

SPEAR REIT LIMITED
 (previously Arrow 2 Investments Proprietary Limited)
 Incorporated in the Republic of South Africa
 Registration number 2015/407237/06
 Share code: SEA
 ISIN: ZAE00228995
 (Approved as a REIT by the JSE)
 ('Spear' or 'the Group' or 'the Company')

HIGHLIGHTS

- Only regionally specialised REIT on JSE
- In excess of R1.14 billion of new acquisitions added to the Spear portfolio
- Portfolio fair value R2.71 billion as at 31 August 2017
- Tangible net asset value per share up 4.6% during the six months ended 31 August 2017
- Fund loan-to-value ratio 37.23%
- On target to meet revised full-year distribution guidance

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.

UNAUDITED CONSOLIDATED INTERIM RESULTS FOR SIX MONTHS ENDED 31 AUGUST 2017

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Group Unaudited 31 August 2017 R'000	Group Audited 28 February 2017 R'000
ASSETS		
Non-current assets		
Investment property (including straight-line accrual)	2 713 264	1 445 715
Property, plant and equipment	284	128
Deferred taxation	6 533	6 533
	2 720 081	1 452 376
Current assets		
Trade and other receivables	8 720	8 092
Cash and cash equivalents	10 675	12 632
Other financial assets	62 822	1 714
Taxation receivable	-	11
Insurance claim receivable	5 178	18 687
	87 395	41 136
TOTAL ASSETS	2 807 476	1 493 512
EQUITY AND LIABILITIES		
Shareholders' interest		
Stated capital	1 531 702	917 538
Share-based payment reserve	4 332	3 939
Accumulated income	175 256	65 331
Total attributable to owners	1 711 290	986 808
Non-controlling interest	55 217	-
	1 766 507	986 808
Liabilities		
Non-current liabilities	1 010 144	478 453
Financial liabilities	1 010 144	478 453
Current liabilities		
Other financial liabilities	6 485	-
Loans from related parties	444	3 881
Finance lease	-	113
Trade and other payables	22 779	21 554
Deferred revenue	1 117	2 703
	30 825	28 251
TOTAL LIABILITIES	1 040 969	506 704
TOTAL EQUITY AND LIABILITIES	2 807 476	1 493 512
Number of ordinary shares in issue	162 515 859	98 226 952
Treasury shares	(211 573)	(464 591)
Net ordinary shares in issue	162 304 286	97 762 361
Gearing ratio (%)	37.23	33.09
Net asset value per share (cents)	1 053	1 009
Tangible net asset value per share (cents)	1 049	1 003

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Group Unaudited 6 months ended 31 August 2017 R'000	Group Audited 4 months ended 28 February 2017 R'000
Property portfolio		
- Contractual rental income	90 405	51 916
- Tenant recoveries	16 979	9 905
- Straight-line rental income accrual	8 662	(2 647)

Other income	116 046	59 174
Total revenue	4 703	2 088
Property operating and management expenses	120 749	61 262
Net property-related income	(29 717)	(16 294)
Administrative expenses	91 032	44 968
Net operating profit	(7 203)	(4 558)
Fair value adjustment – investment properties	83 829	40 410
Depreciation	80 141	40 553
Formation and listing cost	(44)	(4)
Share-based payment expense	–	(1 873)
Profit from operations	(392)	(3 939)
Net interest	163 534	75 147
– Finance costs	(29 502)	(16 662)
– Finance income	(31 535)	(20 487)
Profit before taxation	2 033	3 825
Taxation	134 032	58 485
Profit for the period	–	6 846
Other comprehensive income	134 032	65 331
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	–	–
Equity owners of parent	132 971	65 331
Non-controlling interest	1 061	–
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	134 032	65 331
Basic earnings per share	(cents) 111.37	254.83
Diluted earnings per share	(cents) 111.37	254.83
Distribution per share	(cents) 36.95	23.51
Interest cover ratio	(times) 2.55	2.58

