

Equites Property Fund Limited

(formerly VB Transport Proprietary Limited)
(Incorporated in the Republic of South Africa)
(Registration number 2013/080877/06)
JSE share code: EQU ISIN: ZAE000188843
(Approved as a REIT by the JSE)
("Equites" or "the Company")



PRELIMINARY SUMMARISED AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 2015

Highlights

- R650 million capital raised through a substantially oversubscribed private placement
- Total distributions to shareholders of R69.9 million since listing, exceeding the pre-listing forecast by R3.4 million (5.1%)
- The dividend per share of 61.3 cents equals a distribution yield of 8.2% for the 9 months to 28 February 2015, marginally exceeding the pre-listing forecast
- A share price growth of 28.5% since listing on 18 June 2014 until the end of the reporting year
- A total shareholder return of more than 36.6% (48.8% annualised) since listing
- Delivery on all forecasted transactions in the pre-listing statement
- Post-listing acquisitions totalling R118.8 million were concluded and implemented
- An agreement for R150 million concluded for a new The Foschini Group distribution centre in Midrand

1. Introduction

Through the merger of the property portfolios of three independent Western Cape-based industrial property developers, Equites successfully listed on the JSE on 18 June 2014.

The Equites value proposition, which included a high-end industrial property focus, was well received by the market. The R650 million capital raised on listing received substantial investor attention and was oversubscribed several times.

Since the amalgamation of the three portfolios saw the creation of a new, separate and independent legal entity, management focused almost exclusively on the following three objectives:

- the employment of a talented and experienced management team capable of handling all aspects of asset and property management relating to the portfolio in-house
- bedding down the listing process by taking ownership of the property portfolio and implementing the requisite systems and processes to ensure the sustainable and profitable management of the portfolio
- delivering on the undertakings and financial forecasts contained in the pre-listing statement ("PLS")

Our business is all about consistently delivering on our undertakings and exceeding expectations, and we are pleased to confirm that we have achieved all the above objectives.

2. Interpretation of financial results

As fully described in the company's PLS, the company acquired certain subsidiaries with effect from 1 March 2014 (before listing) and the results for the year ending 28 February 2015 therefore reflect the trading activity of these subsidiaries as of this date. All retained profits for the period 1 March to 31 May 2014 were declared to the previous shareholders of these subsidiaries as a "clean-out distribution" and the financial results for the three months until 31 May 2014 are therefore less important for the purposes of evaluating the company's financial performance for the year ending 28 February 2015.

Consequently the results for the 9 months ended 28 February 2015 (which are highlighted on the statement of comprehensive income) were used to determine the distributable earnings.

3. Distributable earnings and commentary on results

The board of directors ("the Board") declared a final dividend of 40.89 cents per share on 12 May 2015 after an interim dividend of 20.37 cents per share was declared on 10 October 2014. The Board is pleased with achieving a total dividend that exceeds the forecast in the PLS by R3.4 million (5.1%), despite the many uncertainties that prevail in a listing process. Although 5 million more shares were issued than was forecast, the distribution per share marginally exceeded the projections in the PLS.

Dividends declared	Cents per share	R'000
Interim dividend declared on 10 October 2014	20.37	23 131
Final dividend declared on 12 May 2015	40.89	46 782
Total distributions declared since listing on the JSE	61.26	69 913

Equites has a strategic focus on A-grade distribution centres and large national, international and listed tenants. As a result the group's results were largely sheltered from the not insignificant headwinds experienced by the South African economy during the reporting period. We expect this to continue to stand us in good stead.

The net asset value per share of the Company was 1 137 cents per share as at 28 February 2015.

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

4. Property acquisitions

As detailed in the PLS, Equites acquired a portfolio of properties as part of its listing process. Although some of the properties were only transferred after listing, all were concluded by 31 August 2014. Subsequent to this, Equites has concluded and implemented another four property acquisitions with a capital value of R118.8 million during the reporting period. They are as follows:

Crossroads, Milnerton

Equites acquired a newly constructed, A-grade distribution facility known as Crossroads in Milnerton, Cape Town at a 9% yield with an agreed property valuation of R42.029 million effective 1 September 2014. The tenant, Crossroads Distribution, is contracted to transport petroleum from the Chevron refinery in Milnerton to the Cape Town International Airport ("CTIA"). The remaining period on the lease is just short of nine years.

