equites
PROPERTY FUND

PRELIMINARY SUMMARISED AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 29 FEBRUARY 2016

Equites Property Fund 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" or "the group")

Directorate and administration

Directors
A Taverna-Turisan (CEO)^,
GR Gous (COO),
B Goossens (CFO),
PL Campher*† (Chairman),
G Lanfranchi* (Deputy Chairman),
AJ Gouws*°, K Dreyer*, N Khan*†,
RE Benjamin-Swales*†

**Non-executive*
†Independent
^Italian
°AJ Gouws was appointed on 1 September 2015 and JH Cullum resigned on 21 July 2015.

Registered office
14th Floor
Portside Towers
4 Bree Street
Cape Town
8000

Contact details
info@equites.co.za

Company secretary
Riaan Gous

Transfer secretary
Trifecta Capital Services Proprietary Limited was appointed as transfer secretary on 7 December 2015.

Auditors
Moore Stephens Cape Town Inc.

Sponsor
Java Capital

Bankers
Nedbank Limited

Attorneys
Cliffe Dekker Hofmeyr Inc.

Preliminary summarised audited consolidated financial statements for the year ended 29 February 2016

Highlights

– Total distributions of 96.6 cents per share for the year ended 29 February 2016, which is 18.3% higher than the comparative year on an adjusted full-year basis.
– NAV per share growth of 13.8% from R11.37 to R12.94 for the year.
– 187% growth in fair value of property portfolio from R1.4 billion to R4.1 billion.
– R1.5 billion capital raised through a substantially oversubscribed accelerated bookbuild in November 2015.
– Significant transactions concluded during the year and healthy development pipeline established.

1. Nature of the business

Equites listed as the only specialist industrial property fund on the JSE on 18 June 2014. The company is a Real Estate Investment Trust ("REIT") and both the property and asset management functions are managed internally. Equites' value proposition includes a focus on the top-end of the logistics sector and is based on sound property fundamentals. This is complemented by its proven ability to develop A-grade industrial buildings internally and unlock key logistics nodes.

2. Commentary on results

Following a strong first 6 months to the year, growth in distributable earnings accelerated significantly in the 6 months to 29 February 2016 as a result of:
– the acquisition of the Intaprop Proprietary Limited ("Intaprop") effective 1 July 2015;
– several other yield accretive acquisitions and redevelopments during the course of the year;
– refinancing of the existing Intaprop bank loans from the beginning of September 2015 at improved rates;
– a further reduction in already low vacancy levels to 0.6% of gross lettable area;
– cost containment in the light of a significant growth in the portfolio size;
– an effective hedging strategy; and
– a reduction in finance costs following the accelerated bookbuild undertaken by the company during November 2015 that raised R1.5 billion.

Some 86% of revenue is derived from blue chip tenants on long leases and 90% of completed properties by value are high quality logistics assets in key locations in Cape Town and Gauteng. The company also continues to see strong demand for modern distribution centres in the major logistics nodes. This demand continues to be supported by the centralisation of distribution by major retailers, increased levels of imports into South Africa and a shift towards online retailing.

Following a successful acellerated bookbuild that raised R1.5 billion in fresh equity, the company ended the year with a loan-to-value ratio of 11.8%. This has put Equites in a good position to pursue further acquisitions of logistics focussed portfolios in prime locations.

3. Distributable earnings

The board declared a final dividend of 51.18 cents per share on 5 May 2016 further to total interim dividends of 45.42 cents per share. This brings the total distributions for the year ended 29 February 2016 to 96.6 cents per share, which is a 57.7% growth over the prior year total distributions of 61.26 cents per share. As the prior year distributions were based on earnings for a 9 month period, the distribution growth amounts to 18.3% on an adjusted full year basis.

Dividends declared (cents per share)	% change	**Feb 16**	Feb 15
Interim dividends*	123.0%	**45.42**	20.37
Final dividend	25.2%	**51.18**	40.89
Total distributions for the period	57.7%	**96.60**	61.26

*In the financial year to 29 February 2016, the interim dividend was composed of a special clean-out dividend of 29.03 cents per share declared on 10 September 2015 and a final interim dividend of 16.39 cents per share declared on 15 October 2015.

The net asset value per share of the company was 1 294 cents per share at 29 February 2016. This amounts to a 13.8% growth on the prior year closing net asset value of 1 137 cents per share and a growth of 31.9% over the 21 months since listing.

