and voting at the Meeting.

If you have any questions in relation to the Proposal, please contact FST Investor Relations on **+61 3 8601 2668** or visit FST's website at www.sitrust.folkestone.com.au.

This Explanatory Memorandum should not be relied upon as the sole basis for any investment decision. I would encourage you to seek independent financial and taxation advice before making any investment decision in relation to your FST Units and how you vote on the Resolutions.

Yours sincerely,



Warner Bastian

On behalf of the Independent Directors representing FST
Folkestone Real Estate Management Limited

WHAT DO I NEED TO DO?

STEP 1: CAREFULLY READ THIS EXPLANATORY MEMORANDUM

You should read this Explanatory Memorandum in full before making any decision on how to vote.

If you have any doubts as to what action you should take, you should seek financial, tax or other professional advice before making any decision in relation to your FST Units and how to vote at the Meeting.

STEP 2: VOTE ON THE SCHEME

If you are an FST Unitholder on the FST Register at, 3:00pm (Melbourne time) on Wednesday, 17 December 2014, you are entitled to vote on whether you want the Proposal to proceed or not (unless you are subject to the voting exclusions set out in Section 11.1 and the Notice of Meeting).

You can vote:

- in person, by attending the Meeting to be held at Level 12, 15 William Street, Melbourne VIC 3000, at 3:00pm (Melbourne time), Friday, 19 December 2014; or
- by proxy, using the enclosed Proxy Form.

To ensure your Proxy Form is valid, you must return it by 3:00pm (Melbourne time) on Wednesday, 17 December 2014.

You can do this:

- by mailing to: Boardroom Pty Limited, GPO Box 3993, Sydney, NSW, 2001 Australia using the enclosed reply paid envelope;
- by faxing to: + 61 2 9290 9655;
- by hand delivery to: Boardroom Pty Limited, Level 7, 207 Kent Street, Sydney, NSW, 2000; or
- by hand delivery to FREML's registered office: Level 12, 15 William Street, Melbourne VIC 3000.

1. SUMMARY OF THE PROPOSAL

- 1.1 WHAT IS THE PROPOSAL?
- 1.2 WHAT ARE THE STEPS INVOLVED IN IMPLEMENTING THE PROPOSAL?
- 1.3 WHAT ARE THE RESOLUTIONS TO BE PUT TO THE MEETING?
- 1.4 KEY RISKS
- 1.5 ADDITIONAL QUESTIONS YOU MAY HAVE



1. SUMMARY OF THE PROPOSAL

This Section is a summary of the Proposal only and is not intended to address all the relevant issues in relation to the Proposal for FST Unitholders. FST Unitholders should read this Explanatory Memorandum in its entirety. This Section should be read in conjunction with the other Sections of this Explanatory Memorandum.

1.1 What is the Proposal?

Why have I received this Explanatory Memorandum?

You have received this Explanatory Memorandum because you are an FST Unitholder. FST Unitholders are being asked to vote on the Proposal which, if implemented, will result in FET acquiring all of the Units in FST. This will result in FET holding 100% of the FST Units and voting power in FST.

This Explanatory Memorandum is intended to help you to decide how to vote on the Resolutions which need to be passed at the Meeting to allow the Proposal to proceed.

The Independent Directors representing FST recommend that you read this Explanatory Memorandum and, if necessary, consult your investment, tax, legal or other professional adviser before voting on the Resolutions.

What is the Proposal?

The Proposal is a trust scheme which is an arrangement that, if implemented, will result in all FST Units being transferred to FET. FST Unitholders (other than Foreign Unitholders, refer Section 4.3) on the Record Date (expected to be 5:00pm on Wednesday, 31 December 2014), referred to in this Explanatory Memorandum as Scheme Unitholders, will receive the Scheme Consideration and Implementation Distribution.

What is the Scheme Consideration and Implementation Distribution?

If FST Unitholders approve the Scheme and it is implemented, Scheme Unitholders (other than Foreign Unitholders) will receive:

- 1.32 New FET Units for every 1 FST Unit held (**Scheme Consideration**); and
- a 67.5 cent special cash distribution from FST in relation to each FST Unit held (**Implementation Distribution**).

Based on the closing price of FET as at 12 November 2014 of \$1.87, this will result in Scheme Unitholders (other than Foreign Unitholders) receiving an implied value of \$3.14 per FST Unit from a combination of the Scheme Consideration and the Implementation Distribution.

Foreign Unitholders will not receive any New FET Units under the Scheme but will receive the Implementation Distribution and the proceeds from the sale by the Sale Nominee of the New FET Units that they would otherwise be entitled to be issued under the Scheme. Please refer to Section 4.3 for further details.

How will the Implementation Distribution be funded?

The Implementation Distribution will be funded out of:

- available cash reserves or debt facilities of FST; and
- the proceeds from the FET Unit Sale.

FREML has entered into a legally binding sale agreement to sell the 9.0 million FET Units it holds to Folkestone Limited (FLK) for a price of \$1.86 per FET unit amounting to a total of \$16.8 million. The price was determined based on a 30 day VWAP of FET Units prior to the date of the Proposal being announced with no discount applied. The proceeds from the FET Unit Sale will be applied to paying the Implementation Distribution. A summary of the FET Unit Sale Agreement is set out in Section 11.27.

FREML believes entering into the FET Unit Sale agreement which is conditional on implementation of the Proposal is in the best interests of FST Unitholders as it facilitates the payment of the Implementation Distribution in the event the Proposal proceeds. FREML believes that FST continuing to hold units in FET after the Proposal proceeds would be a suboptimal capital structure.

In normal market circumstances, it is unlikely that the sale of a significant parcel of listed securities which was conditional on FST Unitholder approval of the Proposal could be achieved without a discount to the prevailing market price. Alternatively, if FREML did not seek to sell FST's FET Units until after the Proposal was approved by FST Unitholders, there would be uncertainty as to what price would be achieved.

The FET Unit Sale is conditional on the implementation of the Proposal. This interdependence provides FST with adequate assurance that it will have sufficient funds to pay the Implementation Distribution on the Implementation Date.

As noted in Section 1.3, the FET Unit Sale requires approval of FST Unitholders under Resolution 3 at the Meeting. The Independent Expert has considered the FET Unit Sale and has concluded that the sale is fair and reasonable to non associated FST Unitholders (refer Section 9). As noted in Section 1.3, in order for the Proposal to proceed, all of the Resolutions must be approved.

Is FST proposing to dispose of any other assets prior to implementation of the Proposal?

Yes. Similar to the FET Units held by FST, the Directors of FREML and FIML have identified that the Glen Iris Storage Facility owned by FST does not align with the investment strategy of FET. Accordingly, FREML has entered into a legally binding sale agreement to dispose of the Glen Iris Storage Facility to a third party acquiror for \$11.7 million (net of costs), being a 13% premium to its 30 June 2014 book value. The sale agreement is conditional on implementation of the Scheme.

In addition, FST has successfully disposed of its interests in APGF and SDRT1 for \$2.7 million (net of costs). The sale proceeds represent a 12% premium to the 30 June 2014 book values.

1. SUMMARY OF THE PROPOSAL CONT.

When will the Scheme Consideration and Implementation Distribution be issued and paid respectively?

If the Proposal is implemented and the Scheme becomes Effective:

- each FST Unit will be transferred to FIML (as the responsible entity for FET);
- new FET Units will be issued to Scheme Unitholders (other than Foreign Unitholders); and
- payment of the Implementation Distribution to Scheme Unitholders (other than Foreign Unitholders) will be made on the Implementation Date, currently expected to be Tuesday, 6 January 2015.

Payments to Foreign Unitholders under the Sale Facility and the Implementation Distribution to Foreign Unitholders will be made within 10 Business Days after the Foreign Unitholder Sale Period. Please refer to Section 4.3 for further details.

Will I receive my FST distribution for the quarter ending 31 December 2014?

Yes, FST Unitholders on the Record Date will (in addition to the Scheme Consideration and Implementation Distribution) receive a 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.

Who is FET?

FET is an externally managed ASX listed A-REIT that invests in early learning properties in Australia and New Zealand. FET is the largest A-REIT focused on ownership of early learning centres listed on the ASX, with a market capitalisation of approximately \$385 million (based on a unit price of \$1.87 per FET Unit).

FET owns and manages a geographically diverse portfolio with 354¹ early learning properties located within Australia (303) and New Zealand (51) valued at approximately \$472 million (as at 31 October 2014)¹. The early learning properties are typically situated within established residential and commercial locations featuring medium to high traffic areas, good accessibility and access to public transport.

Full details on FET are set out in Section 6.

What is FIML's strategy for FST if the Proposal is implemented?

FIML intends to continue the operations of FST's early learning properties should FST Unitholders approve the Proposal. FST will become a wholly-owned sub-trust of FET.

FIML considers FST's interest in FCIB and the medical centre property at Melton to be non-core, and whilst seeking to maximise the value of those assets FET will assess whether to dispose of these assets over time.

If the Proposal is approved, FIML will cause FREML to apply for termination of official quotation of FST Units on the ASX and

removal of FST from the official list of the ASX. In addition, it is proposed that FREML will be removed as responsible entity of FST and will be replaced as responsible entity of FST by FIML.

Please refer to Section 6.3 for further details.

What is FIML's strategy for FET if the Proposal is implemented?

If FST Unitholders approve the Proposal and the Proposal is subsequently implemented, FIML intends to continue to manage FET in accordance with the strategy set out in Section 6.1.2.

What is the conclusion of the Independent Expert?

The Independent Directors representing FST engaged the Independent Expert to provide the Independent Expert's Report on the Proposal and the FET Unit Sale. The Independent Expert's Report is set out in full in Section 9.

The Independent Expert's Report provides an assessment of the Proposal. The Independent Expert has determined that the fair market value of FST Units is between \$2.72 and \$2.86 (**IE Valuation Range**). The implied value of the Scheme Consideration is premium to the IE Valuation Range and therefore the Independent Expert has found that the Proposal is fair. On the basis of this conclusion, the Independent Expert has concluded that the Proposal is also reasonable. As the Proposal is fair and reasonable, the Independent Expert has concluded that the Proposal is in the best interests of Scheme Unitholders, in the absence of a Superior Proposal.

The Independent Expert's Report also provides an assessment of the FET Unit Sale. FET Unit Sale is fair and reasonable to non associated FST Unitholders. The Independent Expert has determined that the fair market value of FET Units (on a minority basis) is between \$1.85 and \$1.95 (**IE FET Sale Unit Sale Valuation Range**). The implied value of the FET Unit Sale is within the IE Valuation Range and therefore the Independent Expert has found that the FET Unit Sale is fair. On the basis of this conclusion, the Independent Expert has concluded that the FET Unit Sale is also reasonable.

What do the FREML Directors recommend?

The Independent Directors representing FST **unanimously recommend** that FST Unitholders vote in favour of the Resolutions, in the absence of a Superior Proposal. As at the date of this Explanatory Memorandum, no Superior Proposal for FST has emerged.

The Independent Directors representing FST encourage you to:

- read this Explanatory Memorandum in its entirety;
- have regard to your investment objectives, financial situation, tax position or particular needs; and
- obtain independent financial, legal, tax or other professional advice if you are in any doubt as to how to vote on the Proposal.

The other FREML Directors have abstained from making a recommendation in relation to the Proposal having regard to

1. Includes 3 properties (\$3.7 million net sale value) contracted for the sale and due for settlement in December 2014.

the potential conflicts of interests and the related party nature of the Proposal discussed in Section 11.2.

The interests of FREML Directors in relation to the Proposal are disclosed in Section 11.

Are there any conditions to the Scheme being implemented?

Yes, the obligations of FIML and FREML to implement the Scheme under the Merger Implementation Deed are conditional on the satisfaction or waiver of a number of conditions. A summary of these conditions is included in Section 11.24.1.

Are any reimbursement fees payable by FREML/FST in relation to the Trust Scheme and, if so, when will FREML/FST become liable to pay those fees?

Yes, in certain circumstances FREML has agreed to reimburse FIML for the costs (actually incurred in connection with the proposal up to a maximum of \$350,000) where FST undertakes an alternative transaction in place of the Proposal. Please refer to Section 11.24.6 for further details.

1.2 WHAT ARE THE STEPS INVOLVED IN IMPLEMENTING THE PROPOSAL?

1.2.1 Meeting

In order for the Proposal to proceed, FST Unitholders must approve the Resolutions at the Meeting. The Meeting is being convened as a general meeting of FST Unitholders and will be held at Level 12, 15 William Street, Melbourne VIC 3000 on Friday, 19 December 2014, commencing at 3:00pm.

The Resolutions to be put to FST Unitholders at the Meeting are set out in the Notice of Meeting, which is contained in Annexure 1. A summary of the Resolutions appears in Section 1.3 of this Explanatory Memorandum.

1.2.2 Effective Date

If the Proposal is approved by FST Unitholders, FREML and FIML will take, or procure the taking, of all steps required for the Proposal to be implemented, including the execution and lodgement of the Supplemental Deed which amends the FST Constitution with ASIC. The amendments to the FST Constitution set out in the Supplemental Deed will take effect on lodgement with ASIC at which time the Proposal will become effective. The Effective Date is currently expected to be 19 December 2014, although this is subject to change by agreement between FREML and FIML.

Under the terms of the Merger Implementation Deed, FREML will be obliged to apply to ASX for suspension of trading of FST Units from the close of business on the business day after the Effective Date. Subject to ASX granting that suspension, trading in FST Units will be suspended from close of trading on the business day after the Effective Date currently expected to be Monday, 22 December 2014 after which time it will not be possible to trade in FST Units.

1.2.3 Record Date

The Record Date, which is the date for determining entitlements to receive the Scheme Consideration and the Implementation Distribution, will be 5:00pm on 31 December 2014.

The Record Date will also determine which Scheme Unitholders will be entitled to the Quarterly Distribution.

1.2.4 Disposal of assets

As noted above, FST has entered into conditional agreements to dispose of the Glen Iris Storage Facility and its FET Units. The proceeds from the FET Unit Sale will be used to assist in funding the payment of the Implementation Distribution. These sales are conditional on the Scheme being implemented.

A summary of the FET Unit Sale Agreement is set out in Section 11.27.

1.2.5 Implementation Date

Implementation of the Scheme will occur on the 4th business day after the Record Date. The Implementation Date is currently expected to be Tuesday, 6 January 2015.

The steps required to implement the Scheme are set out in Section 3 of this Explanatory Memorandum.

1.2.6 Delisting from ASX and removal of FREML as responsible entity of FST

As part of the Scheme, FREML will apply to ASX for termination of the official quotation of FST Units and the removal of FST from the official list of ASX with effect from the business day immediately following the Implementation Date.

Going forward, FIML will be entitled to receive a management fee of 0.5% of FST's gross asset value. This fee is 50% of the fee which FREML currently receives as responsible entity of FST, being 1.0% of FST's gross asset value, representing an annual decrease in the effective FST management fee (based on FST balance sheet as at 30 June 2014 with pro forma adjustments to the date of this Explanatory Memorandum) of \$0.6 million per annum.

FREML is entitled to a fee of 2% of the gross assets of FST on being removed as the responsible entity of FST, in accordance with the FST Constitution. Following delisting of FST, FREML will be removed as responsible entity of FST and replaced by FIML. Under the terms of the Scheme, an amount equal to this fee will be payable if the Proposal proceeds. FREML has agreed to defer payment of this fee, currently estimated at \$1.8 million, until such time as the responsible entity of FET is no longer a member of the Folkestone Group.

1.3 WHAT ARE THE RESOLUTIONS TO BE PUT TO THE MEETING?

The Resolutions to be put at the Meeting are set out in the Notice of Meeting attached to this Explanatory Memorandum as Annexure 1.

1. SUMMARY OF THE PROPOSAL CONT.

FST Unitholders will be asked to consider three resolutions at the Meeting.

1. Resolution 1 is an ordinary resolution whereby FST Unitholders are being asked to approve the acquisition by FET of 100% of the FST Units under the Scheme for the purposes of Item 7, Section 611 of the Corporations Act.
2. Resolution 2 is a special resolution whereby FST Unitholders are being asked to approve certain amendments to the FST Constitution which are necessary in order to effect the Scheme. These amendments are set out in Annexure 3 to this Explanatory Memorandum.
3. Resolution 3 is an ordinary resolution whereby FST Unitholders are being asked to approve the FET Unit Sale for the purpose of ASX Listing Rule 10.1 and for all other purposes.

All of the Resolutions must be passed in order for the Scheme to be implemented.

1.4 KEY RISKS

If the Proposal is implemented, Scheme Unitholders (other than Foreign Unitholders) will receive New FET Units. Scheme Unitholders should be aware that there are a number of risks associated with investing in New FET Units.

What are the key risks specific to FET after implementation of the Proposal?

There are a number of risks that relate to an investment in FET, including, but not limited to the following:

- risks associated with property investment activities including returns on property investments, leasing terms and tenant defaults, liquidity of property investments and risks associated with future acquisitions;
- risks specific to early learnings centres including prevailing market sentiment for the early learning sector;
- changes in laws and government policy that will affect the early learning industry;
- changes to Government funded subsidies which represent a significant portion of FET's tenants' revenue;
- FET's portfolio is highly concentrated with a single tenant, Goodstart Early Learning, leasing 60% of the portfolio;
- exposure to movements in the value of the Australian Dollar relative to the New Zealand Dollar through FET's exposure to New Zealand properties; and
- FET carries out development activities which may carry additional risks including delays in completion and cost overruns.

What are the key risks relating to FST and FET as A-REITs?

Both FST and FET, on a standalone basis and FET post implementation of the Proposal, face a number of risks as listed A-REITs, including but not limited to:

- competition from within the A-REIT sector and the potential for new competition to enter the market;
- changes to regulatory requirements or laws affecting the broader A-REIT sector;

- changes in asset values; and
- market risks, which may be beyond FET's control, including demand for FET units, movements in Australian and international equity markets and general economic conditions. As such, the market price of FET units may not reflect the underlying value of FET's assets.

Further details on the risks associated with an investment in FET can be found in Section 8.

1.5 ADDITIONAL QUESTIONS YOU MAY HAVE

How do FST Unitholders vote?

FST Unitholders may vote in person by attending the Meeting, by proxy, by attorney or, in the case of corporate FST Unitholder, by corporate representative. Further details on how to vote are set out in Section 3 and on the enclosed Proxy Form.

What are my choices?

You may:

- vote in favour of the Resolutions at the Meeting and, if the Scheme becomes Effective and is implemented, your FST Units will be transferred to FET, you will receive the Scheme Consideration, Implementation Distribution and the Quarterly Distribution, and you will cease to hold FST Units;
- vote against the Resolutions at the Meeting. However, please note that your FST Units will still be transferred to FET and you will still receive the Scheme Consideration, the Implementation Distribution and the Quarterly Distribution if, notwithstanding your vote, the Scheme becomes Effective as a result of, amongst other things, the Resolutions being passed by the requisite majorities. If passed by the requisite majorities, the Resolutions will bind all FST Unitholders;
- sell your FST Units on ASX before the Record Date in which case you will not be entitled to the Scheme Consideration, the Implementation Distribution or the Quarterly Distribution; or
- do nothing. If the Scheme becomes Effective and is implemented, your FST Units will be transferred to FET and you will receive the Scheme Consideration, the Implementation Distribution and the Quarterly Distribution.

Do I have any other obligations?

The effect of clause 55.10(2) of the FST Constitution, as amended by the Supplemental Deed, is that all Scheme Unitholders, including those who vote against the Scheme and those who do not vote, will be deemed to have warranted to FIML on behalf of FET that their FST Units are fully paid and are not subject to any encumbrances or interests of third parties or restrictions on transfer of any kind. Each FST Unitholder is deemed to warrant that it has full power and capacity to sell and transfer the FST Units registered in their name. If the warranty is breached, Scheme Unitholders may be liable to pay to FET any amounts FET pays to acquire clear title to their FST Units.

Do FREML and FIML have any additional obligations?

The Merger Implementation Deed was entered into by FREML and FIML on 13 November 2014.

A copy of the Merger Implementation Deed was lodged with ASX on 13 November 2014 and may be obtained by contacting the FST Investor Relations on +61 3 8601 2668, from FST's website www.sitrust.folkestone.com.au or from ASX's website www.asx.com.au.

The key terms of the Merger Implementation Deed are summarised in Section 11.24.

Prior to the meeting, FIML will execute a Deed Poll in favour of each Scheme Unitholder pursuant to which FIML agrees to do certain things to give effect to the Scheme including to provide the Scheme Consideration.

A copy of the Deed Poll is included in Annexure 2 to this Explanatory Memorandum.

Does FET have a relevant interest in FST Units and will it be entitled to vote?

As at 13 November 2014, FET did not hold any interest in FST Units. Even if FET held an interest in FST Units, it would not be entitled to vote at the Meeting due to Section 253E of the Corporations Act as it is an associate of FREML.

What happens if an alternative proposal emerges in relation to FST?

If an alternative proposal is made involving FST, the Independent Directors representing FST will review that proposal to determine if it represents a Superior Proposal to FST Unitholders and advise you of their recommendation.

What happens if FET becomes subject to a transaction or arrangement which would result in a third party controlling all or a substantial part of FET or its business or otherwise acquiring or merging with FET?

The obligations of FIML and FREML to implement the Scheme under the Merger Implementation Deed are conditional on the satisfaction or waiver of a number of conditions including in relation to an "FET Competing Proposal" (being, broadly, a transaction or arrangement which would result in a third party controlling all or a substantial part of FET or its business or otherwise acquiring or merging with FET or which would be likely to result in FIML ceasing to be the responsible entity of FET). If an FET Competing Proposal is publicly announced before 8:00am on the Effective Date, the Independent Directors representing FST will review the proposed "FET Competing Proposal", together with all surrounding circumstances, and will decide whether it is in the best interests of FST Unitholders to waive the condition or rely on the non-satisfaction of the condition to terminate the Merger Implementation Deed and, consequently, FREML's obligations to continue with the Scheme.

What happens if the Proposal does not proceed?

If the Proposal does not proceed, FST Unitholders will not receive the Scheme Consideration or the Implementation Distribution and will retain their FST Units. FST will continue to operate as a standalone entity trading on the ASX. The rights of FST Unitholders will remain unchanged. Please refer to the Section 5.7 for FST's prospects on a standalone basis.

The estimated costs incurred by FST if the Proposal does not proceed are approximately \$0.6 million which will be expensed in the financial year ending 30 June 2015. These costs include legal, taxation and Independent Expert costs incurred in respect of the Proposal.

In addition, in certain circumstances FREML has agreed to reimburse FIML for the costs (actually incurred in connection with the Proposal up to a maximum of \$350,000 where FST undertakes an alternative transaction in place of the Proposal. Please refer to Section 11.24.6 for further details.

What are the tax implications of the Proposal for Scheme Unitholders?

The tax consequences of the Proposal for Scheme Unitholders will depend on their own individual tax and financial circumstances. General Australian tax implications of the Scheme are discussed in the taxation report included at Section 10. However, you should obtain advice from your own independent taxation adviser on the tax implications for you if the Scheme is implemented.

What if I do not want New FET Units?

If the Scheme becomes Effective and is implemented, FST Unitholders who do not want to hold New FET Units may do any of the following:

- sell their existing FST Units on the ASX prior to the Record Date (and thus become ineligible to receive the Scheme Consideration, Implementation Distribution and Quarterly Distribution); or
- receive the New FET Units pursuant to the Scheme and then sell them on the ASX.

Will I have to pay brokerage or stamp duty?

Scheme Unitholders will not incur any brokerage or stamp duty on the transfer of their FST Units pursuant to the Proposal.

Any sale of FST Units or New FET Units on the ASX will incur brokerage.

Who can I call if I have any other questions?

You can contact FST Investor Relations on +61 3 8601 2668 or visit FST's website at www.sitrust.folkestone.com.au.

2. WHAT ARE THE REASONS THAT YOU MIGHT VOTE FOR OR AGAINST THE PROPOSAL

- 2.1 WHY YOU SHOULD VOTE FOR THE PROPOSAL
- 2.2 WHY YOU MAY CONSIDER VOTING AGAINST THE PROPOSAL
- 2.3 WHAT HAPPENS IF THE PROPOSAL DOES NOT PROCEED?



2.1 WHY YOU SHOULD VOTE FOR THE PROPOSAL

2.1.1 The Independent Directors representing FST unanimously recommend that you vote in favour of the Proposal, in the absence of a Superior Proposal

The Independent Directors representing FST have considered a number of alternative strategies for FST, including:

- a status quo scenario;
- a recapitalisation of FST in conjunction with accretive asset or portfolio acquisitions;
- an open sales process; and
- a managed wind up process.

These alternative strategies are set out in more detail in Section 5.6.

In the opinion of the Independent Directors representing FST, the Proposal provides a superior outcome to Scheme Unitholders than the alternative options.

2.1.2 Conclusion of the Independent Expert

The Independent Expert considers that the Proposal is both **fair and reasonable**, and in your best interests. Additionally, the Independent Expert considers the FET Unit Sale to be fair and reasonable to non associated FST Unitholders.

2.1.3 Premium to pre-announcement trading prices

Based on the closing price of FET as at 12 November of \$1.87, Scheme Unitholders will receive an implied value of \$3.14 per FST Unit from a combination of the Scheme Consideration and the Implementation Distribution.

This represents a premium to the trading prices of FST Units on the day prior to the announcement of the Proposal as follows:

- 15.6% premium to the closing price of FST Units of \$2.72;
- 16.1% premium to the 30 day VWAP of FST Units of \$2.71; and
- 16.2% premium to the 90 day VWAP of FST Units of \$2.71.

Section 6.1.3 details the recent price history for FET Units. FST Unitholders should note that past performance is not an indicator of future performance and the future market price of New FET Units may fall as well as rise.

2.1.4 Premium to NTA

The combination of the Scheme Consideration and the Implementation Distribution represents a premium of 12.2% to FST's stated NTA of \$2.80 per FST Unit as at 30 June 2014 and a premium of 4.8% to the pro forma 30 June 2014 NTA of \$3.00 per FST Unit. Further details on the pro forma adjustments to NTA can be found in Section 5.5.2.

2.1.5 The trading price of FST Units may fall if the Scheme is not implemented

If the Scheme is not implemented, it is possible that FST Units could trade below the implied value of the Scheme Consideration and the Implementation Distribution of \$3.14 per FST Unit, in the absence of a Superior Proposal.

The trading price of FST Units will also continue to be subject to market volatility as a result of general economic conditions and stock market movements.

2.1.6 Reduction in ongoing management expenses

If the Proposal proceeds, FIML will replace FREML as responsible entity of FST. As a result the annual management fees paid in respect of FST will reduce from 1.0% to 0.5% of gross asset value representing an annual saving of \$0.6 million (based on FST's balance sheet as at 30 June 2014 with pro forma adjustments to the date of this Explanatory Memorandum). In addition, following the merger, FET and therefore the holders of New FET Units, will likely benefit from the removal of the duplication of certain administrative expenses.

2.1.7 Increased market capitalisation and liquidity

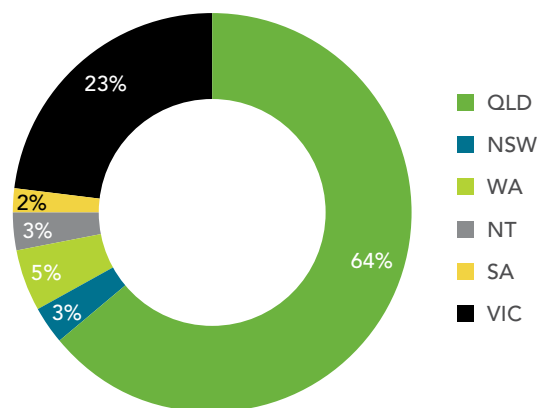
Scheme Unitholders will have the opportunity to become part of a listed A-REIT with market capitalisation of greater than \$463¹ million, compared to approximately \$77 million on a standalone basis (based on closing prices of FET Units and FST Units on 12 November 2014 of \$1.87 and \$2.72, respectively).

Scheme Unitholders will benefit from FET being included in the S&P/ASX 300 A-REIT Index, with significantly improved liquidity and greater awareness of the merged entity. Therefore, trading in FET is expected to be more liquid than in respect of FST on a standalone basis.

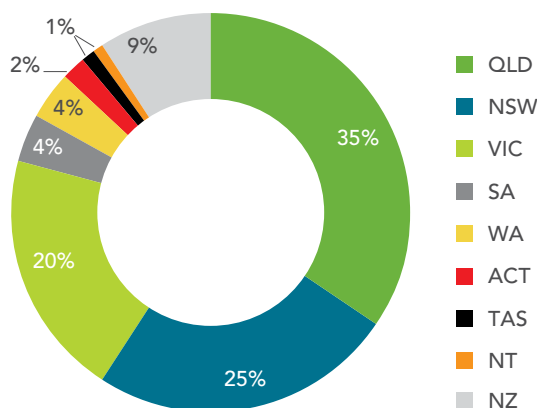
1. The market capitalisation calculation is based on the total number of FET Units on issue post implementation of the Scheme (243.5 million) multiplied by the FET closing price of \$1.87 at 12 November 2014.

2. WHAT ARE THE REASONS THAT YOU MIGHT VOTE FOR OR AGAINST THE PROPOSAL CONT.

FST standalone – Geographical diversification (by book value)¹



FET (after implementation of the Scheme) – Geographical diversification (by book value)¹



1. As at 31 October 2014

2.1.8 Increased geographic diversification

If the Proposal proceeds, Scheme Unitholders will have exposure to a real estate property portfolio with a book value of approximately \$554 million, compared to \$93 million on an FST standalone basis as at 31 October 2014.

In addition, Scheme Unitholders will have additional exposure to 354¹ early learning properties across Australia and New Zealand compared to 47 early learning properties on an FST standalone basis, providing greater geographic diversification.

2.1.9 Improved cost of capital and financial flexibility

FET is a larger, more liquid trust and is currently trading on a 6.8% FY15 distribution yield based on distribution guidance of 12.7 cents for FY15 and the pre-announcement closing price of FET Units of \$1.87. This is considerably lower than FST FY15 distribution yield of 7.7% based on FY15 distribution guidance of 21.0 cents and the pre-announcement closing price of FST Units of \$2.72. Consequently, FET has a lower cost

of equity capital compared to FST. Furthermore, following implementation of the Scheme, FET will have comparable debt financing costs to FST. If the Proposal is successful, Scheme Unitholders would benefit from the increased size and liquidity of FET, which in turn may result in a lower cost of capital. A lower cost of capital would increase the breadth of investment opportunities available to FET.

2.1.10 Enhanced growth profile

Scheme Unitholders will benefit from greater diversification (both asset quality and geographic location) and scale following implementation of the Proposal. It is envisaged that this will improve FIML's ability to actively manage assets without materially impacting FET distributions.

As outlined in Section 2.1.9, FET may also have greater access to lower cost equity capital which could be applied to accretive asset and portfolio acquisition opportunities.

1. Includes 3 properties (\$3.7 million net sale value) contracted for sale and due for settlement in December 2014.

2.2 WHY YOU MAY CONSIDER VOTING AGAINST THE PROPOSAL

2.2.1 You might disagree with the conclusions of the Independent Directors representing FST and the Independent Expert

You may believe that rejecting the Proposal and continuing to hold FST Units may return greater value to you over time.

2.2.2 You may believe that a Superior Proposal may emerge

Although a Superior Proposal has not been received by FREML as at the date of this Explanatory Memorandum, you may believe that by continuing to hold FST Units, FREML may receive a Superior Proposal in the future.

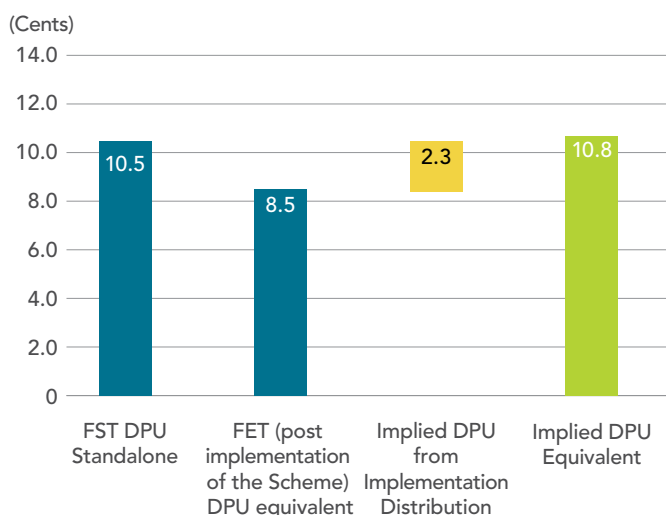
2.2.3 Distributions for the financial year 2015

On a standalone basis, FST is forecasting a distribution of 21.0 cents per FST Unit for the financial year ending 30 June 2015, of which 5.25 cents has been paid and additional 5.25 cents is forecast to be paid for the quarter ending 31 December 2014.

If the Scheme proceeds, the forecast distributions of FET from 1 January 2015 to 30 June 2015 will equate to 8.5 cents per equivalent FST Unit versus a 10.5 cents per unit in FST on a standalone basis.

However, this reduction does not take into account the one off Implementation Distribution of 67.5 cents that would otherwise not have been paid to FST Unitholders. If FST Unitholders were to invest the Implementation Distribution at the equivalent annualised unit distribution yield of FET based on its current market price (after implementation of the scheme) of 6.8%, they would receive the equivalent of 2.3 cents in additional distributions for the second half of FY15. The combined forecast distribution of FET Units and implied return from cash proceeds of the Implementation Distribution would, on an equivalent FST unit basis, exceed FST forecast distribution, on a standalone basis over the same period.

Impact of Scheme Implementation on 2H15 Distributions



Please refer to Section 7 for further information on the financial forecasts.

2.2.4 Tax implications

The tax consequences of the Proposal for Scheme Unitholders will depend on their own individual tax and financial circumstances. General Australian tax implications of the Scheme are discussed in the taxation report included at Section 10. However, you should obtain advice from your own independent taxation adviser on the tax implications for you if the Scheme is implemented.

2.2.5 NTA reduction

Under the Proposal, the pro forma NTA of FET (following implementation of the Scheme) is \$2.06 per equivalent FST Unit. This represents a 31% reduction from the current pro forma NTA of FST of \$3.00.

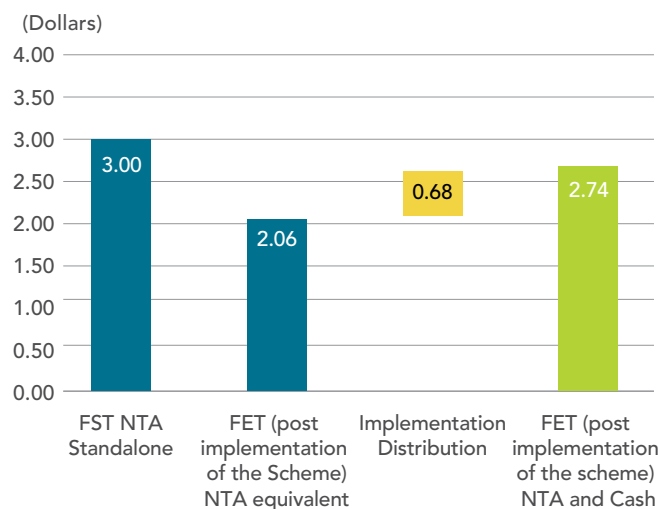
However, this does not take into account the Implementation Distribution of 67.5 cents per FST Unit that Scheme Unitholders will receive if the Proposal proceeds. The combined NTA per equivalent FST Unit of \$2.06 and Implementation Distribution of 67.5 cents represents a 9% reduction from the current pro forma NTA of FST of \$3.00.

The reason there is a reduction in the pro forma NTA on an effective per FST Unit basis despite Scheme Unitholders receiving a premium for their FST Units (see Section 2.1.3 and 2.1.4) is a result of FST Unitholders exchanging each FST Unit (which at close of trade on 12 November 2014, the trading day prior to the announcement of the Proposal, were trading at a discount to FST NTA) for 1.32 New FET Units (which at close of trade on 12 November 2014 were trading at a substantial premium to FET NTA).

2.2.6 Increase in gearing

The pro forma gearing of FET following implementation of the Scheme is 30.4% whereas the pro forma gearing of FST on a standalone basis is currently 28.1%.

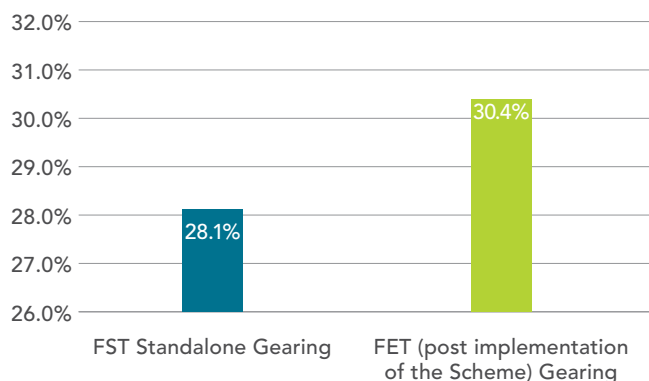
Impact of Scheme Implementation on NTA



2. WHAT ARE THE REASONS THAT YOU MIGHT VOTE FOR OR AGAINST THE PROPOSAL CONT.



Impact of Scheme Implementation on Gearing



2.2.7 The trading price of FST Units may rise if the Scheme is not implemented

If the Scheme is not implemented, it is possible that FST Units could trade above the implied value of the Scheme Consideration and Implementation Distribution of \$3.14 per FST Unit.

The trading price of FST Units will also continue to be subject to market volatility as a result of general economic conditions and stock market movements.

2.2.8 Transaction Costs and Fees

The total transaction costs if the Proposal is implemented are estimated to be \$2.5 million.

This estimate includes an aggregate of \$1.7 million of transaction costs for both FREML and FIML comprising printing and mailing costs in relation to this Explanatory Memorandum, registry and adviser fees (for each of FREML and FIML) and other disbursements.

Stamp duty of \$0.8 million will also be incurred by FIML in connection with the Scheme.

It also includes \$0.5 million of transaction costs incurred as at the date of this Explanatory Memorandum in relation to the Proposal and additional transaction costs of \$0.1 million expected to be incurred up to the date of the Meeting. FREML estimates the impact of the Proposal not proceeding on existing FST Units to be in the range of 1.76c to 2.11c per FST Unit for FY15.

In addition, in certain circumstances FREML has agreed to reimburse FIML for the costs (actually incurred in connection with the proposal up to a maximum of \$350,000) where FST undertakes an alternative transaction in place of the Proposal. Please refer to Section 11.24.6 for further details.

Separately, FREML is entitled to a fee of 2% of the gross assets of FST on being removed as the responsible entity of FST, in accordance with the FST Constitution. Under the terms of the Scheme, if the Proposal proceeds an amount equal to this fee will be payable to FREML. FREML has agreed to defer payment of this fee, currently estimated at \$1.8 million, until such time as the responsible entity of FET is no longer a member of the Folkestone Group.

2.2.9 Risks of investing in FET

If the Scheme proceeds, Scheme Unitholders will receive New FET Units and thereby be exposed to the risks of an investment in FET. The risks of an investment in FET are set out in Section 8.

2.3 WHAT HAPPENS IF THE PROPOSAL DOES NOT PROCEED?

2.3.1 Strategy and intentions for FST if the Proposal does not proceed

If the Proposal is not implemented, FST will continue to be listed on ASX and will continue to be managed by FREML in line with its strategy, outlined in Section 5 of this Explanatory Memorandum.

If the Proposal is not implemented, Scheme Unitholders will continue to hold their FST Units and will not receive the Scheme Consideration or Implementation Distribution.

2.3.2 Non-core asset sales

As noted in Section 1.1, FREML has entered into the following contracts which are conditional on implementation of the Scheme:

- the contract for the sale of the Glen Iris Storage Facility for \$11.7 million (net of costs) representing a 13% premium to current book value; and
- the FET Unit Sale Agreement.

If the Proposal is not implemented, FREML will not proceed with the conditional sales set out above and FST Unitholders will not receive the Implementation Distribution (or the Scheme Consideration).

2.3.3 Fees

If the Proposal is not implemented, FREML will remain as the responsible entity of FST and FREML's management fee will not be reduced in the manner described in Section 1.2.6.

Further details on the fees and costs of the Proposal can be found in Section 12.4.

2.3.4 Distributions and distribution policy

If the Proposal is not implemented, FST Unitholders will still be entitled to a distribution for the quarter ending 31 December 2014. It is expected the distribution will be 5.25 cents per FST Unit.

FY15 guidance may be negatively impacted in the event the Proposal is unsuccessful due to \$0.5 million of transaction costs incurred as at the date of this Explanatory Memorandum in relation to the Proposal and additional costs of \$0.1 million expected to be incurred up to the date of the meeting. FREML estimates the impact of the Proposal not proceeding on existing FST Units to be in the range of 1.76c to 2.11c per FST Unit for FY15.

In addition, in certain circumstances FREML has agreed to reimburse FIML for the costs (actually incurred in connection with the proposal up to a maximum of \$350,000) where FST undertakes an alternative transaction in place of the Proposal. Please refer to Section 11.24.6 for further details.



3. WHAT ARE THE MEETING DETAILS AND HOW DO I VOTE?

- 3.1 NOTICE OF MEETING
- 3.2 MEETING DETAILS
- 3.3 WHAT IS THE BUSINESS OF THE MEETING?
- 3.4 ENTITLEMENT TO VOTE
- 3.5 VOTING EXCLUSIONS
- 3.6 VOTING BY POLL
- 3.7 QUORUM
- 3.8 JOINTLY HELD FST UNITS
- 3.9 VOTING MAJORITIES REQUIRED
- 3.10 IS VOTING COMPULSORY?
- 3.11 WHO WILL BE THE CHAIR OF THE MEETING AND WHAT ARE THE CHAIR'S VOTING INTENTIONS?
- 3.12 VOTING
- 3.13 QUERIES



3.1 NOTICE OF MEETING

A copy of the Notice of Meeting is set out in Annexure 1.

3.2 MEETING DETAILS

The Meeting will be held on Friday, 19 December 2014 at 3:00pm (Melbourne time), at Level 12, 15 William Street, Melbourne VIC 3000.

3.3 WHAT IS THE BUSINESS OF THE MEETING?

The business of the Meeting is for FST Unitholders to consider and, if thought fit, to approve the Resolutions which must be passed as a condition to implementation of the Proposal. A summary of the Resolutions is set out in Section 1.3 of this Explanatory Memorandum and the full Resolutions are set out in the Notice of Meeting in Annexure 1.

3.4 ENTITLEMENT TO VOTE

All FST Unitholders appearing on the FST Register at 3:00pm on Wednesday, 17 December 2014 are entitled to attend and vote at the Meeting (subject to the voting exclusions set out in Section 11.1 and the Notice of Meeting). Transfers of FST Units registered after this time will be disregarded in determining entitlements to vote at the Meeting.

3.5 VOTING EXCLUSIONS

Section 11.1 and the Notice of Meeting set out which FST Unitholders are excluded from voting on the Resolutions.

3.6 VOTING BY POLL

The vote on each Resolution will be conducted by way of a poll. Each FST Unitholder present in person, by attorney or by proxy has, on a poll, one vote for each dollar of the value of the total interest they have in FST.

3.7 QUORUM

The quorum for the Meeting is two or more FST Unitholders present in person or by proxy holding at least 10% of FST Units.

3.8 JOINTLY HELD FST UNITS

If the FST Units are jointly held, only one of the joint FST Unitholders is entitled to vote. If more than one FST Unitholder votes in respect of jointly held FST Units, only the votes of the FST Unitholder whose name appears first in the FST Register will be counted.

3.9 VOTING MAJORITIES REQUIRED

In order for the Proposal to proceed, all of the Resolutions must be approved. The Resolutions must be approved as follows:

- Resolution 1 – Acquisition Resolution: more than 50% of the

total number of votes cast by (or on behalf of) FST Unitholders at the Meeting who are entitled to vote must vote in favour of the acquisition of FST Units by FET as part of the Scheme;

- Resolution 2 – Constitutional Amendment Resolution: at least 75% of the total number of votes cast by (or on behalf of) FST Unitholders at the Meeting who are entitled to vote must vote in favour of the constitutional amendments set out in the Supplemental Deed; and
- Resolution 3 – FET Unit Sale Resolution: more than 50% of the total number of votes cast by (or on behalf of) FST Unitholders at the Meeting who are entitled to vote must vote in favour of the FET Unit Sale.

3.10 IS VOTING COMPULSORY?

No, although your vote is important and the Independent Directors representing FST encourage you to exercise your right to vote. In order for the Proposal to proceed, the Resolutions must be approved by the requisite majorities of FST Unitholders present and voting (and who are eligible to vote on the Resolutions) – see Section 11.1 of this Explanatory Memorandum.

3.11 WHO WILL BE THE CHAIR OF THE MEETING AND WHAT ARE THE CHAIR'S VOTING INTENTIONS?

As disclosed in Section 11.6, the Chairman of FREML, Victor Cottren, is also a Director and the Chairman of FIML. To mitigate any potential conflicts of interest with FIML, the FREML Directors have resolved that Michael Johnstone or, in his absence or unavailability, Warner Bastian will Chair the Meeting.

If you appoint the Chair of the Meeting as your proxy and you do not specifically direct how the Chair is to vote on a Resolution, the Chair of the Meeting will exercise your votes in favour of each of the Resolutions.

3.12 VOTING

The Proposal can only take place if all of the Resolutions are passed by the requisite majorities of FST Unitholders.

FST Unitholders may vote by attending the Meeting in person, by attorney or by proxy and, in the case of a corporation, by corporate representative, by attorney or by proxy.

3.12.1 Voting in person

To vote in person at the Meeting, you must attend the Meeting to be held on Friday, 19 December 2014 at Level 12, 15 William Street, Melbourne VIC 3000 commencing at 3:00pm.

FST Unitholders who wish to attend and vote at the Meeting in person will be admitted to the meeting and given a voting card upon registration prior to the Meeting.

Please bring the Proxy Form with you as it contains a barcode that will enable registration to be completed in a timely and efficient manner.

3. WHAT ARE THE MEETING DETAILS AND HOW DO I VOTE? CONT.

3.12.2 Voting by corporate representative

A FST Unitholder who is body corporate may appoint an authorised corporate representative to represent them at the Meeting. The authorised corporate representative will be admitted to the Meeting and given a voting card upon providing, upon registration prior to the Meeting, written evidence of their appointment, their name and address and the identity of their appointer.

3.12.3 Voting by attorney

Powers of attorney must be received by the FST Registry, or at the registered office of FREML, Level 12, 15 William Street, Melbourne VIC 3000, by no later than 3:00pm on Wednesday, 17 December 2014 (or if the Meeting is adjourned or postponed, at least 48 hours before the resumption of the Meeting in relation to the resumed part of the Meeting).

An attorney will be admitted to the Meeting and given a voting card upon confirming their name and address and the identity of their appointer.

The appointment of a power of attorney will not preclude an FST Unitholder from attending in person and voting at the Meeting at which the FST Unitholder is entitled to attend and vote however the attorney will not be permitted to participate in the Meeting or vote on the Resolutions while the FST Unitholder is present.

3.12.4 Voting by proxy

If you are an FST Unitholder, you have a right to appoint a proxy in respect of the Meeting. Your proxy does not need to be an FST Unitholder, and you may appoint the Chair of the Meeting as your proxy. The Proxy Form, which accompanies this Explanatory Memorandum, includes instructions on how to vote and appoint a proxy.

To be valid, the FST Registry must receive your Proxy Form (and an original or certified copy of the power of attorney under which the Proxy Form is signed if applicable) by no later than 3:00pm on Wednesday, 17 December 2014 (that is at least 48 hours before the Meeting).

Proxy Forms should be lodged with the FST Registry using the reply paid envelope provided or in any of the following ways:

- **by mailing to:** Boardroom Pty Limited, GPO Box 3993, Sydney, NSW, 2001 Australia;
- **by faxing to:** +61 2 9290 9655;
- **by hand delivery to:** Boardroom Pty Limited, Level 7, 207 Kent Street, Sydney, NSW, 2000; or
- **by hand delivery to FREML's registered office:** Level 12, 15 William Street, Melbourne VIC 3000

A proxy will be admitted to the Meeting and given a voting card upon confirming their name and address and the identity of their appointer.

The appointment of a proxy will not preclude an FST Unitholder from attending in person and voting at the Meeting. At all times while the FST Unitholder is present at the Meeting, the proxy will not be permitted to speak at the Meeting or vote on the Resolutions.

If you are entitled to cast two or more votes you may appoint two proxies. If you appoint two proxies, then you may specify the proportion or number of votes each proxy is entitled to exercise. However, if you do not specify the proportion or number of votes for each proxy, then each proxy may exercise half of the votes.

If you do not name a proxy, or your named proxy does not attend the Meeting, the Chair of the Meeting will be your proxy and vote on your behalf.

3.13 QUERIES

If you have any questions in relation to the Meeting, please call FST Investor Relations on +61 3 8601 2668 or visit FST's website at www.sitrust.folkestone.com.au.



