
**Summarised audited results** for the year ended **31 March 2017**

VUKILE PROPERTY FUND

REAL ESTATE. REAL GROWTH.

# Highlights

## CORPORATE PROFILE

Vukile is a high quality, low-risk retail REIT. Its core strength in active asset management drives its strong operational performance. It has an entrepreneurial approach to deal making and a conservative approach to financial management and balance sheet structure, as well as deep capital markets expertise. Listed on the JSE and NSX, its proven management track record shows active commitment to good corporate governance and sector leadership. From its strong South African base, Vukile is well positioned to expand its business offshore. Vukile has consistently delivered long-term sustainable returns to shareholders, providing a 21.8% compound annual growth rate since listing in 2004.

**Successful transformation**

into a focused retail REIT



**7.1% growth**

in annual dividends

**Well positioned**

for further international expansions

# Continued strong

retail trading metrics

# Strong balance sheet

with a gearing ratio of 23%

# Corporate rating

of “A” with a positive outlook and “AA+” on senior secured bonds

# Commentary

## 1. NATURE OF OPERATIONS

The group is a long-term investor in a retail-focused property portfolio with strong contractual cash flows for sustainability and capital appreciation.

## 2. SIGNIFICANT EVENTS AND TRANSACTIONS

During this reporting period, the following significant transactions were effected which resulted in Vukile transforming into a retail REIT as follows:

1. The sale of the sovereign portfolio for R1.18 billion at 31 August 2016;
2. The purchase of Synergy Income Fund Limited's (Synergy) R2.5 billion retail portfolio in exchange for the bulk of Vukile's office and industrial portfolio for a similar value;
3. Acquisition of remaining 50% of Pinecrest Shopping Centre for R407 million.
4. The acquisition of a 25% undivided share in Springs Mall for R260 million. The mall opened in March 2017.
5. The completion of a R230 million (50%) revamp and extension of East Rand Mall.
6. The €13 million acquisition of 86.89% of Castellana Properties SOCIMI SA (Castellana), a Spanish REIT.
7. A further £10.7 million investment in Atlantic Leaf Properties Limited (Atlantic Leaf), increasing Vukile's shareholding to 29.6%.

## 3. SUMMARY OF FINANCIAL PERFORMANCE

The directors of Vukile are pleased to report that the dividend for the six months ended 31 March 2017 has increased by 7.2% to 89.1025 cents per share, despite a yield drag following the sale of the sovereign portfolio at 31 August 2016 at a 12% yield. The proceeds of the sale were utilised to repay debt (R678 million) and invested in the money market (R503 million) at lower yields, while management has been evaluating opportunities to deploy the proceeds internationally. The dividends for the full year rose by 7.1% to 156.75 cents per share.

The group's net profit after tax for the year ended 31 March 2017 amounted to R1.5 billion (March 2016: R1.6 billion). The current results reflect a loss of control of Synergy of R277 million, which amount does not affect distributable earnings.

The group's net profit available for distribution amounted to R1.12 billion for the year ended 31 March 2017, which represents an increase of 12.2% over the comparable period – refer note 1 to the Annual Financial Statements.

The proposed total dividend is made up as follows:

| | Rm | % | Cents per share |
|---|---|---|---|
| → First | 467.2 | 42.8 | 67.65 |
| → Second[1] | 625.4 | 57.2 | 89.10 |
| Total | 1 092.6 | 100.0 | 156.75 |

[1] *Based on shares in issue at 31 March 2017.*

An additional distribution of R19.7 million was paid in June 2016 following a R400 million share issuance in April 2016. The shareholders who participated in the issuance were entitled to receive the March 2016 second half distribution.

Dividend per share is the key measure to be used for trading statement purposes.

| **Key financial measures** | **2017 March** | 2016 March | % change |
|---|---|---|---|
| Dividends per share (cents) | **156.75** | 146.35 | 7.1 |
| Earnings (Rm) | **1 499** | 1 586 | (5.5) |
| Net asset value per share (cents) | **1 868** | 1 842 | 1.4 |
| Loan to value ratio (%)[I] | **29.2** | 31.9 | 8.6 |
| Loan to value ratio net of cash (%)[II] | **22.6** | 26.9 | 16.0 |
| Gearing ratio (%)[III] | **23.0** | 29.5 | 22.0 |

[I] *Based on directors' valuations of the group's portfolio at 31 March 2017.*
[II] *Based on [I] above less cash net of cash held on deposit from tenants.*
[III] *The gearing ratio is calculated by dividing total interest-bearing borrowings by total assets.*

## 4. GROUP PROPERTY PORTFOLIO OVERVIEW[1]

The Southern African property portfolio at 31 March 2017 consisted of 67 properties with a total market value of R13.1 billion (excluding the 20% non-controlling interest in Moruleng Mall) and gross lettable area of 936 459m², with an average value of R196 million per property.

The geographical and sectoral distribution of the group's portfolio is indicated in the tables below. The portfolio is well-represented in most of the South African provinces and Namibia. Some 75% of the gross income is derived from Gauteng, KwaZulu-Natal, Namibia and Western Cape.

### Geographic profile

| % of gross income | Total portfolio % |
|---|---|
| Gauteng | 37 |
| KwaZulu-Natal | 21 |
| Namibia | 9 |
| Western Cape | 8 |
| North West | 6 |
| Free State | 6 |
| Limpopo | 5 |
| Mpumalanga | 5 |
| Eastern Cape | 3 |

Based on market value, 91% of the group portfolio is in the retail sector, followed by 4% in the office, 3% in the industrial, 1% in the motor-related sector and 1% in the residential sector.

The tenant profile is listed in the table below:

### Tenant profile

| % of GLA | Total portfolio % | Retail % |
|---|---|---|
| Large national and listed tenants and major franchises | 65 | 72 |
| National and listed tenants, franchised and medium to large professional firms | 11 | 9 |
| Other | 24 | 19 |

The retail portfolio's exposure to national, listed and franchised tenants is 81% in total.

Vukile has low tenant concentration risk with the top 10 tenants accounting for 40.4% of total rent and 31.0% of total GLA. Based on rent the Steinhoff group is the single largest tenant, with 7.2% of total rent (6.2% of total GLA), with Shoprite the second largest at 5.6% of total rent (8.6% of total GLA).

The top 10 properties, all of which are retail assets, have 89.2% exposure to national, listed and franchised tenants and represent 44.4% of the total portfolio market value and 30.7% of the total portfolio GLA.

[1] *All of the above information excludes the two properties owned by Castellana. Information on these two properties is set out in paragraph 3(v).*

## Top 10 properties by value

| Property | Location | Rentable area m² | Directors' valuation at 31 March 2017 Rm | % of total | Valuation R/m² |
|---|---|---|---|---|---|
| Boksburg East Rand Mall* | Gauteng | 34 712 | 1 277 | 9.8 | 36 794 |
| Durban Phoenix Plaza | KwaZulu-Natal | 24 351 | 791 | 6.0 | 32 500 |
| Pinetown Pine Crest | KwaZulu-Natal | 40 087 | 786 | 6.0 | 19 603 |
| Soweto Dobsonville Mall | Gauteng | 23 236 | 513 | 3.9 | 22 060 |
| Gugulethu Square | Western Cape | 25 322 | 480 | 3.7 | 18 944 |
| Queenstown Nonesi Mall | Eastern Cape | 28 147 | 421 | 3.2 | 14 940 |
| Moruleng Mall# | North West | 25 137 | 394 | 3.0 | 15 658 |
| Oshakati Shopping Centre | Namibia | 24 632 | 390 | 3.0 | 15 834 |
| Phuthaditjhaba Setsing Crescent | Free State | 21 538 | 385 | 2.9 | 17 860 |
| Randburg Square | Gauteng | 40 767 | 380 | 2.9 | 9 331 |
| **Total** | | 287 929 | 5 817 | 44.4 | 20 204 |

** Represents an undivided 50% share in this property.*
*# Represents an 80% share in the company.*

## 5. VALUATION OF PORTFOLIO

The accounting policies of the group require that the directors value the entire portfolio every six months at fair market value. Approximately one-half of the portfolio is valued every six months, on a rotational basis, by registered independent third-party valuers. The directors have valued the group's property portfolio at R13.1 billion(1) as at 31 March 2017. This is R2.5 billion or 16.0% lower than the valuation as at 31 March 2016 due to the Gemgrow transaction and the sale of the sovereign portfolio. The market value of the stable portfolio increased by 7.3%. The calculated recurring forward yield for the portfolio is 8.6%.

During the year all properties were valued by external valuers and the valuations by Quadrant Properties (Pty) Ltd and Knight Frank (Pty) Ltd are in line with the directors' valuations.

(1) *The Southern African property portfolio overview takes into account Moruleng Mall at 80%, whereas in the financial statements the group property value reflects 100% of Clidet No 1011, which owns Moruleng Mall, and also excludes the two properties held in Castellana.*

## 6. PROPERTY PORTFOLIO PERFORMANCE

| Financial performance for the stable portfolio (excluding recent acquisitions and sales) | March 2017 Rm | March 2016 Rm | % change |
|---|---|---|---|
| Property revenue | 1 087.4 | 1 012.9 | 7.4 |
| Recurring net property expenses | (181.5) | (188.4) | 3.7 |
| Net property income | 905.9 | 824.5 | 9.9 |
| Property net expense ratios (%) | 16.7 | 18.6 | 10.3 |

New leases and renewals in excess of 180 000m² with a contract value of R1.27 billion were concluded during the year to date. Some 80% of leases to be renewed during the 12 months ended 31 March 2017 were renewed or are in the process of being renewed.

