

# UNAUDITED CONSOLIDATED INTERIM RESULTS FOR THE 6 MONTHS ENDED 31 AUGUST 2014

---

## Highlights

- R650 million capital raised through a substantially oversubscribed private placement
- All forecasted acquisitions successfully concluded
- First distribution of 20,4 cents per share exceeds PLS forecast by 2.5%
- Initial yield of 8.1% and forecasted yield of 8.2% for 9 months to 28 February 2015
- Three property acquisitions totalling R72,7 million post period end

## Introduction

Equites was registered and incorporated as a private company on 20 May 2013. The Company converted into a public company and changed its name to Equites Property Fund Limited on 15 May 2014.

On 28 April 2014 Equites concluded agreements to acquire the shares and claims of seven property owning companies as well as nine rental enterprises, which culminated in the successful listing of the shares of Equites on the JSE on 18 June 2014 as a Real Estate Investment Trust ("REIT"). These transactions were set out in detail in the Pre-listing Statement of Equites ("PLS") issued on 4 June 2014.

Although the PLS, and all the financial and other projections therein, envisaged a capital raising of R600 million, following strong demand, and a substantial oversubscription, management decided to increase the capital raise to R650 million.

The board of directors ("the Board") is pleased to advise that all the transactions as set out in the PLS were successfully implemented.

## Strategy

Equites is entirely focused on long-term investments in the top-end industrial sector. To this end, the Company intends growing its portfolio in the following ways:

- by acquiring existing, A-grade, completed industrial distribution warehouses with predominantly blue chip tenants;
- by acquiring brownfields development opportunities, which entail purchasing strategically located parcels of land with B or C grade tenanted buildings. This provides short-term yield enhancing income combined with medium term re-development opportunities.
- by utilising its extensive in-house development expertise to undertake A-grade industrial warehouse developments.

It is the intention of the Board and management to grow the property portfolio to R4 billion of assets within five years.

## Financial results

As fully described in the PLS, Equites acquired certain subsidiaries with effect from 1 March 2014 (pre-listing) and the results for the period ending 31 August 2014, therefore, reflect the trading activity of these subsidiaries from this date. All retained profits for the period 1 March 2014 to 31 May 2014 were declared to the previous shareholders of these subsidiaries as a "clean-out distribution" and the financial results for 3 months till 31 May 2014 are, therefore, of lesser importance for the purposes of evaluating the financial performance of Equites for the 6 months ending 31 August 2014.

Furthermore, the effective date of the acquisition of each of the nine properties ("Post-listing Transactions"), implemented subsequent to listing, was 1 June 2014. Accordingly, the relevant financial results relate to the period from 1 June 2014 – 31 August 2014, which has been highlighted on the statement of comprehensive income. The results for this period were also used to determine the maiden distribution of 20,4 cents per share.

This initial dividend of 20,4 cents per share exceeds the forecasted distribution of 19,9 cents per share set out in the PLS by 2.5% for the 3 months ending 31 August 2014. This equates to an initial yield of 8.1% and the yield for the 9 months ending 28 February 2015 is now forecasted as 8.2% compared to 8.1% in the PLS (all on an annualised basis and calculated on the price per share on listing). The Board and management are confident the Company is on track to achieve, or marginally exceed, the forecast published in the PLS. It is important to note that the financial information in the PLS was based on the total number of shares in issue being 109 327 388; as opposed to the actual number of shares in issue being 113 575 515. The initial distribution therefore exceeds the distribution reflected in the PLS (and adjusted to take into consideration the additional shares in issue) by 6.4% and the distribution forecasted for the period ending 28 February 2015 exceeds the adjusted PLS numbers by 4.5%. These forecasts are the responsibility of the Board and have not been reviewed or reported on by the Company's auditors.

Inevitably, some of the Post-listing Transactions were not affected immediately and the Company invested surplus cash in a money market investment. This investment had an exposure to African Bank Investments Limited ("ABIL") senior debt, which resulted in a capital loss of R1,490 million, which has been added back for the purposes of computing the dividend declared.

The net asset value per share of the Company was 1 009 cents per share as at 31 August 2014.

Comparative figures have not been disclosed as this was the Company's first year of operation.

### **Acquisitions post 31 August 2014**

Following the implementation of all the transactions that culminated in the listing in June 2014, there were no further acquisitions made by Equites during the financial period under review.

