



SPEAR
REIT LIMITED

**Provisional Summarised Audited
Consolidated Financial Statements**
for the year ended 28 February 2018

SPEAR REIT LIMITED

Incorporated in the Republic of South Africa
Registration number 2015/407237/06
JSE share code: SEA
ISIN: ZAE000228995
(Approved as a REIT by the JSE)
("Spear" or "the group" or "the company")

Highlights

- 📈 **Distribution exceeded revised forecast by ↑ 1.95%**
- 📈 **Total distribution of 78.50 cents per share**
- 📈 **Only regionally specialised REIT on the JSE**
- 📈 **Asset value increased ↑ R1.69 billion ↑ 117% increase**
- 📈 **Portfolio fair value ↑ R3.13 billion as at 28 February 2018**
- 📈 **Tangible net asset value per share R11.57 ↑ 15.4%**
- 📈 **Loan to value at ↑ 38.48%**

Nature of the Business

Spear REIT Limited listed as a Real Estate Investment Trust ("REIT") on the AltX of the Johannesburg Stock Exchange ("JSE") on 11 November 2016 and moved to the main board of the JSE on 22 May 2017. Its main business is investing in high-quality income-generating real estate across all sectors within the Western Cape, predominantly in the Cape Town region.

The company conducts its business directly and through a number of subsidiaries, collectively referred to as the group.

The group's property and asset management functions are internally and directly managed by the Spear executive management team.

Consolidated Statement of Financial Position

	Group Audited Year ended 28 February 2018 R'000	Group Audited 4 months ended 28 February 2017 R'000
ASSETS		
Non-current assets		
Investment property (Including straight-line accrual)	2 912 417	1 445 715
Property, plant and equipment	1 785	128
Financial assets	55 810	-
Deferred taxation	5 838	6 533
	2 975 850	1 452 376
Current assets		
Non-current assets held for sale	221 492	-
Financial assets	6 466	1 714
Trade and other receivables	13 132	8 092
Cash and cash equivalents	10 220	12 632
Taxation receivable	-	11
Insurance claim receivable	178	18 687
	251 488	41 136
TOTAL ASSETS	3 227 338	1 493 512
EQUITY AND LIABILITIES		
Shareholders' interest		
Share capital	1 547 407	917 538
Share-based payment reserve	4 394	3 939
Accumulated income	365 517	65 331
Total attributable to owners	1 917 318	986 808
Non-controlling interest	54 155	-
	1 971 473	986 808
Liabilities		
Non-current liabilities		
Financial liabilities	1 053 434	478 453
	1 053 434	478 453
Current liabilities		
Financial liabilities	152 536	-
Loans from related parties	8 411	3 881
Finance lease	-	113
Trade and other payables	40 840	21 554
Deferred revenue	644	2 703
	202 431	28 251
TOTAL LIABILITIES	1 255 865	506 704
TOTAL EQUITY AND LIABILITIES	3 227 338	1 493 512
Number of ordinary shares in issue	165 190 689	98 226 952
Treasury shares	(1 424 139)	(464 591)
Net ordinary shares in issue	163 766 550	97 762 361
Gearing ratio (%)	38.48	33.09
Net asset value per share (cents)	1 161	1 009
Tangible net asset value per share (cents)	1 157	1 003

Consolidated Statement of Comprehensive Income

	Group Audited Year ended 28 February 2018 R'000	Group Audited 4 months ended 28 February 2017 R'000
Property revenue		
– Contractual rental income	232 896	51 916
– Tenant recoveries	54 179	9 905
– Straight-line rental income accrual	16 980	(2 647)
	304 055	59 174
Other income	12 540	2 088
Total revenue	316 595	61 262
Property operating and management expenses	(87 422)	(16 294)
Net property-related income	229 173	44 968
Administrative expenses	(17 530)	(4 558)
Net operating profit	211 643	40 410
Fair value adjustment – Investment properties	252 535	40 553
Depreciation and amortisation	(441)	(4)
Formation and listing cost	(314)	(1 873)
Share-based payment expense	(455)	(3 939)
Profit from operations	462 968	75 147
Net interest	(76 044)	(16 662)
– Finance costs	(82 297)	(20 487)
– Finance income	6 253	3 825
Profit before taxation	386 924	58 485
Taxation	(695)	6 846
Profit for the year	386 229	65 331
Other comprehensive income	–	–
Total comprehensive income for the year	386 229	65 331
Attributable to:		
Equity owners of the parent	383 186	65 331
Non-controlling interest	3 043	–
Total comprehensive income for the year	386 229	65 331
Basic earnings per share	(cents) 271.60	254.83
Diluted earnings per share	(cents) 271.60	254.83
Distribution per share	(cents) 78.50	23.51
Interest cover ratio	(times) 2.56	2.58

