

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 ZAE000228995)
("Spear" or "the Company")

PRIVATE PLACEMENT AND LISTING OF SPEAR ON THE ALTERNATIVE EXCHANGE
("ALTIX") OF THE JSE LIMITED ("JSE") AND ABRIDGED PRE-LISTING
STATEMENT

1. INTRODUCTION

- 1.1. Spear is a Western Cape focused diversified property investment company with a Cape Town bias.
- 1.2. Spear's property portfolio is made up of 25 properties situated throughout the Western Cape, save for one property in Gauteng, with a total value of approximately R1.39 billion, a net asset value of approximately R568 million (prior to the capital raising) and which generates a forward net property related revenue of approximately R128.1 million (based on actual contractual revenue). The property portfolio comprises a well-balanced mix of residential (5%), industrial (37%), retail (22%), office (27%), hospitality (7%) and other (2%) assets. The total gross lettable area of the property portfolio is 171 786 m² of which 28% is let to single tenants and 72% to multiple tenants, ranging from JSE listed entities to small and medium-sized enterprises.
- 1.3. The JSE has granted Spear a listing of all its issued ordinary no par value shares ("Shares") on the AltX ("Listing") under the abbreviated name "SpearReit", share code "SEA" and ISIN ZAE000228995 with effect from the commencement of trade on Friday, 11 November 2016 ("Listing Date"), subject to Spear having satisfied the JSE Listings Requirements regarding the spread of public shareholders. The Company will be listed in the "Diversified REITS" sector.
- 1.4. Although Spear will initially list as a REIT on the AltX, over time it is the intention of management to migrate its listing to the main board of the JSE.
- 1.5. Prior to the Listing, the Company will raise up to R112 500 000 by way of a private placement with invited investors ("Invited Investors") who fall within the categories envisaged in section 96(1)(a) of the Companies Act, No. 71 of 2008 ("Companies Act") of up to 12 500 000 new Shares at the placement price of R9 per Share ("Placement Price"). In addition, Mike Flax (chief executive officer), Quintin Rossi (managing director) and Abu Varachhia (non-executive chairman) ("Founders") will sell up

to 1 612 000 Shares to Invited Investors at the Placement Price of R9 per Share, the proceeds of which will be used to settle a portion of the listing fees and an assumed liability of a Spear subsidiary (collectively the "Private Placement").

- 1.6. In terms of a pre-placement undertaken by the Company, it has already received irrevocable commitments from Invited Investors to subscribe for 23 308 822 Shares in the Company to the value of R187 500 000 ("Pre-Placement").
- 1.7. The abridged Pre-listing Statement appearing below is not an invitation to the public to subscribe for securities, but is issued in compliance with the JSE Listings Requirements, for the purpose of providing information to the public with regard to the Company.

2. DISTRIBUTION OF PRE-LISTING STATEMENT

- 2.1. Spear has distributed a pre-listing statement to Invited Investors regarding the Listing and Private Placement containing detailed information regarding the Company ("Pre-listing Statement"). The Pre-listing Statement is available on the Company's website at www.spearprop.co.za.
- 2.2. Terms appearing in title case in this announcement and that are not otherwise defined herein, shall bear the meanings assigned to them in the Pre-listing Statement.

3. SALIENT DATES AND TIMES RELATING TO THE LISTING AND PRIVATE PLACEMENT

The salient dates and times relating to the Listing and Private Placement are set out below:

Pre-listing Statement distributed on	Friday, 21 October
Abridged Pre-listing Statement published on SENS on	Monday, 24 October
Opening Date of the Private Placement (09:00)	Monday, 31 October
Closing Date of the Private Placement (17:00)	Friday, 4 November
Results of the Private Placement published on SENS on	Monday, 7 November
Notification of applications to successful Invited Investors on	Monday, 7 November

Accounts at CSDPs/Brokers updated in respect of Dematerialised Shareholders on	Friday, 11 November
Listing of Shares on the JSE expected at commencement of trade on	Friday, 11 November

Notes:

- The above dates are subject to change. Any such change will be announced on SENS.
- All references to dates and times are to local dates and times in South Africa.
- Invited Investors must advise their CSDP or Broker of their acceptance of the Private Placement Shares in the manner and cut-off time stipulated by their CSDP or Broker.
- CSDPs effect payment on a delivery-versus-payment basis.