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Group					
	Share capital R'000	Accumulated profit R'000	Equity reserve R'000	Total attributable to parent R'000	Non- con- trolling interest R'000	Total equity R'000
Balance as at 1 November 2016	0.1	–	–	0.1	–	0.1
Changes in equity:	–	–	–	–	–	–
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
Changes in equity:	–	–	–	–	–	–
Sale of investment in subsidiary	–	–	–	–	54 155	54 155
Profit for the period	–	132 971	–	132 971	1 061	134 032
Shares repurchased from founders	–	–	–	–	–	–
Issue of shares	614 164	–	–	614 164	–	614 164
Acquisition of treasury shares	–	–	–	–	–	–
Distributions to shareholders	–	(23 046)	–	(23 046)	–	(23 046)
Share-based payment expense	–	–	392	392	–	392
Balance as at 31 August 2017	1 531 702	175 256	4 331	1 711 289	55 216	1 766 505

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Group Unaudited 6 months ended 31 August 2017 R'000	Group Audited 4 months ended 28 February 2017 R'000
Cash generated from operations		
Profit before tax	134 032	58 485
Adjustments for:		
Straight-line revenue accrual	(8 662)	2 647
Fair value adjustments – investment property	(80 141)	(40 553)
Depreciation	44	4
Finance income	(2 033)	(3 825)
Finance cost	31 535	20 487
Formation and listing cost	–	1 873
Rental loss credits	(1 586)	(1 101)
Share-based payment reserve	392	3 939
Changes in working capital		
Trade and other receivables	(628)	(8 092)
Trade and other payables	1 224	21 554
Cash generated from operating activities	74 177	55 418
Finance income	2 033	3 825
Finance cost	(31 535)	(20 487)
Distribution paid	(23 046)	–
Taxation paid	11	(11)
Net cash generated from operation activities	21 640	38 745
Cash flows from investing activities		
Acquisition of investment property	(363 050)	(20 459)
Investment property cost capitalised	–	(1 009)
Acquisition of property, plant and equipment	(199)	(132)
Movement in other financial assets	(9 532)	(1 714)
Proceeds from insurance receivable	13 509	10 000

Net cash used in investing activities	(359 272)	(13 314)
Cash flow from financing activities		
Proceeds on share issue	457 407	354 350
Repayment of financial liabilities	(127 248)	(366 531)
Loan to related party	(3 437)	(4 758)
Loan from related party	-	8 639
Repayment of finance lease	(112)	(148)
Proceeds from other financial liabilities	6 485	-
Purchase of treasury shares	(395)	(5 310)
Proceeds from sale of treasury shares	2 975	959
Net cash generated from financing activities	335 675	(12 799)
Total cash movement for the period	(1 957)	12 632
Cash at the beginning of the period	12 632	-
Cash at the end of the period	10 675	12 632

SUMMARISED OPERATING SEGMENT INFORMATION
UNAUDITED FOR THE PERIOD ENDED 31 AUGUST 2017

	Total revenue R'000	Profit from operations R'000	Total assets R'000
Industrial	19 073	25 740	708 322
Commercial	38 224	44 152	890 471
Retail	29 209	68 609	458 439
Hospitality	18 984	16 320	626 385
Residential	3 578	4 283	86 656
Non-property	3 019	(4 232)	31 188
Straight-line of leases	8 662	8 662	6 015
Total	120 749	163 534	2 807 476

SELECTED EXPLANATORY NOTES TO THE RESULTS

1. Earnings per share

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

	Group Unaudited 6 months ended 31 August 2017 R'000	Group Audited 4 months ended 28 February 2017 R'000
1.1 Basic earnings per share		
Shares in issue		
Number of shares in issue at end of year	162 304 286	97 762 361
Weighted average number of shares in issue	119 392 694	25 636 517
Diluted weighted average number of shares in issue	119 392 694	25 636 517

Basic earnings per share

Earnings (profit attributable to owners of the parent)	(R'000)	132 971	65 331
Basic earnings per share	(cents)	111.37	254.83
Diluted earnings per share	(cents)	111.37	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)	132 971	65 331
Adjusted for:			
Fair value adjustments to investment properties	(gross)	(80 141)	(40 553)
	(tax)	-	-
Headline earnings	(R'000)	52 830	24 778
Headline earnings per share	(cents)	44.25	96.65
Diluted headline earnings per share	(cents)	44.25	96.65

	Group Unaudited 6 months ended 31 August 2017 R'000	Group Audited 4 months ended 28 February 2017 R'000
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2. Reconciliation between earnings and distributable earnings