4. IMPLEMENTING THE PROPOSAL

- 4.1 STEPS TO IMPLEMENT THE PROPOSAL
- 4.2 PAYMENT OF THE IMPLEMENTATION DISTRIBUTION TO UNITHOLDERS
- 4.3 TREATMENT OF FOREIGN UNITHOLDERS – SALE FACILITY



4.1 STEPS TO IMPLEMENT THE PROPOSAL

The key steps to implement the Proposal are set out below:

- (a) If the Resolutions are passed by the requisite majorities, FREML will lodge a copy of the Supplemental Deed with ASIC.
- (b) No dealings in FST Units will be permitted after close of trading on 22 December 2014, although the process to register dealings that took place on or before the Effective Date will continue until the Record Date, being 31 December 2014. Scheme Unitholders will be entitled to trade their entitlement to New FET Units on the ASX, initially on a deferred settlement basis from 29 December 2014.
- (c) If the Scheme becomes Effective, then on the Implementation Date:
 - (i) all of the FST Units will be transferred to FET, without the need for any further act by a Scheme Unitholder, by:
 - FREML, by virtue of its appointment as attorney for each Scheme Unitholder, procuring the delivery to FIML of a duly completed and executed transfer form on behalf of each Scheme Unitholder to transfer all of the FST Units to FET; and
 - FREML, entering the name of FET in the FST Register as the holder of all of the FST Units.
 - (ii) Scheme Unitholders (other than Foreign Unitholders) will be entitled to:
 - 1.32 New FET Units for every 1 FST Unit held; and
 - a 67.5 cent Implementation Distribution from FST in relation to each FST Unit held
 - (iii) Foreign Unitholders will be entitled to receive a 67.5 cent Implementation Distribution from FST in relation to each FST Unit held and the proceeds from the sale by the Sale Nominee of the New FET Units which would otherwise have been issued to them if they have been entitled to participate in the Scheme, refer to Section 4.3 below.
 - (iv) FREML will apply for termination of official quotation of FST Units on ASX, and removal of FST from the official list of ASX, after the Scheme has been fully implemented, including after FIML has become the registered holder of all FST Units.
- (d) The Scheme will not become Effective if the Merger Implementation Deed is terminated or other conditions referred to in Section 11.24 are not satisfied or waived.
- (e) Each Scheme Unitholder, without the need for any further act, irrevocably appoints FREML as its attorney and agent to do all acts, matters and things which FREML considers necessary or desirable to give effect to the Scheme including completing and signing a transfer of FST Units and an application for New FET Units.

- (f) From the Effective Date until FIML is registered as the holder of all FST Units, each FST Unitholder irrevocably appoints FREML as its attorney and agent to appoint the Chairman of FIML (or other nominee of FIML) as its proxy and, where applicable, corporate representative, for the purpose of attending meetings, exercising the votes attached to FST Units, and signing any FST Unitholder's resolution.

4.2 PAYMENT OF THE IMPLEMENTATION DISTRIBUTION TO SCHEME UNITHOLDERS

For Scheme Unitholders, the Implementation Distribution will be paid into the bank account that you have nominated to the FST Registry. If you have not previously notified the FST Registry of your nominated bank account or would like to change your existing nominated bank account, you should contact the FST Registry on 1300 737 760 before the Effective Date, being 19 December 2014.

If FREML believes that you are not known at your registered address, you have not nominated a bank account or a deposit into a nominated account is rejected or refunded, all amounts payable to you upon implementation, and after implementation, will be paid into a separate bank account and held by the responsible entity of FST until claimed or applied under laws dealing with unclaimed money. An amount credited into such an account is to be treated as having been paid to you when credited to the account.

Payment of the Implementation Distribution to Scheme Unitholders (other than Foreign Unitholders) will be made on the Implementation Date.

Payment of the Implementation Distribution to Foreign Unitholders will be made at the same time as payments are made under the Sale Facility. Please refer to Section 4.3 below.

4.3 TREATMENT OF FOREIGN UNITHOLDERS – SALE FACILITY

If you are a Foreign Unitholder you will not be able to receive Scheme Consideration.

Restrictions in certain foreign countries make it impractical or unlawful for FIML to offer, or for Scheme Unitholders to receive, New FET Units in those countries. Accordingly, FIML will not issue New FET Units to Foreign Unitholders.

If you are a Scheme Unitholder, and a Foreign Unitholder, you must participate in the Sale Facility which operates as follows:

- (a) FIML will issue the aggregate number of New FET Units to which Foreign Unitholders would otherwise have been entitled to the Sale Nominee to be disposed of on behalf of the Foreign Unitholders, and the proceeds of the sale will be paid to the Foreign Unitholders. The sale proceeds will depend upon the market price of the New FET Units.

4. IMPLEMENTING THE PROPOSAL CONT.

- (b) The Sale Nominee will be the legal owner of the New FET Units, and will appoint the Sale Broker to sell the New FET Units within 15 business days after the Implementation Date (the Foreign Unitholder Sale Period).
- (c) All New FET Units to be sold by the Sale Broker will be sold through the ASX. The Sale Broker may use a number of options to dispose of the New FET Units, including an institutional bookbuild.
- (d) The Sale Broker will seek to achieve the best price for the New FET Units that is reasonably obtainable bearing in mind a number of factors, including the prevailing market conditions (including the prevailing market price of all the New FET Units being sold).
- (e) The prices at which New FET units are sold may be adversely affected by the requirement that the sales be conducted within the Foreign Unitholder Sale Period.
- (f) Foreign Unitholders will be entitled to receive a cash amount for each New FET Unit being sold by the Sale Broker, which is equivalent to the amount calculated by dividing the proceeds of sale of all New FET Units sold by the total number of New FET Units that are sold by the Sale Broker.
- (g) Cash proceeds from the sale of the New FET Units, together with the cash payment on account of the Implementation Distribution, will be dispatched to Foreign Unitholders within 10 business days after the Foreign Unitholder Sale Period to the bank account nominated by the relevant Foreign Unitholder to the FST Registry.

Foreign Unitholders who are required to participate in the Sale Facility should note that the price for the Sale Facility is not fixed and is dependent on fluctuations in the market. The cash amount Foreign Unitholders will ultimately receive under the Sale Facility may be lower than the value of the Scheme Consideration.

Any payments in foreign currency will involve conversion of any amounts payable from Australian dollars into the foreign currency. The exchange rate for conversion will be established on or about the date of payment to the Foreign Unitholder.

This payment in foreign currency to a foreign bank account may involve a currency exchange risk and the Foreign Unitholder will carry full exchange rate risk relating to any changes in the Australian dollar exchange rate following the conversion of the amount into the foreign currency. When the amount is actually paid in foreign currency, those amounts may be worth less (or more) than the Australian dollar amount at the time the exchange rate for conversion was established.

FREML does not provide any guarantee or representation as to the amount of foreign currency dollars that will be received by the relevant Foreign Unitholder. The relevant Foreign Unitholder will not be charged any transaction fee for the currency conversion. FST Unitholders who are not Foreign Unitholders will receive any payments to which they are entitled in Australian dollars.

As noted in Section 11.19, ASIC has granted FREML relief in respect of certain provisions of the Corporations Act to enable Foreign Unitholders to be treated in the manner set out in this Section 4.3.



5. INFORMATION ABOUT FST

- 5.1 BUSINESS OVERVIEW
- 5.2 BACKGROUND AND HISTORY
- 5.3 RECENT FST UNIT PRICE PERFORMANCE
- 5.4 FST'S PORTFOLIO
- 5.5 HISTORICAL FINANCIAL INFORMATION
- 5.6 OTHER STRATEGIES FOR FST
- 5.7 OTHER FACTORS EFFECTING FST'S STANDALONE PROSPECTS



5.1 BUSINESS OVERVIEW

FST is an ASX listed A-REIT that invests in social infrastructure property and securities. Its direct property portfolio includes early learning centres, a medical centre and the Glen Iris Storage Facility¹. FST also invests in property securities, including an investment in FET.

The objectives of FST are to:

- provide secure long term cash-flows with minimal risk and the potential for capital growth to FST Unitholders;
- provide access to sector specific real estate investment;
- provide a stable, growing income stream supported by secure lease covenants;
- provide geographical diversification through asset selection; and
- provide an attractive income yield with growing underlying property values.

FREML is the responsible entity for FST and is a wholly owned subsidiary of FLK.

5.2 BACKGROUND AND HISTORY

FST formed in 2000 as an unlisted retail property trust to primarily invest in social infrastructure assets such as early learning centres.

FST was compliance listed on the ASX in February 2011.

In June 2014, FST changed its name and ASX code from The Australian Social Infrastructure Fund (ASX: AZF) to the Folkestone Social Infrastructure Trust (ASX: FST).

5.4 FST's PORTFOLIO

	No of Properties	Carrying Value as at 31 October 2014 (\$m)
Early Learning Properties	47	74.2
Commercial Properties		
Melton Medical Centre (Victoria)	1	7.4
Glen Iris Storage Facility ¹	1	11.7
Total Direct Properties	49	93.2
Property Securities²		
	No of securities	
FET	9.0 million	16.8
FCIB	4.1 million	8.0
Total Property Securities		24.8

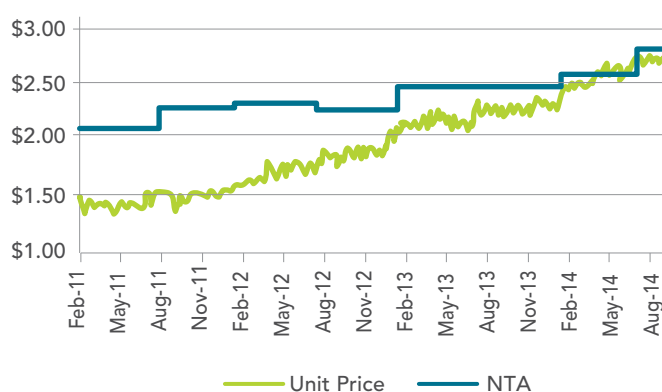
1. As noted in Section 1.2, FREML has entered into a legally binding sale agreement (which is conditional on the implementation of the scheme) to dispose of the Glen Iris Storage Facility to a third party purchaser for \$11.7 million (net of costs), being a 13% premium to its 30 June 2014 book value.

2. In November 2014, FST successfully disposed of its interests in APGF and SDRT1 for \$2.7 million (net of costs). The sale proceeds represent a 12% premium to the 30 June 2014 book values.

5.3 RECENT FST UNIT PRICE PERFORMANCE

FST listed on the ASX in February 2011 at a unit price of \$1.50, representing a 29% discount to its 30 June 2010 NTA of \$2.10 per FST Unit. Since then, FST has delivered a unit price return of 81.3% to 12 November 2014, resulting in a significant reduction in the NTA discount. As at 12 November 2014, FST traded at a 9.3% discount to its 30 June 2014 pro forma NTA of \$3.00 per FST Unit.

FST Unit price vs FST NTA

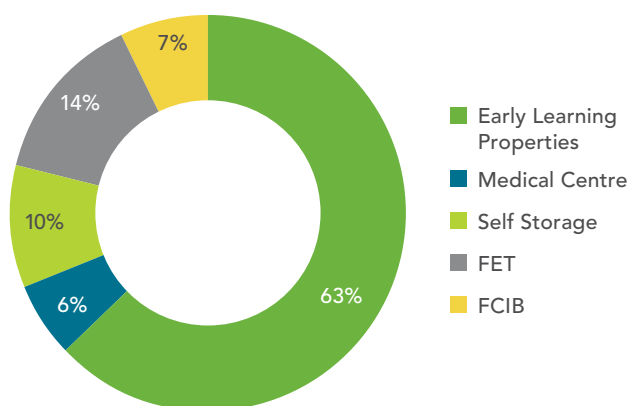


The closing price of FST Units on ASX on 12 November 2014, the trading day prior to the announcement of the Proposal, was \$2.72. The 5 day VWAP was \$2.71.

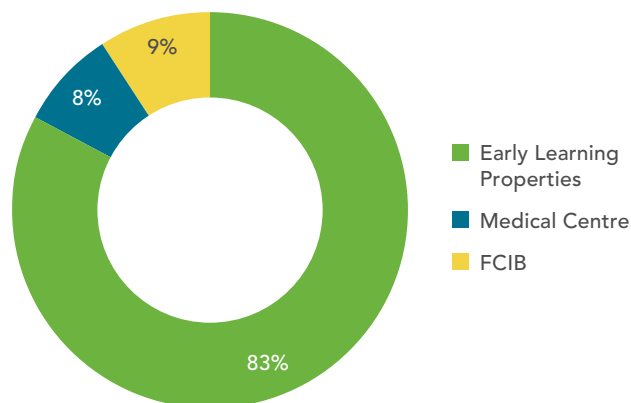
Please note that past performance is not an indicator of future performance.

5. INFORMATION ABOUT FST CONT.

FST portfolio value pre implementation of the Scheme



FST portfolio value post implementation of the Scheme (excluding FET assets)



5.4.1 Securities Portfolio

FST has a portfolio of holdings in the following property funds which comprised a book value of \$24.8 million, representing 21% of FST's portfolio value:

- FET – an ASX A-REIT included in the S&P/ASX 300 A-REIT Index which owns and develops early learning centres.
- FCIB – a wholesale trust that owns 9 police stations and 2 courthouses leased to the Victorian Government.

In November 2014 FST successfully disposed of its interests in APGF and SDRT1 for \$2.7 million (after costs). The sale proceeds represent a 12% premium to the 30 June 2014 book values.

5.4.2 Direct Property Portfolio

As at 31 October 2014, FST holds investments in 49 investment properties with a book value of approximately \$93 million, representing 79% of FST's portfolio value. Its direct portfolio includes 47 early learning properties, a medical centre and a self storage facility.

FREML has entered into a legally binding sale agreement to dispose of the Glen Iris Storage Facility to a third party acquiror for \$11.7 million (net of costs), being a 13% premium to its 30 June 2014 book value. The sale agreement is conditional on implementation of the Scheme.

5.5 HISTORICAL FINANCIAL INFORMATION

5.5.1 Statement of financial performance

This Section sets out the historical income statement for the 12 months to 30 June 2013 and 30 June 2014. The income statement has been extracted from FST's audited financial statements for the year ending 30 June 2014, which were released to ASX on 6 August 2014.

Past performance is not an indicator of future performance.

Rounding of the figures provided in the historical financial information may result in some discrepancies between the sum of components and the totals outlined within the tables and percentage calculations.

Income Statement (\$ million)	30-Jun-13	30-Jun-14
Revenue		
Lease income	8.2	8.1
Property outgoing recoveries	1.3	1.3
Distributions and dividends	1.0	1.6
Total operating income	10.5	11.0
Expenses		
Finance costs	2.3	1.9
Property outgoings	1.6	1.6
Responsible entity's remuneration	1.2	1.2
Other expenses	0.4	0.2
Total operating expenses	5.5	4.9
Distributable income	5.0	6.1
Net investment property revaluation increment	2.7	4.7
Changes in fair value of derivative financial instruments	0.2	-
Amortisation of lease incentive asset liability (lease income)	(0.1)	(0.1)
Impairment of available-for-sale financial assets	(0.8)	-
Net profit on sale of investment properties	-	0.3
Non-cash distribution income	1.1	0.1
Statutory profit	8.1	11.1
Other comprehensive income		
Change on revaluation of available-for-sale financial assets	3.1	3.7
Total comprehensive income attributable to Unitholders	11.2	14.8

5. INFORMATION ABOUT FST CONT.



5.5.2 Audited balance sheet as at 30 June 2014 with pro forma adjustments to reflect material changes since 30 June 2014

This Section sets out the historical balance sheet of FST at 30 June 2014 together with pro forma adjustments to reflect material changes to that balance sheet between 30 June 2014 and the date of this Explanatory Memorandum. The historical balance sheet of FST at 30 June 2014 has been extracted from FST's audited financial statements for the year ending 30 June 2014, which were released to ASX on 6 August 2014.

Balance Sheet (\$ million)	30-Jun-14	Adjust	Pro Forma
Current assets			
Cash and equivalents	0.6	2.7	3.3
Trade and other receivables	0.6	-	0.6
Other current assets	-	-	-
Investment properties expected to be sold	-	-	-
Total current assets	1.2	2.7	3.9
Non current assets			
Investments properties	89.5	3.5	93.0
Investments properties straight line rental asset	0.2	-	0.2
Securities	25.2	(0.4)	24.8
Non current assets	114.9	3.1	118.0
Total assets	116.1	5.8	121.9
Current liabilities			
Trade and other payables	0.5	-	0.5
Distribution payables	1.5	-	1.5
Derivative financial instruments	0.1	-	0.1
Other current liabilities	-	-	-
Total current liabilities	2.1	-	2.1
Non current liabilities			
Borrowings	34.3	-	34.3
Derivative financial instruments	-	-	-
Non current liabilities	34.3	-	34.3
Total liabilities	36.4	-	36.4
Net assets	79.7	5.8	85.4
Units on issue	28.4		28.4
NTA per unit	2.80		3.00
Gearing			
Drawn debt / Tangible assets	29.5%		28.1%

5.5.3 Material changes to the financial position of FST since 30 June 2014

The latest published financial statements of FST are the financial statements for the financial year ended 30 June 2014, which were released to ASX on 6 August 2014. A copy is available free of charge on FST's website www.sitrust.folkestone.com.au.

To the knowledge of the FREML Directors and except as disclosed elsewhere in this Explanatory Memorandum, the financial position of FST has not materially changed since 30 June 2014, except that:

- on 19 September 2014, FREML announced a distribution of 5.25 cents per FST Unit (or \$1.5 million) for the quarter ending 30 September 2014, which was paid on 20 October 2014;
- on 5 November 2014, FST sold its unit holding in SDRT1 for \$2.4 million, representing a 8% premium to 30 June 2014 book value;
- on 11 November 2014, FST sold its unit holding in APGF for \$0.3 million net of costs, representing a 55% premium to 30 June 2014 book value;
- FST's unit holding in FET has been revalued to \$16.8 million, reflecting the value of the conditional FET Unit Sale Agreement. The revaluation represents a 13% premium to 30 June 2014 book value of \$14.8 million;
- the Glen Iris Self Storage Facility has been revalued to \$11.7 million (net of costs), based on the conditional contract for sale referred to in Section 1.1. The revaluation represents a 13% premium to 30 June 2014 book value of \$10.4 million; and
- there has been a revaluation uplift of \$2.2 million based on 25 external revaluations conducted on the portfolio since 30 June 2014.

5.6 OTHER STRATEGIES FOR FST

Other strategies available to FST if the Proposal does not proceed include those set out below.

The Independent Directors representing FST have considered these in recommending the Proposal in the absence of a Superior Proposal:

• Status quo and pursuit of organic growth

Organic growth for an A-REIT like FST is limited to increases in the value of the underlying real estate. A pass through trust for tax purposes, such as FST, is not able to retain earnings for re-investment because of the need to distribute to FST Unitholders the majority of, if not all of, the FST's taxable income. As a result of this requirement, A-REIT's typically fund growth by raising additional capital.

Outside of raising capital, active recycling of assets, known as asset management can also be utilised in order to grow a portfolio. However, the relatively small size of FST's portfolio means that any asset sale without a complementary asset acquisition is likely to have an ongoing materially adverse impact on FST Unitholder earnings and distributions, until a complementary asset is acquired.

• A capital raising followed by accretive asset or portfolio acquisitions

As mentioned previously, any capital raising undertaken by FST would most likely be priced at or below the current trading price of FST Units, resulting in a dilution of earnings, distributions and NTA to existing FST Unitholders (particularly for FST Unitholders who do not participate in the capital raising). This alternative is predicated on FREML's ability to identify and successfully acquire accretive investments within the social infrastructure sector.

Furthermore, when bidding on early learning centres, FST would most likely encounter competition from FET and other listed peers, which have a lower cost of capital and greater ability to raise equity capital, allowing them to potentially acquire assets at a higher price.

• Managed wind up

FREML believes that a coordinated sale of all of FST's assets and returning the net proceeds to FST Unitholders via a managed wind up process would take up to two years. A managed wind up would likely trigger FST's debt facility covenants and therefore require a renegotiation of FST's debt facility, which could result in higher interest costs and lower distributions to FST Unitholders. Depending on the time taken to complete the wind up, FST Unitholders would need to wait a considerable time to receive any net proceeds, most of which would likely be returned to FST Unitholders in the later part of the final year given the need to prioritise debt repayment. During the wind up period, it is unlikely that distributions will be paid to FST Unitholders.

In addition, under a wind up scenario, the price at which assets could be sold may be negatively affected as potential buyers attempt to capitalise on any perceived sale pressures. The sale of FST's assets under a wind-up would be dependent on the demand for those assets, either as a portfolio or individually. In addition, the concentration of FST's asset portfolio in Queensland (64% of the portfolio by value) may adversely impact the ability of FST to realise these assets at their existing carrying value and also the timing of the sales.

It is estimated that the fees associated with a managed wind up process would be higher than those associated with the Scheme. Under the sale of the properties either individually or on a portfolio basis, a formal marketing campaign using real estate agents will be required. The typical cost of sales under this approach is estimated to be 2.5% of sales proceeds which includes agents' commission, advertising and legal costs. In addition, under the terms of the FST Constitution, FREML is entitled to a disposal fee of 2% of the excess of net selling price above the purchase price of the property sold by the FST.

Pending the ultimate outcome of the managed wind up, liquidity in FST and the FST Unit price are likely to fall reflecting the uncertain timing, proceeds and execution risks.

5. INFORMATION ABOUT FST CONT.

- **Portfolio sale of FST's assets**

A portfolio sale involves the sale of all FST's remaining assets in one line to either an individual acquirer or a consortium. This scenario reflects the sale of property assets rather than the transfer of FST Units as proposed under the Scheme.

Given the size of the portfolio, the number of potential acquirers is limited therefore it may be difficult to be able to dispose of the entire portfolio at current book values.

Similarly to the orderly wind-up of FST, returns to FST Unitholders will be diminished by selling costs as outlined in the managed wind up strategy.

5.7 OTHER FACTORS EFFECTING FST'S STANDALONE PROSPECTS

If the Proposal does not become Effective, there are existing factors relating to FST's business and an investment in FST which will continue to be relevant to you:

- **Lack of scale**

Compared to other listed A-REITs, FST is classified as a small-cap A-REIT, with market capitalisation of approximately \$77m and total assets of approximately \$122m. Small-cap A-REITs are typically more vulnerable to fluctuations in income. For example, if one of FST's properties becomes vacant, the loss of income from that vacant property may have a more material impact on FST's income and therefore distributions than would be evidenced in a larger A-REIT assuming like for like tenant profile and asset sizes.

- **Limited geographic diversification of assets**

FST's assets, in particular its early learning properties are primarily located in Queensland. The Queensland property market has, in recent years, been adversely affected by both flooding and weaker economic conditions. Whilst these unfortunate events have not materially impacted the values of FST's Queensland assets, it does highlight from an income and asset preservation perspective the potential risks associated with being geographically concentrated in a particular area.

- **Low liquidity**

Trading in FST is relatively illiquid, with average daily turnover during the last twelve months being 0.06% of FST Units on issue. Low liquidity results in wider buy/sell spreads which impact the ability of FST Unitholders to either sell or acquire additional FST Units at current market prices. Poor liquidity and wider buy/sell spreads also act as a deterrent to potential investors, subsequently placing downward pressure on the overall demand, and therefore price, of FST Units.

- **Raising new equity without significant dilution to existing FST Unitholders is challenging**

FST, on a standalone basis, is unlikely to be able to raise capital at a price that would not be dilutive to existing FST Unitholders. FST Units currently trade at a discount of 9.3% to 30 June 2014 pro forma NTA. In the event that FST needs to raise capital it would have to do so at a price that was below the current trading price and, assuming FST Units continue to trade at below the underlying NTA value of FST, at a discount to the stated NTA of FST. A capital raising at below the NTA value of FST may dilute FST Unitholder value, earnings and distributions (particularly for FST Unitholders who do not participate in the capital raising).



6. INFORMATION ABOUT FET

- 6.1 INTRODUCTION
- 6.2 HISTORICAL FINANCIAL INFORMATION
- 6.3 FET AFTER IMPLEMENTATION OF THE SCHEME
- 6.4 CAPITAL MANAGEMENT
- 6.5 VALUATION POLICY
- 6.6 DISTRIBUTION POLICY
- 6.7 RESPONSIBLE ENTITY
- 6.8 BOARD AND MANAGEMENT
- 6.9 CORPORATE GOVERNANCE
- 6.10 RIGHTS AND LIABILITIES ATTACHING TO FET UNITS
- 6.11 LABOUR STANDARDS AND ENVIRONMENT, SOCIAL OF ETHICAL CONSIDERATIONS
- 6.12 FET UNITHOLDERS' RIGHT TO INFORMATION
- 6.13 COMPLAINTS HANDLING
- 6.14 NO COOLING-OFF RIGHTS



In accordance with the responsibility statement included in the Important Notices Section of this Explanatory Memorandum, FIML has sole responsibility for preparing information contained in this Section 6, subject to FREML taking sole responsibility for the information that it has provided to FIML for the purposes of preparing information on FET following implementation of the Scheme, as specified in the definition of FST Information.

It is important that you consider the Risk Factors that could affect FET as detailed in Section 8, as well as the potential benefits of the Proposal.

6.1 INTRODUCTION

FET is an ASX listed A-REIT that is the largest Australian property trust investing in early learning properties in Australia and New Zealand.

As at 31 October 2014, FET owns and manages a geographically diverse portfolio with 354¹ properties located within Australia (303) and New Zealand (51) valued at approximately \$472 million. The centres are typically situated within established residential and commercial locations featuring medium to high traffic areas, good accessibility and access to public transport.

FET's early learning properties are typically standalone, purpose built facilities providing long day care accommodation for children from 6 weeks to 5 years of age. The facilities are leased to specialist early learning centre operators under long term triple net lease agreements. Typical lease terms from commencement are 15 years plus two 5 year options, with annual rental growth linked to CPI.

FIML is the responsible entity of FET and is a wholly owned subsidiary of FLK.

6.1.1 Background and history

FET was formed in November 2002 with a focus on both real estate assets and early learning businesses. It made its debut on the ASX as the Peppercorn Investment Fund (PIF) on 22 May 2003. In December 2004, it went through a restructuring process and sold its operating businesses. It was renamed the Australian Education Trust and its operations transformed into a property trust.

In June 2014, FET changed its name and ASX code from the Australian Education Trust (ASX:AET) to the Folkestone Education Trust (ASX:FET).

6.1.2 Strategy

FET's main objective is to provide secure long term cash-flows with minimal risk and the potential for capital growth to its investors. In addition, FET aims to provide FET Unitholders with:

- access to sector specific real estate investment that invests in early learning property;

- a stable, growing income stream supported by secure lease covenants;
- geographical diversification through asset selection; and
- an attractive income yield with growing underlying property values.

FET's strategy involves adopting:

- a consistent investment discipline in assessing acquisitions and disposals, focusing on real estate and income attributes similar to the existing portfolio;
- appropriate debt levels to maximise returns without over-exposing FET to debt;
- hedging policies to minimise volatility in the cost of debt and increase the predictability of distributions; and
- portfolio and risk management policies to maximise returns and operating efficiencies.

On 15 November 2013, FIML announced a new growth phase for FET. FET's growth strategy is based on locating prime sites with quality operators and on FET's lease terms. The focus on acquisitions is to provide accretive earnings and capital growth by focussing on sites within 15km of CBDs, rapidly expanding growth areas and opportunistic purchases.

Consistent with this strategy, the following transactions have been completed:

- acquisition in December 2013 of five early learning centres in premium Sydney metropolitan locations;
- acquisition of 100% of the units in the Folkestone Childcare Fund, an unlisted property fund which holds 22 early learning properties;
- acquisition in June 2014 of five development sites in Sydney and Melbourne metropolitan locations to be developed as early learning properties and operated under long-term leases;
- acquisition of a new early learning centre in Gungahlin (ACT); and
- acquisition of three development sites for new early learning centres to be constructed on a fund-through basis with lease agreements in place. The settlement of two of these properties are dependent on subdivision and/or development approval which is expected to occur before 31 December 2014.

These transactions demonstrate the ability of FET to complete acquisitions that combine quality underlying real estate and proven early learning operators, strengthening FET's position as the leading provider of early learning accommodation.

1. Includes 3 properties (\$3.7 million net sale value) contracted for sale and due for settlement in December 2014.

6. INFORMATION ABOUT FET CONT.

FET is continually assessing new opportunities as part of its development pipeline.

FET is currently in advanced negotiations to acquire four sites to be developed as early learning centres and operated under long-term leases. The sites are in prime metropolitan locations in Melbourne and in Sydney. Consistent with previous acquisitions, these sites conform to FET's strategy of selecting quality locations and operators, backed by FET standard leases. The acquisitions are matched to development agreements that include a fund-through formula delivering immediate income to FET during the development period. The total value on an "upon completion" basis of the four properties is expected to be approximately \$25 million with the underlying land purchases of approximately \$12 million.

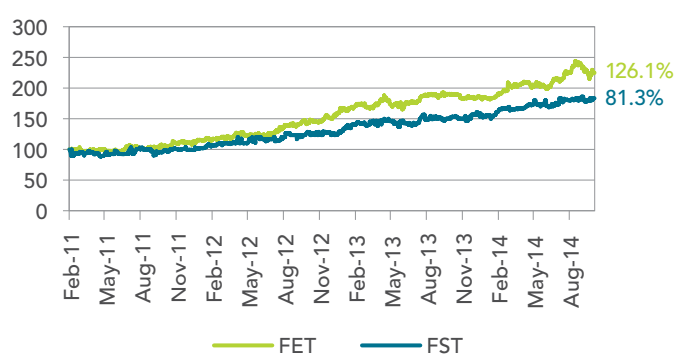
6.1.3 Information on FET Units and FST Units

Both FET Units and FST Units are officially quoted on the ASX. Information in relation to the market price of FET Units and FST Units is set out below:

	FET	FST
Last recorded price	1.87	2.72
12 month high	2.02	2.79
12 month low	1.50	2.20
5 day VWAP	1.85	2.71
30 day VWAP	1.86	2.71
90 day VWAP	1.88	2.71

The chart below provides the trading history of FET Units and FST Units since the listing of FST on the ASX. FET Unit prices and FST Unit prices are indexed to 100 as at 25 February 2011 to provide a comparison of relative price performance between the two securities. Since the listing of FST Units on the ASX on the 25 February 2011, the FET Unit price and FST Unit price have increased by 126.1% and 81.3%, respectively.

Trading performance of FET and FST (Indexed to 100 as at 25 February 2011)



6.1.4 Comparison of FST and FET Key Metrics

The following table provide a comparison of the key metrics of FET and FST on a standalone basis. The Directors of FREML believe that the assets and entities are complimentary in nature and do not represent a change in the investment profile of either FST or FET investors.

Comparison of FET and FST	FET standalone	FST standalone
Trading Performance		
Closing price (\$)	1.87	2.72
Pro forma 30 June 2014 NTA (\$)	1.53	3.00
Trading premium / (discount) to pro forma NTA (%)	21.8	(9.3)
FY15 distribution guidance (cents per unit)	12.7	21.0
FY15 distribution yield on closing price (%)	6.8	7.7
Market capitalisation (\$m)	385	77
Key portfolio metrics		
Passing yield (%)	9.0	8.9
WALE (years)	7.3	6.5
Tenanted occupancy (%)	99.6	100
% of assets relating to early learning centres ¹	100	75
% of development assets	4	0
Financial Metrics		
Total assets (\$m)	474.7	121.9
Drawn debt (\$m)	147.0	34.3
Gearing (%)	31.0	28.1

1. FST includes direct property portfolio and exposure via unit holding in FET

6.1.5 Comparison of FST and FET investment strategies as standalone entities

Both FST and FET seek to generate returns to investors primarily through their investment in early learning properties. To that end, there is no material difference between their underlying investment strategies. For example, where the relevant responsible entity considers it appropriate to do so they may seek to acquire early learning properties through engaging in early learning centre development activities (to date the size of FST has inhibited its ability to undertake development activities). In addition, a vast majority of FST's security investments is in fact represented by its investment in FET (valued at approximately \$16.8 million) which further demonstrates the alignment of FST and FET's investment strategies.

6.1.6 Benefits of the Proposal to FET

The rationale for the Proposal is to create a combined entity that is better positioned to increase FST Unitholder value through the ownership and management of early learning property assets.

If approved, the Proposal will result in a merged entity with 401 early learning centres valued at approximately \$546 million and total assets valued at approximately \$562 million, a significant increase in scale over both funds on a standalone basis.

The Proposal has the following benefits for FET:

- provides the opportunity to acquire a sizeable early learning portfolio at a concessional rate of stamp duty;

- FET's pro forma net tangible assets per unit is forecast to increase from \$1.53 per FET Unit at 30 June 2014 to \$1.56 per FET Unit calculated on a pro forma basis as if the Proposal was implemented on 1 July 2014;
- FET's distribution per FET Unit for the 6 months to 30 June 2015 is forecast to increase by 1.6% from 6.35 cents per unit to 6.45 cents per unit on a pro forma basis; and
- FET will maintain the existing management structure and a common management team with a single vehicle focus.

6.2 HISTORICAL FINANCIAL INFORMATION

6.2.1 Statement of financial performance

This Section sets out the historical income statement for the 12 months to 30 June 2013 and 30 June 2014. The income statement has been extracted from FET's audited financial statements for the year ending 30 June 2014, which were released to ASX on 6 August 2014.

Past performance is not an indicator of future performance.

Rounding of the figures provided in the historical financial information may result in some discrepancies between the sum of components and the totals outlined within the tables and percentage calculations.

Income Statement (\$ million)	30-Jun-13	30-Jun-14
Revenue		
Lease income	35.0	38.3
Property outgoing recoveries	5.8	6.3
Distributions and dividends	0.2	0.1
Total operating income	41.0	44.7
Expenses		
Finance costs	10.6	8.1
Property outgoings	8.3	8.7
Responsible entity's remuneration	2.1	2.5
Other expenses	1.0	1.0
Total operating expenses	22.0	20.3
Distributable income	19.0	24.4
Net investment property revaluation increment	19.6	29.2
Changes in fair value of derivative financial instruments	1.2	(0.2)
Amortisation of lease incentive asset liability (lease income)	(0.1)	0.1
Net profit / (loss) on sale of investment properties	-	0.3
Statutory profit	39.7	53.8
Other comprehensive income	-	-
Total comprehensive income attributable to Unitholders	39.7	53.8

6. INFORMATION ABOUT FET CONT.

6.2.2 Audited balance sheet as at 30 June 2014 with pro forma adjustments to reflect material changes since 30 June 2014

This Section sets out the historical balance sheet of FET at 30 June 2014 together with pro forma adjustments to reflect material changes to that balance sheet between 30 June 2014 and the date of this Explanatory Memorandum. The historical balance sheet of FET at 30 June 2014 has been extracted from FET's audited financial statements for the year ending 30 June 2014, which were released to ASX on 6 August 2014.

Balance Sheet (\$ million)	30-Jun-14	Adjust	Pro Forma
Current assets			
Cash and equivalents	1.8	(1.0)	0.8
Trade and other receivables	0.2	-	0.2
Other current assets	1.4	-	1.4
Investment properties expected to be sold	7.8	(4.1)	3.7
Total current assets	11.2	(5.1)	6.1
Non current assets			
Investments properties	449.9	14.7	464.6
Investments properties straight line rental asset	3.4	-	3.4
Securities	-	-	-
Non current assets	453.3	14.7	468.0
Total assets	464.5	9.6	474.1
Current liabilities			
Trade and other payables	2.2	-	2.2
Distribution payables	6.3	-	6.3
Derivative financial instruments	1.3	-	1.3
Other current liabilities	0.5	-	0.5
Total current liabilities	10.4	-	10.4
Non current liabilities			
Borrowings	145.7	-	145.7
Derivative financial instruments	1.8	-	1.8
Non current liabilities	147.5	-	147.5
Total Liabilities	157.9	-	157.9
Net assets	306.6	9.6	316.2
Units on Issue	205.1	0.9	206.0
NTA per unit	1.50		1.53
Gearing			
Drawn debt / Tangible assets	31.6%		31.0%

6.2.3 Material changes to the financial position of FET since 30 June 2014

The latest published financial statements of FET are the financial statements for the financial year ended 30 June 2014, which were released to ASX on 6 August 2014. A copy is available free of charge on FET's website at www.educationtrust.folkestone.com.au

To the knowledge of the FIML Directors and except as disclosed elsewhere in this Explanatory Memorandum, the financial position of FET has not materially changed since 30 June 2014, except that:

- on 19 September 2014, FIML announced a distribution of 3.175 cents per FET Unit (or \$6.5 million) for the quarter ending 30 September 2014, which was paid on 20 October 2014;
- on 20 October 2014, FIML announced that, as a result of a 26% participation rate in the Distribution Reinvestment Plan (DRP) that 923,261 new units were issued at a price of \$1.83 resulting in cash retention of \$1.7 million;
- three properties have been acquired since 30 June 2014 (two of these were contracted for acquisition as at 30 June 2014) and further development payments totalling \$10.5 million;

- six properties contracted for sale and recorded as 'investment properties expected to be sold' as at 30 June 2014 with a value of \$7.8 million have settled;
- there has been a revaluation of three properties contracted for sale post 30 June 2014 to \$3.7 million net of costs, based on unconditional contracts for sale. The revaluation represents a 29% premium to 30 June 2014 book value of \$2.8 million. These properties are recorded as 'investment properties expected to be sold' and are due for settlement in December 2014; and
- there has been a revaluation uplift of \$7.8 million based on 44 external revaluations conducted on the portfolio since 30 June 2014.

6.3 FET AFTER IMPLEMENTATION OF THE SCHEME

6.3.1 FET intentions after the acquisition of FST

FET intends to continue the operations of FST's early learning properties should FST Unitholders approve the Proposal. FST will become a wholly-owned sub-trust of FET.

FET considers FST's interest in FCIB and the medical centre property at Melton to be non-core, and whilst seeking to maximise the value of those assets FET will assess whether to dispose of these assets over time.

If the Proposal is approved, FIML will cause FREML to apply for termination of official quotation of FST Units on the ASX and removal of FST from the official list of the ASX. In addition, it is proposed that FREML will be removed as responsible entity of FST and will be replaced as responsible entity of FST by FIML.

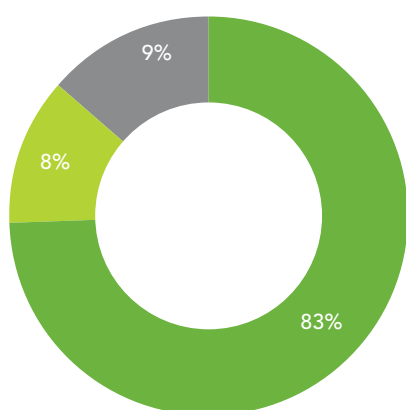
6.3.2 FET portfolio summary

FET will own and manage a combined portfolio of 402 direct property assets. A summary of FET's portfolio is set out below.

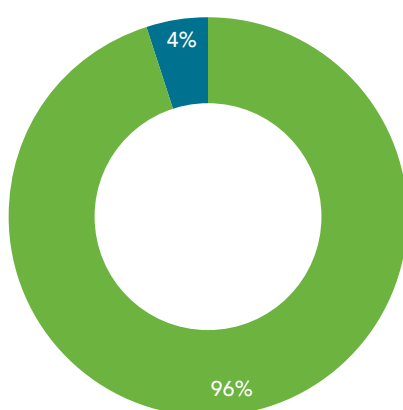
FET property portfolio summary as at 31 October 2014

	FST (post implementation of the Scheme)		FET		FET (post implementation of the Scheme)	
	No. of Properties	Carrying Value (\$m)	No. of Properties	Carrying Value (\$m)	No. of Properties	Carrying Value (\$m)
Direct Property						
Early learning properties	47	74	348	455	395	529
Medical property	1	7	-	-	1	7
Development sites	-	-	6	17	6	17
Total Direct Properties	48	82	354	472	402	554
FCIB units	-	8	-	-	-	8
Total Property Portfolio	48	90	354	472	402	562

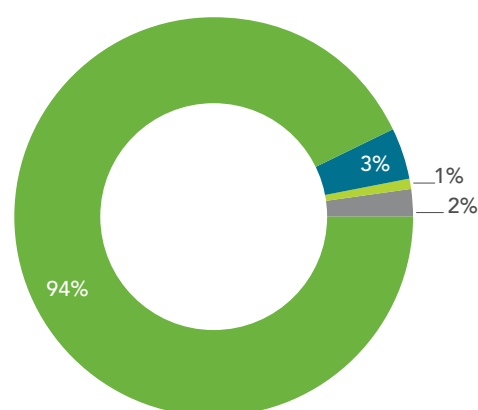
FST (post implementation of the Scheme) asset composition



FET asset composition



FET (post implementation of the Scheme) asset composition



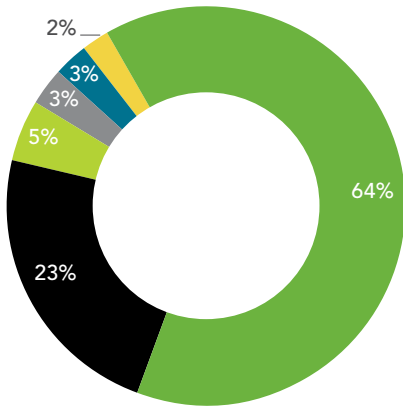
■ Early Learning ■ Development ■ Medical ■ FCIB

6. INFORMATION ABOUT FET CONT.

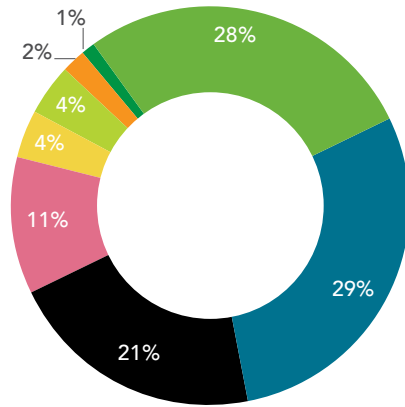
6.3.3 Geographic diversification

FET maintains a geographically diverse portfolio of assets. The following graphs outline the change in geographic contribution as a result of the Proposal:

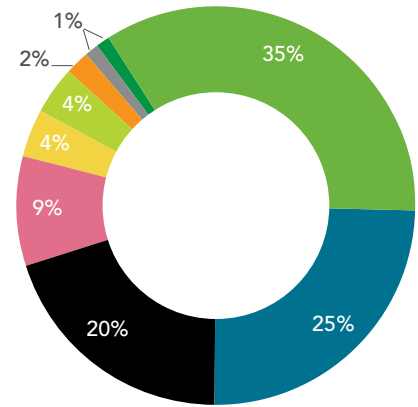
FST geographic diversification by value



FET geographic diversification by value



FET (post implementation of the Scheme) geographic diversification by value

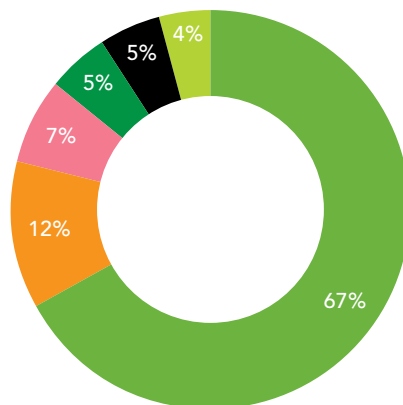


■ QLD ■ NSW ■ WA ■ NT ■ SA ■ VIC ■ ACT ■ TAS ■ NZ

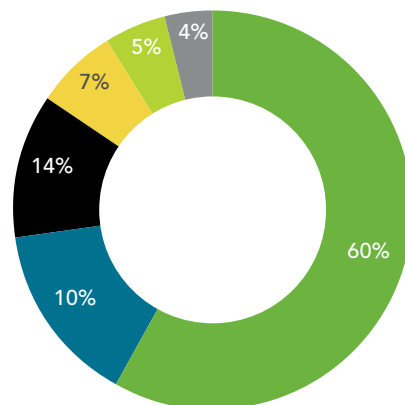
6.3.4 Tenant diversification

Goodstart Early Learning will remain FET's largest tenant after the implementation of the Scheme contributing to over 60% of FST's rental income. The table below outlines the change in contribution to rental income from FET's major tenant's pre and post implementation of the Proposal.

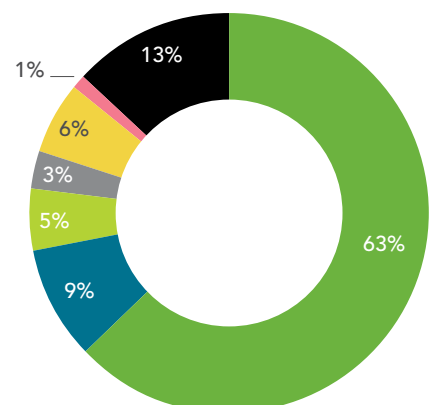
FST – rental income by tenant



FET – rental income by tenant



FET (post implementation of the Scheme) – rental income by tenant

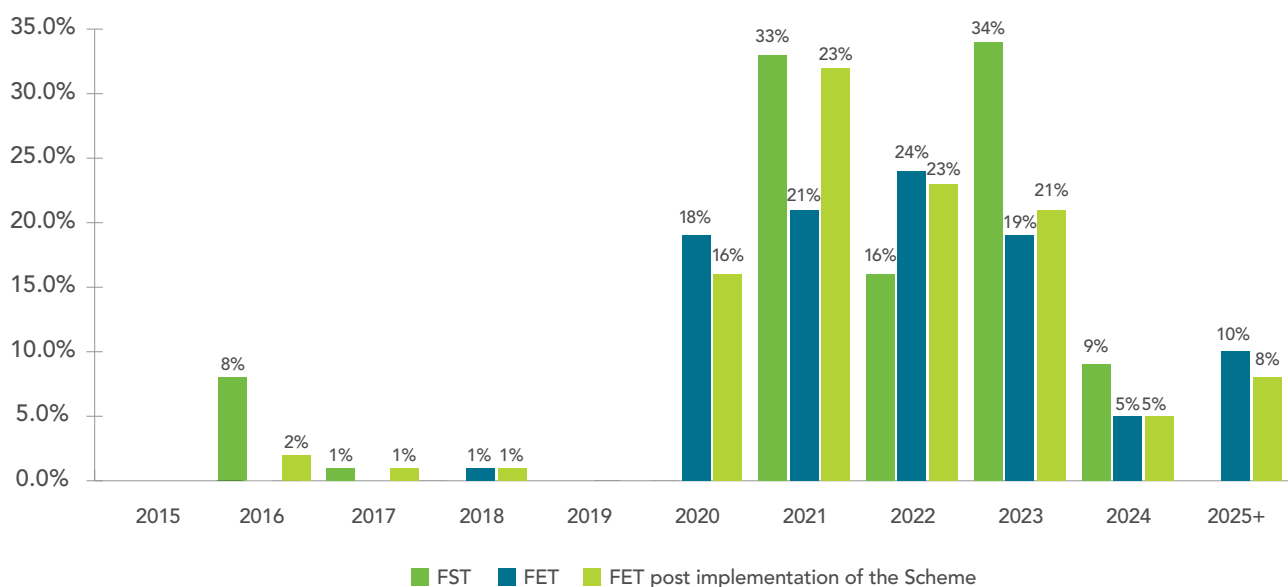


■ Goodstart Early Learning ■ Kidicorp ■ G8 Education ■ Mission Australia ■ Only About Children
 ■ Other Early Learning ■ Guardian ■ Leading ■ Primary Health

6.3.5 Weighted average lease expiry

The implementation of the Scheme will result in a slight decrease in FET's WALE from 7.3 years to 7.1 years. The following graphs provide weighted average lease expiry before and after implementation of the Scheme.

Pre-acquisition – lease expiry profile



6.4 CAPITAL MANAGEMENT

6.4.1 Funding of Proposal

The Proposal (including transaction costs) will be funded by the issue of New FET Units, the roll over of FST's existing debt facility and by debt using FET's existing working capital facility. The use of funds associated with the Proposal is set out below.

Transaction Funding (\$ million)			
Source		Application	
Scheme Consideration	70.2	Transaction value	89.4
Implementation Distribution	19.2	Stamp duty	0.8
Drawdown debt	2.5	Transaction cost	1.7
Total	91.9	Total	91.9

6.4.2 Debt facility and hedging profile

FET has \$108.0 million hedged via interest rate swaps at a fixed rate of 4.01% pa (excluding margin and amortisation of costs) for the remainder of FY15. FET has (staggered positions) hedging in place through to June 2019 with an average of 58% hedged across this period.

FET Debt Facility Summary as at 30 June 2014

Facility Limit	\$173 million
Drawn Amount	\$147 million
Facility Maturity	June 2017
Financiers	NAB & ANZ
Loan to Value Ratio Covenant	50% of all secured property
Financial Charges Ratio/ Interest Cover Ratio	Not less than 2.0 times measured on a six month basis

The current FST debt facility on its existing terms will be retained by FET following implementation of the Scheme. FET will continue to adopt the following approach to capital management:

- maintain a target gearing range of between 30% and 40% over the medium term;
- maintain sufficient head room relative to key loan covenants (including gearing ratios and interest coverage); and
- monitor and implement an appropriate hedging strategy to manage FET's interest rate and foreign exchange rate risks.

6. INFORMATION ABOUT FET CONT.

FST Debt Facility Summary as at 30 June 2014	
Facility Limit	\$34.3 million (fully drawn)
Overdraft	\$2 million (zero drawn)
Facility Maturity	December 2014, with an option for one year at FST's election
Financier	ANZ
Loan to Value Ratio Covenant	52.5% (value based on 100% of secured property values and 50% of FET units)
Interest Cover Ratio	Not less than 1.6 times EBITDA, measured on a yearly basis

On 10 July 2014, FST's debt facility with the ANZ was amended with an extension to the maturity date to July 2017 and an improvement in pricing. As part of the amendment, the LVR covenant was reduced to 50% and the ICR covenant was increased to 2.0 times.

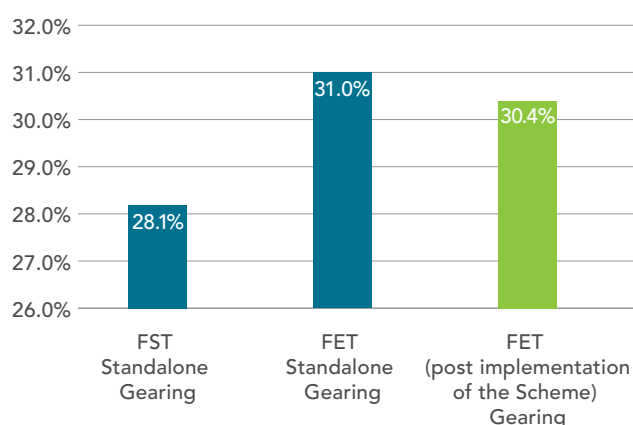
FST's current hedging arrangements are shown below and will remain in place following implementation of the Scheme.

FST Hedging as at 30 June 2014	Hedged Amount (\$m)	Hedged Rate (%)	Hedged (%)
FY15, July 2014 – June 2015	14.0	3.42	41
FY16, July 2015 – June 2016	9.0	3.10	26
FY17, July 2016 – June 2017	5.0	3.06	15

This policy will continue to be reviewed in the context of any future indebtedness and the prevailing market conditions. The FIML Directors will continue to monitor the appropriateness of this policy to ensure that it meets the ongoing objectives of FET and is in the best interest of FET Unitholders.