4. Material transactions and acquisitions

4.1. Acquisition of Intaprop portfolio

Effective 1 July 2015, Equites acquired a portfolio of largely industrial properties and vacant industrial land from Intaprop, one of the most successful private property development companies in South Africa. This transaction added R1.9 billion to the value of the company's portfolio and gave it a substantial presence in Gauteng, whereas it had been exclusively Cape Town based on listing. Of the 21 hectares of vacant industrial land aquired with this transaction, 5.3 hectares have been applied to the Rohlig-Grindrod development.

4.2. Acquisition of Lords View land

Equites acquired a total of 21 hectares of land in the Lords View Industrial Park in Midrand for R180 million during the year. A new 22 227m^2 distribution centre for The Foschini Group ("TFG") was recently completed on a 4 hectare portion of this land. A further 3 hectares has been reserved for a future extension to the TFG distribution centre. The servicing on the remaining 14 hectares was recently completed and the company is currently negotiating development opportunites on these sites.

4.3. Acquisition of Tunney Ridge Business Park

Equites acquired a logistics property known as the Tunney Ridge Business Park (Gauteng) divided into 4 units with a total GLA of 13 808m^2 during the year. The total acquistion price was R137 million and Equites took transfer of this property at the beginning of February 2016.

4.4. Atlantic Hills and Puma development

Equites acquired a 7 hectare industrial park adjacent to the Potsdam off-ramp on the N7 highway in Cape Town for R92 million, effective 1 October 2015. The park includes one completed property let to JF Hillebrand with a capital value of R35 million.

Equites has also concluded a 10 year development lease with Puma, the global apparel and sportswear brand, for the construction of a new 16 262m^2 distribution centre and head office at Atlantic Hills. The capital value of the project is approximately R155 million and it is anticipated that the Puma development will be completed in December 2016.

4.5. New Epping facility

The board of Equites approved the construction of a speculative distribution centre development at 160 Gunners Circle, Epping, Cape Town. The modern distribution facility has a total GLA of 8 000m^2 and is expected to be completed in September 2016. There is high demand for A-grade industrial space in Epping and there has already been significant interest from potential tenants.

4.6. Rohlig-Grindrod

Equites has concluded a joint venture agreement with Grindrod Property Holdings Limited, a wholly owned subsidiary of Grindrod Limited, in terms of which Equites will be developing a 25 000 square metre state-of-art distribution centre and offices for Rohlig-Grindrod Proprietary Limited, which is a joint venture company of Grindrod Limited. The Grindrod group, which is listed on the JSE, is a fully integrated freight logistics and shipping service provider with offices in 43 countries worldwide.

The completed development will be owned in equal shares by Equites and Grindrod, with each party owning an undivided half share of the developed property. The development will be situated on 5.3 hectares of vacant land already owned by Equites in Meadowview Business Estate in Gauteng.

Following the above transactions, the company has approximately 36 hectares of prime, serviced industrially zoned land available for development. Equites is pursuing a number of opportunities for distribution centres on these parcels of land, which will ultimately amount to a capital value of approximately R2 billion.

5. Funding

During November 2015 Equites raised R1.5 billion through an accelerated bookbuild. The company successfully placed 120 million shares at 1 250 cents per share with investors. At this level, the bookbuild was heavily oversubscribed.

The company had a loan-to-value of 11.8% at 29 February 2016 and undrawn bank loans of some R1.6 billion. 79.6% of outstanding debt was hedged against interest rate fluctuations at year end. The average effective fixed rate was 8.96% as follows:

Description	Amount	Effective rate	Maturity
Interest rate swap	100 000	8.85%	31 August 2019
Embedded hedges in leases	306 000	9.00%	31 August 2022
Total	406 000	8.96%	
% of bank loans at year end	79.6%		

6. Vacancies

Equites' industrial portfolio remains fully let and its office portfolio has a vacancy of only 7.0% of gross lettable area, which is in line with the normal churn in multi-tenanted buildings. As the portfolio size has grown substantially, total vacancies as a percentage of gross lettable area have decreased from 2.9% in the prior year to 0.6% at the end of the current financial year.

7. Prospects

The company's strong property fundamentals and low gearing provides protection from the weak economic climate. Acquisitions of quality logistics in South Africa and a healthy development pipeline will grow the portfolio value and distributions above this baseline.

The board is confident that as a result of the strong property fundamentals, the company will achieve 10% – 12% distribution growth over the next financial year. This guidance is based on the assumptions that a stable macro-economic environment will prevail, no major corporate failures will occur and tenants will be able to absorb the recovery of rising utility costs and municipal rates. This forecast has not been audited or reviewed by Equites' auditors.

