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ASX Announcement

16 April 2014

Re: Multiplex European Property Fund (ASX: MUE) – Fund Update

Brookfield Capital Management Limited (BCML), as Responsible Entity for Multiplex European Property Fund (the Fund), provides the following market update to investors.

Debt facility maturity

As previously disclosed, the debt facility provided by Hypothekenbank Frankfurt AG (formerly known as Eurohypo AG) (Financier) to certain German subsidiaries of the Fund (Monti Partnerships) matures on 15 April 2014. BCML has been in ongoing discussions with the Financier for some time, seeking to negotiate an extension of the facility for an outcome in unitholder best interests.

The debt facility has now matured without repayment by the Monti Partnerships. Notwithstanding, the Financier has signed a standstill agreement whereby it has agreed to:

- waive any "event of default" which would otherwise have arisen following non-payment of the debt on the maturity date; and
- not take any enforcement action,

until 15 October 2014 (Standstill Period).

This standstill is subject to on-going satisfaction of a number of conditions, including:

- Implementation of a business plan that will see all of the Fund's properties sold over a period of six months to repay outstanding bank debt.
- Appointment of an agent acceptable to the Financier to manage the sale of the properties and such appointment not being terminated without the Financier's consent.
- Continued appointment of Corpus Sireo as the property manager in Germany and such appointment not being terminated without the Financier's consent.
- No insolvency event or other event of default occurring under the debt facility agreement (other than non-payment of the debt upon the original maturity date) or the standstill agreement.
- No other circumstance occurring, that, in the opinion of the Financier, detrimentally affects its position with the Monti Partnerships when compared with its position to them as at the date of the standstill agreement (including, without limitation, a negative decision by the relevant tax authority in respect of the pending tax audit of the trade tax position for the business years 2007 to 2010).

If any of these conditions, or any other standstill conditions, are breached the Standstill Period will terminate and the Financier may proceed with enforcement action.

The interest rate payable under the debt facility after 15 April 2014 will be a Euribor base rate plus 2.75%. This currently equates to an “all in” rate of 3.07% per annum.

Further standstills or extensions of the debt facility after 15 October 2014 will be at the sole discretion of the Financier.

Overview of current position

Given the current level of gearing of the properties and the uncertain status of the German tax audit of the Monti Partnerships, it is not considered possible to obtain Fund refinancing or recapitalisation. Options for the Fund are essentially to proceed with a sale process managed by BCML or to allow the Financier to proceed with enforcement action. BCML believes that a managed sale is more likely to optimise sale values (with a view to some cash surplus for investors) and is preferable for investors to a process managed by the Financier or a receiver/ administrator appointed by the Financier.

Following advice from a number of advisers, BCML believes that the optimal sales strategy is for a sale of the nursing home properties and a separate portfolio sale of the other properties.

The Monti Partnerships have engaged Corpus Sireo and Brookfield Private Advisers LP (Brookfield Financial) to undertake management of the sales process. Corpus Sireo have been engaged to manage the sale of the nursing home properties with Brookfield Financial managing the sale of the balance of the portfolio. Corpus Sireo will remain property manager for the properties during this process. Brookfield Financial’s appointment follows an arm’s length assessment of proposals from a number of parties, having regard to comparative expertise and cost.

If investor approval is required by the ASX Listing Rules, a meeting of investors will be convened when details of the applicable sale proposal have been finalised. The sale process is targeted to take place during 2014, having regard to the Financier conditions.

At this stage, it is estimated that a managed sale process will result in a cash surplus in the German entities. However, the actual amount of such cash surplus cannot be accurately assessed at the present time and there is no guarantee that any proceeds will be available for repatriation to investors. BCML will need to assess the position on an ongoing basis. Importantly, investors should recognise that the outcome of the ongoing German tax audit may ultimately determine the future of the Monti Partnerships and potential returns to investors even if surplus cash reserves remain after the sales process is complete. Further information regarding the tax audit (as disclosed in previous announcements) is provided in the ‘risks’ section below. An adverse finding from the audit may lead to an event of default under the debt facility and/or result in a breach of the standstill conditions. Should the tax audit result in an assessment which becomes payable, this may result in the German partnerships being placed into insolvency. Whilst this remains a possible outcome BCML consider that as the tax audit is ongoing and the outcome remains uncertain, that the optimal course is for the standstill to be agreed and to undertake the managed sale process pending further contact from the German tax authorities.

Australian cash position and distributions

The Fund's Australian entities are not party to the debt facility and the Financier has no recourse to the Fund's assets held in Australia.

The Fund retained net cash of approximately $7.9 million (3.2 cents per unit) in Australia as at 28 February 2014.

Expenses incurred by the Fund outside of Germany will continue to be met from these cash reserves. It is estimated that net cash reserves will reduce by approximately $1.6 million over the period to 31 December 2014 (assuming the sale of all of the Fund's properties prior to 30 September 2014). Management fees are calculated using gross asset values and the sale of properties will significantly reduce management fees payable.

The level of excess cash reserves capable of being distributed to investors will ultimately be determined by the sale process outcome, the German tax audit and time and costs incurred in winding up the Fund. As the sale process and tax audit continue investors will be provided with further updates.

Risks

Investors should note the ongoing risks associated with the Fund and potential returns to investors. In particular:

Tax audit

No response has been received from the German tax authorities relating to the objection lodged against the Trade Tax assessment for the 2004 to 2006 income years.

The German tax authorities' audit for the 2007 to 2010 income years continues. Whilst each year is considered separately by the tax authorities, if they were to apply the same approach for the 2007 to 2010 period as was applied to 2004 to 2006, the current estimate of potential trade tax payable would be approximately €27.9 million (including approximately €6.3 million in interest and penalties) calculated to 31 December 2013.

If an assessment was to become due and payable, discussions with the Financier and the German tax authorities would be required regarding payment of part or all of any such liability. If no deferral of any liability is achieved or if the Financier does not consent to the use of cash reserves then this may give rise to solvency considerations in those entities and/ or an event of default under the debt facility.

Debt maturity

The Financier has agreed to a standstill for a period of six months subject to certain conditions. Any further standstill or extension remains the sole discretion of the Financier. If no further standstill or extension is granted and no alternative financing is available, or if the standstill conditions are breached, this will result in an event of default under the facility agreement and may lead to enforcement action by the Financier over the properties.

Solvency of Fund subsidiaries

Insolvency of the German partnerships or the Fund's European subsidiaries in the partnerships may give rise to an event of default under the debt facility. Ongoing solvency of these entities is being closely monitored.

Wind up of the Fund and its subsidiaries

The method and timing of a wind up of the Fund will be determined by many factors including the outcome of the sale process and the German tax audit. Any delay in this process will delay the repatriation of any excess proceeds and may reduce the amount, if any, ultimately distributed to investors.

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