The Company has subsequent to 31 August 2014 acquired three properties:

- Through the acquisition of the entire share capital in Nascispan Proprietary Limited, the Equites group now owns a newly constructed, A-grade distribution facility known as Crossroads situated in Milnerton, Cape Town. It was acquired at a 9% yield with an agreed property valuation of R42,029 million. The tenant, Crossroads Distribution Proprietary Limited, is contracted to transport petroleum from the Chevron refinery to the Cape Town International Airport ("CTIA"). There are a further 9 years left on the lease.
- An 1,3343 hectares property (gross lettable area of 5 478 square metres) located in Epping Industria, was acquired at an 11.5% yield for R18,1 million. This property is ideally located for an industrial distribution warehouse and the Company intends re-developing this property in due course. It is currently tenanted on short-term leases and generating yield-enhancing rental income prior to re-development.
- A 9 977 square metre property in Bellville, adjacent to the bakery and two Digistics distribution centres already owned by Equites, was acquired at a 12% yield for R12,6 million. This property also presents an ideal re-development opportunity and caters for any expansion requirements that Digistics may have. It is also currently tenanted on a short-term lease and generating yield-enhancing rental income prior to re-development.

The above acquisitions are in line with the Company's strategy to focus on brownfields development opportunities, which entail acquiring strategically located parcels of land with B or C grade tenanted buildings. This provides short-term yield-enhancing income combined with medium term re-development opportunities.

### **Funding**

The Company has a loan facility of R600 million with Nedbank Limited at a blended floating rate of 7.65%. The Company drew down on this facility for the first time during September 2014 and will look to hedge a portion of the interest rate exposure once the outstanding loan balance approaches R150 million. In the medium-term, once the loan balance reaches R500 million, the Company aims to have hedged approximately 80% of the interest rate exposure.

### **Changes to the board of directors**

Bram Goossens was appointed as the Chief Financial Officer and executive director of Equites with effect from 1 September 2014. Chrystal Grauso resigned as Chief Financial Officer on the same date.

### Basis of preparation

The unaudited consolidated interim financial results for the 6 months ended 31 August 2014 are prepared in accordance with the information required by IAS34: Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and the requirements of the Companies Act of South Africa and the JSE Listings Requirements. The accounting policies adopted are in accordance with International Financial Reporting Standards ("IFRS") and except for the first-time adoption of new standards, are consistent with those applied in the previous annual financial statements for the year ended 28 February 2014.

The following new standards were adopted during the period:

- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities
- Amendment to IAS 32 – Offsetting Financial Assets and Financial Liabilities
- Amendment to IAS 36 – Recoverable amount disclosures for non-financial assets
- Amendment to IAS 39 – Novation of derivatives and continuation of hedge accounting
- IFRIC 21 Levies

None of these standards had a material impact on these interim results.

Bram Goossens (CA) SA, in his capacity as Financial Director, was responsible for the preparation of these unaudited consolidated interim results. These consolidated interim financial results have not been reviewed or reported on by the Company's auditors.

### Interim dividend

Notice is hereby given of the declaration of interim dividend number 1 of R23 131 000 for the period ended 31 August 2014. This is equivalent to 20,36619 cents per share based on 113 575 515 shares in issue as at the time of the declaration.

As Equites is a REIT, the dividend meets the definition of a 'qualifying distribution' for the purposes of section 25BB of the Income Tax Act, No. 58 of 1962 ("Income Tax Act"). Qualifying distributions received by South African tax residents will form part of their gross income in terms of section 10(1)(k)(i)(aa) of the Income Tax Act. Consequently, these dividends are treated as income in the hands of the shareholders and are not subject to dividends withholding tax. The exemption from dividends withholding tax is not applicable to non-resident shareholders, but they may qualify for relief under a tax treaty.

Holders of uncertified shares have to ensure that they have verified their residence status with their Central Securities Depository Participant ("CSDP") or broker. Holders of certified shares will be asked to complete a declaration to the Company.

An announcement with further detailed information regarding the tax treatment of the dividend will be released separately on SENS.