4. ABRIDGED PRE-LISTING STATEMENT OF SPEAR

4.1. BRIEF OVERVIEW OF SPEAR

- 4.1.1. Spear was established in 2011 as a private portfolio of investment properties (held through the Spear Property Trust), by three South African real estate industry leaders, namely, Mike Flax (chief executive officer), Quintin Rossi (managing director) and Abu Varachhia (non-executive chairman). Mike Flax and Quintin Rossi still lead the business today and Abu Varachhia has taken on the role of non-executive chairman.
- 4.1.2. As a private portfolio, the Spear Property Trust invested across a variety of real estate sectors including office, retail, industrial, residential and hospitality, all of which were successful investments.
- 4.1.3. The Spear Property Trust achieved substantial organic growth in its property portfolio by consistently applying the principle of "value-addition" to all acquisitions made. The principle of "value-addition" entails that a property would only be acquired to the extent that management was able to enhance the value of the property through aggressive letting strategies or through value enhancing development or redevelopment, in a relatively short space of time and at an acceptable cost. By applying this strategy and through a combination of organic growth and new acquisitions, the Spear Property Trust saw its property portfolio grow from an asset base of R358 million in 2011 to R1.39 billion in 2016.

4.1.4. Following a decision by the Founders to seek a listing on the Altx as a real estate investment trust ("REIT"), the Spear Property Trust resolved to transfer its portfolio to the Company. The Founders are substantial Shareholders in the Company and intend to remain so after the Listing, thereby aligning their interests with Shareholders.

4.1.5. After the Listing, Spear will continue to invest across the real estate sectors, however it will maintain a strict Western Cape focus with a Cape Town bias.

4.2. STRATEGY AND VALUE PROPOSITION

4.2.1. Spear's primary objective is to provide sustainable and growing distributable income as a listed REIT through yield-accretive acquisitions and the execution of its "SMART" strategy, as set out below.

- Specialist in the Western Cape real estate market - Spear will only invest in properties in the Western Cape due to the favourable economic and property fundamentals in the Western Cape and management's belief that proximity to assets allows its management team to extract maximum value out of its properties from an asset management, property management and general oversight perspective;
- Management conducted internally on all levels - The asset and property management capabilities of Spear are all conducted internally which is one of the key assets of the business, providing Spear with a significant competitive advantage over its competitors;
- Acquisitions to be yield-accretive - Spear will only acquire a property to the extent that the acquisition is yield-accretive or has value addition potential that will enhance the yield;
- Redevelopments and active asset management - Spear will create organic growth in its existing portfolio through redevelopments and active asset management; and
- Timeous execution of tenant retention objectives - Spear has a core focus on retaining tenants in a timeous manner.

4.2.2. The board of directors of Spear ("Board") views the Listing as the first step to growing the business into a mid-sized property company with a market capitalisation of approximately R8 billion over the next five years.

4.2.3. The Spear value proposition can be summarised as follows:

- Western Cape based diversified property investment company, investing in retail, industrial, office, hospitality and residential properties;
- offers investors access to a prime Western Cape focused real estate portfolio;
- located in South Africa's best location for growth;
- internally managed with a low cost structure;
- led by industry veterans with solid and successful track records; and
- property portfolio underpinned by high quality tenancies and lease covenants.

4.3. RATIONALE FOR LISTING AND PRIVATE PLACEMENT

The Company's rationale for the Listing and the Private Placement is to:

- 4.3.1. provide the Company with access to capital in order to grow its business both organically and by way of future acquisitions;
- 4.3.2. enhance the Company's capital raising ability, as its scrip can be placed in the form of vendor consideration placings;
- 4.3.3. raise capital to initially reduce debt and to have capacity to fund future acquisitions;
- 4.3.4. obtain REIT status and the resultant tax benefits that arise from such REIT status;
- 4.3.5. provide Spear Shareholders with a liquid, tradable instrument within a regulated environment; and
- 4.3.6. create awareness with prospective institutional and retail investors about the merits of investing in Spear.

