STANLIB Fahari I-REIT

ANNUAL REPORT AND FINANCIAL STATEMENTS 2016

STANLIB

KENYA'S 1ST LISTED REAL ESTATE INVESTMENT TRUST

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OUR CORPORATE INFORMATION

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Email: customercare.kenya@stanlib.com

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Email: customerservice@co-opbank.co.ke
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TRUSTEE

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INDEPENDENT VALUER

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STRUCTURAL ENGINEER

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THE CHAIRMAN'S STATEMENT

MS. WANJIRU MWANGI
Chairman

GDP is estimated to have grown by between 5.5% and 6.0% during 2016, which places Kenya's growth rate in a competitive spot within the African region

It gives me great pleasure to present to you the STANLIB Fahari I-REIT inaugural annual financial statements for the thirteen-month period ended 31 December 2016. Looking back to where it all began, it is rewarding to see that the years of research, consultation and collaboration with experts, regulators and fellow industry players have paid off. Today, Kenya is reportedly the 41st country in the world to have launched the REIT structure. This great achievement would not have materialised had it not been for the commitment, hard work and support of the collective. Together we have not only contributed to the deepening of Kenya's capital markets, to product innovation and investment diversification, but have also made Kenya's real estate an accessible investment asset to retail, corporate and foreign investors alike.

We trust that this annual report will provide a detailed and transparent account of how the REIT has fared in its first thirteen months of existence and what the future looks like.

THE ECONOMY AT A GLANCE

Local economy

2016 proved to be a challenging year for the Kenyan market with the Nairobi All Share and the NSE 20 indices closing the year down 8% and 21% respectively. During the latter part of 2016, the bill to cap interest rates was effected leading to the reduction in private sector credit growth. Banks have opted to grow their government securities holdings instead of riskier lending. Chase Bank was also placed under receivership in April 2016 resulting in a 'flight to safety' in favour of the larger banks.

Overall annual inflation averaged 6.3% in 2016 as compared to 6.6% in 2015; well within the CBK's upper limit of 7.5%. In terms of currency, the Shilling was fairly stable against the US dollar in 2016 only losing 0.2%. This was supported by monetary policy measures taken by the CBK, resilient diaspora remittances and a healthy foreign exchange reserves position.

We have noted a decline in interest rates in 2016 as compared to 2015. The 91 day rate averaged 8.6% compared to 11.0% for 2015. During 2016, the Central Bank lowered its policy rate twice by a total of 150 basis points to 10.0% in a bid to enhance private sector credit growth. The KBRR was also revised downwards to 8.9% from 9.9%. Throughout the year, CBK's open market operations were active to control market liquidity and support the currency.

GDP is estimated to have grown by between 5.5% and 6.0% during 2016, which places Kenya's growth rate in a competitive spot within the African region and the frontier markets. Increased government spending on infrastructure, favourable weather patterns and rebounding tourism sector among others supported this growth.

Global economy

The global economic growth was stable and projected at 3.1% in 2016.The growth was supported by the recovery in developed markets mainly the U.S. and stability in the Euro area. Emerging markets have had mixed performance, but broadly in a recovery mode. Overall, improving fundamentals in developed markets and pro-growth policies in the U.S. is expected support activity.

The impact of the results of the U.S. elections on Kenya continues to be monitored with focus being on changes in U.S.'s foreign policies, bi-lateral trade agreements as well as funding aid to emerging economies. Any withdrawal of funding aid to Kenya will undoubtedly be felt by landlords who are overly exposed to NGO's dependent on U.S. funding.

THE PROPERTY MARKET

We have witnessed a growing demand from multinationals, local and international investors for real estate assets in the stable and well-connected commercial hubs. This demand has driven an unprecedented development boom in Kenya, specifically Nairobi, across all its commercial sectors. The resilience in the property market, thus far, has been underpinned by strong economic growth, stable inflation

Our commitment to provide our unitholders with consistent long term real returns remains strong and our investment philosophy centres on delivery of this objective. With our strategy in place, we are confident that we shall continue creating value for our unitholders.

and the country's aspiration of becoming a majority middle-income market by year 2030. The development of modern shopping malls is changing the urban landscapes of sub-Saharan Africa.

The market is expected to rebalance in the medium term despite the looming oversupply in several real estate sub-sectors and excepting any external shocks or instability in the financial sector. With most of the commercial office and retail sectors in the capital city facing over-supply, real estate investors and developers are increasingly targeting secondary cities and go-county strategies to benefit from first mover advantage. All the recently opened malls have taken a stab at product differentiation by introducing international retailers, leisure and upscale amenities in an attempt to mitigate competition and ensure success. Within the capital city, there still lies opportunity in well located and sustainable medium sized centres which are well differentiated to the target market.

THE REIT

The REIT has invested two thirds of its total funds under management in three seed properties and is currently not geared. The balance of the funds will go a long way in securing another acquisition in the near future. It is our strategic intention to build up the REIT to a sizeable scale by targeting high quality real estate assets with credible tenants, low life-cycle costs and in good location. As we build up scale our objective is to assemble a good quality portfolio that will generate desirable and sustainable income returns for our unitholders, while driving the property operating cost ratios down.

Our commitment to provide our unitholders with consistent long term real returns remains strong and our investment philosophy centres on delivery of this objective. With our strategy in place, we are confident that we shall continue creating value for our unitholders.

APPRECIATION

I would like to sincerely thank our Trustee, the Co-operative Bank of Kenya Limited for their support and the diligent manner with which they have discharged of their fiduciary responsibility. Secondly, I would like to thank my colleagues, the members of the STANLIB Kenya Limited board, for their immeasurable contribution and commitment to the success of the REIT. Last but not least, I would like to extend my gratitude to the REIT management team for their dedication and hard work. I am confident that together we will succeed in delivering sustainable long term real returns to our unitholders.

Ms. Wanjiru Mwangi
Chairman

REIT MANAGER'S BOARD OF DIRECTORS

1. WANJIRU MWANGI

Appointment date: 1 January 2013

Chairman – Ms Mwangi is a career banker having held executive director positions in CfC Stanbic Bank Kenya responsible for the global markets business in Kenya, South Sudan, Uganda, Tanzania and Mauritius. Prior to CfC Stanbic Bank, she worked with CITIBANK N.A. in Kenya as an Assistant General Manager in the Treasury Business. She is currently a non-executive director of Liberty Life Limited; Heritage Life Limited; Spire Bank; Youth Welfare Board - Archdiocese of Nairobi; and chairs the Oversight Committee Derivative Exchange for the Nairobi Securities Exchange. Ms Mwangi holds a B.A. degree from Amherst College, MA, USA and an MBA from The Wharton School, University of Pennsylvania.

2. NKOREGAMBA MWEBESA

Appointment date: 8 December 2016

Managing Director, STANLIB Kenya – Mr Mwebesa has more than 25 years of experience in the East Africa Financial Services Sector. His expertise spans Investment Management, Capital Markets and Securities and Investment Banking. Mr Mwebesa is the immediate past Chief Executive of Standard Bank Group Securities (SBGS), a licensed Investment Bank in Kenya, Uganda and Rwanda. During his time at SBGS, Mr Mwebesa led the strategic re-positioning of the business resulting in increased market share and a leap from 7th place to 2nd place in NSE Equity trading rankings, No. 1 on the Uganda Securities Exchange and No. 2 on the Rwandan Stock Exchange. Prior to joining SBGS, Mr Mwebesa had a very successful tenure as the Chief Executive Officer of the Nairobi Securities Exchange Limited (NSE), the largest securities exchange in the East African Region. His appointment was effective 8th December 2016. He is currently a non-executive director of Central Depository and Settlement Corporation. Mr Mwebesa holds a B.A. Economics and Philosophy degree from the University of Nairobi and an Executive MBA from the Maastricht School of Management. School, University of Pennsylvania.

3. MIKE DU TOIT

Appointment date: 22 February 2006

Non-executive Director – Mr du Toit joined Liberty in 2010. He is the Managing Director of NSE-listed Liberty Kenya Holdings Limited and Liberty Group's Regional Group Executive for East and Central Africa responsible primarily for strategic growth initiatives, governance and stakeholder engagement. Prior to this he was Managing Director of Stanbic Bank Kenya (later CfC Stanbic) having led the merger of the Stanbic and CfC Groups. As a career banker, he has extensive experience in the financial services sector across sub-Sahara Africa having worked and lived in, amongst others Botswana, Mozambique, South Africa and Uganda. He is a member of all the Boards of all Liberty entities in the region. Mr du Toit holds an LIB of the Institute of Bankers (SA).

4. JOHN MACKIE

Appointment date: 1 January 2013

Non-executive Director – Mr Mackie has over 30 years financial services experience. He is the head of the Pan Africa franchise at STANLIB (South Africa) where he has responsibility for all aspects of portfolio management for Kenya, Uganda, Botswana, Namibia, Swaziland and Lesotho. In addition he oversees the management of STANLIB's suite of Pan African products and chairs STANLIB's Africa Credit Committee. Mr Mackie began his career as a money market dealer with Standard Corporate and Merchant Bank (SCMB) and later rose to the position of treasury manager. In 1995, he transferred to SCMB Asset Management, where he was initially responsible for the portfolio management of South African retirement funds. He then assumed accountability for SCMB Asset Management Africa Division, later to become STANLIB Africa Division, where he now has responsibility for all investment matters. Mr Mackie holds a B.Com (Hons) in Economics from the University of Cape Town.

5. PETER WAIYAKI

Appointment date: 1 January 2013

Non-executive Director – Mr Waiyaki is an advocate of the High Court of Kenya and a Partner at Mboya Wangong'u & Waiyaki Advocates responsible for Strategy and Development. He is an accomplished practitioner ranked as a top commercial lawyer over several years. He specializes in corporate and commercial law with particular emphasis on capital markets law and practice, corporate restructurings, mergers and acquisitions and corporate finance. He previously worked as the founding Chief Executive of the Central Depository & Settlement Corporation in Kenya and oversaw establishment of the automation of the clearing, delivery and settlement of trades on the Nairobi Securities Exchange. He is a director of several private companies including Enwealth Financial Services Limited and Cities & Homes Limited. Mr Waiyaki holds a Bachelor of Law Degree from the University of Nairobi and a Diploma from the Kenya School of Law. He is a qualified and practising Arbitrator and a Certified Public Secretary. He is a member of the Chartered Institute of Arbitrators and the Institute of Certified Public Secretaries of Kenya.

6. SEELAN GOBALSAMY

Appointment date: 13 November 2014

Non-executive Director – Mr Gobalsamy is the Chief Executive Officer of the Liberty Group's Emerging Markets Cluster, responsible for STANLIB Africa, Group Arrangements and new businesses being established. Prior to this role, Mr Gobalsamy was the Chief Executive Officer of STANLIB South Africa responsible for driving STANLIB's strategy to become the asset manager of choice for flows destined for Africa. He has extensive experience in the financial services sector having held executive positions at Old Mutual and Liberty Holdings, where he was Chief Executive of Liberty Corporate. Mr Gobalsamy is a registered Chartered Accountant with SAICA as CA (SA) and has completed an Advanced Management Programme at Harvard Business School. He also holds a B.Com Honours degree (Accountancy & Law) from Rhodes University South Africa.

7. PATRICK MAMATHUBA

Appointment date: 23 March 2016

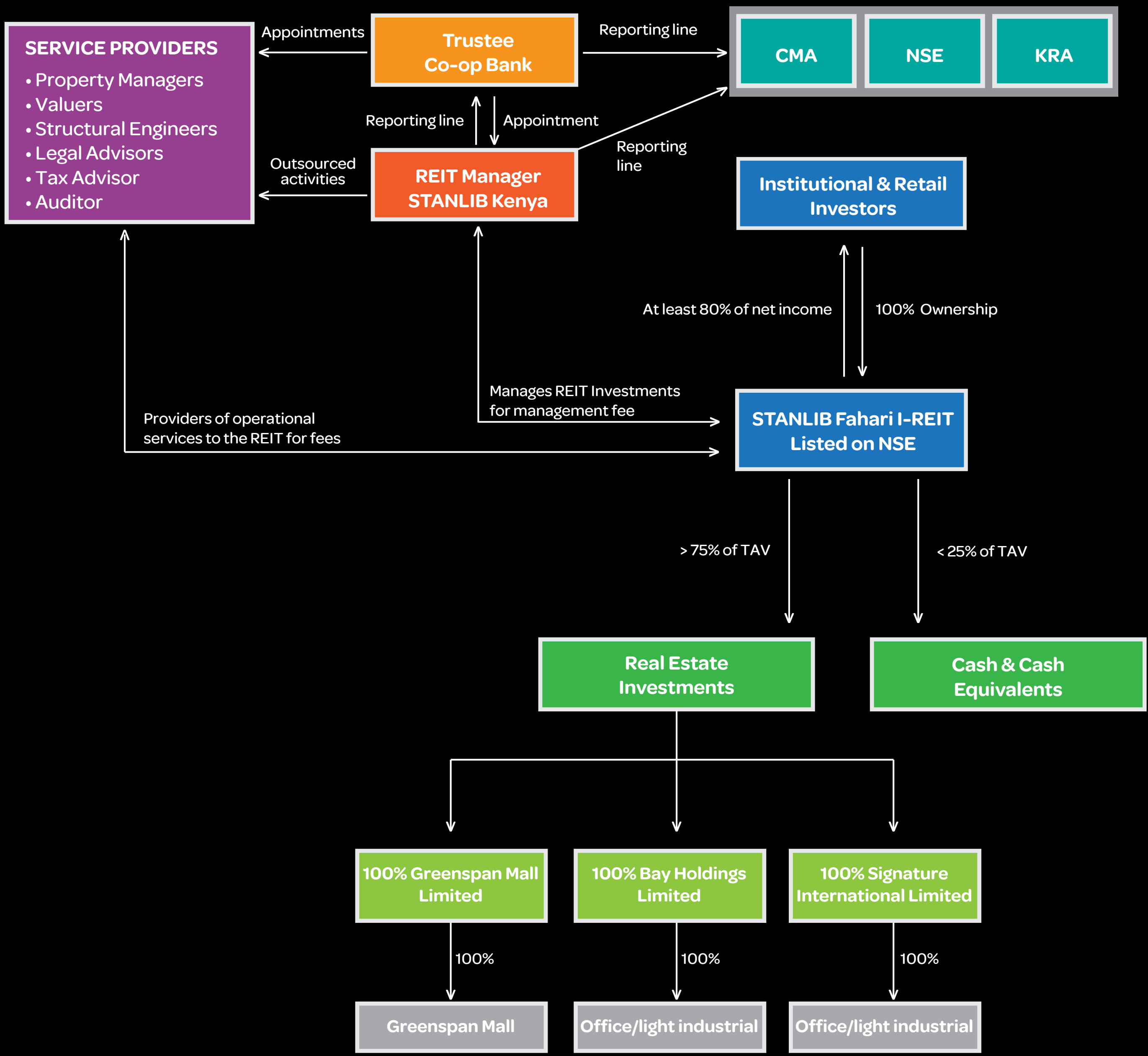
Non-executive Director – Mr Mamathuba is head of Alternative Investments and portfolio manager at STANLIB Asset Management. Mr Mamathuba has 21 years' experience in the investment industry. He joined STANLIB in 1999 and has held various positions including bond trader, portfolio manager and chief investment officer. In his current role he has been involved in establishing and growing new ventures within STANLIB including the passive funds offering, establishment of infrastructure capability and seeking a private equity partner for the group. Mr Mamathuba has held chairman of the Direct Property and High Yield debt propositions investment committees. In addition he has chaired the STANLIB Credit Partners board and is a Director of the Infrastructure Private Equity Fund 1 General Partner. He is a member of the STANLIB Executive Committee. In his previous roles he was involved in analysing JSE listed companies and managing client portfolios exceeding ZAR40 billion. He has also overseen client allocations to third party private equity funds. Prior to joining STANLIB, he worked at Transnet treasury and the South African Reserve Bank. Mr Mamathuba holds a B.Com (UCT) degree, B.Com Honours (UNISA) and is a CFA charter holder.

8. SIMPHIWE MDLULI

Appointment date: 30 September 2016

Executive Director – Mr Mdluli is a seasoned lawyer and an attorney of the High Court of South Africa, having begun his career at Sonneberg Hoffmann Galombik in 2003. He was appointed the Regional Director of STANLIB East Africa in August 2016 responsible for the businesses in Kenya, Uganda and Tanzania and serves on the Boards of all the East Africa businesses. Prior to this role, Mr Mdluli was the Executive Head of Legal, Risk and Compliance at STANLIB (South Africa) responsible for the Rest of Africa businesses. He joined the Liberty Group (South Africa) in November 2013 as an Executive Head of Legal, Risk and Compliance for Liberty Corporate, a retirement fund administrator. Prior to this, Mr Mdluli was Head of Legal Risk for various companies including Nedbank and the Association of Collective Investments. He is also a visiting lecturer for Masters and Post-graduate students at the University of Witwatersrand, since 2012. Mr Mdluli holds a Masters of Law from the University of Witwatersrand, a Bachelor of Law degree from the University of Cape Town and a B.A. in Law from the University of Swaziland.

STRUCTURE



SERVICE PROVIDERS
• Property Managers
• Valuers
• Structural Engineers
• Legal Advisors
• Tax Advisor
• Auditor
Appointments
Trustee
Co-op Bank
Reporting line
CMA
NSE
KRA
Reporting line
Appointment
Reporting line
Outsourced activities
REIT Manager
STANLIB Kenya
Institutional & Retail Investors
At least 80% of net income
100% Ownership
Manages REIT Investments for management fee
Providers of operational services to the REIT for fees
STANLIB Fahari I-REIT Listed on NSE
> 75% of TAV
< 25% of TAV
Real Estate Investments
Cash & Cash Equivalents
100% Greenspan Mall Limited
100% Bay Holdings Limited
100% Signature International Limited
100%
100%
100%
Greenspan Mall
Office/light industrial
Office/light industrial

REIT MANAGEMENT TEAM

1. KENNETH MASIKA
   Chief Executive Officer: STANLIB Fahari I-REIT

Mr Masika has over 18 years' experience in the Property Industry most of which he gained as a partner at Lloyd Masika Limited. He joined the STANLIB Kenya team on 1 November 2016. His specialities include Urban Property Valuations both in Kenya and in the East African region. He is also well versed in Property Management and Estate Agency Services. He holds a B.Sc. in Land Management from The University of Reading, UK. He is a full member of The Institute of Surveyors of Kenya and a licensed and registered valuer by The Valuers Registration Board of Kenya.

2. NOZIPHO MAKHOBA
   Chief Financial Officer: STANLIB Fahari I-REIT

Ms Makhoba has 16 years working experience spanning across financial management, external audit, property investment and corporate finance. She is responsible for financial and risk management, financial reporting and strategic resource planning. Before joining STANLIB, she worked for the Liberty Group (South Africa) from 2012 in various areas of the business including Liberty Properties and Group Corporate Finance where she was instrumental in the Group's mergers and acquisition transactions related to property. Prior to joining the Liberty Group, Ms Makhoba spent six years in the audit profession and five years with sovereign asset manager – the Public Investment Corporation's property investment division where she also held non-executive director roles for various property investment companies including Pareto Limited South Africa. She holds a B.Com (Accounting) and a Post-graduate Diploma in Accounting, both from the University of Kwa-Zulu Natal. She is a registered Chartered Accountant with SAICA.