8. Subsequent events

The directors are not aware of any matters or circumstances arising subsequent to 29 February 2016 that require any additional disclosure or adjustments to the financial results.

9. 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 of South Africa. The JSE Listings Requirements require preliminary reports to 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 Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34, *Interim Financial Reporting*. Except for the adoption of revised and new standards that became effective during the year, all accounting policies applied in the preparation of these summarised consolidated financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated financial statements. There was no material impact on the annual financial statements as a result of the adoption of these standards.

The auditors, Moore Stephens Cape Town Inc., have issued their opinion on the group's annual financial statements for the year ended 29 February 2016. The audit was conducted in accordance with International Standards on Auditing. They have issued an unmodified audit opinion. These preliminary summarised consolidated financial statements have been derived from the group financial statements 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. This preliminary report has been audited by Moore Stephens Cape Town Inc. and an unmodified audit opinion issued. The auditor's report does not necessarily report on all of the information contained in this announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement, they should obtain a copy of that 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 these summarised consolidated financial results.

10. Final dividend

Notice is hereby given of the declaration of the final dividend number 5 of 51.17587 cents per share.

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

An announcement with further details 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:

	2016
Last day to trade *cum* dividend distribution	Friday, 20 May
Shares trade *ex* dividend distribution	Monday, 23 May
Record date	Friday, 27 May
Payment date	Monday, 30 May

Share certificates may not be dematerialised or rematerialised between Monday, 23 May 2016 and Friday, 27 May 2016, both days inclusive.

In respect of dematerialised shareholders, the dividend will be transferred to the CSDP account / broker accounts on Monday, 30 May 2016. Certificated shareholders' dividend payments will be paid to certificated shareholders' bank accounts on Monday, 30 May 2016.

By order of the Board

Equites Property Fund Limited

5 May 2016

Consolidated statement of financial position

	Audited 29 February 2016 R'000	Audited 28 February 2015 R'000
ASSETS		
Non-current assets		
Fair value of investment property (excluding straight-lining)	**4 017 578**	1 416 949
Straight-lining lease accrual	**93 581**	14 928
Property, plant and equipment	**1 786**	1 847
	4 112 945	1 433 724
Current assets		
Current tax receivable	**—**	91
Trade and other receivables	**62 360**	4 479
Financial assets held at fair value	**47 100**	4 489
Cash and cash equivalents	**3 962**	3 582
	113 422	12 641
TOTAL ASSETS	**4 226 367**	1 446 365
EQUITY AND LIABILITIES		
Equity and reserves		
Stated capital	**3 180 784**	1 140 599
Accumulated profit	**438 689**	160 215
Shared-based payment reserve	**1 366**	201
	3 620 839	1 301 015
Liabilities		
Non-current liabilities		
Financial liabilities	**433 645**	127 372
	433 645	127 372
Current liabilities		
Financial liabilities	**94 103**	—
Derivative financial liability	**—**	512
Trade and other payables	**77 780**	17 466
	171 883	17 978
TOTAL LIABILITIES	**605 528**	162 816
TOTAL EQUITY AND LIABILITIES	**4 226 367**	1 463 831

Consolidated statement of comprehensive income

	Audited year ended 29 February 2016 R'000	Audited year ended 28 February 2015 R'000
Revenue		
Contractual revenue and tenant recoveries	**257 026**	115 664
Straight-lining of leases adjustment	**78 653**	14 928
	335 679	130 592
Other gains	**1 248**	158
Property operating and management expenses	**(42 454)**	(24 480)
Net property income	**294 473**	106 270
Administrative expenses	**(16 973)**	(7 742)
Operating profit	**277 500**	98 528
Fair value adjustments – investment property	**138 529**	115 609
Fair value adjustments – financial instruments	**4 248**	(512)
Finance costs	**(40 074)**	(15 628)
Finance income	**3 667**	2 425
Financial instrument capital loss	**—**	(1 490)
Formation and listing costs	**—**	(14 901)
Net profit before tax	**383 870**	184 031
Income tax expense	**—**	—
Profit for the period	**383 870**	184 031
OTHER COMPREHENSIVE INCOME	**—**	—
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**383 870**	184 031
PROFIT ATTRIBUTABLE TO:		
Owners of the parent	**383 870**	184 031
Non-controlling interest	**—**	—
	383 870	184 031
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Owners of the parent	**383 870**	184 031
Non-controlling interest	**—**	—
	383 870	184 031
Basic earnings per share (cents)	**230.6**	204.6
Diluted earnings per share (cents)	**229.9**	204.4

