

## **INVESTEC AUSTRALIA PROPERTY FUND**

Incorporated and registered in Australia in terms of ASIC (ARSN 162 067 736)

Registered as a foreign collective investment scheme in terms of the Collective Investment Schemes Control Act No. 45 of 2003 and operated by Investec Property Limited (ACN 071 514 246; AFSL 290 909) ("**Responsible Entity**")

Share code: IAP

ISIN: AU60INL00018

("the Fund" or "IAPF")

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### **POSTING OF CIRCULAR, NOTICE OF GENERAL MEETING, *PRO FORMA* FINANCIAL EFFECTS AND WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT**

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#### **1. POSTING OF CIRCULAR**

Further to the announcement released on SENS on 21 July 2014, and using the terms defined therein unless otherwise stated, Unitholders are hereby advised that the circular ("**Acquisition Circular**") containing full details of, inter alia, the Acquisition as well as a notice to convene a general meeting of Unitholders in order to consider and, if deemed fit to pass, with or without modification, the resolutions necessary to approve and implement the Acquisition, has been distributed today, 14 August 2014 and is available on the Fund's website at [www.investecaustraliapropertyfund.co.za](http://www.investecaustraliapropertyfund.co.za)

#### **2. NOTICE OF GENERAL MEETING**

Notice is hereby given that a general meeting of Unitholders will be held on Friday, 12 September 2014 at:

- 09h00 (Johannesburg) in 2<sup>nd</sup> Floor Executive Boardroom, Investec Bank Limited, 100 Grayston Drive, Sandown, Sandton; and
- 17h00 (Sydney) in Boardroom, Investec Australia Limited, Level 23, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000, Australia;

to conduct the business stated in the notice of general meeting, which is contained in the Acquisition Circular. The meeting will be broadcast via video conference and Unitholders at either location will be able to participate in the general meeting, including to ask questions.

The directors of the Responsible Entity ("**Directors**") determined that the record date for the purposes of determining which Unitholders are entitled to participate in and vote at the general meeting is Friday, 5 September 2014. Accordingly the last day to trade in IAPF units in order to be recorded in the register to be entitled to vote will be Friday, 29 August 2014.

#### **3. PRO FORMA FINANCIAL EFFECTS OF THE ACQUISITION**

The *pro forma* statement of financial position of IAPF reflecting the effect of the Acquisition, as set out below, is the responsibility of the Directors.

The *pro forma* statement of financial position of IAPF:

- is presented for illustrative purposes only and, because of their nature, may not give a fair reflection of the Fund's financial position, changes in equity, results of operations or cash flows post the implementation of the Acquisition;
- is presented in a manner consistent with the format and basis on which the historical financial information has been prepared and in terms of the Fund's accounting policies;
- have been compiled based on the audited financial results for the period ended 31 March 2014; and
- is based on the assumption that for calculating the net asset value per unit and net tangible asset value per unit, the Acquisition was effected on 31 March 2014 and the Acquisition is funded entirely through the issue of new equity.

The full *pro forma* statement of financial position of IAPF is included as Annexure 3 to the Acquisition Circular and should be read in conjunction with the independent reporting accountants' report on the *pro forma* statement of financial position of the Fund included as Annexure 4 to the Acquisition Circular.

	Audited results before the Acquisition	Pro forma results after the Acquisition	% change
Number of Units in issue ('000)	134,685	195,097	-
Net asset value per unit (cents)	0.98	1.00	2.47%
Net tangible asset value per unit (cents)	0.98	1.00	2.47%

Notes and assumptions:

1. The "Audited results before the Acquisition" column was extracted without adjustment from the audited consolidated financial statements of the Fund for the period ended 31 March 2014.
2. The net asset value per unit and net tangible asset value per unit figures are calculated based on the actual number of units in issue at 31 March 2014 and on the basis that the Acquisition was affected on 31 March 2014.
3. The following adjustments have been taken into account:
  - a. Acquisition of the property located at 186 Reed Street, Greenway ACT 2900 for a purchase consideration of AUD 25,805,000 utilising debt-funding as announced on SENS on 15 May 2014. Acquisition costs were capitalised to the value of the property. A fair value adjustment of AUD 1,340,002 was recognised after the acquisition of the Property equating to the acquisition costs;
  - b. Payment of a final distribution of AUD 4,601,921 for the six months ended 31 March 2014;
4. The acquisition of the Property for a net amount of AUD 65,500,000 is determined as the aggregate of the Purchase Consideration of AUD 65,500,000 and acquisition costs, net of fair value adjustments of AUD 4,068,124.

To the extent that the Vendor Leased Areas are leased to third party tenants for an annual rent that is greater than the market rent as per the independent valuation, this would result in the Contingent Payments becoming payable and may result in a proportionate uplift in the independent valuation. For pro forma purposes, the maximum Contingent Payment has been excluded as the quantum and timing thereof is not certain. Unitholders are referred to the Acquisition Circular for further details on the Contingent Payments.