2.1 Distributable earnings

Earnings (profit attributable to owners of the parent)	132 971	65 331
Adjusted for:		
Fair value adjustments to investment properties	(80 141)	(40 553)
Headline earnings	52 830	24 778
Adjusted for:		
Straight-lining of leases adjustment	(8 662)	2 647
Depreciation	-	4
Formation and listing costs	-	1 873
Equity-settled share-based payment reserve	392	3 939
Deferred tax realisation	-	(6 846)
Less: profit not distributed	-	(5 970)
Antecedent dividend *	15 489	2 562
Distributable profit	60 049	22 987
Number of shares in issue at period end	162 515 859	
Less: Treasury shares	(211 573)	
Number of shares participating in distribution	162 304 286	

* 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

and 7 July 2017, respectively, as well as the private placement in the acquisition of Mega Park during the period for which the Company did not have full access to the cash flow from such issues.

DISTRIBUTION DECLARED AND DISTRIBUTION PER SHARE

	FY2018	FY2017
Distributable earnings (cents per share)		
Distribution declared and paid (distribution number 1)	-	23.51
Interim distribution recommended by the board and approved on 19 October 2017 (distribution number 2)	36.95	-
Forecast final distribution (distribution number 3)*	40.05	-
Total distributions for the period	77.00	-

* Forecast based on revised guidance as set out in the 2017 integrated report.

PROPERTY PROFILE

Spear's current property portfolio consists of 31 high-quality Western Cape assets with an average value per asset of R87.5 million.

The portfolio's income stream is underpinned by average contractual escalations of 8%. Portfolio vacancies remain at levels well below national averages for commercial, industrial, retail, residential and hospitality assets.

Top 10 properties by value

Property	Value	Sector	Gross lettable area (m2)	% of total value	Valuation (R/m2)
2 Long Street, Cape Town	391 570 172	Commercial	24 818	14.45	15 777
Mega Park, Bellville	383 094 513	Industrial	85 980	14.14	4 456
Sable Square Shopping Centre	310 586 560	Retail	29 184	11.46	10 642
15 on Orange, Cape Town	299 679 406	Hospitality	16 726	11.06	17 917
UES Hotel, DoubleTree by Hilton	213 717 536	Hospitality	11 339	7.89	18 848
Blackheath Warehouse	87 188 776	Industrial	22 315	3.22	3 907
UESH Commercial, retail and residential section	84 031 629	Commercial	7 182	3.10	11 700
1 Beacon Way, Beaconvale, Parow	82 901 334	Industrial	16 170	3.06	5 127
Pembury Lodge, Melrose	80 632 661	Residential	8 000	2.98	10 079
Viking Business Park, Epping	76 759 665	Retail	9 308	2.83	8 247
	2 010 162 252		231 022	74	

VACANCY PROFILE

	Number of properties	Value R'000	Gross lettable area (m2)	Vacant area (m2)	Valuation (%)
Industrial	7	704 035	152 399	70	0.05
Commercial	15	883 986	65 014	2 905	4.47
Retail	5	441 747	55 081	829	1.51
Hospitality	2	597 428	28 066	568	2.02
Residential	2	86 068	8 400	-	0.00
	31	2 713 264	308 960	4 372	1.42

SECTORAL PERFORMANCE

Industrial

The industrial sector has performed in line with management's expectations during the interim period with no major tenant movements or lease expiries during the reporting period. The industrial portfolio (152 399m2) occupancy was at 99.95% for the reporting period.

Spear's industrial assets are well located within desirable industrial nodes in the greater Cape Metropole, offer excellent efficiencies and are let at market related rentals. The asset and property management team engages tenants on a regular basis to ensure their needs are catered for and their long-term tenure is secured with Spear.

Commercial

The commercial sector performed to management's expectations and vacancies have remained at low levels of 4.47% during the interim period, translating to 2 905m2 of GLA. Office sector lease renewals continue to be concluded successfully with upward rental reversions seen in the majority of renewals concluded for the period. The commercial portfolio (65 014m2) occupancy was at 95.53% for the reporting period.

With the addition of 2 Long Street and the office additions at Sable Square, management will continue along a very aggressive and targeted letting campaign to fill office vacancies in the abovementioned assets. Both assets generated satisfactory interest from the market which should lead to a high conversion rate in both properties.