3. RUTH OKAL
   Property Asset Manager

Ms Okal has 13 years industry experience and is responsible for optimizing STANLIB Kenya's real estate portfolio through market research, data analysis, revenue forecasting and industry reporting to inform business decisions. She holds MA – Property Management and Valuation and a BA – Land Economics both from University of Nairobi, and has been instrumental in the originating, negotiating and closing many property transactions. She is both a registered Valuer and Registered Estate Agent. Ms Okal joined STANLIB Kenya in 2013 from Knight Frank Kenya Limited, where she gained experience within Commercial Agency, Property Management, Valuation, Market Research, Feasibility Studies and Development Advisory.

4. HILDA NJOROGE
   Property Analyst

Ms Njoroge has over 5 years progressive industry experience and is responsible for real estate market research, asset management and analysis by evaluating relevant statistics and providing recommendations regarding investment attractiveness of properties and property related investments under STANLIB Kenya's property portfolio. She joined STANLIB Kenya in 2014 from Acorn Group Limited, a leading Real Estate developer in the East Africa region, where she gained experience in real estate development, feasibility studies, deal origination & execution, financial modelling, investment analysis and project finance and funding. She holds a B.Com Finance & Business Administration honours degree from Strathmore University-Nairobi and a M.Sc. in Real Estate Investments and Finance with distinction from Heriot-Watt University Scotland-UK. She is a Chartered Institute for Securities & Investment (CISI) Level one and is currently a continuing candidate of the Royal Institute of Chartered Surveyors (RICS).

5. NJABULO DUMA
   Risk and Compliance Officer

Mr Duma has formulated and implemented strategies and frameworks in areas of Governance, Risk and Compliance (GRC) for national and multinational financial services firms for over 9 years. His experience transcends the private and public sectors in South Africa and the Rest of Africa, with notable international exposure. He is a Certified Compliance Practitioner (C Prac, SA) and Certified Risk Management Practitioner (CRM Prac). He also a Bachelor's Degree in Business Administration and notable diplomas and certificates including Program in Advanced Strategic Management, Post-graduate Diploma in Risk Management, Post-graduate Diploma in Law (Compliance), Certificate in Compliance Management, Certificate in Anti-Money Laundering Control and Certificate in Corporate Governance. In addition he has gone through distinguished programmes i.e. Regulatory Exams for Compliance Officers in the Financial Services Sector, Financial Stability Institute's Programme in Regulatory Practices, Tools and Techniques and currently the Africa Venture.

CORPORATE GOVERNANCE

INTRODUCTION

The REIT Manager, being a licensee of the Capital Markets Authority, complies with the applicable provisions of the Capital Markets (Corporate Governance) (Market Intermediaries) Regulations, 2011; the Capital Markets (Licensing Requirements) (General) Regulations, 2002 and the Capital Markets (Code of Business) (Markets Intermediaries) Regulations, 2011.

The Board of the REIT Manager is committed to the principles of good governance and appreciates the importance of managing the affairs of the REIT with integrity and accountability to all stakeholders.

The Board of the REIT Manager is responsible for maintaining a system of internal control and for reviewing its effectiveness regularly to ensure that the assets of the REIT are safeguarded while maintaining a reliable system of managing financial information, so that the REIT scheme objectives of providing unitholders with stable annual cash distributions and improving and maximizing unit value are met.

BOARD SIZE AND COMPOSITION

The REIT Manager's Board comprises eight members of whom, six are non-executive directors and two are executive directors. The non-executive directors include two independent directors (including the Chairman). The rest of the non-executive directors form part of the REIT Manager's wider group of companies. The non-executive directors are required to demonstrate complete independence in character, judgment and action in fulfilling their duties.

Members of the Board of the REIT Manager are required to retire once they reach the age of seventy.

SEPARATION OF POWERS AND DUTIES

The separation of functions between the Chairman (a non-executive director) and the Managing Director (executive director) ensures independence of the REIT Manager's Board and management.

The Chairman's responsibilities include leading and governing the Board, setting its agenda and ensuring its effectiveness. The Managing Director's roles and responsibilities include the day-to-day management of the business and overseeing the implementation by the REIT management team of the strategy and policies approved by the Board.

The Chairman is required by the Board of the REIT Manager to ensure that the Managing Director is able to implement the REIT's objectives agreed by the Board.

TRAINING AND PERFORMANCE EVALUATION

The Board of the REIT Manager is focused on continued improvements in its effectiveness and corporate governance performance. Ongoing training is provided to members of the Board to enable them to fulfill their duties. New members of the Board undergo induction in order to acquaint them with the business.

An evaluation is done from time to time to identify any training needs.

The Board of the REIT Manager assesses its own performance at least once a year to ensure it is operating at maximum effectiveness.

BOARD DIVERSITY

The Board of the REIT Manager has the appropriate mix of skills, knowledge and experience to perform its role effectively. The areas of expertise of the current Board are asset management, strategy, business management, banking and finance, economics, marketing, project management, risk management, governance, legal and ethics among others. The biographies of the REIT Manager's directors appear on pages 8 to 9 of this annual report.

AUDIT AND RISK COMMITTEE

The Board of the REIT Manager has established an Audit and Risk Committee which consists of two non-executive directors and one executive director. The Chairman of the Audit and Risk Committee is an independent non-executive director.

The constitution of the committee is aligned with the Capital Markets Authority's Code of Corporate Governance. The mandate of the Audit and Risk Committee includes:

- Internal control and risk management;
- Review and monitoring of the external auditors' scope and performance;
- Monitoring compliance with the laws and regulations governing the REIT; and
- Ensuring that the other Board members are made aware of matters which may significantly impact the financial conditions or affairs of the REIT.

COMPANY SECRETARY

The Company Secretary of the REIT Manager is the chief legal and governance advisor to the Board of the REIT Manager. The Company Secretary coordinates the Board work plan, meetings as well as manages communication between the organization and shareholders.

DIRECTORS UNITHOLDING

The directors of the REIT Manager can purchase or sell units of the REIT in the open market. In the financial period under review none of the directors held units, in their individual capacity, of more than 1% of the REIT's total equity. The breakdown of the directors' personal unitholding in the REIT as at 31 December 2016 is as follows:

CORPORATE GOVERNANCE...CONTINUED

NAME OF DIRECTOR	NUMBER OF UNITS HELD
James Muratha*	258,500
Patrick Mamathuba	257,000
Mike du Toit	91,900
TOTAL	607,400

* Resigned in August 2016

REIT MANAGER'S BOARD MEETINGS

The Board of the REIT Manager meets at least four times per year. Ad-hoc meetings can be convened, as and when required, by the secretary, at the request of the Chairman.

Below is the attendance roster for the period under review.

BOARD MEMBER	ROLE	22ND MAR 2016	25TH MAY 2016	30TH SEP 2016	18TH NOV 2016
Wanjiru Mwangi	Non - Executive Chairman	Yes	Yes	Yes	No
Peter Waiyaki	Non - Executive Director	Yes	Yes	Yes	Yes
Mike du Toit	Non - Executive Director	Yes	Yes	Yes	Yes
James Muratha*	Executive Director	Yes	Yes	N/A	N/A
Seelan Gobalsamy	Non - Executive Director	Yes	No	Yes	No
John Mackie	Non - Executive Director	Yes	Yes	Yes	Yes
Patrick Mamathuba**	Non - Executive Director	N/A	Yes	Yes	No
Ben Kodisang*	Non - Executive Director	No	N/A	N/A	N/A
Simphiwe Mdluli**	Executive Director	N/A	N/A	Yes	Yes
Nkoregamba Mwebesa**	Managing Director	N/A	N/A	N/A	N/A

* Resigned during 2016
** Appointed during 2016

RISK MANAGEMENT

KEY RISKS

Industry Specific Risks

While analyses of the Kenyan property market show positive growth trends in terms of rental incomes and property values over the past few years, there can be no guarantee that the current trends will continue unabated into the future. Any changes in property industry dynamics may impact growth trends. However, experience in other markets suggests that I-REITs that invest in portfolios of high-quality investment properties provide sustained returns and operating performance even in a less favourable market environment of slower growth in rental incomes and property values for the industry as a whole. Weaknesses in land title and rental lease registration can adversely impact the operations of REIT Schemes.

All I-REIT Schemes are dependent on the certainty of the title to the properties and enforceability of rental lease agreements. Uncertainty of title presents the risk of (i) delays in completion of the purchase of properties until titles and leases are regularized, and (ii) delays in enforcement of lease contractual arrangements both of which could have adverse impacts on the business, financial condition and results of operations of I-REITs.

As a mitigating factor, the STANLIB Fahari I-REIT's policy is to conduct a thorough due diligence on properties to be purchased and to require the current owners to regularize titles and leases before the purchases are completed.

The underlying asset portfolio of REIT Schemes comprise primarily of real estate property. REIT Regulations require that an I-REIT must invest at least 75 percent of its total NAV in income producing real estate, after an initial two-year grace period. The nature of real estate property investments means that it is difficult to find buyers for property assets quickly, particularly for the larger, iconic, REIT-quality properties. As a result, it may be difficult for REITs to re-balance their investment portfolio or sell their assets on short notice should there be adverse economic conditions or exceptional circumstances.

Risks common to traded REIT securities

REIT units traded on the NSE and the prices are subject to securities market volatility, reflecting demand and supply conditions, just like other listed securities. The price obtainable on sale of a REIT unit on a public exchange can go up or down and may differ from the reported NAV per REIT unit. The price of the REIT Scheme units will generally reflect prospective investors' confidence in Kenya's economy, the property market and its returns, the REIT Scheme management and interest rates.

Risks associated with the STANLIB Fahari I-REIT structure

Market Risk

The underlying asset value of STANLIB Fahari I-REIT's properties may be impacted by fluctuations in supply and demand for the type of rental properties that the REIT has invested in. STANLIB Fahari I-REIT's reported financial results may be affected by losses recognised on the revaluation of investment properties being charged to the profit and loss statement. The REIT prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS"). As currently permitted by IFRS, investment properties held to earn rentals and for capital appreciation are stated at annual valuation performed by independent professional valuers on an open market value for existing use basis. Any revaluation surpluses or deficits arising from the revaluation of investment properties are reflected in the profit or loss statement.

The REIT Manager intends to mitigate the impact of these risks on STANLIB Fahari I-REIT's underlying asset values and operating performance by applying a careful investment evaluation process to help ensure that the seed properties selected and new Eligible Assets that the STANLIB Fahari I-REIT may invest in the future are in line with the REIT's stated investment philosophy and objectives and meet the minimum investment return criteria.

Income Risk

Rental income earned from, and the value of, STANLIB Fahari I-REIT's investment properties may be adversely affected by a number of factors and distributions may not be made if the REIT reports an operating loss. Reduction in reported rental income and operating profits may arise, for example, if tenancy agreements of the underlying properties are renewed at a lower rental rate than the previous agreement or if the occupancy rate falls. This in turn, reduces property income and STANLIB Fahari I-REIT's ability to recover certain operating costs such as service charges. Other factors could include changes in the REIT's ability to collect rent from tenants on a timely basis or at all; changes in laws and governmental regulations in relation to real estate, including those governing usage, zoning, taxes and government charges. Such revisions may lead to an increase in the management expenses or unforeseen capital expenditure to ensure compliance. Rights related to the relevant properties may also be restricted by legislative actions, such as revisions to the building standards laws or the city planning laws, or the enactment of new laws related to construction and redevelopment.

The REIT Manager intends to mitigate the impact of such factors by implementing portfolio specific strategies and operational initiatives. These include activities such as: income flow management; lease audit and data integrity review; vacancy management and leasing strategy; review of lease structures; and cost optimization management. In particular, the leasing strategy includes procuring of payment upfront and contractual lock-ins of rental rates and other clauses in tenancy agreements.

Securities Liquidity Risk

The STANLIB Fahari I-REIT is the first I-REIT to have its units listed on the NSE. As with other listed securities listing and quotation does not guarantee that a highly-liquid trading market for the units will remain strong.

Regulatory Risk

Changes to the regulatory framework applicable to a REIT could impact the REIT's financial performance and after-tax returns to unitholders. The STANLIB Fahari I-REIT is subject to the REIT Regulations and the regime governing I-REITS in Kenya remains relatively new. Future changes may occur in laws and regulations that impact the REIT Scheme. Alternatively, there may be changes to enforcement or

RISK MANAGEMENT...CONTINUED

regulatory interpretation of laws leading to changes in the legal requirements affecting the REIT Scheme.

The REIT Manager intends to mitigate this regulatory risk by participating actively in industry forums to discuss and debate potential regulatory changes and their potential impact.

Tax Risks

STANLIB Fahari I-REIT is exempt from income tax in terms of section 20 of the Kenyan Income Tax Act. As allowed by Regulation 65(1) (b) of the REIT Regulations, the REIT has invested in eligible real estate assets through investment in the shares of investee companies incorporated in Kenya that directly own the eligible real estate and which are wholly owned and controlled by the Trustee in its capacity as the trustee of the REIT. The Kenya Revenue Authority (KRA) has advised that subsidiary legislation or rules must be developed and published within the Kenyan Income Tax Act to ensure that the exemption of the incomes of the REIT's eligible investee companies is expressly and adequately addressed in the Tax Act. Failure to develop and publish the subsidiary legislation could lead to the incomes of the REIT's investee companies not being exempt from income tax, and thus reduce the distributions to unitholders.

Further, the REIT is required to distribute at least 80 percent of its distributable income to its unitholders annually. Failure to distribute at least 80 percent of its distributable income to unitholders, changes to the interpretation of current tax laws and any new laws and regulations that may be introduced in the future could adversely impact the tax liability of the REIT Scheme. Such changes may reduce income, distributions and unitholder returns.

The Kenyan Parliament re-introduced Capital Gains Tax at a rate of 5% effective 1 January 2015. The KRA has confirmed that organizations that are exempted from Income tax, such as registered REIT schemes, will not be subjected to Capital Gains Tax. Consequently, the reintroduction of Capital gains Tax is not expected to negatively impact the return and distribution of any capital gains achieved on the underlying properties acquired by the REIT Scheme, should it divest its interest in these properties and realize a capital gain.

The REIT Manager and Trustee intend to mitigate these tax risks by, firstly, monitoring and taking proactive action to help ensure that the REIT remains compliant with tax registration requirements, secondly, ensuring that at least 80 percent of the distributable income of the REIT is distributed to unitholders and, thirdly, by participating actively in industry forums to discuss and debate proposed changes to the tax legislation.

Redemption Risk

The REIT's initial offer was structured to allow the REIT Scheme to raise funds in excess of those required to purchase the seed properties. However, should it prove unable to deploy all its excess funds, the REIT may choose to apply its right, but not the obligation, to implement a partial redemption of units sufficient to reduce its cash balances to ensure compliance with REIT Regulations that require it to have invested at least 75 percent of its asset value in real estate by the end of two years from the initial offer date and thereafter.

The REIT Manager intends to mitigate the risk of such an early redemption by focusing on the investment process to identify potential Eligible Assets and to conclude such purchases within the two year period. Further, the REIT Manager intends to manage the investment of the cash balances it retains in that period actively so as to optimize investment returns on these funds for unitholders.

Risks Associated with the Scheme's Proposed Investment Portfolio

Risks Arising from Acquisition of Special Purpose Vehicles

The STANLIB Fahari I-REIT has acquired investment properties through the purchase of shares in limited liability companies (special purpose vehicles) that own underlying investment properties rather than purchasing the underlying properties directly. As is common with acquisitions of this type, the REIT's policy is to complete due diligence on any such company it wishes to purchase. Further, the REIT's policy is to enter into contractual arrangements that include obligations for the vendor to identify and settle liabilities of the target company prior to the sale and to provide certain, limited, ability for the REIT and the target company to make claims against the vendors in the event that they suffer losses relating to pre-acquisition liabilities and claims that may only come to light and crystallize after the acquisition.

However, there remains a residual risk that the REIT may not be able to claim full reimbursement for the losses that it might suffer in respect of such pre-acquisition liabilities and claims that are identified and crystallize after the acquisition because of contractual limitations and because the REIT may be unable to collect claim reimbursements on a timely basis or at all.

The REIT Manager intends to mitigate this risk by ensuring that it monitors liabilities and claims against the companies that the Scheme purchases carefully and puts in place appropriate processes to identify potential claims, to submit claims and to follow up and collect such claims.

SUSTAINABILITY REPORT

OVERVIEW

The REIT adheres to a sound environmental and social policy. The REIT is committed to developing, implementing and continuously improving management of environmental and social issues and providing investments with the policies, targets and reporting systems to manage the risks and opportunities that sustainable development presents.

PHILOSOPHY

Sustainable development is core to delivering on our growth objectives. Underpinning our corporate philosophy and growth path is an appreciation that our growth drivers cannot be achieved effectively without a committed focus to sustainable development.

Our Social and Environmental Management System (SEMS) provides guidance during the investment decision-making process and on-going management of projects. Compliance with the SEMS is a condition for all investments.

PRINCIPLES

The REIT and its subsidiaries, with the assistance of an appointed consultant, monitors progress on environmental and social matters and compliance of projects to these principles and guidelines. As such, all parties will endeavour to:

- Undertake activities in line with applicable international standards and industry good practice;
- Meet the requirements of national legislation;
- Foster value-driven ethical behaviour and good governance practices, informed by respect for human rights;
- Ensure negative social and environmental impacts are avoided or reduced as far as practicable;
- Communicate and work closely with developments to ensure their understanding and shared commitment to conformance with this policy; and
- Implement all reasonable precautions to protect the health and safety of the project's employees and promote the health and safety of contracted workers.

OPERATIONAL APPLICATION OF OUR ENVIRONMENTAL AND SOCIAL POLICIES

In order to meet the above objectives, we have set the following E&S operational requirements to our projects, within the constraints of the REIT's financial targets:

a) Actively support the development of businesses in Kenya and suppliers of goods and services in the supply chain;

b) Screen our projects for E&S impacts and benefits prior to approving any investment through a process of due diligence;

c) Require the adoption of E&S Standards by our property managers, business partners, contractors and supply chain; and

d) Monitor and report on our contribution to the development of communications in a transparent, credible and timeous manner to all stakeholders

ENVIRONMENTAL AND SOCIAL SUMMARY

E&S assessments of buildings tend to provide a verdict of low level impact with most buildings being considered as having a low or moderate E&S risk. Yet, on a broader basis, buildings account for more than one third of global energy consumption and greenhouse gas emissions. Therefore, the environmental criteria such as energy, water and waste as well as embodied carbon become key material concerns from an E&S perspective. In addition, social perspectives like Construction working conditions (where applicable), health, safety and security of building occupants, accessibility for disabled persons. Location and transportation, Mass urbanization and impacts on neighbouring communities also count.