Consolidated Statement of Changes in Equity

Group	Share capital R'000	Accu- mulated profit R'000	Equity reserve R'000	Total attributable to parent R'000	Non- controlling interest R'000	Total equity R'000
Balance as at 1 November 2016	0.1	-	-	0.1	-	0.1
<i>Changes in equity:</i>						
Profit for the period	-	65 331	-	65 331	-	65 331
Shares repurchased from founders	(0.1)	-	-	(0.1)	-	(0.1)
Issue of shares	921 888	-	-	921 888	-	921 888
Acquisition of treasury shares	(4 350)	-	-	(4 350)	-	(4 350)
Share-based payment expense	-	-	3 939	3 939	-	3 939
Balance as at 28 February 2017	917 538	65 331	3 939	986 808	-	986 808
Balance as at 28 February 2017	917 538	65 331	3 939	986 808	-	986 808
<i>Changes in equity:</i>						
Sale of investment in subsidiary	-	-	-	-	54 155	54 155
Profit for the period	-	383 186	-	383 186	3 043	386 229
Distribution to minority shareholder	-	-	-	-	(3 043)	(3 043)
Issue of shares	638 926	-	-	638 926	-	638 926
Acquisition of treasury shares	(9 057)	-	-	(9 057)	-	(9 057)
Distributions to shareholders	-	(83 000)	-	(83 000)	-	(83 000)
Share-based payment expense	-	-	455	455	-	455
Total changes	1 547 407	365 517	4 394	1 917 318	54 155	1 971 473
Balance as at 28 February 2018	1 547 407	365 517	4 394	1 917 318	54 155	1 971 473

Consolidated Statement of Cash Flows

	Group Audited Year ended 28 February 2018 R'000	Group Audited 4 months ended 28 February 2017 R'000
Cash generated from operations		
Profit before tax	386 924	58 485
<i>Adjusted for:</i>		
Straight-line rental income accrual	(16 980)	2 647
Fair value adjustments – Investment property	(252 535)	(40 553)
Depreciation and amortisation	441	4
Finance income	(6 253)	(3 825)
Finance cost	82 297	20 487
Formation and listing cost	–	1 873
Rental loss credits	(2 059)	(1 101)
Share-based payment reserve	454	3 939
Reclassification of trade receivable	(4 752)	–
Changes in working capital		
Trade and other receivables	(5 040)	(8 092)
Trade and other payables	19 288	21 554
Cash generated from operating activities	201 785	55 418
Finance cost	(82 297)	(20 487)
Finance income	1 602	3 825
Distribution paid	(83 000)	–
Taxation received/(paid)	11	(11)
Net cash generated from operation activities	38 101	38 745
Cash flows from investing activities		
Acquisition of investment property	(1 278 255)	(20 459)
Proceeds on sale of investment property	15 968	–
Investment property cost capitalised	–	(1 009)
Acquisition of property, plant and equipment	(1 734)	(132)
Proceeds from insurance receivable	18 508	10 000
Advances to financial asset	–	(1 714)
Net cash used in investing activities	(1 245 513)	(13 314)
Cash flow from financing activities		
Proceeds from share issue	482 168	354 350

Consolidated Statement of Cash Flows (continued)

	Group Audited Year ended 28 February 2018 R'000	Group Audited 4 months ended 28 February 2017 R'000
Proceeds from financial liabilities	761 214	–
Repayment of financial liabilities	(33 696)	(366 531)
Loan advanced to minority shareholder	(48)	–
Loan to related party	–	(4 758)
Loan from related party	4 530	8 639
Repayment of finance lease	(112)	(148)
Purchase of treasury shares	(16 669)	(5 310)
Proceeds from sale of treasury shares	7 613	959
Net cash generated from/(used in) financing activities	1 205 000	(12 799)
Total cash movement for the period	(2 412)	12 632
Cash at the beginning of the period	12 632	–
Cash at the end of the period	10 220	12 632