Consistent with IAS 40, directly attributable costs of acquiring the Property such as stamp duty, conveyancing, architects, legal, and property valuer's fees amounting to AUD 4,068,124 have been capitalised as part of the cost of the Property.

5. It has been assumed that the Fund will undertake a rights offer through the issue of 60,411,992 units at an assumed price of ZAR 11.54 based on the 90-day VWAP as at the last practicable date, being Wednesday, 6 August 2014 ("**Last Practicable Date**"), converted at an exchange rate of AUD 1 = ZAR 10.0142, being the exchange rate as at the Last Practicable Date, in order to raise total proceeds of AUD 69,641,979. All of the cash raised will be used for the settlement of the Purchase Consideration together with related acquisition costs and transaction costs. The actual pricing of the rights offer is still to be finalised and will be disclosed in the finalisation announcement in respect of the rights offer, which is expected to be released on SENS on or about 16 September 2014.
6. Once-off transaction costs of AUD 73,855 have been written off directly against equity i.e. equity raised is immediately used to settle transaction costs.
7. The fair value adjustment relates to the difference between the aggregate consideration of AUD 69,568,124 (i.e. Purchase Consideration of AUD 65,500,000 and capitalised acquisition costs of AUD 4,068,124) and

the independent valuation. The fair value adjustment equates to the acquisition costs that have been capitalised. The fair value adjustment on the Property has been included in profit and loss.

8. The "Pro forma results after the Acquisition" column represents net asset value per unit and net tangible asset value per unit after the acquisition of the Property.

9. All adjustments, with the exception of transaction costs, are expected to have a continuing impact.

#### 4. **FORECAST FINANCIAL INFORMATION OF THE PROPERTY**

Set out below are the forecast statements of comprehensive income of the Property on a stand-alone basis for the 6 months ending 31 March 2015 and the 12 months ending 31 March 2016.

For convenience, the forecasts have been prepared on the assumption that the effective date of the Acquisition of the Property is 1 October 2014, notwithstanding that the Acquisition is expected to be implemented during October 2014. It has also been assumed that the Acquisition is funded entirely through the issue of equity.

The profit forecasts, including the assumptions on which they are based and the financial information from which they are prepared, are the responsibility of the Directors. The forecasts must be read in conjunction with the independent reporting accountants' report thereon which is included as Annexure 2 to the Acquisition Circular.

The profit forecasts have been:

- prepared in accordance with the Fund's accounting policies and in compliance with IFRS; and
- prepared in relation to the Property only, which post implementation of the Acquisition, will become an asset of the Fund.

	<b>Forecast for the 6 months ending 31 March 2015</b>	<b>Forecast for the year ending 31 March 2016</b>
	<b>AUD'000</b>	<b>AUD'000</b>
<b>Revenue</b>		
Gross rental and related revenue, excluding straight-line rental revenue adjustment	3,008	6,133
Straight-line rental revenue adjustment	296	488
<b>Rental revenue</b>	<b>3,304</b>	<b>6,621</b>
Property expenses	(277)	(566)
<b>Net rental and related revenue</b>	<b>3,028</b>	<b>6,055</b>
Asset management fee	(197)	(393)
Fund operating costs	(131)	(262)
<b>Operating profit</b>	<b>2,700</b>	<b>5,400</b>
Fair value adjustments	(4,068)	-
Finance cost	-	-
<b>Profit before taxation</b>	<b>(1,368)</b>	<b>5,400</b>
Taxation	-	-
<b>Profit after taxation attributable to equity holders/Total comprehensive income</b>	<b>(1,368)</b>	<b>5,400</b>
<b>Reconciliation of attributable earnings to distributable earnings:</b>		
Profit after taxation attributable to equity holders/Total comprehensive income	(1,368)	5,400
<b>Adjustments:</b>	-	-

Fair value adjustments	4,068	-
Straight-line rental revenue adjustment	(296)	(488)
<b>Distributable earnings (pre withholding tax)</b>	<b>2,404</b>	<b>4,912</b>
Withholding tax	(132)	(280)
<b>Distributable earnings (post withholding tax)</b>	<b>2,272</b>	<b>4,632</b>
<b>Reconciliation of attributable earnings to headline earnings:</b>		
Profit after taxation attributable to equity holders/Total comprehensive income	(1,368)	5,400
<b>Adjustments:</b>	-	-
Fair value adjustments	4,068	-
<b>Headline earnings</b>	<b>2,700</b>	<b>5,400</b>
Basic earnings per unit (cents)	(2.26)	8.94
Headline earnings per unit (cents)	4.47	8.94
<b>Distribution per Unit (pre withholding tax) (cents)</b>	<b>3.98</b>	<b>8.13</b>
<b>Distribution per Unit (post withholding tax) (cents)</b>	<b>3.76</b>	<b>7.67</b>
Assumed incremental number of shares issued	60,411,992	

#### Notes and assumptions:

The forecasts incorporate the following material assumptions in respect of revenue and expenses that can be influenced by the Directors. The assumptions disclosed are not intended to be an exhaustive list:

1. The forecast financial information for the 6 months ended 31 March 2015 and year ended 31 March 2016 are based on information derived from the underlying tenant leases, property managers and work performed by the independent valuer.
2. Contracted revenue is based on existing lease agreements and stipulated increases, all of which are valid and enforceable, and has been forecast on a lease-by-lease basis. Contracted revenue accounts for 100% of rental income, thus there is no uncontracted income.
3. Revenue in respect of the Vendor Leased Areas is based on rentals payable under the current SIP Australia leases.
4. Straight-line rental revenue adjustments are performed on an individual lease basis, are based on current lease agreements and exclude any assumptions of renewals or new leases during the respective forecast periods.
5. Property expenses are fully recoverable and have been estimated based on discussions with and records of the property managers where available, taking into account the effects of inflation on these. An assumed inflation rate of 3% has been applied.
6. Fund expenses have been apportioned across the Fund's property portfolio and have been allocated to the Property at an estimated rate of 0.4% of the purchase consideration of the Property.
7. Material expenditure items in respect of the Property relate to the asset management fee (approx. 33% of total expenses).
8. No material expenditure items have been increased in the forecast period ending 31 March 2016 by more than 15% over the previous financial period.

9. The Property is assumed to be acquired with effect from 1 October 2014 for a total cost of AUD 69,568,124 comprising the Purchase Consideration of AUD 65,500,000 and capitalised acquisition costs.
10. To the extent that the Vendor Leased Areas are leased to third party tenants for an annual rent that is greater than the market rent as per the independent valuation, this would result in the Contingent Payments becoming payable and may result in a proportionate uplift in the independent valuation. The value of the Contingent Payments will be capped at AUD 4,000,000. For purposes of the forecast, the Contingent Payments have been excluded as the quantum and timing thereof is not certain.
11. Consistent with IAS 40, directly attributable costs of acquiring the Property such as stamp duty, conveyancing, architects, legal, and property valuer's fees amounting to AUD 4,068,124 have been capitalised as part of the cost of the Property.
12. The fair value adjustment relates to the difference between the aggregate consideration of AUD 69,568,124 (i.e. Purchase Consideration of AUD 65,500,000 and capitalised acquisition costs of AUD 4,068,124) and the independent valuation. The fair value adjustment equates to the acquisition costs that have been capitalised. The fair value adjustment on the Property has been included in profit and loss.
13. The base management fee paid to the Manager is in line with the management agreement and amounts to 0.6% p.a. of the enterprise value of the Fund. For purposes of this standalone forecast, the enterprise value has been assumed to equal the purchase consideration in respect of the Property.
14. There is no deferred tax on the straight-line rental revenue adjustment on the basis that the Fund is a 'flow through' entity for Australian tax purposes and is therefore not subject to Australian income tax.

The forecasts incorporate the following material assumptions in respect of revenue and expenses that cannot be influenced by the Directors:

15. It has been assumed that the Fund will undertake a rights offer through the issue of 60,411,992 units at an assumed price of ZAR 11.54 based on the 90-day VWAP as at the Last Practicable Date, converted at an exchange rate of AUD 1 = ZAR 10.0142, being the exchange rate as at the Last Practicable Date, in order to raise total proceeds of AUD 69,641,979. All of the cash raised will be used for the settlement of the Purchase Consideration together with related acquisition costs and transaction costs. The actual pricing of the rights offer is still to be finalised and will be disclosed in the finalisation announcement in respect of the rights offer, which is expected to be released on SENS on or about 16 September 2014.
16. No unforeseen economic factors that will affect the lessees' ability to meet their commitments in terms of the existing lease agreements have been included.
17. No material refurbishment capital expenditure or any other material capital expenditure is forecast for the 6 months ending 31 March 2015 or the year ending 31 March 2016.
18. Circumstances which affect the Fund's business, but which are outside of the control of the Directors, will not change in a way that will materially affect the trading situation of the Fund;
19. Distributable earnings are shown before and after the impact of applicable Australian withholding tax, which is currently 15%, the effect of which is reduced by the depreciation shield. Unitholders will receive the distribution net of withholding tax.
20. Save for the fair value adjustments to the value of the Property in respect of the transaction costs, all the assumptions and adjustments detailed above are expected to have a continuing effect.

## **5. WITHDRAWAL OF CAUTIONARY**

Following the publication of the *pro forma* financial effects of the Acquisition and forecast financial information of the Property, Unitholders are no longer required to exercise caution when dealing in the Fund's units.

Johannesburg  
14 August 2014

**Investment Bank and Sponsor**

Investec Bank Ltd

**Independent Sponsor**

Deloitte & Touche Sponsor Services (Pty) Ltd

**Independent Reporting Accountants**

KPMG Inc.

**Legal advisors (Australia)**

HWL Ebsworth Lawyers

Herbert Smith Freehills

**Legal advisors (South Africa)**

Fluxmans Inc.