The dividend is payable to shareholders in accordance with the timetable set out below:

	2014
Declaration date	Friday, 10 October
Last day to trade <i>cum</i> dividend distribution	Friday, 31 October
Shares trade <i>ex</i> dividend distribution	Monday, 3 November
Record date	Friday, 7 November
Payment date	Monday, 10 November

Share certificates may not be dematerialised or rematerialised between Monday, 3 November 2014 and Friday, 7 November 2014, both days inclusive.

In respect of dematerialised shareholders, the dividend will be transferred to the CSDP account / broker accounts on Monday, 10 November 2014. Certified shareholders' dividend payments will be posted on or about Monday, 10 November 2014.

By order of the Board

**Equites Property Fund Limited**

10 October 2014

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited  
31 August 2014  
R'000

## ASSETS

**NON-CURRENT ASSETS**

Fair value of investment property (excluding straight-lining)	1 178 629
Straight-lining lease accrual	6 999
	<u>1 185 628</u>

**CURRENT ASSETS**

Current tax receivable	395
Trade and other receivables	4 158
Financial asset held at fair value	70 314
Cash and cash equivalents	16 065
	<u>90 932</u>

<b>TOTAL ASSETS</b>	<u>1 276 560</u>
---------------------	------------------

## EQUITY AND LIABILITIES

**Equity and reserves**

Stated capital	1 131 884
Accumulated profit	13 585
	<u>1 145 469</u>

**LIABILITIES****Current liabilities**

Financial liabilities	121 729
Trade and other payables	9 362
	<u>131 091</u>

<b>TOTAL LIABILITIES</b>	<u>131 091</u>
--------------------------	----------------

<b>TOTAL EQUITY AND LIABILITIES</b>	<u>1 276 560</u>
-------------------------------------	------------------



## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited 3 months ended 31 May 2014 R'000	Unaudited 3 months ended 31 August 2014 R'000	Unaudited 6 months ended 31 August 2014 R'000
<b>Revenue</b>			
Contractual revenue and tenant recoveries	13 587	30 452	44 039
Straight-lining of leases adjustment	2 931	4 068	6 999
	16 518	34 520	51 038
Property operating and management expenses	(4 549)	(4 820)	(9 369)
<b>Net property income</b>	11 969	29 700	41 669
Administrative expenses	—	(2 142)	(2 142)
<b>Operating profit</b>	11 969	27 558	39 527
Fair value adjustment to investment properties	(478)	(289)	(767)
Finance costs	(8 374)	(2 362)	(10 736)
Finance income	21	2 003	2 024
Financial instrument capital loss	—	(1 490)	(1 490)
Capital raising expenses	(14 288)	—	(14 288)
Net (loss) profit before tax	(11 150)	25 420	14 270
Income tax expense	—	—	—
(Loss) profit for the period	(11 150)	25 420	14 270
<b>OTHER COMPREHENSIVE INCOME</b>	—	—	—
<b>TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD</b>	(11 150)	25 420	14 270
<b>(LOSS) PROFIT ATTRIBUTABLE TO:</b>			
Owners of the parent	(11 150)	25 420	14 270
Non-controlling interest	—	—	—
	(11 150)	25 420	14 270
<b>TOTAL COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO:</b>			
Owners of the parent	(11 150)	25 420	14 270
Non-controlling interest	—	—	—
	(11 150)	25 420	14 270



## RECONCILIATION BETWEEN EARNINGS, HEADLINE EARNINGS, DISTRIBUTABLE PROFIT AND DISTRIBUTABLE EARNINGS

	Unaudited 3 months ended 31 May 2014 R'000	Unaudited 3 months ended 31 August 2014 R'000	Unaudited 6 months ended 31 August 2014 R'000
<b>Earnings ((loss) profit attributable to owners of the parent)</b>	(11 150)	25 420	14 270
<i>Adjusted for:</i>			
Fair value adjustments to investment properties	478	289	767
<b>Headline (loss) earnings</b>	(10 672)	25 709	15 037
<i>Adjusted for:</i>			
Straight-lining of leases adjustment	(2 931)	(4 068)	(6 999)
<b>Distributable (loss) profit</b>	(13 603)	21 641	8 038
<i>Adjusted for:</i>			
Capital raising expenses	14 288	—	14 288
Financial instrument capital loss	—	1 490	1 490
<b>Distributable earnings</b>	685	23 131	23 816
Basic (loss) earnings per share (cents)	(36,5)	22,4	19,8
Headline (loss) earnings per share (cents)	(34,9)	22,6	20,9
Diluted (loss) earnings per share (cents)	(36,5)	22,4	19,8
Diluted headline (loss) earnings per share (cents)	(34,9)	22,6	20,9
<b>Distribution per share (cents)</b>	2,2	20,4	21,0
Weighted average number of shares in issue	30 565 254	113 575 515	72 070 385
Diluted weighted average number of shares in issue	30 565 254	113 575 515	72 070 385
Number of shares in issue at period-end	30 565 254	113 575 515	113 575 515