Execujet hangar, Cape Town International Airport

Equites acquired the remaining 50% of the Execujet hangar at the CTIA on 1 September 2014 at a yield of 9.8% and an agreed property value of R46.1 million (for the 50%) thus taking its ownership of the hangar to 100%. The tenant, Execujet Aviation, has just short of five years left on the lease.

Attyard, Epping Industria

Equites acquired a property of 1.3343 hectares (with a gross lettable area of 5 478 square meters) in Epping Industria, Cape Town at an 11.5% yield for R18.1 million on 26 November 2014. This property is ideally located for an industrial distribution warehouse and the Company intends redeveloping it in due course. It is tenanted on short-term leases and generates a yield-enhancing rental income as is.

Sanspark, Bellville

A property of 9 977 square meters in Bellville, which is adjacent to a bakery and two Digistics distribution centres already owned by Equites, was acquired at a 12% yield for R12.6 million. It presents an ideal redevelopment opportunity and will allow for any expansion requirements Digistics may have. It is currently tenanted on a short-term lease and generates a yield-enhancing rental income as is.

5. Developments

The Foschini Group distribution centre

During the reporting period, Equites concluded an agreement in terms of which it will develop a 22 227 square meter distribution warehouse for The Foschini Group ("TFG") in the prestigious Lords View Industrial Park. The landlord will be a joint venture between Equites and the owners of Lords View Industrial Park. The capital value of the project is approximately R150 million and Equites will own approximately 75% of the joint venture. The lease commences 1 April 2016 and the budgeted development yield is 9%.

Airport land

Equites concluded an agreement to acquire 14.4 hectares of prime vacant industrial land at CTIA for R142.2 million. The acquisition will be settled by issuing Equites shares in May 2016 and is subject to certain conditions precedent.

6. Funding

At year end, Equites had only drawn R127 million of its R600 million loan facility with Nedbank Limited, which equates to a loan-to-value ratio of 8.9%. This loan accrues favourable funding at prime less 1.6%. As at 28 February 2015, 79% of this debt was fixed for a five-year period at an all-in current weighted average rate of 8.85%.

7. Vacancies

Our industrial portfolio remains fully let and our office portfolio has a vacancy of just 6.6% of the gross lettable area, which is in line with the normal churn in multitenanted buildings. Total vacancies are only 2.9% of the overall gross lettable area.

8. Prospects

Weighted average escalations of 8.1% for Equites' existing property portfolio should support distribution growth (on an annualised basis) at the upper end of the 7 – 8% expected for the listed property sector as a whole. This means that Equites will comfortably meet the projections in the PLS. As new developments such as the TFG distribution centre in Midrand come online, we expect to accelerate distribution growth, although this will only start having a significant impact in the year ending 28 February 2017. These forecasts have not been reviewed or reported on by the Company's auditors.

9. Subsequent events

Other than the matters highlighted in this report, the Directors are not aware of any matters or circumstance arising after the year end that may have a material impact on the results or disclosures in the annual financial statements.

10. Basis of preparation

The preliminary summarised consolidated financial statements are prepared in accordance with the JSE Listings Requirements for preliminary reports and the requirements of the Companies Act (Act No. 71 of 2008) of South Africa. The JSE Listings Requirements require that preliminary reports be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), the SAICA financial reporting guides as issued by the Accounting Practices Committee and the Financial Pronouncements as issued by the Financial Reporting Standards Council, and that they, as a minimum, contain the information required by IAS 34, *Interim Financial Reporting*. Except for the adoption of revised and new standards that came into effect during the year, all accounting policies applied in the preparation of these summarised consolidated financial statements are IFRS compliant and consistent with those applied in the previous consolidated financial statements. The adoption of these standards had no material impact on the annual financial statements.