Retail

Spear's retail portfolio predominantly comprises convenience retail assets that offer ultra-convenience retail experiences with ample parking. During the interim period 36% (20 036m2) of retail GLA (55 081m2) was occupied by national retail tenants, which despite tough trading conditions continue to attract loyal clientele and turnover. The retail portfolio occupancy was at 98.49% for the reporting period.

Spear's retail assets continued to perform well and vacancies have seldom come up in this sector despite the retail sector coming off the boil in 2017. Management believes that its decision to only expose the business to the convenience retail sector has shielded Spear from the retail slowdown experienced in larger retail assets across the country.

Residential

Spear's residential portfolio for the interim period continued to perform to the satisfaction of management with 100% occupancy rates for the reporting period. Currently only 3% of the total GLA is exposed to the residential sector and it is management's stated intention to increase the residential holdings closer to 15% of GLA in the medium term, through the development of approximately 200 residential units at Sable

Square.

Hospitality

The current performance of the domestic economy will always present challenges to parts of the hospitality sector as both transient and group business become more cost conscious. The hospitality sector over the interim period has come under pressure by the contracting economy and the large dependence on the domestic travel market during off-peak seasons.

DoubleTree by Hilton, despite challenging economic conditions throughout South Africa, has shown an 8% relative share penetration on its competitor set. Management controllable profit ('MCP') is up 29% year on year with confirmed reservation prospects during the coming season to help claw back any underperformance.

15 on Orange, operated and leased by Marriott International, has been part of the Spear portfolio for three months. Management has been working closely with Marriott to improve the hospitality experience at the hotel and seek innovative interventions to reduce the carbon footprint of the hotel. Income forecasts for the interim period have been met at rental level and management is confident that the full-year income forecast is in line with guidance. The first 12 months of ownership is underpinned by a rental income guarantee.

TENANT GRADING

	Gross lettable area (m2)	Gross lettable area (%)	Number of tenants	Number of tenants (%)
A - Large nationals, large listed and government	199 983	64.73	99	27
B - Smaller international and national tenants	69 743	22.57	155	42
C - Other local tenants and sole proprietors	27 736	8.98	113	31
Parking and storage	5 555	1.80		
Vacant	5 942	1.92		
	308 959	100	367	100

LETTING ACTIVITY

Spear began the period with an opening vacancy of 1 584m2 or 0.92%; with 20 659m2 expiring in the interim period. Spear renewed or relet 19 461m2 of the GLA that became available in the interim period. An additional 30 052m2 of GLA becomes available during the remainder of the year. Spear's closing vacancy amounts to 4 372m2 or 1.42%.

YTD	Expiries and cancellations GLA (m2)	Gross expiry rental (R/m2)	Renewals/ new lets GLA (m2)	Gross new rental (R/m2)	Rental reversion (%)	Average escalation (%)
Office	2 751	91.72	2 376	94.32	2.8311	8.25
Industrial	13 685	33.43	13 453	33.86	1.28	8.67
Retail	4 153	121.09	3 797	124.92	3.1611	8.33
Residential	70	107.14	70	125.00	16.6711	10.00
	20 659		19 696		5.9922	

1 Positive rental reversion across the portfolio.

2 Average.

Spear's lease expiry profile remains defensive with a weighted average lease expiry ('WALE') of 33 months. In the next 12-month period 98% of income is contractual. Spear's asset and property management team has a hands-on approach to tenant retention and actions tenant engagements well in advance of expiry to ensure business continuity and risk management for the business.

LEASE EXPIRY PROFILE

Lease expiry profile
based on gross
lettable area

Percentage	Industrial	Commercial	Retail	Hospitality	Residential	Total
Vacant	0	4	2	2	0	1
Monthly	0	1	4	1	0	1
Expiry in the period ending						
31 August 2018	45	18	7	0	3	27
Expiry in the period ending						
31 August 2019	10	22	15	2	2	13
Expiry in the period ending						
31 August 2020	27	34	12	0	0	23
Expiry in the period ending						
31 August 2021	11	9	17	1	0	11
Thereafter	7	12	43	94	95	24
	100	100	100	100	100	100