The STANLIB Fahari I-REIT has invested in three buildings of which two are of exceptionally low impact due to their usage as private business premises with moderate human traffic. However, Greenspan Mall stands out as being far more interesting in this perspective, since as a public shopping mall, it attracts large numbers of visitors and occupants on a daily basis.

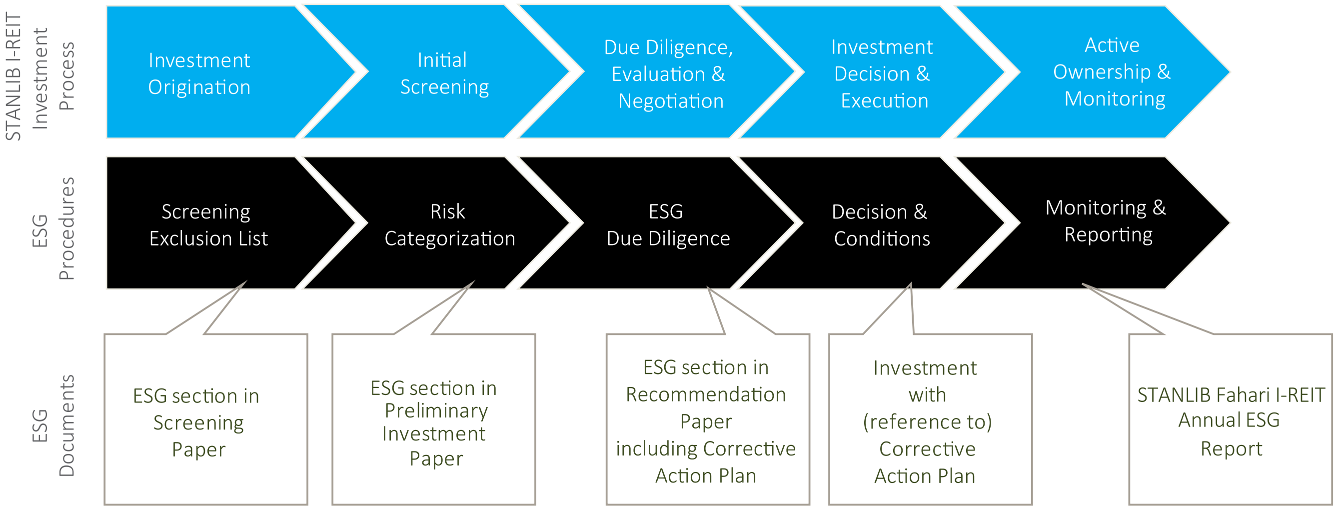
SUSTAINABILITY REPORT...CONTINUED

ENVIRONMENTAL AND SOCIAL SUMMARY...Continued

On a high level basis, the mall has invested in ensuring the health and safety of all visitors and occupants is catered for since this is a prime concern for the REIT Manager. Several key facilities have been provided in this regard including firefighting equipment, adequate signage and ramps for the disabled, Environmental impacts are catered for through outsourced services for waste handling and disposal, water conservation efforts and adequate natural lighting to reduce energy usage. Environmental and Occupational Health and Safety audits have been conducted in line with local legislation and regulations.

However, the mall could benefit from more improvement including developing an updated risk register, constitution of an Environment, Health and Safety (EHS) committee, separation, segregation and recycling of waste and harvesting and recycling of grey water. Safety remains a preeminent issue given that this is a public building with high human traffic.

ESG IMPLEMENTATION IN THE INVESTMENT PROCEDURE



GREENSPAN MALL PROPERTY ENVIRONMENTAL AND SOCIAL PERFORMANCE

Business description

Greenspan Investment Limited commenced the development of the Greenspan Mall in 2008 and began operating the mall in 2011 with the aim of improving the lifestyle of the residents in the densely populated area around Donholm, Nairobi.

SUSTAINABILITY REPORT...CONTINUED

Greenspan Mall comprises of a ground floor plus three floors, a basement parking lot and an open air parking lot. Services present in the mall include:

- Banks
- Bar, Restaurants and Food & Beverages shops
- Fashion and Beauty Shops
- Bookshops and telecommunication stores
- Department and Electronics stores
- Gift & Toy and sports Shops
- Hardware
- Health facilities
- Car wash and tyre centre

Property manager
Excellerate Kenya Limited

TYPE OF REAL ESTATE ASSET	SHOPPING MALL		
Investment Date	11th December 2015		
Investment Amount	KShs. 2,093,576,710		
E & S Risk Rating	**Environmental**	**Social**	**E&S Systems**
	Medium	Medium	Medium
Staff Numbers (Property Manager's) December 2016	**Permanent Total**	**Male**	**Female**
	2	1	1

1) E&S Status at the time of investment

Being a shopping mall with established standard operating procedures and health and safety policies, Greenspan Mall has a medium environmental and social risk rating. A due diligence report prepared at the time of the investment identified the following E&S status

(i) Assessment and management of environmental and social risks and impacts

Greenspan Mall Ltd has documented and implemented a comprehensive Environmental, Health and Safety (EHS) Policy. The policy objectives are to ensure that the mall activities do not endanger the natural environment and create a safe working environment for employees. The policy covers all potential environmental, health, safety and social risks; stipulates roles and responsibilities, emergency preparedness procedures, workplace safety and welfare conditions. The components of the EHS policy are discussed below.

a) Environmental, health and safety policy

The Greenspan EHS policy includes commitments to ensure that the mall does not negatively impact on the environment and facilitate a safe working environment.

b) Identification of risks and impacts

Greenspan Mall has an EHS register which is used to identify potential risks relating to workplace safety and environmental management. Risks identified include accidents and incidents, machinery safety, chemical safety, electrical safety and waste management. Risks are managed through set procedures including hazard communication, requirements for permits to work, material handling and personal protective equipment requirements. Other procedures in the EHS register include identifying and communicating risks in the form of notices, posters and safety signs within the mall.

c) Management programs

As part of the EHS policy, the mall has developed and implemented various procedures for the management of environmental and social impacts. Procedures have been developed relating to environmental issues, health and safety and community liaison in all operations.

d) Organizational capacity and competency

The policy allocated specific roles and responsibilities to ensure efficient implementation. The overall responsibility lies with the directors to ensure that the policy is complied with by the mall operations. The directors are also responsible to ensure that the policy is continually reviewed to keep it up to date and relevant to the mall operations. The EHS policy also includes roles and responsibilities of an EHS coordinator including the monitoring of the day to day implementation of the EHS policy at the mall.

e) Emergency preparedness and response

The EHS policy stipulates the emergency preparedness and response procedures to be adhered to at the mall. Documented procedures include:

- Fire policy prevention
- Equipment management
- Training procedures
- Emergency drills.

SUSTAINABILITY REPORT...CONTINUED

f) Stakeholder Engagement

Community and stakeholder engagement is important as it serves as a source of information with regards to community perceptions regarding the mall operations and areas where synergies can be found with the community for the common good.

g) External Communications and Grievance Mechanisms

Currently incidents and complaints from clients are reported to the managing agent's office who investigate and take corrective actions and or solve matters relating to security incidents.

(ii) Labour and working conditions

The mall currently employs two employees and all the other activities are outsourced to contractors by the property manager. With regards to contracted workers, the mall should take commercially reasonable efforts to ascertain that the third parties who engage operate in a manner that is consistent with the mall's EHS policy. In this regard, the status of the mall was as follows:

a) Human resources policies and procedures

The Property Manager has signed contracts individually with all sub-contractors. The sub-contractors have also signed contracts with their employees where the contracts stipulate the workers' rights and obligations, wages and working hours. The Property Manager has a checklist for prequalifying criteria that service providers are required to meet during pre-screening. These include proof of training, competencies, legal compliance, licensing and legal registrations.

b) Working conditions and terms of employment

Working hours for the subcontractor staff is 8 hour shifts. The subcontractors are paid a set monthly fee for their services. The workers are required to adhere to the mall's EHS management practices while on site including the wearing of appropriate Personal Protective Equipment (PPE) and observing the mall's EHS policy.

c) Wages

All sub-contractors are paid for amounts invoiced on a monthly basis. All sub-contractors are paid for amounts invoiced on a monthly basis. Pay records of sub-contractors reveal that workers are paid above the stipulated minimum wages as legislated in the Kenya Labour Institutions Act, 2007 under the Regulation of Wages (General) (Amendment) Order, 2013.

d) Working hours

The mall opens at 6.00 am and closes at 10.00 pm. Contracted employees who work full time in the mall include security guards and cleaners have a shift working system. The first shift begins at 6.00 am and ends at 2.00 pm while the second shift starts at 2.00 pm and ends at 10.00pm when the mall closes. This ensures that workers perform eight hour shifts, with one (1) hour breaks for lunch for six days a week (48 hours in total).

e) Non-discrimination and equal opportunities for workers

There is gender balance among the contracted employees working at the Mall. This includes the security guards who have a male and a female at each entry/exit point and cleaners. The Mall building is also fitted to accommodate special requirements of disabled users.

f) Workers' organizations

Subcontracted employees are not unionized though there is no mechanism preventing them from joining unions of their choice.

g) Protecting the workforce

Greenspan mall does not use child or forced labour at the mall. All employees are required to have their national identity cards before being employed. This provides proof that the employees are 18 years of age and above.

h) Occupational health and safety

Potential occupational, health and safety risks that exist in Greenspan mall include:

- **Injuries from slip and fall**

  This risk is currently rated low due to good housekeeping practices observed, warning signs as well as the non-slip materials used for flooring the mall thus minimizing the risk of slips and falls.

- **Fire risks**

  There is the potential risk of fire and explosion at the mall especially from restaurants that use Liquefied Petroleum Gas (LPG) for cooking. However, in the event of a fire, there are adequate provisions to protect the workforce and prevent injury. There is adequate firefighting equipment strategically placed on all floors including fire hydrants and extinguishers, fire blankets, sprinklers and fire alarm systems. The fire-fighting equipment is regularly inspected and sufficient to contain fire incidents. There are also emergency escape routes in all the buildings and a marked fire assembly point.

- **Building safety**

  Greenspan Mall Ltd received a letter of occupation from the City Council of Nairobi on the completion of the construction activities dated 19 October 2011. The letter certified that at the time of occupation and in accordance with the National Building Regulations 2014, the building had met all the requirements and was authorised for use as a public shopping mall. The mall also received a certificate of workplace registration from the Directorate of Occupational Health and Safety according to the requirements of the OSHA 2007.

i) Exposure to pesticides

Fumigation is undertaken by subcontractors on a monthly basis for the restaurants and on a three-month basis for the other tenants' premises. Pesticide use, provides an effective and localized mechanism to control pests, and does not pose risk to the nearby environment, stored food stuff or expose workers to significant health risk. The potential risk to wildlife and the ecosystem outside the areas that the pesticides are used is considered to be very low.

SUSTAINABILITY REPORT...CONTINUED

(iii) Resource efficiency and pollution Prevention

a) Resource efficiency

The following was assessed as part of the resource efficiency with the Greenspan Mall Ltd operations.

- ***Energy***

The mall was designed to allow natural light to the common areas to save energy use for lighting. Translucent roofing material was used to allow light to the common areas of the mall. Some of the energy saving initiatives that have been implemented in the mall include switching off lights in well-lit areas during the day as well as switching off the escalator during low peak hours and recommending shoppers to use staircases.

- ***Water consumption***

Water is sourced from the municipal water connection and channeled to an underground water reservoir which is then pumped to the overhead water tank for supply to the mall. The mall has access to water from a borehole located in the neighbouring Greenspan residential estate. Water is used for domestic use specifically, cooking, cleaning and for use at the ablution facilities.

b) Pollution prevention

Greenspan Mall activities such as handling of waste, waste water and detergents has the potential to cause environmental pollution if not properly handled. The following measures have been implemented at the mall to minimize the potential for pollution:

- Waste water - all waste water is channeled to the municipal sewer line.
- Solid waste bins have been provided at the yard where tenants are required to store their wastes for disposal. Waste is collected by a NEMA licensed waste collector.
- Detergents used for cleaning are contained in 5 litre or 20 litre containers. Spillages of the detergents may occur but is uncommon at the site and also it is easy to clean up. The pollution risk associated with detergent spillage was considered low due to the packaging of the detergents and also the easy process of clean-up of any spillage due to the concrete floors.

(iv) Community Health, Safety, and Security

a) Emergency preparedness and response

Procedures have been put in place for emergency preparedness and response in relation to community health and safety, and these have been implemented and regularly monitored. The following table shows the workplace sections with respective fire hazards and the measures that have been put in place: They include:

- Conspicuous signage of fire exits, no smoking signs and emergency procedures
- Fitted fire extinguishers
- Sprinkler systems
- Hose reels

b) Security

Security personnel from Lavington Security Company are employed to man all the operations of the mall. Additionally, the security company liaises with the Kenya Police who undertake patrols within the Greenspan Mall during the mall's operational hours. Armed police officers are always on standby in case of security related incidents. As part of the vetting system, the Property Manager ensures that security guards have received appropriate training within their companies.

c) Traffic safety

Greenspan Mall activities result in increased traffic within the locality. The increased traffic is mainly as a result of personal vehicles accessing the mall, as shoppers access the mall. There was no record of complaints received from the local community with regards to the increased traffic.

d) Community engagement

The Mall has engaged in a number of community activities including providing financial and non-financial donations to charitable causes within the community. The mall's management engages with the immediate community and supports noble causes within its abilities. One way is by allowing charitable groups to set up a table, at subsidized rates, and collect donations to purchase and distribute sanitary towels to underprivileged girls. In December 2016 the property managers also donated food stuff and clothes to Baby Blessing Children's Home, a home that takes care of abandoned babies and street children. It has children ranging from 3 months to 17 years.

REPORT OF THE REIT MANAGER

The REIT Manager submits its report together with the audited financial statements for the thirteen-month period ended 31 December 2016, which show the state of affairs of the REIT. This report has been prepared in line with the requirements of the Fifth Schedule of the Regulations. The REIT Manager's report as well as the financial statements have been approved by the Trustee.

NATURE OF BUSINESS

The STANLIB Fahari I-REIT is a real estate investment trust licenced under the Capital Markets (Real Estate Investment Trusts) (Collective Investment Schemes) Regulations, 2013 ("the Regulations"). The REIT was authorised by the Capital Markets Authority on 30 September 2015 and became the first REIT in East Africa. It later became listed on the Nairobi Securities Exchange on 26 November 2015, raising capital of KShs. 3.6 billion. The REIT's duration is a maximum 80 years subject to the Trust Deed. The REIT scheme is closed ended. The principal activities of the REIT include but are not limited to:

- The acquisition, for long-term investment, of income-generating eligible real estate and eligible investments, but not limited to housing, commercial and other real estate;
- Undertaking of such development and construction activities as may be permitted by the Capital Markets Act, Chapter 485A of the Laws of Kenya and the Regulations; and
- Investing in cash, deposits, bonds, securities and money market instruments.

SCHEME'S OBJECTIVES AS AT THE BALANCE DATE OF THE REPORT AND ANY CHANGES SINCE THE DATE OF THE LAST REPORT

The primary objective of the REIT scheme is to provide unitholders with stable annual cash distributions from investment in a diversified portfolio of income generating real estate assets. Further objective is to improve and maximise unit value through the on-going management of the REIT scheme's assets, future acquisitions and the development of additional income producing real estate properties within regulatory limits. There have been no changes to this since listing date.

DIRECTORS OF THE REIT MANAGER

The directors of STANLIB Kenya Limited during the period under review and up to the date of this report were:

DIRECTOR'S NAME	ROLE	APPOINTMENT/RESIGNATION DATE
Wanjiru Mwangi	Non-executive chairman	Appointed 1 January 2013
Nkoregamba Mwebesa	Managing director	Appointed 8 December 2016
Mike du Toit*	Non-executive	Appointed 22 February 2006
John Mackie*	Non-executive	Appointed 1 January 2013
Peter Waiyaki	Non-executive	Appointed 1 January 2013
Seelan Gobalsamy*	Non-executive	Appointed 13 November 2014
Patrick Mamathuba*	Non-executive	Appointed 23 March 2016
Simphiwe Mdluli*	Executive	Appointed 30 September 2016
Ben Kodisang*	Non-executive	Appointed 1 January 2010 Resigned 22 March 2016
James Muratha	Executive	Appointed 13 November 2014 Resigned 6 August 2016

* South African

ACQUISITIONS

The REIT successfully completed the acquisition of 100% of the following property owning companies during the period under review:

COMPANY	TRANSACTION DATE	PURCHASE CONSIDERATION	PRE-ACQUISITION INCOME	NET PURCHASE CONSIDERATION	MARKET VALUES
		KShs	KShs	KShs	KShs
Greenspan Mall Limited (Retail)	11 December 2015	2,093,576,710	-	2,093,576,710	2,150,000,000
Bay Holdings Limited (Office with light industrial)	30 June 2016	216,122,547	(14,885,126)	201,237,421	215,000,000
Signature International Limited (Office with light industrial)	30 June 2016	108,717,670	(8,000,000)	100,717,670	70,000,000
TOTAL		**2,418,416,927**	**(22,885,126)**	**2,395,531,801**	**2,435,000,000**

REPORT OF THE REIT MANAGER ...CONTINUED

ACQUISITIONS...Continued

The pre-acquisition income pertains to net income generated by Bay Holdings Limited and Signature International Limited during the period 1 July 2015 to 30 June 2016, accruing to the REIT in exchange for payment of the purchase consideration prior to transfer of ownership of these companies to the REIT, as negotiated by the REIT Manager in its capacity as the Promoter of the REIT. This income effectively reduced the purchase consideration and is distributable to the REIT's unitholders.

The market value above indicates the valuation of the property as at 31 December 2016. The full valuation reports for Greenspan Mall, Highway House and Bay Holdings are summarised above. Copies of such reports are available for inspection free of charge at the offices of the REIT Manager, and may be inspected between the hours of 09h30 – 15h00, Monday to Friday (excluding public holidays).

Compliance with Regulation 66

The REIT successfully completed the acquisition of its first seed property within one month of closing of the initial public offer.

Real estate assets contracted for purchase or sale

At time of report date, no real estate assets are contracted for purchase or sale.

Contractual arrangements to enter into construction and development activities in the next six months

The REIT has not entered into any contractual arrangements to commence construction and development activities in the next twelve months.

Construction and development activities

Over the period under review, the REIT did not enter into any construction and development activities.

Other non-direct real estate assets

Other than the assets listed above, the Scheme does not hold any other non-direct real estate assets.

BUSINESS REVIEW

The operating results of the REIT are fully set out in page 43. In its first thirteen months of operation, the REIT realized a net profit of KShs. 106,000,288. The three properties acquired by the REIT contributed a net property income of KShs. 163,940,811 to this financial result made up of rental and related income of KShs. 248,572,436 less property expenses of KShs. 84,631,625. Investment income earned at a fund level contributed KShs. 111,209,231 representing interest income on call and fixed deposits as well as treasury bills. The fund operating expenses amounted to KShs. 180,422,344 and included one-off listing expenses of KShs. 66,796,946. Included in net profit is a fair value gain in revaluation of investment property of KShs. 8,000,000 which represents a 1.6% uplift on the net purchase price of KShs. 2,395,531,801 as outlined on Page 21.

