

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME			
	Unaudited 6 months 30 June 2019 KShs	Unaudited 6 months 30 June 2018 KShs	Audited 12 months 31 December 2018 KShs
<b>Revenue</b>	180,971,759	132,421,963	332,249,472
Rental and related income	170,650,728	135,133,830	309,763,210
Straight-lining of lease income	10,321,031	(2,711,867)	22,486,262
<b>Other income</b>	13,163,561	42,210,875	57,193,985
Interest income	13,163,561	41,862,494	56,433,877
Sundry income	-	348,381	760,108
<b>Operating expenses</b>	(107,382,425)	(111,562,528)	(239,071,901)
Property expenses	(48,815,137)	(38,068,697)	(108,850,390)
Fund operating expenses	(58,567,288)	(73,493,831)	(130,221,511)
<b>Increase in fair value of investment property</b>	(10,321,031)	2,711,867	43,120,203
Fair value adjustment to investment property	-	-	65,606,465
Straight-lining of lease income	(10,321,031)	2,711,867	(22,486,262)
<b>Net profit for the period</b>	<b>76,431,864</b>	<b>65,782,177</b>	<b>193,491,759</b>
Other comprehensive income	-	-	-
<b>Total comprehensive income attributable to unitholders for the period</b>	<b>76,431,864</b>	<b>65,782,177</b>	<b>193,491,759</b>
Basic earnings per unit (KShs)	0.42	0.36	1.07
Headline earnings per unit (KShs)	0.48	0.35	0.83
<b>Supplementary information</b>			
Distributable earnings per unit (KShs)	0.42	0.36	0.71

CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
	Unaudited 6 months 30 June 2019 KShs	Unaudited 6 months 30 June 2018 KShs	Audited 12 months 31 December 2018 KShs
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment property	3,424,471,550	3,313,256,395	3,365,700,000
Fair value of investment property for accounting purposes	3,311,404,166	3,210,236,207	3,262,953,647
Straight-line lease accrual	113,067,384	103,020,188	102,746,353
Property and equipment	15,727,953	3,910,058	5,140,466
	<b>3,440,199,503</b>	<b>3,317,166,453</b>	<b>3,370,840,466</b>
<b>Current assets</b>			
Investment securities	192,576,641	-	83,809,515
Trade and other receivables	103,096,974	63,759,641	55,148,773
Cash and cash equivalents	42,528,728	342,567,776	302,822,720
	<b>338,202,343</b>	<b>406,327,417</b>	<b>441,781,008</b>
Asset held for sale	-	-	40,000,000
	<b>338,202,343</b>	<b>406,327,417</b>	<b>481,781,008</b>
<b>Total assets</b>	<b>3,778,401,846</b>	<b>3,723,493,870</b>	<b>3,852,621,474</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Trust capital	3,479,540,745	3,479,540,745	3,479,540,745
Revaluation reserve	95,619,234	30,012,769	95,619,234
Retained earnings	89,486,486	86,680,730	148,783,847
	<b>3,664,646,465</b>	<b>3,596,234,244</b>	<b>3,723,943,826</b>
<b>Current liabilities</b>			
Trade and other payables	113,755,381	127,259,626	128,677,648
<b>Total equity and liabilities</b>	<b>3,778,401,846</b>	<b>3,723,493,870</b>	<b>3,852,621,474</b>
<b>Net asset value per unit</b>	<b>20.25</b>	<b>19.87</b>	<b>20.58</b>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY				
	Trust capital KShs	Revaluation reserve KShs	Retained earnings KShs	Total KShs
<b>Audited balance at 31 December 2017</b>	3,479,540,745	30,012,769	156,627,778	3,666,181,292
Net profit for the period	-	-	65,782,177	65,782,177
<b>Transactions with owners of equity</b>				
Distribution to unitholders	-	-	(135,729,225)	(135,729,225)
<b>Unaudited balance at 30 June 2018</b>	<b>3,479,540,745</b>	<b>30,012,769</b>	<b>86,680,730</b>	<b>3,596,234,244</b>
Net profit for the period	-	-	127,709,582	127,709,582
Transfer to non-distributable reserve	-	65,606,465	(65,606,465)	-
<b>Audited balance at 31 December 2018</b>	<b>3,479,540,745</b>	<b>95,619,234</b>	<b>148,783,847</b>	<b>3,723,943,826</b>
Net profit for the period	-	-	76,431,864	76,431,864
<b>Transactions with owners of equity</b>				
Distribution to unitholders	-	-	(135,729,225)	(135,729,225)
<b>Unaudited balance at 30 June 2019</b>	<b>3,479,540,745</b>	<b>95,619,234</b>	<b>89,486,486</b>	<b>3,664,646,465</b>

CONSOLIDATED STATEMENT OF CASH FLOWS			
	Unaudited 6 months 30 June 2019 KShs	Unaudited 6 months 30 June 2018 KShs	Audited 12 months 31 December 2018 KShs
<b>Cash flows from operating activities</b>			
Cash generated from operations	14,059,414	57,353,118	129,843,795
Distribution paid	(135,729,225)	(135,729,225)	(135,729,225)
<b>Net cash outflow from operating activities</b>	<b>(121,669,811)</b>	<b>(78,376,107)</b>	<b>(5,885,430)</b>
<b>Cash flows from investing activities</b>			
Acquisition of Limited Liability Partnership net of cash acquired	-	(792,989,940)	(792,989,940)
Additions to investment property	(18,771,549)	(3,256,395)	(30,093,535)
Additions to property and equipment	(11,085,506)	-	(1,589,078)
(Increase)/decrease in investment securities	(108,767,126)	529,000,000	445,190,485
<b>Net cash outflow from investing activities</b>	<b>(138,624,181)</b>	<b>(267,246,335)</b>	<b>(379,482,068)</b>
<b>Net movement in cash and cash equivalents</b>	<b>(260,293,992)</b>	<b>(345,622,442)</b>	<b>(385,367,498)</b>
Cash and cash equivalents at beginning of period	302,822,720	688,190,218	688,190,218
<b>Cash and cash equivalents at end of period</b>	<b>42,528,728</b>	<b>342,567,776</b>	<b>302,822,720</b>