Summarised Operating Segment Information

Year ended 28 February 2018

	Revenue R'000	Operating profit R'000	Total assets R'000
Industrial	70 326	108 277	798 265
Commercial	111 986	196 226	1 075 407
Retail	67 868	109 764	571 548
Hospitality	36 935	33 514	643 537
Residential	7 205	9 163	82 373
Non-property	5 295	(10 956)	41 838
Straight-lining of leases	16 980	16 980	14 370
Total	316 595	462 968	3 227 338

Selected Explanatory Notes to the Results

1. Earnings per share

This note provides the obligatory information for the group in terms of IAS 33 Earnings Per Share, and SAICA Circular 2/2015 and should be read in conjunction with note 2, where earnings are reconciled to distributable earnings. Distributable earnings determine the distribution declared to shareholders, which is a meaningful metric for a stakeholder in a REIT.

1.1 Basic earnings per share

		Audited Year ended 28 February 2018	Audited 4 months ended 28 February 2017
		Number of shares	Number of shares
Shares in issue			
Number of shares in issue at year-end net of treasury shares		163 766 550	98 226 952
Weighted average number of shares in issue		141 084 847	25 636 517
Diluted weighted average number of shares in issues		141 084 847	25 636 517
Basic earnings per share			
Earnings (profit attributable to owners of the parent)	(R'000)	383 186	65 331
Basic earnings per share	(cents)	271.60	254.83
Diluted earnings per share	(cents)	271.60	254.83

1.2 Headline earnings per share

Reconciliation between basic earnings and headline earnings			
Earnings (profit attributable to owners of the parent)	(R'000)	383 186	65 331
Adjusted for:			
Fair value adjustments to investment properties:		(252 535)	(40 553)
Gross	(R'000)	–	–
Tax	(R'000)	–	–
Headline earnings	(R'000)	130 651	24 778
Headline earnings per share			
Headline earnings per share	(cents)	92.60	96.65
Diluted headline earnings per share	(cents)	92.60	96.65

2. Reconciliation between earnings and distributable earnings

2.1 Distributable earnings

	Audited Year ended 28 February 2018 R'000	Audited 4 months ended 28 February 2017 R'000
Earnings (profit attributable to owners of the parent)	383 186	65 331
Adjusted for:		
Fair value adjustments to investment properties	(252 535)	(40 553)
Straight-lining of leases adjustment	(16 980)	2 647
Depreciation	–	4
Formation and listing costs	–	1 873
Equity-settled share-based payment reserve	455	3 939
Deferred tax realisation	695	(6 846)
Less: Profit not distributed	(2 483)	(5 970)
Antecedent dividend*	16 348	2 562
Distributable profit	128 686	22 987

*In the determination of distributable earnings, the group elects to make an adjustment for the antecedent distribution arising as a result of the capital raise on 12 June 2017 and 7 July 2017, respectively, as well as the private placement in the acquisition of Mega Park and MWEB Head Office during the period for which the company did not have full access to the cash flow from such issues.

	Number of shares
Number of shares issued at year-end	165 190 689
Less: Treasury shares	(1 424 139)
Number of shares in issue net of treasury shares	163 766 550

Distribution declared and distribution per share

	FY2018	FY2017
Distributable earnings (cents per share)		
Distribution 1 – Declared 17 May 2017	–	23.51
Distribution 2 – Interim distribution declared 19 October 2017	36.95	–
Distribution 3 – Final distribution declared 17 May 2018	41.55	–
Total distribution for year-ended 28 February 2018	78.50	

Selected Explanatory Notes to the Results (continued)

Property portfolio

Spear's current property portfolio consists of 31 high-quality Western Cape assets with an average value per asset of R93.95 million.

The portfolio's income stream is underpinned by average contractual escalations of 8.38%. Portfolio vacancies remain at levels well below national averages for commercial, industrial, retail, residential and hospitality assets.

Top 10 properties by value

Property	Value R'000	Sector	Gross lettable area m ²	Percentage of total value %	Valuation R/m ²
Mega Park Industrial Estate, Bellville	426 000	Industrial	86 091	13.59	4 948
2 Long Street, Cape Town CBD	418 400	Commercial	24 822	13.35	16 856
Sable Square, Milnerton	358 300	Retail	30 934	11.43	11 583
15 on Orange, Cape Town	305 914	Hospitality	16 727	9.76	18 289
DoubleTree by Hilton, UES Hotel, Woodstock	218 163	Hospitality	11 339	6.96	19 240
142 Bree Street, Cape Town CBD	148 522	Commercial	3 025	4.74	49 098
MWEB Head Office, Bellville	148 263	Commercial	11 196	4.73	13 243
Distell DC, Parow	87 632	Industrial	16 170	2.80	5 419
Blackheath DC, Blackheath	86 055	Industrial	22 315	2.75	3 856
UES commercial, retail and residential, Woodstock	84 135	Commercial	7 182	2.68	11 715
	2 281 384		229 801	73.00	