Consolidated statement of cash flows

	Audited year ended 29 February 2016 R'000	Audited year ended 28 February 2015 R'000
Cash flows from operating activities		
Profit before tax	**383 870**	184 031
Adjusted for:		
Finance costs	**40 074**	15 628
Finance income	**(3 667)**	(2 425)
Straight-lining of leases adjustment	**(78 653)**	(14 928)
Fair value adjustments	**(138 529)**	(115 097)
Amortisation	**346**	58
Share based payment charge	**1 165**	201
Increase in trade and other receivables	**(44 573)**	(4 479)
Increase in trade and other payables	**16 566**	17 466
Cash generated from operations	**176 599**	80 455
Finance costs paid	**(65 484)**	(15 628)
Finance income received	**606**	2 238
Tax paid	**91**	(91)
Dividends paid	**(105 396)**	(23 816)
Net cash flows from operating activities	**6 417**	43 158
Cash flows utilised by investing activities		
Acquisition of investment properties	**(398 246)**	(811 171)
Investment in financial instrument	**(180 000)**	(200 000)
Amount received from sale of financial instrument	**144 000**	195 698
Acquisition of property, plant and equipment	**(285)**	(1 905)
Cash acquired as part of acquisition	**20 807**	—
Net cash flows utilised by investing activities	**(413 725)**	(817 378)
Cash flows from financing activities		
Proceeds from share issue	**1 491 268**	650 430
Proceeds from bank loans	**1 482 532**	127 372
Bank loans repaid	**(2 566 112)**	—
Net cash flows from financing activities	**407 688**	777 802
Net movement in cash and cash equivalents	**380**	3 582
Cash and cash equivalents at the beginning of the year	**3 582**	—
Cash and cash equivalents at the end of the year	**3 962**	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	490 169	—	490 169
Shares issued for cash on listing	650 430	—	650 430
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

Audited	**Audited February 2016 Stated capital R'000**	**Reserves/ Retained earnings R'000**	**Total R'000**
Balance at 1 March 2015	**1 140 599**	**160 416**	**1 301 015**
Total comprehensive income	**—**	**383 870**	**383 870**
Shares issued for property and subsidiary acquisitions	**548 917**	**—**	**548 917**
Shares issued for cash	**1 500 000**	**—**	**1 500 000**
Share-based payment movement	**—**	**1 165**	**1 165**
Dividends distributed to shareholders	**—**	**(105 396)**	**(105 396)**
Share issue costs	**(8 732)**	**—**	**(8 732)**
Balance at 29 February 2016	**3 180 784**	**440 055**	**3 620 839**

Summarised operating segment information

	Audited year ended 29 February 2016 R'000	Audited year ended 28 February 2015 R'000
Revenue		
Industrial	**214 777**	93 851
Office	**42 249**	21 813
Non-property	**—**	—
Straight-lining of leases	**78 653**	14 928
	335 679	130 592
Operating profit		
Industrial	**189 305**	75 393
Office	**26 515**	15 949
Non-property	**(16 973)**	(7 742)
Straight-lining of leases	**78 653**	14 928
	277 500	98 528
Total assets		
Industrial	**3 929 195**	1 041 017
Office	**152 529**	383 327
Non-property	**51 062**	7 093
Straight-lining of leases	**93 581**	14 928
	4 226 367	1 446 365

Selected explanatory notes to the results

1. Earnings per share – group

This note provides the obligatory information in terms of IAS 33 *Earnings per share and SAICA Circular 2/2015* 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 a stakeholder in a REIT.

1.1 Basic earnings per share

Shares in issue	**2016 Number of shares**	2015 Number of shares
Number of shares in issue at end of year	**279 862 466**	114 410 255
Weighted average number of shares in issues	**166 498 769**	89 935 947
Add: weighted potential dilutory impact of condition shares	**231 134**	79 250
Diluted weighted average number of shares in issues	**166 965 077**	90 015 198
Basic earnings per share	**cents**	cents
Basic earnings per share	**230.6**	204.6
Diluted earnings per share	**229.9**	204.4

1.2 Headline earnings per share

Reconciliation between basic earnings and headline earnings:	**R'000**	R'000
Earnings (profit attributable to owners of the parent)	**383 870**	184 031
Adjusted for:		
Fair value adjustments to investment properties	**(138 529)**	(115 609)
Headline earnings	**245 341**	68 422
Headline earnings per share:	**cents**	cents
Headline earnings per share	**147.4**	76.1
Diluted headline earnings per share	**146.9**	76.0