DISTRIBUTION

The REIT Manager has recommended and the Trustee has approved a first and final distribution of KShs. 90,486,150 for the thirteen-month period ended 31 December 2016. The distribution is declared out of distributable earnings and meets the requirements of a minimum distribution in terms of the Regulations, which require that a minimum of 80% of net profit after tax, from sources other than realised gains from disposal of realised gains from the disposal of real estate assets, is distributed.

	2016
Distributable earnings (KShs)	98,000,288
Distribution (KShs)	90,486,150
Distribution as a % of distributable earnings (%)	92
Weighted average units in issue (number)	180,972,300
Distributable earnings per unit (KShs)	0.54
Distribution per unit (KShs)	0.50

The declaration of the above distribution occurred after the end of the reporting period ended 31 December 2016, resulting in a non-adjusting event that is not recognised in the financial statements. The distribution is payable by 30 April 2017.

TRUST CAPITAL

The REIT has 625,000,000 authorised units at a nominal value of KShs. 20 per unit. Through an initial public offer that took place in October 2015 through to November 2015, the REIT issued 180,972,300 units at a nominal value of KShs. 20 per unit, raising a total capital of KShs. 3,619,446,000.

REPORT OF THE REIT MANAGER ...CONTINUED

DIRECTORS OF THE REIT MANAGER'S INTEREST IN THE ISSUED UNITS OF THE REIT AS AT 31 DECEMBER 2016

Name of director	Number of units held
James Muratha*	258,500
Patrick Mamathuba	257,000
Mike du Toit	91,900
Total	**607,400**

*Resigned on 6 August 2016

GOING CONCERN

The annual financial statements have been prepared using appropriate accounting policies, supported by reasonable and prudent judgements and estimates. The REIT Manager has a reasonable expectation based on an appropriate assessment of a comprehensive range of factors, that the REIT has adequate resources to continue as a going concern for the foreseeable future and at least for the next twelve months from the date of these financial statements.

BRIEF STATEMENT OF BORROWINGS AND FINANCIAL ARRANGEMENTS

The scheme has not entered into any borrowings or financial arrangement in the period under review; and therefore all reference to borrowings in this report has been removed.

AUDITORS

During the period under review, KPMG Kenya were appointed as the auditors of the REIT and its subsidiaries in line with the requirements of the Regulations. KPMG Kenya continue in office.

OPERATIONAL REVIEW

Over the past thirteen months, the primary focus has been on the delivery of the REIT strategy and implementing key operating functions to ensure effective long term management of the REIT to deliver investor returns and comply with regulatory and legislative requirements.

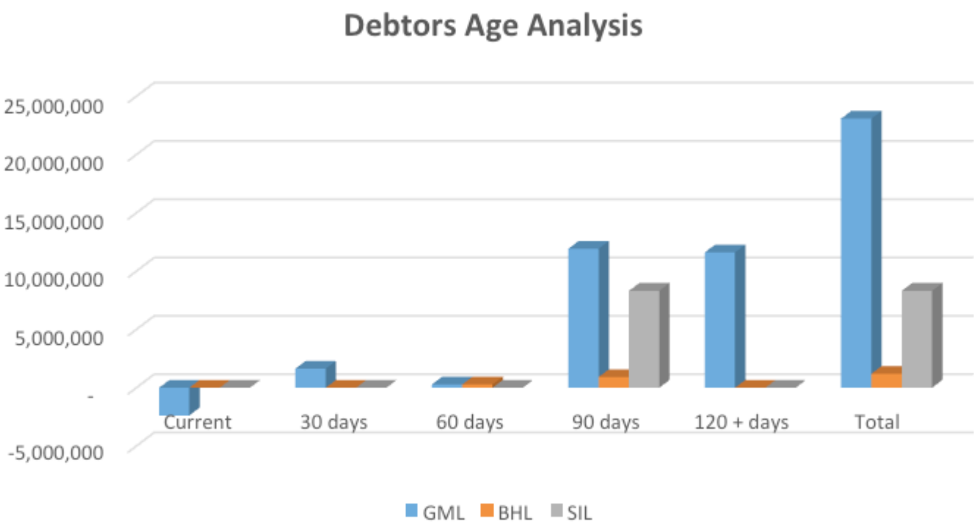
The core focus areas of the REIT Manager have been as follows:

- Implementation of the portfolio strategy, which manages risk through portfolio diversification and seeks to deliver appropriately risk-adjusted returns through superior asset allocation and selection;
- Cash management (all cash collected from rentals is invested in a diversified portfolio of near-cash instruments, in line with a dedicated Investment Policy Statement ("IPS"), to ensure optimal returns with minimal exposure to financial-sector risk);
- Liquidity planning (once the cash is optimally invested, sufficient liquidity is available to make payments when due);
- Exploration of mechanisms to raise additional capital (such as raising debt, vendor placement, and general issuances of new capital);
- Efficient use of capital at the SPV level, through management of capital expenditure to improve core asset value;
- Transaction management – identifying target assets for the portfolio, motivating acquisitions for the fund, and negotiating deal structures pursuant to acquisition;
- Deal management ensuring that risk in managed and obligations are met through to deal execution;
- Once the deal has been executed, on-boarding of the asset into the portfolio;
- Managing properties in accordance with their specific property strategies (which guide the composition of tenant mix and execution of leasing strategy) such that net income and capital growth at a property level is optimised, in a manner that is aligned to the fund strategy; and
- Management of service providers, such that their delivery is aligned to property-level as well as portfolio-level strategy.

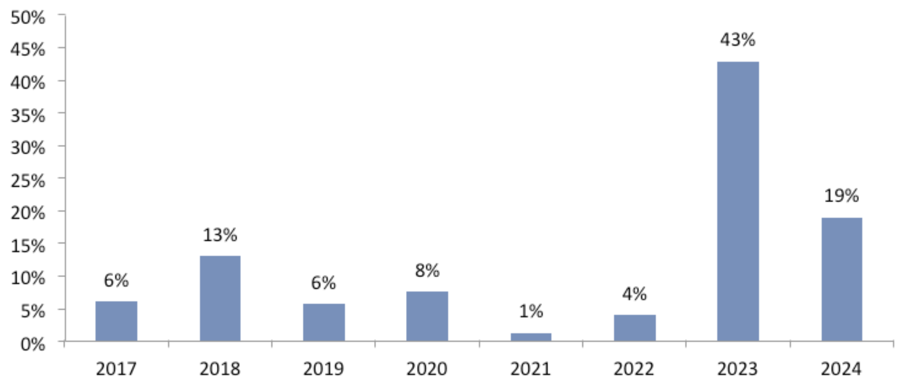
The highlight of the Property Portfolio for the period under review was execution of the three properties. Although management moved onto the sites immediately, the implementation of new administrative processes took several months to bed down, but now all elements are fully functional. Focus now is on identification of new assets and to manage of the property level strategy for the SPV's.

REPORT OF THE REIT MANAGER ...CONTINUED

DEBTORS AGE ANALYSIS



LEASE EXPIRY PROFILE



Well spread lease expiry profile, with 62% expiring 6 to 7 years from now.

ASSETS HELD UNDER MANAGEMENT

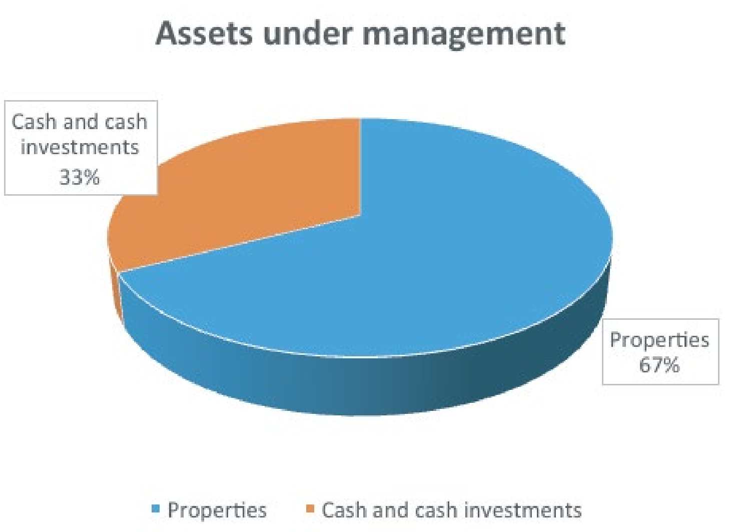
Asset Value

As at December 2016	KShs
Total asset value	3,715,011,411
Net asset value	3,585,541,033
Number of units in issue	180,972,300
Net Asset Value per unit	19.81

Assets under management	KShs
Properties	2,435,000,000
Cash and cash investments	1,173,222,384
Total	**3,608,222,384**

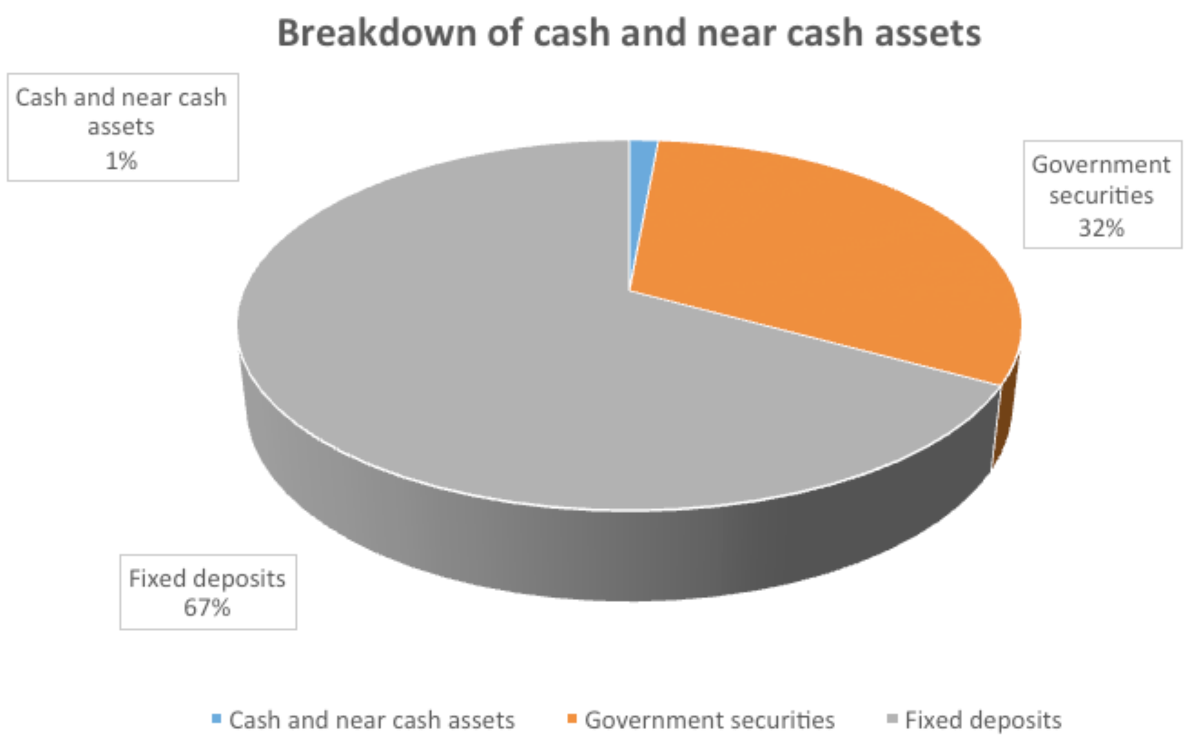
As at 31 December 2016, assets fund under management totalled KShs. 3,608,222,384. These exclude trade and other receivable.

REPORT OF THE REIT MANAGER ...CONTINUED



CASH AND NEAR CASH ASSETS

Breakdown of cash and near cash assets	KShs
Cash and near cash assets	440,186,650
Cash investments	733,035,734
Total	**1,173,222,384**



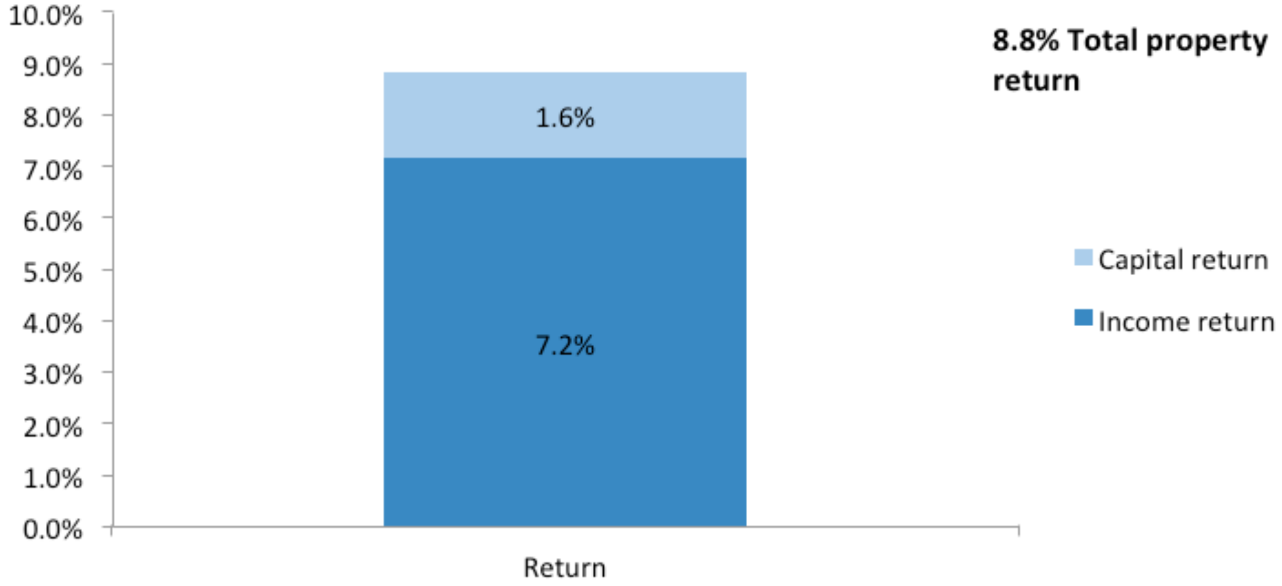
REPORT OF THE REIT MANAGER ...CONTINUED

NET ASSET VALUE

	KShs
Net asset value prior to the distribution	3,585,541,033
Net asset value post the distribution	3,495,054,883
Net asset value per unit prior to the distribution	19.81
Net asset value per unit post the distribution	19.31
Yield based on the value of the unit at 31 December 2016 (%)	4.29 %

The REIT's secure balance sheet position continues to enable it to take advantage of new investment opportunities in a volatile market environment, and the range of underlying investments is resulting in a wide geographical, sectorial and currency diversification. The current property and investment portfolio comprises a strong core of quality assets, with a range of investments in retail, office and light industrial.

PROPERTY RETURNS



Income return

The REIT property portfolio achieved an annualised income return of 7.2% during the period under review. The income return was negatively affected by the unfavourable economic climate affecting mostly retail tenants who struggled to meet their rental commitments. This however created an opportunity to rejig the tenant mix in line with the REIT Manager's leasing strategy to introduce stronger brands into the shopping centre in order to complement existing businesses and improve foot traffic.

Capital return

The REIT property portfolio yielded a capital return of 1.6% during the period under review. The low capital return is attributable to higher vacancies experienced during the period under review as well conservative assumptions around renewals. The significant lettings finalised post the end of the REIT's reporting period are expected to have a positive impact on the value of the properties going forward.

REPORT OF THE REIT MANAGER ...CONTINUED

INVESTMENT INCOME RETURN

	INVESTMENT INCOME	AVERAGE INTEREST RATE
	KShs	%
Fixed and call deposits	98 210 336	9.2%
Treasury bills	12,998,895	9.3%
	111,209,231	**9.2%**

Distributions made for the lesser of 5 years or since the establishment of the scheme

SOURCES OF DISTRIBUTION	2016 KShs
Dividend income from wholly owned property companies	190,587,729
Interest income	111,209,231
	301,796,960
LESS:	
Fund operating expenses	(180,422,344)
Interest paid	(23,374,328)
Total potential distributable income	**98,000,288**
Distribution per unit (KShs)	90,486,150
Distribution as a % and compliance with Regulation 71	**92%**

The declaration of the above distribution occurred after the end of the reporting period ended 31 December 2016, resulting in a non-adjusting event that is not recognised in the financial statements. The distribution is payable by 30 April 2017.

The final distribution for the thirteen month period ending 31 December 2016 is KShs. 90,486,150 which represents 92% of the distributable earnings.

The minimum distribution of the REIT as stipulated by the Capital Markets Authority is 80% of distributable earnings.

Management Expense Ratio

AS AT 31 DECEMBER 2016	%
Management Expense Ratio ("MER")	5.02%

Details of any material litigation and potential impact

As at 31 December 2016, the REIT Manager is unaware of any material litigation.

UNIT HOLDERS ANALYSIS

STANLIB Fahari I-REIT is trading as FAHR on the NSE under the Unrestricted Main Investment Market Segment of the NSE and may be listed on such other securities exchanges as the Unit holders may resolve from time to time.

The units are registered for trading with ISIN code KE5000003656, are freely transferable on the NSE, and bear no restriction on the transfer of Units.

Fund open or closed fund, details of any restrictions on applications for redemption

STANLIB Fahari I-REIT is a closed-ended fund. Its units can only be traded through the NSE. The market price of the Units is market driven and may not necessarily be equal to the Net Asset Value of the REIT. There is currently no active secondary market for a REIT in Kenya. However, the I-REIT Scheme may undertake secondary offers as and when the need arises.

Free float as required by Regulation 27 and 29

Currently, only the International Finance Corporation ("IFC") held through Standard Chartered Nominees with 33.9 million units and the Liberty Group Limited with 26.085 million have a lock-in for a limited period and are considered restricted in terms of the free float calculation. The lock in period is 3 years.

On this basis, the free float, as determined, is 66.9%.

Statement of number and type of units outstanding as at the balance date of the report and of the balance date for the financial statements

The REIT has 180,972,300 units in issue as at 31 December 2016. The total number of authorised units is 625,000,000.

Statement of restriction on transferability of units

The units are freely transferable on the NSE, and the Trustee has not imposed any restriction on the transfer of units.

REPORT OF THE REIT MANAGER ...CONTINUED

Details of number, price, at which units were issued or redeemed and total value of units issued or redeemed during the period covered by the report

UNITS IN ISSUE	NUMBER
Units issued during period	180,972,300
Units cancelled or redeemed	-
Units in issue at period end	180,972,300
Issue price (KShs)	20
	KShs
Unit issue costs	139,905,255

The REIT has only one class of authorised and issued units.