Vacancy profile	Number of properties	Value including lease asset R'000	Gross lettable area m ²	Vacant area m ²	Vacancy %
Industrial	6	725 222	152 514	–	–
Commercial	15	1 222 114	97 060	6 334	6.53
Retail	7	580 902	38 606	–	–
Hospitality	2	524 077	28 065	–	–
Residential	1	81 246	8 000	–	–
	31	3 133 561	324 245	6 334	1.95

Sectoral performance

Industrial

The industrial portfolio offers a diversified collection of assets situated in well-established industrial nodes consisting of mini, mid-size and large industrial units with an added value proposition being the competitive asking rate per square metre. A combination of the above-mentioned has ensured high occupancy rates and strong performance in line with management's expectations during the reporting period with no major tenant movements or lease expiries. The industrial portfolio (152 514m²) occupancy was at 100% at year-end.

Commercial

The commercial sector performed to management's expectations and vacancies have remained at low levels of 6.53% during the reporting period, translating to 6 334m² of gross lettable area ("GLA"). Office sector lease renewals continue to be concluded with positive rental reversions achieved in the vast majority of renewals concluded during the reporting period.

The lion's share of commercial vacancies is attributable to the additional office space developed at Sable Square in the region of 2 300m² and 2 Long Street in the region of 2 000m². Progress on the letting of the office additions at Sable Square and the office vacancies at 2 Long Street has been positive with a number of post-year-end lets being concluded on both properties.

The commercial portfolio (97 060m²) occupancy was at 93.5% at year-end.

Retail

The retail portfolio consists of three convenience retail buildings that offer an ultra-convenience retail experience with ample parking. Spear's retail assets are located in high-growth nodes servicing the Century City and Northern Suburbs markets. During the reporting period 43.59% (16 830m²) of retail GLA (38 606m²) was occupied by national retail tenants. Management has been gratified at the positive performance of its retail assets amid tough trading conditions during the reporting period with key retail tenants showing positive growth in store revenue and footfall.

Spear's retail assets will remain attractive locations for retailers to trade from given their high-quality tenant mix geared towards a convenience retail offering, ample shopper parking, ease of access and egress along with plum geographical locations offering easy access to all main arterial transportation routes. Management will remain focused on the acquisition of convenience retail assets given their defensive nature in showing constant footfall and turnover during good and tough trading conditions in the market.

The retail portfolio (38 606m²) occupancy was at 100% at year-end.

Residential

Spear's residential portfolio for the reporting period continued to perform to the satisfaction of management with 100% occupancy rates. Currently only 2.46% of GLA is exposed to the residential sector, however, management has stated its intention to increase Spear's residential holdings closer to 15% of GLA and 12% of portfolio value in the medium term through the development of approximately 200 residential units at Sable Square and 200 residential units in Paarden Eiland as part of its mixed-use development plans for the two assets.

The residential portfolio (8 000m²) occupancy was at 100% at year-end.

Selected Explanatory Notes to the Results (continued)

Hospitality

The current performance of the domestic economy continues to present challenges to the hospitality sector as both transient and group business has become more cost-conscious. The hospitality sector over the reporting period has operated under less than optimal conditions due to a contracting economy and the severe drought that has plagued the Western Cape over the past three years.

The hospitality portfolio (28 066m²) occupancy was at 100% at year-end.

Tenant profile

	Gross lettable area m ²	Gross lettable area %	Number of tenants	Number of tenants %
A – Large nationals, large listed and government tenants	149 977	46.25	116	29
B – Smaller international and national tenants	121 153	37.31	192	49
C – Other local tenants and sole proprietors	35 536	10.96	87	22
Storage	11 245	3.47	–	–
Vacant	6 334	1.95	–	–
	324 245	100.00	395	100