4.4. PROSPECTS

The Spear portfolio is of a high quality, is underpinned by strong tenancies and lease covenants and is situated in South Africa's best location for growth. Considering the success achieved by the Company and the management team over the last five years and the significant opportunities available to it

to enhance the existing portfolio and to grow through new acquisitions, the Board is of the view that the future prospects of the Company are very encouraging and is confident of delivering sustainable income and capital growth to Shareholders.

4.5. SUMMARY OF SPEAR PROPERTY PORTFOLIO

4.5.1. The property portfolio of the Spear Group on Listing, is summarised as follows:

Number of properties owned directly or indirectly through Spear Subsidiaries	Portfolio at fair value (as per Independent Property Valuer)	Portfolio NAV (prior to Capital Raisings)	Average property yield	Weighted average rental per m ²	Gross lettable area (GLA) m ²
25	R1.393 million	R568 million	8.9% *	R91.80 **	171 786
Vacancy (% of rentable area)	Portfolio value per m ²	Average portfolio escalations	Weighted average lease expiry period	Sectors	Geographic profile
1.50%	R8 109	8%	45 months	Industrial, Retail, Office, Hospitality, Residential	Western Cape & Gauteng ***

Notes:

* Average property yield which excludes the effects of lease smoothing.

** Includes utilities and rates recoveries.

*** One property is situated in Gauteng, which will be sold at the appropriate time after the Listing.

4.5.2. The evenly distributed geographical spread of the portfolio within the greater Cape Metropole gives Spear the opportunity to enjoy a broader market catchment as opposed to being overly represented in one specific area within the Cape Metropole.

4.5.3. The portfolio presents stable income over the short, medium and long term, with a number of "value-addition" opportunities that will allow the organic growth and increased income in the portfolio.

4.5.4. Currently the portfolio is spread across all sectors, with an average portfolio rental of R91.80 per m², excluding VAT, including utility recoveries. The portfolio is well positioned for an upturn in average portfolio rentals due to a number of leases that are due to be renewed shortly, which

are currently on a relatively low rental. In addition, the portfolio currently has approximately 141 000 m² of bulk which is available for redevelopment.

4.6. DIVIDEND POLICY

The Company will distribute at least 75% of its total distributable profits as dividends to Shareholders by no later than six months after its financial year end, subject to the relevant solvency and liquidity tests as defined in the Companies Act being applied. The Company aims to declare and pay between 96% and 100% of its annual distributable profit as a dividend to Shareholders.

The Company envisages paying interim and final dividends.

4.7. MANAGEMENT

- 4.7.1. The Company is governed by the Board, which is responsible for ensuring that the Company complies with all of its statutory and regulatory obligations as specified in the Companies Act, its memorandum of incorporation ("MOI") and, following the Listing, in the JSE Listings Requirements.
- 4.7.2. The Board has appointed a number of further committees to assist the Board in discharging its duties, with the particulars of such committees outlined in Annexure 9 to the Pre-listing Statement.
- 4.7.3. At an operational level, the chief executive officer is supported by members of the Group's executive management team and the chairman who, between them, have more than 70 years' experience.
- 4.7.4. No part of the business of the Group is managed, or is proposed to be managed, by a third party under a contract or arrangement.

4.8. PRIVATE PLACEMENT

4.8.1. Overview of the Private Placement

Prior to the Listing, the Company will raise up to R112 500 000 by way of a private placement with Invited Investors of up to 12 500 000 new Shares at the Placement Price of R9 per Share. In addition, the Founders will sell up to 1 612 000 Shares to Invited Investors at the Placement Price of R9 per Share, the proceeds of which will be used to settle a portion of the listing fees and an assumed liability of a Spear subsidiary.

In terms of the Pre-Placement, the Company has already received irrevocable commitments from Invited Investors to subscribe for 23 308 822 Shares to the value of R187 500 000.

The Board has the discretion to increase or decrease the number of Private Placement Shares and the amount sought to be raised in the Private Placement.