Details of large contracts concluded:

| Tenant | Property | Contract value Rm | Lease duration years |
|---|---|---|---|
| Game Stores | Pinetown Pine Crest | 60.9 | 9 |
| OK Bazaars | Randburg Square | 56.3 | 10 |
| Spar | Elim Hubyeni Shopping Centre | 53.8 | 10 |
| Spar | Hartbeespoort Sediba Shopping Centre | 42.2 | 10 |
| World Food Programme South Africa | Sandton Sunninghill Sunhill Park | 27.1 | 5 |
| Barloworld South Africa | Cape Town Bellville Barons | 24.8 | 10 |
| ADT Security | Midrand Ulwazi Building | 20.6 | 10 |
| Spar | Makhado Nzhelele Valley Shopping Centre | 20.0 | 9 |
| Dis-Chem | Germiston Meadowdale Mall | 16.1 | 10 |
| Jet Stores | Durban Phoenix Plaza | 14.1 | 5 |

The group lease expiry profile table reflects that 22% of the leases are due for renewal in the 2018 financial year. Approximately 39% of leases are due to expire in 2021 and beyond (up from 33% beyond 2020 in the prior year).

| Group lease expiry % of GLA | Vacant % | March 2018 % | March 2019 % | March 2020 % | March 2021 % | Beyond March 2021 % |
|---|---|---|---|---|---|---|
| GLA | | 22 | 21 | 14 | 8 | 31 |
| Cumulative as at March 2017 | 4.3 | 26 | 47 | 61 | 69 | 100 |
| Cumulative as at March 2016 | 3.9 | 47 | 67 | 78 | 85 | 100 |

## Vacancies

At 31 March 2017 the portfolio's vacancy (measured as a percentage of gross lettable area) was 4.3% compared to 3.9% at 31 March 2016. The retail portfolio vacancies based on GLA increased from 3.5% to 3.8%.

The vacancy per sector (measured as a percentage of gross lettable area) is indicated in the table below:

| Vacancies (% of GLA) | 31 March 2017 % | 31 March 2017 development vacancy % | 31 March 2017 including development vacancy % | 31 March 2016 % |
|---|---|---|---|---|
| Retail | 3.8 | 0.6 | 4.4 | 3.5 |
| Offices | 8.4 | – | 8.4 | 5.0 |
| Industrial | 7.2 | – | 7.2 | 4.3 |
| Motor related | – | 23.9 | 23.9 | – |
| Sovereign | | | | 4.2 |
| Hospital | | | | – |
| **Total** | 4.3 | 0.7 | 5.0 | 3.9 |

At 31 March 2017, the portfolio's vacancy (measured as a percentage of gross rental) decreased to 4.2% compared to 5.0% at 31 March 2016.

| Vacancies (% of gross rental) | 31 March 2017 % | 31 March 2017 development vacancy % | 31 March 2017 including development vacancy % | 31 March 2016 % |
|---|---|---|---|---|
| Retail | 3.6 | 0.5 | 4.1 | 4.0 |
| Offices | 12.6 | – | 12.6 | 9.6 |
| Industrial | 7.2 | – | 7.2 | 5.8 |
| Motor related | – | 9.7 | 9.7 | – |
| Sovereign | | | | 3.6 |
| Total | 4.2 | 0.6 | 4.8 | 5.0 |

| GLA summary | GLA m² |
|---|---|
| Balance at 1 April 2016 | 1 427 591 |
| GLA adjustments | (147) |
| Disposals | (513 156) |
| Acquisitions and extensions | 22 171 |
| **Balance at 31 March 2017** | 936 459 |

| Vacancy summary | Area m² | % |
|---|---|---|
| Balance at 31 March 2016 | 55 139 | 3.9 |
| *Less*: Properties sold since 31 March 2016 | (23 681) | (4.6) |
| **Remaining portfolio balance at 31 March 2016** | **31 458** | **3.4** |
| Leases expired or terminated early | 206 242 | |
| Renewal of expired leases | (112 103) | |
| Contracts to be renewed | (26 789) | |
| Tenants vacated | (66 308) | |
| Development vacancy | (7 034) | |
| New letting of vacant space | 14 701 | |
| **Balance at 31 March 2017** | 40 167 | 4.3 |

## Base rentals (excluding recoveries)

The weighted average monthly base rental rates per sector, between 31 March 2016 and 31 March 2017, are set out in the table below:

| Weighted average base rentals (R/m²) excluding recoveries | March 2017 | March 2016 | Escalations % |
|---|---|---|---|
| Retail | 122.88 | 114.61 | 7.2 |
| Offices | 90.25 | 94.56 | (4.6) |
| Industrial | 51.96 | 44.65 | 16.4 |
| Motor related | 135.46 | 121.91 | 11.1 |
| Sovereign | | 101.50 | |
| Hospital | | 106.55 | |
| **Total** | 115.42 | 96.71 | 19.3 |

The increased average rental rates on the total portfolio is due to the focused retail exposure.

The average contractual rental escalation of 7.4% is slightly lower than the previous year (7.6%).

The average escalation on expiry rentals on the total portfolio of 6.7% is positive against the backdrop of a difficult trading environment. Positive reversions were achieved across all sectors with retail at 6.9%, offices at 5.0% and industrial at 4.1%.

## Expense categories and ratios

The top four expense categories contribute 82% of the total expenses. These are: government services (46%), rates and taxes (17%), cleaning and security (11%) and property management fees (8%).

The group continuously evaluates methods of containing costs in the portfolio. The stable portfolio's recurring net costs-to-income ratios have improved from 18.6% in March 2016 to 16.7% in March 2017.

# 7. DEVELOPMENTS, ACQUISITIONS AND SALES

## Upgrades/redevelopments – R873 million

As part of the ongoing strategy to improve the quality of the existing portfolio, the following projects have been completed or are in progress.

### East Rand Mall

East Rand Mall (in which the company owns a 50% undivided share with Redefine Properties Limited) has been upgraded and extended at a total cost of R460 million, of which Vukile's share is R230 million. The project was completed by January 2017 and the projected yield on the total capex is 5.3%.

East Rand Mall, regarded as one of the top regional malls in South Africa, had a GLA of 63 460m$^2$, which was increased to c.70 000m$^2$. The main entrances, malls, some shop fronts, ceilings and toilets have been upgraded, while some areas have been reconfigured to allow better utilisation of the available space. New generators and a new PV cell solar installation have been installed to provide full backup power to the centre during power outages.

The extension of 6 540m$^2$ incorporates a relocated entrance four and a youth-oriented mall anchored by a Mr Price emporium, consisting of its apparel, sport and home outlets comprising about 3 700m$^2$ and Cotton-On (1 250m$^2$). International retailer H&M (2 485m$^2$) started trading in a reconfigured existing section of the centre in December 2016.

Together with the adjacent East Point (previously East Rand Galleria), which has also been upgraded, shoppers can now experience a dominant super-regional shopping centre with a GLA of about 120 000m$^2$.

### Durban: The Workshop

The upgrade of R75 million to The Workshop in Durban was completed in February 2017.

The project included the upgrade of the various ablution facilities, the reconfiguration and upgrade of the food court, the replacement of all the shop fronts and mall tiles, the installation of new ceilings in selected areas, installing energy efficient lighting in the mall areas and an increase of natural light, the installation of a new glass-enclosed passenger lift, painting of the interior steel features, the exterior and the roof and a redesign of the centre logo.

More than 30 new tenants have commenced trading in the centre since the upgrade started, including Pep Stores, Dunns, Ackermans, McDonald's, KFC, Pie City, Gingers International, Heart and Sole Fish, Hero Pies & Hot Dogs, Ice Cream Express, Fish Corner, Michael Brothers, Maharaj Pub & Grill, Edgars Connect, Spec Savers, FNB and Bidvest Bank.

### Bellville: Barons VW building

The Bellville Barons VW building is situated at the Durban Road intersection with the N1 highway.

The first phase of the reconfiguration of the vacant space into a Barloworld Ford dealership was completed by August 2016. The first phase consists of the workshop and services areas. The second phase, the new and second-hand car show rooms and offices, commenced in January 2017 when Toys-R-Us vacated and will be completed by end July 2017.

The total capex is R35 million. A 10-year lease has been concluded with Barloworld Auto. A yield of 15.1%, net of costs, is anticipated.

**Phuthaditjhaba: Setsing Crescent**

Setsing Crescent in Phuthaditjhaba was acquired with the Synergy transaction. The extension and upgrade of the centre at a total cost of R338 million and a projected net yield of 8,5% in the first year after completion has been approved. Flanagan & Gerard will be appointed as development managers for the project.

Setsing Crescent, with a current GLA of about 22 000m², is the second biggest shopping centre in Phuthaditjhaba.