6.4.3 Gearing

FET has maintained a conservative gearing policy well within its current covenant requirements. The merged entity's gearing will remain in line with FET's current gearing.



6.4.4 Distribution Reinvestment Plan

FET re-activated its Distribution Reinvestment Plan (DRP) in September 2014. The DRP allowed FET Unitholders to elect to reinvest their 30 September 2014 quarterly distribution in additional units in FET at a discount of 1.5% to the 10 day VWAP to 15 October 2014. Participation in the DRP is optional and FET Unitholders can continue to receive cash distribution from FET paid into their nominated bank account. Post implementation of the Scheme, new FET Unitholders will be entitled to participate in any of such future DRPs.



6. INFORMATION ABOUT FET CONT.

6.5 VALUATION POLICY

FET has a real property valuation policy under which investment properties are measured at fair value and revalued on a regular basis to ensure the carrying amount of each property does not differ materially from its fair value at the balance date. A full independent valuation of each property is carried out at least once every three years.

The fair value of investment property may be updated to reflect market conditions at the end of each reporting period. This represents best estimates as at the balance sheet date.

FIML has a conservative investment approach with a preference for assets that are leased at market levels. This reduces the risk of any shortfall in long term cashflow and underpins the capital values in the event that a centre falls vacant.

6.6 DISTRIBUTION POLICY

FET has a practice of generally distributing 100% of its distributable income which is calculated as the net accounting profit attributable to unitholders less any unrealised components. FET can give no assurance as to the specific level

of distributions, if any, as this depends, among other factors, on FET's net earnings from its properties and its ability to raise both debt and equity at an appropriate cost of capital.

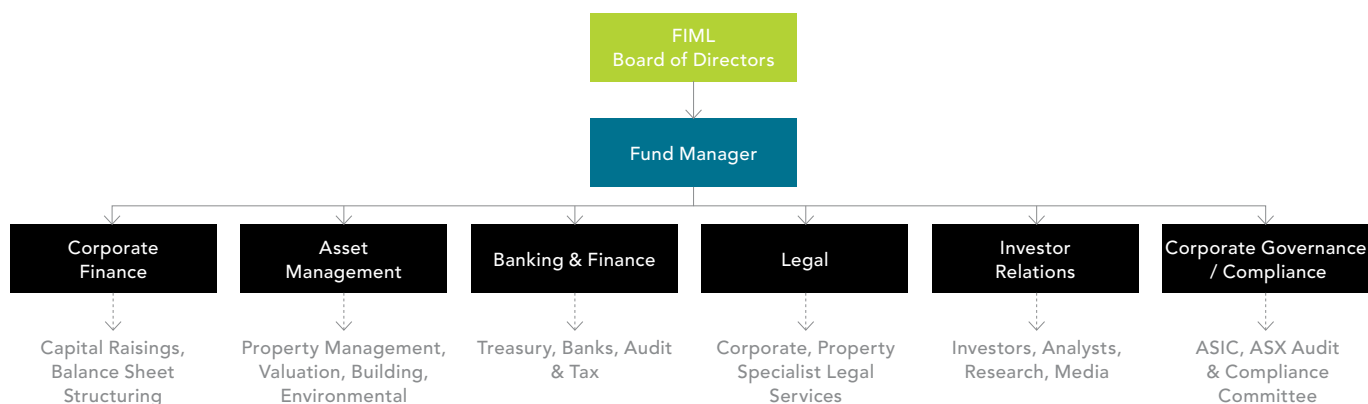
FET makes its distribution payments on a quarterly in arrears basis. FET makes all distribution payments via electronic funds transfer to FET Unitholders' bank accounts.

6.7 RESPONSIBLE ENTITY

FIML is the responsible entity of FET. FIML holds an Australian Financial Services Licence (AFSL 281544) which allows it to administer retail and wholesale funds, produce PDSs and raise funds for property investment purposes.

FIML's model is based on independent decision making to ensure a high level of expertise across each investment discipline. Management delivers economies of scale and consistent systems that are aligned with unitholder performance expectations.

The legal and operational structure of FIML is shown below:



6.8 BOARD AND MANAGEMENT

The Board of Directors of FIML have many years of proven expertise in real estate, banking and finance, financial planning and investment management. A broad and multi-dimensional approach, together with significant investment experience, particularly in the banking and finance arena, ensures the Board has the necessary skills in mitigating risk and protecting capital.



VICTOR (VIC) COTTREN Chairman and Non-Executive Director

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.



MICHAEL JOHNSTONE Non-Executive Director

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.



GRANT HODGETTS Non-Executive Director

Grant Hodgetts 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 Folkestone Investment Management Limited 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.

Grant holds 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.

6. INFORMATION ABOUT FET CONT.



NICK ANAGNOSTOU Executive Director & Chief Executive Officer

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 three funds and approximately \$600 million. Nick is also the Fund Manager and executive board member for the ASX listed Folkestone Education Trust (ASX:FET), and Fund Manager for the Folkestone CIB Fund.

Nick has more than 20 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 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 focused on Premium and A-Grade office markets.



TRAVIS BUTCHER Chief Financial Officer

Travis joined Folkestone in September 2012 following Folkestone's acquisition of Austock's property business (Travis joined Austock in 2006).

Travis is the Chief Financial Officer – Funds across Folkestone's property funds. Travis has over 15 years financial experience in Australia and overseas including working in London as Financial Controller with Collier Capital a leading global investor in private equity secondaries and international group Apax Partners.

Travis is a Chartered Accountant who began his career at PricewaterhouseCoopers specialising in transaction services and audit. Travis is a member of the Institute of Chartered Accountants and holds a Bachelor of Accounting from Monash University.

6.9 CORPORATE GOVERNANCE

As responsible entity of FET, FIML is committed to a strong corporate governance framework that aligns the interests of all FET unitholders, is transparent and uncomplicated and brings best of breed expertise to the business.

FIML's corporate governance policies, procedures and structures are independently monitored and reviewed to ensure FET's business is operated ethically, responsibly and efficiently ensuring any issues are quickly identified and resolved.

To the extent they are applicable and appropriate for a company of FIML's size and nature, FIML has adopted the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations with 2010 Amendments (3rd Edition). In accordance with ASX Listing Rule 4.10.3 the extent to which FET has sought to comply with each of the ASX Corporate Governance Council's eight principles of good corporate governance recommendations are included in FET's annual report which is available on ASX and on FET's website.

FET's and FREML's corporate governance policies and procedures are available at its website at:
www.educationtrust.folkestone.com.au

6.10 RIGHTS AND LIABILITIES ATTACHING TO FET UNITS

The FET Constitution sets out, among other things, the rights and liabilities attaching to FET Units. Those rights are, in certain circumstances, also regulated by the Corporations Act and general law. The FET Constitution is available for inspection at the offices of FIML.

The following is a summary of some of the principal rights and liabilities attaching to FET Units as set out in the FET Constitution:

- FET Unitholders are entitled to receive notice of, and to attend and vote at, a general meeting of FET and to receive all notices, accounts and other documents required to be sent to FET Unitholders under the FET Constitution, the Corporations Act or the general law;
- each FET Unitholders present in person or by an attorney, representative or proxy at a general meeting of FET has one vote on a show of hands and one vote per dollar value of the total FET Units they have on a poll;
- FIML may issue further FET Units, including units in other classes, at the prevailing issue price as set out in the FET Constitution;

- FET Unitholders will be entitled to participate in FET distributions according to their rights and interests. Subject to rights attached to a particular class of FET Unit, this means in proportion to their FET Unitholdings;
- if FET is wound up, FET Unitholders will be entitled to participate in any surplus FET assets according to their rights and interests. Subject to rights attached to a particular class of FET Unit, this means in proportion to their FET Unit holdings;
- subject to law, FIML has all the powers in respect of FET which it would have if it was the owner of FET's assets;
- the FET Constitution provides that FIML will be entitled to be paid out of the income or capital of FET certain fees which are detailed in Section 12;
- subject to law, FIML has a right of indemnity out of FET's assets other than where the liabilities are not incurred in the proper performance of its duties; and
- FIML, and its related bodies corporate, may hold FET Units and FIML may contract with itself in another capacity, for example as responsible entity of another fund, and may contract with related parties for the provision of services to FET paid for by FET.

6.11 LABOUR STANDARDS AND ENVIRONMENT, SOCIAL OF ETHICAL CONSIDERATIONS

FIML may take labour standards or environmental, social of ethical considerations into account for the purposes of selecting, retaining or realising investments for FET. Sometimes these matters may indirectly affect the economic factors upon which investment decisions are based.

6.12 FET UNITHOLDERS' RIGHT TO INFORMATION

FET is a 'disclosing entity' under the Corporations Act and subject to regular reporting and disclosure obligations under the Corporations Act. FET Unitholders have a right to obtain a copy of the following documents:

- the annual financial report most recently lodged with ASIC by FET;
- any half-year financial report lodged with ASIC by FET; and
- any continuous disclosure notices for FET given to ASIC.

FET is also obliged to comply with the ASX Listing Rules including all applicable continuous disclosure and reporting requirements. In particular, FET has an obligation under the ASX Listing Rules (subject to certain exceptions) to immediately tell the ASX about any information of which it is or becomes aware of which a reasonable person would expect to have a material effect on the price or value of FET Units.

Copies of the documents lodged by FET can be obtained from, or inspected at, an office of ASIC or the ASX website (www.asx.com.au).

6.13 COMPLAINTS HANDLING

The FET Constitution contains provisions governing the procedures for dealing with complaints by investors. FIML has procedures in place to properly consider and deal with any complaints received from investors. If you have a complaint or query in relation to the administration or management of FET, please contact Scott Martin on +61 3 8601 2050 or write to FIML at Level 12, 15 William Street, Melbourne VIC 3000. FIML will ensure your complaint is acknowledged in writing and will ensure that it receives proper consideration. Within 45 days of receiving the complaint, FIML is required to communicate its decision in relation to the complaint.

FIML is also a member of Financial Ombudsman Service Limited (FOS), an external complaints resolution service that has been approved by ASIC. If you are dissatisfied with our response, you may raise the matter with FOS. Its contact details are:

Financial Ombudsman Service Limited
GPO Box 3
Melbourne VIC 3001
Telephone: 1300 780 808
Fax: (03) 9613 6399
Email: info@fos.org.au
Website: www.fos.org.au

6.14 NO COOLING-OFF RIGHTS

No cooling off rights apply to the issue of New FET Units described in this Explanatory Memorandum.

7. FET FINANCIAL INFORMATION

- 7.1 OVERVIEW
- 7.2 PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
- 7.3 PRO FORMA HISTORIC INCOME STATEMENTS
- 7.4 THE STANDALONE AND PRO FORMA FORECAST INCOME STATEMENTS FOR SIX MONTHS TO 31 DECEMBER 2014 AND SIX MONTHS TO 30 JUNE 2015
- 7.5 FUTURE PROSPECTS OF FST AND FET
- 7.6 IMPACT OF SCHEME ON SCHEME UNITHOLDERS



In accordance with the responsibility statement included in the Important Notices Section on the inside front cover of this Explanatory Memorandum, FET has sole responsibility for preparing information contained in this Section 7, subject to FREML taking sole responsibility for the information that it has provided to FET for the purposes of preparing information on FET following implementation of the Scheme, as specified in the definition of FREML Information.

It is important that you consider the Risk Factors that could affect FET as detailed in Section 8, as well as the potential benefits of the Proposal.

In this Section 7, all references to a state of affairs are to be interpreted as existing at 30 June 2014, unless otherwise stated.

7.1 OVERVIEW

Unaudited financial information (collectively, the **Financial Information**) is set out in Sections 7.2 to 7.5 and includes the following:

- Pro forma summary consolidated statements of financial position for each of FET and FST as at 30 June 2014 and pro forma summary consolidated statement of financial position for FET as at 30 June 2014 (together the **Pro Forma Consolidated Statement of Financial Position** — refer to Section 7.2);
- Consolidated summary forecast income statements for each of FET and FST for the 6 months ending 31 December 2014 (the **Standalone Forecast Income Statements** – refer to Section 7.4); and
- Consolidated summary forecast income statements for each of FET and FST for the 6 months ending 30 June 2015 and the consolidated summary forecast income statement for FET (post acquisition of FST) for the 6 months ending 30 June 2015 which includes the impact of the pro forma adjustments (the **Pro Forma Forecast Income Statement** – refer to Section 7.4).

The Financial Information contained in this Section 7 has been prepared in accordance with the recognition and measurement principles of Australian Accounting Standards, although it is presented in an abbreviated form insofar as it does not include all of the disclosures, statements or comparative information as required by the Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.

The accounting policies used to prepare the Financial Information are based on the accounting policies of FET, as applicable, contained in the financial statements for the financial period ended 30 June 2014 unless otherwise noted. FET's financial statements can be accessed on its website at www.educationtrust.folkestone.com.au.

Following a review of the accounting policies as disclosed in FST's financial statements for the financial period ended 30 June 2014 accessible via FST's website at www.sitrust.folkestone.com.au, the accounting policies of FET and FST are not considered to be materially different. Therefore, at this time, no adjustments have been made to the unaudited consolidated pro forma financial information to align accounting policies.

The Financial Information of FET has been compiled based on the following transaction assumptions:

- the FET Unit Sale is approved with net proceeds from the sale and available cash reserves used to fund the Implementation Distribution (\$19.2m);
- the conditional sale of Glen Iris Storage Facility for \$11.7m (net of costs) settles;
- the Scheme is implemented with Scheme Unitholders receiving 1.32 New FET Units for every one FST Unit they hold on the Record Date; and
- transaction costs of \$2.5m incurred as a result of the transaction are funded by drawdown in debt.

Other pro forma adjustments have been made to compile the Pro Forma Consolidated Statement of Financial Position and the Pro Forma Forecast Income Statement of FET (post the acquisition of FST) as set out in Sections 7.2 and 7.4.

Rounding of the figures provided in the Financial Information may result in some discrepancies between the sum of components and the totals outlined within the tables and percentage calculations.

7.2 PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

7.2.1 Basis of preparation

This Section outlines the Pro Forma Consolidated Statement of Financial Position as though the Scheme was implemented as at the close of business on 30 June 2014. The Pro Forma Consolidated Statement of Financial Position as at 30 June 2014 has been based on:

- the audited consolidated statement of financial position of FET as at 30 June 2014 extracted from FET's annual financial report for the financial period ended 30 June 2014;
- the audited consolidated statement of financial position of FST as at 30 June 2014 extracted from FST's annual financial report for the financial period ended 30 June 2014; and
- certain pro forma adjustments for FST's financial position outlined in Section 7.2.2 and FET's financial position outline in Section 7.4.3.

7.2.2 Pro forma adjustments

The following pro forma adjustments have been made in producing the Pro Forma Consolidated Statement of Financial Position as at 30 June 2014:

- the FET Unit Sale (\$16.8m net of costs) is approved with net proceeds from the FET Unit Sale and available cash reserves used to fund the Implementation Distribution (\$19.2m);
- the conditional sale of Glen Iris Self Storage Facility \$11.7m (net of costs) settles;
- recognition of \$4.0m in goodwill. See Section 7.2.3 for further details on acquisition accounting; and
- an increase of \$2.5m in debt to fund the transaction costs. Further details on the transaction costs are outlined in Section 12.4.

7. FET FINANCIAL INFORMATION CONT.

7.2.3 Acquisition accounting

No adjustments have been made to the reported value of FST's assets and liabilities to reflect the impact of acquisition accounting, as for the purposes of the unaudited pro forma summary financial information the book value as reported in FST's reviewed financial statements as at 30 June 2014 is assumed to approximate their fair value as at the date of acquisition.

The difference between (a) the fair value of the consideration transferred by FET for control of FST and (b) the fair value of FST's identifiable assets acquired and the liabilities assumed has been treated as goodwill by FET.

An exercise to ascertain the fair value of FST's assets, liabilities and contingent liabilities and the consideration offered will be undertaken after the acquisition and this may result in the goodwill on acquisition being materially different to what is assumed.

Pro Forma Consolidated Statement of Financial Position

Pro Forma 30 June 2014 Balance Sheet (\$ million)	FET	FST	Conditional Sale	Proposal	New FET
Current assets					
Cash and equivalents	0.8	3.3	16.8	(19.2)	1.7
Trade and other receivables	0.2	0.6	-	-	0.8
Other current assets	1.4	-	-	-	1.4
Investment properties expected to be sold	3.7	-	-	-	3.7
Total current assets	6.1	3.9	16.8	(19.2)	7.5
Non current assets					
Investments properties	464.6	93.0	(11.7)	-	545.9
Investments properties straight line rental asset	3.4	0.2	-	-	3.6
Securities	-	24.8	(16.8)	-	8.0
Goodwill	-	-	-	4.0	4.0
Non current assets	468.0	118.0	(28.5)	4.0	561.5
Total assets	474.1	121.9	(11.7)	(15.2)	569.0
Current liabilities					
Trade and other payables	2.2	0.5	-	-	2.7
Distribution payables	6.3	1.5	-	-	7.8
Derivative financial instruments	1.3	0.1	-	-	1.4
Other current liabilities	0.5	-	-	-	0.5
Total current liabilities	10.4	2.1	-	-	12.5
Non current liabilities					
Borrowings	145.7	34.3	(11.7)	2.5	170.7
Derivative financial instruments	1.8	-	-	-	1.8
Non current liabilities	147.5	34.3	(11.7)	2.5	172.6
Total liabilities	157.9	36.4	(11.7)	2.5	185.1
Net assets	316.2	85.4	-	(17.7)	384.0
Units on issue	206.0	28.4	-	37.6	243.5
NTA per unit	1.53	3.00			1.56
FST equivalent NTA					2.06
Gearing					
Drawn debt / Tangible assets	31.0%	28.1%			30.4%

7.3 PRO FORMA HISTORIC INCOME STATEMENTS

The FIML Directors have carefully considered whether FIML has a reasonable basis to produce reliable and meaningful pro forma income statements for FET for the 12 months ended 30 June 2014.

Due to a number of significant events which occurred during this period, the capital structure of FET has changed considerably. On this basis, the Directors of FIML Directors have concluded that they do not have a reasonable basis to provide pro forma historical financial information that is sufficiently meaningful and reliable for Scheme Unitholders.

The standalone historical financial information of both FST and FET is provided in Sections 5.5 and 6.2 respectively.

7.4 THE STANDALONE AND PRO FORMA FORECAST INCOME STATEMENTS FOR SIX MONTHS TO 31 DECEMBER 2014 AND SIX MONTHS TO 30 JUNE 2015

The standalone forecast financial information has been presented in this Section 7.4 to provide Scheme Unitholders with a guide to the potential future performance of each of FET and FST on a standalone basis.

The Pro Forma forecast financial information has been presented in this Section 7.4 to provide Scheme Unitholders with a guide to the potential future performance of each of FET and FST on a standalone basis and FET. The Pro Forma Forecast Income Statement is prepared on the assumption that the Scheme will be implemented on 1 January 2015.

7.4.1 Basis of preparation for the Standalone Forecast Income Statement for six months to 31 December 2014

The Standalone Forecast Income Statements are derived from:

- the FST consolidated forecast income statements for the 6 months to 31 December 2014 prepared on a business-as-usual basis; and
- the FET consolidated forecast income statements for the 6 months to 31 December 2014 prepared on a business-as-usual basis.

The Standalone Forecast Income Statement for each of FET and FST are prepared separately by each entity on the basis of their respective assessment of anticipated economic and market conditions.

While these best-estimate assumptions are considered to be appropriate and reasonable at the time of preparing the forecast financial information, FST Unitholders should appreciate that many factors which may affect the results are outside the control of the FIML and FREML Directors or may not be capable of being foreseen or accurately predicted.

Income statements for the financial year ending 31 December 2014 on a standalone basis have been compiled using actual results where available:

- FET Forecast Income Statements are based on four months of unaudited actual results and two months of forecast results; and
- FST Forecast Income Statements are based on four months of unaudited actual results and two months of forecast results.

7.4.2 Basis of preparation for the Standalone and Pro Forma Forecast Income Statement for six months to 30 June 2015

The Standalone and Pro Forma Forecast Income Statements are derived from:

- the FST consolidated forecast income statements for the 6 months to 30 June 2015 prepared on a business-as-usual basis, assuming the Scheme is not implemented;
- the FET consolidated forecast income statements for the 6 months to 30 June 2015 prepared on a business-as-usual basis, assuming the scheme is not implemented; and
- additional pro forma adjustments which are forecast to be effective following implementation of the Scheme.

Best-estimate assumptions reflect the assessment of FET (based on present circumstances) of anticipated economic and market conditions and the implementation of the respective managements' business strategies. While these best-estimate assumptions are considered to be appropriate and reasonable at the time of preparing the forecast financial information, FST Unitholders should appreciate that many factors which may affect the results are outside the control of the FIML Directors or may not be capable of being foreseen or accurately predicted.

Accordingly, actual results may vary materially from the forecast financial information. FST Unitholders are advised to review the best-estimate assumptions and risk factors described later in this Section 7.4.3 and make their own assessment of the future performance and prospects of FET (post implementation of the Scheme). FST Unitholders should note past performance is not an indicator of future performance. FST and FET are not likely to pay Australian income tax, including CGT, provided FST Unitholders and FET Unitholders are presently entitled to all of the distributable income of FST and FET respectively and FET and FST are not classed as either a public trading trust or a corporate unit trust for Australian tax purposes.

7. FET FINANCIAL INFORMATION CONT.



Standalone Forecast Income Statements (six months to 31 December 2014)

Pro Forma Forecasts (\$ million)	FET	FST
Revenue		
Lease income	21.1	4.1
Property outgoing recoveries	3.3	0.7
Distributions and dividends	-	0.8
Total operating income	24.4	5.6
Expenses		
Finance costs	(4.4)	(0.8)
Property outgoing	(4.7)	(0.8)
Responsible entity's remuneration	(1.4)	(0.6)
Other expenses	(0.8)	(0.4)
Total operating expenses	(11.3)	(2.6)
Distributable income	13.1	3.0
Net investment property revaluation increment	7.9	2.2
Realised gain on sale of available-for-sale financial assets	-	0.3
Statutory profit	21.0	5.5
Weighted average number of units (m)	205.5	28.4
Distributable income per unit (cents)	6.35	10.50
Distribution per unit (cents)	6.35	10.50

Standalone and Pro Forma Forecast Income Statements
(six months ending 30 June 2015)

Pro Forma Forecasts (\$ million)	FET	FST	Adjust	Merged
Revenue				
Lease income	21.5	4.1	(0.4)	25.2
Property outgoing recoveries	3.4	0.7	-	4.1
Distributions and dividends	-	0.7	(0.6)	0.1
Total operating income	24.9	5.5	(1.0)	29.4
Expenses				
Finance costs	(4.6)	(0.7)	0.2	(5.1)
Property outgoings	(4.9)	(0.9)	-	(5.8)
Responsible entity's remuneration	(1.4)	(0.6)	0.4	(1.6)
Other expenses	(0.8)	(0.3)	0.1	(1.0)
Total operating expenses	(11.7)	(2.5)	0.7	(13.5)
Distributable Income	13.2	3.0	(0.3)	15.9
Transaction costs	-	-	(2.5)	(2.5)
Statutory profit	13.2	3.0	(2.8)	13.4
Weighted average number of units (m)	207.9	28.4	37.6	245.5
Distributable income per unit (cents)	6.35	10.50		6.45
Distribution per unit (cents)	6.35	10.50		6.45



7. FET FINANCIAL INFORMATION CONT.

7.4.3 BEST ESTIMATE ASSUMPTIONS

General assumptions include:

- CPI increase on leases assumed to be 2.2% p.a. (Australia) and 2.1% p.a. (New Zealand);
- all tenants continue to meet their leasing obligations;
- no additional changes in property valuations; and
- no change in capital structure other than as contemplated under the Scheme.

FST standalone assumptions for the half year ending 31 December 2014 and half year ending 30 June 2015 include:

- lease income has been forecast on based on existing leases and assumptions in relation to future rental increases. All properties are currently leased with no lease expiries during the 12 months to 30 June 2015;
- property outgoings consist of rates, taxes and other property expenses which are recovered from tenants under the terms of the leases. Property outgoings have been forecast based on detailed property budgets which are consistent with historical expenses;
- distributions received from FST's property securities have been forecast based on actual distributions received during the period and distribution guidance provided for holdings in FET and FCIB;
- finance costs comprise of a fixed bank cost (line fee and margin) and a base rate (which FST has fixed 41% of the facility limit with the remaining 59% subject to a floating base rate). The proceeds from the sale of interests in SDRT1 and APGF of \$2.7 million were applied to reduce debt;
- no revaluation of interest rate swaps is assumed as future valuations are subject to external markets and therefore cannot be reliably forecast;
- responsible entity's remuneration is payable to FREML at a rate of 1.0% p.a. of gross assets on a monthly basis; and
- other operating expenses include custodian fees, ASX listing fees, unit registry fees, audit and tax fees, valuation fees and other sundry expenses. These have been forecast based on historical expenses.

FET standalone assumptions for the half year ending 31 December 2014 and half year ending 30 June 2015 include:

- lease income has been forecast on based on existing leases and assumptions in relation to future rental increases. There is currently one vacant property which is assumed to be leased on 1 January 2015;
- property outgoings consist of rates, taxes and other property expenses which are recovered from tenants under the terms of the leases. Property outgoings have been forecast based on detailed property budgets which are consistent with historical expenses;

- FET has 6 early learning properties in development. Construction payments will be made during the twelve months to 30 June 2015 which will be funded from the undrawn debt facility. In addition, a further 2 early learning development sites where the land is under contract;
- finance costs comprise of a fixed bank cost (line fee and margin) and a base rate (FET has fixed 62% of the total facility limit of \$173.0 million with the remaining 38% subject to a floating base rate). The debt facility may not be fully drawn;
- no revaluation of interest rate swaps is assumed as future valuations are subject to external markets and therefore cannot be reliably forecast;
- responsible entity's remuneration is payable to FIML at a rate of 0.5% p.a. of gross assets on a quarterly basis;
- other operating expenses include custodian fees, ASX listing fees, unit registry fees, audit and tax fees, valuation fees and other sundry expenses. These have been forecast based on historical expenses; and
- the DRP remains in place and the participation rate remains consistent with the September quarter distribution of 26%.

7.4.4 Pro forma adjustments

The following pro forma adjustments have been made in producing the Pro Forma Forecast Income Statement for the 6 months ending 30 June 2015 (assuming the Scheme is implemented on 1 January 2015):

- a reduction in lease income (\$0.4 million) from the sale of Glen Iris Storage Facility;
- a reduction in distributions (\$0.6 million) from the sale of FST's unit holding in FET pursuant to the FET Unit Sale;
- a reduction in interest expense of (\$0.2 million) from reduction of \$9 million in debt as a result of the transactions;
- a reduction of \$0.4 million in responsibility entity fees payable to FIML resulting from reduction in FST's asset base and the reduction in the management fee from 1.0% p.a. to 0.5% p.a. on FST's assets from the Implementation Date;
- cost synergies of \$0.1 million from removal of duplicated administrative costs; and
- transaction costs of \$2.5 million as a result of the Scheme being expensed.

7.5 FUTURE PROSPECTS OF FST AND FET

The Standalone and Pro Forma Forecast Income Statements for the six months ended 30 June 2015 does not necessarily represent the likely future financial performance of FST or FET (both on a standalone basis) or FET (following the acquisition of FET) beyond the financial year ending 30 June 2015.

7.6 IMPACT OF SCHEME ON SCHEME UNITHOLDERS

The following sets out the impact on Scheme Unitholders of the Scheme, assuming the Scheme is implemented on 1 January 2015 on a per effective FST Unit basis.

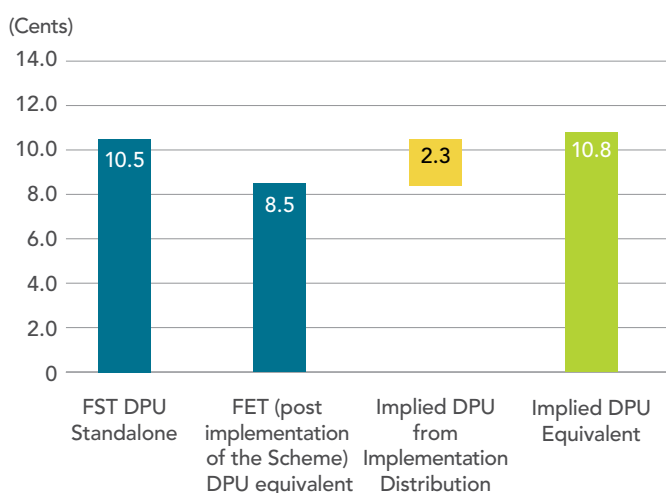
In interpreting the following, FST Unitholders should consider the following important information:

- Scheme Unitholders will receive a one-off Implementation Distribution of 67.5 cents paid by FST. Table 7.6.1 does not adjust for the cash consideration received as part of the Proposal. Tables 7.6.2 and 7.6.3 provide the pro forma impact of the Scheme adjusted for the Implementation Distribution; and
- FET is more liquid than FST and trades at a significant premium to its NTA reflecting the quality of its assets and the greater certainty regarding FET's capacity to pay future distributions.

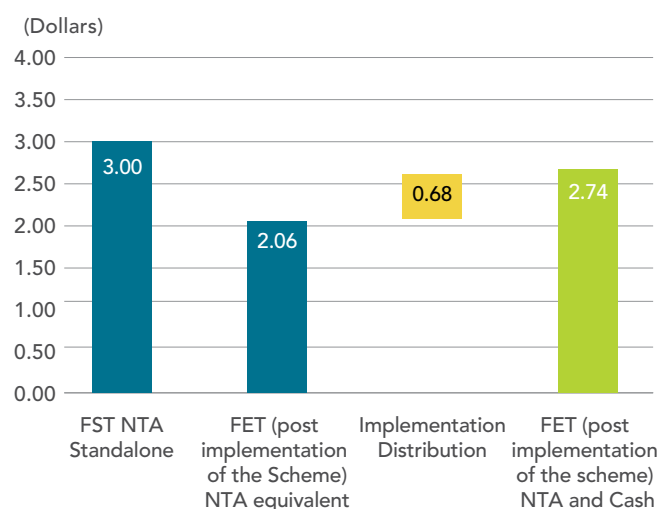
7.6.1 Impact of Scheme on Scheme Unitholders

Impact on FST Unitholders	FST standalone	FST (post completion of scheme)	Impact of Scheme on FST Unitholders	Impact of Scheme on FST Unitholders (%)
Distribution (cents per FST unit)	10.5	8.5	(2.03)	(19.3)
Pro forma NTA as at 30 June 2014 (\$)	3.00	2.06	(0.94)	(31.4)
Pro forma gearing as at 30 June 2014 (Drawn debt / Tangible assets) (%)	28.1	30.4	n/a	2.3

7.6.2 Adjusted Impact on Scheme Unitholders¹



7.6.2 Adjusted Impact on Scheme Unitholders²

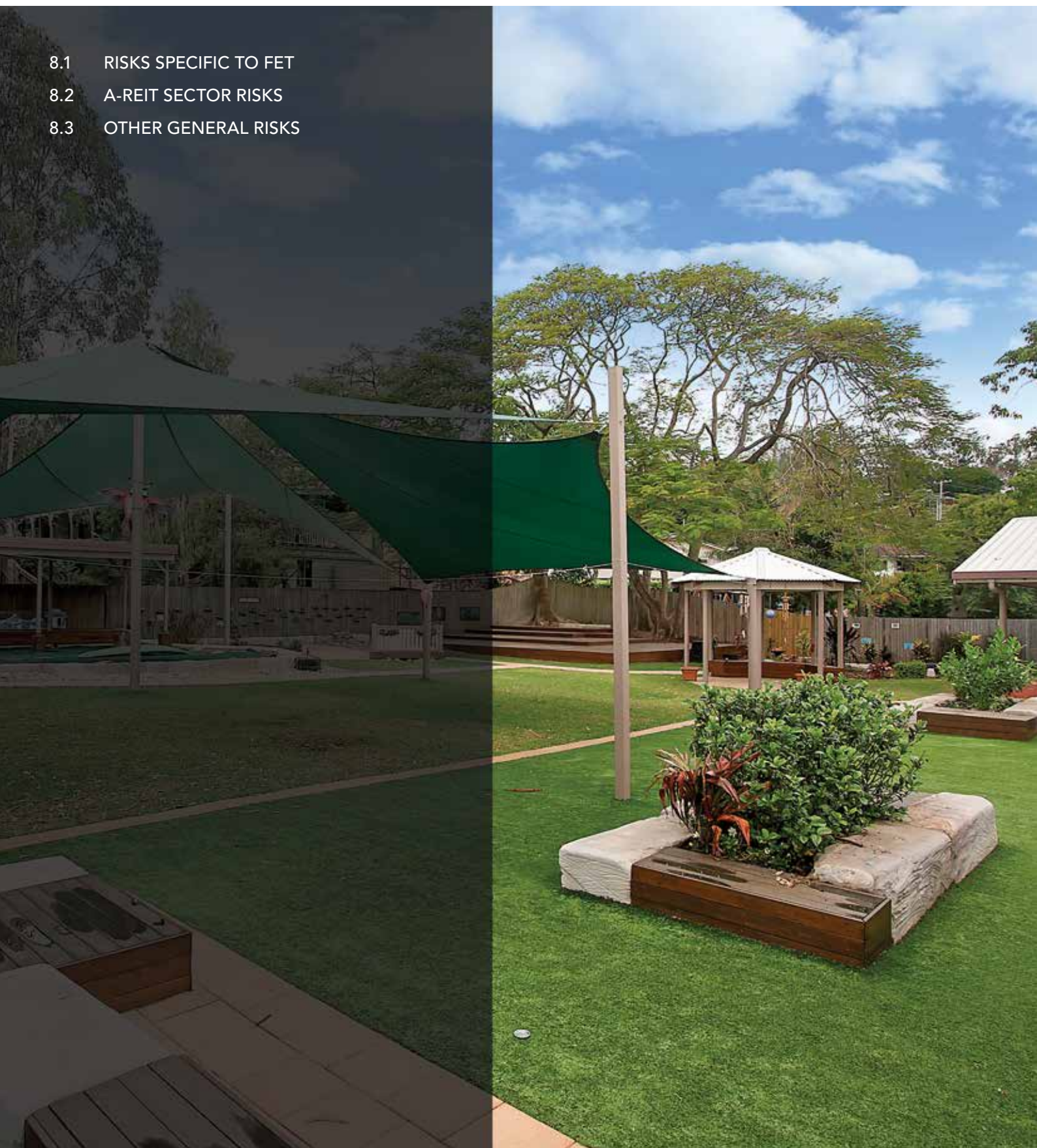


1. If FST Unitholders were to invest the Implementation Distribution at the equivalent annualised FET (post implementation of the Scheme) distribution yield of 6.8%, they would receive the equivalent of 2.3 cents in additional distributions for the second half of FY15. The combined forecast distribution of FET and implied return from cash proceeds of the Implementation Distribution would, on an equivalent FST unit basis, exceed FST forecast distribution, on a standalone basis over the same period.

2. However, this does not take into account the Implementation Distribution of 67.5 cents per FST Unit that Scheme Unitholders will receive if the Proposal proceeds. The combined NTA per equivalent FST Unit of \$2.74 and Implementation Distribution of 67.5 cents represents a 9% reduction from the current pro forma NTA of FST of \$3.00.

8. RISKS

- 8.1 RISKS SPECIFIC TO FET
- 8.2 A-REIT SECTOR RISKS
- 8.3 OTHER GENERAL RISKS



If the Proposal is implemented, Scheme Unitholders (other than Foreign Unitholders) will receive New FET Units.

Scheme Unitholders should be aware that there are a number of risks associated with investing in New FET Units which could impact on the price of New FET Units going forward. There are many risk factors that could adversely affect FET's financial performance, financial position and cash flows including:

- risks that are specific to FET's existing business and which will therefore be risks to which Scheme Unitholders will be exposed;
- general business risks common to A-REITs; and
- other general risks.

The risks identified in this Section 8 are not exhaustive and do not take into account individual Scheme Unitholders' investment objectives, financial situation, tax position or particular needs. They are some of the key risks which are known to FST and FET as at the date of this Explanatory Memorandum. No assurances or guarantees of the future performance of, profitability of, or payment of distributions by FET are given.

8.1 RISKS SPECIFIC TO FET

8.1.1 Early Learning Centre and Property Market Risks

Both FST and FET's earnings will be subject to the prevailing property market conditions. Adverse changes in prevailing market sentiment in the early learning sector which FST or FET operates or invests may adversely affect earnings. These factors may adversely affect the value of, and returns generated from, property investments undertaken by either FST or FET from time to time, and may influence the acquisition of properties, the timing and value of sales, and the carrying value of projects and income producing assets. Factors which may adversely impact early learning property sector include changes in law and government policy, changes to subsidies, regulation risk and assessment and rating and the outcome of the Productivity Commission Inquiry into Childcare and Early Childhood Learning.

8.1.1.1 Changes in Law and Government Policy

The early learning industry in Australia is heavily regulated by each level of government. The state and territory governments are responsible for the issue of licenses to operate an early learning business and determine the standards that operators must meet in order to obtain and retain a license. Any addition or change in interpretation of laws, government policy or to the regulation imposed by any of the levels of government could affect the operation of the centres and could impact on the profitability of tenants of FET and FST.

8.1.1.2 Changes to Subsidies

Government subsidies through the Child Care Benefit and Child Care Rebate scheme represent a significant portion of the revenue of FET and FST's tenants. This subsidy is reviewed each year in the Federal Budget and any reduction may have a

significant adverse impact on the operations of the tenants of FET and FST, including impacting the underlying demand for early learning services. This may affect tenants' ability to meet lease obligations and/or tenants' demand for early learning assets.

8.1.1.3 Regulation Risk and Assessment and Rating

The regulation and availability of the Child Care Benefit scheme is dependent upon individual early learning centres being registered within the National Quality Framework. The assessment and rating process and receipt of government subsidies involves regular review by representatives of the Australian Children's Education and Care Quality Authority, including inspections of early learning centres, the quality of services provided and facilities. Negative evaluation could result in loss of this registration, licence and the withdrawal of government subsidies. This would have a negative impact on the operations and financial position of tenants of FET and FST including that if a tenant's licence is revoked, there is a risk that no suitably qualified replacement tenant may be found.

8.1.1.4 Productivity Commission Inquiry into Childcare and Early Childhood Learning

The Productivity Commission inquiry into Childcare and Early Childhood Learning has concluded with the final report sent to the Australian Government on 30 October 2014. The final report has not yet been released to the public by the Government. On 22 July 2014, the Commission released a draft report of its key findings and recommendations that it proposes to make to the Commonwealth Government, subject to public consultation. The Government is not obliged to accept any of the Commission's findings. The draft recommendations focus on enhancing early learning operations. It is not possible to determine what recommendations, if any, that the Government may finally adopt and what impact they may have on the sector. The draft recommendations are industry wide and are not location specific and could impact the profitability of tenants and FET and FST.

8.1.2 Concentration Risks

Both FST and FET's portfolio is highly concentrated in early learning centres and early learning development sites. Adverse events which occur in relation to the early learning property sector may result in general deterioration of tenants' ability to meet their lease obligations across the portfolio or to future growth prospect of the current portfolio.

After implementation of the Scheme, 63% of FET's portfolio will be leased to Goodstart Early Learning, by rental income. Any material deterioration in Goodstart Early Learning's operating performance may result in Goodstart Early Learning not being able to meet its lease obligations which could reduce FET's income. This risk is equally inherent with FST, with 67% of FST's portfolio leased to Goodstart Early Learning.

8. RISKS CONT.

8.1.3 Development Risk

FET carries on development activities. Development activities carry additional risks including delays in the completion of the development and cost overruns. Assets under development constitute only 4% of value of FET's investment portfolio and will not be a material contribution to revenue during the forecast period. FST Unitholders should note that this risk is inherent to FET and not FST which does not participate in developments.

8.1.4 Future Acquisitions

A key element of FIML's future strategy, as responsible entity of FET, will involve the acquisition of assets to add to FET's property portfolio. There are inherent risks in such acquisitions. These risks could include unexpected problems or other latent liabilities such as the existence of asbestos or other hazardous materials or environmental liabilities.

8.1.5 Availability of Capital

Real estate investment is highly capital intensive. FET's ability to raise funds in the future on favourable terms depends on a number of factors including general economic conditions, political, capital and credit market conditions, the reputation of FIML, performance of FET's portfolio and financial strength of FET. Many of these factors are outside FIML's control and may increase the cost and availability of capital.

8.1.6 Refinancing Requirements

FET is exposed to risks relating to the refinancing of existing debt instruments and facilities. FET (post implementation of the Scheme) will have debt facilities with NAB and ANZ, each expiring in mid 2017. There is a risk that FET will be unable to refinance these debt facilities or such facilities may be refinanced in less favourable terms.

FET manages its refinancing exposure through adopting a conservative approach to capital management, including the use of a target gearing ratio of between 30 and 40% and allowing for sufficient head room relative to key loan covenants.

8.1.7 Interest Rate Risk

FET's interest cost on floating rate debt will increase if benchmark interest rates increase. This would reduce earnings and cashflow available for distribution to security holders.

FET manages its exposure to adverse fluctuations in floating interest rates by entering into interest rate hedging instruments, however the impact of interest rate hedging may be negative, depending on the extent, timing or direction of movements in underlying rates.

8.1.8 Impact of Financing Covenants

FET has various covenants in relation to its banking facilities, including:

- a balance sheet gearing covenant of 50%; and
- a minimum interest cover ratio of 2.0 times.

In the event that these covenants are breached, financiers may seek to exercise enforcement rights under debt documentation. As a result of the implementation of the scheme, FET's gearing will reduce from 31.0% to 30.4%, well within FET's existing covenants.

Factors such as falls in asset values, depreciation of the Australian dollar and the inability to achieve timely asset sales at prices acceptable to FET could lead to a breach in debt covenants. In such an event, FET's lenders may require their loan to be repaid immediately.

In addition, the consent of FST's and FET's financiers to the Scheme is required under the terms of the relevant facilities and, accordingly, the Scheme is conditional upon these consents being obtained. Based on FREML's and FIML's discussions with its financiers to date, FREML expects that all relevant consents will be obtained from its financiers shortly and, in any event, prior to the date of the Meeting.

8.1.9 Employees

FIML as responsible entity for FET is reliant on retaining and attracting quality senior executives and other employees. The loss of the services of any of FIML's senior management or key personnel, or the inability to attract new qualified personnel, could adversely affect FET's on-going management.

8.1.10 Financial Forecasts

There is a risk that the assumptions in the financial information in this Explanatory Memorandum may not materialise, such that the forecast earnings and distributions may differ materially from those set out in Section 7.

8.1.11 Impact of Foreign Exchange Movements on Assets, Liabilities and Gearing

Through its exposure to New Zealand assets or liabilities, FET is exposed to movements in the value of foreign currencies. Adverse movements in the value of the Australian dollar relative to the New Zealand dollar may impact the Australian dollar value of FET's earnings. Adverse movements in the Australian dollar value of FET's foreign currency denominated assets and liabilities may also impact NTA and gearing levels.

FET does from time to time enter into foreign currency hedging arrangements, however FET does not presently have any foreign currency hedges in place. The impact of foreign currency hedging may be negative, depending on the extent, timing or direction of movements in underlying currencies. There can be no assurance that FET will not be adversely impacted by future movements in foreign exchange rates or that if it does have hedges in place that they will be effective.

8.1.12 Taxation

Changes in tax law (including goods and services taxes and stamp duties), or changes in the way taxation laws are interpreted in the various jurisdictions in which FET operates, may impact the tax liabilities of FET. Under current income tax legislation, 'flow-through' trusts are generally not liable for

Australian income tax, including capital gains tax, provided security holders are presently entitled to all of the income of those trusts each year. Should the actions or activities of a 'flow-through' trust (or their controlled entities) result in the relevant trust falling within the operative provisions of Division 6B or 6C of the Income Tax Assessment Act 1936 (Cth), the relevant trust would be taxed on its net income at the corporate income tax rate which is currently 30%.

8.2 A-REIT SECTOR RISKS

8.2.1 Risks Associated with Property Investment Activities

A-REITs have a number of property investments. Generally property investment activities have a number of risks including uncertainty around the returns from property investment assets, leasing and tenant default risks, liquidity risks and changes in asset values.

8.2.1.1 Returns from Investment

Returns from property investment assets largely depend on the rental income generated from the property and the expenses incurred in the operation of that property, including the management and maintenance of the property as well as the changes in the market value of the property. Factors which may adversely impact these returns include:

- the overall conditions in the national and local economy, such as changes to growth in gross domestic product, employment, inflation and interest rates;
- local real estate conditions, such as changes in the demand and supply for retail, office, industrial or hotel/tourism assets or rental space;
- changes in demand resulting in a downturn in the early learning industry, which may affect revenue and/or occupancy levels in early learning properties;
- the perception of prospective tenants regarding attractiveness and convenience of assets;
- the convenience and quality of properties;
- changes in tenancy laws;
- external factors including war, terrorist or force majeure events;
- unforeseen capital expenditure;
- supply of new properties and other investment assets; and
- investor demand/liquidity in investments.

8.2.1.2 Leasing terms and tenant defaults

The future financial performance of A-REITs will largely depend on their ability to lease properties that become vacant on expiry of leases, on economically favourable terms. Insolvency or financial distress of any of tenants may reduce the income received from the assets.

8.2.1.3 Liquidity of property investments

The nature of investments in property assets may make it difficult to generate liquidity in the short term if there is a need to respond to changes in economic or other conditions.

8.2.1.4 Asset Values

Asset values are affected by many factors including prevailing market conditions, risk appetite, volume of sales, the ability to procure tenants, contracted rental returns, operating, maintenance and refurbishment expenses and the funding environment. Asset value declines may have an impact on gearing levels and their proximity to covenant limits.

8.2.2 Counterparty / Credit risk

A-REITs are exposed to the risk that third parties, such as tenants, developers, service providers and financial counterparties to derivatives (including foreign exchange and interest rate hedging instruments) and other contracts may not be willing or able to perform their obligations.

8.2.3 Fixed Nature of Costs

Many costs associated with the ownership and management of property assets are fixed in nature. The value of assets may be adversely affected if the income from the asset declines and these fixed costs remain unchanged.

8.2.4 Capital Expenditure

A-REITs are exposed to the risk of unforeseen capital expenditure requirements in order to maintain the quality of the buildings and tenants.

8.2.5 Insurance

A-REITs purchase insurance, customarily carried by property owners, managers, developers and construction entities that provides a degree of protection for its assets, liabilities and people. Such policies include material damage of assets, contract works, business interruption, general and professional liability and workers compensation. There are however certain risks that are uninsurable (e.g. nuclear, chemical or biological incidents) or risks where the insurance coverage is reduced (e.g. cyclone, earthquake).

A-REITs also face risk associated with the financial strength of their insurers to meet indemnity obligations when called upon which could have an adverse effect on earnings.

8.2.6 Regulatory Issues and Changes in Law

A-REITs are exposed to the risk that there may be changes in laws that have a materially adverse impact on financial performance (such as by directly or indirectly reducing income or increasing costs).

8. RISKS CONT.

8.2.7 Competition

A-REITs face competition from within the A-REIT sector, and also operates with the threat of new competition entering the market. The existence of such competition may have an adverse impact on A-REIT's ability to secure tenants for its properties at satisfactory rental rates and on a timely basis, or the pricing of construction projects or development opportunities which in turn may impact on A-REIT's financial performance and returns to its investors.

8.2.8 Environmental

A-REITs are exposed to a range of environmental risks which may result in project delays or additional expenditure. In such situations, they may be required to undertake remedial works and potentially be exposed to third party liability claims and/or environmental liabilities such as penalties or fines.

8.3 OTHER GENERAL RISKS

8.3.1 General Economic Conditions

FET's financial performance, and the market price of FET Units, is influenced by a variety of general economic and business conditions, including the level of inflation, interest rates, exchange rates, commodity prices, ability to access funding, oversupply and demand conditions, government fiscal, monetary and regulatory policy changes in gross domestic product and economic growth, employment levels and consumer spending, consumer and investment sentiment and property market volatility. Prolonged deterioration in any or all of these conditions, an increase in the cost of capital or a decrease in consumer demand, could have a materially adverse impact on FET's financial performance. This risk is heightened in the current uncertain economic environment.

8.3.2 Inflation

Higher than expected inflation rates generally or specific to the property sector could be expected to increase operating costs and development costs.

8.3.3 Litigation and Disputes

Disputes or litigation may arise from time to time in the course of business activities. There is a risk that material or costly disputes or litigation could adversely affect financial performance and security value of FET.

8.3.4 Occupational Health and Safety

Failure to comply with the necessary occupational health and safety legislative requirements across the jurisdictions in which FET operates could result in fines, penalties and compensation for damages as well as reputational damage.

8.3.5 Market Risks

Investors should be aware that the market price of FET Units and the future distributions made to FET Unitholders may be influenced by a number of factors that are common to most listed investments, some of which are beyond FIML's control. At any point in time, these may include:

- the Australian and international economic outlook;
- movements in the general level of prices on international and local equity and credit markets;
- changes in economic conditions including inflation, recessions and interest rates;
- changes in market regulators' policies and practice in relation to regulatory legislation;
- changes in government fiscal, monetary and regulatory policies; and
- the demand for FET Units.

The market price of FET Units may therefore not reflect the underlying NTA of FET.

8.3.6 Other Factors

Other factors that may impact on FET's performance include changes or disruptions to political, regulatory, legal or economic conditions or to the national or international financial markets including as a result of terrorist attacks or war.



9. INDEPENDENT EXPERT'S REPORT





Folkestone Social Infrastructure Trust
Independent expert's report and Financial Services Guide
November 2014

9. INDEPENDENT EXPERT'S REPORT CONT.



Financial Services Guide

What is a Financial Services Guide?

This Financial Services Guide (FSG) provides important information to assist you in deciding whether to use our services. This FSG includes details of how we are remunerated and deal with complaints.

Where you have engaged us, we act on your behalf when providing financial services. Where you have not engaged us, we act on behalf of our client when providing these financial services, and are required to give you an FSG because you have received a report or other financial services from us.