Lease expiry profile

based on revenue

Percentage	Industrial	Commercial	Retail	Hospitality	Residential	Total
Monthly	1	1	6	1	0	2
Expiry in the period ending						
31 August 2018	43	21	12	0	4	23
Expiry in the period ending						
31 August 2019	12	16	13	10	2	14
Expiry in the period ending						
31 August 2020	29	41	13	0	0	28
Expiry in the period ending						
31 August 2021	11	11	19	2	0	12
Thereafter	4	10	37	87	94	21
	100	100	100	100	100	100

Weighted average escalations

Percentage	Escalation
Industrial	7
Commercial	8
Retail	8
Residential	9
Hospitality	Note 1 and 2

1. DoubleTree by Hilton Cape Town has a lease with a third party operator which is

based on a fixed (60% of budgeted EBITDA) and a variable (95% of actual EBITDA less fixed rental) lease.

2. 15 on Orange, African Pride, has a full variable lease based on monthly hotel turnover.

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 in the Western Cape with a total gross lettable area ('GLA') of 308 960m² valued at R2.71 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 remains 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 year to date has been a period of exceptional asset growth for Spear with new acquisitions in excess of R1.14 billion in the Western Cape. The effect of the above transactions resulted in Spear close on doubling its asset base and market cap from R942 million (February 2017) to R1.66 billion at the end of August 2017.

Spear's focus over the interim period has been to incorporate the newly acquired assets into the property and asset management platforms with assets transferring as late as 8 August 2017. Management has worked diligently to ensure that the assets slot in seamlessly 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 a primary Spear objective, which management believes clearly displays management and shareholder alignment.

Financial results

The board of directors are pleased to announce an interim dividend of 36.95 cents per share for the interim period ended 31 August 2017.

Spear's results are in line with revised guidance as disclosed on SENS on 17 May 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 during the interim period are performing to the satisfaction of management and in line with budget. Property portfolio revenue for the period contributed 98% of total revenue, while other income from development management services represented 2%.

Acquisitions

The Group acquired the following properties during the six-month period ended 31 August 2017:

	Transfer date	Acquisition value R'000	Debt funding R'000	Acquisition yield (%)
142 Edward Street, Tygervalley	1 March 2017	41 200	23 200	9.70
Selective House, Tygervalley	14 March 2017	13 200	13 200	9.92
15 on Orange, Cape Town	12 June 2017	298 000	175 000	9.55
2 Long Street, Cape Town	22 June 2017	389 000	220 000	9.32
Mega Park, Bellville	28 July 2017	379 157	224 000	9.30
Virgin Active George, George	8 August 2017	22 000	12 000	9.22
		1 142 557	667 400	9.50

In process of transfer

Tyger Manor Convenience Centre

The property with a gross lettable area ('GLA') of 3 748m² is located on Durban Road opposite Tygervalley Shopping Centre. The property fits into the Spear investment strategy of increasing its exposure to high-quality assets within the Western Cape. Management has set its focus on the acquisition of convenience retail investments as opposed to super regional retail investments given the stronger performance of convenience retail assets in the current economic environment. Tyger Manor offers Spear an opportunity to increase its holdings in the Tygervalley node, along with Spear's seven other commercial properties in the immediate area. Management considers the Tygervalley node as a benefactor of the positive effects of semigration and the increase in demand for office and retail premises in the area.

The two largest tenants in the property are Spar Grocer, Tops Liquor Store and McDonald's South Africa. On a percentage of GLA basis the two anchor tenants take up 46% of the lettable GLA on the property, which provides a strong income underpin on the asset. The asset has been acquired for R59.6 million at an acquisition yield of 9.31% with asset WALE of 29 months.

Capital expenditure and redevelopment

Sable Square

Sable Square is a retail centre 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 PNP, 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 commenced with 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) includes 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 will have a value of R70 million and Spear's development yield on this phase will exceed 9.6% in year one.

Footfall and turnover growth in the centre has been constantly increasing and 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, management has commenced the planning of phase two of the capital expenditure programme that would see the introduction of a residential component to Sable Square. This will comprise between 100 and 200 residential 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

Four assets (two residential, one retail and one office) with a GLA of 10 894m² and a book value of R120 million have been identified as assets that management wishes to dispose of. The residential asset situated in Melrose, Johannesburg is the only assets Spear owns outside of the Western Cape and is in the process of being disposed.