The centre is anchored by a Super Spar, Game, Cashbuild, Clicks, all five major banks and a very strong national fashion component including Woolworths, Foschini, Ackermans and Truworths. The proposed extension will increase the GLA to c.34 000m² and the new tenants will include Pick n Pay as a second major food anchor. Most of the remainder of the new area will be let to national fashion retailers. Additional parking and an undercover taxi rank will also be provided.

Building work is scheduled to start in June 2017 for completion by end September 2018.

**Dobsonville Mall: extension and partial upgrade**

Dobsonville Mall, situated in northern Soweto, is currently being redeveloped, expanding its existing retail GLA of 20 307m² by 6 738m², thereby increasing the total retail GLA to 27 045m². A capex amount of R114 million was approved for the demolition of the office block (previously situated on the northern section of the site), the extension of the shopping mall, the upgrade of the entrances, limited internal improvements and the creation of a food court area. The projected net yield is 9.5%.

Pick n Pay anchors the northern extension of the mall with a 2 500m² supermarket scheduled to open for trade in late August 2017. Additionally, the expanded area is 90% let comprising stores for Clicks, Foschini, Pick n Pay Liquor, PQ Clothing, PEP Home among other ancillary retailers.

The mall continues to trade well attracting regular requests from prospective tenants to lease premises.

**Randburg Square**

Vukile's conversion of its 8 000m² Randburg Square offices into 180 contemporary, compact residential apartments has created a new vibrant urban living option in the heart of Randburg. The project was completed on 31 October 2016 at a cost of R81 million. With its quality compact living at affordable rentals, which range from R4 200 for a bachelor flat to R6 500 for a two-bedroom unit, Randburg Square residences has experienced full occupancy since early December 2016.

## Current Vukile projects

A summary of major acquisitions and development projects approved and incurred to 31 March 2017 is set out below:

| Approved projects | Completion | Approved R000 | Paid to 31 March 2017 R000 | Budget April 2017 to March 2018 R000 |
|---|---|---|---|---|
| Durban: The Workshop | 28 February 2017 | 75 000 | **73 637** | 1 363 |
| Boksburg: East Rand Mall | 31 January 17 | 230 000 | **206 093** | 23 907 |
| Durban: Phoenix Plaza | 31 August 2017 | 24 500 | **7 981** | 16 519 |
| Bellville: Barons Ford | 30 July 2017 | 35 400 | **20 077** | 15 323 |
| Dobsonville Centre Extension | 31 August 2017 | 114 000 | **54 461** | 59 539 |
| Thohoyandou: Thavhani Mall[(i)] | 31 August 2017 | 350 076 | **–** | 350 076 |
| Springs Mall | 16 March 2017 | 260 000 | **260 000** | – |
| Phuthaditjhaba: Setsing Crescent[(ii)] | 31 October 2018 | 338 000 | **–** | 167 887 |
| Randburg Residential (inclusive of VAT) | 30 October 2016 | 81 000 | **77 449** | 3 551 |
| | | 1 507 976 | **699 698** | 638 165 |

*[(i)] The financing for Thavhani Mall has already been raised and is invested in a R350 million two-year deposit earning 8.4% per annum, pending completion of this mall. The other projects will be financed out of the proceeds from property sales and existing bank facilities.*

*[(ii)] Further payments will be made after 31 March 2018.*

## Acquisitions – R3.1 billion

### Springs Mall

Vukile has acquired a 25% stake in the 48 224m² Springs Mall for R260 million. The centre was developed and is managed by Blue Crane Eco Mall (Pty) Ltd, in which Flanagan & Gerard is a shareholder.

Springs Mall opened on 16 March 2017 creating a superb new retail offering that was sorely lacking in the town. The opening was a huge success with some 160 000 people visiting the mall during the first seven days of trading.

At opening, the mall was fully let and anchored by Pick n Pay, Checkers, Woolworths and Edgars, while negotiations are continuing with Game to also lease premises in the centre.

The initial yield of 8% is guaranteed by the developers.

The property was prefunded and is accretive from day one.

### Pine Crest Shopping Centre

Vukile acquired the remaining 50% share of Pine Crest Shopping Centre, which is situated in Pinetown, KwaZulu-Natal. The centre is a 40 087m² regional shopping centre with an average footfall of 930 000 per month. Pine Crest has served the community for over 25 years and offers a quality retail shopping experience with over 90 stores, including many of the biggest clothing brands in the country. Anchor tenants include Game, Pick n Pay, Woolworths and a new Dis-Chem which will be introduced in July 2017. The 50% stake was purchased for R407 million at an initial yield of 8.6% and transfer was effected in March 2017.

### Synergy portfolio

The Synergy retail portfolio of R2.4 billion was acquired as part of the Synergy, Vukile, Arrowhead transaction, whereby Vukile acquired the Synergy retail portfolio in exchange for the bulk of its office and industrial portfolio. Details of the portfolio that was acquired are as follows:

| | | Purchase price Rm |
|---|---|---|
| Properties acquired from Synergy | | 2 474,6 |
| Atlantis City Shopping Centre | Retail | 302,1 |
| Elim Hubyeni Shopping Centre | Retail | 127,5 |
| Emalahleni Highland Mews | Retail | 224,0 |
| Ermelo Game Centre | Retail | 53,8 |
| Gugulethu Square | Retail | 415,0 |
| Hammanskraal Renbro Shopping Centre | Retail | 160,4 |
| Hartbeespoort Sediba Shopping Centre | Retail | 121,5 |
| Hillcrest Richdens Shopping Centre | Retail | 137,4 |
| KwaMashu Shopping Centre | Retail | 103,3 |
| Makhado Nzhelele Valley Shopping Centre | Retail | 55,9 |
| Phuthaditjhaba Setsing Crescent | Retail | 328,0 |
| Roodepoort Ruimsig Shopping Centre | Retail | 119,4 |
| Ulundi King Senzangakona Shopping Centre | Retail | 262,3 |
| Welgedacht Van Riebeeckshof Shopping Centre | Retail | 64,0 |

## Property sales concluded during the year – R4.1 billion

In line with the group's strategy to focus on retail assets the following properties were disposed of during the year in addition to the Synergy/Vukile exchange transaction referred to above:

| R000 | Sales price | Yield % | Dates of sale |
|---|---|---|---|
| Bloemfontein Fedsure House | 89 700 | 8.6 | 31 August 2016 |
| Pretoria Arcadia Suncardia | 265 600 | 10.0 | 31 August 2016 |
| Pretoria De Bruyn Park | 305 100 | 9.3 | 31 August 2016 |
| Pretoria Koedoe Arcade | 129 700 | 12.2 | 31 August 2016 |
| Pretoria Navarre Building | 391 200 | 16.1 | 31 August 2016 |
| Cape Town Bellville Louis Leipoldt | 384 732 | 8.0 | 3 February 2017 |
| Cape Town Parow De Tijger Day Clinic | 32 672 | 8.0 | 14 February 2017 |
| Cape Town Parow De Tijger Office Park | 39 933 | 11.8 | 14 February 2017 |
| | 1 638 637 | 11.0 | |

The following portfolio consisting of mainly offices and industrial properties was sold to Synergy (renamed to Gemgrow) in exchange for its retail portfolio. The effective date of the transaction was 1 October 2016 and the details are as follows:

| | | Sales price Rm |
|---|---|---|
| Properties sold to Gemgrow | | 2 432,0 |
| Cape Town Bellville Suntyger | Offices | 63,6 |
| Cape Town Bellville Tijger Park | Offices | 241,3 |
| Cape Town Parow Industrial Park | Industrial | 77,7 |
| Durban Valley View Industrial Park | Industrial | 138,1 |
| East London Vincent Office Park | Offices | 86,0 |
| Germiston Meadowdale R24 | Industrial | 177,8 |
| Johannesburg Isle of Houghton | Offices | 283,0 |
| Johannesburg Parktown 55 Empire Road | Offices | 50,8 |
| Midrand IBG | Offices | 71,1 |
| Pinetown Westmead Kyalami Industrial Park | Industrial | 89,8 |
| Pretoria Hatfield Festival Street Offices | Offices | 55,0 |
| Pretoria High Court Chambers | Offices | 143,9 |
| Pretoria Lynnwood Excel Park | Offices | 27,9 |
| Pretoria Lynnwood Sanlynn | Offices | 145,0 |
| Pretoria Lynnwood Sunwood Park | Offices | 66,0 |
| Pretoria Silverton 22 Axle Street | Industrial | 11,3 |
| Pretoria Silverton 294 Battery Street | Industrial | 23,6 |
| Pretoria Silverton 301 Battery Street | Industrial | 18,5 |
| Pretoria Silverton 309 Battery Street | Industrial | 20,9 |
| Pretoria Silverton 330 Alwyn Street | Industrial | 4,7 |
| Pretoria Silverton 34 Bearing Crescent | Industrial | 26,2 |
| Randburg Trevallyn Industrial Park | Industrial | 144,0 |
| Randburg Tungsten Industrial Park | Industrial | 55,4 |
| Roodepoort Robertville Industrial Park | Industrial | 92,9 |
| Sandton Bryanston Grosvenor Shopping Centre | Retail | 58,1 |
| Sandton Bryanston St Andrews Complex | Offices | 86,9 |
| Sandton Hyde Park 50 Sixth Road | Offices | 54,4 |
| Sandton Rivonia 36 Homestead Road | Offices | 32,0 |
| Sandton Sunninghill Place | Offices | 85,9 |

The proceeds from property sales have been used to repay debt, as well as provide funding for potential accretive acquisitions, both locally and internationally.

