

Proposed acquisition of a controlling interest in Orchard Industrial Property Fund ("OIF")

GRT - Growthpoint Properties - Proposed Acquisition Of A Controlling Interest In Orchard Industrial Property Fund ("OIF")

Growthpoint Properties Limited
(Incorporated in the Republic of South Africa)
(Registration number 1987/004988/06)
Share code: GRT ISIN ZAE000037669
("Growthpoint")

PROPOSED ACQUISITION OF A CONTROLLING INTEREST IN ORCHARD INDUSTRIAL PROPERTY FUND ("OIF")

1. INTRODUCTION

Investec Bank Limited ("Investec") is authorised to announce that on 18 May 2009, Growthpoint entered into an agreement ("the Implementation Agreement") with Orchard Property Limited ("OPL"), the responsible entity and external manager of OIF. In terms of the Implementation Agreement, which is subject to the fulfilment of the conditions precedent set out in 4.4 below, Growthpoint will invest a maximum of \$A200 million in OIF by participating in a recapitalisation of OIF ("Proposed Acquisition").

The salient terms of the Proposed Acquisition comprise the following:

- the internalisation of management of OIF via the stapling of shares in a new management company to existing OIF listed units ("Management Internalisation");
- an initial \$A56 million placement of new OIF stapled securities to Growthpoint ("Upfront Subscription"); and
- a subsequent \$A144 million renounceable rights offer of new stapled securities underwritten by Growthpoint ("Rights Offer").

2. DESCRIPTION OF OIF

OIF is an Australian Securities Exchange ("ASX") listed Property Trust that is primarily invested in logistics warehouses throughout Australia. OIF listed on the ASX in July 2007 and currently has a market capitalisation of \$A52 million and a property portfolio to the value of approximately A\$744 million as at 31 December 2008.

OIF owns a geographically diversified property portfolio of 24 industrial properties ("Property Portfolio"), located in Victoria, Queensland, Western Australia, South Australia and New South Wales. The gross lettable area of the Property Portfolio is 671 723 m2 with a weighted average rental per square metre of A\$7.31 per month.

OIF's Property Portfolio is underpinned by long leases - its weighted average lease length is 11 years - with highly-rated Australian companies. Woolworths, Australia's leading food retailer and Star Track Express, an express freight and logistics company jointly owned by Australia Post and Qantas Airlines, are two of the property trust's largest tenants. Together they account for some 71% of its annual net property income.

3. RATIONALE FOR THE TRANSACTION

As previously stated at the time of Growthpoint's rights offer announcement published on the Securities Exchange News Service on 15 December 2008, Growthpoint believes it is an opportune time to benefit from the opportunities the global property market currently offers.

The current global economic climate has led to significant demand for new capital required to recapitalise international property companies' balance sheets to acceptable gearing levels. These refinancing risks are reflected in the depressed listed property equity prices which are trading at significant discounts to historic prices and net tangible asset values.

A number of offshore opportunities were considered and Growthpoint believes that Australia is currently an appropriate investment destination for the following reasons:

- The Australian real estate sector has been impacted significantly by

the global financial and economic crisis and is currently trading at a discount of 70% from its highs in January 2008;

- Australia has an established real estate sector;
- Australia's regulatory laws are in many ways similar to those of South Africa; and
- The Rand:A\$ exchange rate is currently considered attractive in comparison to other currencies.

Of the opportunities considered in Australia, OIF was preferred for the following reasons:

- OIF's tenant base provides a stable and secure platform to enable Growthpoint to establish a foothold in Australia;
- OIF's Property Portfolio is 100% focused in Australia;
- OIF's size was considered appropriate as an initial investment into Australia; and
- Certain key members of the OIF management team will remain involved. It is Growthpoint's intention to leverage off the secure and stable OIF portfolio to pursue further acquisition opportunities in Australia.

4. THE PROPOSED ACQUISITION

4.1 Management Internalisation and Change of Name

Consistent with Growthpoint's own philosophy of being internally managed, the Implementation Agreement provides for the management of OIF to be internalised as an integral part of the Proposed Acquisition. In order to give effect to the internalisation, shares in a new management company will effectively be stapled to the existing listed OIF units in issue creating a stapled security ("Stapled Security") which will be listed on the ASX giving investors equal ownership of the management company and OIF.

It is contemplated that pursuant to the completion of the Proposed Acquisition OIF will change its name to Growthpoint Properties Australia.

4.2 Upfront Subscription

Growthpoint intends to subscribe for approximately 348 million new OIF Stapled Securities in a placement at a price of 16 cents per unit, ("Subscription Price") for a total consideration of A\$56 million. Following the Upfront Subscription, Growthpoint will have an interest of 50.1% in OIF.

4.3 Rights Offer

Subsequent to the Upfront Subscription and subject to the conditions precedent in 4.4 below, OIF has committed to undertake a 1.3 for every 1 Stapled Security Rights Offer to raise an additional amount of approximately \$A144 million at the Subscription Price. The Rights Offer will be fully underwritten by Growthpoint for an underwriting fee of 3% on the full amount of the Rights Offer.