Management has made it clear that Spear only wishes to own assets within the Western Cape. A further two sales of the assets earmarked for disposal have become unconditional and will be sold for an aggregate consideration of R16.4 million at an average yield of 8%.

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 recycle assets that fall outside of this target in the medium term at the right disposal value and yield.

Distributable earnings

The board approved and declared distribution number 2 of 36.95 cents per share on 19 October 2017. The distribution declared is an increase of 0.5% over the revised interim forecasted distribution of 36.77 cents per share and the Company is on target to achieve its revised forecast distribution of 77 cents per share for the financial year ending 28 February 2018.

The forecast distribution was revised upwards by 4% from what was disclosed in the Pre-listing Statement ('PLS') dated 21 October 2016 for the financial year ending 28 February 2018.

The revised forecast is the sole responsibility of the directors and has not been reviewed or reported on by the Company's auditors.

	31 August 2017
	(cents per share)
Distribution 1 – Declared 17 May 2017	23.51
Distribution 2 – Interim	36.95

Tangible net asset value

The tangible net asset value per share increased 4.61% from R10.03 per share to R10.49 per share.

Tangible net asset value	Rands	Growth %
21 October 2016 (as per PLS)	9.37	
28 February 2017	10.03	7.01
31 August 2017	10.49	4.61

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 Rands	Value R million
12 June 2017	29.4	9.50	279
7 July 2017	19.2	9.50	182

The Group's gearing level at 31 August 2017 was 37.23%, an increase of 12.50% from 33.09% as at 28 February 2017, and had fixed borrowings of 71% of total borrowings at an average fixed rate of 9.51%

	Amount R'000
Variable borrowings	288 191
Fixed borrowings*	721 953
Total borrowings	1 010 144

* Percentage fixed: 71%

Debt expiry	R'000	%
FY2019	217 509	22
FY2020	323 073	32
FY2021	435 866	43
FY2024	33 696	3
	1 010 144	100

Sustainability

Spear is committed to creating a safe and healthy workplace and continually seeks to reduce its carbon footprint. Management acknowledges that real estate is a long-term investment that requires the availability of natural resources to service the needs of its tenants. Management endeavours to seek out ways to preserve scarce resources on a day-to-day basis through sustainable energy projects and water saving initiatives.

Spear has commenced the implementation of solar PV solutions across its portfolio where solar

viabilities have been concluded in a bid to reduce its reliance on mainstream energy providers and further reduce its carbon footprint given South Africa's reliance on coal and nuclear-powered electricity production plants.

The Western Cape has been hard hit by a severe drought due to insufficient rainfalls in 2016 and 2017. Various water saving initiatives have been implemented across the Spear portfolio in addition to the installation of well points on assets where such installations were possible so as to reduce the demand on the municipal water supply of the Cape Metropole.

Management will continue to operate the business in an environmentally sustainable manner and will seek innovative ways in both the current real estate portfolio along with brownfield and greenfield development projects to implement environmentally-focused best practice principles when briefing our development teams and ensure that such principles are incorporated into the final product on delivery.

Board appointments

Following the acquisition of Mega Park Industrial Estate in July 2017 shareholders were advised that Cormack Sean McCarthy had been appointed as a non-executive director with effect from 28 June 2017, which was approved by shareholders at the AGM on 11 August 2017. Sean was also appointed to the Investment Committee.

Sean has 30 years' experience in the real estate industry. Having developed a substantial number of residential, commercial and industrial projects, he has a wide array of knowledge in the property development field. Sean's specialty has been identifying and developing opportunities where substantial value was unlocked and given his practical and hands-on approach Sean has tackled complex projects, which are less attractive to the broader market, but offer higher returns.

Prospects and guidance

As at 17 May 2017 management had, in light of recent acquisitions, improved cost of debt, and other operational efficiencies within the Company. Management has also issued revised guidance for the full-year distribution per share for the year ending 28 February 2018 to be 77 cents premised upon the following assumptions:

- a stable macro-economic environment will prevail;
- lease renewals are concluded as per the Company forecast;
- no major tenant failures take place;
- tenants absorb rising tenancy costs; and
- all new acquisitions successfully transfer to Spear.