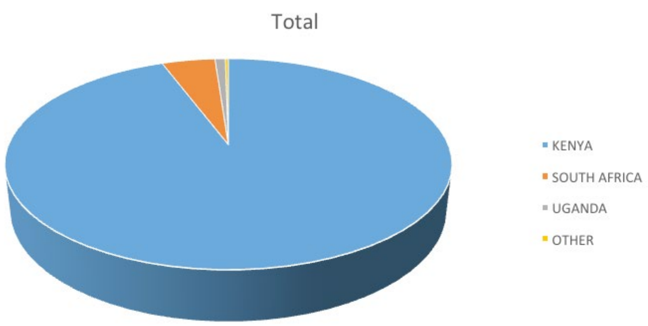
BREAKDOWN OF REIT SECURITIES HOLDINGS BY CLASS

The distribution of the REIT's unitholders as at 31 December 2016 was as follows:

LEVEL OF HOLDING	UNITS	UNIT %	UNITHOLDER	UNITHOLDER %
Less than 100	5	0%	1	0%
100 - 1,000	2,121,395	2%	2,267	40%
1,001 - 10,000	11,362,100	6%	2,951	52%
10,001 - 100,000	11,258,449	6%	399	7%
100,001 to less than 5% of number of units on issue	55,307,051	31%	63	1%
Holding above 5% of number of units on issue	100,923,300	55%	5	0%
TOTAL	**180,972,300**	**100%**	**5,686**	**100%**

No units were redeemed within the year.

REIT SECURITIES HOLDINGS BY COUNTRY



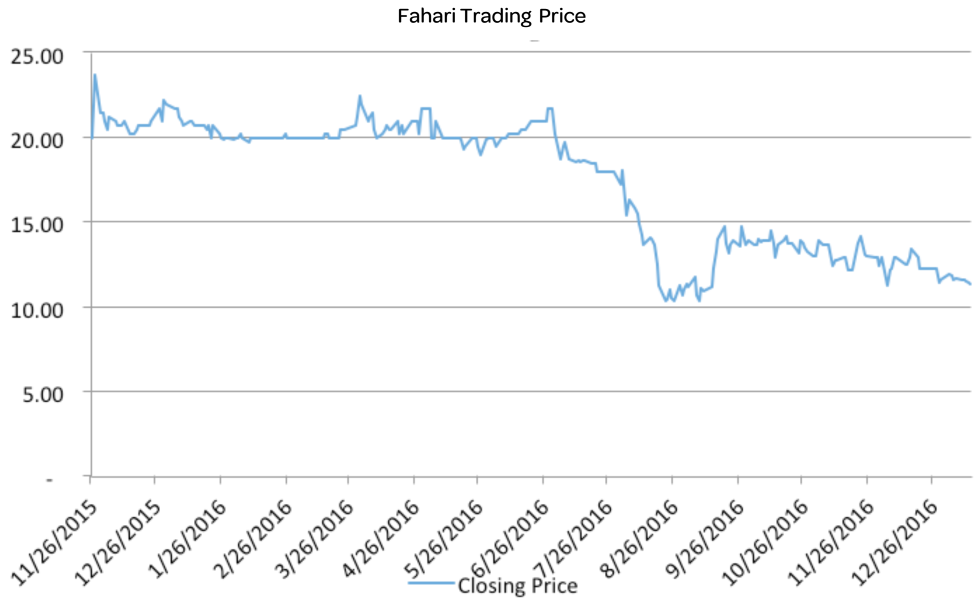
REIT INVESTOR HOLDINGS

Top STANLIB Fahari I-REIT unitholders as at 31 December 2016

HOLDER NAMES	SHARES	% HOLDING
Standard Chartered Nominees Non Resd A/C KE11752	33,900,000	18.73
Standard Chartered Nominees Resd A/C KE11401	25,000,000	13.81
STANLIB Kenya Limited	18,384,300	10.16
Kenya Commercial Bank Nominees Limited A/C 926A	13,750,000	7.60
Standard Chartered Nominees Resd A/C KE11443	9,889,000	5.46
Liberty Group Limited	7,700,700	4.30
Standard Chartered Nominees Non Resd. A/C 9424	5,147,000	2.84
Cf Stanbic Nominees Ltd A/C NR1030790	3,350,000	1.85
Kenya Commercial Bank Nominees Limited A/C 1018A	3,241,900	1.79
Standard Chartered Nominees A/C 9265	3,211,100	1.77
TOTAL	**123,574,00**	**68.31**

REPORT OF THE REIT MANAGER ...CONTINUED

Unit price history for the lesser of 5 years or the period since listing



CONNECTED PARTY TRANSACTIONS

ACQUISITIONS	GREENSPAN MALL	BAY HOLDINGS	SIGNATURE INTERNATIONAL
Identity of the seller	Greenspan Mall Limited	Imaran Real Estate Limited	Epton Properties Limited
Connected party?	No	No	No

PROMOTERS HOLDINGS	NUMBER OF UNITS	% HOLDING
STANLIB Kenya Limited	18,384,300	10.16
Liberty Group Limited	7,700,700	4.26
TOTAL	26,085,000	14.42

CONNECTED PARTY TRANSACTIONS	RELATIONSHIP	TRANSACTION	KShs
STANLIB Kenya Limited	REIT Manager	Asset management fees	85,732,408
STANLIB Kenya Limited	REIT Manager	Interest paid	23,374,328
The Co-operative Bank of Kenya Limited	Trustee	Custodial fees	24,298,740
TOTAL			**133,405,476**

Details of cash balances held by The Co-operative Bank of Kenya Limited on behalf of the REIT are disclosed in Note 25(c) to the annual financial statements.

FEES PAID BY THE REIT

FEES PAID BY THE REIT	KShs
STANLIB Kenya Limited - REIT Manager	85,732,408
The Co-operative Bank of Kenya Limited - Trustee	24,298,740
Excellerate Kenya Limited - Property Manager	8,009,728
Lloyd Masika Limited - Valuer - Pre acquisition valuation	1,800,000
Tysons - Valuer - Post acquisition valuation*	2,975,000

*The amounts paid to Tysons Limited include valuations for Greenspan Mall Limited for 2015 and 2016.

POST ACQUISITION VALUATION

The table below indicates the sensitivity of the aggregate market values for a 0.5% change in the capitalisation rate.

2016	CHANGE IN CAPITALISATION RATE		
	KShs	0.5% increase (KShs)	0.5% decrease (KShs)
Properties at various capitalisation rates	2,435,000,000	2,306,842,106	2,563,157,894

REPORT OF THE REIT MANAGER ...CONTINUED

GREENSPAN MALL

Greenspan Mall is a modern decentralized mixed use development, situated on 3.8 hectares (9.5 acres), within the middle income area of Donholm approximately 12 km to the east of the Nairobi CBD. The development comprises a retail centre with a GLA of approximately 16,105 m^2 with 1,000 parking spaces.

The acquisition price (on 11 December 2015) was KShs 2,093,576,710.

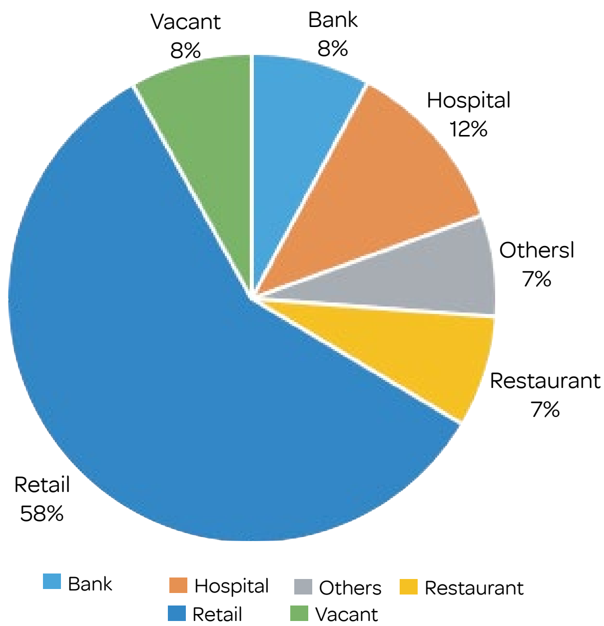
The Property is registered as L.R. No. Nairobi/Block 82/8759 (F1, F2, F3 & F5). It is held as leasehold interest for a term of 99 years less 7 days, with lease commencement date 1 September 2007 at peppercorn rent, if demanded. As at 31 December 2016, the property has an unexpired leasehold term of 90 years. There is no competing claim made in respect of this title or real estate asset.

The mall has a parking ratio in excess of 4 bays per 100 m^2 of GLA, has a captive middle market within the larger Greenspan estate and offers opportunity to develop an additional 2 acres of vacant land forming part of the acquisition.

The property presents an ideal location with potential to improve the returns through development of excess land and reconfiguration of the mall/ tenant mix. Anchored by Tusky's, it offers fast food restaurants and bars, as well as various service related tenants such as banks, wellness centres, salons and small non-branded fashion and apparel component. The anchor tenant occupies 45% of the GLA while the balance is occupied by services, food, clothing and apparel.

Greenspan Mall has a well smoothed lease expiry profile making it easy to manage the tenant mix to optimize the rental income stream.

Greenspan Mall Tenant Mix



SIGNATURE INTERNATIONAL LIMITED

The property known as Highway House is a three storey commercial building located in a growing office node on Pokomo Road, off Mombasa Road.

Highway House is located on L.R. No. 37/157 (Original Number L.R. No. 37/54/18) measuring 0.1089 of an acre with a land-lease term of 99 years commencing 1 July 1956, and registered as Title Number I.R 22130. As at 31 December 2016, the property has an unexpired leasehold term of 39 years. There is no competing claim made in respect of this title or real estate asset.

The property was transferred into the portfolio at a net acquisition price of KShs. 108,717,670 as at 30 June 2016.

TENANT MIX

The GLA is approximately 710 m^2, with ample covered parking bays.

This three storey office building is fully let to a single tenant, Cool Xtreme Limited a company that deals in the supply and fitting of air conditioning systems in and around Nairobi City.

REPORT OF THE REIT MANAGER ...CONTINUED

BAY HOLDINGS LIMITED

The property known as Bay Holdings is located at the junction of Enterprise Road and Bamburi Road within the main Industrial Area of Nairobi.

L.R. No. 209/4125 measuring 0.665 of an acre for a term of 99 years from 1st January 1949 and registered as Title Number I.R 93022. The property has an unexpired leasehold term of 32 years as at 31 December 2016. There is no competing claim made in respect of this title or real estate asset.

The acquisition of Bay Holdings Limited was concluded 30 June 2016 for an amount of KShs 216,122,547.

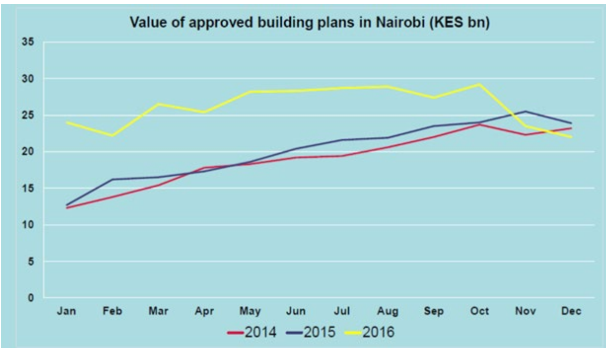
TENANT MIX

The GLA is 2,566 m^2 with a covered area for parking.

The building is currently fully let to three tenants; Imperial bank, Packard Limited and Architecture Supply Limited.

PROPERTY MARKET UPDATE

The Kenyan real estate market has experienced sustained growth since 2002. There was a significant rise in the value of approved building plans in 2016 as noted below. This was on the backdrop of sustained GDP growth rates in excess of 5%, supported by low oil prices and growth in private consumption and investment. Kenya also boasts as one of the best in terms of innovation having been ranked the world leader according to Global Findex data, with 58% of the population having



Kenya now boasts of having a functional stock exchange which is the fourth largest and second oldest in the continent. There has also been a growing demand from multinationals, local and international investors for real estate assets in the stable and well-connected commercial hubs. During 2016, some of the major international investors who acquired or up-scaled their real estate operations in Kenya included Mara Delta; a pan-African real estate fund and UK-based emerging markets specialist Actis which has recently raised US$500 million for its third African property fund.

Outside of South Africa, the Kenyan capital Nairobi has the greatest volume of modern retail floor space in Sub- Saharan Africa, and it continues to be a development hotspot. In 2016, the city saw the completion and opening of three major malls both in terms of scale and tenant mix totaling to over 130,000 square metres.

Retail

The 2015 Nielsen report has ranked Kenya as Africa's second biggest formalized retail economy after South Africa with a penetration of 30% to 40%. With the expected GDP growth of 5.4% in FY 2016, demand for retail space is expected to be stable driven by increasing spending power of Kenyan consumers and rising demand for international brands.

Nairobi has the biggest development pipeline with the new projects, exhibiting clear trend towards mixed use rather than pure retail. Increasingly, office, residential and leisure facilities are being incorporated. In the last year, the city saw the delivery of over 100,000 square metres comprising of the first phase of Actis' Garden City Mall (33,500 sq m) in 2015, followed by the opening of The Hub (30,000 sq m) in the affluent suburb of Karen in 2016 and the 67,000 sq m Two Rivers Mall, the largest in East Africa, opened in February 2017. The sector remains dominated by local retailers albeit growing interest from international chains; largely due to the strength of local competition. The most prominent international retailer who recently entered the market is French giant supermarket chain Carrefour which is operational at Two Rivers and the Hub Karen malls. Turkish clothing company, LC Waikiki, has also opened their first store in East Africa at Two - Rivers mall.

Several factors such as difficulty in finding local partners with expertise, currency volatility and security concerns are cited as the major hindrances for international retailers who have put their market entry decisions on hold.

Retail yields range between 8% to 10% with vacancies trending up to about 10% for the older malls. As a result of this new significant supply, it has taken longer to let retail space and prime rents have stagnated.

However, the absorption levels in malls is expected to remain low as a result of sudden rise in new supply which has stretched capacity of local retailers to take up the space. The marked increase in retail space supply and competition in 2016 has pushed the more established retail centres such as Sarit Center and Village Market to expand and refurbish in order to retain their market share and keep up with competition.

Office

On the office front, there is risk of short – medium term pressure on rental as a result of the excessive supply. Approximately 300,000 sq m of commercial office space was delivered to the Nairobi market in 2016, compared with an average of 150,000 sq m in recent years. This has led to stagnation on rental and sale values. Landlords may be faced with need to compete for tenants by offering additional

REPORT OF THE REIT MANAGER ...CONTINUED

PROPERTY MARKET UPDATE...Continued

Office...Continued

incentives such as rent-free periods and tenant installation allowances in order to maintain high and good quality occupancies. The situation has been exacerbated further by external events that have caused some multinationals, particularly in the oil industry, to downsize their operations in Kenya.

According to JLL research published in April 2016, future growth opportunities exist in bespoke office solutions. These solutions offer occupiers the ability to meet their requirements in a number of ways, ranging from consolidation of their office needs, to fully serviced office suites that provide companies with the advantage of operating a satellite office or entering the market without the burden of office capital fit-out costs or the onerous lease commitments. An example is Tiara Business Park in Lavington which has recently been occupied by Chinese networking and telecommunications company, Huawei. Mashiara Park along Waiyaki way also provides these solutions.

Despite the flexibilities currently accorded to tenants, the take-up of new prime offices in Nairobi is expected to remain steady, as the city augments its position as the preferred location for global corporates looking to establish regional hubs serving East Africa's 150 million plus population
Office yields are between 7 - 9%. Newly completed developments for FY2016 are mainly concentrated in the Upper Hill district. These are mainly corporate headquarters such as Britam Tower, UAP Tower and 4th Ngong Avenue Towers.

Hotel

Nairobi is a semi-mature hotel market which ranks as the third largest hotel market in Sub-Saharan Africa. Nairobi is estimated to have more than 170 hotels with a total of 10,000 rooms. The trend of global hotel chains entering the market has continued with their rooms accounting for an increasing proportion of the total rooms. Global hotel brands such as Crowne Plaza, Radisson Blu, Kempinski Villa Rosa and Best Western Premier have entered the Kenyan market.

The sector continues to flourish and attract new local and foreign investors. With the saturation of the 4 star (3,993 keys) - and 5-star (1,340 keys), developers are looking to the budget and serviced apartment segments in Nairobi and into the provinces for new hotel opportunities. There is a risk of short-term oversupply in the market, with an increase in room supply and a heavy reliance on slowing regional economic growth to drive demand. In 2015 Nairobi hotels achieved occupancy rates of 53.8%, reducing by 1.1% on 2014 levels and an average daily rate of USD 143. Notable upcoming developments due in 2016 include:

- Hilton Garden Inn JKIA - 171 rooms
- Tune Hotel Nairobi - 280 rooms
- Golden Tulip Grand Sapphire - 196 rooms
- Pullman Nairobi Westlands -320 rooms

Looking forward, a major factor that is likely to affect the sector is the lifting of the travel bans which would have a significant positive impact on demand for hotels in Nairobi as well as boosting investor sentiment in the city. However, the upcoming general election and potential security concerns may lead to a slowdown.

Residential

The residential sector remained stable throughout 2016, due to steady macroeconomic conditions and minimal impact from external shocks. According to Knight Frank Prime Residential Report 2017, Luxury home sales prices increased marginally, but prime rental prices declined as a result of a slight oversupply, which was partly attributable to the exodus of a large number of expatriates following the downsizing of Kenya's oil extraction industry. The Kenyan government estimates that there is a shortage of approximately 200,000 units per annum and is addressing the situation through measures such as slum upgrading, public private partnerships and the provision of tax incentives for major developers.

Industrial

This sector has remained largely owner occupied with most of the stock in the traditional industrial zones being outdated and of poor quality, and suffering from heavy traffic congestion. There is growing demand for modern well-configured logistics space of high specification. This rising demand has prompted the emergence of several master planned industrial parks, particularly on the outskirts of Nairobi where developers are taking advantage of new infrastructure developments along the bypasses and link roads, but construction is yet to commence on a large scale. Other occupiers such as Imperial Health sciences have opted to build their own 13,500 Square metres temperature controlled park according to their specifications of quality.

One such initiative is Tatu Industrial Park comprising of 450 acres of serviced land suitable for light industrial, warehouse and logistics uses. Unilever has signed an agreement to acquire 70 acres of land at the park which forms part of the Tatu City urban development project. Other proposed industrial parks include Northlands Industrial Park and Infinity Industrial Park both on Eastern Bypass and Tilisi Industrial Park off Waiyaki way.

REPORT OF THE REIT MANAGER ...CONTINUED

REGULATORY LIMITS

REGULATION	REGULATORY LIMIT	ACTUAL AS AT 31 DECEMBER 2016	COMPLIED (√)/NOT COMPLIED (X) /(N/A)
Minimum number of REIT securities holders	7	5,686	√
Minimum free float	25%	66.9%	√
Minimum promoter investment and retention*	25% of NAV	14.42%; 3 year lock-in	N/A
Eligible investments**	75% real estate	67% real estate	N/A
Minimum income generation***	75% from rental income	65%	N/A
Maximum gearing	35% of total asset value	0%	√
Minimum distributions	80%	92%	√

*Regulation 74 (Minimum retained investment by the Promoter and lock-in period) does not apply to STANLIB Kenya Limited in its capacity as Promoter as it neither sold nor transferred real estate to the REIT Scheme within one year of its establishment.