The auditors, Moore Stephens Cape Town Inc., have issued an unmodified audit opinion on the Group's annual financial statements for the year ended 28 February 2015. The audit was conducted in accordance with International Standards on Auditing. The preliminary summarised consolidated financial statements have been derived from and are consistent in all material respects with the Group financial statements. The directors take full responsibility for the preparation of the preliminary summarised consolidated financial statements and for ensuring that the financial information has been correctly extracted from the underlying audited annual financial statements. A copy of the audit report is available for inspection at Equites' registered address. The auditor's report does not necessarily report on all of the information contained in this announcement. To obtain a full understanding of the nature of the auditor's engagement, shareholders are advised to request a copy of the report together with the accompanying financial information from Equites' registered address.

Bram Goossens (CA) SA, in his capacity as Financial Director, was responsible for the preparation of the summarised consolidated financial results.

11. Final dividend

Notice is hereby given of the declaration of the final dividend number 2 of R46 782 000 for the 6 months ending 28 February 2015. This is the equivalent of 40.88969 cents per share based on 114 410 255 shares in issue as at 28 February 2015 and brings the total dividend for the 9 months ending 28 February 2015 to R69 913 000. (This is the equivalent of 61.26 cents per share based on the number of shares outstanding at the time of declaring the interim and year-end dividends.)

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 (Act No. 58 of 1962). 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 dividend withholding tax. The exemption from dividend withholding tax is not applicable to non-resident shareholders but they may qualify for relief under a tax treaty.

A separate announcement with further details regarding the tax treatment of the dividend will be released on SENS.

Holders of uncertified shares have to ensure that they have verified their residency status with their Central Securities Depository Participant (“CSDP”) or broker. Holders of certified shares will be asked to submit a declaration in this regard to the Company.

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

	2015
Declaration date	Tuesday 12 May
Last day to trade shares <i>cum</i> dividend distribution	Friday 29 May
Shares trade <i>ex-dividend</i> distribution	Monday 1 June
Record date	Friday 5 June
Payment date	Monday 8 June

Share certificates may not be dematerialised or rematerialised between Monday 1 June 2015 and Friday 5 June 2015, both dates included.

In respect of dematerialised shareholders, the dividend will be transferred to the CSDP account/broker accounts on Monday, 8 June 2015. Certificated shareholders’ dividend payments will be posted on or about Monday, 8 June 2015.

By order of the Board

Equites Property Fund Limited

12 May 2015



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Audited
28 February 2015
R'000

ASSETS

Non-current assets

Fair value of investment property (excluding straight-lining)	1 416 949
Straight-lining lease accrual	14 928
Property, plant and equipment	1 847
	1 433 724

Current assets

Current tax receivable	91
Trade and other receivables	4 479
Financial asset held at fair value	4 489
Cash and cash equivalents	3 582
	12 641

TOTAL ASSETS

1 446 365

EQUITY AND LIABILITIES

Equity and reserves

Stated capital	1 140 599
Accumulated profit	160 215
Shared-based payment reserve	201
	1 301 015

Liabilities

Non-current liabilities

Financial liabilities	127 372
	127 372

Current liabilities

Derivative financial liability	512
Trade and other payables	17 466
	17 978

TOTAL LIABILITIES

145 350

TOTAL EQUITY AND LIABILITIES

1 446 365



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Audited 3 months ended* 31 May 2014 R'000	Audited 9 months ended* 28 February 2015 R'000	Audited year ended 28 February 2015 R'000
Revenue			
Contractual revenue and tenant recoveries	13 587	102 077	115 664
Straight-lining of leases adjustment	2 931	11 997	14 928
	16 518	114 074	130 592
Other gains	—	158	158
Property operating and management expenses	(4 549)	(19 931)	(24 480)
Net property income	11 969	94 301	106 270
Administrative expenses	—	(7 742)	(7 742)
Operating profit	11 969	86 559	98 528
Fair value adjustments	(478)	115 575	115 097
Finance costs	(8 374)	(7 254)	(15 628)
Finance income	21	2 404	2 425
Financial instrument capital loss	—	(1 490)	(1 490)
Capital-raising expenses	(14 288)	(613)	(14 901)
Net profit before tax	(11 150)	195 181	184 031
Income tax expense	—	—	—
Profit for the period	(11 150)	195 181	184 031
OTHER COMPREHENSIVE INCOME	—	—	—
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	(11 150)	195 181	184 031
PROFIT ATTRIBUTABLE TO:			
Owners of the parent	(11 150)	195 181	184 031
Non-controlling interest	—	—	—
	(11 150)	195 181	184 031
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	(11 150)	195 181	184 031
Non-controlling interest	—	—	—
	(11 150)	195 181	184 031

