

VUKILE PROPERTY FUND LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 2002/027194/06)
ISIN: ZAE000056370
JSE Share code: VKE NSX Share code: VKN
("Vukile" or the "company")



ANNOUNCEMENT – EMPOWERMENT TRANSFORMATION TRANSACTION

1. Introduction

Vukile proposes implementing a sustainable and commercially driven black economic transformation transaction through the acquisition of an approximate R1.4 billion commercial property portfolio from Encha Properties (Proprietary) Limited (the “**Encha Properties**”) and/or its subsidiaries (collectively the “**Encha group**”). The net realisation proceeds of approximately R600 million will be invested by the Encha group in Vukile to achieve a long-term and sustainable alignment between Vukile and its empowerment partner. The transaction will position Vukile as a leading JSE listed empowered property company.

2. Proposed empowerment transaction and acquisitions

Vukile has concluded a non-binding heads of agreement with Encha Properties (the “**proposed transaction**”) pursuant to which:

- Vukile will acquire five investment grade substantially national government tenanted properties from subsidiaries of Encha Properties (the “**Encha vendors**”), which properties are known as Navarre Wachthuis, the Pretoria Momentum Building, the Koedoe Arcade (Pretoria), De Bruyn Park (Pretoria) and the Bloemfontein Fedsure Building (the “**acquisition properties**”);
- a sub-portfolio will be established within Vukile to own and house the acquisition properties and potentially other properties already owned by Vukile or properties which may from time to time be acquired by Vukile where the property is fully or predominantly tenanted by the national and/or provincial government (the “**Sovereign tenant portfolio**”);
- the Encha group will be appointed as the property manager of the properties housed within the Sovereign tenant portfolio and a member of the Encha group (the “**Encha Manco**”) will be appointed as asset manager of the properties housed within the Sovereign tenant portfolio;
- pursuant to the disposal of the acquisition properties to Vukile, the Encha group will acquire an initial approximate R470 million ungeared net equity investment in Vukile. Dependent on the terms on which certain current lease extensions are concluded in respect of the acquisition properties and which are currently under negotiation, Encha’s net equity investment in Vukile is anticipated to increase to approximately R600 million by December 2013. This will represent an approximate 7.5% unitholding in Vukile’s enlarged unit capital. Such unit holding will represent an approximate 25% empowerment holding in Vukile for the purposes of the Property Sector Charter (in terms of which mandated

investments in Vukile are capped at 70% and are excluded for the purposes of the calculation of empowered equity holding);

- an equity funding platform will be established to facilitate:
 - the acquisition by a new special purpose vehicle/s established within the Encha group (the “**Encha SPV**”) of additional equity in Vukile, thus enhancing the empowerment credentials of Vukile and increasing the Encha group’s strategic investment in Vukile; and
 - future Vukile capital raising through the placement of new Vukile units into such equity funding platform,

(the “**equity funding platform**”); and

- a transformation strategy will be implemented within Vukile.

3. **Rationale and the transformation imperative**

The primary rationale of the proposed transaction is to address the transformation strategy within Vukile in a commercially sustainable manner and on a basis consistent with the Property Sector Charter.

Key to the transformation imperatives of the proposed transaction will be that –

- the Encha group will have an initial ungeared net equity investment in Vukile of approximately R470 million which is anticipated to increase by December 2013 to approximately R600 million. At this level Encha’s unitholding will, for empowerment purposes and applying Property Sector Charter methodology, represent an approximate 25% empowerment equity holding in Vukile;
- Sedise Moseneke (the current President of SAPOA and CEO of Encha Properties) will be appointed as an executive director of Vukile with specific responsibility in respect of the Sovereign tenant portfolio. In addition Sedise will work with Vukile’s CEO Laurence Rapp in growing the fund in line with Vukile’s stated strategy of building a large diversified fund, overweight the retail sector. Sedise will have executive responsibility for driving Vukile’s holistic transformation strategy;
- an existing Encha group employee will be appointed and/or seconded to Vukile who will be responsible for implementing and monitoring the transformation strategy within the Vukile group aimed at enhancing Vukile’s transformation strategy;
- the Encha group’s long-term property related interests will be aligned with those of Vukile through a combination of exclusivity and other equity lock-in arrangements (as more fully dealt with below).

4. **Encha Properties**

Encha Properties is a leading Level 1 BEE rated black managed and black owned property company which has been in operation since 1998. The Encha Properties services business manages in excess of 30 properties with a combined value in excess of R2 billion. The acquisition properties have been owned and managed by the Encha group for periods ranging from 3 to 8 years.

