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ASX Announcement

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Multiplex European Property Fund (ASX: MUE)
Proposed Sale of Property Portfolio

Brookfield Capital Management Limited (**BCML**), as Responsible Entity for Multiplex European Property Fund (the **Fund**), provides the following update to unitholders regarding the proposed sale of the Fund's remaining properties (**Proposed Sale**).

Key messages:

- Conditional agreement executed to sell the Fund's remaining property portfolio for consideration net of selling expenses of €164.6 million;
- Sale is subject to unitholder approval. A meeting of unitholders will be convened to approve the sale and wind up of the Fund;
- Subject to a number of important assumptions, including a favourable outcome to all German tax audits, it is currently estimated that settlement of the Proposed Sale and wind up of the Fund may result in a total net cash surplus in the Fund of approximately A$21.2 million or 8.6 cents per unit. In the event that the assumptions are not met this may result in a materially lower cash surplus being available for distribution to unitholders; and
- Wind up of the Fund and its subsidiaries may take a number of years to complete.

Sale of remaining property portfolio

Conditional agreement has been reached to sell the remaining 61 properties owned by the Fund's wholly owned German partnerships for €168 million with expected net sale proceeds of €164.6 million (approximately A$235.1 million). Agreement was reached after an extensive multi-stage sales process that saw numerous parties review the portfolio and submit bids.

The Proposed Sale is conditional on Fund unitholders approving the sale by 31 July 2015. A meeting of unitholders will be convened for the purpose of passing an ordinary resolution to approve the sale as required by ASX Listing Rule 11.2 and wind up the Fund.

To be passed, the ordinary resolution requires approval by more than 50% of votes cast on the resolution at the meeting by unitholders entitled to vote on the resolution. A Notice of Meeting and Explanatory Memorandum will be sent to unitholders.

Settlement of the sale is expected within the next four to five months, subject to meeting conditions relating to providing clear title to the properties.

Current status of the Fund

Debt facility

The Fund's debt facility matured in April 2014 without repayment by the Fund's wholly owned German partnerships. Notwithstanding, Hypothekenbank Frankfurt AG (Financier) agreed a standstill until 15 October 2014 which was subsequently extended to 31 December 2014 and then to 30 September 2015.

This standstill is subject to ongoing satisfaction of a number of conditions, including implementing a business plan that would see all of the Fund's properties sold to repay outstanding bank debt. Any further extension of the standstill remains at the discretion of the Financier.

In order to avoid a potential default, BCML has pursued the business plan and sales contracts were entered into for six nursing home properties in 2014.

The Proposed Sale of the remaining 61 properties, together with part use of existing cash reserves held in the partnerships, is expected to facilitate repayment of the debt facility which currently stands at €169.8 million (A$242.5 million) after repayment of €61.6 million from sale of the nursing home properties in January 2015.

German tax audits

Discussions have taken place with the German Tax Office regarding the objection lodged for Trade Tax assessed for the 2004 to 2006 tax audit of the Fund's wholly owned partnerships. The objection remains under review by the German Tax Office and it is expected that further discussions will take place prior to any final decision being issued.

The 2007 to 2010 tax audit continues. Since preliminary findings were issued in May 2014, further information has been provided to the German Tax Office and a number of final audit reports have been received. However, no further findings have been received for the partnership subjected to the Trade Tax assessment for 2004 to 2006 and no final assessments have been received in respect of any of the partnerships. It is open to the German Tax Office to deviate from the findings and issue tax assessment notices that differ from the findings and therefore, there is no guarantee that this position will not change.

It should be noted that if the German Tax Office 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 up to €29.2 million (including approximately €7.4 million in interest and penalties) calculated to 31 December 2014. Consistent with prior reporting periods, having obtained independent advice, BCML's view remains that, in the event that the tax matter was pursued through to court appeal, the relevant entities are more likely than not to successfully defend their position and no Trade Tax would ultimately be payable. No liability has been recognised in the Fund's financial statements as at 31 December 2014 for the potentially outstanding amounts.

Consideration of alternatives by BCML

BCML has given consideration to alternative strategies for the Fund. It is considered that, in light of current circumstances, a sale of Fund's properties is in the best interests of unitholders.

In particular, given the current level of property gearing and uncertainty of the partnerships' German tax audit, it is not presently considered likely that the Fund would be able to complete a refinancing or a recapitalisation. Options for the Fund are to proceed with a sale process managed by BCML or to default on the terms of the standstill which will likely result in the Financier proceeding with enforcement action. BCML believes that a managed sales process, as has been conducted to date, is more likely to optimise values and is preferable for unitholders rather than a distressed sale process managed by the Financier or a receiver.

Future of the Fund

If the Proposed Sale is approved by unitholders, after disposal of the remaining 61 properties, the Fund will have no assets other than cash and receivables (being principally the cash held in escrow from the sale of the properties).