What financial services are we licensed to provide?

We are authorised to provide financial product advice and to arrange for another person to deal in financial products in relation to securities, interests in managed investment schemes, government debentures, stocks or bonds and related regulated emissions units (i.e., carbon) to retail and wholesale clients.

Our general financial product advice

Where we have issued a report, our report contains only general advice. This advice does not take into account your personal objectives, financial situation or needs. You should consider whether our advice is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is provided to you in connection with the acquisition of a financial product you should read the relevant offer document carefully before making any decision about whether to acquire that product.

How are we and all employees remunerated?

We will receive a fee of approximately \$185,000 exclusive of GST in relation to the preparation of this report. This fee is not contingent upon the success or otherwise of the Proposal between Folkestone Social Infrastructure Trust and Folkestone Education Trust (the Proposal) or the proposed sale by the Folkestone Social Infrastructure Trust of units in Folkestone Education Trust to Folkestone Limited.

Other than our fees, we, our directors and officers, any related bodies corporate, affiliates or associates and their directors and officers, do not receive any commissions or other benefits.

All employees receive a salary and while eligible for annual salary increases and bonuses based on overall performance they do not receive any commissions or other benefits as a result of the services provided to you. The remuneration paid to our directors reflects their individual contribution to the organisation and covers all aspects of performance.

We do not pay commissions or provide other benefits to anyone who refers prospective clients to us.

Associations and relationships

We are ultimately controlled by the Deloitte member firm in Australia (Deloitte Touche Tohmatsu). Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu.

Deloitte is the auditor of Folkestone Real Estate Management Limited (the Responsible Entity of Folkestone Social Infrastructure Trust), Folkestone Investment Management Limited (the Responsible Entity of Folkestone Education Trust) and Folkestone Limited (the purchaser of units in Folkestone Education Trust from Folkestone Social Infrastructure Trust). In November 2013, Deloitte prepared an independent expert's report for Folkestone Investment Management Limited, as responsible entity for Folkestone Childcare Trust, in relation to Folkestone Education Trust's acquisition of Folkestone Childcare Trust. We have concluded that this does not cause us a conflict of interest because in the past two years Deloitte Corporate Finance Pty Limited (and other entities related to Deloitte Touche Tohmatsu) have not undertaken any work on behalf of Folkestone Social Infrastructure Trust and Folkestone Education Trust, the entities subject to the Proposal. Therefore there is no relationship in relation to Folkestone Social Infrastructure Trust and Folkestone Education Trust which would restrict us from properly exercising our duties in relation to this report.

What should you do if you have a complaint?

If you have any concerns regarding our report or service, please contact us. Our complaint handling process is designed to respond to your concerns promptly and equitably. All complaints must be in writing to the address below.

If you are not satisfied with how we respond to your complaint, you may contact the Financial Ombudsman Service (FOS). FOS provides free advice and assistance to consumers to help them resolve complaints relating to the financial services industry. FOS' contact details are also set out below.

The Complaints Officer	Financial Ombudsman Services
PO Box N250	GPO Box 3
Grosvenor Place	Melbourne VIC 3001
Sydney NSW 1220	info@fos.org.au
complaints@deloitte.com.au	www.fos.org.au
Fax: +61 2 9255 8434	Tel: 1300 780 808
	Fax: +61 3 9613 6399

What compensation arrangements do we have?

Deloitte Australia holds professional indemnity insurance that covers the financial services provided by us. This insurance satisfies the compensation requirements of the Corporations Act 2001 (Cth).

1 February 2013

Deloitte Corporate Finance Pty Limited, ABN 19 003 833 127, AFSL 241457 of Level 1 Grosvenor Place, 225 George Street, Sydney NSW 2000

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Member of Deloitte Touche Tohmatsu Limited



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The Independent Directors
Folkestone Real Estate Management Limited, as responsible entity
for the Folkestone Social Infrastructure Trust
Level 12
15 William Street
Melbourne VIC 3000

21 November 2014

Dear Independent Directors

Independent expert's report

Introduction

On 13 November 2014 Folkestone Real Estate Management Limited (**FREML**), as the responsible entity for Folkestone Social Infrastructure Trust (**FST**), announced a proposal under which Folkestone Education Trust (**FET**) would acquire 100% of the units in FST (**the FST Units**) by way of a trust scheme (**the Proposal or the Scheme**). If the Proposal is approved, holders of FST Units resident in Australia and New Zealand (**Eligible Unitholders**) will receive total consideration comprising:

- cash of \$0.675 per FST Unit to be paid prior to the FST Units being transferred to FET (**Implementation Distribution**)
- 1.32 securities in FET for every 1 FST Unit held (**the Scheme Consideration**)

(collectively, the **Transaction Value**).

Holders of FST Units resident outside of Australia and New Zealand (**Foreign Unitholders**) are not eligible to receive the Scheme Consideration under the Proposal. The FET units to which Foreign Unitholders would otherwise be entitled will be issued to a sale nominee to be disposed of on behalf of the Foreign Unitholders, and the proceeds from the disposal of the Scheme Consideration will be paid to the Foreign Unitholders.

In addition to the Transaction Value, Eligible Unitholders and Foreign Unitholders (collectively, the **FST Unitholders**) will also be entitled to receive their full distribution for the quarter ending 31 December 2014, which is expected to be 5.25 cents per FST Unit (**Final Distribution**).

FST has entered into conditional agreements to dispose of the Glen Iris Storage Facility for \$11.7 million net of costs to a third party acquirer, and separately to dispose of its holding of 9,035,268 FET units (**the FET Units**) to Folkestone Limited (**Folkestone**) at a unit price of \$1.857 (**the FET Unit Sale**). The proceeds from the sale of the FET units will be used to fund the Implementation Distribution, whilst the proceeds from the sale of the Glen Iris Storage Facility will be used to reduce debt once the Proposal has been implemented. Both sales are conditional on the Proposal proceeding.

All of the resolutions set out below must be passed by the requisite majority of FST Unitholders in order for the Proposal to be implemented:

- *Resolution 1:* an ordinary resolution whereby FST Unitholders are being asked to approve the Scheme, including for the purposes of Item 7, Section 611 of the Corporations Act, the acquisition by FET of 100% of the FST Units, defined above as the Proposal
- *Resolution 2:* a special resolution whereby FST Unitholders are being asked to approve certain amendments to the FST constitution which are necessary in order to effect the Scheme on the proposed terms
- *Resolution 3:* an ordinary resolution whereby FST Unitholders are being asked to approve the sale of the FET units to Folkestone for the purpose of Australian Securities Exchange (**ASX**) Listing Rule 10.1 and for all other purposes.

Upon completion of the Proposal, FST would become a wholly owned subsidiary of FET.

Member of Deloitte Touche Tohmatsu Limited

9. INDEPENDENT EXPERT'S REPORT CONT.



The independent directors of FST (the **Independent Directors**) have prepared an explanatory memorandum containing the detailed terms of the Proposal and FET Unit Sale (the **Explanatory Memorandum**) and an overview of the Proposal and FET Unit Sale is provided in Section 1 of our detailed report.

Purpose of the report

Whilst an independent expert's report in respect of the Proposal is not required to meet any statutory obligations, the Independent Directors have requested that Deloitte Corporate Finance provide an independent expert's report advising whether, in our opinion, the Proposal is fair and reasonable to, and in the best interests of, Non-Associated FST Unitholders¹.

Guidance Note 15, issued by the Takeovers Panel, in relation to Trust Scheme Mergers (**Guidance Note 15**) states that an expert's report prepared for a trust scheme merger should include a statement indicating whether, in the expert's opinion, the terms of the trust scheme are fair and reasonable for the holders of the target other than the acquirer and its associates, comparable to a Chapter 6 of the Corporations Act takeover bid. However, Guidance Note 15 also contemplates that it is not uncommon for the expert to opine on whether the transaction is in the best interests of holders.

Chapter 10 of the Listing Rules of the ASX (the **Listing Rules**) requires, when the disposal of a substantial asset to related parties is proposed, the preparation of a report by an independent expert stating whether the proposed transaction is fair and reasonable to the security holders not associated with the transaction. The Independent Directors have requested that Deloitte Corporate Finance also provide an opinion as to whether the FET Unit Sale contemplated in Resolution 3 is fair and reasonable to Non-Associated FST Unitholders.

This report is to be included in the Explanatory Memorandum to be sent to FST Unitholders in relation to the Proposal (consistent with Guidance Note 15) and the FET Unit Sale (consistent with the Listing Rules) and has been prepared for the exclusive purpose of assisting Non-Associated FST Unitholders in their consideration of the Proposal and FET Unit Sale.

Neither Deloitte Corporate Finance, nor Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than the FST Unitholders and FST, in respect of this report, including for any errors or omissions however caused.

We set out below our basis of evaluation of the Proposal and our basis of evaluation of the FET Unit Sale.

Basis of evaluation of the Proposal

Guidance

In undertaking the work associated with this report, we have had regard to ASIC Regulatory Guide 111 in relation to the content of expert's report, ASIC Regulatory Guide 112 in respect of the independence of experts and Guidance Note 15.

ASIC Regulatory Guide 111

This regulatory guide provides guidance in relation to the content of independent expert's reports prepared for a range of transactions.

ASIC Regulatory Guide 111 refers to a 'control transaction' as being the acquisition (or increase) of a controlling stake in a company that could be achieved, for example, by way of a takeover offer, scheme of arrangement, approval of an issue of shares using item 7 of section 611 of the Corporations Act, a selective capital reduction or selective buy back under Chapter 2J of the Corporations Act.

In respect of control transactions, under ASIC Regulatory Guide 111 an offer is:

- fair, when the value of the consideration is equal to or greater than the value of the units subject to the Proposal. The comparison must be made assuming 100% ownership of the target company (i.e. including a control premium)
- reasonable, if it is fair, or, despite not being fair, after considering other significant factors, unitholders should accept the offer under the Proposal, in the absence of any higher bids before the close of the offer.

¹ Non-Associated FST Unitholders comprise holders of FST Units that are not associated with the Proposal and the FET Unit Sale



According to ASIC Regulatory Guide 111, if an expert were to conclude that a proposal was ‘fair and reasonable’, it will also be able to conclude that the proposal is in the best interests of the members of the entity. If an expert were to conclude that the proposal was ‘not fair but reasonable’, it is open to the expert to conclude whether the proposal is in the best interests of the members of the entity. If the expert concludes that the proposal is neither fair nor reasonable then the expert would conclude that the proposal is not in the best interests of members of the entity.

To assess whether the Proposal is in the best interests of FST Unitholders, we have adopted the tests of whether the Proposed Scheme is either fair and reasonable, not fair but reasonable, or neither fair nor reasonable, as set out in ASIC Regulatory Guide 111.

Fairness

The units in FST have been valued at fair market value, which we have defined as the amount at which the units would be expected to change hands between a knowledgeable and willing but not anxious buyer and a knowledgeable and willing but not anxious seller, neither of whom is under any compulsion to buy or sell. Special purchasers may be willing to pay higher prices to reduce or eliminate competition, to ensure a source of material supply or sales, or to achieve cost savings or other synergies arising on business combinations, which could only be enjoyed by the special purchaser. Our valuation of units in FST has not been premised on the existence of a special purchaser.

We have assessed whether the Proposal is fair by comparing the value of an FST Unit with the value of the Transaction Value. We have assessed the value of each unit by estimating the current value of FST on a control basis and dividing this value by the number of units on issue. We have assessed the value of the Scheme Consideration by estimating the value of a unit in FET following the implementation of the Proposal (**New FET**) on a minority basis and applying the ratio of FET units to be received for each FST Unit. We have then added the value derived for the Scheme Consideration to the value of the Implementation Distribution to derive the value of the Transaction Value.

Reasonableness

ASIC Regulatory Guide 111 considers an offer in respect of a control transaction, to be reasonable if either:

- the offer is fair
- despite not being fair, but considering other significant factors, shareholders should accept the offer in the absence of any higher bid before the close of the offer.

Summary and conclusion

In our opinion the Proposal is fair and reasonable to, and therefore in the best interests of, FST Unitholders. In arriving at this opinion, we have had regard to the following factors.

The Proposal is fair

According to ASIC Regulatory Guide 111, in order to assess whether the Proposal is fair, the independent expert is required to compare the fair market value of a unit in FST on a control basis with the fair market value of the Transaction Value under the Proposal. The Proposal is fair if the value of the consideration is equal to or greater than the value of the securities subject to the offer.

Set out in the table below is a comparison of our assessment of the fair market value of an FST Unit with our assessment of the fair market value of the Transaction Value.

Table 1

	Low	High
Fair market value per FST Unit (on a control basis)	\$2.72	\$2.87
Fair market value of the Transaction Value per FST Unit	\$3.12	\$3.25

Source: Deloitte Corporate Finance analysis

Note:

1. All amounts stated in this report are in Australian dollars (AUD) unless otherwise stated and may be subject to rounding

As the Transaction Value is above the range of our estimate of the fair market value of an FST Unit it is our opinion that the Proposal is fair.

9. INDEPENDENT EXPERT'S REPORT CONT.



Valuation of an FST Unit

For the purpose of assessing the fair market value of an FST Unit on a control basis, we have used the net assets on a going concern approach, which estimates the fair market value of FST by aggregating the fair market value of its assets and liabilities. The most significant factor impacting our estimate of the fair market value of an FST Unit is the underlying values of the properties held by FST (the **FST Properties**). We have cross-checked the reasonableness of our assessed fair market value of FST based on an analysis of the recent trading in FST Units and by comparing our valuation to earnings multiples, distribution yields and asset based parameters implied by the trading of publicly listed comparable entities.

Our assessment of the fair market value of FST's net assets has been based on the audited balance sheet as at 30 June 2014, adjusted to reflect the current fair market values of FST's assets and liabilities. The fair market value of the FST Properties is based on detailed valuations for each of FST's 49 properties: 23 properties have been independently valued by appraisers as at 31 October 2014, two as at 30 September 2014 and the remaining 24 properties have been valued by management and adopted by the board of directors of FST as at 30 June 2014. As set out in section 5.5 of the Explanatory Memorandum, the directors of FST note that there have been no material changes to the financial position of FST from 30 June 2014 except as otherwise noted therein. All of the FST Properties have been independently valued within the last two years. We have reviewed the most recent valuations of the FST Properties and have concluded that these valuations are an appropriate estimate of the current fair market value of the FST Properties.

FST also held various security investments as at 30 June 2014. With the exception of the investment in the Folkestone CIB Fund, FST has either divested, or entered into an agreement to divest, all security investments since 30 June 2014. We have assessed the value of the units in the Folkestone CIB Fund based on its net tangible asset (NTA) value per unit as at 30 June 2014.

Set out below is a summary of our assessment of the value of an FST Unit on a net assets on a going concern basis. Refer to Section 7 for further details.

Table 2

	Unit	Low	High
Book value of net assets of FST as at 30 June 2014	\$'million	79.7	79.7
Fair market value adjustments			
Changes in value of the FST Properties	\$'million	3.6	3.6
Changes in value of the listed investments	\$'million	1.9	2.8
Profit on sale of the unlisted investments	\$'million	0.3	0.3
Management fees	\$'million	(5.6)	(2.2)
Removal of responsible entity fee	\$'million	(1.8)	(1.8)
Transaction costs	\$'million	(0.6)	(0.6)
Fair market value of FST	\$'million	77.4	81.7
Number of FST Units	million	28.45	28.45
Fair market value per unit (on a control basis)	\$	2.72	2.87

Source: Deloitte Corporate Finance analysis



Valuation of the Transaction Value

We have valued the Transaction Value at between \$3.12 and \$3.25 per unit, as is set out in the table below.

Table 3

	Unit	Section	Value of consideration	
			Low	High
Value of a unit in New FET	\$	8.1	1.85	1.95
Consideration ratio	times		1.32	1.32
Scheme Consideration per FST Unit	\$		2.44	2.57
Implementation Distribution	\$		0.675	0.675
Transaction Value per FST Unit	\$		3.12	3.25

Source: Deloitte Corporate Finance analysis

With regard to the value of a unit in New FET, we would traditionally consider the trading in an acquirer's securities subsequent to the announcement of a transaction to be an appropriate reference point of the value of securities in a proposed merged entity. However, in this instance, we consider any market re-rating or synergies² arising as a result of the Proposal, are not likely to have a material impact on the security price of FET, due to the relative scale of FET's operations and asset base compared to those of FST. Further to this, in the relatively short period of trading between the announcement of the Proposal on 13 November 2014 and 19 November 2014, there has been a 3% increase in the FET Unit price³, however, the FET Unit price is still trading within the price range of an FET Unit observed prior to announcement of the Proposal.

We have assessed the value of a unit in New FET based on an analysis of recent trading in FET units.

Regardless of the outcome of the Proposal, the price of FET units will vary in the future, based on market movements, fluctuations in property prices, demand and supply of early learning centres, and changes in FET's specific circumstances.

The valuation of a unit in New FET has been assessed on a minority interest basis as, if the Proposal is approved, FST Unitholders will hold a portfolio interest, and therefore will become minority unitholders in New FET.

The Proposal is reasonable

In accordance with ASIC Regulatory Guide 111 an offer is reasonable if it is fair. On this basis, in our opinion the Proposal is reasonable. We have also considered the following factors in assessing the reasonableness of the Proposal.

² As set out in Section 7.2 of our Report, we estimate there are likely to be cost synergies of the Proposal in relation to a reduction in management fees. Mitigating these cost synergies are the transaction costs to be incurred by New FET

³ Based on the movement in the closing price of an FET Unit on 12 November 2014 and 19 November 2014

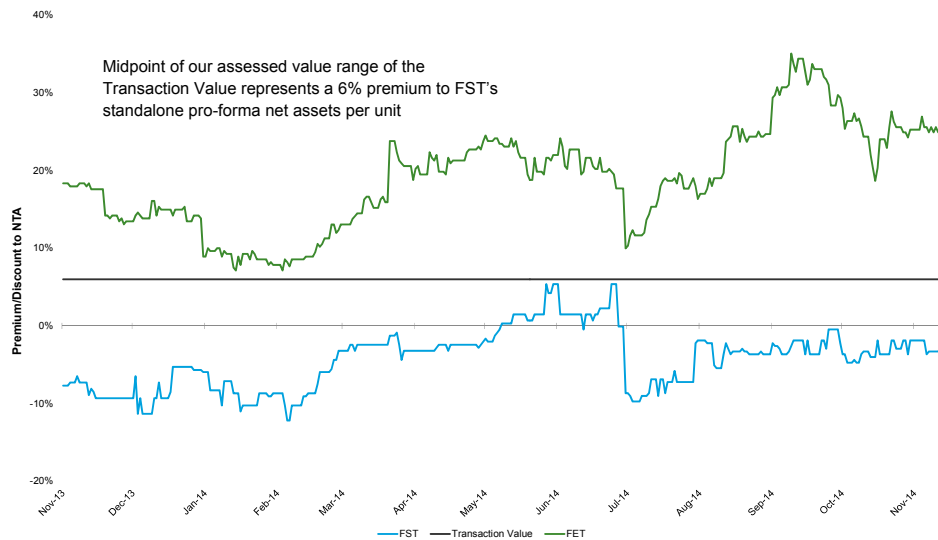
9. INDEPENDENT EXPERT'S REPORT CONT.



The Proposal enables FST Unitholders to realise a premium to NTA for their FST Units

FST has historically traded at a discount to NTA whereas FET has, in particular more recently, traded at a premium to NTA, as outlined in the figure below.

Figure 1



Source: Deloitte Corporate Finance analysis, CapitalIQ

The mid-point of our assessed value range of the Transaction Value of \$3.18 implies a premium of 6% to FST's standalone pro-forma net assets of \$3.00 as set out in Section 5.5.

Accounting net asset per unit reduction

The pro-forma⁴ accounting net assets per FST Unit was \$3.00 as at 30 June 2014. The equivalent pro-forma accounting net assets per New FET unit post the implementation of the Proposal will be approximately \$2.06, which represents a 31% decrease relative to FST on a stand-alone basis.

However, in addition to the New FET units, FST Unitholders will receive a one off Implementation Distribution of \$0.675 per unit. The decrease in accounting net assets narrows to a 9% reduction when the Implementation Distribution is taken into account.

As the Transaction Value represents a premium to our estimate of the fair market value of an FST Unit, the trading price of an FST Unit prior to the announcement of the Proposal and the pro-forma net assets of a FST Unit of \$3.00, we consider this outweighs any reduction in pro-forma accounting net assets on per unit basis.

Other financial consequences

Other financial consequences of the Proposal for FST Unitholders include the following. A summary of various financial metrics of FST, FET and New FET is set out in Section 5.

Distributions per unit

On a standalone basis, FST is forecasting distributions of 21.0 cents per unit for FY 2015, of which 5.25 cents has been paid and an additional 5.25 cents is scheduled to be paid for the quarter ending 31 December 2014.

⁴ Pro-forma adjustments reflect material movements in the financial statements of FST and FET since 30 June 2014, and the anticipated acquisition accounting adjustments in New FET as set out in the Explanatory Memorandum



As set out in section 7 of the Explanatory Memorandum, the forecast earnings/distributions of New FET from 1 January 2015 to 30 June 2015 is estimated at 8.5 cents per New FET unit compared to 10.5 cents per FST Unit on a standalone basis. This represents a 2.0 cent per unit reduction in forecast earnings for the second half of FY 2015. However, FST Unitholders will also be entitled to receive the Implementation Distribution of 67.5 cents if the Proposal proceeds.

In the event that FST Unitholders were to acquire additional New FET units with the proceeds of the Implementation Distribution, based on the equivalent annualised earnings yield of New FET of 6.8%, FST Unitholders would receive the equivalent of 2.3 cents in additional earnings for the second half of FY 2015. This would imply a distribution of 10.8 cents per equivalent FST Unit for the half year of FY 2015, or 0.3 cents per unit above the forecast distribution of FST on a stand-alone basis.

Book value gearing

The pro-forma book value gearing of FST is 28.1% on a standalone basis. The equivalent pro-forma book value gearing of New FET will be approximately 30.4%. Whilst an increase in gearing, it is still within covenant limits.

In the absence of the Proposal units in FST may trade below current levels

Over the six months to the date of the announcement of the Proposal, FST Units have traded with a daily VWAP in the range of \$2.52 per unit to \$2.75 per unit. The closing unit price on the day prior to the announcement of the Proposal was \$2.72 per unit. Since the announcement of the Proposal on 13 November 2014 to 19 November 2014, FST's units have traded in the range of \$2.93 to \$3.15 per unit, an increase of 8 % to 16 % compared to the closing unit price prior to the announcement of the Proposal.

It is common for the security price of a target entity the subject of a takeover offer or a change of control transaction to trade at or around the offer price during the offer period, particularly if the market has formed the view that the transaction will proceed at that price. It is also not uncommon for the price to fall back to pre-announcement levels or lower in the event that the offer is unsuccessful.

In the absence of an alternative offer and in the event that the Proposal is unsuccessful, FST's unit price may decline to the levels achieved prior to the announcement of the Proposal.

The Proposal is conditional on all resolutions being passed

The Proposal is conditional on all resolutions being passed by the requisite number of FST Unitholders. In the event that one of the resolutions is not passed, the Proposal will not proceed.

As the Proposal is conditional on the FET Unit Sale proceeding, to the extent that FST Unitholders want the Proposal to proceed, FST Unitholders will need to approve the FET Unit Sale. In addition, the Implementation Distribution to be paid out of the proceeds of the Proposed Sale of the FET Units will not be paid unless the Proposal is successful.

Further, in the event that the Proposal does not proceed, the Glen Iris storage facility will not be sold based on the current agreement. It may be retained or sold at a later date, however it may not achieve the same price or be sold within the same timeframe contemplated under the current conditional agreement.

No superior alternatives to the Proposal

As at the date of our independent expert's report, FST had not received any alternative offers for its issued capital.

In addition, we have also considered the alternatives available to FST if the Proposal does not proceed. In particular we have considered the following:

Seek to maximise yields on the existing assets and/or undertake future acquisitions

FST could continue to seek to maximise yields on its existing investment portfolio, however in the absence of divesting lower quality properties and re-investing the proceeds in higher yielding properties, returns to FST Unitholders are likely to be limited to increases in the value of the underlying property and securities investment portfolio.

Alternatively, FST could seek to acquire additional properties to increase the size of its property portfolio. As Australian real estate investment trusts (**A-REITs**) typically operate as a pass through for tax purposes and therefore distribute income to unitholders, acquisitions are generally funded by way of a capital raising or an increase in gearing. An increase in gearing may expose FST to greater financial risk due to the uncertainty in debt servicing costs and future property valuations. Given FST's size and scale it is likely that in order to generate sufficient support, additional units in FST may need to be offered at a significant discount to NTA to raise significant capital, thus diluting existing FST Unitholders, particularly those that do not participate.

9. INDEPENDENT EXPERT'S REPORT CONT.



FST is also likely to face competition from larger funds, such as FET, and private investors who have different funding costs, availability of funds and risk appetites; potentially enabling them to offer higher prices.

Managed wind-up

A managed wind-up may involve a lengthy process and receipt of the net proceeds would be subject to the timing of the sale of the FST Properties. Further, the quantum of proceeds to be realised will not be certain since:

- the FST Properties are primarily located in South-East Queensland. This may necessitate a prolonged sales process to progressively sell assets whilst maintaining competitive tension due to market concentration which may otherwise adversely impact the prices achieved. This may result in additional costs being incurred and more uncertainty in respect of the prices that can be realised for individual assets
- once a wind-up strategy is initiated, FST may be seen as a forced seller which may negatively impact the sales prices which could be achieved. Furthermore, FST Properties in prime locations are likely to be realised first which may result in FST retaining ownership of less desirable assets for an extended period of time
- FST will incur significant fees associated with a managed wind-up process such as cost of sales fees (estimated at 2.5% of sale proceeds) to cover agents' commission, advertising and legal costs. In addition, under the terms of the FST constitution, FREML is entitled to receive a disposal fee of 2% of the gross selling price provided it is above the purchase price of the property sold by FST
- the timing and completion of an orderly wind-up is uncertain. In particular, the distribution of the final proceeds to FST Unitholders would be unlikely to occur until the majority of the assets were sold as the proceeds from asset sales would firstly be used to repay the outstanding bank debt. During this period, FREML has stated that it is unlikely that distributions would be paid to FST Unitholders.

Portfolio sale

Whilst it may also be possible to divest the entire portfolio of the FST Properties in 'one-line' to either an individual acquirer or a consortium, there are significant uncertainties as to whether this would be achievable as:

- early learning is a niche asset class with a limited number of potential investors. Whilst the portfolio could be acquired by an incumbent or a new entrant to the market, there are uncertainties and impediments; in particular a number of the other investors such as Arena REIT (**Arena**) are diversifying into other asset classes and may not have the appetite to acquire such a portfolio, particularly since the geographic concentration may dilute the relative attractiveness of their existing portfolio, whilst new entrants may not have sufficient funds to undertake a large scale acquisition
- there is no certainty that any such portfolio sale would occur at a premium to, or equal to, NTA.

We are of the view that none of the alternatives presented above is likely to realise greater value for FST Unitholders than that pursuant to the Proposal, particularly after considering the relative risks and costs associated with each of the alternatives.

Change in the investment profile of the trust from a social infrastructure fund to a fund specialising in early learning centre investments

If the Proposal proceeds, there will be a change in the investment profile of assets currently held by FST Unitholders. FET's current business model is focused exclusively on early learning centres, whilst FST holds a more diverse portfolio of assets comprised of early learning centres, a medical centre, a self-storage centre and investments in other social infrastructure funds, including FET and the Folkestone CIB Fund.

As set out in the Section 6.3 of the Explanatory Memorandum, if the Proposal is approved, FET intends to continue owning FST's early learning centres whilst periodically assessing opportunities to divest the remaining interest in the Folkestone CIB Fund, and the medical centre property at Melton, which are considered non-core to FST's operations. The divestment of the interest in Folkestone CIB Fund and the medical centre are not expected to occur in the short term.

It is possible that the composition of this more focused investment portfolio may not suit individual investors' preferences, in particular, investors who sought to gain exposure to more diverse social infrastructure investments.

Deferral of responsible entity removal fee

If the Proposal proceeds, FREML will be entitled to receive certain fees in the event that it is removed as the responsible entity of FST. As set out in Section 1 of the Explanatory Memorandum, FREML has agreed to a deferral of this payment, estimated at \$1.8 million, until such time as the responsible entity of FET is no longer a member of the Folkestone group.



Foreign Unitholders are unable to participate in the Proposal

Foreign Unitholders are not entitled to receive New FET units as consideration for their FST Units. New FET Units to which Foreign Unitholders are entitled will be sold under a nominee sale procedure set out in section 3.4 of the Explanatory Memorandum. Consequently, these Foreign Unitholders will be unable to participate in the future growth associated with the New FET, unless they subsequently purchase shares in the New FET on market.

Tax implications

Subject to individual circumstances, if the Proposal is implemented, FST Unitholders may incur a tax expense or realise a capital gain/loss. However, FST Unitholders may benefit from scrip for scrip roll-over relief for the Scheme Consideration. FST Unitholders should consult their tax advisor in relation to their personal circumstances, as a result of the Proposal. Further details of the tax implications to Unitholders are set out in section 10 of the Explanatory Memorandum.

Other fees

In the event the Proposal is not implemented and FST subsequently completes a transaction (within a specified period), other than the Proposal, FST is required to pay FET a reimbursement fee. The reimbursement fee is for reasonable costs and expenses actually incurred by FET in connection with the Proposal up to \$350,000 (excluding GST) as set out in section 11.24.6 of the Explanatory Memorandum.

In the event the Proposal is implemented, FST will incur additional costs associated with the Proposal related to advisor costs of \$0.6 million. These costs are likely to be paid by New FET.

Conclusion on reasonableness

On balance, in our opinion, the Proposal is reasonable.

Opinion

In our opinion, the Proposal is fair and reasonable to, and in the best interests of, Non-Associated FST Unitholders.

Basis of evaluation of the FET Unit Sale

In undertaking the work associated with our opinion on the Proposed Sale of the FET Units, we have had regard to ASIC Regulatory Guides 111 and 112 and the Listing Rules.

In order to assess whether the FET Unit Sale is fair and reasonable to Non-Associated FST Unitholders we have:

- assessed whether the FET Unit Sale is fair by comparing the consideration being offered by Folkestone with the fair market value of the FET Units. The transaction is fair if the value of the consideration offered by Folkestone is equal to or greater than the value of the FET Units
- assessed the reasonableness of the FET Unit Sale by considering other consequences of the FET Unit Sale for Non-Associated FST Unitholders.

Summary and conclusion

In our opinion the FET Unit Sale is fair and reasonable to Non-Associated FST Unitholders. In arriving at this opinion, we have had regard to the following factors.

The FET Unit Sale is fair

Set out in the table below is a comparison of our assessment of the fair market value of an FET Unit with the consideration being offered by Folkestone.

Table 4

	Section	Low	High
Fair market value per FET unit (on a minority basis)	8.1	\$1.85	\$1.95
Consideration offered by Folkestone per FET unit	1.0	\$1.86	\$1.86

Source: Deloitte Corporate Finance analysis

9. INDEPENDENT EXPERT'S REPORT CONT.



To assess the fair market value of an FET unit, we have had regard to our valuation of a New FET unit set out in Section 8. The FET Unit Sale is conditional upon the Proposal becoming effective, and will occur immediately following the FST Unitholder meeting⁵. Therefore FST will be selling and Folkestone will receive units in New FET, as opposed to units in FET on a standalone basis. In the event the Proposal is unsuccessful, the FET Unit Sale will not occur. Therefore, we consider our valuation of a New FET unit to be an appropriate measure of value for an FET unit the subject of the FET Unit Sale. Further to this, as the FET Unit Sale relates to the sale of approximately 4.4% of the units in FET, we consider it appropriate to value these securities on a minority interest basis, as this transaction is not deemed to be a control transaction under ASIC Regulatory Guide 111.

The consideration offered by Folkestone per FET Unit is \$1.86 as set out in Section 1 of the Explanatory Memorandum.

As the consideration offered by Folkestone for the FET Units is within the range our estimate of the fair market value of an FET Unit, albeit towards the lower end of our assessed value range of an FET Unit, it is our opinion that the FET Unit Sale is fair.

The FET Unit Sale is reasonable

In accordance with ASIC Regulatory Guide 111 an offer is reasonable if it is fair. On this basis, in our opinion the FET Unit Sale is reasonable. We have also considered the following factors in assessing the reasonableness of the FET Unit Sale.

The FET Unit Sale is conditional on all resolutions being passed and the Proposal proceeding

The FET Unit Sale is conditional on all resolutions being passed by the requisite number of FST Unitholders and the Proposal proceeding. To the extent that FST Unitholders want the FET Unit Sale to proceed, FST Unitholders will need to approve the Proposal. Non-Associated FST Unitholders should also have regard to the reasonableness factors outlined above in respect of the Proposal.

Fair value may not be realised in an on-market transaction

FST holds approximately 4.4% of the units in FET. Given the lower liquidity of FET Units relative to the securities of its listed peers, under normal market circumstances, it is unlikely that the sale of a stake of this size in a listed security could be achieved in a reasonable timeframe without placing downward pressure on the unit trading price. As such, the sale to Folkestone provides an opportunity for FST to realise full value for its investment in FET units.

Further to this, FST will not incur any brokerage costs on the FET Unit Sale. If the FET Units were divested on market, brokerage costs may be incurred.

Alternatives

If the FET Unit Sale does not proceed, FST will continue to hold the units in FET and receive future distributions from FET.

If the FET Unit Sale and the Proposal do not proceed, FST may be able to divest its FET Units on market at a later date. However, the price at which it will be able to divest these units will depend on the future market unit trading price of FET, and investor appetite for the sale of a stake of this size.

Conclusion on reasonableness

On balance, in our opinion, the FET Unit Sale is reasonable.

Opinion

In our opinion, the FET Unit Sale is fair and reasonable to Non-Associated FST Unitholders.

⁵ The FET Unit Sale will occur immediately following the FST Unitholder meeting scheduled for 19 December 2014, or such other date as FREML and Folkestone agree in writing, if the Proposal has become effective



Individual circumstances

An individual unitholder's decision in relation to the Proposal and the FET Unit Sale may be influenced by his or her particular circumstances. If in doubt the unitholder should consult an independent adviser, who should have regard to their individual circumstances.

Our opinions should be read in conjunction with our detailed report which sets out our scope and findings.

Yours faithfully

DELOITTE CORPORATE FINANCE PTY LIMITED

Rachel Foley-Lewis
Authorised Representative
AR number: 461000

Robin Polson
Authorised Representative
AR number: 461010

9. INDEPENDENT EXPERT'S REPORT CONT.

Glossary

Reference	Definition
\$	Australian Dollars
ABC Learning	ABC Learning Centres Limited
ABS	Australian Bureau of Statistics
ANZ	Australia and New Zealand Banking Group
APESB	Accounting Professional and Ethical Standards Board Limited
APGF	Australian Property Growth Fund
A-REIT	Australian real estate investment trust
Arena	Arena REIT
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
AUASB	Auditing and Assurance Standards Board
AUD	Australian dollars
CCB	Child Care Benefit
CCR	Child Care Rebate
CPI	Consumer Price Index
Cth	Commonwealth
DEEWR	Department of Education, Employment and Workplace Relations
Deloitte	Deloitte Touche Tohmatsu
Deloitte Corporate Finance	Deloitte Corporate Finance Pty Limited
EBIT	Earnings before interest and tax
Eligible Unitholders	Holders of FST Units resident in Australia and New Zealand
Explanatory Memorandum	Booklet containing detailed terms of the Proposal prepared by FREML, as responsible entity of FST
FET	Folkestone Education Trust
FET Properties	354 properties owned by FET
FET Units	9,035,268 units in FET
FET Unit Sale	The proposed sale of FET Units contemplated in resolution 3 of the Proposal
FIML	Folkestone Investment Management Limited
Final Distribution	5.25 cents per FST Unit
Folkestone	Folkestone Limited
Foreign Unitholders	Holders of FST Units not resident in Australia and New Zealand
FOS	Financial Ombudsman Service
FREML	Folkestone Real Estate Management Limited
FSG	Financial Services Guide
FST	Folkestone Social Infrastructure Trust
FST Properties	47 early learning centres, a medical centre and a self-storage facility owned by FST
FST Unitholders	Eligible and Foreign Unitholders
FST Units	The units in FST
FY	Financial year
G8 Education	G8 Education Limited
Goodstart	Goodstart Early Learning Limited
GST	Goods and Service Tax
Guidance Note 15	Issued by the Takeovers Panel, in relation to Trust Scheme Mergers
Implementation Distribution	Cash consideration comprising a special distribution of \$0.675 per FST Unit
Independent Directors	Independent directors of FST
Listing Rules, the	Chapter 10 of the Listing Rules of the ASX
New FET	Merged entity comprising FET and FST post Proposal

Reference	Definition
NAB	National Australia Bank
Non-Associated FST Unitholders	FST Unitholders not associated with Proposal and FET Unit Sale
NQS	National Quality Standards
NTA	Net tangible assets
Proposal, the	The proposed acquisition by FET of all the FST Units by way of a trust scheme in return for the Transaction Value
Scheme Consideration	1.32 securities in FET for every 1 FST Unit held
Stockland Direct	Stockland Direct Retail Trust No. 1
Transaction Value	The Scheme Consideration plus the Implementation Distribution
VWAP	Volume Weighted Average Price
WALE	Weighted average lease expiry

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1 Overview of the Proposal and the FET Unit Sale

1.1 Summary

On 13 November 2014 FREML, as the responsible entity for FST, announced a Proposal under which FET would acquire 100% of the units in FST by way of a trust scheme.

Under the Proposal, the Transaction Value will comprise:

- an Implementation Distribution of \$0.675 per FST Unit to be paid prior to the FST Units being transferred to FET pursuant to the Proposal
- the Scheme Consideration of 1.32 securities in FET for every 1 FST Unit held.

In addition to the Transaction Value, FST Unitholders will also receive the full distribution for the quarter ending 31 December 2014, which is expected to be 5.25 cents per FST Unit.

FST has entered into conditional agreements to dispose of the Glen Iris Storage Facility for \$11.7 million net of costs to a third party acquirer, and separately to dispose of its holding of 9,035,268 FET Units to Folkestone at a unit price of \$1.857. The sale of the FET Units will be used to fund the Implementation Distribution, whilst the sale of the Glen Iris Storage Facility will be used to reduce debt once the Proposal has been implemented. Both sales are conditional on the Proposal proceeding.

The Independent Directors of FST unanimously recommend that FST Unitholders vote in favour of the Resolutions in the absence of a superior proposal.

1.2 FET intentions if the Proposal is approved

Upon completion of the Proposal, FST would become a wholly owned subsidiary of FET and would subsequently be delisted from the ASX. In addition, it is proposed that FIML, the responsible entity of FET, will replace FREML as responsible entity of FST.

If the Proposal is approved, FET intends to continue owning FST's early learning centres whilst periodically assessing opportunities to divest the remaining interest in the Folkestone CIB Fund and the medical centre property at Melton, which are considered non-core to FST's operations. The divestment of the interest in Folkestone CIB Fund and the medical centre are not expected to occur in the short term.

1.3 Conditions

The Proposal and the FET Unit Sale is subject to all of the resolutions set out below being passed by the requisite majority of FST Unitholders:

- *Resolution 1:* an ordinary resolution whereby FST Unitholders are being asked to approve the Scheme, including for the purposes of item 7, section 611 of the Corporations Act, the acquisition by FET of 100% of the FST Units
- *Resolution 2:* a special resolution whereby FST Unitholders are being asked to approve certain amendments to the FST constitution which are necessary in order to effect the Scheme on the proposed terms
- *Resolution 3:* an ordinary resolution whereby FST Unitholders are being asked to approve the FET Unit Sale for the purpose of ASX Listing Rule 10.1 and for all other purposes.

Full details of the Proposal, including additional conditions, are provided in the Explanatory Memorandum.

2 Australian early learning industry

In the following sections we set out an overview of the Australian early learning industry which is primarily comprised of child care services provided to children under the age of 12 through day-care, occasional care and outside school hours care.

2.1 Overview

The Australian early learning industry is a growing aspect of Australia's social infrastructure. Demand for early learning services is strong with 52.2%⁶ of all Australian children attending some form of childcare. Further, the proportion of children under the age of four using formal childcare has increased from 24% in 1996 to 37% in 2011⁷.

The industry has undergone significant change over the past decade as a result of a combination of factors, including Australian Government regulatory change, benefit schemes and the collapse of ABC Learning Centres Limited (**ABC Learning**) in 2008.

After the collapse of ABC Learning there was a shift in the structure of the industry which saw the not-for-profit sector increase its market share to approximately 35% of the market, an increase of over 10%⁸. Investment in the industry was also affected with negative market sentiment in the period after the collapse resulting in potential investors (as operators and owners of child care facilities) being more hesitant to invest in the early learning property sector. This adverse sentiment has since improved.

Investment in early learning centres is expected to remain strong, particularly within the sub \$3 million price bracket due to better liquidity in comparison to larger investment properties. These centres appeal to a broader range of market participants, in particular private investors, looking for the security and yield offered by social infrastructure assets relative to traditional retail and residential property. There has been a trend towards private investors and syndicates becoming more active in the early learning investment market as a result of an increasing ability to borrow at low interest rates and the inclination of private investors to utilise a higher proportion of equity/cash deposits than that of investment companies. In addition, the child care sector is underpinned and supported by Government, and is expected to continue to grow in line with labour force participation, providing ongoing demand for facilities going forward.

2.2 Demand drivers

The principal drivers of demand in the Australian early learning industry include a range of macroeconomic factors such as:

- **population growth:** in particular for children less than 14 years of age as this will drive demand for early learning services. As seen in the figure below, Australia has experienced steady growth in the national birth rate, with the 2012 rate at an all-time high of 309,582⁹ registered births, an increase of 2.6% on 2011¹⁰

⁶ Australian Bureau of Statistics (ABS): Childhood Education and Care, Australia, June 2011

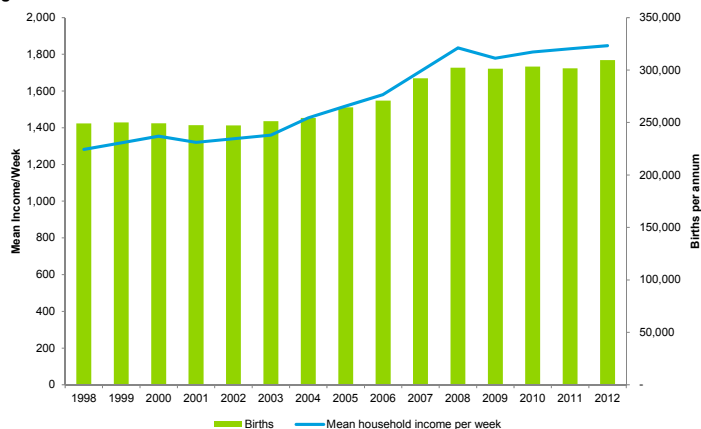
⁷ ABS: Childcare Education and Care, Australia, June 2011

⁸ Department of Education, Employment and Workplace Relations (DEEWR): Office of Early Childhood Education & Child Care: State of Child Care in Australia

⁹ ABS noted total births of 308,065 in 2013, however corresponding mean household income per week for 2013 has not been released by the ABS

¹⁰ ABS: Births, Australia, 2012

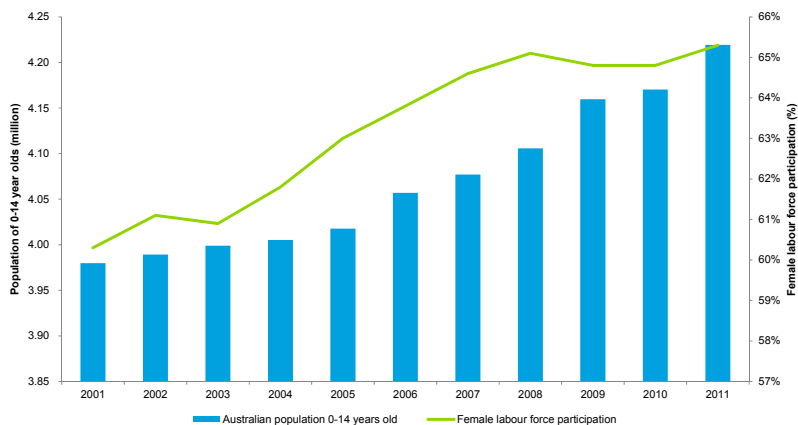
Figure 2



Source: ABS Australian Social Trends September 2012, ABS Household and Income Distribution August 2013

- household disposable income:** impacts the ability of families to afford early learning services. Households with higher disposable incomes are more likely to use and be able to afford childcare services, primarily attributable to both parents entering the workforce and therefore requiring child care services. As seen in the figure above, the Australian median household weekly income has increased from \$1,282 in 1998 to \$1,847 in 2012, representing growth of 44%. In 2010, more than 50% of parents with a combined weekly income in excess of \$2,000 accessed child care service compared to one quarter of families with a weekly income of less than \$800¹¹.
- unemployment rate:** the current levels of economic activity have seen national unemployment remain at low levels, currently 6.0%¹². Increasing instances of both parents being in the workforce increases the demand for child care services
- labour participation:** as seen in the figure below, the increasing participation of women in the labour force, from 60% in 2002 to 65.0%¹³ in 2012, has had a direct impact on demand for early learning services, with the proportion of children under the age of four using formal childcare increasing over the same period

Figure 3



Source: ABS Gender Indicators August 2014, ABS Australian Social Trends September 2012

11 IBIS World: Child care service in Australia, October 2014
 12 ABS: Labour Force, Australia, September 2014
 13 ABS: Gender Indicators, Australia, August 2014

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- **other behavioural and political factors including:**
 - **social assistance:** Government funding for the sector is targeted at aiding childcare affordability and is currently provided through the Child Care Rebate (CCR), the Child Care Benefit (CCB) scheme and tax rebates. Over 98%¹⁴ of eligible families receive financial assistance to improve the affordability of childcare services, encouraging greater participation in the workforce, thereby increasing demand in the sector. This is a key driver of demand for early learning and is discussed further below in Section 2.3
 - **perceived social benefits:** there is a growing recognition of the social, developmental and educational benefits of early learning for children between the ages of one and five years¹⁵.

2.3 Government funding

Government funding for the early learning industry is currently provided through the CCB and the CCR schemes.

The CCB scheme is a means tested scheme targeted towards low to mid income earners. CCB is available to parents who meet certain requirements, such as using an approved or registered early learning centre and meeting immunisation and residency requirements. During the 2014 financial year (FY 2014), the CCB scheme provided an estimated \$2.9 billion in Government assistance for 555,000 children¹⁶.

The CCR scheme provides a non-means tested payment that is available to all parents who have children in an early learning facility, subject to satisfying certain requirements, such as having work commitments when childcare is required. The rebate covers 50% of out of pocket child care expenses, capped at \$7,500 per child per year when using an approved early learning centre. The CCR can be paid directly to the childcare service, directly to a bank account or as an annual lump sum. The CCR scheme provided an estimated \$2.7 billion in Government assistance for 622,000 children (444,000 of whom also received CCB) during 2013-14¹⁷.

In addition to the \$2.9 billion spent on the CCB and \$2.7 billion spent on the CCR, the Government spends on average an estimated further \$1.0 billion on quality assistance programs.

The Government has also introduced the National Quality Standards (NQS) regulations designed to improve the quality of the early learning sector by imposing minimum quality standards. The requirements include, amongst other things, improved educator to child ratios, increased qualification requirements for educators and a national register to assess education and care service quality.

Government funding has become an increasingly important driver of demand in the early learning sector:

- Government funding equates to approximately \$7.0 billion per year and covers 65% to 70% of total early childhood education and care centre costs according to the Australian Government Department of Education
- the CCR was increased from 30% to 50% in FY 2009, resulting in enrolment growth of 8% and industry revenue growth of 13% for FY 2009¹⁸
- according to the Australian Government Department of Education, early childhood education centre expenditure is forecast to increase to over \$8.5 billion by 2017-18.¹⁹

The Federal Government announced that the Productivity Commission²⁰ will undertake a review of the Australian early learning industry by holding an inquiry into the current and future challenges facing childcare and early learning. The inquiry will focus on the affordability and accessibility of childcare and the educational outcomes for children. The Productivity Commission released a draft report in July 2014, which outlined the proposed recommendations to the Australian Government.

The draft report recommended the simplification of the assistance programs by combining the CCR and CCB schemes into one single child based subsidy to be known as the Early Care and Learning Subsidy. The commission also recommended further subsidy assistance for children with additional caring needs. The recommended changes to current Government funding are aimed at providing greater assistance to lower income families. The final report

¹⁴ IBIS World: Child Care Service in Australia, October 2014

¹⁵ Australian Institute of Health and Welfare 2011, National outcome measures for early childhood development — development of an indicator based reporting framework

¹⁶ Australian Government Productivity Commission – Childcare and Early Childhood Learning Draft Report July 2014

¹⁷ Australian Government Productivity Commission – Childcare and Early Childhood Learning Draft Report July 2014

¹⁸ Australian Government Productivity Commission – Childcare and Early Childhood Learning Draft Report July 2014

¹⁹ Australian Government Productivity Commission – Childcare and Early Childhood Learning Draft Report July 2014

²⁰ The Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians

was released to the Government on 31 October 2014 and is now subject to the Government tabling the report in each House of Parliament within 25 sitting days of receipt.

2.4 Overview of major participants in the early learning sector

The early learning industry is dominated by two major players including Goodstart Early Learning Limited (**Goodstart**) and G8 Education Limited (**G8 Education**) who operate 644 and 349 early learning centres in Australia, respectively. Due to the significant capital required to purchase property assets, these businesses typically operate on a long term lease model where investors (such as social infrastructure funds) acquire or develop purpose-built properties which are leased to centre operators under long term leases.

Major A-REITs that invest principally in early learning centres include FET (303 centres in Australia), Arena (176 centres) and FST (47 centres). Refer to Appendix D for an overview of the structure of the A-REIT sector.

The successful listing of the Arena (which invests in early learning and medical centres) in 2013 demonstrated the current interest in social infrastructure. Attractive lease terms (10+ years) and triple net lease structures providing investors with significant visibility over earnings and income security are likely to continue to attract investment.