Lease expiry profile

Lease expiry profile based on gross lettable area	Industrial %	Commercial %	Retail %	Hospitality %	Residential %	Total %
Vacant	–	6	–	–	–	2
Monthly	7	–	2	–	–	3
Expiries for 03/2018 – 02/2019	33	22	16	1	–	23
Expiries for 03/2019 – 02/2020	13	19	10	1	–	12
Expiries for 03/2020 – 02/2021	37	33	18	1	–	28
Expiries for 03/2021 – 02/2022	2	7	12	1	100	8
Expiries for 03/2022 and onwards	8	13	42	96	–	23
	100	100	100	100	100	100

Lease expiry profile based on revenue	Industrial	Commercial	Retail	Hospitality	Residential	Total
	%	%	%	%	%	%
Monthly	4	1	1	–	–	2
Expiries for 03/2018 – 02/2019	31	20	12	4	–	20
Expiries for 03/2019 – 02/2020	16	23	8	7	–	16
Expiries for 03/2020 – 02/2021	40	37	16	6	–	30
Expiries for 03/2021 – 02/2022	2	8	13	–	100	10
Expiries for 03/2022 and onwards	7	11	50	83	–	22
	100	100	100	100	100	100

Weighted average rental escalations and yields

	Escalation	Yield
	%	FY2018
		%
Industrial	9.27	10.3
Commercial	8.28	9.1
Retail	7.96	8.0
Hospitality	Note 1	8.8
Residential	8.00	8.6
Average	8.38	8.9

Note 1

- DoubleTree by Hilton is operated by a third-party operator and the lease is based on a fixed (60% of budgeted EBITDA) and variable (95% of actual EBITDA less fixed rental) rate which is agreed annually.
- 15 on Orange Hotel is operated by a third-party operator and the rental is based on a blended rate of 18% on all revenue generated by the hotel.

Commentary

Nature of the business

Spear REIT Limited listed as a Real Estate Investment Trust ("REIT") on the AltX of the Johannesburg Stock Exchange ("JSE") on 11 November 2016 and moved to the main board of the JSE on 22 May 2017. Its main business is investing in high-quality income-generating real estate across all sectors within the Western Cape, predominantly in the Cape Town region.

The company conducts its business directly and through a number of subsidiaries, collectively referred to as the group.

The group's property and asset management functions are internally and directly managed by the Spear executive management team.

Spear is the only South African REIT with a regionally-focused investment strategy.

The current portfolio comprises 31 properties based in the Western Cape with a total gross lettable area ("GLA") of 324 245m² valued at R3.133 billion (February 2017: R1.44 billion).

Spear's primary focus is to consistently grow its distribution per share by acquiring yield enhancing assets and focusing its energy on hands-on asset, financial and property management. Management's proximity to assets remain excellent and its acute understanding of the Western Cape real estate market truly makes Spear a regional specialist with access to excellent investment pipelines and development opportunities to further enhance an already high-quality real estate portfolio.

The 2018 financial year has been a period of exceptional asset growth for Spear with new acquisitions in excess of R1.69 billion in the Western Cape from various vendors. The effects of the above transactions resulted in the significant increase in Spear's asset base and market capitalisation from R942 million (February 2017) to R1.586 billion at the end of February 2018.

Spear's focus over the year has been to incorporate the newly acquired assets into the property and asset management platforms with assets transferring as late as 18 January 2018. Management worked diligently to ensure the seamless integration of the newly acquired assets into the synchronised property management system and are managed to the same standard as the underlying portfolio.

Growing cash flows and continual distribution growth will remain Spear's primary objective, which management believes clearly displays management and shareholder alignment.

Financial results

The board of directors is pleased to announce a final distribution (number 3) of 41.55 cents per share.

Full-year distribution for the year ended 28 February 2018 is 78.50 cents per share with an interim distribution of 36.95 cents per share declared on 19 October 2017.

Spear's results exceed revised guidance as disclosed in the interim results for the period ended 31 August 2017 and is testament to Spear's focus, active asset and property management along with prudent financial management of the going concern.

All new acquisitions closed after the 2018 financial year-end are performing to the satisfaction of management and in line with budget.

Property portfolio revenue for the year contributed 98.23% of total revenue, while other income from development management services represented 1.77%.