## 8. BORROWINGS

The group's finance strategy is to minimise funding costs and refinance risk. The business objectives that are necessary to implement this strategy can be summarised as follows:

| Strategy | 2017 | 2016 |
|---|---|---|
| Diversify funders to at least three providers | **Five funders** | Five funders |
| Diversify funding structures to incorporate, where appropriate: | **% of total** | % of total |
| Bank debt | **63** | 69 |
| Secured bonds | **21** | 19 |
| Commercial paper/unsecured bonds | **16** | 12 |
| | **100** | 100 |
| Spread expiry terms of all interest-bearing debt to c.25% per annum | Partly achieved | Achieved |
| Hedge or fix more than 75% of interest-bearing debt | 95.1%[(ii)] | 86.4% hedged[(ii)] |
| Maximise interest income and limit negative carry | Achieved through increase in access facilities repayable without break costs | |

[(ii)] *Vukile and its subsidiaries – excludes development debt and commercial paper.*

### Ratings

The Global Credit Rating Company (Pty) Ltd (GCR) has recently affirmed an "A" corporate rating with a positive outlook and an "AA+" (RSA) rating on Vukile's senior secured bonds.

### Debt refinancing during the year ended 31 March 2017

→ **Bond refinancing**

- R200 million corporate bond was repaid in May 2016
- R85 million of commercial paper was repaid during the year under review
- R387 million of commercial paper was refinanced during the year.

→ **Bank refinancing**

*Repayments*

- R163.3 million bank debt was repaid in April 2016
- R617 million Absa debt was repaid during the year
- R160 million Standard Bank debt was paid in September 2016.

*New loans*

- £10.7 million (R180 million) Absa loan was raised in November 2016 to subscribe for an Atlantic Leaf equity raise

| Loan amount | Rate | Expiry date |
|---|---|---|
| £1.35 million | Libor + 2.45% | 31 October 2021 |
| £1.35 million | Libor + 2.25% | 31 October 2019 |
| £4.0 million | Hedged 2.99% | 31 October 2019 |
| £4.0 million | Hedged 3.40% | 31 October 2021 |

- €13 million (R186 million) Standard Bank loan was raised to finance an acquisition of an 86.89% shareholding in Castellana

| Loan amount | Rate | Expiry date |
|---|---|---|
| €6.5 million | Eurobor + 2.38% | 20 December 2020 |
| €6.5 million | Eurobor + 2.33% | 20 December 2019 |

- R100 million Nedbank loan was raised to finance capex

| Loan amount | Rate | Expiry date |
|---|---|---|
| R100 million | Hedged 9.55% | 30 January 2020 |

→ **Increase in draw down of existing facilities to fund capital expenditure**

- RMB – R59 million
- Standard Bank – R122 million.

→ **Equity issuance and dividend reinvestment (DRIP)**

- Vukile issued 23 668 639 shares under an accelerated bookbuild on 21 April 2016 at R16.90 per share amounting to R400 million.

- Shares issued under an election to reinvest cash dividends in return for shares are summarised as follows:
  - 21 June 2016 – 19 307 492 shares (56%) at R16.15901 amounting to R312 million
  - 21 December 2016 – 11 242 114 shares (42%) at R17.19 per share amounting to R193 million.

→ **Encha equity tap structure**

The existing Encha equity tap structure has been very successfully utilised to grow Vukile's empowerment shareholding. Given that the facilities expire in August 2017 and the success achieved, Vukile will propose to extend the existing facility for a further year in order to access the unutilised portion of the facilities of R500 million and further grow its empowerment credentials.

## Debt repayment profile

The table below sets out the various tranches of debt payable by the group over the following 11 years:

| 2018 R000 | 2019 R000 | 2020 R000 | 2021 R000 | 2022 R000 | 2023 R000 | 2024 R000 | 2025 to 2027 R000 | 2028 R000 | Total gross debt R000 |
|---|---|---|---|---|---|---|---|---|---|
| 1 086 936 | 1 405 919 | 629 700 | 524 860 | 96 730 | 6 620 | 156 620 | 19 836 | 99 264 | 4 026 485 |
| 27.0% | 34.9% | 15.6% | 13.0% | 2.4% | 0.2% | 3.9% | 0.5% | 2.5% | 100.0% |

## 9. INTEREST RATE HEDGING

At year-end, net debt, excluding development loans and commercial paper, amounted to R3.74 billion. Swaps totalling R3.56 billion have been concluded which equates to 95.1% of debt.

The swap expiry profile per financial year is set out below:

**Swap expiry profile per financial year**

| 31 March 2018 R000 | 31 March 2019 R000 | 31 March 2020 R000 | 31 March 2021 R000 | 31 March 2022 R000 | 31 March 2023 R000 | Total R000 |
|---|---|---|---|---|---|---|
| 181 667 | 647 208 | 260 916 | 1 233 254 | 836 583 | 401 000 | 3 560 628 |
| 5.1% | 18.2% | 7.3% | 34.6% | 23.5% | 11.3% | 100% |

This table above reflects that 77% of swaps expire March 2020 and beyond.

The current swaps in place represent 3.4 years cover.

The company's borrowing capacity is unlimited in terms of its Memorandum of Incorporation (MOI). The group's loan to value ratio at 31 March 2017 based on the directors' valuations of the property portfolio was 29.2% (March 2016: 31.9%) compared to the bank's covenants of 50%, the DMTN covenants of 40% in respect of those properties mortgaged as security under the DMTN programme and 45% in respect of total group debt as a percentage of the value of total group investment properties. The group has unutilised bank facilities of R471 million at 31 March 2017.

## 10. INTERNATIONAL EXPANSION

In the year ahead Vukile will look to increase its international exposure to developed Europe by pursuing both the UK and Spanish markets. The UK exposure will be driven through its strategic 29.56% shareholding in Atlantic Leaf.

The Spanish economy is currently providing one of the most attractive growth rates in the European Union and is showing a steadily improving economic outlook as evidenced by its recent credit upgrade. Consumption expenditure is rising and unemployment rates are falling. Tourism continues its upward trajectory. Against this backdrop, Vukile will look to increase its exposure to Spain through its majority shareholding in Castellana and is currently actively reviewing a retail portfolio.

## 11. PROSPECTS

Vukile is very well positioned as a defensive, conservatively geared and managed retail REIT able to navigate an increasingly fragile economic and political environment in South Africa. As stated previously, the local focus will continue to be around accretive expansion and development opportunities within its own portfolio and, where possible, through acquisitions.

The group has a strong balance sheet with approximately R1.5 billion of resources available following the sale of its sovereign portfolio and other non-core assets. The available cash is earmarked for international expansion and Vukile is currently actively evaluating an opportunity in Spain to diversify its earnings stream and enhance its high-quality portfolio. The timing of the investment will impact on the growth in distributions in the financial year ending 31 March 2018.

If the current opportunities being explored are concluded within the anticipated timeline, Vukile expects to deliver growth in dividends of between 7% and 8% for the year ahead while stronger long-term growth will be underpinned by its well-positioned South African retail REIT platform and increased offshore exposure.

The forecast growth in dividends is based on the assumption that the macro-economic environment does not deteriorate further and no major corporate failures will occur. Forecast rental income is based on contractual escalations and market-related renewals. This forecast has not been reviewed or reported on by the company's auditors.

## 12. DECLARATION OF A CASH DIVIDEND WITH THE ELECTION TO REINVEST THE CASH DISTRIBUTION IN RETURN FOR VUKILE SHARES

Notice is hereby given of a gross dividend amounting to 89.10250 cents per share, out of distributable income, for the six-month period to 31 March 2017.

Shareholders will be entitled to elect (in respect of all or part of their holding) to reinvest the cash distribution of 89.10250 cents per share, in return for shares (the share reinvestment alternative), failing which they will receive the cash dividend in respect of (all or part of) their holdings.

A circular providing further information in respect of the cash dividend and the share reinvestment alternative will be posted to shareholders on or about 26 May 2017.

Shareholders who have dematerialised their shares are required to notify their duly appointed Central Securities Depository Participant (CSDP) or broker of their election in the manner and time stipulated in the custody agreement governing the relationship between the shareholder and their CSDP or broker.

### Tax implications

Vukile was granted REIT status by the JSE Limited with effect from 1 April 2013 in line with the REIT structure as provided for in the Income Tax Act, No 58 of 1962, as amended (the Income Tax Act) and section 13 of the JSE Listings Requirements.

The REIT structure is a tax regime that allows a REIT to deduct qualifying dividends paid to investors, in determining its taxable income.