There is greater demand for, than supply of, childcare places in certain locations, in particular inner urban areas where site availability is limited and outer urban areas where the supply of childcare places has not kept pace with demand resulting from a growing proportion of young families. This is expected to continue to drive investment in the sector.

Anecdotal evidence indicates that the current buoyant property market for longer term infrastructure investments, in particular in New South Wales and Victoria, has attracted significant interest from local and foreign investors looking for the security and yield offered by social infrastructure assets, such as early learning centres, relative to traditional retail and residential property. This increased demand may negatively impact property yields and limit the ability of specialised A-REITs to compete with other investors who have different investment criteria and lower yield expectations.

2.5 Outlook for the early learning industry

The general outlook for continued growth in early learning is positive, in particular:

- IBISWorld²¹ forecasts industry revenue to increase at an annualised 5.6% per annum between FY 2015 and FY 2020 due to enrolments growing in line with rising female workforce participation rates, increases in household disposable income, low unemployment and an increasing birth rate
- Government funding is expected to continue, and potentially increase, pending the outcome of the Productivity Commission review, particularly in light of the increasing cost of childcare for both households and operators and hence downward pressure on margins. If the Productivity Commission's recommendations are adopted, Government expenditure is expected to rise to approximately \$8 billion a year, with high income earners not receiving any Government assistance. The paid parental leave scheme is not expected to have an impact on demand in the industry as the leave allowance relates to the 18-week period following childbirth, a time when most parents would not use childcare services
- the population of children under the age of four years is expected to grow at 1.3% per annum over the five years to 2018²² indicating a base level of support for greater demand for childcare services
- there is a growing recognition that accessible, affordable and flexible childcare is fundamental in supporting women remaining in, or returning to, the workforce and bridging the productivity gap in Australia.

However, some risks may exist:

- as the industry transitions to meet the requirements under the new NQS, profitability is expected to be negatively impacted particularly by wage increases as a result of the introduction of increased levels of staff qualifications and higher staff-to-child ratios
- any adverse implications from the Productivity Commission review.

²¹ IBIS World: Child care service in Australia, October 2014

²² Deloitte Access Economics, Business Outlook September 2013

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CONT.

3 Profile of Folkestone Social Infrastructure Trust

3.1 Introduction

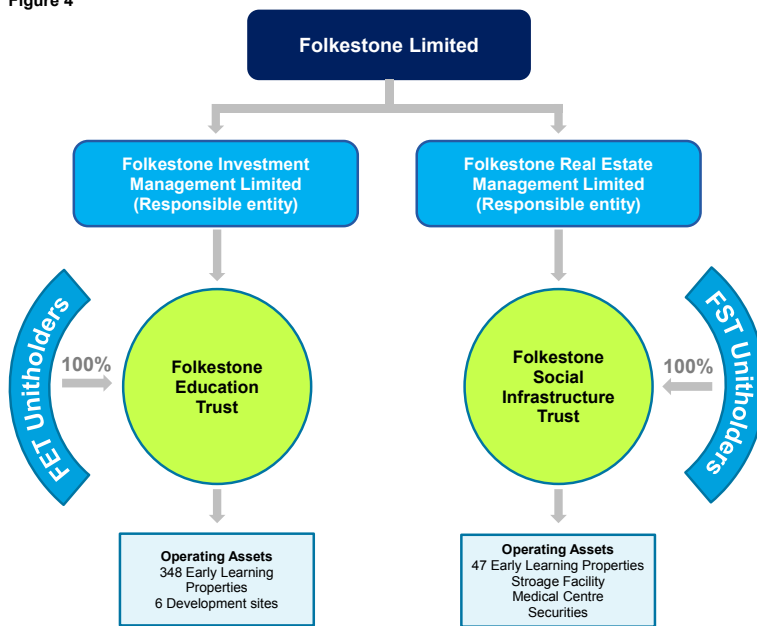
FST is an ASX listed A-REIT established in 2000 and listed on the ASX in February 2011. FST primarily invests in properties within the early education, government and healthcare sectors. In June 2014, FST changed its name from the Australian Social Infrastructure Fund to FST. As at 30 June 2014, FST reported \$116.1 million in total assets consisting of an Australian property portfolio of 47 early learning centres, a self-storage facility and a medical centre (the **FST Properties**) and a portfolio of securities in various listed and unlisted property trusts, including FET.

FST's major tenant is Goodstart which leases 83% of its early learning centres (by number) which represents approximately 67% of the value of the FST Properties as at 31 October 2014.

3.2 Legal structure

The figure below sets out the group structure for FST and FET.

Figure 4



Source: FST management

Descriptions of the major entities in this group are set out below.

Folkestone

Folkestone is a real estate funds manager, investor and developer with approximately \$813 million of funds under management. Folkestone specialises in Australian real estate and invests across a number of sectors including office, retail, residential and social infrastructure. Folkestone listed on the ASX in 2000.

FREML

FREML is a wholly owned subsidiary of Folkestone and acts as the responsible entity for FST. FREML was previously owned by Austock Group Limited and was acquired by Folkestone Limited in September 2012.

Management fees

As the responsible entity for FST, FREML is entitled to receive the following fees:

- a base management fee of 1.0% per annum of the gross asset value of FST, which is calculated and payable monthly
- reimbursement for all expenses reasonably and properly incurred in relation to FST or in performing its obligations under FST's constitution
- 2.0% disposal fee in respect of the disposal of any property (excluding the FET units) based on the gross sale price of that property provided it exceeds the purchase price
- 2.0% acquisition fee in respect of the purchase of any property based on the gross acquisition price of that property
- a fee of 2.0% of the total asset value of FST in the event that FREML is removed as the responsible entity.

FST paid FREML management fees totalling \$1.23 million during FY 2014 (\$1.18 million in FY 2013).

FET/FIML

An overview of FET and FIML is set out in Section 4.

3.3 Overview of the FST Properties

Properties

FST's portfolio as at 31 October 2014 consisted of the following properties:

Table 5

Location / property type	Number of properties	WALE ¹ (years)	Carrying value (\$'million)	Average value per place (\$) ²	Weighted average capitalisation rate
Early learning properties					
Queensland	37	7.2	59.9	18,628	9.1%
Victoria	1	6.4	2.6	21,667	7.6%
Northern Territory	2	8.8	2.8	18,833	8.5%
Western Australia	3	8.2	4.5	20,599	8.1%
New South Wales	3	8.1	3.0	18,182	7.3%
South Australia	1	8.7	1.4	19,286	8.7%
Subtotal			74.2		
Other					
Self-Storage property	1	4.5	11.7	n/a	8.6%
Medical centre	1	0.8	7.4	n/a	8.1%
Total - All properties	49	6.5	93.3	n/a	8.9%

Source: FST management

Notes:

1. Weighted average lease expiry (WALE) by rental income has been calculated as at 31 October 2014
2. Average value per place is calculated as the carrying value of each early learning centre divided by the number of children the centre is permitted to care for, i.e. a 'place'

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FST's property portfolio by geographical location by number of properties (Figure 5) and asset diversification by value (Figure 6) as at 31 October 2014 is set out in the figures below.

Figure 5

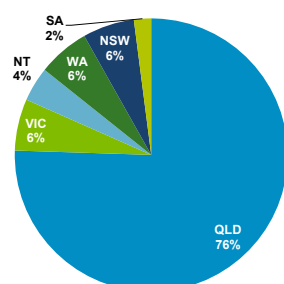
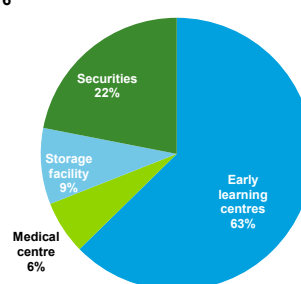


Figure 6



Source: FST management

We note the following in relation to the FST Properties:

- FST's property portfolio is highly concentrated geographically in metropolitan and regional metropolitan Queensland
- investment properties are carried at fair value on the balance sheet of FST. Fair value is determined based on both independent and directors' valuations of the individual properties. An independent valuation of each property is carried out at least once every three years, whilst directors' valuations are generally undertaken at each reporting date
- independent valuations of nine early learning properties were undertaken during FY 2014 and resulted in an increase in carrying value by approximately 10.5%, or \$1.4 million, whilst the remaining 38 early learning properties were revalued by the directors resulting in an increase in carrying value of approximately \$3.3 million, or 6.0%
- FST disposed of one early learning property during FY 2014 for total consideration of \$2.2 million
- subsequent to 30 June 2014, FST commissioned independent valuations for two properties as at 30 September 2014 and 23 properties as at 31 October 2014 which resulted in an increase of \$2.2 million, or 5%, in the value of these properties, whilst the Glen Iris storage facility has been revalued to \$11.7 million (net of disposal fees), an increase of \$1.3 million on its book value, based on a conditional sale agreement recently negotiated with an independent party
- all properties are currently fully occupied and the underlying early learning centre tenants have had consistent levels of occupancy in recent months.

Refer to Appendix B for a detailed summary of the FST Properties.

Tenant profile

FST currently has seven tenants occupying the properties as follows:

Table 6

Tenant	Number of properties	As a proportion of carrying value as at 31 October 2014
Early learning centres		
Goodstart	39	67%
Leading Child Care Pty Limited	4	5%
G8 Education	2	3%
Feng Holdings P/L	1	2%
Bright Horizons Australia Childcare Centres	1	2%
Other properties		
Guardian Storage Pty Limited	1	13%
Idameneo (No 123) Pty Limited (Primary Health)	1	8%
Total	49	100%

Source: FST management, Deloitte analysis

In respect of the tenants:

- the lease agreements require a security deposit or bank guarantee to secure performance of the tenant's obligations. The deposit or guarantee is typically 6 months of rent, plus outgoings and goods and services tax (GST). FST held \$4.8 million in deposits or bank guarantees as at 30 June 2014
- there are not currently, and have historically not been, any significant arrears issues with respect to the payment of rent by tenants
- Goodstart is the major tenant, holding 83% of the early learning properties in the portfolio which represents approximately 67% of the value of the property portfolio as at 31 October 2014. Goodstart is Australia's largest early learning and child care provider with approximately 644 early learning centres caring for 72,500 children as at 30 June 2014. Goodstart reported total revenue of \$872.2 million and earnings before interest and tax (EBIT) of \$27.6 million for the year ended 30 June 2014

Goodstart is a consortium of not-for-profit entities, including the Benevolent Society, the Brotherhood of St Laurence, Mission Australia and Social Ventures Australia, and was formed in 2009 following the collapse of ABC Learning. Goodstart acquired some 669 early learning centres previously operated by ABC Learning in December 2009

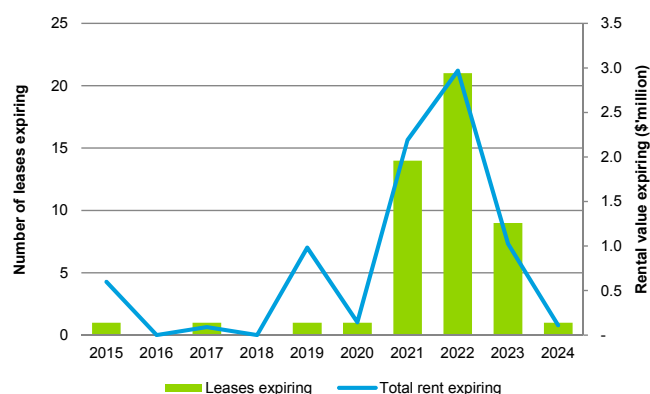
- Leading Child Care Pty Limited is a private Australian company that operates 21 early learning centres located throughout Queensland
- G8 Education is an ASX listed company that operates 349 early learning centres in Australia and 18 centres in Singapore as at the half year ended 30 June 2014. G8 Education was incorporated in 2006 and was listed on the ASX in 2010. G8 Education reported total revenue of \$275.2 million and EBIT of \$44.6 million for the year ended 31 December 2013.

9. INDEPENDENT EXPERT'S REPORT CONT.

Lease terms

FST has property leases with the operators of each of the early learning centres. The number of leases expiring in each year and the total rent associated with the leases expiring in each calendar year is presented in the figure below.

Figure 7



Source: 2014 Annual Report, Deloitte analysis

We note the agreed terms of the leases generally include the following:

- FST has negotiated triple-net leases with each tenant across the property portfolio, whereby the tenant is responsible for all operational outgoings, including maintenance and capital expenditure, in relation to the property, in addition to base rent. Base rent is generally payable on a monthly basis (in advance)
- initial lease terms are 10 years from commencement plus an option to extend for a further 10 year period. We note that all tenants have exercised the option to extend
- rental growth is typically indexed annually to the consumer price index (CPI) or, in some cases, 3.0%.

3.4 Overview of listed and unlisted securities

FST holds the following listed and unlisted securities:

Table 7

	Units (000s)	Carrying value as at 31 October 2014 (\$'000)
Listed securities		
FET	9,035	16,851 ¹
Unlisted securities		
Folkestone CIB Fund	4,138	7,945
Australian Property Growth Fund (APGF)	Note 2	200
Stockland Direct Retail Trust No. 1 (Stockland Direct)	3,000	2,220
Total		27,215

Source: FST management, October management accounts

Notes:

1. FET Units were marked to market as at 31 October 2014, as advised by FST management
2. Comprises 2,309,245 ordinary shares and 3,886,792 preference shares

We note the following in respect of FST's listed and unlisted securities portfolio:

- listed and unlisted securities are carried at fair value. Fair value of the listed securities is determined with reference to quoted market prices as at the reporting date, whilst the fair value of the unlisted securities is based on directors' valuations having regard to the net tangible assets and risk profile of each fund
- an overview of FET is set out in Section 4. During FY 2014, FST acquired an additional 1.3 million units in FET for total consideration of \$2.0 million (\$1.52 per unit) as part of a capital raising undertaken by FET. The FET Units had a carrying value of \$14.9 million as at 30 June 2014
- Folkestone CIB Fund is a closed wholesale unit trust with a property portfolio comprised of nine 24-hour police stations and two law court complexes. The Folkestone CIB Fund stopped distributions in FY 2012 to undertake capital improvements to its property portfolio, however, distributions re-commenced during FY 2014 resulting in FST receiving cash of \$0.4 million
- the investments in APGF and Stockland Direct with a combined carrying value of \$2.42 million as at 31 October 2014 were subsequently disposed of in November 2014 for total proceeds of \$2.68 million, net of costs.

3.5 Capital structure

3.5.1 Equity

The unitholders of FST are comprised of a combination of institutional and retail investors. Units of FST are widely held with the top ten unitholders holding 20.5% of the total units on issue. As at 31 July 2014, FST had 28.5 million units on issue held by 1,338 unitholders.

The following table summarises the top ten unitholders in FST as at 31 July 2014.

Table 8

Unit holder	Units	% of total units
JP Morgan Nominees Australia Limited	2,162,548	7.6%
One Managed Investment Funds Limited	1,000,000	3.5%
Bond Street Custodians Limited	467,089	1.6%
Redbrook Nominees Pty Limited	382,304	1.3%
Stanbox Pty Limited	370,000	1.3%
First Transnational Investment Corporation Pty Limited	361,981	1.3%
Acres Holdings Pty Limited	327,480	1.2%
Stormclassic Pty Limited	267,418	0.9%
Horrie Pty Limited	265,000	0.9%
Mr Louis Pierre Ledger	239,636	0.8%
Total – top ten FST unitholders	5,843,456	20.5%
Total - other FST unitholders	22,605,273	79.5%
Total units on issue	28,449,729	100.0%

Source: FST

FST has not issued any units in the last three years.

3.5.2 Debt

On 10 July 2014, FST amended its debt facility with the Australia & New Zealand Banking Group (ANZ) with an extension of the debt's maturity to June 2017 and improved pricing and loan covenant terms.

The key terms of the facility include:

- the facility is for \$34.3 million, of which \$33.3 million was drawn down as at 31 October 2014
- current all in cost of debt is 4.7% per annum

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- the following debt covenants:
 - interest cover ratio greater than 2.0 times (as at 30 June 2014, FST had an interest coverage ratio of 4.4 times)
 - loan to value ratio of less than 50.0% (as at 30 June 2014, FST had a loan to value ratio of 36.5%).

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

Table 9

Period	Hedge amount (\$'000)	Hedge rate (%)	Percentage hedged (%)
July 2014 - June 2015	14,000	3.42%	41%
July 2015 - June 2016	9,000	3.10%	26%
July 2016 - June 2017	5,000	3.06%	15%

Source: S&P Capital IQ, Deloitte Corporate Finance analysis

In addition, FST has an overdraft facility with ANZ of \$2.0 million for working capital purposes, of which \$0.63 million was utilised as at 31 October 2014.

3.6 Unit trading analysis

A summary of FST's quarterly unit price performance and volumes traded since the quarter ended 31 March 2012 is provided below.

Table 10

Quarter end	High ¹ (\$)	Low ¹ (\$)	VWAP (\$)	Cumulative volume ³ (million)	Cumulative volume (Percentage of units outstanding ²)
31 March 2012	1.65	1.49	1.57	0.72	2.5%
30 June 2012	1.80	1.63	1.69	0.44	1.6%
30 September 2012	1.90	1.70	1.78	0.47	1.7%
31 December 2012	1.94	1.80	1.88	0.65	2.3%
31 March 2013	2.16	1.85	2.05	1.34	4.7%
30 June 2013	2.25	2.05	2.16	1.74	6.1%
30 September 2013	2.35	2.08	2.21	1.71	6.0%
31 December 2013	2.41	2.20	2.27	1.28	4.5%
31 March 2014	2.54	2.25	2.40	0.68	2.4%
30 June 2014	2.70	2.48	2.56	0.98	3.5%
30 September 2014	2.79	2.53	2.69	1.99	7.0%
12 November 2014 ³	2.75	2.67	2.62	0.56	2.0%

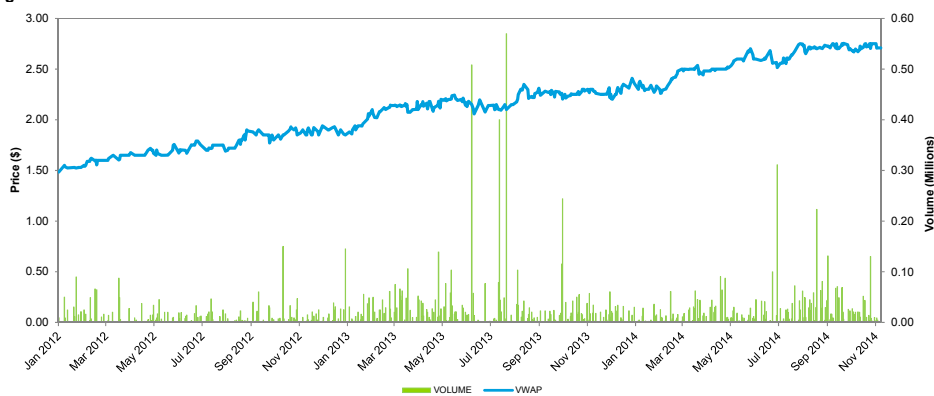
Source: S&P Capital IQ, Deloitte Corporate Finance analysis

Notes:

1. Lowest and highest unit price values during the corresponding quarter
2. As at each quarter end
3. Volume for the quarter to date to 12 November 2014

In the six month period to 30 September 2014 approximately 3.0 million units were traded. This equates to a total trading volume over the period of approximately 10.5% of issued units, which indicates that the market for units in FST is not highly liquid, as set out below.

Figure 8



Source: S&P Capital IQ, Deloitte Corporate Finance analysis

The movements in the trading price and volume of FST primarily reflects the release of half year and full year results and resulting change in the NTA of FST.

FST Unit price in comparison to its NTA per unit since January 2012 is presented in the figure below.

Figure 9



Source: S&P Capital IQ, Deloitte Corporate Finance analysis

As can be seen from the above chart, FST Units have generally traded at a discount to NTA per unit since January 2012; however that discount has been reducing over more recent times. We note that the A-REIT sector as a whole is trading at an average premium to NTA of 10%. Refer to Appendix C for an overview of sector NTA premiums and discounts.

Potential reasons for FST Units trading at a discount to NTA per unit are as follows:

- the market may be applying a lower value to the underlying properties held than that ascribed to the properties at each balance sheet date

9. INDEPENDENT EXPERT'S REPORT CONT.

- as FST has very limited analyst coverage due to its size and low levels of liquidity it is unlikely to be attractive to institutional investors, which are typically larger and more sophisticated investors, and which would improve FST's profile, liquidity and access to capital
- due to FST's scale it is unable to pursue growth opportunities without potentially diluting existing shareholders
- investors in FST Units may be applying a discount to NTA relative to other early learning centre trusts to reflect the concentration risk of FST's properties being primarily located in south-east Queensland. In addition, investors may be applying a discount to NTA to reflect uncertainty associated with realising the respective carrying values of the unlisted investments
- FST's management fee is 1.0% of total assets, which may be higher than the management fees charged to other A-REITs. A lower management fee would increase FST's distributions per unit
- FST is not a pure play early learning centre fund, as it holds a range of other social assets including the medical centre, self-storage facility and investments in retail property funds. Investors may view FST as a diversified fund and therefore not ascribe the same level of premium inherent in the specialised funds presented in Appendix C
- investors may be applying a discount to NTA to reflect the selling and disposal costs that would be incurred in the event that FST is wound-up.

However, we note recently the discount to NTA implicit in the unit trading price of FST has narrowed. This could, inter alia, relate to investors' perceptions around future property price increases in south-east Queensland. In addition the Folkestone CIB Fund re-commenced distributions in FY 2014. This, and a reduction in finance costs, may have also positively impacted the FST Unit price due to increased distributable earnings and therefore reduced the discount to NTA at which it trades. Further, the increase in the unit price of FST could also reflect increased demand for FST Units (due to increased investor demand for A-REIT assets), but a limited number of sellers due to low levels of liquidity.

The performance of FST's unit price since January 2012 relative to the S&P/ASX 300 and S&P/ASX 300 A-REIT Index is set out in the figure below.

Figure 10



Source: S&P Capital IQ, Deloitte Corporate Finance analysis

We note that due to its size, FST is not a constituent of either index, however we consider this comparison provides a high level indicator of FST's performance relative to other listed property funds. FST has outperformed both indices since the beginning of 2013. This may reflect:

- the S&P/ASX 300 A-REIT is primarily driven by large diversified A-REITs such as Scentre Group (formerly Westfield) which comprises approximately 18.5% of the index, and therefore significantly impacts its overall performance

- high levels of demand for early learning centres, which is expected to continue to drive yields going forward
- FST's property portfolio is fully leased with a WALE of 6.8 years. A longer WALE implies lower volatility and risk in a fund's future cash flows which may positively impact investors risk perceptions of an FST Unit
- a general improvement in the Australian property market in comparison to the international property market, especially in the United States, to which a number of other A-REITs have exposure
- early learning centres are less likely to be impacted by changing economic and consumer trends compared to property funds invested principally in retail and industrial property.

3.7 Financial performance

The audited statements of comprehensive income of FST for the 12 months ended 30 June 2013 and 30 June 2014 are summarised in the table below.

Table 11

(\$'000)	FY 2013 Audited	FY 2014 Audited
Lease Income	8,059	7,942
Distributions and dividends	2,073	1,675
Net property revaluation increment	2,675	4,742
Other income	1,600	1,717
Total revenue	14,407	16,076
<i>Revenue growth (%)</i>	33%	12%
Finance costs	2,277	1,853
Property outgoings	1,611	1,605
Responsible Entity's remuneration	1,181	1,231
Other expenses	1,222	243
Total expenses	6,291	4,932
Net profit attributable to unitholders	8,116	11,144
<i>Net profit attributable to unitholders margin (%)</i>	56%	69%
<i>Other metrics</i>		
Earnings including revaluations (cents per unit)	28.53	39.17
Distributions (cents per unit)	17.60	20.00

Source: FST 2014 Annual Report

We note the following in respect of FST's financial performance:

- lease income declined 1.5% in FY 2014 primarily due to the sale of an early learning centre in June 2013 which had an annual lease income of \$0.3 million. This was partly offset by an average CPI increase across the property portfolio of 2.6%
- net property revaluation increment of \$4.7 million in FY 2014 following the revaluation of the properties at 30 June 2014
- other income is comprised predominantly of recoveries of property outgoings, changes in fair value of derivative financial instruments, interest income and net profit on sale of investment properties
- finance costs decreased by approximately \$0.4 million as a result of lower interest and hedging costs
- FREML's remuneration as the responsible entity in FY 2013 and FY 2014 is comprised of the following:
 - asset management fee of \$1.04 million and \$1.11 million, respectively
 - cost recoveries of \$138,000 and \$126,000, respectively
- other expenses declined in FY 2014 principally due to an impairment charge of \$0.8 million recognised in FY 2013 on the available-for-sale financial assets.

9. INDEPENDENT EXPERT'S REPORT CONT.

3.8 Financial position

The audited balance sheets of FST as at 30 June 2013 and 30 June 2014 are summarised in the table below.

Table 12

(\$'000)	30 June 2013 Audited	30 June 2014 Audited
Current assets		
Cash and cash equivalents	34	551
Trade and other receivables	398	563
Other current assets	1,954	167
Total current assets	2,386	1,281
Non-current assets		
Available-for-sale financial assets	19,852	25,228
Investment properties - straight line rental asset	229	94
Investment properties	84,804	89,546
Total non-current assets	104,885	114,868
Total assets	107,271	116,149
Current liabilities		
Trade and other payables	428	509
Distribution payable	1,379	1,520
Derivative financial instruments	153	112
Total current liabilities	1,960	2,141
Non-current liabilities		
Derivative financial instruments	37	18
Borrowings	34,702	34,266
Total non-current liabilities	34,739	34,284
Total liabilities	36,699	36,425
Net assets	70,572	79,724

Source: FST 2014 Annual Report, FST 2013 Annual Report

We note the following in respect to FST's financial position:

- other current assets is comprised of the current portion of the straight line rental asset²³, prepayments and investment properties to be sold within 12 months. An investment property with a carrying value of \$1.8 million was classified as held for sale in FY 2013
- available for sale financial assets comprises of FST's holdings of listed and unlisted securities. The increase in value is due to the acquisition of additional units in FET (\$2.0 million) and an uplift in the fair value of the remaining unlisted investments as at 30 June 2014
- the increase in the carrying value of investment properties is based on independent and directors' valuations of the FST Properties
- derivative and financial instruments at 30 June 2014 related to interest rate swap contracts entered into to hedge against interest rate fluctuations.

²³ 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.

3.9 Distribution policy

Distributions are paid quarterly and are based on the profits of FST for each period. Total distributions paid to FST Unitholders for FY 2014 were \$5.7 million (20.0 cents per unit) compared to \$5.0 million (17.6 cents per unit) in FY 2013.

Distributions are forecast to increase to 21.0 cents per unit in FY 2015 as a result of continued tenancy and security performance.

FST is not liable for income tax as it is a 'flow through' trust and, as such, distributions to unitholders are taxable in the hands of the individual unitholder.

3.10 Outlook

FST is expected to continue to pursue investment opportunities to grow its real estate portfolio in the early learning and broader social infrastructure sector. FST will therefore remain exposed to property specific and general industry factors.

Some of the property specific factors that may drive future growth in unit price performance include the following:

- the divestment of non-core assets including the listed and unlisted securities to focus on broader social infrastructure assets including early learning centres, aged care and medical facilities, and community assets with Government or semi-Government tenants
- any changes in property valuations due either to market factors (i.e. capitalisation rate compression or expansion), income levels (due either to ongoing rental reviews or variances in occupancy levels of the underlying early learning facilities) or social trends (i.e. changes in female participation in the labour market and resulting impact on the demand for child care).

Other market and economic factors which may positively impact the FST Properties going forward, including those that may influence capitalisation rates, include:

- positive changes in the Government funding structure as a result of the Productivity Commission review
- further improvement in demographic and economic demand factors such as the birth rate, increasing participation by women in the workforce and an improved property market
- the potential for increased acceptance of, and appetite for, early learning property as an asset.

However, there are also a number of factors that may impede future growth for FST including:

- FST has a high degree of counterparty concentration (particularly with Goodstart accounting for 67% of FST's property portfolio by value) and any operational, funding or other issues impacting any of its tenants may adversely impact FST
- FST's property portfolio is highly concentrated geographically in metropolitan and regional metropolitan Queensland. Recently a number of new early learning centres have been constructed in regional areas in Queensland. This, coupled with an existing concentration of centres in particular regions, may result in excess supply in some regions in the short-to-medium term, which may adversely impact tenant renewal risks
- FST's size, scale and fee structure are likely to restrict its ability to compete for assets
- heavy reliance on a younger population remaining in the catchment areas of the properties, particularly with respect to regional areas
- increased operating costs as a result of the implementation of the NQS regime
- the risk of slowing or decreased Government funding. Any reduction in funding would have an adverse impact on the value of the properties and the demand for early learning centres in general.

4 Profile of Folkestone Education Trust

4.1 Introduction

FET was incorporated in 2004 and is an ASX listed property trust that invests in early education properties. It had 354 early learning centres across Australia and New Zealand and reported approximately \$472 million in total assets as at 31 October 2014 (the **FET Properties**). The early learning centres owned by FET are generally purpose built centres primarily located in metropolitan and major regional areas. FET's early learning centres provide day care facilities for between 35 and 150 children per centre and are typically designed to accommodate children from 6 weeks to 5 years of age.

The responsible entity of FET, FIML, is a wholly owned subsidiary of Folkestone. It was acquired in FY 2013 when Folkestone acquired the Austock property funds management business.

In December 2013, FET acquired all of the units of Folkestone Childcare Fund which comprised 22 early learning centres principally located in Queensland for total consideration of \$25.7 million (cash consideration of \$16.9 million).

In June 2014, FET changed its name from the Australian Education Trust to FET.

4.2 Legal structure

Refer to Section 3.2 for the legal structure of FIML and FET.

Management fees

As the Responsible Entity for FET, FIML is entitled to receive the following fees:

- a base management fee of 0.5% per annum of the gross assets of FET, which is calculated and payable monthly
- reimbursement for all expenses reasonably and properly incurred in relation to FET or in performing its obligations under FET's constitution
- property acquisition due diligence fees of \$5,000 indexed annually at CPI (currently \$6,860)
- 0.5% debt arrangement fee which is calculated on the total value of any new or refinanced debt facilities.

FET paid FIML management fees totalling \$2.97 million during FY 2014 (\$2.79 million in FY 2013).

4.3 Overview of the properties

Properties

The following table summarises the key statistics of the FET Properties.

Table 13

Key metric	Unit	Australia	New Zealand	Total
Number of properties	Properties	303	51	354
Carrying value	\$'millions	419.9	51.8	471.7
Average number of places	People			72
Occupancy	%			100 ²
Number of tenants	Tenants			27
WALE ¹	Years			7.3
Weighted average property yield ¹	%			8.8

Source: FET management, Explanatory Memorandum

Notes:

1. WALE has been calculated as at 31 October 2014
2. With the exception of Aranda, Australian Capital Territory, where the tenant has recently vacated

We note the following in relation to the FET Properties:

- the majority of the properties are located in metropolitan and major regional centres of Australia and New Zealand
- investment properties are carried at fair value on the balance sheet. Fair value is determined based on both independent and directors' valuations of the individual properties. An independent valuation of each property is carried out at least once every three years
- independent valuations of 100 properties across Australia and New Zealand were undertaken during FY 2014 and resulted in an increase in the carrying value by approximately 7.7% (\$8.6 million) and 20.9% (\$3.8 million), respectively, whilst the remaining 232 early learning properties were revalued by the directors and resulted in an increase in carrying value of approximately \$19.9 million, or 7.1%
- subsequent to 30 June 2014, FET commissioned independent valuations for 44 properties which resulted in an increase of \$7.8 million, or 15.8%, in the value of these properties, whilst three properties have been acquired for \$10.5 million (which includes development payments) and six properties disposed of for \$7.8 million (net of costs). A further three properties have been revalued based on unconditional contracts for sale and resulted in an increase in value of \$0.7 million
- all properties are currently fully occupied²⁴ and the underlying early learning centre tenants have had consistent levels of occupancy in recent months.

FET's property portfolio by geographical location and diversification for Australia (Figures 11 and 13) and New Zealand (Figures 12 and 14) is set out in the figures below.

Figure 11¹



Figure 12¹



Figure 13²

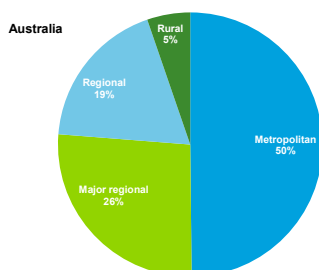
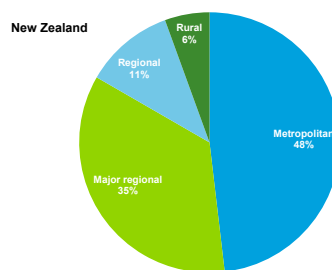


Figure 14²



Source: FET Profile 30 June 2014, Explanatory Memorandum

Notes:

1. Data as at 30 June 2014
2. Data as at 31 October 2014

²⁴ With the exception of Aranda, Australian Capital Territory, where the tenant has recently vacated

9. INDEPENDENT EXPERT'S REPORT CONT.

Tenants

FET currently has 27 tenants occupying / leasing the fund's 354 early learning centres (including 6 development sites) as follows:

Table 14

Tenant	Number of properties	As a proportion of rental income as at 31 October 2014
Goodstart	202	60%
Kidicorp Limited	51	11%
Only About Children	10	8%
G8 Education	25	5%
Mission Australia	16	4%
Other (23 tenants)	50	12%
Total	354	100%

Source: FET management, Explanatory Memorandum

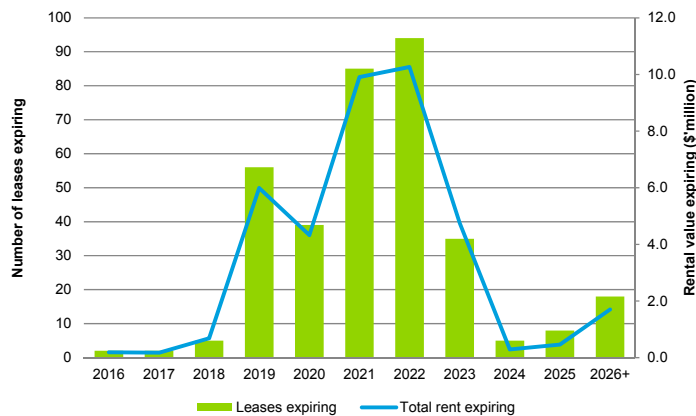
In respect of the tenants:

- FET has strong, long standing relationships with its tenants with a majority of the leases having been in place since the inception of the fund
- the lease agreements require a security deposit or bank guarantee to secure performance of the tenant's obligations. The security deposits or bank guarantees vary between leases and generally range between two and six months of rent, plus outgoings and GST. As at 30 June 2014, FET held approximately \$23.4 million in security deposits or bank guarantees
- there are not currently, and have historically not been, any significant arrears issues with respect to the payment of rent from tenants
- Goodstart is the major tenant, leasing over half of the properties in the portfolio, representing approximately 60% of the reported value of the portfolio (by rental income) as at 31 October 2014
- Kidicorp Limited is a private New Zealand company that operates 250 early learning centres located throughout New Zealand providing child care facilities to 15,000 children. Kidicorp Limited leases all of FET's New Zealand properties.

Lease terms

FET has property leases with the operator of each of the early learning centres. The number of leases expiring in each calendar year and the total rent associated with the lease expiries are presented in the figure below.

Figure 15



Source: FET 2014 Annual Report

We note the agreed terms of the leases generally include the following:

- FET has negotiated triple-net leases with each tenant across the property portfolio, whereby the tenant is responsible for all operational outgoings, including maintenance and capital expenditure, in relation to the property, in addition to base rent. Base rent is generally payable on a monthly basis (in advance)
- initial lease terms are 15 years from commencement plus two options to extend, for five year periods
- the notice period in which FET must be informed of the intention to exercise options is typically five years prior to the expiry of the term
- rental growth is indexed annually to CPI with a market review at year 11 of the lease and at each option renewal.

Recent transactions

During FY 2014, FET undertook the following property acquisitions and disposals.

Table 15

Description	Number of properties	Value (\$million)	Yield	WALE (years)
Acquisitions				
Only About Children portfolio	5	26.1	7.7%	23.0
Folkestone Childcare Fund	22	25.7	10.0%	8.3
Gungahlin (early learning centre)	1	5.4	8.0%	15.0
Development sites	5	15.6	n/a	n/a
Development sites ¹	3	6.5	8.4%	15.0
Total		79.3		
Disposals				
Properties in Australia (3) and New Zealand (3) ²	6	7.9	6.9%	n/a
Properties in Australia ³	3	3.7	n/a	n/a

Source: FET ASX Announcements, FET 2014 Annual Report, Explanatory Memorandum
Notes:

1. As at 30 June 2014, one property has subsequently settled as set out in Section 6.2.3 of the Explanatory Memorandum
2. As at 30 June 2014, the six properties sold were under contract and have subsequently settled as set out in Section 6.2.3 of the Explanatory Memorandum
3. An additional three properties are under contract for sale and expected to settle in December 2014

9. INDEPENDENT EXPERT'S REPORT CONT.

4.4 Capital structure

4.4.1 Equity

The unitholders of FET are comprised of a combination of institutional and retail investors. Units of FET are tightly held with the top ten unitholders holding 48.8% of the total units on issue. FET had 205.1 million units on issue held by 3,478 unitholders as at 31 July 2014.

The following table summarises the top ten unitholders in FET as at 31 July 2014.

Table 16

Unit holder	Units	% of total units
JP Morgan Nominees Australia Limited	31,206,018	15.2%
National Nominees Limited	12,916,054	6.3%
Citicorp Nominees Pty Limited	11,562,158	5.6%
Trust Company Limited	9,035,268	4.4%
HSBC Custody Nominees (Australia) Limited	7,874,946	3.8%
Mr Louis Pierre Ledger	7,000,000	3.4%
National Nominees Limited	5,771,709	2.8%
UBS Nominees Pty Ltd	5,340,231	2.6%
Sandhurst Trustees Limited	4,865,421	2.4%
Chemical Trustee Limited	4,550,000	2.2%
Total – top ten FET unitholders	100,121,805	48.8%
Total – other FET unitholders	104,947,856	51.2%
Total units on issue¹	205,069,661	100.0%

Source: FET 2014 Annual Report

Note:

1. Subsequent to 31 July 2014, a further 923,261 units were issued to existing holders of FET Units who participated in a Distribution Reinvestment Plan

On 12 December 2013, FET completed a fully underwritten 1 for 10.67 non-renounceable retail entitlement offer at an offer price of \$1.52 per new unit. FET issued 29.6 million units raising approximately \$45.0 million. At the time, FET announced that the net proceeds would be used to fund the acquisition of units in the Folkestone Childcare Fund and other early learning centres.

4.4.2 Debt

During FY 2014, FET amended its syndicated debt facility with National Australia Bank (**NAB**) and ANZ with an extension of the debt's maturity to June 2017 and a \$50 million increase in the facility limit. On acquisition of the Folkestone Childcare Fund in December 2013, FET retained the Folkestone Childcare Fund's debt facility with the ANZ. This facility was subsequently repaid as part of the amended syndicated debt facility.

The key terms of the syndicated debt facility include:

- the facility is for \$173 million, of which \$147 million had been drawn down as at 30 June 2014
- current cost of debt of 5.1% per annum (excluding amortisation of borrowing costs)
- the following debt covenants:
 - interest cover ratio greater than 2.0 times (as at 30 June 2014, FET had an interest coverage ratio of 4.4 times)
 - loan to value ratio of less than 50.0% (as at 30 June 2014, FET had a loan to value ratio of 37.6%).

As at 30 June 2014, FET had \$82.6 million hedged via interest rate swaps at a fixed rate of 4.25% per annum (excluding margin and amortisation of costs) for FY 2015. Subsequent to year end, additional hedging positions have been put in place. FET has hedged \$108 million or 73% (based on drawn debt of \$147 million) of its FY 2015 interest rate exposure at a rate of 3.98% per annum. FET has (staggered positions) hedging in place through to June 2019 with an average of 58% hedged across this period.

In addition, FET has an overdraft facility with ANZ of \$10.0 million for working capital purposes. As at 30 June 2014, \$0.3 million of the facility was drawn down.

4.5 Unit trading analysis

A summary of FET's quarterly unit price performance and volumes traded since the quarter ended 31 March 2012 is provided below.

Table 17

Quarter end	High ¹ (\$)	Low ¹ (\$)	VWAP (\$)	Cumulative volume ² (million)	Cumulative volume (% of units outstanding) ³
31 March 2012	1.00	0.90	0.97	6.05	3.0%
30 June 2012	1.06	0.97	1.02	4.47	2.2%
30 September 2012	1.18	1.00	1.17	5.76	2.8%
31 December 2012	1.29	1.17	1.29	11.73	5.7%
31 March 2013	1.45	1.28	1.40	6.06	3.0%
30 June 2013	1.56	1.37	1.39	10.18	5.0%
30 September 2013	1.58	1.44	1.55	7.71	3.8%
31 December 2013	1.60	1.51	1.53	11.63	5.7%
31 March 2014	1.73	1.50	1.66	37.68	18.4%
30 June 2014	1.74	1.65	1.65	7.63	3.7%
30 September 2014	2.02	1.65	1.94	17.72	8.6%
12 November 2014 ³	1.94	1.78	1.86	6.94	3.4%

Source: S&P Capital IQ, Deloitte Corporate Finance analysis

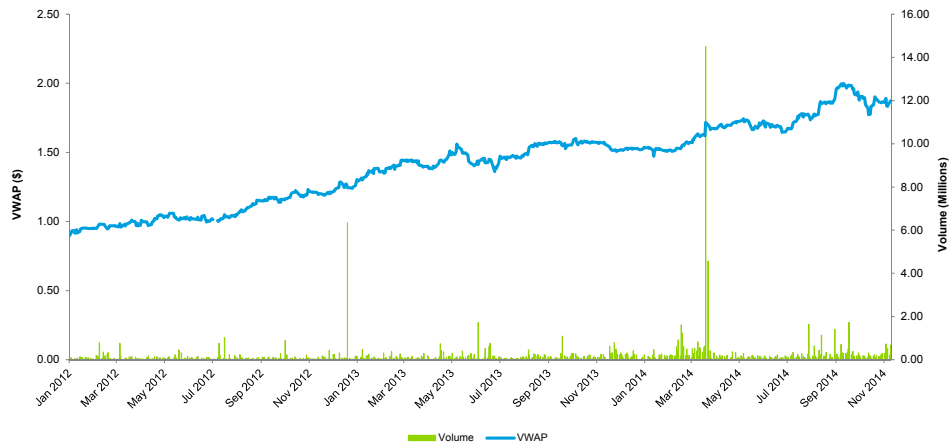
Notes:

1. Lowest and highest unit price values during the corresponding quarter
2. As at each quarter end
3. Volume for the quarter to date to 12 November 2014

9. INDEPENDENT EXPERT'S REPORT CONT.

In the six month period to 30 September 2014 approximately 25.4 million units were traded. This equates to a total trading volume over the six month period of approximately 12.3% of issued units, which indicates that the market for units in FET is not highly liquid, as set out below.

Figure 16

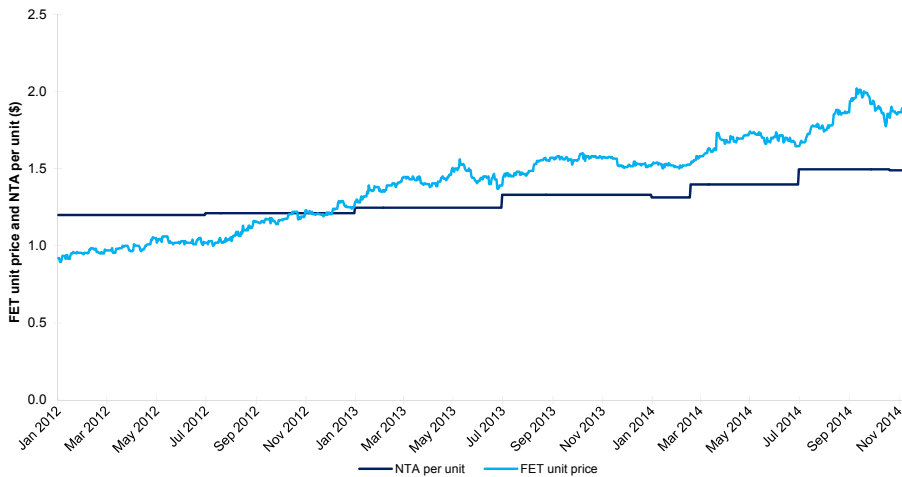


Source: S&P Capital IQ, Deloitte Corporate Finance analysis

The movements in the trading price and volume of units in FET primarily reflect the release of half year and full year results and the resulting change in the NTA of FET.

The trading price of FET's units in comparison to its NTA per unit since January 2012 is presented in the figure below.

Figure 17



Source: S&P Capital IQ, Deloitte Corporate Finance analysis

FET units have traded at a premium to NTA per unit since December 2012, which is broadly consistent with other specialised A-REITs. Refer to Appendix C for an overview of sector NTA premiums and discounts.

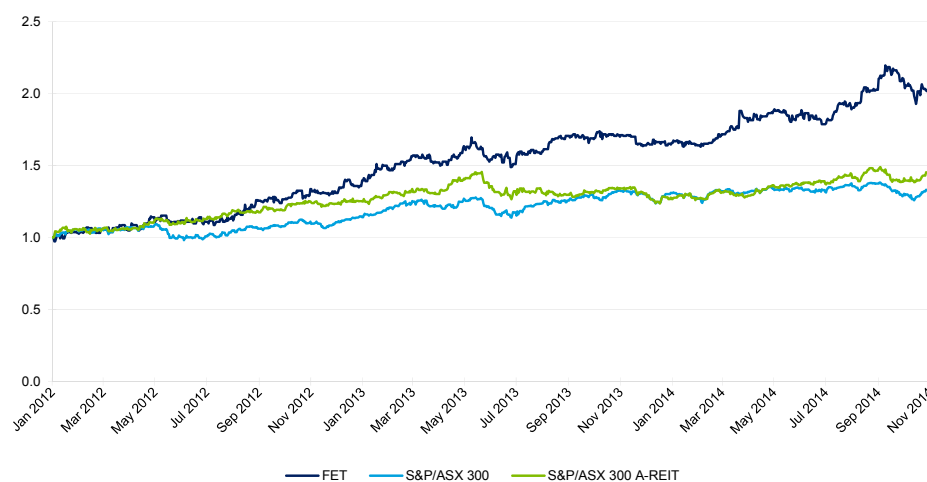
Possible reasons for FET trading at a premium to NTA per unit are as follows:

- the market may be factoring in a premium to reflect the stability of FET, the early learning centre property market and an uplift in property values flowing from the regular independent property valuations commissioned by FET management

- FET is covered by a number of brokers and is sufficiently large and liquid to attract institutional investors. Broker coverage provides independent market analysis to assist investors in their investment decision making, whilst institutional investors are more sophisticated and improve a fund's profile, liquidity and access to capital. In addition, institutional investors often invest having regard to the longer term underlying fundamentals of an asset and expectations for the industry in which the fund's assets operate
- FET invests solely in early learning centres and holds a large diversified portfolio in Australia and New Zealand. Investors may ascribe a premium due to its specialised focus and the fundamentals which support continued growth in demand for early learning services, and therefore the development of additional early learning centres.

The performance of FET's unit price from January 2012 relative to the S&P/ASX 300 and S&P/ASX300 A-REIT Index is set out below.

Figure 18



Source: S&P Capital IQ, Deloitte Corporate Finance analysis

FET is a constituent of the S&P/ASX300 A-REIT Index. FET has outperformed both indices since January 2012. This may reflect:

- FET's yields are generally higher than those of the large diversified A-REITs
- high levels of demand for early learning centres, which are expected to continue to drive early learning centre yields going forward
- FET's property portfolio is fully leased²⁵ with a WALE of 7.3 years. A longer WALE implies lower volatility and risk in a funds future cash flows
- a general improvement in the Australian property market in comparison to the international property market, especially in the United States, in which other A-REITs have exposure
- early learning centres are less likely to be impacted by changing economic and consumer trends compared to property funds invested principally in retail and industrial property.

²⁵ With the exception of Aranda, Australian Capital Territory, where the tenant has recently vacated

9. INDEPENDENT EXPERT'S REPORT CONT.

4.6 Financial performance

The audited statements of comprehensive income of FET for the 12 months ended 30 June 2013 and 30 June 2014 are summarised in the table below.

Table 18

(\$'000)	FY 2013 Audited	FY 2014 Audited
Lease Income	34,924	38,405
Net property revaluation increment	19,587	29,190
Other income	7,327	6,707
Total Revenue	61,838	74,302
<i>Revenue growth (%)</i>	<i>27%</i>	<i>20%</i>
Finance costs	10,570	8,114
Property outgoings	7,040	7,354
Responsible Entity's remuneration	2,115	2,496
Rent on leasehold properties	1,334	1,374
Other expenses	1,047	1,177
Total costs	22,106	20,515
Net profit attributable to unitholders	39,732	53,787
<i>Net profit attributable to unitholders margin (%)</i>	<i>64%</i>	<i>72%</i>
<i>Other metrics:</i>		
Earnings including revaluations (cents per unit)	22.64	27.91
Distributions (cents per unit)	10.70	12.00

Source: FET 2014 Annual Report

We note the following in respect of FET's financial performance:

- lease income increased 20% in FY 2014 primarily due to indexation and acquisition of an additional 31 early learning centres
- net property revaluation increment of \$29.2 million in FY 2014 following the revaluation of the properties at 30 June 2014
- other income is comprised predominantly of recoveries of property outgoings and changes in fair value of derivative financial instruments
- finance costs decreased by approximately \$2.5 million as a result of lower interest costs following the refinancing of FET's debt facility during the year
- FIML's remuneration as the responsible entity in FY 2013 and FY 2014 is comprised of the following:
 - asset management fee of \$2.1 million and \$1.8 million, respectively
 - cost recoveries of \$330,000 and \$305,000, respectively
 - leasing, due diligence and debt arrangement fees of \$548,000 and \$670,000, respectively
- other expenses is comprised of custodian fees, consultant fees, valuation fees, changes in the fair value of, and realised losses on, derivatives and other expenses.