Acquisitions

The group acquired the following properties during the period ended 28 February 2018:

	Transfer date	Acquisition value R'ooo	Debt funding R'ooo	Acquisition yield %
142 Edward Street, Tyger Valley	1 Mar 2017	41 200	23 200	9.70
Selective House, Tyger Valley	14 Mar 2017	13 200	13 200	9.92
15 on Orange, Cape Town	12 Jun 2017	298 000	175 000	9.55
2 Long Street, Cape Town	22 Jun 2017	389 000	220 000	9.32
Mega Park Industrial Estate, Bellville	28 Jul 2017	379 157	224 000	9.30
Virgin Active George, George	8 Aug 2017	22 000	12 000	9.22
Tyger Manor, Tyger Valley	11 Oct 2017	59 600	26 800	9.31
MWEB Head Office, Bellville	18 Jan 2018	145 000	65 250	9.60
		1 347 157	759 450	9.49

Capital expenditure and redevelopment

Sable Square

Sable Square is well located in the Century City node of Cape Town. Sable Square offers an excellent mix of convenience retail, well-placed commercial office space and self-storage facilities, all in one easy-to-find location. Sable Square offers a high-quality tenant mix consisting among others of Pick n Pay, Clicks, Tekkie Town, Adidas, Baby City, Spur, Zone Fitness, Storesmart and many more. Parking at Sable Square is in abundance and the centre is easy to access off Ratanga Road and Bosmansdam Road. Sable Square is situated on the MyCiti bus route, with a bus station situated directly opposite the entrance to Sable Square.

Spear has concluded a capital expenditure programme at Sable Square to unlock the approved and undeveloped bulk of 27 000m². The first phase of the project (4 200m²) included the development of 2 900m² of new GLA consisting of a 1 600m² Zone Fitness Gym, 1 300m² of new A-grade office space and the redevelopment of an existing 1 300m² into A-grade office space. Phase One is progressing in line with both the delivery timelines and project budget with 70% of the new additions already pre-let at asking rentals. Capital costs associated with Phase One had a value of R50 million and Spear's development yield on this phase will exceed 9.8% in year one.

Footfall and turnover growth in the centre have been constantly increasing as management continues to improve both the tenant mix and the customer experience at Sable Square. In a bid to further enhance the quality of the asset, Spear has commenced with the planning

Commentary (continued)

of Phase Two of the capital expenditure programme that would see the introduction of a residential component to Sable Square comprising approximately 200 units on a rental only basis, transforming the asset into a true mixed-use precinct offering a live, work and play lifestyle in a secure location. Capital costs associated with Phase Two will be in the region of R400 million and is expected to commence once local authority approvals have been obtained and a feasible scheme has been approved by the investment committee.

Recycling capital and capital allocation

Two assets (one residential and one office) with a GLA of 9 939m² have been identified as assets that management wishes to dispose. The residential asset is the only asset that Spear owns outside of the Western Cape situated in Melrose, Johannesburg.

Management will on an ongoing basis identify assets within the portfolio that no longer fit management's growth and portfolio strategy and will be disposed of with the proceeds recycled into larger Cape-based assets.

Management has set a target to increase the average asset value to above R100 million and will therefore prudently recycle assets that fall outside this target in the medium term at the right disposal value and yield.

Distributable earnings

The board approved and declared distribution number 3 of 41.55 cents per share on 17 May 2018.

The distribution declared is an increase of 3.27% over the revised final forecast distribution of 40.23 cents per share for the six months ending 28 February 2018. The total distribution for the year ended 28 February 2018 is 78.50 cents per share, being an increase of 1.95% over the revised full-year forecast of 77 cents per share and an increase of 6.08% over the 2018 forecast per the pre-listing statement ("PLS").

	28 February 2018 Rands	28 February 2018 Rands
Distribution per share		
Distribution 1 – Declared 17 May 2017	–	23.51
Distribution 2 – Interim distribution declared 19 October 2017	36.95	
Distribution 3 – Final distribution declared 17 May 2018	41.55	
Total distribution per share for the year ended 28 February 2018	78.50	

Tangible net asset value

The tangible net asset value per share increased by 15.40% from R10.03 per share to R11.57 per share.

Tangible net asset value per share	Rands	Growth %
PLS – 21 October 2016	9.37	
28 February 2017	10.03	7.01
31 August 2017	10.49	4.61
28 February 2018	11.57	10.31

Borrowings and funding

The group obtained funding for property acquisitions through two capital raises and increasing bank borrowings as disclosed under acquisitions.

Capital raise date	Number of shares Million	Price per share Rands	Value R'ooo
12 June 2017	29.4	9.50	279 000
7 July 2017	19.2	9.50	182 000

The group's gearing level at 28 February 2018 was 38.48%, an increase of 16.28% from 33.09% as at 28 February 2017, and had fixed borrowings of 57.58% of total borrowings at an average fixed rate of 9.45% and group total cost of borrowings of 9.25%.