The cash dividend of 89.10250 cents per share meets the requirements of a "qualifying distribution" for the purposes of section 25BB of the Income Tax Act (a **qualifying distribution**) with the result that:

→ Dividends received by resident Vukile shareholders must be included in the gross income of such shareholders (as a non-exempt dividend in terms of section 10(1)(k)(i)(aa) of the Income Tax Act), with the effect that the dividends are taxable as income in the hands of the Vukile shareholder. These dividends are however exempt from dividends withholding tax, provided that the South African resident shareholders provided the following forms to their CSDP or broker, as the case may be, in respect of uncertificated shares, or the company, in respect of certificated shares:
  - A declaration that the distribution is exempt from dividends tax
  - A written undertaking to inform the CSDP, broker or the company, as the case may be, should the circumstances affecting the exemption change or the beneficial owner cease to be the beneficial owner

  both in the form prescribed by the Commissioner for the South African Revenue Service. Shareholders are advised to contact their CSDP, broker or the company, as the case may be, to arrange for the abovementioned documents to be submitted prior to payment of the distribution, if such documents have not already been submitted.

→ Dividends received by non-resident Vukile shareholders will not be taxable as income and instead will be treated as ordinary dividends but which are exempt in terms of the usual dividend exemptions per section 10(1)(k) of the Income Tax Act. It should be noted that until 31 December 2013 dividends received by non-residents were not subject to dividends withholding tax. From 2016, any dividends are subject to dividends withholding tax. On 22 February 2017 the dividend withholding tax rate increased from 15% to 20%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation (**DTA**) between South Africa and the country of residence of the shareholder. Assuming dividends withholding tax will be withheld at a rate of 20%, the net distribution amount due to non-resident shareholders is 71.28200 cents per share. A reduced dividend withholding rate in terms of the applicable DTA, may only be relied upon if the non-resident holder has provided the following forms to their CSDP or broker, as the case may be, in respect of uncertificated shares, or the company, in respect of certificated shares:
  - A declaration that the dividend is subject to a reduced rate as a result of the application of a DTA
  - A written undertaking to inform their CSDP, broker or the company, as the case may be, should the circumstances affecting the reduced rate change or the beneficial owner cease to be the beneficial owner

  both in the form prescribed by the Commissioner for the South African Revenue Service. Non-resident holders are advised to contact their CSDP, broker or the company, as the case may be, to arrange for the abovementioned documents to be submitted prior to payment of the distribution if such documents have not already been submitted, if applicable.

Shareholders who are South African residents are advised that in electing to participate in the share reinvestment alternative, pre-taxation funds are utilised for the reinvestment purposes and that taxation will be due on the total cash dividend amount of 89.10250 cents per share.

Shareholders are further advised that:
- the issued capital of Vukile is 701 885 532 shares of one cent each at 22 May 2017
- Vukile's tax reference number is 9331/617/14/3.

This cash dividend or share reinvestment alternative may have tax implications for resident as well as non-resident shareholders. Shareholders are therefore encouraged to consult their tax and/or professional advisers should they be in any doubt as to the appropriate action to take.

Summary of the salient dates relating to the cash dividend and share reinvestment alternative are as follows:

| | **2017** |
|---|---|
| Circular and form of election posted to shareholders | Friday, 26 May |
| Finalisation information including the ratio and price per share published on SENS | Monday, 12 June |
| Last day to trade in order to participate in the election to receive the share reinvestment alternative or to receive a cash dividend (LDT) | Tuesday, 20 June |
| Share trade *ex* distribution | Wednesday, 21 June |
| Listing of maximum possible number of shares under the share reinvestment alternative | Friday, 23 June |
| Last day to elect to receive the share reinvestment alternative or to receive a cash dividend (no late forms of election will be accepted) at 12:00 (SA time) | Friday, 23 June |
| Record date for the election to receive the share reinvestment alternative or to receive a cash dividend (record date) | Friday, 23 June |
| Results of cash dividend and share reinvestment alternative published on SENS | Monday, 26 June |
| Cash distribution cheques posted to certificated shareholders on or about | Monday, 26 June |
| Accounts credited by CSDP or broker to dematerialised holders with the cash dividend payment | Monday, 26 June |
| Certificates posted to certificated shareholders on or about | Wednesday, 28 June |
| Accounts updated with new shares (if applicable) by CSDP or broker to dematerialised shareholders | Wednesday, 28 June |
| Adjustment to shares listed on or about | Friday, 30 June |

Notes:
1. Shareholders electing the share reinvestment alternative are alerted to the fact that the new shares will be listed on LDT + 3 and that these new shares can only be traded on LDT +3, due to the fact that settlement of the shares will be three days after record date, which differs from the conventional one day after record date settlement process.
2. Shares may not be dematerialised or rematerialised between Tuesday, 20 June 2017 and Friday, 23 June 2017, both days inclusive.
3. The above dates and times are subject to change. Any changes will be released on SENS.

## 13. BASIS OF PREPARATION

The summarised audited consolidated financial statements for the year ended 31 March 2017, and comparative information, have been prepared in accordance with and containing the information required by International Financial Reporting Standards (IFRS), International Accounting Standard (IAS) 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Announcements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and relevant sections of the South African Companies Act. Except for the amendments adopted as set out below, all accounting policies applied by the group in the preparation of these consolidated financial statements are consistent with those applied by the group in its consolidated financial statements as at and for the year ended 31 March 2016. The group has adopted the following amendments to standards which were effective for the first time for the financial period commencing 1 April 2016:

- Amendments to IFRS 10 – Consolidated Financial Statements
- Amendments to IFRS 11 – Joint Arrangements
- Amendments to IAS 1 – Presentation of Financial Statements
- Amendments to IAS 16 – Property, Plant, and Equipment
- Amendments to IAS 28 – Investments in Associates
- Amendments to IAS 38 – Intangible Assets.

There was no material impact identified on the financial statements based on management's assessment of these amendments.

These statements, which comprise the statement of financial position at 31 March 2017 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the 12 months then ended is extracted from audited information, but is itself not audited. The annual financial statements were audited by Grant Thornton, who expressed an unmodified opinion thereon. The auditor's report does not necessarily cover all of the information included in this announcement. Shareholders are therefore advised that, in order to obtain a full understanding of the nature of the auditor's work, they should obtain a copy of the audit report together with the accompanying financial information from the registered office of the company situated at Ground Floor, One-On-Ninth, Corner Glenhove Road and 9th Street, Melrose Estate.

The directors take full responsibility for the preparation of this report and that the financial information has been correctly extracted from the underlying financial statements.

This report was compiled under the supervision of Michael John Potts CA(SA), the financial director of the company.

The directors are not aware of any matters or circumstances arising subsequent to 31 March 2017 that require any additional disclosure or adjustment to the financial statements and which are not disclosed in this announcement.

On behalf of the board

**AD Botha**
Chairman

**LG Rapp**
Chief executive officer

Melrose Estate
23 May 2017

**VUKILE PROPERTY FUND LIMITED**
(Incorporated in the Republic of South Africa)
(Registration number 2002/027194/06)
JSE share code: VKE    ISIN: ZAE000056370    NSX share code: VKN    (granted REIT status with the JSE)
(Vukile or the group)

**JSE sponsor:** Java Capital

**NSX sponsor:** IJG Group, Windhoek, Namibia

**Executive directors:** LG Rapp (chief executive), MJ Potts (financial director), HC Lopion (executive director: asset management), GS Moseneke

**Non-executive directors:** AD Botha (chairman), PS Moyanga, SF Booysen, RD Mokate, H Ntene, NG Payne, HM Serebro

There have been no changes to the board of directors since the release of the previous results announcement.

**Registered office:** Ground Floor One-on-Ninth, Corner Glenhove Road and Ninth Street, Melrose Estate, 2196

Company secretary: J Neethling

**Transfer secretaries:** Link Market Services South Africa (Pty) Ltd, Braamfontein, Johannesburg

**Investor and media relations:** Marketing Concepts, 10th Floor, Fredman Towers, 13 Fredman Drive, Sandton, Johannesburg, South Africa. Tel: +27 11 783 0700, Fax: +27 11 783 3702

Availability of information – the results presentation will be made available at 12:00 on 23 May 2017, on the company's website at **www.vukile.co.za**

# Summarised consolidated statement of financial position

at 31 March 2017

| GROUP | 2017 R000 | 2016 R000 |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | **15 850 308** | 15 525 681 |
| Investment properties | **13 168 339** | 13 302 386 |
| Investment properties | **13 497 445** | 13 737 892 |
| Straight-line rental income adjustment | **(329 106)** | (435 506) |
| **Other non-current assets** | **2 681 969** | 2 223 295 |
| Straight-line rental income asset | **329 106** | 435 506 |
| Investment in associate | **780 347** | 760 049 |
| Equity investments | **1 366 239** | 328 247 |
| Investment properties under development | **51 191** | 87 033 |
| Furniture, fittings, computer equipment and other intangible assets | **14 049** | 2 127 |
| Available-for-sale financial asset | **23 855** | 19 842 |
| Goodwill | **63 009** | 158 372 |
| Derivative financial instruments | **1 722** | 41 230 |
| Deferred taxation assets | **14 341** | 2 779 |
| Long-term cash deposit | **–** | 350 000 |
| Long-term loans granted | **38 110** | 38 110 |
| **Current assets** | **1 589 768** | 831 794 |
| Trade and other receivables | **256 405** | 246 873 |
| Short-term derivative financial instruments | **1 752** | 1 245 |
| Current taxation assets | **1 666** | 1 217 |
| Cash and cash equivalents | **1 329 945** | 582 459 |
| **Investment properties held for sale** | **76 632** | 1 997 744 |
| **Total assets** | **17 516 708** | 18 355 219 |
| **EQUITY AND RESERVES** | | |
| **Equity attributable to owners of the parent** | **13 111 425** | 11 932 574 |
| **Non-controlling interest** | **73 367** | 556 681 |
| **Non-current liabilities** | **2 964 638** | 4 114 331 |
| Other interest-bearing borrowings | **2 937 590** | 4 098 319 |
| Derivative financial instruments | **26 115** | 5 269 |
| Deferred taxation liabilities | **933** | 10 743 |
| **Current liabilities** | **1 367 278** | 1 751 633 |
| Trade and other payables | **354 370** | 439 937 |
| Borrowings | **1 002 581** | 1 309 687 |
| Current taxation liabilities | **8 892** | 2 009 |
| Shareholders for dividend | **1 435** | – |
| **Total equity and liabilities** | **17 516 708** | 18 355 219 |
| **Net asset value (cents per share)** | **1 868** | 1 842 |