The interim distribution of 36,95 cents per share is in line with management's guidance set out for the period ending 31 August 2017.

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.

Subsequent events

The directors are not aware of any events, other than those listed below, that have occurred since the end of the financial period, which have a material impact on the results and disclosures in these unaudited consolidated interim financial results.

As announced on SENS on 19 September 2017, Spear REIT Limited concluded an agreement with MWPProp (Pty) Ltd in terms of which Spear REIT Limited acquired the single tenant property occupied by blue-chip tenant, MWEB (owned by Internet Solutions, a wholly owned subsidiary of Dimension Data). MWEB was founded in 1997 and is today South Africa's largest Internet service provider ('ISP'). MWEB offers a range of Internet access offerings, differentiated tools and services to approximately 320 000 customers. The Company's main division, MWEB Connect, is focused on the residential and small business market. The asset houses state-of-the-art data centres along with various support services for Internet Solutions and Dimension Data.

The property is located on Fairway Close opposite the N1 City retail and commercial precinct. The property is well positioned on the N1 highway that links the Cape Town CBD and Northern Suburbs of Cape Town, providing convenient access and egress to and from the property. The acquisition is in line with Spear's investment strategy of increasing its exposure to high-quality assets within the Western Cape.

The asset has been acquired for R145 million at an acquisition yield of 9.6%. MWEB has a lease in place over the asset for a further 30 months and occupies the entire GLA of 11 195m².

Basis of preparation

The unaudited consolidated interim results for the six months ended 31 August 2017 are 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 unaudited consolidated interim 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.

Christiaan Barnard (CA) SA, in his capacity as Financial Director, was responsible for the preparation of the unaudited consolidated interim results for the six months ended 31 August 2017. These consolidated interim results have not been reviewed or reported on by the Company's auditors. Any reference to future performance included in this announcement has not been reviewed or reported on by the Company's auditors.

Interim distribution for the six months ended 31 August 2017

Notice is hereby given of the declaration of interim distribution number 2 of 36.95008 cents per share, 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 (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 shareholders and are not subject to dividends withholding tax. The exemption from dividends withholding tax is not applicable to non-resident shareholders, but they may qualify for relief under a tax treaty.

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 shareholders provide the following forms to the Central Securities Depository Participant ('CSDP') or broker in respect of uncertificated shares, or to the Company, in respect of certificated shares:

- a declaration that the dividend is exempt from dividend tax; and
- 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 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 29.56006 cents per share. A reduced dividend withholding rate in terms of the applicable Double Taxation Agreement ('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 declaration that the dividend is subject to a reduced rate as a result of the application of the DTA; and
- 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 number of ordinary shares in issue on declaration date is 162 515 859.

The Company's tax reference number is 9068437236.

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 timetable set out below:

Last day to trade cum dividend distribution	Tuesday, 7 November 2017
Shares trade ex dividend distribution	Wednesday, 8 November 2017
Record date	Friday, 10 November 2017
Payment date	Monday, 13 November 2017

Share certificates may not be dematerialised or rematerialised between Wednesday, 8 November 2017 and Friday, 10 November 2017, both days inclusive.

In respect of dematerialised shareholders, the distributions will be transferred to the CSDP account/broker account on Monday, 13 November 2017. Certificated shareholders' distribution payments will be paid to certificated shareholders' bank accounts on Monday, 13 November 2017.

On behalf of the board
Spear REIT Limited

Cape Town
19 October 2017

Mike Flax	Quintin Rossi	Christiaan Barnard	Abu Varachhia
Chief Executive Officer	Managing Director	Financial Director	Non-executive Chairman

Directorate and Administration

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* (appointed 28 June 2017)

* Non-executive

Independent

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Company Secretary
Rene Cheryl Stober

Transfer secretaries
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Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196
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Independent reporting accountants and auditors
Grant Thornton Cape
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(PO Box 2275, Cape Town, 8000)

Sponsor
PSG Capital Proprietary Limited
1st Floor, Ou Kollege Building, 35 Kerk Street, Stellenbosch, 7600
(PO Box 7403, Stellenbosch, 7599)

Legal adviser
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11 Buitengracht Street, Cape Town, 8001
(PO Box 695, Cape Town, 8000)

Bankers
Nedbank Limited
Investec Limited
Standard Bank