2. Reconciliation between earnings and distributable earnings – group

2.1 Distributable earnings

	Year ended 29 February 2016 R'000	Year ended 28 February 2015 R'000
Earnings (profit attributable to owners of the parent)	**383 870**	184 031
Adjusted for:		
Fair value adjustments to investment properties	**(138 529)**	(115 609)
Headline earnings	**245 341**	68 422
Adjusted for:		
Straight-lining of leases adjustment	**(78 653)**	(14 928)
Fair value adjustments to financial instruments	**(4 248)**	512
Formation and listing costs	**—**	14 901
Equity-settled share-based payment reserve	**1 165**	201
Financial instrument capital loss	**—**	1 490
Antecedent dividend*	**37 759**	—
Distributable earnings	**201 364**	70 598

*In the determination of distributable earnings, the group elects to make an adjustment for the antecedent dividend arising as result of the issue of shares during the period for which the Company did not have full access to the cash flow from such issue. The acquisition of Intaprop Hills (Pty) Ltd on 1 October 2015 (2 880 313 shares), accelerated bookbuild on 19 November 2015 (120 000 000 shares) and the acquisition of Lord's View on 24 November 2015 (4 915 968 shares) all gave rise to antecedent dividends.

2.2 Dividends declared and distribution per share

Total distributions for the year – 2016	**Cents per share**	**R'000**
Special clean-out distribution declared on 10 September 2015 (Dividend number 3)	**29.03**	**33 218**
Interim dividend declared on 15 October 2016 (Dividend number 4)	**16.39**	**24 924**
Final dividend declared on 5 May 2016 (Dividend number 5)	**51.18**	**143 222**
Total distributions for the year ended 29 February 2016	**96.60**	**201 364**

Total distributions for the year – 2015	Cents per share	R'000
Interim dividend declared 10 October 2014 (Dividend number 1)	20.37	23 131
Final dividend declared on 12 May 2015 (Dividend number 2)	40.89	46 782
Total distributions for the year ended 28 February 2015	61.26	69 913

Total distributable earnings for the year ended 28 February 2015 was R70 598 000. R685 000, however, related to the distributable earnings for the first three months of the reporting period and was declared as a pre-listing clean-out distribution to the vendor shareholders.

3. Investment property (excluding straight-lining)

	29 February 2016 R'000	28 February 2015 R'000
Investment property (note 3.1)	**3 524 981**	1 402 549
Investment property under development (note 3.2)	**126 296**	—
Freehold land available for development	**366 301**	14 400
	4 017 578	1 416 949

3.1 Reconciliation of investment property

Opening balance	**1 402 549**	—
Additions arising from acquisitions	**1 837 488**	1 286 940
Completed projects transferred from investment properties development	**146 415**	—
Redevelopment site transfered to investment properties under development	**(18 100)**	—
Fair value adjustment	**138 529**	115 609
Fair value of investment properties (excluding straight-lining)	**3 524 981**	1 402 549

3.2 Investment properties under development

Opening balance	**—**	—
Land cost and transfer of redevelopment site	**159 677**	—
Construction and development costs	**113 034**	—
	272 711	—
Completed projects transferred to investment property	**(146 415)**	—
Fair value of investment properties under development	**126 296**	

4. Property analysis

4.1 Tenant profile

	Gross lettable area (m²)	Gross lettable area %	Number of tenants	Number of tenants %
A – Large nationals, large listeds and government	250 050	87.4%	33	50.8%
B – Smaller international and national tenants	19 880	6.9%	7	10.8%
C – Other local tenants and sole proprietors	14 591	5.1%	24	38.5%
Vacant	1 737	0.6%	—	0.0%
	286 258	100.0%	64	100.0%

4.2 Vacancy profile

	Gross lettable area (m²)	Vacant area (m²)	Vacancy %
Industrial	261 496	—	0.0%
Commercial	24 762	1 737	7.0%
	286 258	1 737	0.6%

4.3 Lease expiry profile

Lease expiry profile	Based on revenue	Based on GLA
Vacant	0.00%	0.71%
Monthly	0.44%	1.27%
Expiry in the year to 29 February 2017	6.23%	7.17%
Expiry in the year to 28 February 2018	5.98%	4.37%
Expiry in the year to 28 February 2019	9.62%	10.88%
Expiry in the year to 28 February 2020	20.85%	23.69%
Thereafter	56.88%	51.91%
	100.00%	100.00%

4.4 Weighted average escalations and yield

Sector	Yield	Escalation
Industrial	8.38%	7.98%
Commercial	8.71%	7.78%
	8.40%	7.95%

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