5. Terms of the proposed transaction and conditions precedent

5.1. *The portfolio acquisition*

The acquisition properties will be acquired by Vukile with effect from 1 July 2013, or such later date as may be agreed to between Vukile and the Encha vendors (the “**effective date**”).

The aggregate purchase consideration payable for the acquisition properties (in an amount of approximately R1.3 billion (before any upward price adjustment expected to be approximately R130 million (the “**upward price adjustment**”) to compensate the Encha vendors for the effects of certain lease renewals in respect of the acquisition properties which are currently under negotiation) will be calculated applying a 9.5% yield to the aggregate 12 month forward net property income after deducting asset management fees to be derived from the acquisition properties.

The purchase price of the acquisition properties is to be reduced by an amount equal to the agreed capital expenditure which is to be expended on the acquisition properties by Vukile post the effective date.

The purchase price will be discharged on the date of registration of transfer of the acquisition properties into the name of Vukile to the Encha vendors as follows:

- a cash payment of an aggregate amount of approximately R800 million which is to be utilised by the Encha vendors to discharge various bank debt and other amounts due to third parties by the Encha vendors;
- the balance of the purchase price will be discharged by the allotment and issue by Vukile of new Vukile units (valued at a 2.5% discount to the volume weighted average “clean” traded price at which Vukile units trade on the JSE over the 30 trading day period (“**VWAP**”) immediately prior to the effective date). Any additional amount payable by Vukile in respect of any upward price adjustment will also be discharged by the allotment and issue of new Vukile units valued at the 30 trading day VWAP prior to the date of determination of any adjustment amount (anticipated to be December 2013). The Vukile units to be issued in part discharge of the purchase price of the acquisition properties are referred to as the “**Vukile consideration units**”.

5.2. *Suspensive conditions*

The formal agreement shall be subject to, *inter alia*, the following suspensive conditions:

- the conclusion by Vukile of its due diligence investigation in respect of the acquisition properties;
- the securing of Competition Authority approval;
- the securing by Vukile of such approvals and consents as may be required in terms of the Companies Act (Act 71 of 2008) and/or the JSE Listings Requirements.

5.3. *Asset management and property management arrangements*

Encha Manco will render asset management services in relation to the properties housed within the Sovereign tenant portfolio in terms of a written service level agreement to be concluded between the Encha Manco and Vukile on market related terms. Asset management services shall be charged at a cost

of 0.5% per annum (exclusive of VAT) based on the most current independent valuations of the properties comprised within the Sovereign tenant portfolio from time to time.

Encha Properties shall render property management services in respect of the properties housed within the Sovereign tenant portfolio. The property management agreement and service level requirements will substantially replicate the terms upon which Vukile currently contracts with third party managers in respect of Vukile's existing core portfolio. The property management services will be rendered by Encha Properties at a fee (exclusive of VAT) of 3% of the gross amount of all rentals and recoveries (exclusive of VAT) collected by Encha Properties in relation to the Sovereign tenant portfolio.

5.4. *The equity funding platform*

The equity funding platform will facilitate the acquisition by the Encha group of additional equity in Vukile which will both entrench the Encha group's strategic equity holding in Vukile and enhance Vukile's empowerment credentials.

If during each of the four 1 year periods commencing on the effective date (each a "1 year period" and the first 4 years commencing on the effective date the "initial 4 year period"), Vukile requires to raise equity capital (other than by way of a rights offer and/or an issue of new Vukile units to vendors of assets to Vukile pursuant to an acquisition issue in terms of the JSE Listings Requirements) Vukile shall be obliged to place with the Encha SPV, in respect of each 1 year period, the lesser of: (i) R250 million in placement value of Vukile units and (ii) subject to a sufficient number of Vukile units being placed under the control of the Vukile board by Vukile unitholders to facilitate the placement of additional Vukile units with Vukile unitholders, 50% of the Vukile units to be placed by Vukile during the relevant 1 year period on the following terms:

- the Vukile placement units shall be acquired by the Encha SPV at a price which equates to a discount of 2.5% to the 30 trading day volume weighted traded price of Vukile units for the period immediately prior to the date on which the placement is to be effected;
- if during any 1 year period (during the initial 4 year period) Vukile places less than R250 million in placement value of Vukile units with the Encha SPV, the shortfall in the placement value of Vukile units for such 1 year period shall be accumulated so as to increase the potential placing of Vukile units with the Encha SPV in the next 1 year period such that over the initial 4 year period R1 billion of Vukile units (not including the Vukile consideration units) will be placed with and acquired by the Encha SPV via the equity funding platform;
- the Encha SPV will be obliged to utilise all of the Vukile units owned by the Encha SPV from time to time (including the Vukile consideration units) as security to raise senior debt funding in order to acquire additional Vukile units under the equity funding platform;
- to the extent that the acquisition of Vukile units by the Encha SPV cannot be funded by the Encha SPV utilising its senior debt capacity and/or its own resources, Vukile shall use its best commercial endeavours and subject to Vukile's lending covenants, to advance loans to the Encha SPV and such additional amounts from time to time to enable the Encha SPV to discharge the acquisition cost of the additional Vukile units to be placed with the Encha SPV on the following terms:

- the mezzanine loans advanced by Vukile (the “**mezz debt**”) will attract interest at Vukile’s then current cost of raising new debt plus 3% per annum (the “**mezz debt premium**”).
- Vukile will be entitled to a mezz carry participation fee (payable forthwith after the 8th anniversary of the effective date) on Vukile units acquired by the Encha SPV which are funded by the mezz debt (the “**qualifying Vukile units**”) in an amount equal to 30% of the profit made by the Encha SPV calculated on each tranche of such qualifying Vukile units less the aggregate of the mezz debt premium paid to Vukile.

5.5. Long-term alignment of interests

A long-term alignment of interests between the Encha group and Vukile will be achieved through, *inter alia*, an undertaking by Encha to continue to hold all of the Vukile units within the Encha SPV for a minimum period of 8 years. Save for any Vukile units to be realised by the Encha SPV after the initial 8 year period in order for the Encha SPV to discharge its funding obligations to Vukile and/or other third parties, no more than 50% of the Vukile units will be realised after the 8th anniversary of the effective date and the balance after the 9th anniversary of the effective date.

In addition to granting Vukile a right of first refusal to purchase any immovable properties which are owned from time to time by the Encha group, the Encha group will make available all property related corporate opportunities in South Africa in the first instance for Vukile to exploit.

6. The acquisition properties

The property specific information in relation to the acquisition including property name and address, sector, geographical location and rentable area is set out below.

Property name and address	Sector	Geographical location	Rentable Area (m2)
Navarre Wachthuis, 231 Pretorius Street, Pretoria	Commercial	Pretoria, Gauteng	44 725
Pretoria Momentum Building, 329/339 Pretorius Street, Pretoria	Commercial	Pretoria, Gauteng	37 703
the Koedoe Arcade, 236 Pretorius Street, Pretoria	Commercial	Pretoria, Gauteng	10 970
De Bruyn Park, 253 Vermeulen Street, Pretoria	Commercial	Pretoria, Gauteng	35 742
The Bloemfontein Fedsure Building, 49 St Andrews Street (Maitland Street), Bloemfontein	Commercial	Bloemfontein, Free State	10 609

7. Categorisation of the proposed transaction

The acquisition of the acquisition properties will be classified as a Category 2 transaction in terms of the JSE Listings Requirements.

However –

- 7.1. the issue of linked units to the Encha SPV under the equity funding platform constitutes a specific issue of shares for cash under the JSE Listings Requirements, requiring approval of unitholders by way of a 75% majority of votes cast in favour of such resolution at a duly constituted meeting of unitholders;
- 7.2. the mezz debt to be potentially provided by Vukile to the Encha SPV under the equity funding platform will constitute financial assistance to the Encha SPV for the purpose of, or in connection with, the

subscription of securities issued or to be issued by the company under section 44 of the Companies Act, 2008 and accordingly will require the approval of unitholders by way of a special resolution.

Accordingly, a general meeting of unitholders will be required to be convened for that purpose. Upon, the formal signed agreements being concluded regulating for the proposed transaction, a circular together with a notice of general meeting will be prepared by the company and posted to unitholders.

8. Financial effects and extension to cautionary

The financial effects of the proposed transaction, including the acquisition of the acquisition properties and the specific issue of linked units in terms of the equity funding platform, are still in the process of being finalised and will be published in due course. Based on Vukile's current approximate 7.5% weighted average cost of capital, the acquisition of the acquisition properties will be yield enhancing to Vukile.

Unitholders of Vukile are advised that this announcement details the transaction which forms the subject matter of the 21 February 2013 cautionary announcement. Unitholders should continue to exercise caution when dealing in their linked units until the financial effects of the proposed transaction are announced.

12 March 2013

Corporate adviser and JSE sponsor: Java Capital

NSX sponsor: IJG Securities (Pty) Ltd