# Summarised consolidated statement of profit and loss

for the year ended 31 March 2017

| GROUP | 2017 R000 | 2016 R000 |
|---|---|---|
| Property revenue | 1 964 202 | 2 096 400 |
| Straight-line rental income accrual | (161 077) | 243 221 |
| **Gross property revenue** | 1 803 125 | 2 339 621 |
| Property expenses | (717 970) | (780 584) |
| **Net profit from property operations** | 1 085 155 | 1 559 037 |
| Net income from asset management business | – | 2 074 |
| Corporate and administrative expenses | (96 155) | (84 288) |
| Investment and other income | 198 523 | 99 337 |
| **Operating profit before finance costs** | 1 187 523 | 1 576 160 |
| Finance costs | (362 074) | (394 301) |
| **Profit before capital items** | 825 449 | 1 181 859 |
| Profit/(loss) on sale of investment properties | 25 250 | (31 883) |
| Profit on sale of furniture, fittings and equipment | 92 | – |
| Fair value gain/(loss) on listed property securities | 105 739 | (98 425) |
| Fair value movement of derivative financial instruments | (6 251) | (1 342) |
| Profit on sale of subsidiary | 54 813 | – |
| Foreign exchange profit | 83 679 | 26 825 |
| Loss of control on subsidiary | (276 781) | – |
| Profit on sale of listed property securities | – | 547 |
| Other capital items | (971) | – |
| Gain on bargain purchase price | – | 1 053 |
| Goodwill written off on sale of properties by a subsidiary | (3 889) | (4 951) |
| Costs of acquisition of business combination | (66) | (1 230) |
| **Profit before fair value adjustments** | 807 064 | 1 072 453 |
| **Fair value adjustments** | 693 521 | 560 049 |
| Gross change in fair value of investment properties | 532 444 | 803 270 |
| Straight-line rental income adjustment | 161 077 | (243 221) |
| **Profit before equity accounted investment** | 1 500 585 | 1 632 502 |
| **Profit share of associate** | 45 251 | 19 423 |
| **Profit before taxation** | 1 545 836 | 1 651 925 |
| Taxation | (9 286) | (9 076) |
| **Profit for the year** | 1 536 550 | 1 642 849 |
| **Profit attributable to:** | | |
| Owners of the parent | 1 499 420 | 1 586 079 |
| Non-controlling interests | 37 130 | 56 770 |
| **Other comprehensive (loss)/income** | | |
| Items that will be reclassified subsequently to profit or loss | | |
| Currency loss on translation of investment in foreign entities | (157 781) | (7 377) |
| Cash flow hedges | | |
| – Current period (losses)/gains (net of tax) | (42 547) | 40 673 |
| – Reclassification to profit and loss (net of tax) | 3 224 | – |
| Available-for-sale financial assets – current year loss | (15 206) | (21 498) |
| Other comprehensive (loss)/income for the year | (212 310) | 11 798 |
| **Total comprehensive income for the year** | 1 324 240 | 1 654 647 |
| **Total comprehensive income attributable to:** | | |
| Owners of the parent | 1 287 981 | 1 597 664 |
| Non-controlling interest | 36 259 | 56 983 |
| Basic and diluted earnings per share (cents)[(1)] | 217.93 | 249.55 |
| Weighted average number of shares in issue | 688 024 118 | 635 569 998 |
| Number of shares in issue | 701 885 532 | 647 667 287 |

*Vukile has no dilutionary shares in issue.*

# Reconciliation of earnings to headline earnings

for the year ended 31 March 2017

| | 2017 Group R000 | 2017 Cents per share | 2016 Group R000 | 2016 Cents per share |
|---|---|---|---|---|
| Attributable profit to owners of the parent | 1 499 420 | 217.93 | 1 586 079 | 249.55 |
| **Earnings** | 1 499 420 | 217.93 | 1 586 079 | 249.55 |
| Change in fair value of investment properties (net of allocation to non-controlling interest) | (676 899) | (98.38) | (546 188) | (85.94) |
| Gain on bargain purchase | – | – | (1 053) | (0.17) |
| Write-off of goodwill on sale of properties sold by a subsidiary | 3 889 | 0.56 | 4 951 | 0.78 |
| (Profit)/loss on sale of investment properties | (25 250) | (3.67) | 31 883 | 5.02 |
| Profit on sale of furniture, fittings, computer equipment and other | (92) | (0.01) | – | – |
| Profit on sale of subsidiary | (54 813) | (7.97) | – | – |
| Loss of control of subsidiary | 276 781 | 40.23 | – | – |
| Profit on sale of listed securities | – | – | (547) | (0.08) |
| Fair value earnings of associate-adjusted headline earnings | 16 804 | 2.44 | (7 353) | (1.16) |
| **Headline earnings of shares** | 1 039 840 | 151.13 | 1 067 772 | 168.00 |
| Weighted average number of shares in issue | 688 024 118 | | 635 569 998 | |

# Summarised consolidated statement of cash flow

for the year ended 31 March 2017

| | 2017 Group R000 | 2016 Group R000 |
|---|---|---|
| Cash flow from operating activities | 1 104 588 | 1 282 446 |
| Cash flow from investing activities | 429 231 | (2 124 331) |
| Cash flow from financing activities | (1 135 957) | 1 300 455 |
| Net increase in cash and cash equivalents | 397 862 | 458 570 |
| Foreign currency movement in cash | (376) | – |
| Cash and cash equivalents at the beginning of the year | 932 459 | 473 889 |
| **Cash and cash equivalents at the end of the year** | 1 329 945 | 932 459 |
| **Major items included in the above** | | |
| **Cash flow from operating activities** | | |
| Profit before tax | 1 545 836 | 1 651 925 |
| Adjustments | (378 051) | (402 521) |
| **Cash flow from investing activities** | | |
| Acquisition of and improvements to investment properties | (3 466 306) | (1 578 544) |
| Investment in associate | (180 677) | (758 570) |
| Net proceeds on sale of investment properties | 4 113 776 | 327 356 |
| **Cash flow from financing activities** | | |
| Issue of shares | 902 251 | 1 347 944 |
| Dividends paid | (1 049 031) | (937 494) |
| Finance costs | (355 764) | (389 522) |
| Interest-bearing borrowings (repaid)/advanced | (622 473) | 1 280 901 |

# Summarised consolidated statement of changes in equity

for the year ended 31 March 2017

| R000 | Share capital and share premium | Non-distributable reserves | Retained earnings | Shareholders' interest Total | Non-controlling interest | Total |
|---|---|---|---|---|---|---|
| **GROUP** | | | | | | |
| **Balance at 31 March 2015** | 5 672 340 | 3 683 386 | 474 920 | 9 830 646 | 516 317 | 10 346 963 |
| Issue of shares | 1 396 223 | – | – | 1 396 223 | – | 1 396 223 |
| Dividend distribution | – | – | (901 643) | (901 643) | (35 851) | (937 494) |
| | 7 068 563 | 3 683 386 | (426 723) | 10 325 226 | 480 466 | 10 805 692 |
| Profit for the year | – | – | 1 586 079 | 1 586 079 | 56 770 | 1 642 849 |
| Change in fair value of investment properties | – | 803 270 | (803 270) | – | – | – |
| Change in fair value of investments attributable to non-controlling interest | – | (13 860) | 13 860 | – | – | – |
| Share-based remuneration | – | 15 770 | – | 15 770 | – | 15 770 |
| Deferred taxation on change in fair value of derivatives | – | (10 417) | – | (10 417) | – | (10 417) |
| Transfer from non-distributable reserve | – | (8 409) | 8 409 | – | – | – |
| Cost of conversion of debentures to stated capital by subsidiary | – | (710) | – | (710) | (389) | (1 099) |
| Gain from change in shareholding in subsidiary | – | 5 041 | – | 5 041 | (5 863) | (822) |
| Non-controlling interest arising on business combination acquired | – | – | – | – | 25 484 | 25 484 |
| Revaluation of investments | – | (98 425) | 98 425 | – | – | – |
| **Other comprehensive income** | – | 11 585 | – | 11 585 | 213 | 11 798 |
| **Balance at 31 March 2016** | **7 068 563** | **4 387 231** | **476 780** | **11 932 574** | **556 681** | **12 489 255** |
| Issue of capital | **902 251** | **–** | **–** | **902 251** | **–** | **902 251** |
| Dividend distribution | **–** | **–** | **(1 025 270)** | **(1 025 270)** | **(25 196)** | **(1 050 466)** |
| | **7 970 814** | **4 387 231** | **(548 490)** | **11 809 555** | **531 485** | **12 341 040** |
| Profit for the year | **–** | **–** | **1 499 420** | **1 499 420** | **37 130** | **1 536 550** |
| Change in fair value of investment properties | **–** | **532 444** | **(532 444)** | **–** | **–** | **–** |
| Change in fair value of investments attributable to non-controlling interest | **–** | **(16 622)** | **16 622** | **–** | **–** | **–** |
| Share-based remuneration | **–** | **17 413** | **–** | **17 413** | **–** | **17 413** |
| Deferred taxation on change in fair value of derivatives | **–** | **1 750** | **–** | **1 750** | **–** | **1 750** |
| Transfer to non-distributable reserve | **–** | **104 024** | **(103 315)** | **709** | **–** | **709** |
| Non-controlling interest arising on business combination acquired | **–** | **–** | **–** | **–** | **26 855** | **26 855** |
| Share issue expenses of a subsidiary | **–** | **(7 111)** | **–** | **(7 111)** | **(3 829)** | **(10 940)** |
| Loss of control of subsidiary | **–** | **(231 623)** | **232 751** | **1 128** | **(517 403)** | **(516 275)** |
| Revaluation of investments | **–** | **105 739** | **(105 739)** | **–** | **–** | **–** |
| **Other comprehensive loss** | **–** | **(211 439)** | **–** | **(211 439)** | **(871)** | **(212 310)** |
| **Balance at 31 March 2017** | **7 970 814** | **4 681 806** | **458 805** | **13 111 425** | **73 367** | **13 184 792** |