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Unaudited  
6 months ended  
31 August 2014  
R'000

<b>Cash flows from operating activities</b>	
Profit before tax	14 270
Adjusted for:	
Finance costs	10 736
Finance income	(2 024)
Financial instrument capital loss	1 490
Straight-lining of leases adjustment	(6 999)
Fair value adjustment to investment properties	767
Increase in trade and other receivables	(4 158)
Increase in trade and other payables	9 362
<b>Cash generated from operations</b>	<b>23 444</b>
Finance costs	(10 736)
Tax paid	(395)
Dividends paid	(685)
<b>Net cash flows from operating activities</b>	<b>11 628</b>
<b>Cash flows utilised by investing activities</b>	
Acquisition of investment properties	(603 464)
Investment in financial instrument	(200 000)
Proceeds from sale of financial instrument	130 220
<b>Net cash flows utilised by investing activities</b>	<b>(673 244)</b>
<b>Cash flows from financing activities</b>	
Proceeds from share issue	650 000
Proceeds from bank loans	27 681
<b>Net cash flows from financing activities</b>	<b>677 681</b>
Net movement in cash and cash equivalents	16 065
Cash and cash equivalents at the beginning of the year	—
Cash and cash equivalents at the end of the year	16 065

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Stated capital R'000	Retained earnings R'000	Total R'000
Balance at 1 March 2014	—	—	—
Total comprehensive income		14 270	14 270
Shares issued for property and subsidiary acquisitions	481 884		481 884
Shares issued for cash on listing	650 000		650 000
Dividends distributed to shareholders		(685)	(685)
Balance at 31 August 2014	1 131 884	13 585	1 145 469

## CONDENSED OPERATING SEGMENT INFORMATION

	Unaudited 3 months ended 31 May 2014 R'000	Unaudited 3 months ended 31 August 2014 R'000	Unaudited 6 months ended 31 August 2014 R'000
<b>Revenue</b>			
Industrial	13 587	23 812	37 399
Office	—	6 640	6 640
Non-property	—	—	—
Straight-lining of leases	2 931	4 068	6 999
	16 518	34 520	51 038
<b>Operating profit</b>			
Industrial	9 038	20 789	29 827
Office	—	4 843	4 843
Non-property	—	(2 142)	(2 142)
Straight-lining of leases	2 931	4 068	6 999
	11 969	27 558	39 527

31 August 2014  
R'000

<b>Total assets</b>	
Industrial	975 742
Office	230 281
Non-property	70 537
	1 276 560

### **Directors**

A Taverna-Turisan (CEO), GR Gous (COO), B Goossens (CFO), PL Campher\*† (Chairman), G Lanfranchi\* (Deputy Chairman), JH Cullum\*, K Dreyer\*, N Khan\*†, RE Benjamin-Swales\*†

\*Non-executive †Independent

### **Registered office**

31 Brickfield Road  
Upper East Side  
Woodstock  
Cape Town  
7925

### **Contact details**

info@equites.co.za

### **Change in company secretary**

Shareholders are advised that following the acquisition of the business of Probity Business Services Proprietary Limited by Computershare Investor Services Proprietary Limited ("Computershare"), CIS Company Secretaries Proprietary Limited, a subsidiary of Computershare, has been appointed as the company secretary of Equites with effect from 8 September 2014.

### **Company secretary**

CIS Company Secretaries Proprietary Limited

### **Transfer secretary**

Link Market Services South Africa Proprietary Limited

### **Auditors**

Moore Stephens BKV Inc.

### **Sponsor**

Java Capital

### **Bankers**

Nedbank Limited

### **Attorneys**

DLA Cliffe Dekker Hofmeyr