**Regulations 65(6) requires that within two years of the date of its authorization as a REIT, that at least 75 percent of the total net asset value of the REIT is in income producing real estate. This will be applicable from 30 September 2017.

*** Regulation 69 minimum income requirement is applicable each financial year after the second anniversary of the REIT's authorisation. As the REIT Scheme was authorised on 30 September 2015, Regulation 69 will be applicable in the year ending 31 December 2017.

PROSPECT STATEMENT

The REIT was successfully established and listed on the NSE at the end of November 2015 with three seed properties acquired. The operational processes relating to the acquisition of properties have now been bedded down. The key strategic focus going forward is to build the size of the REIT portfolio by assembling quality assets that are yield accretive and that will contribute to sectorial and geographical diversification. To this effect, the REIT Manager will embark on a fundraising program with an aim of raising sufficient funds to realise an optimally sized portfolio.

In terms of deal pipeline, the REIT management team is currently engaged in discussions with different vendors regarding various acquisition opportunities. Below are two of the opportunities that are being considered with great interest, following site visits completed and preliminary internal due diligence conducted. The REIT team continues to aggressively pursue other opportunities with an aim of completing a transaction by 30 September 2017.

SFIR ASSET PIPELINE	SQUARE FEET	RENT KSHS	INDICATIVE PRICE KSHS	INDICATIVE INITIAL YIELD %
1. Hotel	115,690	205,075,000	2,500,000,000	8.0%
2. Office building	80,000	132,000,000	1,836,000,000	7.2%

Operationally, the focus will be on ensuring that on-going asset optimization strategies are in place to ensure the REIT delivers the expected annualized total returns and the full year distribution in line with the scheme requirements. Key activities will include:

- Managing vacancies within target
- Managing expenses
- Energy and water saving initiatives
- Managing rental debt to income ratios
- Lease audits
- Sufficiency of tenant deposits

REPORT OF THE REIT MANAGER ...CONTINUED

ASSET HOLDINGS VERSUS PRESCRIBED LIMITS

The table below highlights the asset holdings versus the subscribed limits in the investment mandate.

I-REIT Eligible Investments (Assets) Regulation 65	Regulation and maximum limit %	Regulation and minimum limit %	Limit in scheme document %	% as at the reporting date	Highest % level during reporting period	Date of most recent valuation/s and ref. to report detailing valuation
If the REIT is an Islamic REIT percentage of Shariah compliant total. If not 100% then for each category set out below specify % that is Shariah compliant	N/A	N/A	N/A	N/A	N/A	N/A
All direct eligible real estate:						
a) Freehold	None	None	None	None	None	None
b) Leasehold	None	None	None	None	None	None
All indirect eligible real estate:						
a) Freehold held through investee companies or investee trusts	N/A	N/A	N/A	N/A	N/A	N/A
b) Leasehold held through investee companies or investee trusts	None	None	None	None	None	31 December 2016
Income producing real estate Regulation 65 (6) Minimum of 75% of TAV within 2 years of authorization	N/A - REIT is not yet 2yrs	N/A - REIT is not yet 2yrs	N/A - REIT is not yet 2yrs	N/A - REIT is not yet 2yrs	N/A - REIT is not yet 2yrs	N/A -REIT is not yet 2yrs
Land and cost of construction Regulation 70 Maximum 15% TAV	None	None	None	None	None	None
Cash, Deposits, bonds and money market instruments Regulation 65 (11) Maximum 5% to single issuer, institution, or members of group	5%	0%	5%	0%	0%	31 December 2016
Wholly owned and controlled company which conducts real estate activities Regulation 65 (14) Maximum 10% TAV with REIT securities holder consent	N/A	N/A	N/A	N/A	N/A	N/A

REPORT OF THE REIT MANAGER ...CONTINUED

ASSET HOLDINGS VERSUS PRESCRIBED LIMITS..continued

I-REIT Eligible Investments (Assets) Regulation 65	Regulation and maximum limit %	Regulation and minimum limit %	Limit in scheme document %	% as at the reporting date	Highest % level during reporting period	Date of most recent valuation/s and ref. to report detailing valuation
Income producing assets including listed shares in Kenyan property companies and units in Kenyan IREITs. Regulation 68 (2) Maximum 10% of value of investment and TAV at time of acquisition	10%	0%	10%	0%	0%	None
For an IREIT that has converted from a DREIT Mortgages or other secured loans etc.; authorised under Regulation 12 provided to purchasers of real estate developed or constructed Regulation 12	N/A	N/A	N/A	N/A	N/A	N/A
Other assets (eligible) include description	None	None	None	None	None	None
Other assets (not eligible) include description	None	None	None	None	None	None

APPROVAL OF THE REIT MANAGER'S REPORT

The REIT Manager's report was approved on behalf of the REIT Manager by:

Wanjiru Mwangi
Chairman, STANLIB Kenya Limited

Patrick Mamathuba
Director, STANLIB Kenya Limited

Date: 23 March 2017

REPORT OF THE TRUSTEE

The Trustee's report for the thirteen month period ended 31 December 2016 is prepared in accordance with Regulation 101 and the Fifth Schedule of the REIT Regulations.

1. Confirmation of all matters relating to the title particulars of real estate properties and other assets of the fund
   We confirm the below titles particulars for the real estate properties:
   - L.R. Number: Nairobi Block 82/8759 (F1, F2, F3, F4 and F5) - property known as Greenspan Mall under the Special Purpose Vehicle Greenspan Mall Limited.
   - L.R. Number: 209/4125 registered as Title No. I.R. 93022 – property under the Special Purpose Vehicle Bay Holdings Limited.
   - L.R. Number: 37/157 registered as Title No. I.R. 22130 – property known as Highway House under the Special Purpose Vehicle Signature International Limited.

We confirm that the other assets of the fund are as detailed in the accounts.

Details of other matters:

REQUIREMENT UNDER THE FIFTH SCHEDULE	TRUSTEE'S REPORT
a) Any appointment of a secondary disposition Trustee together with details of purpose of the appointment and of any documents executed by the secondary disposition Trustee	There was no appointment to this effect.
b) Any matter arising during the period which has been, or should have been, notified to the Authority pursuant to the Regulations	The REIT Manager sought exemption from publishing the 2015 audited accounts with the fund having been operational for a very short period, i.e. 27 November 2015 to 31 December 2015 (35 days) and this request was granted by the Authority via a letter dated 16 March 2016. The REIT Manager sought an extension for filing the unaudited accounts which were due by 31 July 2016. The Authority granted the exemption up to 16 August 2016 and thereafter the unaudited accounts were filed and published on 16 August 2016.
c) Any failures by the Trustee to comply with the provisions of the scheme documents, the Act or the Regulations and action taken to remedy the failure	There were no failures to this effect.
d) Any failures by the REIT Manager or any other person to comply with the provisions of the scheme documents, the Act or the Regulations and action taken to remedy the failure	There were no failures to this effect.
e) Any action taken by the Trustee during the period to protect assets of the trust or the interests of REIT securities holders	The assets were safe and there was no threat requiring the Trustee to take action.
f) Meetings of REIT securities holders convened by the Trustee, resolutions put and the outcome of voting	There were no meetings of REIT securities holders convened by the Trustee.

2. A summary of the meetings of REIT securities holders called or held during the period, a summary of the purpose of the meeting, resolutions put to the REIT securities holders and of attendees and votes cast.

   There were no meetings of REIT securities holders called or held in the period ended 31 December 2016.

3. Trustee's opinion on whether the REIT Manager has managed the scheme in accordance with the provisions of the scheme documents, the Act and REIT Regulations.

   In the Trustee's opinion the REIT Manager has managed the scheme in accordance with the provisions of the scheme documents, the Act and the REIT Regulations.

4. Comments by the Trustee on the REIT Manager's report, performance of the REIT Manager or of any other person or other material matter.

   No material matters have come to the attention of the Trustee requiring comment.

Signed by
The Compliance officer

The REIT Trustee
The Co-operative Bank of Kenya Limited
Date: 23 March 2017

COMPLIANCE REPORT

In accordance with Regulation 101 and the Fifth Schedule to the REIT Regulations, the Compliance Officer notes the following for the thirteen-month period ended 31 December 2016:

1. The state of the REIT Manager's compliance program progressed well during the period under review. As part of its compliance program, various processes to reinforce its compliance frameworks, systems, policies and procedures were undertaken during the period under review, partly in order to be in keeping with the nature of the evolving business environment within which the REIT continues to operate. Furthermore, leverage from Group's matured frameworks remains a big part of the REIT Manager's advantage from a compliance program standpoint.

2. Furthermore, in its records, Compliance has the following information:

   a. Any matter arising during the period which has been, or should have been, notified to the Authority pursuant to the Regulations;

      i. Any matter arising during the period which has been, or should have been, notified to the Authority pursuant to the Regulations;

      ii. The request for the letter of no objection from the Regulator in respect of the appointment of the key personnel for the REIT was made outside of the regulatory time frame of 5 days as per the Regulations.

   b. Any failures by the REIT Manager, Trustee or any other party to comply with the provisions of the scheme documents, the Act or the Regulations; and

      i. Information was brought to the attention of the Compliance Officer regarding engagement with the Regulator on the acquisition process of some of the properties which process was finalized beyond the number of days stipulated in the Regulations.

   c. Any action taken by the REIT Manager or which the Trustee was requested to take during the period to protect assets of the trust or the interests of REIT securities holders.

      i. None

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Njabulo Duma

Compliance Officer: STANLIB Kenya Limited

Date: 23 March 2017

STATEMENT OF THE REIT MANAGER'S RESPONSIBILITIES

The REIT Manager is responsible for the preparation and presentation of the financial statements of the STANLIB FAHARI I-REIT set out on pages 43 to 73 which comprise the consolidated statement of financial position as at 31 December 2016, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period then ended, and a summary of significant accounting policies and other explanatory information.

The REIT Manager's responsibilities include: determining that the basis of accounting described in Note 2 to these financial statements is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of consolidated financial statements in accordance with International Financial Reporting Standards and the requirements of the Capital Markets (Real Estate Investment Trusts) (Collective Investments Schemes) Regulations, 2013 and such internal control as the REIT Manager determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

The REIT Manager is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the REIT as at the end of the financial period and of the operating results for that period. It also requires the REIT Manager to ensure the REIT keeps proper accounting records which disclose with reasonable accuracy the financial position of the REIT.

The REIT Manager accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards. The REIT Manager is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the REIT and of its operating results.

The REIT Manager further accepts responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The REIT Manager has made an assessment of the REIT's ability to continue as a going concern and has no reason to believe there will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved by the REIT Manager on 23 March 2017 and were signed on its behalf by:

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Wanjiru Mwangi
Chaiman, STANLIB Kenya Limited

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Nkoregamba Mwebesa
Director, STANLIB Kenya Limited

CERTIFICATION OF THE FINANCIAL STATEMENTS BY THE TRUSTEE

The Trustee has considered and reviewed the financial statements of the STANLIB Fahari I-REIT for the thirteen-month period ended 31 December 2016, and certifies, according to the requirements of the Capital Markets (Real Estate Investment Trusts) (Collective Investments Schemes) Regulations, 2013, that these financial statements are a true and fair view of the state of affairs of the REIT as at 31 December 2016 and of the operating results for the thirteen-month period then ended.

Certified on behalf of The Co-operative Bank of Kenya Limited on 23 March 2017 by:

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Amos Mwita
Trustee Compliance Officer:
The Co-operative Bank of Kenya Limited

REPORT OF INDEPENDENT AUDITORS TO THE MEMBERS OF STANLIB FAHARI I-REIT

Report on the financial statements

Opinion

We have audited the financial statements of STANLIB Fahari I-REIT set out on pages 43 to 73 which comprise the consolidated statement of financial position at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows, for the thirteen month period ended 31 December 2016, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the consolidated financial position of the REIT at 31 December 2016, and the REIT's financial performance and cash flows for the period then ended in accordance with International Financial Reporting Standards and the Capital Markets (Real Estate Investment Trusts) (Collective Investments Schemes) Regulations, 2013. ("the Regulations").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the REIT in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS	
THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED
1.Accounting for transaction costs (See Note 19 to the financial statements)	
Accounting for transaction costs is considered a key audit matter because: Professional judgment was required in making a determination as to which costs relate to the issuance of shares and hence warrant a deduction from equity raised. The REIT was involved in an issuance of shares (IPO) and subsequent listing at the Nairobi Securities Exchange (NSE). Inappropriate application of judgment could result in a materially lower or higher portion of the IPO costs being charged to equity or profit or loss account.	Our audit procedures in this area included amongst others: • Reviewing support documentation for the transaction costs incurred to ensure appropriate treatment of costs qualifying to be charged to equity or profit or loss account. • Reviewing the allocation of costs that cut across more than one transaction to ensure that the accounting was done in a rational and consistent manner.
2.Valuation of investment property (See Note 13 to the financial statements)	
Valuation of investment properties is considered a key audit matter because: The REIT owns three investment properties which represent the single largest category of assets on the balance sheet as at 31 December 2016. These investment properties are stated at their fair values based on independent external valuations. The valuation process involves significant judgment in determining the appropriate valuation methodology to be used, and in estimating the underlying assumptions to be applied. The valuations are highly sensitive to key assumptions applied in deriving at the capitalisation, discount and terminal yield rates and a small change in the assumptions can have a significant impact to the valuation.	Our audit procedures in this area included, among others: • Assessing the REIT's processes for the selection of the external valuers, the determination of the scope of work of the valuers, and the review and acceptance of the valuations reported by the external valuers. • Evaluating the qualifications and competence of the external valuers. • Reviewing the terms of engagement of the valuers with the REIT to determine whether there were any matters that might have affected their objectivity or limited the scope of their work. • Evaluating the valuation methodologies used against those applied by other valuers for similar property types. We also considered other alternative valuation methods.

REPORT OF INDEPENDENT AUDITORS TO THE MEMBERS OF STANLIB FAHARI I-REIT...CONTINUED

KEY AUDIT MATTERS..Continued	
THE KEY AUDIT MATTER	**HOW THE MATTER WAS ADDRESSED**
2.Valuation of investment property (See Note 13 to the financial statements).. Continued	
	• Testing the integrity of inputs of the projected cash flows used in the valuation to supporting leases and other documents. • Reviewing the capitalisation, discount and terminal yield rates used in the valuation by comparing them against historical rates and available industry data, taking into consideration comparability and market factors. • Considering the adequacy of the disclosures in the financial statements, in describing the inherent degree of subjectivity and key assumptions in the estimates. This includes the relationships between the key unobservable inputs and fair values, in conveying the uncertainties.
3. Accounting for business combinations (See Note 24 to the financial statements)	
Accounting for business combinations is considered a key audit matter because: The REIT makes acquisitions as part of its business strategy. Such transactions can be complex and judgement is involved in determining whether each transaction is a business combination or the acquisition of an asset, with different accounting treatment applicable. In accounting for a business combination, there is also judgement and inherent uncertainty in the estimation used in allocating the overall purchase price to the different assets and liabilities that make up the acquisition.	Our audit procedures in this area included amongst others: • Assessing the REIT's processes for the review and the determination of the accounting for business combination. • Reviewing the accounting of significant acquisitions by examining legal and contractual documents to determine whether each acquisition is a business combination or the acquisition of an asset. • Reading the reports and checking the computations to allocate the purchase price to the different assets and liabilities acquired in significant business combinations during the period. • Comparing the methodologies and key assumptions used in deriving the allocated values to generally accepted market practices and market data. • Considering the adequacy of disclosure for significant business combinations.

Other information

The REIT Manager is responsible for the other information. The other information comprises the information included in the ***Annual Report and Financial Statements 2016***, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work that we have performed, we conclude that there is a material misstatement of this other information, then we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the REIT Manager for the financial statements

As stated on page 38, the REIT Manager is responsible for the preparation and fair presentation of the REIT's financial statements in accordance with IFRSs, and in the manner required by the Regulations and for such internal control as the REIT Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the REIT Manager is responsible for assessing the REIT's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the REIT Manager either intends to liquidate the REIT or to cease operations, or has no realistic alternative but to do so.

The REIT Manager is responsible for overseeing the REIT's financial reporting process.

REPORT OF INDEPENDENT AUDITORS TO THE MEMBERS OF STANLIB FAHARI I-REIT...CONTINUED

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the REIT's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the REIT Manager.
- Conclude on the appropriateness of the REIT Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the REIT's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the REIT to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the REIT Manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We are also required to provide the REIT Manager with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

As required by the Capital Markets (Real Estate Investment Trusts) (Collective Investments Schemes) Regulations, 2013 we report to you based on our audit, that:

- we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;
- in our opinion, proper books of account have been kept by the REIT, so far as appears from our examination of those books; and
- the statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.

The Engagement Partner responsible for the audit resulting in this independent auditors' report is CPA Jacob Gathecha - P/1610.