	Amount R'ooo
Variable borrowings	511 567
Fixed borrowings	694 403
Total borrowings	1 205 970
Percentage fixed	(%) 57.58

Management successfully refinanced borrowings of R691 million and agreed new terms at year-end with an expiry in February 2021 at a rate of prime less 1.30%.

Debt expiry

	R'ooo	%
FY2019	152 536	13
FY2020	100 000	8
FY2021	953 434	79
FY2023	–	–
	1 205 970	100

Commentary (continued)

Prospects and guidance

The Western Cape property sector has for the most part continued to outperform the rest of South Africa and management's continued focus on regional investment has provided a level of insulation from the tougher trading conditions experienced in regions outside of the Western Cape. Spear continues to have a healthy pipeline of greenfield and brownfield development opportunities within the portfolio, which will unlock further value for the group in time.

Management remains confident that demand for its high-quality rental properties across the various sectors within the Western Cape will continue given its tenant-centric approach and hands-on asset management skills. In light of the recent acquisitions, improved cost of debt and other operational efficiencies created within the company, management advises that distribution per share for the year ending 28 February 2019 is anticipated to be 9–11% higher than the total distribution for the year ended 28 February 2018. The latter revision is premised upon the following assumptions:

- That a relatively stable macroeconomic environment will prevail
- That lease renewals are concluded as per the company forecast
- That no major tenant failures will take place and improved hospitality trading conditions
- That tenants will successfully absorb rising costs associated with utility consumption charges and municipal rates
- That the Western Cape experiences a wet winter that breaks the current drought.

The information and opinions contained above are recorded and expressed in good faith and are based upon reliable information provided to management. No representation, warranty, undertaking or guarantee of whatsoever nature is made or given with regard to the accuracy and/or completeness of such information and/or the correctness of such opinions.

The forecast in distribution per share for the financial year ending 28 February 2019 has not been reviewed or reported on by the company's auditors.

Subsequent events

The directors are not aware of any events, other than those listed below, which have occurred since the end of the financial period and have a material impact on the results and disclosures in the provisional summarised audited consolidated financial results for the year ended 28 February 2018

The group took transfer of the following properties after period end:

	Transfer date	Acquisition value R'000	Debt funding R'000	Acquisition yield %
Island Business Park, Paarden Eiland	8 Mar 2018	24 000	–	9.31
Blackheath Park, Blackheath	12 Apr 2018	110 500	49 725	10.43
		134 500	49 725	

Agreements to acquire property

The group entered into an agreement to acquire 34 Marine Drive, Paarden Eiland. The property was acquired to incorporate into the redevelopment of Spear's Marine Drive portfolio. The acquisition was done on an asset-for-share swap basis through a transaction in terms of section 42 of the Income Tax Act of 1962.

Basis of preparation

The provisional summarised consolidated annual financial statements were prepared in accordance with the JSE Listings Requirements for provisional reports and the requirements of the Companies Act of South Africa. The JSE Listings Requirements require provisional 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 Reporting 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 provisional 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, BDO Cape Inc., have issued their opinion on the group's consolidated and separate financial statements for the year ended 28 February 2018. The audit was conducted in accordance with International Standards on Auditing. They have issued an unmodified audit opinion. The provisional summarised consolidated annual financial statements have been extracted from the group annual financial statements and are consistent, in all material respects, with the group annual financial statements. The directors take full responsibility for the preparation of the provisional summarised consolidated annual financial statements and for ensuring that the financial information has been correctly extracted from the underlying audited annual financial statements. This provisional report has been audited by BDO Cape Inc. and an unmodified audit opinion has been 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 Spear's registered office.

Christiaan Barnard CA(SA), in his capacity as Financial Director, was responsible for the preparation of the provisional summarised consolidated annual financial statements.

Commentary (continued)

Final distribution for the year ended 28 February 2018

Notice is hereby given of the declaration of a final distribution (number 3) of 41.54992 cents per share for the year ended 28 February 2018 from income reserves.

As Spear is a REIT, the distribution 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 distributions are treated as income in the hands of the shareholder and are not subject to dividend withholding tax. The exemption from dividend withholding tax is not applicable to non-resident shareholders, but they may qualify for relief under a tax treaty.