Only persons who fall within any of the categories envisaged in section 96(1) (a) of the Companies Act or who subscribe for or purchase Private Placement Shares, the subscription and/or acquisition cost of which exceeds R1 million per single addressee acting as principal (as contemplated in section 96(1) (b) of the Companies Act), are entitled to participate in the Private Placement.

The proceeds of the Private Placement will be employed, inter alia, to initially reduce debt and to have capacity to fund future acquisitions.

4.8.2. Condition Precedent

The Listing is conditional on the achievement of a public spread of Shareholders acceptable to the JSE, being a minimum of 10% of the issued share capital of the Company being held by the public.

Should the Condition Precedent fail, the Private Placement and any acceptance thereof shall not be of any force or effect and no person shall have any claim whatsoever against the Company or any other person as a result of the failure of the Condition Precedent.

4.9. LISTING ON JSE

The JSE has granted the Company a listing of all its issued ordinary Shares as a REIT on the Altx under the abbreviated name "SpearReit", share code "SEA" and ISIN ZAE000228995 with effect from the commencement of trade on Friday, 11 November 2016, subject to the Company having satisfied the JSE Listings Requirements regarding the spread of public shareholders. The Company will be listed in the "Diversified REITS" sector.

4.10. SHARE CAPITAL

The authorised and issued share capital of the Company, immediately prior to the Listing Date, is as set out below:

	Number of Shares	R
Authorised share capital		
Ordinary Shares of no par value	1 000 000 000	-
Issued share capital		
Stated capital - ordinary Shares of no par value	56 806 299	567 917 843
Treasury Shares	-	-
Total		567 917 843

Following the Capital Raisings, the authorised and issued share capital of the Company on the Listing Date is expected to be as follows (on the assumption that 12 500 000 new Private Placement Shares are issued in terms of the Private Placement and 23 308 822 new Shares are issued in terms of the Pre-Placement):

	Number of Shares	R
Authorised share capital		
Ordinary Shares of no par value	1 000 000 000	-
Issued share capital		
Stated capital - ordinary Shares of no par value	92 615 121	867 609 843
Treasury Shares	-	-
Total		867 609 843

4.11. COMPOSITION OF THE BOARD

The full names, ages, business addresses and capacities of the Directors of the Company are provided below:

Full names	Capacity	Age	Business address	Date of appointment
Abubaker (Abu) Varachhia	Non-executive chairman	58	5th Floor, Upper Eastside, 31 Brickfield Road, Salt River, Cape Town	19 April 2016
Michael (Mike) Naftali Flax	Chief executive officer	53	5th Floor, Upper Eastside, 31 Brickfield Road, Salt River, Cape Town	19 April 2016

Quintin Michael Rossi	Executive managing Director	35	5th Floor, Upper Eastside, 31 Brickfield Road, Salt River, Cape Town	18 November 2015
Christiaan Barnard	Financial Director	28	5th Floor, Upper Eastside, 31 Brickfield Road, Salt River, Cape Town	20 July 2016
Brian Leon Goldberg	Non-executive Director	53	No 12 Avenue La Croix, Fresnaye, Cape Town	20 July 2016
Jalaloodien (Jalal) Ebrahim Allie	Lead independent non-executive Director	59	1st Floor, Riverside Centre, Corner Main & Belmont Road, Rondebosch	20 July 2016
Niclas Kjellström -Matseke	Independent non-executive Director	46	18th Floor, Metropolitan Centre, 7 Walter Sisulu Avenue, Cape Town	30 September 2016

5. COPIES OF THE PRE-LISTING STATEMENT

Copies of this Pre-listing Statement are available in English only and may, from Monday, 24 October 2016 until the Listing Date, be obtained from the registered office of the Company and from the Designated Adviser, at the addresses set out in the "Corporate Information" section of this Pre-listing Statement. A copy of this Pre-listing Statement will also be available on the Company's website (www.spearprop.co.za).

Cape Town
24 October 2016

PSG Capital Proprietary Limited: Designated Advisor, Transaction Adviser and Bookrunner
Grant Thornton Cape: Auditors and Independent Reporting Accountants
Cliffe Dekker Hofmeyr: Legal Advisers