KPMG Kenya

KPMG Kenya
Certified Public Accountants
P.O. Box 40612 – 00100
Nairobi

Date: 23 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2016 KShs
Revenue		337,576,486
Rental and related income	5	248,572,436
Straight-lining of lease income	14	89,004,050
Other income		137,856,149
Interest income	6	111,209,231
Bargain purchase gain on acquiring property subsidiaries	7	25,156,147
Sundry income	8	1,490,771
Operating expenses		(265,053,969)
Property expenses	9	(84,631,625)
Fund operating expenses	10	(180,422,344)
Increase in fair value of investment property		(81,004,050)
Fair value adjustment to investment property	13	8,000,000
Straight-lining of lease income	14	(89,004,050)
Operating profit		129,374,616
Finance costs	11	(23,374,328)
Net profit for the period		106,000,288
Other comprehensive income		-
Total comprehensive income attributable to unitholders for the period		106,000,288
Basic earnings per unit (KShs)	12	0.59
Headline earnings per unit (KShs)	12	0.89
Supplementary information: Distributable earnings per unit (KShs)	12	0.54

The notes set out on pages 49 to 73 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	2016 KShs
ASSETS		
Non-current assets		
Investment property	13	2,435,000,000
Fair value of investment property for accounting purposes		2,345,995,950
Straight-line lease adjustment	14	89,004,050
Property and equipment	15	4,729,976
		2,439,729,976
Current assets		
Investment securities	16	733,035,734
Trade and other receivables	17	102,059,051
Cash and cash equivalents	18	440,186,650
		1,275,281,435
Total assets		**3,715,011,411**
EQUITY & LIABILITIES		
Capital and reserves (Page 45)		
Trust capital	19	3,479,540,745
Revaluation reserve	20	8,000,000
Retained earnings		98,000,288
		3,585,541,033
Current liabilities		
Trade and other payables	21	124,435,477
Tax payable	22	5,034,901
		129,470,378
Total equity & liabilities		**3,715,011,411**

The financial statements set out on pages 43 to 73 were approved by the REIT Manager and by the Trustee on 23 March 2017 and were signed on their behalf by:

Wanjiru Mwangi
Chairman: STANLIB Kenya Limited

Nkoregamba Mwebesa
Director: STANLIB Kenya Limited

Amos Mwita
Trustee Compliance Officer: The Co-operative Bank of Kenya Limited

The notes set out on pages 49 to 73 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Trust capital	Revaluation reserve	Retained earnings	Total
	KShs	KShs	KShs	KShs
2016				
Balance at 26 November 2015	-	-	-	-
Net profit for the period	-	-	106,000,288	106,000,288
Transfer to non-distributable reserve	-	8,000,000	(8,000,000)	-
Transactions with owners of the REIT				
Issue of units	3,619,446,000	-	-	3,619,446,000
Transaction costs for issue of new units	(139,905,255)	-	-	(139,905,255)
Totals transactions with owners of the REIT	3,479,540,745	-	-	3,479,540,745
Balance at 31 December 2016	3,479,540,745	8,000,000	98,000,288	3,585,541,033

The notes set out on pages 49 to 73 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2016 KShs
Cash flows from operating activities		
Cash generated from operations	23	106,812,692
Interest paid	11	(23,374,328)
Net cash inflow from operations		83,438,364
Cash flows from investing activities		
Acquisition of subsidiaries	24	(2,418,416,927)
Increase in investment securities	16	(733,035,734)
Net cash outflow from investing activities		(3,151,452,661)
Cash flows from financing activities		
Proceeds from issue of new units	19	3,619,446,000
Transaction costs for issue of new units	19	(139,905,255)
Net cash inflow from financing activities		3,479,540,745
Net movement in cash and cash equivalents		411,526,448
Cash and cash equivalents at acquisition of subsidiaries	24	28,660,202
Cash and cash equivalents at end of period	18	440,186,650

The notes set out on pages 49 to 73 form an integral part of these financial statements.

SEGMENTED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Retail 2016 KShs	Office and light industrial 2016 KShs	Fund 2016 KShs	Total 2016 KShs
Revenue	**315,819,558**	**21,756,928**	**-**	**337,576,486**
Rental and related income	189,371,669	15,063,078	-	204,434,747
Recoveries	44,137,689	-	-	44,137,689
Straight-lining of lease income	82,310,200	6,693,850	-	89,004,050
Other income	**1,401,844**	**25,156,147**	**111,298,158**	**137,856,149**
Finance and other investment income	-	-	111,209,231	111,209,231
Sundry income	1,401,844	-	88,927	1,490,771
Bargain purchase gain	-	25,156,147	-	25,156,147
Operating expenses	**(79,131,473)**	**(5,500,152)**	**(180,422,344)**	**(265,053,969)**
Property administration expenses (excluding provision for receivables impairment)	(63,638,591)	(1,345,579)	-	(64,984,170)
Provision for receivables impairment	(4,337,914)	(3,146,256)	-	(7,484,170)
Bad debts written off	(4,663,407)	-	-	(4,663,407)
Other property operating expenses	(6,491,561)	(1,008,317)	-	(7,499,878)
Fund operating expenses	-	-	(180,422,344)	(180,422,344)
Increase in fair value of investment property	(32,310,200)	(48,693,850)	-	(81,004,050)
Fair value adjustment to investment property	50,000,000	(42,000,000)	-	8,000,000
Straight-lining of lease income	(82,310,200)	(6,693,850)	-	(89,004,050)
Operating profit/(loss)	205,779,729	(7,280,927)	(69,124,186)	129,374,616
Finance costs	-	-	(23,374,328)	(23,374,328)
Net profit/(loss) for the period	205,779,729	(7,280,927)	(92,498,514)	106,000,288

SEGMENTED STATEMENT OF FINANCIAL POSITION

	Retail 2016	Office and light industrial 2016	Fund 2016	Total 2016
	KShs	KShs	KShs	KShs
ASSETS				
Non-current assets	**2,154,722,460**	**285,007,516**	**-**	**2,439,729,976**
Property and equipment	4,722,460	7,516	-	4,729,976
Investment property	2,150,000,000	285,000,000	-	2,435,000,000
Current assets	**75,696,945**	**12,223,694**	**1,187,360,796**	**1,275,281435**
Investment securities	-	-	733,035,734	733,035,734
Trade and other receivables	72,040,096	7,762,894	22,256,061	102,059,051
Cash and cash equivalents	3,656,849	4,460,800	432,069,001	440,186,650
Total assets	**2,230,419,405**	**297,231,210**	**1,187,360,796**	**3,715,011,411**
EQUITY & LIABILITIES				
Capital and reserves	**50,000,000**	**(42,000,000)**	**3,577,541,033**	**3,585,541,033**
Trust capital	-	-	3,479,540,745	3,479,540,745
Retained earnings	-	-	98,000,288	98,000,288
Revaluation reserve	50,000,000	(42,000,000)	-	8,000,000
Current liabilities	**92,722,904**	**10,289,688**	**26,457,786**	**129,470,378**
Trade and other payables	92,722,904	5,254,787	26,457,786	124,435,477
Tax payable		5,034,901		5,034,901
Total equity & liabilities	**142,722,904**	**(31,710,312)**	**3,603,998,819**	**3,715,011,411**

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

The STANLIB Fahari I-REIT ("the REIT") is a closed ended property investment fund licensed under the Capital Markets (Real Estate Investment Trusts) (Collective Investment Schemes) Regulations, 2013 ("the Regulations") and listed on the Nairobi Securities Exchange. Fahari I-REIT is managed by STANLIB Kenya Limited ("the REIT Manager").

The consolidated financial statements of the REIT for the thirteen months ended 31 December 2016 comprise the REIT and its subsidiaries. The address of its registered office is as follows:

1st Floor, Liberty House
Nyerere Road
P.O. Box 30550 – 00100
Nairobi, Kenya

The REIT wholly owns the following property investment subsidiaries:

- Greenspan Mall Limited
- Bay Holdings Limited
- Signature International Limited

2.BASIS OF PREPARATION

(a) Statement of compliance

The REIT's financial statements comprise the consolidated financial statements. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the requirements of the Regulations. For the Regulation reporting purposes, in these financial statements, the balance sheet is represented by the statement of financial position, the profit and loss account is presented in the statement of profit or loss and other comprehensive income, the Source and Use of Funds is represented by the Statement of Cashflows.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the measurement of investment property that have been measured at fair value.

(c) Functional and presentation currency

The financial statements are presented in Kenya Shillings (KShs) which is also the REIT's functional currency.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The estimates and assumptions are based on the REIT Manager's best knowledge of current events, actions, historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in Note 4.

(e) Going concern

The REIT Manager has made an assessment of the REIT's ability to continue as a going concern and is satisfied that the REIT has the resources to continue in business for the foreseeable future. Furthermore, the REIT Manager is not aware of any material uncertainties that may cast significant doubt upon the REIT's ability to continue as a going concern. Therefore, the financial statements have been prepared on the going concern basis.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The annual financial statements incorporate the consolidated financial statements of the REIT and all subsidiaries which are controlled by it. The subsidiaries are shown in Note 24 to the financial statements. Control exists when the investor has the power over the investee, exposure or right to receive variable returns and ability to use the power to affect the returns.

The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another. The results of subsidiaries are included in the consolidated financial statements from the effective date of acquisition to the effective date of disposal.

The acquisition method of accounting has been adopted to account for the cost of acquisition of the investments.

Cost comprises the fair value of any assets transferred, liabilities or obligations assumed and equity instruments issued. Any gain on a bargain purchase gain is recognised in profit or loss immediately. Transaction costs that the REIT incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS...CONTINUED

3. SIGNIFICANT ACCOUNTING POLICIES..Continued

(a) Basis of consolidation...Continued

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, other contingent consideration is re-measured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

The accounting policies used are consistent within all subsidiaries and the REIT. Adjustments are made when necessary to the consolidated financial statements of subsidiaries to bring their accounting policies in line with those of the REIT.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Transactions which result in changes in ownership levels, where the REIT has control of the subsidiary both before and after the transaction are regarded as equity transactions and are recognised directly in the statement of changes in equity. The difference between the fair value of consideration paid or received and the movement in non-controlling interest for such transactions is recognised in equity attributable to the owners of the parent.

(b) Tangible assets

(i) Investment property

Investment property comprises land, buildings and euipment (such as lifts and air-conditioning) that is considered an integral part of the building. Investment properties are held to earn rental income and for capital appreciation and are initially recorded at cost, including transaction costs on acquisition. Additional expenditure on investment properties is capitalised when it is probable that the future economic benefits will flow to the REIT. All other subsequent expenditure on the properties is expensed in the period in which it is incurred. Investment property held to earn rental income and for capital appreciation and not occupied by the REIT is classified as investment property.

Investment properties are subsequently measured at fair value, representing open market value, as determined by registered external valuers as at the financial year end. Open market value is determined by the valuer using a market approach and cost approach. The market approach comprises the discounted cash flow method or a net income capitalisation method. Refer to Note 13 to the financial statements for key judgements used in the valuations. Any gains or losses are included in profit or loss.

Unrealized gains on revaluation of investment property are transferred from retained earnings to a non-distributable reserve. Likewise, unrealized losses on revaluation of investment property are transferred from retained earnings and set off against existing non-distributable reserves to the extent that such reserves are available for the particular investment property. Realised gains may be distributed.

In the alternative, any realised gains may be retained and reinvested in income producing real estate provided that if they are not invested within a period of two years of realization, such realised gains shall be distributed within two months of the second anniversary of realization.

Investment property held under an operating lease relates to long-term land leases and is recognised in the REIT's statement of financial position at its fair value. This accounting treatment is consistently applied for all such long-term land leases.

(ii) Property and equipment

All property and equipment is initially recorded at cost and thereafter stated at historical cost less accumulated depreciation and impairment losses. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the REIT and the cost can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

Depreciation on office equipment and furniture and equipment is calculated on a reducing balance basis using the following annual rates:

	RATE
Furniture and fittings	12.5%
Office equipment	12.5%

The assets useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit. Such gains or losses are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS...CONTINUED

3. SIGNIFICANT ACCOUNTING POLICIES..Continued

(c) Financial instruments

(i) Classification

The REIT classifies its non-derivative financial assets and liabilities at initial recognition into the following categories, namely:

- held at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments;
- available-for-sale financial assets; and
- other financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instrument was acquired or incurred and, with the exception of those held at fair value through profit or loss, is reassessed on an annual basis.

(ii) Initial recognition

The REIT recognizes loans and receivables on the date when they originated. All other financial instruments are recognised on trade date, which is the date on which the REIT becomes party to the contracted provisions of the instrument. Financial instruments are initially recognised at fair value plus any directly attributable transaction costs with directly attributable transaction costs recognised in profit or loss for financial assets classified as fair value through profit or loss.

(iii)Subsequent measurement

Financial assets classified as fair value through profit and loss

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are presented in profit or loss within net fair value gains on financial assets at fair value in the period in which they arise.

Trade and other receivables

Trade and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market, are initially recognised at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest methods less any impairment losses. Amortized cost approximates fair value. An estimate is made for credit losses based on a review of all outstanding amounts at year end. Bad debts are written off to profit or loss during the year in which they are identified. Interest earned on trade receivables is recognised on an accrual basis using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise:

- balances with banks;
- highly liquid short-term funds on deposit; and
- cash on hand.

Cash and cash equivalents does not include money market securities held for investment. Instruments included in this category are those with an initial maturity term of three months or less from the acquisition date. Instruments with an initial maturity longer than three months are included in investment securities. Cash and cash equivalents are carried at amortised cost less impairment losses which due to their short-term nature approximates fair value. Interest earned on cash invested with financial institutions is recognised on an accrual basis using the effective interest method.

Investment securities

Cash invested in government securities and fixed deposit instruments with initial maturities longer than three months are included in investment securities and are carried at amortised cost. Interest earned on investment securities is recognised on an accrual basis using the effective interest method.

Trade and other payables

Trade payables are initially recognised at fair value less any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method which approximates fair value. Interest payable on trade payables is recognised on an accrual basis using the effective interest method.

Other financial liabilities

Other non-derivative financial liabilities comprising long-term interest-bearing loans are initially recognised at fair value less any directly attributable transaction costs and subsequently measured at amortised cost. Interest payable on financial liabilities is recognised on an accrual basis using the effective interest method.

(iv) Offset

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when the REIT:

- has a legally enforceable right to offset the recognised amounts; and
- intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The REIT has a legally enforceable right to offset if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. Gross settlement is equivalent to net settlement if, and only if, the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and process receivables and payables in a single settlement process or cycle.

NOTES TO THE FINANCIAL STATEMENTS...CONTINUED

3. SIGNIFICANT ACCOUNTING POLICIES..Continued

(c) Financial instruments...Continued

(v) De-recognition of financial instruments

Financial assets are derecognised when the contractual rights to receive cash flows from the investments have expired or on trade date when it transfers the right to receive the contractual cash flows in a transaction in which the REIT has also transferred substantially all risks and rewards of ownership or it neither transfers nor retains substantially the risks and rewards of ownership and doesn't retain control over the transferred asset.

Financial liabilities are derecognised when they are extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(d) Impairment of assets

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

In assessing impairment, the REIT considers impairment at both individual and collective level. All individually significant assets are individually assessed for impairment. Assets that are not individually impaired are assessed collectively. Collective assessment is carried out by grouping together assets with similar credit characteristics. Impairment loss is calculated as the difference between the assets' carrying amount and present value of estimated future cash flows discounted at original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

(ii) Impairment of non-financial assets

The carrying amounts of the REIT's non-financial assets other than investment property are reviewed at each financial reporting date to determine whether there is any indication of impairment. If any such indication exists then the assets' recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit ("CGU") is the smallest identifiable asset group that generates cash inflows that largely are independent from other assets and groups. Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(e) Revenue recognition

Property revenue comprises the fair value of the consideration received or receivable for the provision of property management services in the ordinary course of the REIT's activities. Revenue is shown net of Value Added Tax (VAT), estimated returns, rebates and discounts and after eliminating services within the REIT. Rental income is recognised in profit or loss on a straight-line basis over the term of the lease.

Interest income for all interest-bearing financial instruments, including financial instruments measured at fair value through profit or loss, are recognised under other income in profit or loss using the effective interest rate method.

(f) Property letting commission and tenant installations

When considered material, letting commissions and tenant installations are written off over the period of the lease. Letting commissions paid in respect of new developments are capitalised to the cost of the property.

(g) Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

The property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease. The property held under finance leases and leased out under operating leases is classified as investment property and stated at fair value.

Properties leased out under operating leases are included in investment properties in the statement of financial position as per Note 13. Lease income is recognised over the term of the lease on a straight-

NOTES TO THE FINANCIAL STATEMENTS...CONTINUED

3. SIGNIFICANT ACCOUNTING POLICIES..Continued

(g) Leases..Continued

line basis. The current portion of the straight-line lease accrual represents that portion of the total straight-line lease asset that is expected to be realised as a reduction in income over the next 12 months.

(h) Finance income and costs

Finance income or costs for the REIT comprises interest income and expenses. Interest income is recognised under other income in profit or loss. Interest expenses for all interest-bearing financial instruments, including financial instruments measured at fair value through profit or loss, are recognised under finance costs in profit or loss using the effective interest rate method. When a receivable is impaired, the REIT reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(i) Borrowing costs

Borrowing costs incurred on qualifying assets are capitalised until such time as the assets are substantially ready for their intended use. Qualifying assets are those that necessarily take a substantial period of time to prepare for their intended use. Capitalisation is suspended during extended periods in which active development is interrupted. All other borrowing costs are expensed in profit or loss in the period in which they are incurred using the effective interest method.

(j)Non-distributable reserve

The non-distributable reserve relates to items that are not distributable to unitholders, such as unrealized fair value adjustments on the revaluation of investment property, long-term loans, borrowings and derivatives, the amortisation of intangible assets and share-based payment transactions.

(k) Taxation

(i) Current taxation

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date.

Current income tax relating to items recognised directly in other comprehensive income or equity is recognised in other comprehensive income or equity and not in the statement of profit or loss and other comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(ii) Deferred taxation

Deferred tax is provided in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the

Deferred tax relating to items recognised directly in other comprehensive income or equity is recognised in other comprehensive income or equity and not in the statement of profit or loss and other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(iii) Tax exemption

The REIT is exempt from income tax as per section 20 of the Kenyan Income Tax Act. Accordingly, no income tax is accounted for in the REIT. All income generated and distributed by the REIT is taxable in the hands of the unitholders. The wholly owned subsidiaries of the REIT which are eligible investment assets in terms of the Regulations became exempt from income tax from the day they became wholly owned by the REIT. Accordingly, no income tax is accounted for in these subsidiaries from the date of acquisition by the REIT.

The REIT is not liable for Capital Gains Tax on the disposal of directly held investment properties in terms of section 20 of the Kenyan Income Tax Act, 2014; accordingly no deferred tax is provided on the revaluation of the properties. The wholly owned subsidiaries of the REIT which are eligible investment assets in terms of the Regulations became exempt from Capital Gains Tax from the day they became wholly owned by the REIT. Accordingly, no deferred tax is provided on the revaluation of the properties in these subsidiaries from the date of acquisition by the REIT.

NOTES TO THE FINANCIAL STATEMENTS...CONTINUED

3. SIGNIFICANT ACCOUNTING POLICIES..Continued

(k) Taxation..Continued

(iii) Tax exemption..Continued

Similarly, temporary differences arising from differences between tax and book values of assets and liabilities are not recognised as deferred tax assets or liabilities as the subsidiaries will no longer be claiming tax allowances going forward and will no longer be subject to income tax.

(l) Dividend distribution

The REIT has an obligation to distribute to the unitholders, within four months after the end of each financial year, at least eighty percent of net income after tax from sources other than realized gains from disposal of investment property. The REIT may distribute more than once annually. Distributions to unitholders are recognised as a liability in the period in which they are declared once the amount of distribution has been calculated.

(m) Trust capital

Units are classified as equity when there is no obligation to transfer cash or other assets to the holder. Incremental costs directly attributable to the issue of new units or options are shown in equity as a deduction from the proceeds.

(n) Foreign currency

A foreign currency transaction is recorded, on initial recognition in Kenya Shillings, by applying to the foreign currency amount the spot exchange rate between the Kenya Shillings and the foreign currency at the date of the transaction.

The REIT's functional and reporting currency is Kenya Shillings.

At the end of the reporting period:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous periods are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in Kenya Shillings by applying to the foreign currency amount the exchange rate between the Kenya Shillings and the foreign currency at the date of the cash flow.

(o) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The REIT has determined that its chief operating decision maker is the REIT Manager.

The REIT operates in the following primary business segments:

(i) Retail – comprising retail outlets;

(ii) Office – comprising office buildings and office parking;

(iii) Industrial – industrial buildings such as warehouses and factories;

(iv) Financial assets – comprising available-for-sale financial assets, financial assets at fair value through profit or loss and cash and bank balances at a REIT level.