# Summarised operating segment reporting

The revenues and profits generated by the group's operating segments and segment assets are summarised in the table below.

During the year to 31 March 2017, there has been no change from prior periods in the measurement methods used to determine operating segments and reported segment profits.

## Operating segments analysis

**for the year ended 31 March 2017**

| GROUP | Retail – Vukile R000 | Retail – Synergy R000 | Offices R000 | Industrial R000 |
|---|---|---|---|---|
| **Group income for the year ended 31 March 2017** | | | | |
| Property revenue | 971 669 | 130 497 | 161 734 | 88 742 |
| Straight-line rental income accrual | (104 301) | (14 084) | (18 348) | (9 588) |
| | 867 368 | 116 413 | 143 386 | 79 154 |
| Property expenses (net of recoveries) | (168 820) | (22 086) | (20 501) | (14 938) |
| **Profit from property and other operations** | 698 548 | 94 327 | 122 885 | 64 216 |
| **Group statement of financial position at 31 March 2017** | | | | |
| ASSETS | | | | |
| Investment properties | 11 993 956 | | 420 476 | 477 580 |
| *Add*: Lease commissions | | | | |
| | | | | |
| Goodwill | 48 218 | | | |
| Investment properties held for sale | | | 76 632 | |
| | 12 042 174 | | 497 108 | 477 580 |
| *Add*: Excluded items | | | | |
| Investment property under development | | | | |
| Equity investments | | | | |
| Investment in associate | | | | |
| Furniture, fittings, computer equipment and other intangible assets | | | | |
| Available-for-sale financial asset | | | | |
| Derivative financial instruments | | | | |
| Loans receivable | | | | |
| Deferred taxation assets | | | | |
| Trade and other receivables | | | | |
| Taxation refundable | | | | |
| Cash and cash equivalents | | | | |
| **Total assets** | | | | |
| EQUITY AND LIABILITIES | | | | |
| Stated capital | 7 053 483 | | 292 343 | 280 859 |
| Interest-bearing borrowings | 3 486 712 | | 144 512 | 138 836 |
| | 10 540 195 | | 436 855 | 419 695 |
| *Add*: Excluded items | | | | |
| Other components of equity and retained earnings | | | | |
| Non-controlling interest | | | | |
| Derivative financial instruments | | | | |
| Deferred taxation liabilities | | | | |
| Trade and other payables | | | | |
| Current taxation liabilities | | | | |
| Shareholder for dividend | | | | |
| **Total equity and liabilities** | | | | |

| Residential R000 | Sovereign R000 | Hospital R000 | Motor related R000 | Total R000 | Foreign business combination R000 | Total group R000 |
|---|---|---|---|---|---|---|
| 6 013 | 56 704 | 26 785 | 12 070 | 1 454 214 | 7 131 | 1 461 345 |
| (518) | (9 293) | (3 420) | (1 525) | (161 077) | – | (161 077) |
| 5 495 | 47 411 | 23 365 | 10 545 | 1 293 137 | 7 131 | 1 300 268 |
| (2 022) | 14 829 | (462) | (335) | (214 335) | (778) | (215 113) |
| 3 473 | 62 240 | 22 903 | 10 210 | 1 078 802 | 6 353 | 1 085 155 |
| 78 961 | | | 155 951 | 13 126 924 | 350 254 | 13 477 178 |
| | | | | 20 267 | | 20 267 |
| | | | | 13 147 191 | | 13 497 445 |
| | | | | 48 218 | 14 791 | 63 009 |
| | | | | 76 632 | | 76 632 |
| 78 961 | | | 155 951 | 13 272 041 | 365 045 | 13 637 086 |
| | | | | | | 51 191 |
| | | | | | | 1 366 239 |
| | | | | | | 780 347 |
| | | | | | | 14 049 |
| | | | | | | 23 855 |
| | | | | | | 3 474 |
| | | | | | | 38 110 |
| | | | | | | 14 341 |
| | | | | | | 256 405 |
| | | | | | | 1 666 |
| | | | | | | 1 329 945 |
| | | | | | | 17 516 708 |
| 46 436 | | | 91 713 | 7 764 834 | 205 980 | 7 970 814 |
| 22 954 | | | 45 336 | 3 838 350 | 101 821 | 3 940 171 |
| 69 390 | | | 137 049 | 11 603 184 | 307 801 | 11 910 985 |
| | | | | | | 5 140 611 |
| | | | | | | 73 367 |
| | | | | | | 26 115 |
| | | | | | | 933 |
| | | | | | | 354 370 |
| | | | | | | 8 892 |
| | | | | | | 1 435 |
| | | | | | | 17 516 708 |

# Summarised operating segment reporting continued

## Operating segments analysis

**for the year ended 31 March 2016**

| GROUP | Retail – Vukile R000 | Retail – Synergy R000 | Offices R000 | Industrial R000 |
|---|---|---|---|---|
| **Group income for the year ended 31 March 2016** | | | | |
| Property revenue | 755 239 | 250 024 | 270 331 | 133 659 |
| Straight-line rental income accrual | 114 687 | 39 266 | 40 799 | 20 367 |
| | 869 926 | 289 290 | 311 130 | 154 026 |
| Property expenses (net of recoveries) | (134 785) | (37 598) | (49 608) | (23 474) |
| **Profit from property and other operations** | 735 141 | 251 692 | 261 522 | 130 552 |
| **Group statement of financial position at 31 March 2016** | | | | |
| **ASSETS** | | | | |
| Investment properties | 7 914 475 | 2 441 576 | 1 848 992 | 1 283 406 |
| *Add*: Lease commissions | | | | |
| | | | | |
| Goodwill | 48 218 | | | 3 889 |
| Investment properties held for sale | 254 439 | | 429 305 | |
| | 8 217 132 | 2 441 576 | 2 278 297 | 1 287 295 |
| *Add*: Excluded items | | | | |
| Investment property under development | | | | |
| Equity investments | | | | |
| Investment in associate | | | | |
| Furniture, fittings and computer equipment | | | | |
| Available-for-sale financial asset | | | | |
| Derivative financial instruments | | | | |
| Loans receivable | | | | |
| Long-term cash deposit | | | | |
| Deferred taxation assets | | | | |
| Trade and other receivables | | | | |
| Taxation refundable | | | | |
| Cash and cash equivalents | | | | |
| **Total assets** | | | | |
| **EQUITY AND LIABILITIES** | | | | |
| Stated capital | 3 679 264 | 1 099 682 | 1 026 142 | 578 047 |
| Interest-bearing borrowings | 2 814 925 | 841 343 | 785 082 | 442 249 |
| | 6 494 189 | 1 941 025 | 1 811 224 | 1 020 296 |
| *Add*: Excluded items | | | | |
| Other components of equity and retained earnings | | | | |
| Non-controlling interest | | | | |
| Derivative financial instruments | | | | |
| Deferred taxation liabilities | | | | |
| Trade and other payables | | | | |
| Current taxation liabilities | | | | |
| **Total equity and liabilities** | | | | |