South African tax residents

The dividend received by or accrued to South African tax residents must be included in the gross income of such shareholders and will not be exempt from income tax (in terms of the exclusion to the general dividend exception, contained in paragraph (aa) of section 10(1)(k)(i) of the Income Tax Act) because it is a dividend distributed by a REIT. The dividend is exempt from dividend withholding tax in the hands of South African tax resident shareholders, provided that the South African resident tax shareholders provide the following forms to their Central Securities Depository Participants ("CSDP") or broker in respect of uncertificated shares, or to the company, in respect of certificated shares:

- a) a declaration that the dividend is exempt from dividend withholding tax; and
- b) a written undertaking to inform the CSDP, broker or the company, 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 to arrange for the above-mentioned documents to be submitted prior to payment of the dividend, if such documents have not already been submitted.

Non-residents shareholders

Dividends received by non-resident shareholders will not be taxable as income and instead will be treated as an ordinary dividend which is exempt from income tax in terms of the general dividend exemption in section 10(1)(k)(i) of the Income Tax Act. It should be noted that up to 31 December 2013, dividends received by non-residents from a REIT were not subject to dividend withholding tax. Since 1 January 2014, any dividend received by a non-resident from a REIT will be subject to dividend withholding tax at 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 concerned. Assuming dividend withholding tax will be withheld at a rate of 20%, the net dividend amount due to non-resident shareholders is 33.23993 cents per share. A reduced dividend withholding tax rate in terms of the applicable DTA may only be relied on if the non-resident shareholder has provided the following form to their CSDP or broker in respect of uncertificated shares, or the company, in respect of certificated shares:

- a) a declaration that the dividend is subject to a reduced rate as a result of the application of DTA; and
- b) a written undertaking to inform their CSDP, broker or the company, 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 shareholders are advised to contact their CSDP, broker or the company to arrange for the above-mentioned documents to be submitted prior to payment of the dividend, if such documents have not already been submitted.

The company's tax reference number is 9068437236.

At the date of declaration 165 190 689 ordinary shares were in issue.

Holders of uncertificated shares have to ensure that they have verified their residence status with their CSDP or broker. Holders of certificated shares will be asked to complete a declaration to the company. The distribution is payable to shareholders in accordance with the following timetable:

Distribution timetable

2018

Declaration date	Thursday, 17 May
Last day to trade cum-dividend	Tuesday, 5 June
Shares trade ex-dividend	Wednesday, 6 June
Record date	Friday, 8 June
Payment date	Monday, 11 June

Share certificates may not be dematerialised or rematerialised between Wednesday, 6 June 2018 and Friday, 8 June 2018, both days inclusive.

In respect of dematerialised shareholders, the distributions will be transferred to the CSDP account/broker accounts on Monday, 11 June 2018. Certificated shareholders' distribution payments will be paid to certificated shareholders' bank accounts on Monday, 11 June 2018.

On behalf of the board
 Spear REIT Limited
 Cape Town
 17 May 2018

Mike Flax
 Chief Executive Officer

Quintin Rossi
 Managing Director

Christiaan Barnard
 Financial Director

Abu Varachhia
 Chairman

Directorate and Administration

SPEAR REIT LIMITED

Incorporated in the Republic of South Africa
Registration number 2015/407237/06
JSE share code: SEA
ISIN: ZAE000228995
(Approved as a REIT by the JSE)
("Spear" or "the group" or "the company")

Directors

Abubaker Varachhia*
(Non-executive Chairman)

Michael Naftali Flax
(Chief Executive Officer)

Quintin Michael Rossi
(Managing Director)

Christiaan Barnard
(Financial Director)

Brian Leon Goldberg* #

Jalaloodien Ebrahim Allie* #
(Lead Independent Director)

Niclas Kjellström-Matseke* #

Cormack Sean McCarthy*

* Non-executive

Independent

Registered office

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Company Secretary

René Cheryl Stober

Transfer Secretaries

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Proprietary Limited
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Independent Reporting Accountants and Auditors

BDO Cape Inc.
6th Floor, 123 Hertzog Boulevard
Foreshore, Cape Town, 8001
(PO Box 2275, Cape Town, 8000)

Sponsor

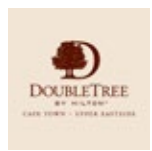
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(PO Box 7403, Stellenbosch, 7599)

Legal advisor

Cliffe Dekker Hofmeyr
11 Buitengracht Street, Cape Town, 8001
(PO Box 695, Cape Town, 8000)

Bankers

Nedbank Limited
Investec Limited
Standard Bank Limited



BRANDESIGN





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