Basic earnings per share (cents)	204,6
Diluted earnings per share (cents)	204,4

* The 9-month results to 28 February 2015 were used to determine the distribution to post-listing shareholders as explained above. The information presented for the 3 months ended 31 May 2014 and 9 months ended 28 February 2015 are for information purposes only and serve to illustrate the earnings attributable to the listed shareholders.

CONSOLIDATED STATEMENT OF CASH FLOW

**Audited
year ended
28 February 2015
R'000**

Cash flow from operating activities	
Profit before tax	184 031
Adjusted for:	
Finance costs	15 628
Finance income	(2 425)
Straight-lining of leases adjustment	(14 928)
Fair value adjustments	(115 097)
Amortisation	58
Share-based payment charge	201
Increase in trade and other receivables	(4 479)
Increase in trade and other payables	17 466
Cash generated from operations	80 455
Finance costs paid	(15 628)
Finance income received	2 238
Tax paid	(91)
Dividends paid	(23 816)
Net cash flow from operating activities	43 158
Cash flow utilised by investing activities	
Acquisition of investment properties	(811 171)
Investment in financial instrument	(200 000)
Amount including interest received from sale of financial instrument	195 698
Acquisition of property, plant and equipment	(1 905)
Net cash flow utilised by investing activities	(817 378)
Cash flow from financing activities	
Proceeds from share issue	650 430
Proceeds from bank loans	127 372
Net cash flow from financing activities	777 802
Net movement in cash and cash equivalents	3 582
Cash and cash equivalents at the beginning of the year	—
Cash and cash equivalents at the end of the year	3 582

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Audited	Audited February 2015		
	Stated capital R'000	Reserves/ Retained earnings R'000	Total R'000
Balance at 1 March 2014	—	—	—
Total comprehensive income	—	184 031	184 031
Shares issued for property and subsidiary acquisitions	490 599	—	490 599
Shares issued for cash on listing	650 000	—	650 000
Share-based payment movement	—	201	201
Dividends distributed to shareholders	—	(23 816)	(23 816)
Balance at 28 February 2015	1 140 599	160 416	1 301 015

SUMMARISED OPERATING SEGMENT INFORMATION

	Audited 3 months ended* 31 May 2014 R'000	Audited 9 months ended* 28 February 2015 R'000	Audited year ended 28 February 2015 R'000
Revenue			
Industrial	13 587	80 264	93 851
Office	—	21 813	21 813
Non-property	—	—	—
Straight-lining of leases	2 931	11 997	14 928
	16 518	114 074	130 592
Operating profit			
Industrial	9 038	66 355	75 393
Office	—	15 949	15 949
Non-property	—	(7 742)	(7 742)
Straight-lining of leases	2 931	11 997	14 928
	11 969	86 559	98 528

28 February 2015
R'000

Total assets	
Industrial	1 041 017
Office	383 327
Non-property	7 093
Straight-lining of leases	14 928
	1 446 365

* The 9-month results to 28 February 2015 were used to determine the distribution to post-listing shareholders as explained above. The information presented for the 3 months ended 31 May 2014 and 9 months ended 28 February 2015 are for information purposes only and serve to illustrate the earnings attributable to the listed shareholders.

SELECTED EXPLANATORY NOTES

1. Earnings per share

This note provides the information required in terms of IAS 33 earnings per share and SAICA Circular 2/2013 for the Group and should be read in conjunction with note 2, where earnings are reconciled to distributable earnings. Distributable earnings determine the dividend declared to shareholders, which is a meaningful metric for stakeholders in a REIT.