4.7 Financial position

The audited balance sheets of FET as at 30 June 2013 and 30 June 2014 are summarised in the table below.

Table 19

(\$'000)	30 June 2013 Audited	30 June 2014 Audited
Cash and cash equivalents	187	1,832
Receivables	152	161
Other current assets	1,338	1,373
Property held for sale	862	7,857
Total current assets	2,559	11,223
Investment properties	362,653	449,937
Investment properties - straight line rental asset	3,280	3,392
Total non-current assets	365,933	453,329
Total assets	368,492	464,552
Payables	2,286	2,227
Distribution payable	5,107	6,249
Derivative financial instruments	1,422	1,319
Other liabilities	73	535
Total current liabilities	8,888	10,330
Borrowings	124,602	145,709
Derivative financial instruments	1,492	1,807
Total non-current liabilities	126,094	147,516
Total liabilities	134,982	157,846
Net assets	233,510	306,706

Source: FET 2014 Annual Report

We note the following in respect to FET's financial position:

- other current assets are comprised of prepayments, GST receivable and lease incentive assets
- property held for sale as at 30 June 2014 is comprised of six properties under contract which are expected to complete in the first quarter of FY 2015
- the increase in the carrying value of investment properties is primarily a result of the acquisition of properties (\$65.5 million) and an uplift in value following the property valuations (\$29.2 million)
- other liabilities relates to rental income received in advance
- derivative and financial instruments at 30 June 2014 relate to interest rate swap contracts entered into to hedge against interest rate fluctuations.

4.8 Distribution policy

Distributions are paid quarterly and are based on the profits of FET for each period.

Total distributions paid to FET unitholders for FY 2013 were \$18.8 million (10.7 cents per unit) and \$23.7 million (12.0 cents per unit) in FY 2014.

Distributions are forecast to increase to 12.7 cents per unit in FY 2015 as a result of continued improvement in tenant performance and the impact of recent acquisitions.

9. INDEPENDENT EXPERT'S REPORT CONT.

As FET is a trust, it is not liable for income tax as it is a 'flow through' entity and, as such, distributions to unitholders are taxable in the hands of the individual unitholder.

4.9 Outlook

FET is expected to continue to pursue investment opportunities to grow its real estate portfolio in the early learning sector. FET will therefore remain exposed to property specific and general industry factors.

Some of the property specific factors that may drive future growth include the following:

- continued focus on forming alliances with key early learning centre operators to act as their property provider
- focus on divesting lower quality properties and investing in high yielding sites through the acquisition of existing centres and development of greenfield sites to meet continued demand for purpose built early learning centres
- any changes in property valuations due either to market factors (i.e. capitalisation rate compression or expansion), income levels (due either to ongoing rental reviews or variances in occupancy levels of the underlying early learning facilities) or social trends (i.e. changes in female participation in the labour market and resulting impact on the demand for child care).

Other market and economic factors which may positively impact the FET Properties going forward, including those that may influence capitalisation rates, include:

- positive changes in the Government funding structure as a result of the Productivity Commission review
- further improvement in demographic and economic demand factors such as the birth rate, increasing participation by women in the workforce and an improved property market
- the potential for increased acceptance of, and appetite for, early learning property as an asset.

However, there are also a number of factors that may impede future growth for FET including:

- FET has a high degree of counterparty concentration (particularly with Goodstart) and any operational, funding or other issues impacting any of its tenants will adversely impact FET
- heavy reliance on a younger population remaining in the catchment areas of the properties, particularly with respect to regional areas
- increased operating costs as a result of the implementation of the NQS regime
- the risk of slowing or decreased Government funding. Any reduction in funding would have an adverse impact on the value of the properties and the demand for early learning centres in general.

5 Profile of New FET

5.1 Introduction

In this section we set out a summary profile of New FET, being the enlarged FET entity following implementation of the Proposal. A description of each of FST and FET is set out in Sections 3 and 4, respectively.

New FET will hold a portfolio of 402 properties across Australia and New Zealand, an increase of 48 properties compared to FET on a stand-alone basis. The total assets of New FET will increase from \$474.1 million to \$569.0 million.

5.2 Key financial metrics

Key financial metrics of New FET, together with those of each of FST and FET on a standalone pro-forma basis, are set out below.

Table 20

		FET	FST	New FET
Total assets	\$'million	474.1	121.9	569.0
Net assets	\$'million	316.2	85.4	384.0 ¹
Units on issue	million	206.0	28.4	243.5 ²
Net assets per unit	\$	1.53	3.00	1.56 ³
Gearing	%	31.0	28.1	30.5
Earnings per unit (1 January 2015 to 30 June 2015)	Cents per unit	6.35	10.54	6.45
Distributions per unit (1 January 2015 to 30 June 2015)	Cents per unit	6.35	10.54	6.45

Source: Explanatory Memorandum

Notes:

1. Difference of approximately \$17.6 million in New FET assets and FET and FST on a standalone pro-forma basis relates to post implementation adjustments including the Implementation Distribution and transaction costs
2. Comprises 206.0 million plus 37.6 million new FET units (28.45 million units in FST x 1.32)
3. The equivalent pro-forma net assets per New FET unit post the implementation of the Proposal will be approximately \$2.06. This excludes the Implementation Distribution of \$0.675 per unit which will be paid to FST Unitholders on implementation of the Proposal

On implementation of the Proposal, Eligible Unitholders will hold approximately 15.4% of New FET.

Certain pro-forma financial statements for New FET are set out in section 7 of the Explanatory Memorandum.

6 Selection of valuation methodology

6.1 Introduction

In order to assess the fairness of the Proposal, we have compared our estimate of the fair market value of a unit in FST to the value of the Transaction Value.

We have defined fair market value as the amount at which securities or assets would be expected to change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither of whom is under any compulsion to buy or sell. Special purchasers may be willing to pay higher prices to reduce or eliminate competition, to ensure a source of material supply or sales, or to achieve cost savings or other synergies arising on business combinations, which could only be enjoyed by the special purchaser. Our valuations have not been premised on the existence of a special purchaser.

In our selection of an appropriate methodology to estimate the fair market value of a unit in FST, New FET and FET units, we have considered common market practice and the valuation methodologies recommended by RG 111, which are outlined in Appendix A.

6.2 FST

We have assessed the fair market value of the net assets of FST on a going concern basis by aggregating the fair market value of its assets and liabilities. Accordingly, our assessment does not reflect any costs that would be incurred if the assets were disposed of in order to realise their value. We consider a net assets approach, on a going concern basis, to be appropriate given FST is an asset-holding business and this is the most common approach utilised when valuing A-REITs such as FST which are largely passive.

In addition, we have also considered market evidence derived from our analysis of the following to provide additional evidence of the fair market value of a unit in FST:

- recent trading in FST Units
- earnings and asset-based multiples observed in listed securities and/or transactions involving entities comparable to FST.

6.3 New FET

In order to estimate the fair market value of the consideration to be received, we have relied upon an analysis of recent trading prices for FET units as our primary methodology. In our opinion, recent trading in FET units provides a reasonable estimate of the fair market value of a unit in New FET since:

- if the Proposal proceeds, Eligible Unitholders will receive a minority or portfolio interest in New FET. The security trading price of FET represents a minority value
- any market re-rating or synergies²⁶ arising as a result of the Proposal are not likely to have a material impact on the unit price of FET due to the relative scale of FET's asset base compared to that of FST. Further to this, in the relatively short period of trading between the announcement of the Proposal on 13 November 2014 and 19 November 2014, there has been a 3% increase in the FET Unit price²⁷, however, the FET Unit price is still trading within the price range of an FET unit observed prior to announcement of the Proposal. Therefore recent trading in FET's units should represent an appropriate estimate for the New FET unit price if the Proposal proceeds
- there are no restrictions on Eligible Unitholders disposing of their New FET units received pursuant to the Proposal subsequent to implementation of the Proposal subject to the liquidity in the trading of New FET units. The New FET units to which Foreign Unitholders would otherwise be entitled will be issued to a sale nominee to be disposed of on behalf of the Foreign Unitholder

²⁶ As set out in Section 7.2 of our Report, we estimate there are likely to be cost synergies of the Proposal in relation to a reduction in management fees. Mitigating these cost synergies are the transaction costs to be incurred by New FET

²⁷ Based on the movement in the closing price of an FET Unit on 12 November 2014 and 19 November 2014

- whilst FET units have lower liquidity compared to their listed peers, we still consider there to be sufficient liquidity to support the use of recent security trading as a primary valuation methodology. Further, there is a strong retail and institutional holder base as well as coverage from several research analysts; such that recent security trading is an adequate benchmark for the current value of New FET units.

To provide additional evidence of the fair market value of the New FET units, we have cross-checked our valuation of a New FET unit by comparing the EBIT multiples and premium/discount to NTA implied by our estimate of the fair market value of a unit in New FET to those of entities comparable to New FET.

6.4 FET Units subject to the FET Unit Sale

To assess the fair market value of an FET unit, we have had regard to our valuation of a unit in New FET. The FET Unit Sale is conditional upon the Proposal becoming effective, and will occur immediately following the FST Unitholder meeting²⁸, or such other date as FREML and Folkestone agree in writing. Therefore Folkestone will receive units in New FET, as opposed to units in FET on a standalone basis. On this basis, we consider our valuation of a New FET unit to be an appropriate reference of value for a FET unit the subject of the FET Unit Sale.

Further to this, as the FET Unit Sale relates to the sale of approximately 4.4% of the units in FET, we consider it appropriate to value these securities on a minority interest basis, as this transaction is not deemed to be a control transaction under ASIC Regulatory Guide 111.

²⁸ The FET Unit Sale will occur immediately following the FST Unitholder meeting scheduled for 19 December 2014, or such other date as FREML and Folkestone agree in writing, if the Proposal has become effective

9. INDEPENDENT EXPERT'S REPORT CONT.

7 Valuation of a unit in FST

7.1 Introduction

We have estimated the fair market value of an FST Unit on a control basis to be in the range of \$2.72 to \$2.87.

We have assessed the fair market value of the net assets of FST on a going concern basis by aggregating the fair market value of its assets and liabilities. Accordingly our assessment does not reflect any costs that would be incurred if the assets were disposed of in order to realise their value.

In addition, we have also considered market evidence derived from our analysis of the following to provide additional evidence of the fair market value of an FST Unit:

- recent trading in FST Units
- earnings and asset-based metrics observed in the trading of listed securities and/or transactions involving entities comparable to FST.

7.2 Net assets on a going concern basis

7.2.1 Fair market value of net assets of FST

In order to estimate the fair market value of FST's net assets we have considered the audited balance sheet as at 30 June 2014 and considered any adjustments required to reflect the differences between fair market value and book value of the assets.

We have estimated the fair market value of FST's net assets to be between \$77.4 million and \$81.7 million as set out in the table below.

Table 21

	Unit	Low	High
Book value of net assets of FST as at 30 June 2014	\$'million	79.7	79.7
Fair market value adjustments			
Changes in value of the FST Properties	\$'million	3.6	3.6
Changes in value of the listed investments	\$'million	1.9	2.8
Profit on sale of the unlisted investments	\$'million	0.3	0.3
Management fees	\$'million	(5.6)	(2.2)
Removal of responsible entity fee	\$'million	(1.8)	(1.8)
Transaction costs	\$'million	(0.6)	(0.6)
Fair market value of FST	\$'million	77.4	81.7

Source: Deloitte Corporate Finance analysis

FST's audited financial statements as at 30 June 2014 are prepared on the basis of fair value measurement of assets and liabilities, except where otherwise stated. Therefore we have assessed FST's net assets as at 30 June 2014 as having a fair market value equal to book value.

Our consideration of the adjustments requirements to FST's net assets as at 30 June 2014 is set out below.

Fair market value of the FST Properties

Approach and summary

FST's policy is to have independent valuers assess the value of each of its properties at least once every three years, whilst directors' valuations are generally undertaken at each reporting date for those properties which have not been recently valued. The directors valuations are based on the last independent valuation and adjusted having regard to recent valuations undertaken for FST's properties in similar locations, leasing expectations and market trends.

The directors of FST have assessed the carrying value of the property portfolio as at 30 June 2014 based on a combination of nine independent valuations (of which eight were undertaken in 2014) and 38 directors' estimates of the fair value of the properties based on the yield and leasing expectations at that time. Subsequent to 30 June 2014, FST commissioned independent valuations for two properties as at 30 September 2014 and 23 properties as at 31 October 2014 (accounting for approximately 49% of the property portfolio by value) which resulted in an increase of \$2.2 million, or 5%, in the value of these properties. Further, as set out in section 5.5 of the Explanatory Memorandum, the directors of FST note that there have been no material changes to the financial position of FST from 30 June 2014 except as otherwise noted therein.

Furthermore, we have valued the Glen Iris storage facility based on a conditional sale agreement recently negotiated with an independent party to dispose of the property for \$11.7 million (net of costs), an increase of \$1.3 million on its book value. The sale of the Glen Iris storage facility is conditional on the Proposal proceeding.

A summary of the number of properties subject to each basis of valuation (i.e. independent, directors' and subject to offer) is set out in the table below.

Table 22

	Number of valuations	Value (\$'million)	Percentage of portfolio by value
Independent valuations			
Valuations as at 31 October 2014	23	41.8	45%
Valuations as at 30 September 2014	2	4.2	4%
Valuations undertaken during 2014	8	13.1	14%
Conditional offer			
Glen Iris storage facility	1	11.7	13%
Remaining properties based on Directors' valuations as at 30 June 2014	16	34.5	24%
Total	49	93.3	100%
Carrying value of properties as at 30 June 2014		89.8	
Increase in value of the FST Properties		3.5	
Increase in value of the FST Properties comprises:			
- Valuation adjustment for Glen Iris		1.3	
- Revised independent valuations		2.2	

Source: FST 2014 Annual Report, FST management, CapitalIQ

For the purposes of this report we have relied upon the property valuations prepared and have not undertaken any separate valuations of the FST Properties.

We have undertaken an analysis of a sample of independent and directors' valuations of the FST Properties. In respect of the independent valuations, we have concluded that:

- the external property valuers are independent of FST and based upon statements included in the valuation reports there were no restrictions on their scope
- the reports were prepared by professionals who have sufficient qualifications and competence to provide an informed opinion of the fair market value of assets of this nature
- the valuation methods used in the property valuations are not inappropriate and appear to have been correctly applied to estimate the fair market values of the properties
- the assumptions and valuation metrics used do not appear unreasonable or inappropriate for the purpose of estimating the fair market values of these properties.

In respect of the directors' valuations, we have considered the appropriateness of any adjustments made to the last available independent valuation, having regard to the latest available independent valuations undertaken for assets in similar locations and general economic conditions relating to the area in which each property is located.

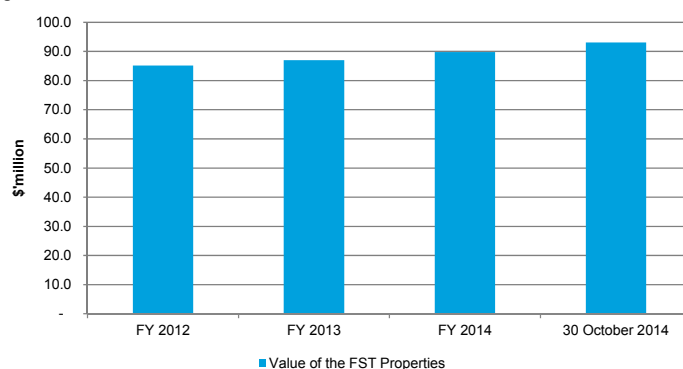
9. INDEPENDENT EXPERT'S REPORT CONT.

We have also taken into account the operating performance (i.e. occupancy and rental escalation) of the FST Properties since 30 June 2014, considered available transaction data, held discussions with the external valuers and FREML management, considered anecdotal evidence of the relevant property markets, considered recent asset sales by FST and trends in the carrying value of FST's portfolio in order to assess the current fair market value of the FST Properties.

In addition we have also had regard to the following general attributes of the FST Properties:

- the general stability of the portfolio, including the long-term stable relationships with tenants who have demonstrated a propensity to exercise options to extend lease terms. As a consequence of this and the nature of the assets, the value of the FST Properties has been generally stable since 2012 with increases of less than 5% per annum as set out below:

Figure 19



Source: FST 2014 Annual Report, Deloitte Corporate Finance analysis

Note:

1. The increase between FY 2014 and 31 October 2014 reflects revaluation adjustments noted in the table above

- based on our analysis of available transaction data and anecdotal evidence of the property market in Australia (and in particular, South-East Queensland), we are not aware of any market factors which would result in any significant changes to the capitalisation rates adopted for the independent and directors' valuations
- property specific factors, in particular:
 - analysis of available occupancy trends in the underlying early learning facilities indicates no distinct trends in the operations of the underlying facilities
 - no changes in lease terms since the independent valuations were prepared
- there do not appear to be any property or market specific factors that have occurred that would suggest a material upwards or downwards movement in the value of the portfolio is warranted.

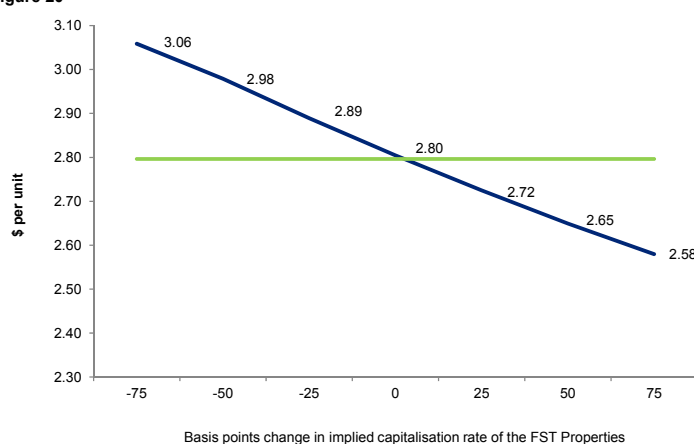
Based on our analysis we consider the assessed values of the properties to be reflective of fair market value.

Sensitivity analysis

As the fair market value of the FST Properties represents the primary driver of value for FST, our valuation is sensitive to relatively small movements in the underlying value of the FST Properties.

The figure below sets out an indicative sensitivity analysis on the change in value of a unit in FST on a going concern basis based on movements in the implied capitalisation rate of the underlying property valuations.

Figure 20



Source: Deloitte Corporate Finance analysis

Based on the above figure, it can be seen that a +/- 25 basis point movement in the implied capitalisation rate of the underlying property valuations would have an approximate +/- 8.0 cents per unit impact (or +/- 3%) on the value of an FST Unit under the net assets on a going concern basis method.

Fair market value of the security investments

FST's policy is to value its listed and unlisted security investments at each reporting date as follows:

- listed securities are valued at the closing bid price on the last business day of the financial year
- unlisted securities are valued by the directors with reference to the underlying net assets of the respective entities, along with any other relevant available information.

We note the following in respect of FST's listed and unlisted security investments.

Listed security investments

FST holds 9.035 million units in FET which had a carrying value of \$14.9 million based on the closing bid price as at 30 June 2014.

To assess the fair market value of an FET Unit, we have had regard to our valuation of a unit in New FET. As the FET Unit Sale will occur once the Proposal becomes effective and immediately following the FST Unitholder meeting²⁹, Folkestone will receive units in New FET, as opposed to units in FET on a standalone basis. Therefore, we consider our valuation of a New FET unit to be an appropriate reference of value for a FET unit the subject of the FET Unit Sale.

As set out in Section 8, we have determined a value range of \$1.85 to \$1.95 per FET Unit. This implies an uplift in the value of the units in FET of \$1.9 million to \$2.8 million.

²⁹ The FET Unit Sale will occur immediately following the FST Unitholder meeting scheduled for 19 December 2014, or such other date as FREML and Folkestone agree in writing, if the Proposal has become effective

9. INDEPENDENT EXPERT'S REPORT CONT.

Unlisted security investments

FST holds 4.1 million units in the Folkestone CIB Fund which had a carrying value of \$7.95 million based on the NTA of the fund as at 30 June 2014. As there is no active market for FST's unlisted security investments, we have assessed the value of FST's unlisted investments having regard to the latest available financial data for each investment.

The Folkestone CIB Fund's 2014 annual report provides an overview of the assets, financial performance and outlook for the fund. We note that the Folkestone CIB Fund has not published any financial updates or released any market announcements, since its last reported results.

We have assumed the carrying value of the Folkestone CIB Fund as at 30 June 2014 to be reflective of its fair market value.

Furthermore, we note that FST disposed of its investments in Stockland Direct and APGF in October 2014 for total proceeds for \$2.68 million, representing a profit of \$0.3 million. The proceeds from the disposal of these investments were used to reduce FST's borrowings and we have reflected an increase in NTA of approximately \$0.3 million.

Management fees

Whilst property management fees are included in the property cash flows used by the management and independent valuers in their valuations of the FST Properties, responsible entity, management fees and other trust expenses are not otherwise factored into the property valuations or into the financial position of FST. Such fees would be payable as long as FST and its investments are externally managed by FREML, or another responsible entity.

These costs would typically be considered in assessing the value of a minority interest of a property fund, however, we have considered whether there should be an adjustment to our net asset valuation range of FST on a control basis to reflect the potential leakage of value associated with paying ongoing contracted management fees.

There is an argument that such costs would not be factored in at all when assessing the market value of a property holding company since:

- investment property management is a highly scalable business model where costs tend to be relatively fixed. A third party buyer considering purchasing FST would likely be able to achieve economies of scale in managing the portfolio and therefore would be likely to factor in only a portion of these costs when assessing the purchase price to acquire FST
- these arrangements are often able to be terminated through an ordinary resolution of unitholders which may result in the manager not receiving any compensation for these rights
- these costs are incurred for the purpose of improving the performance of a fund either by sourcing new investment opportunities or by optimising the existing portfolio thereby increasing the return of the existing portfolio. Accordingly, it can be argued that the ongoing costs associated with such services produce a return equal to or higher than the cost of providing those services.

Further, a potential acquirer of FST may not see value in continuing with the existing management agreements due to the synergies they expect from assuming the role of the investment manager.

In order to remove the responsible entity and asset manager an acquirer would be required under the FST constitution to compensate the manager for terminating these management contracts which includes a payment for ensuring a transfer of knowledge from the existing management team to the new management team to minimise disruption for the buyer during implementation. The fee payable for removing the responsible entity, as outlined in the FST constitution, is based on 2.0% of the gross asset value (excluding the FET units) of FST as compensation for arranging the handover of the management of FST to the incoming responsible entity. As an acquirer would likely seek to remove the responsible entity and integrate FST into their existing investment structure we have included the change of responsible entity fee in our assessed value of an FST Unit on a going concern basis. As at 31 October 2014, the estimated fee payable to FREML is \$1.8 million³¹ based on our revised gross asset value of FST (excluding the FET units).

Since our valuation of FST assumes the FST Properties are retained (rather than liquidated) we consider that it is appropriate to allow for some ongoing responsible entity fees (which includes director and management fees) and administration expenses (which includes listing and registry costs) for FST.

³¹ Although, in the event the Proposal is successful, FST will incur additional advisor fees in the amount of \$0.6 million

In FY 2014, FST incurred approximately \$1.3 million of such costs which are ongoing in nature but could be reduced by a potential acquirer. Having regard to the scale and size of a potential acquirer of FST, and the cost synergies to be achieved through a reduction in listing costs, director and senior management costs as a result of FST delisting from the ASX and an acquirer integrating the FST Properties into their existing portfolio, an acquirer may be able to negotiate better terms with the responsible entity, should it continue to be externally managed. An analysis of comparable responsible entity fees indicated annual fees in the range of 0.45% to 0.85% (excluding performance and other fees). As set out in section 7 of the Explanatory Memorandum, FST management have estimated annual responsible entity (which includes director and management fees) and administration cost savings of up to \$0.7 million.

Alternatively, if FST were internally managed, incremental costs would be incurred in order to procure similar functions and services for FST as long as FST and its investments are managed on a going concern basis. It is likely that these costs incurred would be less than the existing management fee payments as the manager would typically earn a profit margin on the fees paid by the trust.

Based on the above considerations, we have estimated the annual ongoing management costs to be incurred to be in the range of \$200,000 to \$500,000 per annum. This implies cost savings in the order of 60% to 85% relative to the existing direct costs and management fees incurred by FST of \$1.3 million per annum, which results in a relatively conservative (i.e. low) level of ongoing costs assumed in our analysis.

We have capitalised these ongoing costs, using the weighted average capitalisation rate of the FST Properties as we consider the risk and growth prospects of these costs to be similar to those of the underlying property assets, which results in a present value of estimated ongoing management fees in the range of \$2.2 million and \$5.6 million.

Cash flows up until Implementation Date

As FST is a pass-through trust all earnings generated must be distributed to FST Unitholders. FST Unitholders have already received the distribution relating to earnings generated for the quarter ended 30 September 2014 and the Final Distribution will be paid to FST Unitholders based on the distributable earnings for the quarter ending 31 December 2014. Therefore no adjustment is required to the net asset value of FST.

Derivatives

FST has entered into forward interest rate swaps designed to hedge FST against fluctuations in income caused by movements in interest rates. Upon review of the pro-forma management accounts in section 7 of the Explanatory Memorandum, we have not adjusted for the movement in the net fair market value of these instruments since 30 June 2014, as we do not consider this movement to be material.

Transaction costs

Regardless of the outcome of the Proposal³¹, FST is likely to incur transaction costs of approximately \$0.6 million including legal fees, other advisors fees, costs relating to the preparation of the Explanatory Memorandum and meeting costs. These expenses will be paid from FST's cash reserves, are to be incurred prior to the implementation of the Proposal and are excluded from the cash flows up until implementation.

Intangible assets

We are not aware of any intangible assets which are not otherwise identified in the accounts of FST which should be attributed a fair market value.

³¹ Although, in the event the Proposal is successful, FST will incur additional advisor fees in the amount of \$0.6 million

9. INDEPENDENT EXPERT'S REPORT CONT.

7.2.2 Value of an FST Unit

Based on the above analysis, we have estimated the current fair market value of an FST Unit on a control basis to be in the range of \$2.72 to \$2.87 per unit, as set out in the table below.

Table 23

	Unit	Low	High
Net asset value of FST	\$'million	77.4	81.7
Number of FST Units	million	28.45	28.45
Fair market value per unit	\$	2.72	2.87

Source: Deloitte Corporate Finance analysis

7.3 Cross-checks of value

To assess the reasonableness of our estimate of the fair market value of a FST Unit, we have also considered market evidence derived from our analysis of the:

- earnings multiples and premiums and discounts to NTA observed in listed securities and/or transactions involving entities comparable to FST
- recent trading in FST Units.

7.3.1 Earnings multiples

To assess the reasonableness of our estimate of the fair market value of an FST Unit we have compared the EBIT multiple and price to earnings ratio implied by our estimate of the fair market value of FST to those of A-REITs listed in Australia that are considered broadly comparable to FST. The EBIT multiple and price to earnings ratio implied by our assessed valuation range of an FST Unit on a control basis of \$2.72 and \$2.87 per unit are set out below.

Table 24

	Unit	Low	High
Implied equity value of FST	\$'million	77.4	81.7
Net debt ¹	\$'million	34.3	34.3
Implied enterprise value of FST	\$'million	111.7	116.0
FY 2014 EBIT	\$'million	8.0	8.0
FY 2015 EBIT ²	\$'million	7.5	7.5
FY 2014 implied EBIT multiple (historical)	times	14.0	14.5
FY 2014 implied EBIT multiple (current)	times	14.9	15.5

Source: Deloitte Corporate Finance analysis, company annual reports, Explanatory Memorandum

Notes:

1. Based on the standalone pro-forma net debt for FST as set out in section 5 of the Explanatory Memorandum
2. Based on the standalone forecasts set out in section 5.5 of the Explanatory Memorandum

The historical and current EBIT multiples and distribution yields implied by our valuation of FST may be compared to those of ASX listed A-REITs comparable to FST as set out below.

Table 25

Company	Enterprise value (\$'million) ¹	Gearing	Distribution yields ²	Premium / (discount) to NTA	Historical EBIT (times) ³	Current EBIT (times) ³
Specialty A-REITs						
BWP Trust	2,080	22%	6.2%	23%	18.4x	16.6x
Ingenia Communities Group	676	41%	3.7%	24%	n.m	n.m
Arena REIT	446	27%	6.5%	36%	17.5x	17.1x
Generation Healthcare REIT	362	31%	5.9%	33%	24.6x	15.6x
Folkestone Education Trust ⁴	532	28%	6.8%	25%	16.2x	14.8x
Average		27%	5.8%	28%	19.2x	16.0x
Median		28%	6.2%	25%	18.0x	16.1x
Diversified A-REITs						
Stockland Corporation Limited	12,775	22%	5.6%	22%	20.4x	19.2x
Dexus Property Group	9,972	33%	5.6%	15%	20.8x	15.9x
GPT Group	9,570	25%	5.0%	11%	23.2x	16.8x
Mirvac Group	9,197	28%	5.1%	8%	15.2x	15.8x
Abacus Property Group	2,068	28%	6.2%	19%	13.6x	13.8x
Aspen Group	124	(4%)	6.1%	-13%	n.m	n.m
Average		22%	5.6%	10%	18.6x	16.3x
Median		27%	5.7%	13%	20.4x	15.9x
Non-Diversified A-REITs						
Scentre Group	30,118	37%	5.8%	21%	n.m	16.4x
Federation Centres	5,519	26%	6.2%	16%	15.0x	17.3x
Charter Hall Retail REIT	2,142	28%	6.7%	21%	15.8x	15.4x
Shopping Centres Australasia Property Group	1,706	32%	6.2%	10%	16.2x	14.8x
Brookfield Prime Property Fund	841	68%	n.m	(14%)	13.4x	n/a
Carindale Property Trust	646	33%	5.3%	(13%)	18.9x	18.5x
360 Capital Industrial Fund	435	35%	8.2%	2%	16.2x	12.8x
360 Capital Office Fund	240	34%	8.3%	(5%)	23.1x	n/a
Average		36%	6.7%	5%	17.0x	15.9x
Median		33%	6.2%	6%	16.2x	15.9x
Overall average		30%	6.1%	13%	18.0x	16.1x
Overall median		28%	6.1%	16%	16.9x	15.9x

Source: Deloitte Corporate Finance analysis, CapitalIQ, company annual reports, broker reports

Notes:

1. Enterprise value is calculated as market capitalisation (at 12 November 2014) plus net debt and expressed in Australian dollars
2. Yields are calculated as forecast distribution per unit divided by unit trading price (at 12 November 2014)
3. EBIT multiples presented above are exclusive of property revaluation adjustments
4. Based on actual trading as 12 November 2014
5. n.m = not meaningful

Key points from the above table are discussed below:

- as the majority of FST's assets are early learning centres in Australia, we have excluded large diversified A-REITs with operations outside of Australia and New Zealand
- the average historical and current EBIT multiples for A-REITs is 18.0 times, with a range of 13.4 times to 24.6 times, and 16.1 times, with a range of 12.8 times to 19.2 times, respectively. However we note that the majority of the A-REITs are significantly larger and often have development activities which means they are likely to attract higher historical and current multiples in anticipation of higher forecast growth in earnings

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- with reference to enterprise value, underlying property profile and gearing, we consider FET and Arena to be most comparable to FST, and note the following key metrics in respect of each entity:

Table 26

	Unit	FET	Arena	FST
Operational / Asset metrics				
Number of properties		354	193	49
WALE	Years	7.3	8.5	6.5
Occupancy	%	100.0	99.0	100.0
Average capitalisation rate	%	8.9	8.1	9.6
Base management fee	%	0.5	1.05 ¹	1.0
Financial metrics				
Share price at 12 November 2014	\$	1.87	1.53	2.72
Market capitalisation at 12 November 2014	\$million	385.2	323.6	77.4
Total assets	\$million	474.1	375.3	121.9
Gearing ²	%	31.0	33.0	28.1
Distributions per unit				
- FY 2014 (Actual)	cents per unit	12.0	8.7	20.0
- FY 2015 (Forecast)	cents per unit	12.7	9.8	21.0
Premium / (Discount) to NTA at 12 November 2014	%	25	36	(3)

Source: Broker reports, Annual reports, Explanatory Memorandum, Deloitte Corporate Finance analysis

Notes:

- Arena's base management fee of 1.05% is made up of management fee of up to 0.80% tiered based on the gross asset value, and a fee of 0.25% of gross asset value in relation to the proper performance of Arena's duties
- Gearing calculated as debt as a proportion of total assets
- All values presented in the table above for Arena are as at 30 June 2014 unless otherwise stated
- All values presented in the table above for FET and FST (unless otherwise stated) are based on the pro-forma financial information contained in the Explanatory Memorandum

In respect of the above table, we note the following

- Arena and FET have significantly larger property portfolios, whilst Arena has a longer WALE than FET and FST of 8.5 years. In general, a longer WALE implies lower long term rental volatility
 - FST's portfolio has a high concentration within South-East Queensland. FST is therefore more vulnerable to economic, social and other factors impacting these areas. This is compared with the more geographically diverse asset portfolios of FET and Arena which have properties in various states and regional areas across Australia and overseas. However, this lack of concentration is partly mitigated through FST's investment in FET and the medical and self-storage properties
 - Arena has a large development pipeline of properties pending or under construction that are due for completion in FY 2015 and FY 2016 which are expected to improve earnings going forward. Accordingly, the market is likely to attribute future value to this development pipeline
- the historical and current EBIT multiples of Arena (17.5 times and 17.1 times) and FET (16.2 times and 14.8 times) are above than those of FST (midpoint of 14.2 times and 15.2 times). However, we note that Arena is subject to an internalisation and therefore may be trading at a premium due to the synergies from the internationalisation
- of the remaining specialty A-REITs, we note that BWP Trust and Generation Healthcare REIT each have a strong development pipeline, whilst Ingenia Communities Group operates some of its aged care facilities. Accordingly, these specialty A-REITs have different risk profiles, earnings and growth expectations around future growth which may impact trading multiples
- FST's gearing of 28.1% as at 30 June 2014 is slightly below, but not inconsistent with, the average gearing observed for specialty A-REITs and the overall average gearing for A-REITs
- FST's current yield of 7.7% is higher than the average yields of A-REITs (6.1%) and specialty A-REITs (5.8%). This may be attributable to FST trading at a discount to NTA due its smaller size and scale, limited growth opportunities and lack of geographical diversification. Accordingly, investors may be seeking higher returns to compensate them for these additional risks relative to larger A-REITs

- the historical and current EBIT multiple implied by our assessed midpoint value of an FST Unit is 14.2 times and 15.2 times, respectively. These multiples are in line with the average multiples of the specialty A-REITs, and not inconsistent with A-REITs which invest in early learning centres.

We consider the above market evidence to be broadly supportive of our assessed fair market value of FST.

Recent transactions

We have considered recent transactions involving entities comparable to FST. Whilst we identified some recent transactions involving A-REITs we do not consider these to be comparable to FST (even broadly) as they principally involve large diversified A-REITs or entities that operate or manage early learning centres, rather than invest in the underlying properties.

We note that FET acquired the Folkestone Childcare Fund in December 2013 however we do not consider this transaction comparable to FST due to following:

- Folkestone Childcare Fund is significantly smaller than FST with total assets of \$26.7 million compared to \$117.2 million for FST
- the majority of its early learning centres (61% by value) are located in regional Queensland and are therefore considered to have a higher risk profile relative to properties located in metropolitan areas as reflected in the higher capitalisation rate of 9.71% for its regional early learning centres compared to 9.07% for FST's metropolitan early learning centres.

7.3.2 Analysis of recent security trading

The share market generally provides an objective measure of the market value of an entity's securities provided there is an active, well informed market for the securities and that there are no abnormal factors reflected in market prices, such as takeover speculation.

A brief summary of the recent trading history of units in FST is detailed below.

Table 27

	Volume traded (percentage of average units outstanding)	VWAP (\$)	Unit price		Average premium / discount to NTA
			Low (\$)	High (\$)	
Over 1 week period to 12 November 2014	0.2%	2.71	2.70	2.72	(3%)
Over 1 month period to 12 November 2014	1.5%	2.72	2.69	2.75	(3%)
Over 3 month period to 12 November 2014	6.2%	2.72	2.67	2.79	(3%)
Over 6 month period to 12 November 2014	9.8%	2.69	2.53	2.79	(4%)

Source: S&P Capital IQ, Deloitte Corporate Finance analysis

Note:

1. VWAP has been determined on a calendar basis as opposed to a trading day basis

Whilst there is relatively low liquidity in the trading of FST Units, we consider that trading prior to the announcement of the Proposal provides a high-level cross-check to our assessment of the fair market value of a unit in FST since:

- FST released its FY 2014 results on 6 August 2014. This was accompanied by a presentation of the results to unitholders outlining recent activities and strategic direction going forward
- on 16 July 2014, FST announced the extension of its existing debt facility with improved pricing
- on 19 February 2014, FST released its half year results for 31 December 2013 which included a distribution forecast for FY 2014
- FST's unit price ranged from \$2.53 to \$2.79 per unit during the six months prior to the announcement of the Proposal on 12 November 2014, with a VWAP of \$2.69. During the same period, approximately 2.8 million FST Units were traded. This equates to approximately 9.8% of FST's issued units.

FST's one, three and six month VWAP prior to the announcement of the Proposal on the 13 November 2014 was \$2.72, \$2.72 and \$2.69 per unit, whilst trading on 13 November 2014 was \$3.02 per unit.

Accordingly, we consider this analysis to provide broad support for our assessment of the fair market value of a unit in FST.

8 Valuation of New FET

8.1 Introduction

We have estimated the fair market value of a unit in New FET on a minority interest basis to be in the range of \$1.85 to \$1.95.

We have estimated the fair market value of a unit in New FET based on an analysis of recent trading of FET units. This valuation has been performed on a minority interest basis since if the Proposal is implemented, FST Unitholders will own a minority or portfolio interest in FET and the unit trading price of FET represents a reasonable estimate of a minority value.

To provide additional evidence of the fair market value of a unit in New FET, we have cross-checked our valuation by comparing the EBIT multiples and premiums and discounts to NTA implied by our estimate of the fair market value of New FET to those of entities comparable to New FET.

8.2 Analysis of recent security trading

8.2.1 Basis of evaluation

The Transaction Value consists of the Implementation Distribution of \$0.675 and the Scheme Consideration of 1.32 securities in New FET for every 1 FST Unit held.

Traditionally, we would consider the trading in an acquirer's securities subsequent to the announcement of transaction to be an appropriate reference point of the value of securities in a proposed merged entity. However, in this instance, we consider any market re-rating or synergies³² arising as a result of the Proposal, is not likely to have a material impact on the security price of FET due to the relative scale of FET's operations and asset base compared to those of FST post the implementation of the Proposal. Further to this, in the relatively short period of trading between the announcement of the Proposal on 13 November 2014 and 19 November 2014, there has been a 3% increase in the FET Unit price³³, however, the FET Unit price is still trading within the price range of an FET Unit observed prior to announcement of the Proposal.

Therefore, we have assessed the value of a unit in New FET based on an analysis of recent trading in FET units.

The decision to hold or sell FET securities is an investment decision which holders of FST Units will have to make if the Proposal is approved. This is separate to the decision whether to vote in favour of the Proposal. This report has not been prepared to assist FST Unitholders (or holders of FET securities) in deciding whether to hold or sell securities in FET if the Proposal is approved.

8.2.2 Approach

The market can be expected to provide an objective assessment of the fair market value of a listed entity where the market is well informed and liquid. Market prices incorporate the influence of all publicly known information relevant to the value of an entity's securities. We consider recent trading in FET securities to be a reasonable benchmark for the estimated fair market value of a unit in New FET on minority interest basis, for the following reasons:

- there are no restrictions on FST Unitholders who receive FET securities as consideration disposing of their securities subsequent to implementation of the Proposal
- FET units have historically traded at a premium to its NTA as set out in Section 4.5. Utilising an alternative valuation approach, such as net assets on a going concern, may significantly under value a unit in FET. An analysis of the daily VWAP and premium to NTA per unit is set out in Section 4.5
- FET's audited financial statements for FY 2014 were released to the market on 6 August 2014, providing a recent update regarding FET's financial performance and medium to longer term outlook. FET's statutory profit increased by 35.5% to \$53.8 million in FY 2014, and FET declared a distributable profit of \$24.4 million, an increase of 28.4% over FY 2013. In addition, FET paid distributions of 12.0 cents per unit, an increase of 12.1% over FY 2013

³² As set out in Section 7.2 of our Report, we estimate there are likely to be cost synergies of the Proposal in relation to a reduction in management fees. Mitigating these cost synergies are the transaction costs to be incurred by New FET

³³ Based on the movement in the closing price of an FET Unit on 12 November 2014 and 19 November 2014

- in the six month period prior to the announcement of the Proposal, approximately 25.9 million FET units were traded on average on a weekly basis. This equates to an average trading volume of approximately 0.5% of FET's issued units per week, or 12.6% for the entire six month period. Based on this, the FET units are considered to have lower liquidity compared to listed peers
- whilst FET units have lower liquidity compared to their peers, we consider there to be sufficient liquidity to support the use of recent security trading as a primary valuation methodology. There is a strong retail and institutional holder base sufficient that recent security trading is an adequate benchmark for the current value of FET units
- the volatility in the recent trading of FET securities is not sufficient to limit the applicability of this approach. We note that the security price of FET has increased significantly since the announcement of the FY 2014 result which is likely to be as a consequence of a positive market reaction to the results as well as general appreciation of securities in the A-REIT sector over that period. The VWAP of an FET unit between 7 August 2014 and 12 November 2014 has ranged between \$1.78 and \$2.02.

The following table sets out the market trading in FET units prior to and since the announcement of the Proposal.

Table 28

	Volume traded (percentage of average units outstanding)	VWAP (\$)	Unit price		Average premium / discount to NTA
			Low (\$)	High (\$)	
Unit prices after the announcement of the Proposal (from 13 November 2014)					
Over 4 day period to 19 November 2014	0.5%	1.90	1.86	1.97	28%
VWAP prior to the announcement of the Proposal (before 12 November 2014)					
Over 1 week period to 12 November 2014	1.0%	1.85	1.80	1.88	24%
Over 1 month period to 12 November 2014	2.8%	1.85	1.78	1.90	24%
Over 3 month period to 12 November 2014	9.0%	1.89	1.78	2.02	27%
Over 6 month period to 12 November 2014	12.6%	1.83	1.65	2.02	22%

Source: S&P Capital IQ, Deloitte Corporate Finance analysis

Note:

1. VWAP has been determined on a calendar basis as opposed to a trading day basis

8.2.3 Assessed value

Based on the above analysis, we have estimated the current fair market value of a New FET unit on a minority interest basis to be in the range of \$1.85 to \$1.95 per unit.

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8.3 Valuation cross check

To assess the reasonableness of our estimate of the fair market value of a New FET unit we have compared the EBIT and premiums to NTA implied by our estimate of the fair market value of a unit in New FET to those of A-REITs listed in Australia that are considered broadly comparable to New FET. The EBIT multiples implied by our assessed valuation range of a New FET unit on a minority interest basis of \$1.85 to \$1.95 per unit are set out below.

Table 29

	Unit	Low	High
Assessed fair market value of a unit in New FET	\$	1.85	1.95
Units outstanding post the implementation of the Proposal	million	243.5	243.5
Implied equity value of New FET	\$'million	450	475
Net debt	\$'million	171	171
Implied enterprise value of New FET	\$'million	621	646
FY 2014 EBIT ²	\$'million	41	41
FY 2015 EBIT ²	\$'million	42	42
New FET NTA ³	\$'million	384	384
FY 2014 implied EBIT multiple (historical)⁴	times	15.2	15.8
FY 2015 implied EBIT multiple (current)⁴	times	14.8	15.4
Premium/(discount) to NTA	%	17%	22%

Source: Deloitte Corporate Finance analysis, company annual reports, broker reports

Notes:

1. Comprises of existing 206.0 million units plus 37.6 million new FET units (28.45 million units in FST x 1.32)
2. Based on pro-forma income statement of New FET set out in section 7 of the Explanatory Memorandum and excludes property revaluations
3. Based on pro-forma New FET net assets as set out in section 7 of the Explanatory Memorandum adjusted to exclude goodwill on acquisition

The earnings multiples and premium to NTA implied by our valuation of a unit in New FET may be compared to the earnings multiples and premiums and discounts to NTA of ASX listed A-REITs as set out in Section 7.3.1.

We make the following comments in relation to the metrics set out in Section 7.3.1:

- as FET is a specialised A-REIT invested in the Australian and New Zealand property sector, we have excluded large diverse A-REITs with operations outside of Australia and New Zealand
- the average historical and current EBIT multiples for A-REITs is 18.0 times, with a range of 13.4 times to 24.6 times, and 16.1 times, with a range of 12.8 times to 19.2 times, respectively. However we note that the majority of the A-REITs are significantly larger and often have development activities which means they are likely to attract higher multiples in anticipation of higher forecast growth in earnings
- with reference to enterprise value, underlying property profile and gearing, we consider Arena to be most comparable to New FET due to the following:
 - Arena holds a portfolio 193 properties, with a WALE of 8.5 years and book value of \$355.8 million, principally comprised of early learning centres located across Australia. In comparison, FET's portfolio consists of 354 properties with a WALE of 7.3 years and book value of \$474.1 million. In general, a higher WALE indicates lower rental volatility
 - in addition, Arena has a large development pipeline of properties pending or under construction that are due for completion in FY 2015 and FY 2016 which are expected to improve earnings going forward. The market is likely to attribute future value to this development pipeline
 - the historical and current EBIT multiple of Arena, on a minority basis is 17.5 times and 17.1 times, respectively
- the average premium to NTA for A-REITs is 13% whilst the average premium to NTA for specialty A-REITs (excluding Ingenia Communities Group which is considered an outlier) is 29%. The implied mid-point premium to NTA for New FET is 20% which is broadly consistent with observed premiums for A-REITs. Refer to Appendix C for an analysis of discounts and premiums for A-REITs

- FET's gearing of 31.1% as at 31 October 2014 is in line with the average gearing observed for specialty A-REITs and the overall average gearing of A-REITs
- FET's current yield of 6.8% (based on a forecast distribution of 12.7 cents in FY 2015 and the midpoint of our assessed value range per FET Unit) is higher than the average yields of A-REITs (6.1%) and specialty REITs (5.8%). We note that FET's distribution yield is marginally above that of Arena (6.5%) which may reflect Arena's diversification into medical centres and larger development pipeline. Investors are therefore likely to be pricing in capital growth in the unit price of Arena
- of the remaining specialty A-REITs, we note that BWP Trust and Generation Healthcare REIT have a strong development pipeline, whilst Ingenia Communities Group operates some of its age care facilities. Accordingly, these specialty A-REITs have different risk profiles, earnings and growth expectations around future growth.
- the historical and current EBIT multiple implied by our assessed midpoint value of a security in New FET is 15.5 times and 15.1 times, respectively. These multiples are lower than, but not inconsistent with, the average multiples of the specialty A-REITs.

We are of the opinion that the multiples analysis above is broadly supportive of our assessment of the fair market value, on a minority basis, of a security in New FET.

Appendix A: Valuation Methodology

To estimate the fair market value of the units in FST and the Transaction Value we have considered common market practice and the valuation methodologies recommended by ASIC Regulatory Guide 111, which provides guidance in respect of the content of independent expert's reports. These are discussed below.

Market based methods

Market based methods estimate an entity's fair market value by considering the market price of transactions in its securities or the market value of comparable entities. Market based methods include:

- capitalisation of maintainable earnings
- analysis of an entity's recent securities trading history
- industry specific methods.

The capitalisation of maintainable earnings method estimates fair market value based on the entity's future maintainable earnings and an appropriate earnings multiple. An appropriate earnings multiple is derived from market transactions involving comparable companies. The capitalisation of maintainable earnings method is appropriate where the entity's earnings are relatively stable.

The most recent security trading history provides evidence of the fair market value of the securities in an entity where they are publicly traded in an informed and liquid market.

Industry specific methods estimate market value using rules of thumb for a particular industry. Generally rules of thumb provide less persuasive evidence of the market value of an entity than other valuation methods because they may not account for entity specific factors.

Discounted cash flow methods

Discounted cash flow methods estimate market value by discounting an entity's future cash flows to a net present value. These methods are appropriate where a projection of future cash flows can be made with a reasonable degree of confidence. Discounted cash flow methods are commonly used to value early stage companies or projects with a finite life.

Asset based methods

Asset based methods estimate the market value of an entity's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- orderly realisation of assets method
- liquidation of assets method
- net assets on a going concern basis.

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to security holders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of an entity but does not take account of realisation costs.

These asset based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they ignore the value of intangible assets such as customer lists, management, supply arrangements and goodwill. Asset based methods are appropriate when companies are not profitable, a significant proportion of an entity's assets are liquid, or for asset holding companies.