| Residential R000 | Sovereign R000 | Hospital R000 | Motor related R000 | Total R000 | Asset management business R000 | Total group R000 |
|---|---|---|---|---|---|---|
| 1 091 | 126 690 | 28 857 | 11 005 | 1 576 896 | 2 074 | 1 578 970 |
| 140 | 20 718 | 5 267 | 1 977 | 243 221 | – | 243 221 |
| 1 231 | 147 408 | 34 124 | 12 982 | 1 820 117 | 2 074 | 1 822 191 |
| (334) | (14 609) | (365) | (307) | (261 080) | – | (261 080) |
| 897 | 132 799 | 33 759 | 12 675 | 1 559 037 | 2 074 | 1 561 111 |
| 22 200 | | 30 791 | 154 834 | 13 696 274 | | 13 696 274 |
| | | | | 41 618 | | 41 618 |
| | | | | 13 737 892 | | 13 737 892 |
| | | | | 52 107 | 106 265 | 158 372 |
| | 937 350 | 376 650 | | 1 997 744 | | 1 997 744 |
| 22 200 | 937 350 | 407 441 | 154 834 | 15 787 743 | 106 265 | 15 894 008 |
| | | | | | | 87 033 |
| | | | | | | 328 247 |
| | | | | | | 760 049 |
| | | | | | | 2 127 |
| | | | | | | 19 842 |
| | | | | | | 42 475 |
| | | | | | | 38 110 |
| | | | | | | 350 000 |
| | | | | | | 2 779 |
| | | | | | | 246 873 |
| | | | | | | 1 217 |
| | | | | | | 582 459 |
| | | | | | | 18 355 219 |
| 9 999 | 422 181 | 183 511 | 69 737 | 7 068 563 | | 7 068 563 |
| 7 650 | 323 002 | 140 400 | 53 355 | 5 408 006 | | 5 408 006 |
| 17 649 | 745 183 | 323 911 | 123 092 | 12 476 569 | | 12 476 569 |
| | | | | | | 4 864 011 |
| | | | | | | 556 681 |
| | | | | | | 5 269 |
| | | | | | | 10 743 |
| | | | | | | 439 937 |
| | | | | | | 2 009 |
| | | | | | | 18 355 219 |

# Notes to the summarised financial statements

for the year ended 31 March 2017

## 1. CALCULATION OF DISTRIBUTABLE EARNINGS

| | **Audited Group 31 March 2017 R000** | Audited Group 31 March 2016 R000 |
|---|---|---|
| Property revenue | **1 964 202** | 2 096 400 |
| Property expenses | **(717 970)** | (780 584) |
| Corporate and administrative expenses | **(96 155)** | (84 288) |
| Net income from asset management business | **–** | 2 074 |
| Investment and other income | **198 523** | 99 337 |
| Finance costs | **(362 074)** | (394 301) |
| Realised profit on sale of subsidiary | **54 813** | – |
| Profit share of associate | **45 251** | 19 423 |
| Taxation | **(9 286)** | (9 076) |
| Attributable to non-controlling interests | **(37 130)** | (42 910) |
| Loss of control of Synergy | **(21 122)** | – |
| Pre-acquisition dividends | **6 828** | – |
| Project management fees from Sanlam | **8 000** | 8 000 |
| Shares issued *cum* dividend | **31 847** | 63 024 |
| Dividends receivable from listed securities | **51 954** | 19 213 |
| | **1 117 681** | 996 312 |

## 2. MEASUREMENTS OF FAIR VALUE

### 2.1 Financial instruments

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

| | **2017** | | | 2016 | | |
|---|---|---|---|---|---|---|
| GROUP | **Level 1 R000** | **Level 2 R000** | **Total R000** | Level 1 R000 | Level 2 R000 | Total R000 |
| ASSETS | | | | | | |
| Investments | **1 366 239** | **–** | **1 366 239** | 328 247 | – | 328 247 |
| Available-for-sale financial assets | **55 342** | **–** | **55 342** | 57 324 | – | 57 324 |
| Derivative financial instruments | **–** | **3 474** | **3 474** | – | 42 475 | 42 475 |
| **Total** | **1 421 581** | **3 474** | **1 425 055** | 385 571 | 42 475 | 428 046 |
| LIABILITIES | | | | | | |
| Available-for-sale financial liabilities | **–** | **(31 487)** | **(31 487)** | – | (37 482) | (37 482) |
| Derivative financial instruments | **–** | **(26 115)** | **(26 115)** | – | (5 269) | (5 269) |
| **Total** | **–** | **(57 602)** | **(57 602)** | – | (42 751) | (42 751) |
| **Net fair value** | **1 421 581** | **(54 128)** | **1 367 453** | 385 571 | (276) | 385 295 |

### Measurement of fair value

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

### Investments

This comprises shares held in listed property companies at fair value which is determined by reference to quoted closing prices at the reporting date.

### Available-for-sale financial assets

This comprises equity-settled share-based long-term incentive reimbursement rights stated at fair value. Fair value has been determined by reference to Vukile's quoted closing price at the reporting date after deduction of executive and management rights.

### Derivative financial instruments

The fair values of these swap contracts are determined by Absa Capital, Rand Merchant Bank, Standard Bank and Investec Bank Limited using a valuation technique that maximises the use of observable market inputs. Derivatives entered into by the group are included in level 2 and consist of interest rate swap contracts.

## 2.2 Non-financial assets

The following table reflects the levels within the hierarchy of non-financial assets measured at fair value at 31 March 2017:

| | **2017 Level 3 R000** | 2016 Level 3 R000 |
|---|---|---|
| **ASSETS** | | |
| Investment properties | **13 497 445** | 13 737 892 |
| Investment properties held for sale | **76 632** | 1 997 744 |

### Fair value measurement of non-financial assets (investment properties)

The fair values of commercial buildings are estimated using an income approach which capitalises the estimated rental income stream, net of projected operating costs, using a discount rate derived from market yields. The estimated rental stream takes into account current occupancy levels, estimates of future vacancy levels, the terms of in-place leases and expectations of rentals from future leases over the remaining economic life of the buildings.

The most significant inputs are the estimated rental value, assumptions regarding vacancy levels, the discount rate and the reversionary capitalisation rate. The estimated fair value increases if the estimated rental increases, vacancy levels decline or if discount rates (market yields) and reversionary capitalisation rates decline. The overall valuations are sensitive to all four assumptions. Management considers the range of reasonable possible alternative assumptions is greatest for reversionary capitalisation rate rental values and vacancy levels and that there is also an interrelationship between these inputs. The inputs used in the valuations at 31 March 2017 were:

- The range of the reversionary capitalisation rates applied to the portfolio are between 8.0% and 15.7% (March 2016: between 7.8% and 16.5%) with the weighted average being 9.1% (March 2016: 9.7%).
- The discount rates applied range between 12.8% and 19.6% (March 2016: between 12.8% and 19.6%) with the weighted average being 14.0% (March 2016: 14.2%).

### Sensitivity analysis

The effect on the fair value of the portfolio of a 0.25% increase in the discount rate would result in a decrease in the fair value of R370 million (2.8%) (March 2016: R420 million (2.7%)). The average discount rate on the portfolio would increase from 14.0% to 14.3% (March 2016: 14.2% to 14.5%) and the average exit capitalisation rate would increase from 9.1% to 9.4% (March 2016: 9.7% to 9.9%) due to the interlinked nature of the rates. The analysis has been prepared on the assumption that all other variables remain constant.

In determining future cash flows for valuation purposes, vacancies are forecast for each property based on estimated demand.

## 3. ACQUISITION OF BUSINESS COMBINATION – CASTELLANA

Vukile acquired control of Castellana, an unlisted Spanish SOCIMI, effective 20 December 2016, through the acquisition of 86.89% of the shares in the company. The total investment in Castellana comprises 2.2 million shares and the purchase price was settled by way of cash.

Castellana owns two call centre properties, both let to a call centre operating company, Konecta, on a 15-year, triple net lease basis.

The details of the business combination are as follows:

| | €000 | R000 |
|---|---|---|
| **Cost of investment in Castellana** | 13 165 | 193 123 |
| Recognised amounts of identifiable net assets | 12 131 | 177 953 |
| Goodwill calculated on acquisition | 1 034 | 15 170 |
| EUR/ZAR exchange rate at acquisition | 14.669 | |
| **ASSETS** | | |
| **Non-current assets** | | |
| Investment property | 24 488 | 359 214 |
| Non-current tenant deposits | 294 | 4 315 |
| **Current assets** | | |
| Other current assets | 40 | 589 |
| Cash and cash equivalents | 1 004 | 14 722 |
| **Total assets** | 25 826 | 378 840 |
| **Equity and reserves** | | |
| Shareholders' interest | 13 962 | 204 808 |
| **Non-current liabilities** | | |
| Borrowings | 11 559 | 169 565 |
| Other non-current payables | 294 | 4 315 |
| **Current liabilities** | | |
| Trade and other payables | 11 | 152 |
| **Total equity and liabilities** | 25 826 | 378 840 |
| Cash outflow on date of acquisition | | (193 123) |
| Cash acquired | | 19 037 |
| Consideration settled through net cash | | (174 086) |

The non-controlling interest (13.11%) at acquisition date amounted to €1.83 million or R26.85 million.

The revenue and profit generated since acquisition date to 31 March 2017 included in the consolidated statement of profit and loss amounted to €506 000 (R7.1 million) and €348 000 (R4.9 million) respectively.

Had this acquisition been made at the beginning of the year, additional revenue of R16.5 million and profit after interest and tax of R13 million would have been included in the group results and the revenue and profit after tax for the group would have been R1 981 million and R1 550 million, respectively.

VUKILE PROPERTY FUND

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