If, pursuant to the Rights Offer Growthpoint's interest in OIF is less than 60%, OIF will undertake an additional placement to Growthpoint for the shortfall. Depending on the percentage of OIF security holders who follow their rights, Growthpoint will own between 60% and 78% of OIF subsequent to the Rights Offer.

4.4 Conditions precedent

The Management Internalisation and Upfront Subscription are subject to inter alia, the following conditions precedent:

- OIF unitholder approval;
- Approval from the following regulatory authorities:
 - Australian Foreign Investment Review Board ;
 - Australian Securities and Investment Commission ("ASIC"); and
 - ASX;
- Agreement being reached with OIF's financiers to amend the terms of OIF's existing debt facilities on terms acceptable to Growthpoint.

In addition to the conditions precedent above the Rights Offer is subject to, inter alia, the fulfilment of the following condition precedent:

- Execution of an underwriting agreement and fulfilment of the

conditions precedent thereto.

5. FINANCIAL EFFECTS

A summary of the unaudited pro forma financial effects of Growthpoint subsequent to the Proposed Acquisition is set out below. It has been assumed for purposes of the unaudited pro forma financial effects that the Proposed Acquisition took place with effect from 1 July 2008. The directors of Growthpoint are responsible for the preparation of the unaudited pro forma financial effects. The unaudited pro forma financial effects have been presented for illustrative purposes only and because of its nature may not give a fair reflection of Growthpoint's results after the Proposed Acquisition.

The Proposed Acquisition has no significant effect on the pro forma distribution per linked unit, pro forma net asset value per linked unit, or pro forma tangible net asset value per linked unit of Growthpoint. The disclosure of earnings per share and headline earnings per share set out below while obligatory in terms of accounting standards is not meaningful to Growthpoint linked unitholders as the shares trade as part of a linked unit and practically all revenue earnings are distributed in the form of debenture interest plus dividends in the ratio of 1000 to 1. In addition headline earnings include fair value adjustments for listed property investments and for financial liabilities as well as notional interest on non-interest bearing long terms loans and accounting adjustments required to account for lease income on a straight-line-basis. These adjustments do not affect distributable earnings. The distribution per linked unit is more meaningful to Growthpoint linked unitholders and in accordance with Growthpoint's reporting policy. As indicated above the Proposed Acquisition does not have a significant effect on the pro forma distribution per linked unit.

	Before Proposed Acquisition1	Pro forma after Proposed Acquisition2 3	%
	cents	cents	
Basic loss per linked unit	(2.65)	(5.35)	(102.00)
Headline earnings per linked unit	(63.00)	(146.32)	(132.33)
Linked units in issue at year end	1 280 926 195	1 280 926 195	
Weighted average no. of linked units in issue	1 280 926 195	1 280 926 195	

Notes:

1. The figures in the Before Proposed Acquisition column have been extracted without adjustment from the reviewed results for Growthpoint for the half year ended 31 December 2008.
2. The figures in the Pro forma after Proposed Acquisition column have been adjusted for the following:
 - a. the Upfront Subscription and Rights Offer is assumed to be funded out of Growthpoint's existing debt facilities at a funding cost of 10.25% resulting in additional Growthpoint borrowing costs of R66 million for the half year
 - b. it is assumed that Growthpoint will own a 78% interest in OIF subsequent to the completion of the Upfront Subscription and Rights Offer
 - c. the consolidation of the OIF reviewed results for the half year ended 31 December 2008 converted at a ZAR/AUD exchange rate of A\$1/R6.46
 - d. the proceeds from the Upfront Subscription and Rights Offer will be used to pay down OIF debt at a borrowing cost of 6.77% resulting in an

interest saving of A\$ 6.7 million

e. transaction costs of R23 million and the underwriting fee of \$4.3 million have been capitalised to the cost of the Proposed Acquisition; and

f. 0.3% on the total Upfront Subscription and Rights Offer consideration relating to annual asset swap fees on the Proposed Acquisition.

3. The primary reasons for the significant effect on the pro forma basic loss per linked unit and the pro form headline earnings per linked unit are the downward revaluation of the OIF property portfolio and the negative mark to market of OIF the interest rate swaps as at 31 December 2008.

6. INDICATIVE TIMING FOR THE PROPOSED ACQUISITION

It is anticipated that the Proposed Acquisition will be implemented by the end of September 2009.

An announcement has been released on 18 May 2009 in terms of the ASX regulations by OIF and is available at the ASX website at www.asx.com.au. For further details on OIF and the OIF Property Portfolio, Growthpoint linked unitholders are referred to www.orchardfunds.com.

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Independent adviser and sponsor to Growthpoint

Investec Corporate Finance and Investec Bank Australia Limited

Legal adviser to Growthpoint in South Africa

Glyn Marais

Legal adviser to Growthpoint in Australia

Blake Dawson

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