Appendix B: FST investment properties

Name	Type	State	Places	Lease Expiry	Market value 31 October 2014 (\$'000)	Value per place	Capitalisation rate
Asngrove	Early learning	QLD	120	15/03/2021	2,500,000	20,833	8.9%
Aspley	Early learning	QLD	74	15/03/2021	1,360,000	18,378	9.3%
Boordall	Early learning	QLD	167	2/12/2022	2,080,000	12,455	10.3%
Burleigh Waters	Early learning	QLD	82	15/03/2021	1,500,000	18,293	9.2%
Crestmead	Early learning	QLD	139	15/03/2021	2,430,000	17,482	9.4%
Helensvale 1	Early learning	QLD	65	15/03/2021	1,150,000	17,692	9.3%
Helensvale 2	Early learning	QLD	82	31/10/2020	1,600,000	19,512	9.0%
Indooroopilly	Early learning	QLD	93	15/03/2021	1,750,000	18,817	9.0%
Kailagur 1	Early learning	QLD	71	15/03/2021	1,220,000	17,183	9.4%
Kailagur 2	Early learning	QLD	91	15/03/2021	1,740,000	19,121	9.6%
Labrador	Early learning	QLD	84	15/03/2021	1,575,000	18,750	8.7%
Monterey Keys	Early learning	QLD	75	15/03/2021	1,300,000	17,333	9.1%
Tarragindi	Early learning	QLD	57	4/01/2022	980,000	17,193	9.3%
Thornlands	Early learning	QLD	60	4/01/2017	1,010,000	16,833	9.0%
Kirwan	Early learning	QLD	131	15/03/2021	2,320,000	17,710	9.5%
Kinwan (Willows)	Early learning	QLD	72	15/03/2021	1,340,000	18,611	9.3%
Wishart	Early learning	QLD	75	15/03/2021	1,390,000	18,533	8.3%
Eltham	Early learning	VIC	120	15/03/2021	2,600,000	21,667	7.5%
Gaven/Pacific Pines	Early learning	QLD	100	8/01/2022	2,100,000	21,000	8.8%
Ellen Grove	Early learning	QLD	124	13/02/2022	2,770,000	22,339	8.4%
Gaven	Early learning	QLD	100	6/03/2022	2,020,000	20,200	8.8%
Jindalee	Early learning	QLD	74	30/06/2022	1,210,000	16,351	9.3%
Inala	Early learning	QLD	110	27/06/2022	2,200,000	20,000	8.8%
Bargara	Early learning	QLD	75	27/06/2022	1,420,000	18,933	8.8%
Regents Park	Early learning	QLD	60	11/07/2022	1,100,000	18,333	10.6%
Canndale	Early learning	QLD	60	12/07/2022	1,200,000	20,000	9.7%

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Name	Type	State	Places	Lease Expiry	Market value 31 October 2014 (\$'000)	Value per place	Capitalisation rate
Tingalpa	Early learning	QLD	75	25/07/2022	1,400,000	18,667	8.1%
Capalaba	Early learning	QLD	75	29/08/2022	1,520,000	20,267	8.8%
Anna Bay	Early learning	NSW	49	11/09/2022	1,130,000	23,061	8.3%
Cairns, Forest Gardens	Early learning	QLD	100	17/09/2022	1,950,000	19,500	9.0%
Townsville, Riverside Gardens	Early learning	QLD	96	17/09/2022	1,900,000	19,792	9.0%
Bribie Island	Early learning	QLD	74	17/09/2022	1,460,000	19,730	8.5%
Canning Vale	Early learning	WA	85	26/09/2022	2,100,000	24,706	8.0%
Gladstone	Early learning	QLD	74	31/10/2022	1,330,000	17,973	8.8%
Gunnedah	Early learning	NSW	66	12/12/2022	1,070,000	16,212	8.8%
Darwin	Early learning	NT	75	12/12/2022	1,500,000	20,000	8.5%
Manly West	Early learning	QLD	74	28/11/2022	1,290,000	17,432	10.2%
Wambo	Early learning	WA	47	23/01/2023	870,000	18,511	8.0%
Victoria Point	Early learning	QLD	101	30/03/2023	1,930,000	19,109	8.8%
Baldviss, Woodleigh Grove	Early learning	WA	85	21/04/2023	1,500,000	17,647	8.3%
Estella, Wagga Wagga	Early learning	NSW	50	7/05/2023	800,000	16,000	9.0%
Pullenvale	Early learning	QLD	75	29/05/2023	1,150,000	15,333	10.8%
Mawson Lakes	Early learning	SA	70	1/07/2023	1,350,000	19,286	8.5%
Redcliffe 1	Early learning	QLD	68	24/07/2023	1,560,000	22,941	8.0%
Redcliffe 2	Early learning	QLD	45	24/07/2023	1,010,000	22,444	8.3%
Northlakes	Early learning	QLD	119	12/10/2023	2,160,000	18,151	8.0%
Palmerston (Durack)	Early learning	NT	75	20/05/2024	1,325,000	17,667	8.5%
Glen Iris	Self-storage	VIC	n/a	30/04/2019	1,750,000	n/a	8.6%
Melton	Medical centre	VIC	n/a	4/08/2015	7,425,000	n/a	8.1%
Total			3,939		93,345,000	n/a	n/a
Average¹			84		1,905,000	18,893	8.9%

Source: FST, Deloitte analysis

Note:

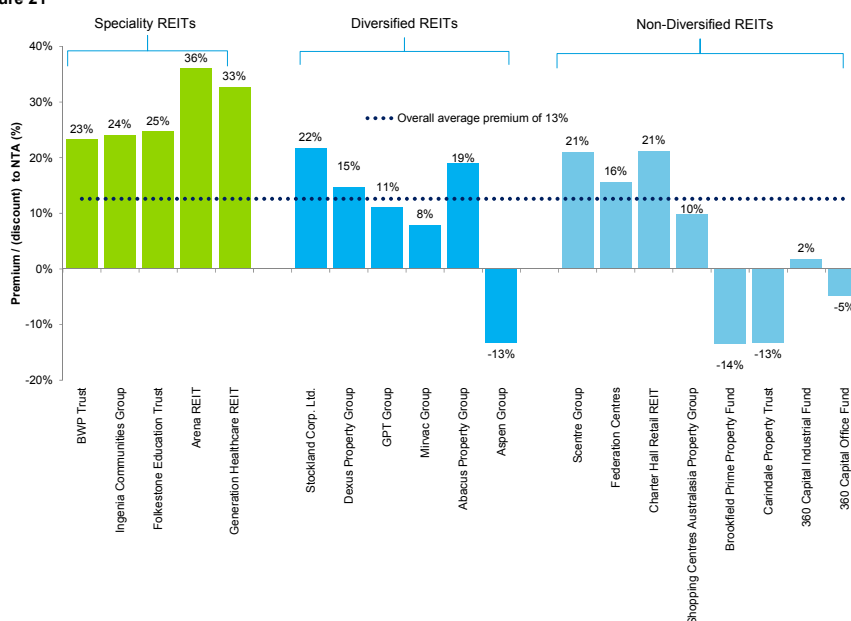
1. Averages calculated as follows: number of places and average value is determined using a simple average, whilst value per place and capitalisation rate is determined on a weighted average basis

Appendix C: NTA premiums and discounts

In this section we set out a high level analysis of comparable premiums/discounts to NTA for specialised and diversified Australian listed REITs.

As at 12 November 2014, an average premium to NTA of 13% was observed in the listed Australian REIT sector as set out in the figure below:

Figure 21



Source: S&P Capital IQ, ASX announcements, Deloitte Corporate Finance analysis

Notes:

1. NTA is based on the latest available published data for each entity
2. We note that Arena REIT is undertaking an internalisation whilst Brookfield Prime Property Fund is subject to takeover offer and therefore may reflect a premium for control

REITs typically trade at a discount or premium to NTA to reflect factors such as:

- **the nature of the activity undertaken by the REIT:** it may be purely focused on passive property investments or it may actively undertake other activities such as property development or funds management
- **the sectors it is exposed to:** a REIT may be focused on a specialised sector such as aged care, or a broader sector such as industrial property or diversified across many sectors such as retail, commercial and industrial
- **perceived quality of underlying assets:** a REIT with assets in prime locations underpinned by long term leases and low vacancy rates is likely to attract a higher premium
- **externally/internally managed assets:** externally and internally managed REITs may have different cost structures and growth drivers which could impact premiums or discounts to NTA
- **jurisdictions in which the REIT operates:** REITs purely exposed to Australian property will face difference risks relative to REITs with international exposure.

We note the following in relation to the above specialty A-REITs that are broadly comparable to FST and FET:

9. INDEPENDENT EXPERT'S REPORT CONT.

- **Arena:** has long lease terms (WALE in excess of 8 years) and a strong development pipeline
- **Ingenia Communities Group:** unlike FST and FET which earn a passive rental income stream, Ingenia is effectively an owner and operator of retirement villages. Furthermore, management have been recently pursuing an acquisition led growth strategy which has seen Ingenia buy a number of retirement villages
- **Generation Healthcare REIT:** has experienced strong growth in income as a result of acquisitions and development activity. In addition, it is also currently undertaking further development at a number of its facilities
- **BWP Trust³⁴:** whilst it has predominantly one tenant, that tenant (Bunnings) is owned by one of the largest companies in Australia (Wesfarmers) offering investors lower levels of volatility. In addition, BWP Trust has a strong development pipeline as Bunnings continues to expand in Australia.

An average premium of 28% to NTA was observed for the abovementioned listed specialty A-REITs.

³⁴ Whilst we have classified BWP Trust as a specialty REIT as it principally holds one asset class leased to a sole tenant (Bunnings). We note that it could also be classified as a non-diversified REIT

Appendix D: Overview of the structure of Australian REITs

An Australian REIT is an investment vehicle which enables investors to acquire an interest in a professionally managed portfolio of real estate assets in Australia and sometimes overseas. Australian REITs provide investors exposure to the value of the real estate held by the trust and the rental income generated from those assets and generally offer increased liquidity over direct property investment. Australian REITs are generally structured in one of two ways:

- a stand-alone trust or entity providing direct exposure to underlying real estate assets
- a stapled security combining funds management, property development and/or other corporate activities together with the passive investment in a real estate portfolio. The trend in recent years has been towards stapled structures with internalised management.

Returns from Australian REITs are generated from income and capital growth. Regular income, or yields, typically in the range of 6% to 10% per annum from rentals is a common feature, with distributions typically being made quarterly or semi-annually. In addition to distributions, Australian REITs also offer the opportunity for capital growth as a result of increases in the market values of the underlying property investments over time.

Australian REITs invest across a range of properties in a variety of geographical regions, with varying lease lengths and tenant types. Investors generally evaluate Australian REITs by assessing the security of the income stream which is typically derived from rental income on the underlying assets, the quality of the individual properties and tenants, the length of tenant leases, the level of gearing, rental yields and the quality of management. The relative risk of these elements will generally be reflected in the implied market yield (return on investment) of individual Australian REITs.

Australian REITs may also be able to access tax concessions such as capital allowances and some of the tax associated with rental income earned may be deferred. The tax deferred component generally ranges from 15% to 100% and is passed on to investors through tax-deferred distributions.

Australian REITs are commonly categorised according to the property type, or property mix, held by the entity. These categories include:

- industrial – warehouse and distribution centres, manufacturing buildings and factories and industrial parks
- commercial (office) – medium to large scale office buildings, typically located in central business districts and suburban districts of major cities
- hotel/leisure – properties including hotels, pubs, cinemas and theme parks
- retail – properties including shopping centres and bulky goods retailers
- diversified – a mix of two or more of industrial, office, hotel/leisure and retail properties
- social infrastructure – assets such as medical, aged care, education and government properties.

Australian REITs securities may be listed or unlisted.

Australia has the most securitised property market in the world with almost half of Australia's institutional grade real estate held by listed public entities. However, the proportion varies by sub-sector with retail assets having the highest degree of institutional ownership, followed by office and industrial.

The performance of Australian REITs can provide insights into the outlook for the real estate sector as a whole.

The Australian REITs sector has historically been perceived as a low risk investment offering steady income and therefore attractive investments for risk averse, yield-focused investors seeking a liquid exposure to property.

Appendix E: Context of the Report

Individual circumstances

We have evaluated the Proposal and the FET Unit Sale for Non-Associated FST Unitholders, respectively, as a whole and have not considered the effect of the Proposal and the FET Unit Sale on the particular circumstances of individual investors. Due to their particular circumstances, individual investors may place a different emphasis on various aspects of the Proposal and the FET Unit Sale from the one adopted in this report. Accordingly, individuals may reach different conclusions to ours on whether the Proposal is fair and reasonable to, and in the best interests of, Non-Associated FST Unitholders and the FET Unit Sale is fair and reasonable to Non-Associated FST Unitholders. If in doubt investors should consult an independent adviser, who should have regard to their individual circumstances.

Limitations, qualifications, declarations and consents

The report has been prepared at the request of the Independent Directors of FREML and is to be included in the Explanatory Memorandum to be given to FST Unitholders to assist in their evaluation of the Proposal and the FET Unit Sale. Accordingly, it has been prepared only for the benefit of the Independent Directors and those persons entitled to receive the Explanatory Memorandum in respect of their assessment of the Proposal and the FET Unit Sale outlined in the report and should not be used for any other purpose. Neither Deloitte Corporate Finance, nor Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than the Non-Associated FST Unitholders and FST, in respect of this report, including for any errors or omissions however caused. Further, recipients of this report should be aware that it has been prepared without taking account of their individual objectives, financial situation or needs. Accordingly, each recipient should consider these factors before acting on the Proposal and the FET Unit Sale. This engagement has been conducted in accordance with professional standard APES 225 Valuation Services issued by the APESB.

The report represents solely the expression by Deloitte Corporate Finance of its opinion as to whether the Proposal is in the best interests of the FST Unitholders as a whole. Deloitte Corporate Finance consents to this report being included in the Explanatory Memorandum.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, Deloitte Corporate Finance has relied upon the completeness of the information provided by FREML (as responsible entity for FST) and its officers, employees, agents or advisors which Deloitte Corporate Finance believes, on reasonable grounds, to be reliable, complete and not misleading. Deloitte Corporate Finance does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us. Drafts of our report were issued to FREML management, and certain extracts of our draft report were issued to FIML management, for confirmation of factual accuracy.

In recognition that Deloitte Corporate Finance may rely on information provided by FREML and its officers, employees, agents or advisors, FREML has agreed that it will not make any claim against Deloitte Corporate Finance to recover any loss or damage which FST or FREML may suffer as a result of that reliance and that it will indemnify Deloitte Corporate Finance against any liability that arises out of either Deloitte Corporate Finance's reliance on the information provided by FIML and its officers, employees, agents or advisors or the failure by FST and its officers, employees, agents or advisors to provide Deloitte Corporate Finance with any material information relating to the Proposal and the FET Unit Sale.

To the extent that this report refers to prospective financial information we have considered the prospective financial information and the basis of the underlying assumptions. The procedures involved in Deloitte Corporate Finance's consideration of this information consisted of enquiries of FREML personnel and analytical procedures applied to the financial data. These procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with standards issued by the AUASB or equivalent body and therefore the information used in undertaking our work may not be entirely reliable.

Based on these procedures and enquiries, Deloitte Corporate Finance considers that there are reasonable grounds to believe that the prospective financial information for FST included in this report has been prepared on a reasonable basis in accordance with ASIC Regulatory Guide 111. In relation to the prospective financial information, actual results may be different from the prospective financial information of FST referred to in this report since anticipated events frequently do not occur as expected and the variation may be material. The achievement of the prospective financial information is dependent on the outcome of the assumptions. Accordingly, we express no opinion as to whether the prospective financial information will be achieved.

Deloitte Corporate Finance holds the appropriate Australian Financial Services Licence to issue this report and is owned by the Australian Partnership Deloitte Touche Tohmatsu. The employees of Deloitte Corporate Finance principally involved in the preparation of this report were Rachel Foley-Lewis, Director, B.Com., CA, F.Fin and Robin Polson, Director, B.Comm, G. Dip. App Fin, FINSIA. Each has many years' experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Consent to being named in disclosure document

Deloitte Corporate Finance Pty Limited (ACN 003 833 127) of 225 George Street, Sydney, NSW, 2000 acknowledges that:

- FST proposes to issue a disclosure document in respect of the Proposal and FET Unit Sale (the Explanatory Memorandum)
- the Explanatory Memorandum will be issued in hard copy and be available in electronic format
- it has previously received a copy of the draft Explanatory Memorandum for review
- it is named in the Explanatory Memorandum as the 'independent expert' and the Explanatory Memorandum includes its independent expert's report in section 9 of the Explanatory Memorandum.

On the basis that the Explanatory Memorandum is consistent in all material respects with the draft Explanatory Memorandum received, Deloitte Corporate Finance Pty Limited consents to it being named in the Explanatory Memorandum in the form and context in which it is so named, to the inclusion of its independent expert's report in section 9 of Explanatory Memorandum and to all references to its independent expert's report in the form and context in which they are included, whether the Explanatory Memorandum is issued in hard copy or electronic format or both.

Deloitte Corporate Finance Pty Limited has not authorised or caused the issue of the Explanatory Memorandum and takes no responsibility for any part of the Explanatory Memorandum, other than any references to its name and the independent expert's report as included in section 9.

Sources of information

In preparing this report we have had access to the following principal sources of information:

- audited financial statements for FST and FET for the years ended 30 June 2013 and 30 June 2014
- FST October 2014 financial summary
- independent valuations of FST's properties
- other company information including the FST and FET constitutions, property details and lease agreements
- publicly available information on comparable companies available from Thompson research and Capital IQ
- IBISWorld Pty Limited company and industry reports
- other publicly available information, media releases and brokers reports on comparable companies and the child care industry.

In addition, we have had discussions and correspondence with certain executives of FREML and FIML including Mr Travis Butcher, Chief Financial Officer – Funds and Mark Stewien, Fund Manager – FST in relation to the above information and to current operations and prospects of FST and FET.

9. INDEPENDENT EXPERT'S REPORT CONT.

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10. TAXATION REPORT





The Directors
Folkestone Real Estate Management Limited (in its capacity as the responsible entity for Folkestone Social Infrastructure Trust)
Level 12, 15 William Street
MELBOURNE VIC 3000

20 November 2014

Dear Sirs

Australian tax considerations

This letter has been prepared for insertion in the Notice of Meeting and Explanatory Memorandum (**Explanatory Memorandum**) dated on or about 21 November 2014 for holders of units in Folkestone Social Infrastructure Trust (**FST**) (**FST Unitholders**). It provides a brief guide to the Australian income tax, GST and stamp duty consequences for FST Unitholders of the proposed special cash distribution by FST (the **Implementation Distribution**) and the merger of FST with Folkestone Education Trust (**FET**) (the **Proposal**). The comments in this letter are necessarily general in nature and do not attempt to address all of the Australian income tax, Goods and Services Tax (**GST**) and stamp duty consequences relevant to FST Unitholders.

This letter outlines the Australian income tax, GST and stamp duty consequences only and does not address other Australian tax consequences or the tax consequences under any foreign law, including foreign tax law. These comments are not relevant to taxpayers who:

- are not Australian tax residents;
- are exempt from income tax in Australia;
- invest or trade in units in the ordinary course of their business; or
- are subject to Division 230 of the Income Tax Assessment Act 1997 (i.e. Taxation of Financial Arrangements).

The Australian income tax, GST and stamp duty treatment and consequences of the Implementation Distribution and the Proposal will vary depending on the particular circumstances of each FST Unitholder. FST Unitholders should obtain, and only rely upon, their own independent taxation advice having regard to their specific circumstances, about the consequences of the Implementation Distribution and the Proposal.

The comments in this letter are based on current Australian law and the judicial and administrative interpretations of the *Income Tax Assessment Act 1997*, *Income Tax Assessment Act 1936*, *Taxation Administration Act 1953* (collectively referred to as the **Tax Act**), *A New Tax System (Goods and Services Tax) Act 1999* (**GST Act**) and the relevant stamp duty legislation. However, FST Unitholders should be aware that the ultimate interpretation of the Australian tax law rests with the Australian courts, and that the law, and the way that the Australian Taxation Office (**ATO**) and state revenue offices interprets and administers the law, may change over time.

The information contained in this document does not constitute "financial product advice" within the meaning of the *Corporations Act 2001 (Cth)* (**Corporations Act**). The PricewaterhouseCoopers

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partnership which is providing this advice is not licensed to provide financial product advice under the Corporations Act. To the extent that this document contains any information about a "financial product" within the meaning of the Corporations Act, taxation is only one of the matters that must be considered when making a decision about the relevant financial product. This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider taking advice from a person who is licensed to provide financial product advice under the Corporations Act. Any recipient should, before acting on this material, also consider the appropriateness of this material having regard to their objectives, financial situation and needs, and consider obtaining independent financial advice. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

This letter should be read in conjunction with the remainder of this Explanatory Memorandum.

1 Implementation Distribution

If FST Unitholders approve the Scheme and it is implemented, on the Record Date FST Unitholders will receive a 67.5 cent Implementation Distribution from FST for each FST Unit held. This Implementation Distribution will be partly funded via the proposed sale of FET Units held by FST. It is also proposed that prior to the implementation of the Proposal, FST will dispose of its Glen Iris Storage Facility. FST will treat the distribution as a return of capital.

Each FST Unitholder will be required to reduce the tax cost base of their units in FST by the amount of the Implementation Distribution. If the Implementation Distribution for a particular FST Unitholder exceeds that FST Unitholder's current tax cost base for their FST units, a capital gain should arise equal to the excess amount.

FST Unitholders may be entitled to claim the CGT discount (please see below for detailed comments on the CGT discount).

Completion of Australian income tax returns

FST Unitholders should wait until receipt of a tax statement before completing their income tax return. The tax statement will provide FST Unitholders with full details of the FST Unitholders' proportionate share of net income for FST for the income tax year.

2 Merger of FST and FET

If FST Unitholders approve the Scheme and it is implemented, FST Unitholders will receive 1.32 New FET Units for every 1 FST Unit held. There will be no cash consideration paid to FST Unitholders for their FST units.

The disposal of FST Units by FST Unitholders will give rise to a CGT event for FST Unitholders. The CGT event is expected to happen at the time the FST Unitholders transfer their FST Units to FET under the Proposal (ie the Effective Date).

FST Unitholders will derive a capital gain on the disposal of a FST Unit to the extent that the consideration received on disposal exceeds the tax cost base of the FST Unit. FST Unitholders will incur a capital loss on the disposal of a FST Unit to the extent that the consideration on disposal is less than the reduced tax cost base of the FST Unit.



The capital proceeds on disposal of the FST Units will be the market value of the New FET Units received by FST Unitholders on the Effective Date.

FREML will publish the market value of the New FET Units received by FST Unitholders on the website: <http://sitrust.folkestone.com.au/> to assist FST Unitholders in determining their CGT consequences on disposal of FST Units.

In general terms, the cost base of each of the FST Units will be the amount paid to acquire the FST Unit (including any incidental costs) less any adjustments for tax deferred distributions.

If a FST Unitholder makes a capital loss, the capital loss may be offset against other capital gains made by the FST Unitholder in the same year or carried forward to offset future capital gains provided the FST Unitholder satisfies any relevant loss recoupment rules. The capital loss cannot be offset against the FST Unitholder's other assessable income.

Any capital gain or capital loss will be included in the calculation of the FST Unitholder's overall net capital gain.

Where a FST Unitholder has a resulting net capital gain this will generally be included in their assessable income.

To the extent there is a capital gain, FST Unitholders may be entitled to claim scrip for scrip rollover relief or the CGT discount (please see below for detailed comments).

Acquisition of New FET Units

If a FST Unitholder does not choose to apply scrip for scrip rollover relief, the tax cost base of each New FET Unit received under the Proposal will be the market value of the FST Units provided in exchange for the New FET Units. The date of acquisition of the New FET Units will be the Effective Date. This date will be relevant for any future qualification of the New FET Units for CGT discount.

FREML will publish the market value of the FST Units disposed of by FST Unitholders on the website: <http://sitrust.folkestone.com.au/> to assist FST Unitholders in determining their tax cost base in the Merger FET Units.

Scrip for scrip roll-over relief

Scrip for scrip roll-over relief may be available to defer any capital gain made by a FST Unitholder.

If a FST Unitholder chooses scrip for scrip roll-over relief, the FST Unitholder's tax cost base for their FST units should be proportionately allocated to the New FET Units.

If a FST Unitholder chooses scrip for scrip roll-over relief the FST Unitholder will be treated as acquiring the New FET Units at the time they acquired the FST Units.

FREML is in the process of seeking a class ruling from the Australian Taxation Office (ATO) on behalf of Australian tax resident FST Unitholders in regard to the availability for scrip for scrip roll-over relief. Obtaining a class ruling is not a requirement for FST Unitholders to obtain the tax treatment set out above. No assurance can be given to FST Unitholders that the final class ruling will be received. This final class ruling may not be received by the Meeting of FST Unitholders.



FREML will make an ASX announcement when the class ruling is published. A link to the class ruling will be posted on the website: <http://sitrust.folkestone.com.au/>

3 Distributions on New FET Units

A unit trust is taxed in a similar manner to a company if it is classified as a 'corporate unit trust' under Division 6B or a 'public trading trust' under Division 6C of the Tax Act. Based on FET's expected circumstances and operations, it should not fall under either of these Divisions and should be treated as a "flow-through" entity for income tax purposes. We would expect the same conclusions to apply in future income years, however the Division 6C test for a public trading trust is undertaken on a yearly basis and looks at the activities of FET and any entities it controls at all times in each income year. Accordingly, FET should continue to monitor its treatment as a 'flow-through' entity for Australian income tax purposes.

If the net income of FET is fully distributed in respect of an income year, FET Unitholders should be liable for tax on their share of that net income of the trust at their own applicable tax rates. FET Unitholders, being presently entitled to the net income of the trust, will generally be subject to tax in respect of the income year in which the net income is derived by FET, even if it is not distributed to them until after that year.

Distributions received by FET Unitholders from FET will retain the character that the receipt had in the hands of FET.

At times a FET Unitholder may receive distributions from FET that exceed the FET Unitholder's share of the net income of FET. These excess distributions are called tax-deferred distributions and may arise due to different accounting and taxation treatments of certain income and expense items of FET.

If a FET Unitholder receives a tax-deferred amount, the FET Unitholder is required to reduce the tax cost base of their units in FET by the relevant amount. Where the tax-deferred distribution exceeds the current tax cost base of the FET Unitholder's units, a capital gain will arise equal to the excess amount. FET Unitholders may be entitled to claim the CGT discount on any capital gain (please see below for details of the CGT discount).

Completion of Australian income tax returns

FET Unitholders should wait until receipt of a tax statement each year before completing their income tax return. The tax statement will provide FET Unitholders with full details of the FET Unitholders' proportionate share of net income for FET for an income tax year.

4 Disposal of New FET Units

A FET Unitholder will derive a capital gain on the disposal of a New FET Unit to the extent that the consideration received on disposal exceeds the cost base of the New FET Unit at the time of the disposal. FET Unitholders will incur a capital loss on the disposal of a New FET Unit to the extent that the consideration on disposal is less than the reduced cost base of the New FET Unit.

All capital gains and capital losses arising in a financial year are added together to determine whether a FET Unitholder has derived a net capital gain or incurred a net capital loss in a year.



Treatment of capital gains and losses

If a FET Unitholder derives a net capital gain in a year, this amount, subject to the comments below, is included in the FET Unitholder's assessable income. If a FET Unitholder incurs a net capital loss in a year, this amount is carried forward and may be available to offset capital gains derived in the same income year or subsequent years, subject in some cases to the FET Unitholder satisfying certain rules relating to the recoupment of carried forward losses.

CGT Discount

A FET Unitholder (either an individual or a complying superannuation fund) may be entitled to a CGT discount in respect of a taxable capital gain realised on the ultimate disposal of the New FET Units, if the New FET Units are disposed of at least 12 months after the date of acquisition. The CGT discount applies to reduce capital gains made by individuals by 50% and capital gains made by complying superannuation funds by 33 1/3%. The CGT discount is not available for companies.

5 Tax File Number and Australian Business Number

An Australian FST or FET Unitholder may quote their Tax File Number (**TFN**) or, where relevant, Australian Business Number (**ABN**) to FREML or FIML respectively. If a TFN or ABN is not quoted, tax may be deducted from any assessable amount paid to FST or FET Unitholders. The rate of withholding is 49% being the highest marginal tax rate (including the temporary budget repair levy) plus the Medicare levy.

6 Goods and Services Tax

The disposal of FST Units, acquisition of New FET Units and the ultimate disposal of FET Units will generally be financial supplies and, consequently, no GST should be payable in respect of these transactions.

The ability of an Australian resident that is registered or required to be registered for GST to claim input tax credits on related transaction costs (if any) may be restricted. This is a complex area of the GST law and hence we recommend that such Australian residents seek their own independent tax advice in this regard.

7 Stamp duty

No stamp duty should be payable by FST Unitholders as a result of receiving the Implementation Distribution or under the Proposal.

* * *

Yours sincerely

Kirsten Arblaster
Partner
PricewaterhouseCoopers

11. ADDITIONAL INFORMATION

- 11.1 VOTING EXCLUSION STATEMENTS
- 11.2 FREML AND FIML CORPORATE GOVERNANCE ARRANGEMENTS
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11.1 VOTING EXCLUSION STATEMENTS

In accordance with Item 7 of Section 611 of the Corporations Act (as modified by ASIC for the purposes of the Proposal), no votes may be cast in favour of Resolution 1 by FIML, as responsible entity of FET, and its associates (unless the associate is a custodian, nominee, trustee, responsible entity or other fiduciary which has received a specific instruction from a third party beneficiary, who is not an associate of the person, directing the associate how to vote). FIML is an associate of FREML and, were it to hold FST Units, would be prohibited from voting on the Resolutions.

In accordance with the ASX Listing Rules, FREML will disregard any votes cast on Resolution 3 by FLK and any associate of FLK. However, FREML will not need to disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) unless it is cast by the Chair as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

In accordance with Section 253E of the Corporations Act, FREML and its associates will not vote on the Resolutions if they have an interest in those Resolutions other than as a FST Unitholder.

11.2 FREML AND FIML CORPORATE GOVERNANCE ARRANGEMENTS

FREML and FIML are both wholly-owned subsidiaries of FLK. In addition, Victor Cottren and Michael Johnstone are Directors of both FREML and FIML. The very nature of these relationships gives rise to potential conflicts of interests in relation to the Proposal.

Accordingly, the respective Boards of FIML and FREML have adopted written Corporate Governance Protocols (**Protocols**) to:

- (a) formalise the procedures for the proper management of conflicts in connection with considering the Proposal; and
- (b) ensure that the consideration of the Proposal by the FREML and FIML Boards gives priority to the interests of FET Unitholders and FST Unitholders respectively.

In accordance with the Protocols adopted by the FREML and FIML Boards:

- (a) each of the FIML and FREML Boards have established a subcommittee (**Board Subcommittee**);
- (b) each of FIML and FREML have engaged separate management teams and advisers to undertake work in respect of the Proposal;
- (c) each of FIML and FREML have conducted their own due diligence enquiries in relation to the Proposal;
- (d) the FIML Board Subcommittee and the FREML Board Subcommittee are responsible for negotiating the terms of the Proposal, implementing the Proposal and overseeing their respective due diligence processes; and

- (e) the FIML and FREML Boards have only proceeded to approve or reject the Proposal upon receiving a unanimous recommendation from their respective Board Subcommittee.

Warner Bastian and Michael Johnstone are Independent Directors representing FST and sit on the Board Subcommittee of the FREML Board. Under the Protocols, these Directors are required to consider the Proposal having regard solely to the interests of FST Unitholders. Michael Johnstone is also a director of FIML but has absented himself from the FIML Board in respect of the Proposal and accordingly has not considered the Proposal for the benefit of FET Unitholders.

Grant Hodgetts and Victor Cottren sit on the Board Subcommittee of the FIML Board.

11.3 FST UNITS

As at 13 November 2014 there were 28,449,729 FST Units quoted on the ASX and held by FST Unitholders.

11.4 FST SUBSTANTIAL HOLDERS

The substantial holders of FST Units at 13 November 2014 are as follows:

Name	Number of FST units	(%)
Phoenix Portfolios Pty Ltd	1,875,637	6.58%

11.5 FREML DIRECTORS

The FREML Directors in office at the date of lodgement of this Explanatory Memorandum with ASIC are:

Name	Position
Victor Cottren	Chairman
Michael Johnstone	Non-Executive Director
Warner Bastian	Non-Executive Director

11.6 FREML DIRECTORS' INTERESTS AND BENEFITS

The table below shows the interest of each FREML in FST Units and FET Units as at 13 November 2014.

Name	Number of FST units	Number of FET Units
Victor Cottren	162,500	626,000
Michael Johnstone	0	71,092
Warner Bastian	0	0

The Directors listed above may hold their interest in the units shown above directly, or through holdings by companies, trusts or other persons with whom they are associated.

The FREML Directors who hold FST Units intend to vote in favour of the Resolutions.

11. ADDITIONAL INFORMATION CONT.

11.7 PAYMENTS OR OTHER BENEFITS TO FREML DIRECTORS AND OTHERS

It is not proposed that any payment or other benefit be made or given to any FREML Director, or any secretary or executive officer of FREML or of any related body corporate of FREML as compensation for loss of, or as consideration for or in connection with his retirement from, office as Director, secretary or executive officer of FREML or of a related body corporate, as the case may be, as a result of the Scheme.

Other than as disclosed in this Explanatory Memorandum, it is not proposed that any payment or other benefit be made or given to any related body corporate of FREML in connection with the Scheme.

11.8 OTHER AGREEMENTS OR ARRANGEMENTS WITH FREML DIRECTORS

There is no agreement or arrangement made between any FREML Director and another person in connection with or conditional on the outcome of the Proposal.

None of the FREML Directors has an interest in any contract entered into by FET.

11.9 BENEFITS AGREED TO BE GIVEN TO FST UNITHOLDERS DURING PREVIOUS FOUR MONTHS

Other than as disclosed in this Explanatory Memorandum, in the four months before the date of this Explanatory Memorandum neither FET nor any associate of FET gave, or offered to give or agreed to give, a benefit to another person that is not available under the Scheme and was intended to or likely to induce the other person, or an associate of the other person, to:

- vote in favour of the Resolutions; or
- dispose of their FST Units to FIML,

other than the agreement by FIML in the Deed Poll for FET to issue the Scheme Consideration in accordance with the Scheme if the Scheme is implemented.

11.10 ACQUISITION OF FST UNITS BY FET AND ITS ASSOCIATES

Neither FET nor any of its associates has provided, or agreed to provide, consideration for FST Units in the four months before the date of this Explanatory Memorandum.

11.11 VOTING POWER AS AT DATE OF EXPLANATORY MEMORANDUM AND NUMBER OF FST UNITS HELD

At the date of this Explanatory Memorandum, FET does not hold any FST Units.

Under the Corporations Act, a person has voting power in the total number of voting securities in which the person or an

associate has a relevant interest. As neither FET nor any of its associates hold a relevant interest in any FST Units, FET does not have any voting power in FST.

11.12 FIML RELEVANT INTERESTS AND VOTING POWER AS A RESULT OF THE SCHEME

As a result of the Scheme, FIML will acquire a relevant interest, and voting power, in 100% of the FST Units.

11.13 RELEVANT INTERESTS AND VOTING POWER OF FIML'S ASSOCIATES AS A RESULT OF THE SCHEME

FLK is an associate of FIML and will acquire a relevant interest, and voting power, in 100% of the FST Units as a result of the Scheme.

FREML is an associate of FIML and will acquire voting power in 100% of the FST Units as a result of the Scheme.

11.14 FIML DIRECTORS' INTERESTS AND BENEFITS

The table below shows the interest of each FIML Director in FST Units and FET Units as at the time of 13 November 2014.

Name	Number of FST units	Number of FET Units
Victor Cottren	162,500	626,000
Michael Johnstone	0	71,092
Nick Anagnostou	0	30,625
Grant Hodgetts	0	0

11.15 FIML DIRECTORS' INTENTIONS IN RELATION TO FST

The current intentions of FIML, as responsible entity of FET, with respect to the continued business of FST and major changes to be made to the business of FST are set out in Section 6.

If the Proposal is not implemented, the FREML Directors currently intend to continue the business of FST and do not currently intend to make any major changes to the business of FST.

11.16 RELATED PARTY TRANSACTIONS AND BENEFITS

FIML and FREML are both wholly owned subsidiaries of FLK. FIML is the responsible entity of FET and FREML is the responsible entity of FST. Refer to Section 11.2.

On FIML replacing FREML, the annual management fee payable to FIML in respect of FST will reduce from the current fee being paid to FREML of 1.0% value to 0.5% of gross assets, representing an annual decrease in the effective FST management fee (based on balance sheet as at 30 June 2014 with pro forma adjustments to the date value of the Explanatory Memorandum) of \$0.6 million per annum.

Following delisting of FST, FREML will be removed as responsible entity of FST and replaced by FIML. FREML is entitled to a fee of 2% of the gross assets of FST on being removed as the responsible entity of FST, in accordance with the FST Constitution. Under the terms of the Scheme, an amount equal to this fee will become payable to FREML if the Proposal proceeds. FREML has agreed to defer this payment, currently estimated at \$1.8 million, until such time as the responsible entity of FET is no longer a member of the Folkestone Group.

In addition, subject to the Scheme becoming Effective, FLK has agreed to purchase 9,035,268 FET Units held by FST for \$16.8 million pursuant to the FET Unit Sale. The Independent Expert has separately concluded that the FET Unit Sale is fair and reasonable to non associated FST Unitholders.

11.17 FRACTIONS

Fractional entitlements to New FST Units will be rounded up to the nearest whole number.

11.18 STAMP DUTY

Any stamp duty payable on the transfer of the FST Units to FET will be paid by FET.

11.19 ASIC EXEMPTIONS

In connection with the Proposal, ASIC has granted relief in respect of certain provisions of the Corporations Act, including relief in respect of Item 7 of Section 611 of the Corporations Act to enable FST Unitholders to vote on the Scheme, relief from the unsolicited offer provisions, relief from certain requirements relating to product disclosure statements which would otherwise need to be complied with, relief from the requirement to provide a financial services guide and relief to enable Foreign Unitholders to be treated in the manner set out in the Explanatory Memorandum.

Copies of the relevant ASIC instruments of relief which have been granted to FREML and FIML will be provided to any FST Unitholder free of charge upon request until the Implementation Date. Investors can call FST Investor Relations on +61 3 8601 2668.

11.20 ASX WAIVERS

In connection with the Proposal, the ASX has granted certain relief from the ASX Listing Rules including waivers to enable FET Units to be issued as part of the Scheme Consideration to all FST Unitholders (including FREML Directors) without FST Unitholder approval and to grant waivers reducing the number of Resolutions FST Unitholders need to approve in order to implement the Scheme.

Copies of the relevant ASX waiver instruments will be provided to any FST Unitholder free of charge upon request until the Implementation Date. Investors can call FST Investor Relations on +61 3 8601 2668.

11.21 INFORMATION DISCLOSED TO ASX AND DOCUMENTS LODGED WITH ASIC

FST and FET are disclosing entities for the purposes of the Corporations Act and as such are subject to periodic reporting and continuous disclosure obligations. Publicly disclosed information about all ASX-listed entities, including FST and FET, is available on the ASX website at www.asx.com.au.

11.22 EXPERTS AND FEES

Deloitte Corporate Finance Pty Limited is entitled to a fee of \$185,000 (plus disbursement) in connection with the preparation of the Independent Expert's Report.

PwC is entitled to a fee of approximately \$15,000 in connection with the preparation of its Taxation Report in Section 10.

11.23 CONSENTS AND DISCLAIMERS

The following persons have given and have not, before the date of this Explanatory Memorandum, withdrawn their consent to be named in this Explanatory Memorandum in the form and context in which they are named:

- Deloitte Corporate Finance Pty Limited – as Independent Expert;
- PricewaterhouseCoopers – as taxation adviser to FREML;
- Boardroom Pty Limited – as the FST Registry and the FET Registry;
- Norton Rose Fulbright Australia – as legal adviser to FIML;
- Clayton Utz – as legal adviser to FREML;
- BG Capital Corporation Limited – as financial adviser to FIML; and
- Moelis & Company – as financial adviser to FREML.

The following persons have given and have not, before the date of this Explanatory Memorandum, withdrawn their consent to the inclusion of the reports noted next to their names and the references to those reports in the form and context in which they are included in this Explanatory Memorandum:

- PwC – the Taxation Report in Section 10; and
- Deloitte Corporate Finance Pty Limited – the Independent Expert's Report in Section 9.

Each person referred to in this Section 11.23:

- does not make, or purport to make, any statement in this Explanatory Memorandum other than those statements (if any) referred to above next to that person's name as consented to by that person; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Explanatory Memorandum other than as described in this Section with that person's consent.

11. ADDITIONAL INFORMATION CONT.

11.24 SUMMARY OF MERGER IMPLEMENTATION DEED

The following is a summary of the key provisions of the Merger Implementation Deed. Capitalised terms used in this Section 11.24 have the meaning given to them in the Merger Implementation Deed lodged with ASX on 13 November 2014, unless otherwise defined in this Explanatory Memorandum or the context requires otherwise.

The Merger Implementation Deed contemplates that the Scheme will be proposed by FREML and that both parties agree to implement the Scheme in accordance with the Merger Implementation Deed.

11.24.1 Conditions precedent

The obligations of FIML and FREML to implement the Scheme under the Merger Implementation Deed are conditional on the satisfaction or waiver of conditions including the following:

Conditions precedent that cannot be waived

- the Resolutions are approved by FST Unitholders at the Meeting.

Conditions precedent that can only be waived by agreement of both FREML and FIML

- all relevant regulatory approvals are obtained to allow the Scheme to be implemented in accordance with applicable law before 8.00am on the Effective Date;
- no temporary restraining order, preliminary or permanent injunction or other, material legal restraint or prohibition preventing or delaying the Scheme is in effect at 8:00 am on the Effective Date; and
- the Independent Expert issues its Independent Expert's Report which concludes that the Scheme is in the best interests of FST Unitholders and the Independent Expert does not change or withdraw its recommendation prior to 8:00am on the Effective Date.

Conditions precedent that can only be waived by FIML

- no FST Material Adverse Change (being, broadly, any matter, event or circumstance which results in or could reasonably be expected to result in a diminution or reduction in distributable income or net assets of FST by more than 10%) arises before 8.00am on the Effective Date;
- no FST Prescribed Occurrence (being, broadly, the occurrence a prescribed list of events or circumstances in relation to FST (including a capital reorganisation, amendment of the FST Constitution, issue of securities and insolvency event) which would result in FST or its business being different from its existence at the date of the Merger Implementation Deed) occurs before 8.00am on the Effective Date; and
- no material breach of the Merger Implementation Deed by FREML has occurred (and is unremedied) before 8:00am on the Effective Date.

Conditions precedent that can only be waived by FREML

- no FET Material Adverse Change (being, broadly, any matter, event or circumstance which results or could reasonably be expected to result in a diminution or reduction in distributable income or net assets of FET by more than 10%) arises before 8.00am on the Effective Date;
- no FET Prescribed Occurrence (bring, broadly, the occurrence a prescribed list of events or circumstances in relation to FET (including a capital reorganisation, amendment of the FET Constitution, issue of securities and insolvency event) which would result in FET or its business being different from its existence at the date of the Merger Implementation Deed) occurs before 8.00am on the Effective Date;
- if an FET Competing Proposal (being, broadly, a transaction or arrangement which would result in a third party controlling all or a substantial part of FET or its business or otherwise acquiring or merging with FET or which would be likely to result in FIML ceasing to be the responsible entity of FET) is publicly announced before 8:00am on the Effective Date;
- the FET Unit Sale completes by 8.00am on the Effective Date or such other time prior to the Implementation Date as FIML and FREML agree; and
- no material breach of the Merger Implementation Deed by FIML has occurred (and is unremedied) before 8:00am on the Effective Date.

If a condition is not satisfied or waived, FREML and FIML will consult in good faith to determine whether the Proposal may proceed by way of alternative means or methods and may agree to extend the relevant dates for satisfaction of the conditions.

Full details of the conditions, the ability of FREML and FIML to rely on them, and the provisions relating to their satisfaction or waiver are set out in clause 3 of the Merger Implementation Deed. At the date of this Explanatory Memorandum, neither FREML nor FIML is aware of any reason why the conditions precedent to the Scheme will not be satisfied.

11.24.2 FREML's obligations

Under the Merger Implementation Deed, FREML is under a general obligation to take all steps reasonably necessary to implement the Scheme in accordance with an agreed timetable.

FREML must also, amongst other things:

- prepare the Explanatory Memorandum in accordance with applicable law and dispatch a copy of the Explanatory Memorandum to FST Unitholders;
- take all reasonable steps to ensure that the FST Information in this Explanatory Memorandum is not false, misleading or deceptive in any material respect;
- commission the preparation of the Independent Expert's Report and provide all information reasonably requested by the Independent Expert to enable the preparation of the Independent Expert's Report;

- apply for all regulatory approvals required to implement the Scheme;
- take all reasonable steps to convene and hold the Meeting in accordance with the FST Constitution and the applicable law; and
- if the Resolutions are approved by the requisite majorities, to do all things contemplated by or necessary to give effect to the Scheme including lodging the executed Supplemental Deed with ASIC, paying the Implementation Distribution from the assets of FST to Scheme Unitholders and promptly registering all transfers of FST Units to FIML.

11.24.3 FIML's obligations

FIML is under a general obligation to take all steps reasonably necessary to assist FREML to implement the Scheme in accordance with an agreed timetable.

FIML must also, amongst other things:

- provide the FET Information to be included in this Explanatory Memorandum relating to the Scheme as required by applicable law to FREML;
- take all reasonable steps to ensure that the FET Information in this Explanatory Memorandum is not false, misleading or deceptive in any material respect;
- provide to the Independent Expert all information reasonably requested by the Independent Expert to enable the preparation of the Independent Expert's Report;
- apply for all regulatory approvals required to implement the Scheme;
- execute the Deed Poll prior to the meeting; and
- if the Scheme becomes Effective, lodge an Appendix 3B in respect of the New FET Units to be issued as Scheme Consideration and provide the Scheme Consideration to the Scheme Unitholders on the Implementation Date in accordance with the Scheme.

11.24.4 Conduct of business

Until (and including) the Implementation Date, FREML and FIML must in all material respects conduct their businesses in the ordinary course, except as provided for by the Merger Implementation Deed or with the written consent of either FREML or FIML (as the case may be).

11.24.5 Representations and warranties

Under the Merger Implementation Deed, each of FREML and FIML provide certain standard representations and warranties to each other in relation to their status and the execution and performance of their respective obligations under the Merger Implementation Deed.

11.24.6 Reimbursement Fee

Under the Merger Implementation Deed, FREML and FIML agree that if the Proposal does not proceed, but within 12 months FST completes an alternative transaction which, FREML was aware of or received prior to the earlier of the implementation of the Scheme, the termination of the Merger Implementation Deed in accordance with its terms and the End Date then FREML must reimburse FIML for its out of pocket expenses (up to \$350,000).

11.24.7 Termination

The Merger Implementation Deed may be terminated prior to the commencement of the Meeting if:

- the conditions cannot be satisfied by the time required under the Merger Implementation Deed and have not previously been waived;
- the Scheme has not become Effective by the End Date;
- a party is in material breach of its obligations under the Merger Implementation Deed, and such breach is not rectified within the relevant notice period;
- a party is in material breach of any warranty provided by it in circumstances where the fact, matter or circumstance surrounding the breach was not disclosed to, or known by, the other party at the time of entry into the Merger Implementation Deed;
- the Independent Directors representing FST change their recommendation in respect of the Scheme; or
- an FET Material Adverse Change, an FET Prescribed Occurrence, an FST Material Adverse Change or an FST Prescribed Occurrence occurs.

11.24.8 Stamp duty

Under the Merger Implementation Deed, FIML agrees to pay all stamp duty payable in respect of the Scheme.

11.25 SUMMARY OF THE DEED POLL

Prior to the Meeting, FIML will enter into the Deed Poll in favour of all Scheme Unitholders pursuant to which it will agree to do all things which it is required to do under the Scheme, and in particular must provide the Scheme Consideration to each Scheme Unitholder in accordance with the terms of the Scheme and the Supplemental Deed.

The Deed Poll, once executed, may be relied upon and enforced by any Scheme Unitholder or by FREML on behalf of the Scheme Unitholders.

The obligations of FIML under the Deed Poll are subject to the Scheme becoming Effective. The Deed Poll will terminate upon the termination of the Merger Implementation Deed or if the Scheme is not Effective on or before the End Date unless FIML and FREML otherwise agree.

A copy of the Deed Poll is set out in full in Annexure 2 of this Explanatory Memorandum.

11. ADDITIONAL INFORMATION CONT.

11.26 FST CONSTITUTIONAL AMENDMENTS

The amendments proposed to be made to the FST Constitution in order to implement the Scheme as contemplated by the Resolutions are set out in full in Annexure 3 of this Explanatory Memorandum.

11.27 SUMMARY OF FET UNIT SALE AGREEMENT

On 13 November 2014, FREML and FLK entered into the FET Unit Sale Agreement pursuant to which FREML has agreed to sell and FLK has agreed to buy the 9,035,268 units that FST holds in FET.

The purchase price is \$1.85747 per FET Unit, amounting to \$16,782,739.25 in total. The purchase price was determined based on a 30 day VWAP for FET Units prior to the date of the Scheme being announced with no discount applied.

The FET Unit Sale is conditional upon the Resolutions being passed by the requisite majorities at the Meeting.

If the Resolutions are passed at the Meeting, completion of the FET Unit Sale is scheduled to occur immediately following the Meeting or such other date as FREML and FLK agree in writing. FREML must also pay to FLK and account to FLK for any distribution paid in respect of the FET Units on or after 13 November 2014 upon the later of completion of the FET Unit Sale or two business days after receipt by FREML of such distribution.

Under the FET Unit Sale Agreement, FREML and FLK each provide certain standard representations and warranties to each other in relation to their status and the execution and performance of their respective obligations under the FET Unit Sale agreement. FLK also agrees to pay all stamp duty payable in respect of the FET Unit Sale.

The FET Unit Sale Agreement will terminate and the parties will be released from all obligations if the Resolutions have not been passed by the End Date.



12. FEES AND COSTS

- 12.1 SUMMARY OF FEES AND OTHER COSTS RESULTING FROM AN INVESTMENT IN FET
- 12.2 ADDITIONAL EXPLANATION OF FEES AND COSTS
- 12.3 ADDITIONAL INFORMATION AND OTHER FEES AND COSTS
- 12.4 COSTS OF THE PROPOSAL



DID YOU KNOW?

Small differences in both investment performance and fees and costs can have a substantial impact on your long term returns.

For example, total annual fees and costs of 2% of your fund balance rather than 1% could reduce your final return by up to 20% over a 30 year period (for example, reduce it from \$100,000 to \$80,000).

You should consider whether features such as superior investment performance or the provision of better member services justify higher fees and costs.

You may be able to negotiate to pay lower administration fees. Ask the fund or your financial adviser.

TO FIND OUT MORE

If you would like to find out more, or see the impact of the fees based on your own circumstances, the Australian Securities and Investments Commission (ASIC) website (www.moneysmart.gov.au) has a managed investment fee calculator to help you check out different fee options.