BCML intends to maintain the structure of the Fund and conduct an orderly wind up of the subsidiaries when optimal to do so. The timing and quantum of distributions during the course of this process will be determined by a number of factors set out below. In light of these factors, it may take a number of years to complete wind up of the Fund.

Distributions to unitholders

Subject to a number of important assumptions, it is currently estimated that settlement of the Proposed Sale and wind up of the Fund may result in a total Fund net cash surplus of approximately A$21.2 million or 8.6 cents per unit. In the event that the assumptions are not met this may result in a materially lower cash surplus being available for distribution to unitholders.

The Fund has retained net cash of approximately $5.9 million (2.4 cents per unit) in Australia as at 28 February 2015. Expenses incurred by the Fund outside of Germany will continue to be met from these cash reserves until wind up of the Fund is complete. 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.

Timing of repatriation of the excess cash reserves from Germany and the amount distributed to unitholders will ultimately be determined by a number of factors including the outcome of the German tax audits, operating performance of the properties, foreign exchange fluctuations, release of cash from escrow accounts and time and costs incurred in winding up the Fund. As such, there is no guarantee that any proceeds will be available for distribution to unitholders.

Important Assumptions

Outcome of German tax audits

The above estimate of cash available to be distributed to unitholders assumes that both the 2004 to 2006 tax audit and the 2007 to 2010 tax audits are resolved successfully. This outcome would see a refund of the €2 million paid in respect of the 2004 to 2006 tax audit and no further tax paid in respect of the 2007 to 2010 tax audit. Such an assumption has been made in light of the independent advice provided during the course of the tax audits.

The outcome of the German tax audits may ultimately determine the future of the German partnerships and potential returns to unitholders, even if surplus cash reserves remain after the sale process is complete. An adverse finding from the 2007 to 2010 tax audit may result in an assessment becoming payable in excess of cash reserves held in Germany resulting in the partnerships and other subsidiaries of the Fund being placed into insolvency.

In addition, an estimate of professional costs to finalise the tax audits have been assumed. If either or both of the tax audits are pursued through the German tax courts, this may result in additional cash expenses being incurred. If a decision was made to challenge the findings of the tax audits this may be required to be funded from cash reserves held in Australia.

Operating performance of the properties

It is expected that settlement of the Proposed Sale will take place by September 2015. This allows for relevant procedural and regulatory processes to be finalised. The estimate of cash to be distributed has been calculated assuming that operating cashflow from the properties will be earned as presently budgeted over that period. A settlement earlier or later than that date, or a change in operating performance, may impact cash available to be distributed.

Foreign exchange movements

The above estimate of cash to be available to be distributed to unitholders assumes that the Australian dollar: Euro exchange rate remains at a rate of A$1: €0.70. Any movement from that rate at the time of repatriation of cash to Australia will impact on returns to unitholders.

Release of cash from escrow accounts

A condition of the sale of the nursing home properties in 2014 was establishment of an escrow account with €2.5 million in sale proceeds being withheld until April 2016 at the latest. A condition of the Proposed Sale is establishment of an escrow account with €1 million in sale proceeds being withheld until December 2016. In case of all sales, the cash is being held as security for various warranties provided to the purchasers.

The above estimate of cash available to be distributed to unitholders assumes that no claim is made on the cash held in escrow and that the full amount is paid to the German partnerships. Such an assumption is consistent with the current expectation of BCML that no warranties have been breached and no claim will be made on the cash held in escrow. In the event that some or all of the cash held in escrow is not paid to the German partnerships, the return to unitholders will be adversely impacted.

Time and cost in winding up the Fund

It is intended that the German partnerships will be merged at completion of the last escrow period (December 2016). At completion of that process, the remaining European subsidiaries will be merged or liquidated with the expectation that Fund wind up will be completed by December 2017.

This intended timeline assumes a favourable outcome of the German tax audits. If this is not the case and/or the subsidiaries of the Fund are considered to be insolvent, the wind up of the Fund may be delayed and additional costs incurred. Further, the intended timeline is based on current expectations which, in part, rely on regulatory approval. Any change in these expectations may affect the timing and cost of the wind up of the Fund.

Consequences for unitholders if a sale of properties is not approved

The business plan provided to the Financier under the terms of the standstill agreement requires a sale of the remaining properties in order to repay the debt facility. In the event that a sale does not proceed as provided under the terms of the standstill, the Financier may seek to enforce security against the properties. In these circumstances, control of the sale of the assets would be lost and the Fund may not receive an equivalent value for the properties as has been conditionally agreed.

Next steps

Unitholders will be sent a Notice of Meeting and Explanatory Memorandum in the coming weeks setting out further information and the advantages and disadvantages of a resolution to approve the sale and wind up of the Fund. Unitholders should carefully consider the information contained in the Notice of Meeting and Explanatory Memorandum.

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Brookfield Customer Service
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