1.1 Basic earnings per share

Shares in issue	2015 Number of shares
Number of shares in issue at end of year	114 410 255
Weighted average number of shares in issue	89 935 947
Add: weighted potential dilutory impact of condition shares awarded during the year (note 13)	79 250
Diluted weighted average number of shares in issue	90 015 198
Basic earnings per share	cents
Basic earnings per share	204,6
Diluted earnings per share	204,4

1.2 Headline earnings per share

Reconciliation between basic earnings and headline earnings:	R'000
Earnings (profit attributable to owners of the parent)	184 031
<i>Adjusted for:</i>	
Fair value adjustments to investment properties	(115 609)
Headline earnings	68 422
Headline earnings per share:	cents
Headline earnings per share	76,1
Diluted headline earnings per share	76,0

2. Reconciliation between earnings and distributable earnings: Group

2.1 Distributable earnings and distribution per share

	3 months ended* 31 May 2014 R'000	9 months ended* 28 February 2015 R'000	year ended 28 February 2015 R'000
Earnings (profit attributable to owners of the parent)	(11 150)	195 181	184 031
<i>Adjusted for:</i>			
Fair value adjustments to investment properties	478	(116 087)	(115 609)
Headline earnings	(10 672)	79 094	68 422
<i>Adjusted for:</i>			
Straight-lining of leases adjustment	(2 931)	(11 997)	(14 928)
Fair value adjustments to financial instruments	—	512	512
Capital raising expenses	14 288	613	14 901
Equity-settled share-based payment reserve	—	201	201
Financial instrument capital loss	—	1 490	1 490
Distributable earnings	685	69 913	70 598

* The 9-month results to 28 February 2015 were used to determine the distribution to post-listing shareholders as explained above. The information presented for the 3 months ended 31 May 2014 and 9 months ended 28 February 2015 are for information purposes only and serve to illustrate the earnings attributable to the listed shareholders.

3. Investment property

28 February 2015
R'000

Reconciliation of investment property

Opening balance	—
Additions	1 301 340
Fair value adjustment	115 609
Fair value of investment properties (excluding straight-lining)	1 416 949
Straight-lining lease accrual	14 928
Closing balance	1 431 877

4. Property analysis

4.1 Tenant profile

	Gross lettable area (m ²)	Gross lettable area %	Number of tenants	Number of tenants %
A: Large nationals, large listeds and government	94 874	68,90%	44	58,70%
B: Smaller international and national tenants	23 249	16,90%	10	13,30%
C: Other local tenants and sole proprietors	18 384	13,40%	21	28,00%
Vacant	1 156	0,80%		
	137 663	100,00%	75	100,00%

4.2 Vacancy profile

	Gross lettable area (m ²)	Vacant area (m ²)	Vacancy %
Industrial	21 586	—	0,00%
Commercial	17 602	1 156	6,60%
	39 188	1 156	2,90%

4.3 Lease expiry profile

Lease expiry profile based on gross lettable area (GLA)

	Based on revenue	Based on GLA
Vacant		0,84%
Monthly	1,69%	1,02%
Expiring in the year to 29 February 2016	11,71%	9,70%
Expiring in the year to 28 February 2017	9,72%	9,06%
Expiring in the year to 28 February 2018	14,80%	19,26%
Expiring in the year to 28 February 2019	24,45%	30,69%
Thereafter	37,63%	29,43%
	100,00%	100,00%

4.4 Weighted average escalations and yield

Sector	Yield	Escalation
Industrial	8,58%	8,18%
Commercial	9,01%	7,58%
	8,66%	8,09%

Directors

A Taverna-Turisan (CEO)[^], G.R. Gous (COO), B Goossens (CFO), P.L. Campher*[†] (Chairman), G Lanfranchi* (Deputy Chairman), J.H. Cullum*, K Dreyer*, N Khan*[†], R.E. Benjamin-Swales*[†]

* Non-executive

[†] Independent

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Change in company secretary

Shareholders are advised that Riaan Gous was appointed as Company Secretary with effect from 1 December 2014 in place of CIS Company Secretaries (Pty) Ltd.

Company secretary

Riaan Gous

Transfer secretary

Link Market Services South Africa (Pty) Ltd

Auditors

Moore Stephens Cape Town Inc.

Sponsor

Java Capital

Bankers

Nedbank Limited

Attorneys

DLA Cliffe Dekker Hofmeyr