12. FEES AND COSTS CONT.

12.1 SUMMARY OF FEES AND OTHER COSTS RESULTING FROM AN INVESTMENT IN FET

This Section 12.1 shows fees and other costs that you may be charged. These fees and costs may be deducted from your money, from the returns on your investment or from the assets of FET as a whole.

General information regarding taxation is set out in the Taxation Report in Section 10.

You should read all the information about fees and costs because it is important to understand their impact on your investment.

All fees and costs show the net effect of GST (i.e. inclusive of GST less any input tax credits including reduced input tax credits).

Type of fee or cost	Amount ¹	How and when paid
Fees when your money moves in or out of FET		
Establishment Fee The fee to open your investment	Nil	Not applicable
Contribution Fee The fee on each amount contributed to your investment.	Nil	Not applicable
Withdrawal Fee The fee on each amount you take out of your investment.	Nil	Not applicable
Exit Fee The fee to close your investment.	Nil	Not applicable
Management Costs		
The fees and costs for managing your investment.	Management Costs are estimated to be: 0.73% of the gross asset value of FET per annum comprising:	
	– A base management fee of 0.50% of the Total Tangible Assets of FET; and	Paid quarterly on 31 March, 30 June, 30 September and 31 December.
	– Fund Expenses estimated to be 0.23% pa of the gross asset value of FET.	Paid when incurred or when reimbursement is claimed.
Service Fees		
Switching fee The fee for changing investment options	Nil	Not applicable

Example of annual fees and costs

The table below gives an example of how the fees and costs for this product can affect your investment over a one-year period.¹ You should use this table to compare this product with other managed investment products.

Example	Balance of \$50,000 with a contribution of \$5,000 during the year	
Contribution fee	Nil	You will not be charged a contribution fee.
Plus Management Costs	Base management fee of 0.50% pa of Total Tangible Assets: plus Expenses estimated at 0.23% pa of the gross asset value of FET	For every \$50,000 you have invested in FET, you will be charged \$437.0 per annum. ^{1,2}
Equals cost of FET		If you had an investment of \$50,000 at the beginning of the year and you invested an additional \$5,000 during that year, you would be charged \$458.9 for that year. ^{1,2}

Notes:

1. Additional fees may apply in a given year including debt arrangement fees. For more detail, refer to Section 12.3.

2. Assuming a 30.4% gearing ratio and units acquired at 20% premium to NTA, this equates to an indirect cost ratio of up to 0.87% per annum of the net asset value of FET.

12.2 ADDITIONAL EXPLANATION OF FEES AND COSTS

Under the FET Constitution, FIML is entitled to all of the fees and expenses described in the tables in Section 12.1 in respect of its management of FET. These fees include:

Base management fee

FIML is entitled to a base management fee of up to 0.5% per annum of the total tangible assets. This is the maximum base management fee that FIML may charge under the FET Constitution.

Fund expenses

All expenses incurred by FIML in relation to the proper performance of its duties in respect of FET are payable out of FET. These expenses include, but are not limited to, amongst other things, the costs of offer documents for security issues, expenses associated with the acquisition, disposal and custody of assets, costs of convening and holding meetings of FET Unitholders, fees payable to FET's advisers (e.g. legal, accounting and audit), taxes imposed on FET or FIML (in its capacity as responsible entity of FET), governmental charges and duties and costs of communications with FET Unitholders. FET may also incur unanticipated expenses arising from its business, such as litigation and indemnification expenses. The total of these ongoing expenses is estimated at 0.23% per annum of the gross asset value of FET for the year to 30 June 2015 assuming the Scheme is implemented.

12.3 ADDITIONAL INFORMATION AND OTHER FEES AND COSTS

Debt arrangement fee

FIML is entitled to receive a debt arrangement fee equal to 0.5% of all debt funding arrangement by FIML for FET.

For example, if FIML arranges a debt facility for FET with a facility limit of \$50 million, it would be entitled to receive a debt arrangement fee equal to \$250,000.

Due diligence fee

FIML is entitled to an amount of \$5,000 (indexed by CPI) for conducting due diligence enquiries in connection with any Australian investment of FET. The due diligence fees currently amounts to \$6,680.

Services fees

FIML may also provide property management and managing agent services to FET, in which case it will be entitled to receive reasonable fees not exceeding an amount which would be payable in a commercial, arm's length transaction.

Adviser remuneration

FET does not pay any amounts to advisers or brokers.

Deferred change in responsible entity fee.

FREML is entitled to certain fees on being removed as the responsible entity of FST, in accordance with clause 34.1 and item (4) of Schedule 1 of the FST Constitution. If the Scheme is implemented, FREML will be entitled to receive an amount equal to this fee. FREML has agreed to defer payment of this fee, currently estimated at \$1.8 million, until such time as the responsible entity of FET is no longer a member of the Folkestone Group.

12.4 COSTS OF THE PROPOSAL

Assuming the Proposal proceeds, the expenses of the Proposal to be incurred by FET are estimated at \$2.5 million. A detailed explanation of the costs of the proposal is provided in the table below.

Cost	\$ million
Stamp Duty	0.8
Transaction costs for FREML and FIML – comprising printing and mailing costs, registry and adviser fees and other disbursements	1.7
Total	2.5

13. GLOSSARY

A-REIT	A real estate investment trust listed on the ASX.
APGF	Australian Property Growth Fund ARSN 096 853 619.
ASIC	Australian Securities and Investments Commission.
ASX	ASX Limited ABN 98 008 624 691 or the market operated by it as the context requires.
ASX Listing Rules	The official listing rules of the ASX as amended from time to time.
Board	The board of Directors of FIML or FREML as the case may be.
Board Subcommittee	Has the meaning given to it in Section 11.2.
CGT	Capital Gains Tax.
Corporations Act	<i>Corporations Act 2001</i> (Cth).
Corporations Regulations	<i>Corporations Regulations 2001</i> (Cth).
CPI	Consumer Price Index.
Deed Poll	The Deed Poll which FIML has agreed to enter into prior to the Scheme Meeting pursuant to which FIML undertakes in favour of each Scheme Unitholder to do certain things to give effect to the Scheme including to provide the Scheme Consideration. A copy of the Deed Poll is included in Annexure 2 to this Explanatory Memorandum.
Director	A director of FIML or FREML, as the case may be.
DPU	Distributions per unit.
DRP	Distribution Reinvestment Plan.
EBITDA	Earnings before interest, taxes, depreciation and amortisation.
Effective	When used in relation to the Scheme, the coming into effect of the amendments to the FST Constitution as set out in the Supplemental Deed by way of the lodgement of the Supplemental Deed with ASIC.
Effective Date	The date on which FREML lodges the Supplemental Deed with ASIC.
End Date	31 January 2015 or such other date as FIML and FREML agree in writing in accordance with the terms of the Merger Implementation Deed.
Explanatory Memorandum	This document, including the Notice of Meeting and the Proxy Form.
FCIB	Folkestone CIB Fund ARSN 096 718 348.
FET	In respect of references to FET in this Explanatory Memorandum which relate to times or the state of affairs before implementation of the Scheme, Folkestone Education Trust ARSN 102 955 939 (FET). In respect of references to FET in this Explanatory Memorandum which relate to times or the state of affairs after implementation of the Scheme, the economic entity resulting from the acquisition of FST by FET in accordance with the Scheme, being FET and FST, unless the context requires otherwise.
FET Constitution	The constitution establishing FET as amended from time to time.
FET Information	Information in this Explanatory Memorandum which has been prepared by FIML, being the information in Section 6 (<i>Information about FET</i>), Section 7 (<i>FET Financial Information</i>), Section 8 (Risks), Section 4.3 (<i>Treatment of Foreign Unitholders – Sale Facility</i>), Section 11 (<i>Additional Information</i>) and Section 12 (<i>Fees and costs</i>).
FET Register	The register of holders of FET Units from time to time, as administered by FIML or the FET Registry (as applicable).
FET Registry	Boardroom Pty Limited ABN 14 003 209 836.
FET Unitholder	A person who is registered in the FET Register as the holder of one or more FET Units from time to time.
FET Units	Fully paid ordinary units in FET.
FET Unit Sale	The sale of 9,035,268 FET Units held by FREML to FLK as described in Section 1.1.

FET Unit Sale Agreement	The unit sale agreement between FLK and FREML dated 13 November 2014 in relation to the FET Unit Sale.
FIML	Folkestone Investment Management Limited ABN 46 111 338 937 AFSL 281544 as responsible entity of FET.
FIML Directors	The Directors of FIML in office at the date of lodgement of this Explanatory Memorandum with ASIC.
FLK	Folkestone Limited ABN 21 004 715 226.
Folkestone Group	FLK and its wholly owned subsidiaries.
Foreign Unitholder	Any FST Unitholder who on the Record Date has an address on the FST Register which is outside Australia and New Zealand and their respective external territories.
FREML	Folkestone Real Estate Management Limited ABN 29 094 185 092 AFSL 238506 as responsible entity of FST.
FREML Directors	The Directors of FREML in office at the date of lodgement of this Explanatory Memorandum with ASIC.
FST	Folkestone Social Infrastructure Trust ARSN 094 614 874.
FST Constitution	The constitution establishing FST as amended from time to time.
FST Information	Information in this Explanatory Memorandum which has been prepared by FREML, being all the information excluding the FET Information, the Independent Expert's Report and the Taxation Report.
FST Register	The register of holders of FST Units from time to time, as administered by FREML or the FST Registry (as applicable).
FST Registry	Boardroom Pty Limited ABN 14 003 209 836.
FST Unitholder	A person who is registered in the FST Register as the holder of one or more FST Units from time to time.
FST Units	Fully paid ordinary units in FST.
Foreign Unitholder Sale Period	Has the meaning given to it in Section 4.3 of this Explanatory Memorandum.
FY	Financial year
Glen Iris Storage Facility	The storage facility owned by FST located at 2A York Street, Glen Iris, Victoria.
GST	Goods and services tax (Australia).
ICR	Interest cover ratio.
IE Valuation Range	Has the meaning given to it in Section 1.1
Implementation Date	The date on which the Scheme is to be implemented (expected to be Tuesday, 6 January 2014).
Implementation Distribution	A \$19.2 million capital distribution per FST Unit to be paid by FREML on the Implementation Date.
Independent Directors representing FST	Warner Bastian and Michael Johnstone who sat on the Board Subcommittee of the FREML Board established for the purposes of considering the Proposal (see Section 11.2).
Independent Expert	Deloitte Corporate Finance Pty Limited ABN 19 003 833 127.
Independent Expert's Report	The report prepared by the Independent Expert, a copy of which is set out in Section 9 of this Explanatory Memorandum.
LVR	Loan to value ratio.
Meeting	The meeting of FST Unitholders to be held at 3:00pm, 19 December 2014.
Merger Implementation Deed	The Merger Implementation Deed between FIML and FREML dated 13 November 2014, a summary of which is set out in Section 11.24 of this Explanatory Memorandum.
Moelis & Company	Moelis Australia Advisory Pty Ltd ABN 72 142 008 446 AFSL 345499.
New FET Units	FET Units to be issued to Scheme Unitholders as Scheme Consideration.
Non associated FST Unitholder	An FST Unitholder not associated with FREML.
Notice of Meeting	The Notice of Meeting contained in this Explanatory Memorandum at Annexure 1.

13. GLOSSARY CONT.

NTA	Net tangible assets.
PricewaterhouseCoopers or PwC	PricewaterhouseCoopers ABN 52 780 433 757.
Proposal	The proposed acquisition of all FST Units from Scheme Unitholders by FET to be implemented pursuant to the Scheme.
Protocols	Has the meaning given to it in Section 11.2.
Proxy Form	The form by which FST Unitholders may appoint a proxy to vote on the Resolutions without attending the Meeting in person, a copy of which is enclosed with this Explanatory Memorandum.
Quarterly Distribution	A distribution to FST Unitholders in respect of the quarter ending 31 December 2014, to be paid by FREML on the Implementation Date.
Record Date	The date which is 6 business days after the Effective Date (expected to be Wednesday, 31 December 2014).
Resolutions	The resolutions to be considered by FST Unitholders at the Meeting as set out in the Notice of Meeting.
Responsible Entity	A responsible entity has the dual role of trustee and manager of an investment scheme.
Risk Factors	The risk factors set out in Section 8 of this Explanatory Memorandum.
Sale Broker	The broker appointed by the Sale Nominee to sell New FET Units under the Sale Facility.
Sale Facility	The sale facility described in Section 4.3.
Sale Nominee	Moelis Australia Securities Pty Ltd ABN 87 122 781 560 AFSL 308241.
Scheme	The arrangement pursuant to which FET acquires all of the FST Units from the Scheme Unitholders in return for providing the Scheme Consideration, which is facilitated by amendments to the FST Constitution as set out in the Supplemental Deed.
Scheme Consideration	1.32 New FET Units for every 1 FST Unit held by a Scheme Unitholder.
Scheme Unitholder	A FST Unitholder on the Record Date.
SDRT1	Stockland Direct Retail Trust No. 1 ARSN 121 832 086.
Section	A Section of this Explanatory Memorandum.
Superior Proposal	Has the meaning given in the Merger Implementation Deed.
Supplemental Deed	The Supplemental Deed in Annexure 3 of this Explanatory Memorandum which, upon approval of the Proposal by FST Unitholders, will be executed by FREML and lodged with ASIC to give effect to the amendments to the FST Constitution.
Total Tangible Assets	The gross asset value of FET's assets.
VWAP	The volume weighted average price of a security.
WALE	Weighted average lease expiry.



ANNEXURE 1

Notice of Meeting

ANNEXURE 1

Notice of Meeting

Folkestone Real Estate Management Limited ("FREML"), in its capacity as responsible entity for the Folkestone Social Infrastructure Trust ("FST"), gives notice that a meeting of the Unitholders of FST will be held at the time and place set out below or at such later time notified to Unitholders:

Time: 3:00pm (Melbourne time)

Date: Friday, 19 December 2014

Place: Level 12, 15 William Street, Melbourne VIC 3000

At the meeting, Unitholders of FST will be asked to consider and, if thought fit, to pass the following resolutions:

Resolution 1 – Acquisition Resolution

That the following resolution be considered and, if thought fit, passed as an ordinary resolution:

"That, subject to the passing of Resolutions 2 and 3, for the purposes of Item 7 Section 611 of the Corporations Act 2001 (Cth) and for all other purposes, the acquisition of 100% of the units in the Folkestone Social Infrastructure Trust by Folkestone Investment Management Limited ABN 46 111 338 937, as responsible entity of Folkestone Education Trust ARSN 102 955 939, on the terms set out in the Explanatory Memorandum accompanying this Notice of Meeting is approved."

Resolution 2 – Constitutional Amendment Resolution

That the following resolution be considered and, if thought fit, passed as a special resolution:

"That, subject to the passing of Resolutions 1 and 3, in accordance with Section 601GC(1)(a) of the Corporations Act 2001 (Cth), the Constitution of the Folkestone Social Infrastructure Trust ARSN 094 614 874 be amended as set out in the Supplemental Deed attached as Annexure 3 to the Explanatory Memorandum."

Resolution 3 – FET Unit Sale Resolution

That the following resolution be considered and, if thought fit, passed as an ordinary resolution:

"That, subject to the passing of Resolutions 1 and 2, for the purposes of ASX Listing Rule 10.1 and for all other purposes, the disposal by Folkestone Real Estate Management Limited ABN 29 094 185, as responsible entity for the Folkestone Social Infrastructure Trust ARSN 094 614 874, to Folkestone Limited ABN 21 004 715 226 on the terms set out in the Explanatory Memorandum is approved."

Notes

The Explanatory Memorandum accompanying this Notice of Meeting forms part of the Notice of Meeting and provides information relating to the Resolutions, how FREML will implement the Resolutions, and its reasons for proposing the

Resolutions. In particular, Section 3 contains further details about the Meeting and how to vote.

Capitalised terms used in the Resolutions have the meaning given to them in the Explanatory Memorandum.

Resolution 1 is an ordinary resolution and will not be passed unless more than 50% of the votes cast on the resolution are cast in favour of the resolution by FST Unitholders.

Resolution 2 is a special resolution and will not be passed unless at least 75% of the votes cast on the resolution are cast in favour of the resolution by FST Unitholders.

Resolution 3 is an ordinary resolution and will not be passed unless more than 50% of the votes cast on the resolution are cast in favour of the resolution by FST Unitholders.

The Independent Directors representing FST appointed Deloitte Corporate Finance Pty Limited to prepare the Independent Expert's Report to assess the merits of the Proposal and the FET Unit Sale. The Independent Expert has concluded that the Proposal is fair and reasonable, and is in the best interests of Scheme Unitholders. Additionally, the Independent Expert has concluded the FET Unit Sale to be fair and reasonable to non associated FST Unitholders.

Voting exclusion statements

In accordance with Item 7 of Section 611 of the Corporations Act (as modified by ASIC for the purposes of the Proposal), no votes may be cast in favour of Resolution 1 by FIML, as responsible entity of FET, and its associates (unless the associate is a custodian, nominee, trustee, responsible entity or other fiduciary which has received a specific instruction from a third party beneficiary, who is not an associate of the person, directing the associate how to vote).

In accordance with the ASX Listing Rules, FREML will disregard any votes cast on Resolution 3 by FLK and any associate of FLK. However, FREML will not need to disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) unless it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides

In accordance with Section 253E of the Corporations Act, FREML and its associates will not vote on the Resolutions if they have an interest in those Resolutions other than as a FST Unitholder. FIML is an associate of FREML for these purposes.

Dated:

By order of the Board of Folkestone Real Estate Management Limited as responsible entity of the Folkestone Social Infrastructure Trust

ANNEXURE 2

Deed Poll

CLAYTON UTZ

CLAYTON UTZ

Deed poll

Folkestone Investment Management Limited as responsible entity of the
Folkestone Education Trust

Clayton Utz
Lawyers
Level 15 1 Bligh Street Sydney NSW 2000 Australia
PO Box H3 Australia Square Sydney NSW 1215
T +61 2 9353 4000 F +61 2 8220 6700

www.claytonutz.com

Our reference 15387/17786/80160444

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Deed poll dated **2014**

Parties **Folkestone Investment Management Limited ABN 46 111 338 937 as responsible entity of the Folkestone Education Trust ARSN 102 955 939 of Level 12, 15 William Street, Melbourne VIC 3000 (FIML)**

In favour of each person registered as a holder of Scheme Units

Background

- A. On 13 November 2014, FIML and Folkestone Real Estate Management Limited ABN 29 094 185 092 as responsible entity of the Folkestone Social Infrastructure Trust ARSN 094 614 874 (**FREML**) entered into a Merger Implementation Deed (**Merger Implementation Deed**).
- B. In the Merger Implementation Deed, FIML agreed to enter into this deed.
- C. FIML is entering into this deed to covenant in favour of the Scheme Unitholders to perform its obligations under the Scheme.

Operative provisions

1. Definitions and Interpretation

1.1 Definitions

In this deed:

- (a) **Supplemental Deed** means the deed poll in the form contained in Annexure B to the Merger Implementation Deed, subject to any alterations or conditions agreed in writing by FIML and FREML; and
- (b) unless otherwise defined or the context requires otherwise, capitalised terms used in this deed have the meanings given to them in clause 3.1(c) of the Supplemental Deed.

1.2 Interpretation

Except as otherwise provided in this deed, clause 2 of the Supplemental Deed applies to this deed.

2. Enforceability

FIML acknowledges that this deed may be relied on and enforced by any Scheme Unitholder, or by FREML as duly appointed agent and attorney of the Scheme Unitholders, in accordance with its terms notwithstanding that Scheme Unitholders and FREML are not party to it.

3. Conditions precedent and termination

3.1 Conditions precedent

The obligations of FIML under this deed are subject to the Scheme becoming Effective.

3.2 Termination

The obligations of FIML under this deed terminate:

- (a) on the termination of the Merger Implementation Deed in accordance with its terms;
or
- (b) if the Scheme is not Effective on or before 31 January 2015 or such later date agreed by FIML and FREML in writing,

unless FIML and FREML otherwise agree in writing.

3.3 Consequences of termination

If this deed terminates pursuant to clause 3.2, in addition and without prejudice to any other rights, power of remedies available to FIML or the Scheme Unitholders:

- (a) FIML is released from any obligation to perform its obligations under this deed, except those obligations which by their nature survive termination; and
- (b) Scheme Unitholders retain any rights they have against FIML in respect of any obligation which accrued under, or by reason of, any breach of any obligation imposed by, this deed before it was terminated.

4. Implementation of Scheme

- (a) Subject to the provisions of this deed, FIML undertakes in favour of each Scheme Unitholder to:
 - (i) provide the Scheme Consideration to each Scheme Unitholder; and
 - (ii) undertake all other actions attributed to it under the Scheme,subject to and in accordance with the provisions of the Scheme and the Supplemental Deed.
- (b) FIML covenants in favour of each Scheme Unitholder that the New FET Units which are issued in accordance with the Scheme will:
 - (i) rank equally with all existing units on issue in FET on the Implementation Date; and
 - (ii) be issued free from any mortgage, charge, lien or other encumbrance.

5. Representations and warranties

5.1 Representations

FIML represents and warrants for the benefit of each Scheme Unitholder that:

- (a) FIML is a validly existing corporation registered under the laws of its place of incorporation.
- (b) The execution and delivery of this deed by FIML has been properly authorised by all necessary corporate action and FIML has full corporate power and lawful authority to execute and deliver this deed and to perform or cause to be performed its obligations under this deed.
- (c) This deed constitutes legal, valid and binding obligations of FIML and this deed does not result in a breach of or default under any of the constituent documents of FIML or FET.
- (d) FIML has been properly appointed as responsible entity of FET.

- (e) No action has been taken or proposed to remove FIML as responsible entity of FET.
- (f) FIML and FET are solvent and no resolutions have been passed nor has any other step been taken or legal proceedings commenced or threatened against either of them for their winding-up or dissolution or for the appointment of a liquidator, receiver, administrator or similar officer over any or all of their assets.
- (g) The New FET Units comprising the Scheme Consideration will be validly issued and, as from time of issue, be fully paid up.

5.2 Survival of representations

Each representation and warranty in clause 5.1:

- (a) is severable;
- (b) will survive termination of this deed; and
- (c) is given with the intent that liability thereunder will not be confined to breaches which are discovered prior to the date of termination of this deed.

6. FIML limitation of liability

This clause 6 applies notwithstanding any other provision of this deed.

- (a) FIML enters into this deed only in its capacity as responsible entity of FET and in no other capacity. Any liability arising under or in connection with this deed can be enforced against FIML only to the extent to which it can be satisfied out of the property of FET out of which FIML is actually indemnified for the liability.
- (b) The limitations on FIML's liability contained in this clause 6 extend to all liabilities of FIML in any way connected with any representation, warranty, conduct, omission, agreement or transaction under this deed.
- (c) No other party to this deed may claim against the personal assets of FIML or against FIML in its personal capacity or seek the appointment of a liquidator, administrator, receiver or similar person to FIML or prove in any liquidation, administration or arrangement of or affecting FIML.
- (d) The provisions of this clause 6 shall not apply to any obligation or liability of FIML to the extent that it is not satisfied because under the constitution establishing FET or by operation of law there is a reduction in the extent of FIML's indemnification out of the assets of FET as a result of FIML's failure to properly perform or exercise any of its powers or duties in relation to FET.

7. Continuing obligations

Subject to clause 3, this deed is irrevocable and remains in full force and effect until FIML has completely performed its obligations under this deed and the Scheme.

8. Notices

8.1 How notice to be given

Each communication (including each notice, consent, approval, request and demand) under or in connection with this deed:

- (a) must be in writing;
- (b) must be signed by the party making it or (on that party's behalf) by the solicitor for, or any attorney, director, secretary or authorised agent of, that party; and
- (c) must be delivered by hand or posted by prepaid post to the address, or sent by fax to the number, of the addressee, in accordance with clause 8.3.

8.2 When notice taken to be received

Each communication (including each notice, consent, approval, request and demand) under or in connection with this deed is taken to be received by the addressee:

- (a) (in the case of prepaid post sent to an address in the same country) on the third day after the date of posting;
- (b) (in the case of prepaid post sent to an address in another country) on the fifth day after the date of posting by airmail;
- (c) (in the case of fax) at the time in the place to which it is sent equivalent to the time shown on the transmission confirmation report produced by the fax machine from which it was sent; and
- (d) (in the case of delivery by hand) on delivery,

but if the communication is taken to be received on a day that is not a working day or after 5.00 pm, it is taken to be received at 9.00 am on the next working day (**working day** meaning a day that is not a Saturday, Sunday or public holiday and on which banks are open for business generally, in the place to which the communication is posted, sent or delivered).

8.3 Addresses for notices

For the purpose of this clause 8, the address of a person is the address set out below or another address of which that person may from time to time give notice to each other person:

FIML:

Address: Level 12, 15 William Street, Melbourne VIC 3000
Fax Number: (03) 9200 2282
Attention: Nick Anagnostou

9. Amendment

A provision of this deed may be varied by supplemental deed poll made in favour of the Scheme Unitholders, but only if the variation is agreed to in writing by FREML.

10. General

10.1 Governing law

This deed is governed by and must be construed according to the law applying in the state of Victoria, Australia.

10.2 Jurisdiction

Each party irrevocably:

- (a) submits to the non-exclusive jurisdiction of the courts of the state of Victoria, Australia, and the courts competent to determine appeals from those courts, with respect to any proceedings that may be brought at any time relating to this deed; and
- (b) waives any objection it may now or in the future have to the venue of any proceedings, and any claim it may now or in the future have that any proceedings have been brought in an inconvenient forum, if that venue falls within clause 10.2(a).

10.3 Further acts and documents

FIML must promptly do all further acts and execute and deliver all further documents necessary to give full effect to this deed and the transactions contemplated by it.

10.4 Waiver of rights

- (a) Failure to exercise or enforce, or a delay in exercising or enforcing, or the partial exercise or enforcement of, a right, power or remedy provided by law or under this deed by FIML or a Scheme Unitholder does not preclude, or operate as a waiver of, the exercise or enforcement, or further exercise or enforcement, of that or any other right, power or remedy provided by law or under this deed.
- (b) A waiver or consent given by FIML or a Scheme Unitholder under this deed is only effective and binding on that party if it is given or confirmed in writing by that party.
- (c) No waiver of a breach of a term of this deed operates as a waiver of another breach of that term or of a breach of any other term of this deed.

10.5 Operation of this deed

- (a) Any right that FIML or an Scheme Unitholder may have under this deed is in addition to, and does not replace or limit, any other right that FIML or the Scheme Unitholder may have.
- (b) Any provision of this deed which is unenforceable or partly unenforceable is, where possible, to be severed to the extent necessary to make this deed enforceable, unless this would materially change the intended effect of this deed.

**ANNEXURE 2
DEED POLL
CONT.**

Executed as a deed poll.

Executed by Folkestone Investment Management Limited ABN 46 111 338 937 as responsible entity of the Folkestone Education Trust ARSN 102 955 939 in accordance with section 127 of the Corporations Act 2001 (Cth):

Signature of director

Signature of company secretary/director

Full name of director

Full name of company secretary/director



ANNEXURE 3

Supplemental Deed

Supplemental Deed

Folkestone Real Estate Management Limited
ABN 29 094 185 092
Responsible Entity

Clayton Utz
Lawyers
Level 15 1 Bligh Street
Sydney NSW 2000
GPO Box 9806
Sydney NSW 2001
Tel +61 2 9353 4000
Fax +61 2 8220 6700
www.claytonutz.com

Our reference 15387/17786/80160444

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Supplemental Deed

Date 2014

Party Folkestone Real Estate Management Limited ABN 29 094 185 092 as responsible entity of the Folkestone Social Infrastructure Trust ARSN 094 614 874 of Level 12, 15 William Street, Melbourne VIC 3000 (**Responsible Entity**)

Background

- A. Folkestone Social Infrastructure Trust ARSN 094 614 874 (**Trust**) was established by trust deed dated 21 September 2000. The constitution for the Trust, as amended from time to time, is referred to in this Supplemental Deed as the "**Constitution**".
- B. The Trust is registered by the Australian Securities and Investments Commission (**ASIC**) as a managed investment scheme pursuant to section 601EB of the *Corporations Act 2001* (Cth) (**Corporations Act**) and the Responsible Entity is appointed as the responsible entity of the Trust.
- C. Pursuant to clause 51.1(1) of the Constitution and section 601GC(1)(a) of the Corporations Act, the Constitution may be modified by a special resolution of members of the Trust.
- D. On [19 December] 2014, the members of the Trust approved a special resolution to modify the Constitution as set out in this Supplemental Deed.

Operative provisions

1. Definitions

In this Supplemental Deed, words defined in the Constitution shall (unless defined in this Supplemental Deed) have the same meaning when used in this Supplemental Deed.

2. Interpretation

Except as otherwise provided in this Supplemental Deed, clause 1.2 of the Constitution applies of this Supplemental Deed.

3. Operative provisions

3.1 Specific modifications

Subject to clause 6 of this Supplemental Deed, the Constitution is amended by:

- (a) inserting a new clause 55 as follows:

"55 Scheme

55.1 Implementation of the Scheme

- (1) Each Scheme Unitholder and the Responsible Entity must do all things and execute all deeds, instruments, transfer or other documents as the Responsible Entity considers are necessary or desirable to give effect to the Scheme and the transactions contemplated by it.

- (2) Without limiting the Responsible Entity's other powers under this clause 55, the Responsible Entity has power to do all things that it considers necessary or desirable to give effect to the Scheme.
- (2) The Responsible Entity and FIML, or any of their respective directors, officers, employees or associates, may do any act, matter or thing pursuant to this clause 55 notwithstanding that they have an interest in the act, matter or thing or any consequence thereof.
- (3) Subject only to clauses 1.5 and 51.1, this clause 55:
- (a) binds the Responsible Entity and all Investors from time to time, including those who do not attend the Scheme Meeting, those who do not vote at the Scheme Meeting and those who vote against the Scheme Resolutions at the Scheme Meeting; and
- (b) has effect notwithstanding any other provision of this Constitution and any provision of this Constitution which is inconsistent with this clause 55 does not operate to the extent of any inconsistency.

55.2 Dealings in Units

- (1) For the purpose of establishing the persons who are Scheme Unitholders and the Units that are Scheme Units, dealings in Units will only be recognised if:
- (a) in the case of dealings of the type to be effected using CHESSE, the transferee is registered in the Register as the holder of the relevant Units by the Record Date; and
- (b) in all other cases, registrable transfers or transmission applications in respect of those dealings are received by the Responsible Entity (or by any agent that the Responsible Entity has appointed to maintain the Register on behalf of the Responsible Entity) by the Record Date.
- (2) The Responsible Entity will register registrable transfers or transmission applications of the kind referred to in clause 55.2(1)(b) by, or as soon as practicable after, the Record Date. The persons shown in the Register, and the number of Units shown as being held by them, after registration of those transfers and transmission applications will be taken to be the Scheme Unitholders and the Scheme Units held by them, respectively.
- (3) Subject to the other provisions of this clause 55, the Responsible Entity will not accept for registration, nor recognise for any purpose, any transfer or transmission application in respect of Units received after the Record Date (or received prior to the Record Date not in registrable form) and prior to registration of FIML as holder in respect of all Scheme Units under clause 55.4(3).
- (4) The Responsible Entity will, until the Scheme Consideration has been provided and the name and address of FIML has been entered in the Register as the holder of all of the Scheme Units, maintain, or procure the maintenance of the Register, in accordance with this clause 55.2. The Register immediately after registration of registrable transfers or transmission applications of the kind referred to in clause 55.2(1)(b) will solely determine the persons who are Scheme Unitholders and their entitlements to the Scheme Consideration and the Units which are Scheme Units.

- (5) From the Record Date until registration of FIML as holder in respect of all Scheme Units under clause 55.4(3), no Investor may deal with Units in any way except as set out in this clause 55.2 and any attempt to do so will have no effect.
- (6) From the Record Date until registration of FIML as holder in respect of all Scheme Units under clause 55.4(3), all certificates and holding statements (as applicable) for Scheme Units as at the Record Date will cease to have any effect as evidence of title, and each entry on the Register as at the Record Date will cease to have any effect other than as evidence of the entitlements of Scheme Unitholders to the Scheme Consideration.
- (7) On or before 9.00am on the Implementation Date, the Responsible Entity must give to FIML, or procure that FIML be given, details of the names, Registered Addresses and holdings of Scheme Units of every Scheme Unitholder as shown in the Register as at the Record Date in such form as FIML may reasonably require.
- (8) Each Scheme Unitholder, and any person claiming through that Scheme Unitholder, must not dispose of or purport or agree to dispose of any Scheme Units or any interest in them, after the Record Date.

55.3 Scheme Consideration and Implementation Distribution

- (1) Subject to clause 55.5, each Scheme Unitholder will be entitled to receive the Scheme Consideration for each Scheme Unit held which is to be issued in the manner referred to in clause 55.3(2).
- (2) To facilitate the provision of the Scheme Consideration, the Responsible Entity must deliver to FIML before 12.00pm on the Implementation Date a master application for the New FET Units comprising the Scheme Consideration duly completed and executed by the Responsible Entity (or its directors or officers) as the attorney and/or agent of each Scheme Unitholder as applicant in the form reasonably acceptable to FIML
- (3) To facilitate the provision of the Scheme Consideration, the Responsible Entity will procure FIML to (subject to the provisions of clauses 55.3(2) and 55.5):
 - (a) before 12.00pm on the Implementation Date, issue the applicable New FET Units to each applicable Scheme Unitholder in accordance with the terms of the Scheme;
 - (b) before 12.00pm on the Implementation Date, enter, or procure the entry, in the FIML Register the name and Registered Address of each such Scheme Unitholder and the number of New FET Units which that Scheme Unitholder is entitled to receive under the Scheme; and
 - (c) within 5 Business Days after the Implementation Date, despatch to each Scheme Unitholder by pre-paid or ordinary post (or if the Registered Address of the Scheme Unitholder in the Register is outside Australia, by pre-paid airmail post) to their Registered Address, an uncertificated holding statement for the New FET Units issued to that Scheme Investor in accordance with the Scheme. In the case of Scheme Units held in joint names, holding statements for New FET Units must be issued in the names of joint holders and sent to the holder whose name appears first in the Register on the Record Date.

- (3) If the Scheme becomes Effective the Responsible Entity will pay the Implementation Distribution to each Scheme Unitholder, the record date for which will be the Record Date. The Implementation Distribution will be paid to Scheme Unitholders at or about the same time as the Scheme Consideration is provided to Scheme Unitholders.
- (4) If a fractional entitlement to a New FET Unit arises from the calculation of the Scheme Consideration in respect of a Scheme Unitholder, then any such fractional entitlement to a New FET Unit shall be rounded down to the nearest whole number of New FET Units.
- (5) If the Responsible Entity is of the opinion that an Investor (**Relevant Investor**) has been party to splitting or division of their Units in an attempt to obtain advantage by reference to the Scheme Consideration, the Responsible Entity may give notice to the Relevant Investor:
- (a) stating that opinion; and
 - (b) treating all of that Relevant Investor's holdings of Scheme Units as one holding for the purposes of calculating the Scheme Consideration.

55.4 Transfers to FIML

- (1) On the Implementation Date, subject to FIML satisfying its obligations to provide the Scheme Consideration in the manner contemplated by clause 55.3 and providing the Responsible Entity with written confirmation of that provision:
- (a) all of the Scheme Units, together with all rights and entitlements attaching to the Scheme Units as at the Implementation Date, will be transferred to FIML (or its custodian) without the need for any further act by any Scheme Unitholders (other than acts performed by the Responsible Entity (or its directors or officers) as attorney or agent of the Scheme Unitholders pursuant to clause 55.8 or otherwise); and
 - (b) the Responsible Entity will procure the delivery to FIML for execution transfers of all the Scheme Units to FIML (or its custodian) duly completed and executed by the Responsible Entity (or its directors or officers) as the attorney and/or agent of each Scheme Unitholder as transferor in the form of Scheme Transfers.
- (2) FIML must immediately execute (or must, if applicable, procure that its custodian executes) the transfers referred to in clause 55.4(1)(b) and deliver such transfers to the Responsible Entity for registration.
- (3) The Responsible Entity must, immediately following receipt of the transfers under clause 55.4(2), enter the name and address of FIML (or its custodian) in the Register in respect of all the Scheme Units.

55.5 Ineligible Overseas Investors

- (1) Each Ineligible Overseas Investor acknowledges and agrees that the Responsible Entity will be under no obligation under the Scheme to procure that FIML provides, and FIML will not provide, any New FET Units to an Ineligible Overseas Investor.
- (2) Any entitlement that an Ineligible Overseas Investor would otherwise have to be issued New FET Units under the Scheme will be satisfied by

the Responsible Entity procuring FIML, on the Implementation Date, to issue such New FET Units to the Nominee.

- (3) On the Implementation Date, the Responsible Entity will procure that FIML procures the entry in the FIML Register of the name and address of the Nominee in respect of the New FET Units issued or transferred to it.
- (2) The Responsible Entity will procure that, as soon as reasonably practicable and in any event:
 - (a) not more than 15 Business Days after the Implementation Date, the Nominee sells all of the New FET Units issued to the Nominee pursuant to clause 55.5(1) in such manner, and at such price and on such other terms as the Nominee determines in good faith and at the risk of the Ineligible Overseas Investor, having regard to the desire to achieve the best price reasonably available at the time of sale; and
 - (b) not more than 25 Business Days after the Implementation Date, the Nominee remits to each Ineligible Overseas Investor a cash amount for each New FET Unit which the Ineligible Overseas Investor would otherwise have been entitled to under the Scheme being sold by the Nominee, which is equivalent to the amount calculated by dividing the gross proceeds of sale of all New FET Units sold by the Nominee (rounded to the nearest cent, after deducting any applicable brokerage, stamp duty and other selling costs, taxes and charges) by the total number of New FET Units that are sold by the Nominee.

55.6 Responsible Entity's limitation of liability

The Responsible Entity will not have any liability of any nature whatsoever to Investors, beyond the extent to which the Responsible Entity is actually indemnified out of the Assets, arising, directly or indirectly, from the Responsible Entity doing or refraining from doing any act, matter or thing (including the execution of a document) pursuant to or in connection with the implementation of the Scheme.

55.7 Covenants by Scheme Investors

Each Scheme Unitholder:

- (a) acknowledges that this clause 55 binds the Responsible Entity and all of the Investors from time to time (including those who do not attend the Scheme Meeting, do not vote at the Scheme Meeting or vote against the Scheme Resolutions);
- (a) irrevocably agrees to the transfer of all of their Scheme Units, together with all rights and entitlements attaching to those Scheme Units, to FIML (or its custodian) in accordance with this clause 55;
- (b) agrees to the modification or variation (if any) of the rights attaching to their Scheme Units arising from this clause 55;
- (c) irrevocably agrees, without the need for any further act, to become a member of FET and to have their name and address entered in the FIML Register;

- (c) irrevocably accepts, without the need for any further act, the New FET Units issued pursuant to the Scheme on the terms and conditions of the constitution of FET and agrees to be bound by the constitution of FET as in force from time to time in respect of the New FET Units;
- (e) irrevocably consents to the Responsible Entity doing all things and executing all deeds, instruments, transfers, applications or other documents (including the Scheme Transfers) as may be necessary or desirable to give full effect to the Scheme, this clause 55 and the transactions contemplated by them; and
- (g) agrees to provide the Responsible Entity with such information as the Responsible Entity may reasonably require to comply with any law in respect of the Scheme and the transactions contemplated in this clause 55.

55.8 Appointment of the Responsible Entity as attorney and as agent for implementation of the Scheme

Each Scheme Unitholder, without the need for any further act by that Scheme Unitholder, irrevocably appoints the Responsible Entity as that Scheme Unitholder's attorney and as that Scheme Unitholder's agent for the purpose of:

- (a) doing all things and executing all deeds, instruments, transfers or other documents as may be necessary or desirable to give full effect to the terms of the Scheme and the transactions contemplated by it, including:
 - (i) executing any form of application (including any necessary consent) required for the New FET Units to be issued to that Scheme Unitholder in accordance with the Scheme;
 - (ii) effecting a valid transfer or transfers of the Scheme Units to FIML under clause 55.4, including executing and delivering any Scheme Transfers;
 - (iii) effecting a valid transfer of New FET Units to the Nominee under clause 55.5(1); and
 - (iv) communicating the Scheme Unitholder's instructions and notifications under clause 55.11; and
- (b) enforcing the Deed Poll against FIML,

and the Responsible Entity accepts such appointment. The Responsible Entity, as attorney and as agent of each Scheme Unitholder, may sub-delegate its functions, authorities or powers under this clause 55.8 to all or any of its directors and officers (jointly, severally, or jointly and severally). Each Scheme Unitholder indemnifies the Responsible Entity and each of its directors and officers against all losses, liabilities, charges, costs and expenses arising from the exercise of powers under this clause 55.8.

55.9 Appointment of FREML as attorney and as agent for Scheme Units

- (1) From the Effective Date until the Responsible Entity registers FIML (or its custodian) as the holder of all Scheme Units in the Register, each Scheme Unitholder:
 - (a) without the need for any further act by that Scheme Shareholder, irrevocably appoints the Responsible Entity as its attorney and agent (and directs the Responsible Entity in such capacity) to irrevocably appoint the Chairman of FIML (or other nominee of FIML) as its sole proxy and, where applicable, corporate representative to attend meetings of Investors, exercise the votes attaching to the Scheme Units of which they are the registered holder and sign any Investors' resolution; and
 - (b) must take all other action in the capacity of a Scheme Unitholder for the purposes of facilitating the Scheme as FIML reasonably directors.
- (2) From the Effective Date until the Responsible Entity registers FIML (or its custodian) as the holder of all Scheme Units in the Register, no Scheme Unitholder may attend or vote at any meetings of Investors or sign or vote on any Investors' resolutions (whether in person, by proxy or by corporate representative) other than pursuant to this clause 55.6(2).
- (3) The Responsible Entity undertakes in favour of each Scheme Unitholder that it will appoint the Chairman of FIML (or other nominee of FIML) as the Scheme Unitholder's proxy or, where applicable, corporate representative in accordance with this clause 55.9.

55.10 Status of Scheme Units

- (1) To the extent permitted by law, the Scheme Units transferred to FIML under this clause 55 will be transferred free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, whether legal or otherwise.
- (2) Each Scheme Unitholder is deemed to have warranted to the Responsible Entity in its own right and on behalf of FIML that all their Scheme Units (including any rights and entitlements attaching to those Scheme Units) which are transferred to FIML (or its custodian) under this clause 55 will, at the date they are transferred to FIML (or its custodian), be fully paid and free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind not referred to in this document, and that they have full power and capacity to sell and to transfer their Scheme Units (including any rights and entitlements attaching to those securities) to FIML pursuant to the Scheme.
- (3) FIML will be beneficially entitled to the Scheme Units transferred to it under this clause 55 pending registration by the Responsible Entity of the name and address of FIML (or its custodian) in the Register as the holder of the Scheme Units.

55.11 Binding instructions or notifications

Except for a Scheme Unitholder's tax file number, any binding instruction or notification between a Scheme Unitholder and the Responsible Entity relating to Scheme Units as at the Record Date (including, without limitation, any instructions relating to payment of distributions or to communications from the Responsible Entity) will, from the Record Date, be deemed (except to the extent determined otherwise by FIML in its

sole discretion) to be a similarly binding instruction or notification to, and accepted by, FIML in respect of any New FET Units issued to the Scheme Unitholder pursuant to the Scheme, until that instruction or notification is revoked or amended in writing addressed to FIML, provided that any such instructions or notifications accepted by FIML unless any such instruction or notification is inconsistent with the other provisions of the Scheme.

55.12 Suspension and termination of quotation of Units

- (1) The Responsible Entity must apply to ASX for suspension of trading of the Units on the financial market known as the Australian Securities Exchange conducted by ASX with effect from the close of business on the trading day after the Effective Date.
- (2) The Responsible Entity must apply to ASX for termination of official quotation of the Units on the financial market known as the Australian Securities Exchange conducted by ASX and the removal of the Fund from the official list of the ASX with effect from the trading day immediately following the Implementation Date, or from such later date as may be agreed by the Responsible Entity and FIML.

55.13 Notices

Where a notice, transfer, transmission application, direction or other communication referred to in the Scheme is sent by post to the Responsible Entity, it will not be deemed to be received in the ordinary course of post or on a date other than the date (if any) on which it is actually received at the Fund's registered office.;"

- (b) by including the following sentence at the end of the existing clause 4 of schedule 1:

"The Responsible Entity will be paid the fee referred to in this clause upon it ceasing to be the responsible entity of the Fund following implementation of the Scheme as contemplated in clause 55 of this Constitution.;"

- (c) by inserting the following definitions in clause 1.1 in alphabetical order:

(7A) "**ASIC Instrument**" means

- (a) an exemption or modification granted by ASIC under Part 5C.11 of the Corporations Act; or
- (b) any other instrument issued by ASIC under a power conferred on ASIC which applies or relates to the Responsible Entity of Fund.

(9B) "**ASX**" means ASX Limited ABN 98 008 624 691 or the market operated by it as the context requires

(10A) "**Business Day**" means a day (other than a Saturday, Sunday or public holiday) on which banks are open for general banking business in Melbourne, Victoria.

(26A) "**Corporations Act**" means the *Corporations Act 2001* (Cth).

(27A) "**Deed Poll**" means the deed poll to be executed by FIML prior to the Scheme Meeting in favour of the Scheme Unitholders.

(32A) "**Effective**" means, in relation to the Scheme, the point in time when

the Responsible Entity lodges the Supplemental Deed making amendments to this Constitution to facilitate the Scheme, including the insertion of clause 55, with ASIC and the amendments become binding on the Responsible Entity and Investors.

(32B) "**Effective Date**" means the date on which the Scheme becomes Effective.

(33A) "**FET**" means Folkestone Education Trust ARSN 128 141 177.

(33B) "**FIML**" means Folkestone Investment Management Limited ABN 46 111 338 937 as responsible entity of FET.

(33C) "**FIML Register**" means the register of holders of fully paid ordinary units in FET from time to time, as administered by FIML (or such suitably qualified person or persons that is from time to time appointed by FIML).

(37A) "**Implementation Date**" means the 4th Business Day after the Record Date or such other date as the parties agree in writing.

(37B) "**Implementation Distribution**" means a \$0.675 capital distribution per Scheme Unit.

(40A) "**Ineligible Overseas Investor**" means a Scheme Unitholder whose address as shown in the Register as at the Record Date is a place outside Australia and its external territories, New Zealand and such other jurisdiction as FIML and the Responsible Entity agree is writing or as may be required by any applicable ASIC Instrument.

(54A) "**New FET Unit**" means a fully paid ordinary unit in FET to be issued under the Scheme.

(54B) "**Nominee**" means an entity appointed by FIML to sell the New FET Units in accordance with the Sale Facility.

(63A) "**Record Date**" means 7.00 pm (Melbourne time) on 31 December 2014 or such other date (after the Effective Date) as the Responsible Entity and FIML agree in writing.

(64A) "**Registered Address**" means, in relation to an Investor, the address of the Investor as recorded in the Register.

(68A) "**Sale Facility**" means the facility described in clause 55.5 whereby the New FET Units to which Ineligible Overseas Investors would otherwise have been entitled are placed for sale by the Nominee.

(69A) "**Scheme**" means, unless the context otherwise requires, for the purposes of clause 55, the arrangements pursuant to which FIML acquires all of the Scheme Units from the Scheme Unitholders in return for FIML providing the Scheme Consideration.

(69B) "**Scheme Consideration**" means 1.32 New FET Units for every 1 Scheme Unit held on the Record Date.

(69C) "**Scheme Meeting**" means a meeting of Investors convened on [19] December 2014 to consider a number of resolutions required to facilitate the Scheme.

(69D) "**Scheme Resolutions**" means those resolutions put to Investors at the Scheme Meeting to approve the Scheme.

(69E) "**Scheme Transfers**" means, for each Scheme Unitholder, a proper instrument of transfer of their Scheme Units for the purposes of section 1071B of the Corporations Act, which may be a master transfer for all Scheme Units.

(69F) "**Scheme Unit**" means a Unit on issue as at the Record Date.

(69G) "**Scheme Unitholder**" means a holder of Scheme Units as at the Record Date.

- (d) by amending the definition of "Incoming Responsible Entity" in clause 1.1(40) by deleting the words:

"when that Responsible Entity is registered in the record of registration maintained by ASIC in accordance with section 601FJ of the *Corporations Act* as the new responsible entity or Temporary Responsible Entity of the Fund"; and

- (e) by amending the definition of "Responsible Entity" in clause 1.1(68) by inserting the following words at the end of that definition:

"or any replacement trustee of the Fund if the Fund ceases to be a registered managed investment scheme".

3.2 Provisions not affected

The provisions of the Constitution are not otherwise effected.

4. Governing law

This Supplemental Deed is governed by and will be construed according to the laws of the State of Victoria.

5. No resettlement

Nothing in this Supplemental Deed constitutes a resettlement or redeclaration of the Trust.

6. Effective time

The modifications to the Constitution pursuant to clause 3 of this Supplemental Deed take effect when this Supplemental Deed is lodged with ASIC pursuant to section 601GC(2) of the Corporations Act.

**ANNEXURE 3
SUPPLEMENTAL DEED
CONT.**



Executed as a deed.

Executed by Folkestone Real Estate Management Limited ABN 29 094 185 092 as responsible entity of the Folkestone Social Infrastructure Trust ARSN 094 614 874 in accordance with section 127 of the Corporations Act 2001 (Cth):

Signature of director

Signature of company secretary/director

Full name of director

Full name of company secretary/director

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CORPORATE DIRECTORY

RESPONSIBLE ENTITY (FST)

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Management Limited
Level 12
15 William Street
Melbourne VIC 3000

RESPONSIBLE ENTITY (FET)

Folkestone Real Estate
Management Limited
Level 12
15 William Street
Melbourne VIC 3000

DIRECTORS OF FREML

Victor Cottren (Chairman)
Michael Johnstone
Warner Bastian

DIRECTORS OF FIML

Victor Cottren (Chairman)
Michael Johnston
Grant Hodgetts
Nick Anagnostou

COMPANY SECRETARY OF FREML & FIML

Scott Martin

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FST REGISTRY AND FET REGISTRY

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