**COMMENTARY**
**1 Introduction**

STANLIB Fahari I-REIT ("the REIT") is a real estate investment trust, listed on the Nairobi Securities Exchange. It currently owns four properties (a shopping centre, an office building and two semi-office/light industrial buildings) valued at KShs 3.4 billion, all held through special purpose vehicles.

**2 Basis for preparation**

The unaudited condensed consolidated financial statements of STANLIB Fahari I-REIT for the six months ended 30 June 2019 have been prepared in accordance with the requirements of International Financial Reporting Standards (IFRS), the Accounting Standard IAS 34: Interim Financial Reporting, the Nairobi Securities Exchange and the requirements of the Capital Markets (Real Estate Investment Trusts) (Collective Investment Schemes) Regulations, 2013. IFRS and the Financial Pronouncements as issued by the Financial Reporting Standards Council require interim reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements required by IAS 34: Interim Financial Reporting.

The interim consolidated financial statements have not been audited by STANLIB Fahari I-REIT's independent auditors. They have been prepared by the REIT Manager to give a true and fair view of the financial position, financial performance and cash flows of the REIT.

**3 Business review**
**Update on the cinema project**

Construction work to install a 3-screen cinema at Greenspan Mall was completed in May 2019. The cinema launch has been moved to 30 August 2019 to give the cinema operator adequate time to fit out. This development will strengthen the mall's entertainment offering and is expected to increase foot traffic, benefit existing and future tenants and increase rental income.

**Tax regulations**

The recently published Finance Bill 2019 includes an amendment to section 20 of the Income Tax Act to exempt REIT investee companies from income tax. Previously section 20 of the Income Tax Act only provided for the exemption of REITs. The amendment will resolve the tax leakage previously experienced at a property subsidiary level and will increase distributable earnings going forward. The tax leakage experienced in the 2018 financial year amounted to KShs 13.5 million. The Finance Bill is expected to be approved by Parliament in August 2019.

**Financial results**

STANLIB Fahari I-REIT delivered a net profit of KShs 76.4 million for the six months ended 30 June 2019 against a net profit of KShs 65.8 million in the comparative period. This translates to distributable earnings of 42 cents per unit (June 2018: 36 cents). Key performance highlights are as follows:

- Rental and related income increased by 26% mainly due to rent and service charge income from the new property acquired on 29 May 2018. The continued vacancy in the smallest property in the portfolio, Highway House, put a small dampener on total revenue; however, this was offset by the increase in the other properties' revenue in line with lease escalations. The property is being actively marketed for letting and as such has been moved from 'asset held for sale' back to 'investment property'. The newly constructed cinema whose rent starts accruing from 1 August 2019 is expected to bolster revenue further during the second half of the year.
- Interest income decreased significantly compared to the comparative period due to the utilisation of surplus cash in acquiring the new property in the prior year. The REIT earned a total return of 8.7% from its various cash investments during the period under review.
- Property expenses increased by 28% mainly due to additional expenses from the newly acquired property; the majority of these expenses are covered by the service charge income and include one-off expenditure of KShs 4.7 million incurred to comply with environmental regulations. The property portfolio's expense ratio remains under control at 28.6% (June 2018: 28.2%).
- Fund operating expenses decreased by 20% due to the prior period including business acquisition costs of KShs 8.3 million to acquire a new property compared to only KShs 0.3 million incurred in the current period to evaluate a potential acquisition. In addition, the ability to recoup input VAT at a fund level has helped reduce fund operating expenses; previously these costs were inclusive of input VAT.
- As at 30 June 2019, total assets under management stood at KShs 3.7 billion comprising investment property valued at KShs 3.4 billion and cash reserves of KShs 235 million. Cash reserves have declined mainly due to investment in capex projects at Greenspan Mall including the construction of a cinema, sinking of a borehole and acquisition of related borehole infrastructure.

**4 Borrowings**

STANLIB Fahari I-REIT is currently ungeared.

**5 Distribution**

A first and final distribution of 75 cents per unit was paid from 29 April to 6 May 2019 in respect of the 2018 financial year. The REIT Manager has not recommended an interim distribution for the period ended 30 June 2019. A full distribution will be declared in line with the requirements of the REITs Regulations to distribute a minimum of 80% of distributable earnings within four months after the end of the financial year.

**6 Website information**

The REIT Manager's semi-annual report and unaudited condensed financial statements will be available on the STANLIB Fahari I-REIT website at [www.stanlibfahariireit.com](http://www.stanlibfahariireit.com) from 31 July 2019.

**Approval of the financial statements**

The financial statements were approved for issue by the Trustee and the REIT Manager on 30 July 2019 and signed on their behalf by:



**Henry Karanja**  
Trustee Compliance Officer  
The Co-operative Bank of Kenya Limited



**Surinder Kapila**  
Chairman  
STANLIB Kenya Limited



**Nkoregamba Mwebesa**  
Managing Director  
STANLIB Kenya Limited