In certain instances, a building might comprise a combination of office and industrial or retail and office. Where each component is significant in size for segment reporting purposes, the building is classified as a combination of both components; otherwise the dominant component would determine the classification.

(p) Earnings per unit

Basic and diluted earnings per unit data for ordinary units are presented in the financial statements. Basic earnings per unit is calculated by dividing the profit or loss attributable to ordinary unitholders of the REIT by the weighted average number of ordinary units outstanding during the period. Diluted earnings per unit is determined by adjusting the profit or loss attributable to ordinary unitholders and the weighted average number of ordinary units outstanding for the effects of all dilutive potential ordinary units, if any.

(q) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the REIT has access at that date. The fair value of a liability reflects its non-performance risk.

NOTES TO THE FINANCIAL STATEMENTS...CONTINUED

3. SIGNIFICANT ACCOUNTING POLICIES..Continued

(q) Fair value..Continued

The REIT measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the REIT uses the valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the REIT measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. If the REIT determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

(r) New standards and interpretations

The REIT has early adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2016. The nature and the effects of the changes are explained below.

NEW STANDARD OR AMENDMENTS
– Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
– Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciations and Amortisation
– Amendments to IAS 41 - Bearer Plants (Amendments to IAS 16 and IAS 41)
– Equity Method in Separate Financial Statements (Amendments to IAS 27)
– IFRS 14 Regulatory Deferral Accounts
– Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
– Disclosure Initiative (Amendments to IAS 1)
– Annual improvements cycle (20112-20140 – various standards

(i) New standards, amendments and interpretations effective and adopted during the period

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)

The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interest in the joint operation will not be re-measured. The amendments apply prospectively for annual periods beginning on or after 1 January 2016.

The adoption of these changes did not have an impact on the financial statements as the REIT does not have any interests in joint operations.

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)

The amendments to IAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. The adoption of these changes did not have an impact on the financial statements as the REIT does not use revenue-based methods of depreciation.

Amendments to IAS 41- Bearer Plants (Amendments to IAS 16 and IAS 41)

The amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture require a bearer plant (which is a living plant used solely to grow produce over several periods) to be accounted for as property, plant and equipment in accordance with IAS 16 Property, Plant and Equipment instead of IAS 41 Agriculture. The produce growing on bearer plants will remain within the scope of IAS 41.The new requirements were effective from 1 January 2016.

NOTES TO THE FINANCIAL STATEMENTS...CONTINUED

3. SIGNIFICANT ACCOUNTING POLICIES..Continued

(r) New standards and interpretations..Continued

(i) New standards, amendments and interpretations effective and adopted during the period..Continued

Amendments to IAS 41- Bearer Plants (Amendments to IAS 16 and IAS 41)..Continued

The adoption of these changes did not have an impact on the financial statements as the REIT does not have bearer plants.

Equity Method in Separate Financial Statements (Amendments to IAS 27)

The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures but also for subsidiaries. The amendments apply retrospectively for annual periods beginning on or after 1 January 2016.

The adoption of these changes did not have an impact on the financial statements of the REIT as the REIT is not required to prepare separate non-consolidated financial statements available for public use.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 provides guidance on accounting for regulatory deferral account balances by first-time adopters of IFRS. To apply this standard, the entity has to be rate-regulated i.e. the establishment of prices that can be charged to its customers for goods and services is subject to oversight and/or approval by an authorised body.

The standard was effective for financial reporting years beginning on or after 1 January 2016.

The adoption of these changes did not have an impact on the financial statements as the REIT does not have any regulatory deferral account balances.

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)

The amendment to IFRS 10 Consolidated Financial Statements clarifies which subsidiaries of an investment entity are consolidated instead of being measured at fair value through profit and loss.

The amendment also modifies the condition in the general consolidation exemption that requires an entity's parent or ultimate parent to prepare consolidated financial statements. The amendment clarifies that this condition is also met where the ultimate parent or any intermediary parent of a parent entity measures subsidiaries at fair value through profit or loss in accordance with IFRS 10 and not only where the ultimate parent or intermediate parent consolidates its subsidiaries.

The amendment to IFRS 12 Disclosure of Interests in Other Entities requires an entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10 to make disclosures required by IFRS 12 relating to investment entities.

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28) - continued

The amendment to IAS 28 Investments in Associates and Joint Ventures modifies the conditions where an entity need not apply the equity method to its investments in associates or joint ventures to align these to the amended IFRS 10 conditions for not presenting consolidated financial statements.

The amendments introduce relief when applying the equity method which permits a non-investment entity investor in an associate or joint venture that is an investment entity to retain the fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016.

The adoption of these changes did not have an impact on the financial statements of the REIT as the REIT and its subsidiaries do not have any investment entities as defined that require measurement at fair value through profit or loss in accordance with IFRS 10.

Disclosure Initiative (Amendments to IAS 1)

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements. The amendments apply for annual periods beginning on or after 1 January 2016.

The adoption of these changes did not have a material impact on the financial statements of the REIT and its subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS...CONTINUED

3. SIGNIFICANT ACCOUNTING POLICIES..Continued

(r) New standards and interpretations..Continued

(i) New standards, amendments and interpretations effective and adopted during the period..Continued

Annual improvements cycle (2012-2014) – various standards

Standard	Amendments
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	Changes in methods of disposal Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.
IFRS 7 Financial Instruments: Disclosures (with consequential amendments to IFRS 1)	**Servicing contracts** Adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. **Applicability of the amendments** to IFRS 7 to condensed interim financial statements Clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.
IAS 19 Employee Benefits	**Discount rate: regional market issue** Clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).
IAS 34 Interim Financial Reporting	**Disclosure of information 'elsewhere in the interim financial report'** Clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference.

(ii) New and amended standards and interpretations in issue but not yet effective for the thirteen-month period ended 31 December 2016

A number of new standards, amendments to standards and interpretations are not yet effective for the thirteen-month period ended 31 December 2016, and have not been applied in preparing these financial statements.

The REIT does not plan to adopt these standards early. These are summarised below:

New standard or amendments	Effective for annual periods beginning on or after
– Disclosure Initiative (Amendments to IAS 7)	1 January 2017
– Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)	1 January 2017
– IFRS 15 Revenue from Contracts with Customers	1 January 2018
– IFRS 9 Financial Instruments (2014)	1 January 2018
– Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2018
– Applying IFRS 9 Financial Instruments with IFRS 4 – Insurance Contracts (Amendments to IFRS 4)	1 January 2018
– IFRS 16 Leases	1 January 2019
– Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).	To be determined

Disclosure Initiative (Amendments to IAS 7)

The amendments in Disclosure Initiative (Amendments to IAS 7) come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

NOTES TO THE FINANCIAL STATEMENTS...CONTINUED

3. SIGNIFICANT ACCOUNTING POLICIES..Continued

(r) New standards and interpretations..Continued

(ii) New and amended standards and interpretations in issue but not yet effective for the thirteen-month period ended 31 December 2016 Continued

Disclosure Initiative (Amendments to IAS 7)..Continued

The International Accounting Standards Board (IASB) requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The IASB defines liabilities arising from financing activities as liabilities "for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities". It also stresses that the new disclosure requirements also relate to changes in financial assets if they meet the same definition.

The amendments state that one way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Since the amendments are being issued less than one year before the effective date, entities need not provide comparative information when they first apply the amendments.

The REIT is assessing the potential impact on its financial statements resulting from the application of IAS 7.

Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)

The amendments in Recognition of Deferred Tax Assets for Unrealized Losses clarify the following aspects:

- Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted.

As transition relief, an entity may recognise the change in the opening equity of the earliest comparative period in opening retained earnings on initial application without allocating the change between opening retained earnings and other components of equity. The Board has not added additional transition relief for first-time adopters

The adoption of these changes will not have an impact on the financial statements of the REIT.

IFRS 15 Revenue from Contracts with Customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, and IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.

The standard provides a single, principles based five-step model to be applied to all contracts with customers in recognising revenue being: Identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; Allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The adoption of these changes will not have an impact on the financial statements of the REIT.

IFRS 9: Financial Instruments (2014)

On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

This standard introduces changes in the measurement bases of the financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement

NOTES TO THE FINANCIAL STATEMENTS...CONTINUED

3. SIGNIFICANT ACCOUNTING POLICIES..Continued

(r) New standards and interpretations..Continued

(ii) New and amended standards and interpretations in issue but not yet effective for the thirteen-month period ended 31 December 2016 Continued

IFRS 9: Financial Instruments (2014)..Continued

categories are similar to IAS 39, the criteria for classification into these categories are significantly different.

In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model.

The standard is effective for annual period beginning on or after 1 January 2018 with retrospective application, early adoption permitted.The REIT is assessing the potential impact on its financial statements resulting from the application of IFRS 9.

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

The following clarifications and amendments are contained in the pronouncement:

- ***Accounting for cash-settled share-based payment transactions that include a performance condition***
  Up until this point, IFRS 2 contained no guidance on how vesting conditions affect the fair value of liabilities for cash-settled share-based payments. IASB has now added guidance that introduces accounting requirements for cash-settled share-based payments that follows the same approach as used for equity-settled share-based payments.

- ***Classification of share-based payment transactions with net settlement features***
  IASB has introduced an exception into IFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

- ***Accounting for modifications of share-based payment transactions from cash-settled to equity-settled***
  Up until this point, IFRS 2 did not specifically address situations where a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions. The IASB has introduced the following clarifications:

  - On such modifications, the original liability recognised in respect of the cash-settled share-based payment is derecognised and the equity-settled share-based payment is recognised at the modification date fair value to the extent services have been rendered up to the modification date.

  - Any difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date would be recognised in profit and loss immediately.

The amendments are effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendments are to be applied prospectively. However, retrospective application if allowed if this is possible without the use of hindsight. If an entity applies the amendments retrospectively, it must do so for all of the amendments described above.

The adoption of these changes will not have an impact on the financial statements of the REIT.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)

The amendments in Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4) provide two options for entities that issue insurance contracts within the scope of IFRS 4:

- an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach;
- an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

An entity applies the overlay approach retrospectively to qualifying financial assets when it first applies IFRS 9. Application of the overlay approach requires disclosure of sufficient information to enable users of financial statements to understand how the amount reclassified in the reporting period is calculated and the effect of that reclassification on the financial statements.

An entity applies the deferral approach for annual periods beginning on or after 1 January 2018. Predominance is assessed at the reporting entity level at the annual reporting date that immediately precedes 1 April 2016. Application of the deferral approach needs to be disclosed together with information that enables users of financial statements to understand how the insurer qualified for the temporary exemption and to compare insurers applying the temporary exemption with entities applying IFRS 9.

The deferral can only be made use of for the three years following 1 January 2018. Predominance is only reassessed if there is a change in the entity's activities.

The adoption of these changes will not have an impact on the financial statements of the REIT.

NOTES TO THE FINANCIAL STATEMENTS...CONTINUED

3. SIGNIFICANT ACCOUNTING POLICIES..Continued

(r) New standards and interpretations..Continued

(ii) New and amended standards and interpretations in issue but not yet effective for the thirteen-month period ended 31 December 2016 Continued

IFRS 16: Leases

On 13 January 2016 the IASB issued IFRS 16 Leases, completing the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration.

A company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases. Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to recognise:

a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A company recognises the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments.

b) depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and

c) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.

The standard does not require a company to recognise assets and liabilities for:

d) short-term leases (i.e. leases of 12 months or less) and;

e) leases of low-value assets

The new Standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted insofar as the recently issued revenue Standard, IFRS 15 Revenue from Contracts with Customers is also applied.

The REIT is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognised. The definition of a business is key to determining the extent of the gain to be recognised.

The effective date for these changes has now been postponed until the completion of a broader review. The adoption of these changes will not have an impact on the financial statements of the REIT.

4. KEY JUDGMENTS AND ESTIMATES

Key judgments and sources of estimation uncertainty

The preparation of the financial statements necessitates the use of estimates, assumptions and judgments. The estimates and assumptions affect the reported amounts of assets, liabilities and contingent liabilities at the statement of financial position date as well as affecting the reported income and expenses for the period.

Although estimates are based on management's best knowledge and judgment of current facts as at the statement of financial position date, the actual outcome may potentially differ significantly from these estimates.

(a) Investment property

The valuation of investment property requires judgment in the determination of future cash flows and the appropriate discount rate to discount those future cash flows as well as the appropriate capitalisation rate. Future cash flows are based on the budgeted contractual rental income and budgeted expenditure. The discount rate and capitalisation rates are informed by market conditions and unique or specific attributes of the investment property. Changes in assumptions of future cash flows, discount rates and capitalisation rates have a significant impact on the value of investment property. Management relies on the use of experts in determining the market value of investment properties and interrogates the assumptions applied by the experts to assess their reasonableness.

NOTES TO THE FINANCIAL STATEMENTS...CONTINUED

4. KEY JUDGMENTS AND ESTIMATES..Continued

Key judgments and sources of estimation uncertainty...Continued

(a) Investment property..Continued

The valuer adopted a market capitalisation rate ranging from 8% to 10% in capitalizing the future cash flows to arrive at the market value of the property. These have been set out in Note 13.

(b) Receivables

Critical estimates are made by the REIT Manager in determining the recoverable amount of impaired receivables. The carrying amount of impaired receivables is set out in Note 26 (b) (ii).

(c) Property and equipment

Critical estimates are made by the REIT Manager in determining depreciation rates for vehicles and equipment. The rates used are set out in Note 3 (b) (ii).

(d) Acquisition of subsidiary

Critical estimates are made by the REIT Manager in determining fair value of consideration transferred (including contingent consideration) and bargain purchase calculations. The workings are set out in Note 24.

5. RENTAL AND RELATED INCOME

	2016 KShs
Rental income	195,136,897
Promotional income	7,405,382
Recoveries	46,030,157
	248,572,436

6. INTEREST INCOME

Interest on call deposits	18,772,881
Interest on fixed deposits and treasury bills	92,436,350
	111,209,231

7. BARGAIN PURCHASE GAIN ON ACQUIRING PROPERTY SUBSIDIARIES

	2016 KShs
Bargain purchase gain (Note 24)	**25,156,147**

The bargain purchase gain is as a result of the fair value of identifiable assets acquired and liabilities assumed exceeding the consideration paid at acquisition date of the subsidiaries acquired.

8. SUNDRY INCOME

	2016 KShs
Recovery of repairs and maintenance expenditure	510,765
Other income	980,006
	1,490,771

NOTES TO THE FINANCIAL STATEMENTS...CONTINUED

9. PROPERTY EXPENSES

	2016
	KShs
Included in property expenses are the following expenses:	
Property administration expenses	
Electricity and water	27,661,921
Security	8,728,980
Gardening and cleaning	8,260,666
Property management fees	8,009,728
Advertising and sales promotion	2,294,261
Bad debts provision	7,484,170
Insurance	5,853,585
Bad debts written off	4,663,407
Repairs and maintenance	4,421,271
Property valuation fees	1,050,000
Legal and professional fees	228,460
Letting fees	92,543
Licenses and permits	47,200
	78,796,192
Other operating property expenses	
Audit fees	1,974,614
Salaries and wages	1,499,963
Depreciation	723,159
Staff expenses	521,124
Rent and rates	277,885
Penalties	315,608
Sundry expenses	242,808
Postage and telephone	145,663
Bank charges	66,254
Printing and stationery	59,732
Foreign exchange losses	8,623
	5,835,433
Total property expenses	**84,631,625**

10. FUND OPERATING EXPENSES

Included in fund operating expenses are the following expenses:

	2016 KShs
Asset management fee	85,732,408
Public relations and marketing	40,131,045
Trustee fees	24,298,740
Business acquisition expenses	11,999,680
Professional and other fees	8,169,329
Legal fees	4,377,000
Audit fees	2,500,000
Licenses	1,875,069
Sundry expenses	1,339,073
	180,422,344

NOTES TO THE FINANCIAL STATEMENTS

11. FINANCE COSTS

	2016 KShs
Interest paid	**23,374,328**

Interest was paid to the REIT Manager in its capacity as a Promoter of the REIT for providing funding for deposits to secure seed properties prior to completion of the acquisition.

12. BASIC AND HEADLINE EARNINGS PER UNIT

	2016 KShs
Basic earnings - comprehensive income attributable to unit holders for the period	106,000,288
Adjusted for:	
Fair value adjustment to investment property (including straight-line lease accrual movement)	81,004,050
Bargain purchase on acquiring a property subsidiary	(25,156,147)
Headline earnings	**161,848,191**
Adjusted for:	
Straight-line lease accrual movement	(89,004,050)
Distributable non-cash items	25,156,147
Distributable earnings	**98,000,288**
Distribution per unit (Note 19)	**90,486,150**
Distributable earnings per unit (KShs)	0.54
Distribution per unit (KShs)	0.50
Basic earnings and diluted earnings per unit (KShs)	0.59
Headline earnings per unit (KShs)	0.89
Weighted average units in issue (units)	180,972,300
Units in issue at the end of the period (units)	180,972,300

NOTES TO THE FINANCIAL STATEMENTS

13. INVESTMENT PROPERTY

	2016
	KShs
Balance at beginning of period	-
Acquisitions (Note 24)	2,427,000,000
Fair value adjustment to investment properties	8,000,000
Balance at end of period	**2,435,000,000**

The investment property was independently valued by Tyson's Limited as at 31 December 2016. The valuer is registered and licensed by the Valuers Registration Board of Kenya and has the relevant experience and knowledge of valuing the various properties in the portfolio.

In determining the market value of the investment property, the valuer used the discounted cash flow methodology where a discount rate (capitalization rate) is applied to a series of cash flows for future periods to discount them to a present value.

The valuer also used the cost approach. This approach is based on the principle that the price that a buyer in the market would pay for the asset being valued would, unless undue time, inconvenience, risk or other factors are involved, be not more than the cost to purchase or construct an equivalent asset. Cost of land was based on the market rates prevailing in the areas of study. Cost of construction was obtained from cost manuals as provided by quantity surveyors.

Unobservable inputs

At the reporting date the following assumptions and unobservable inputs had been applied by the valuer in determining the fair value of the property portfolio:

	2016
	%
Retail	
Term capitalisation rate	10.00
Exit capitalisation rate	10.75
Discount rate	10.00
Office and light industrial	
Term capitalisation rate	8.00 - 9.00
Exit capitalisation rate	9.00 - 10.00
Discount rate	8.00 - 9.00

The capitalisation rates were computed by the valuer taking into account the market data obtained from undertaken field research, including comparable sales. This was adjusted to reflect the term and reversion based on the property lettings.

14. STRAIGHT-LINE LEASE ACCRUAL

	2016
	KShs
At start of the period	-
Change in straight-line lease accrual through profit or loss	89,004,050
At end of the period	**89,004,050**

The straight line lease income accrual relates to the smoothing of the lease rental income over the lease contract period.

NOTES TO THE FINANCIAL STATEMENTS

15. PROPERTY AND EQUIPMENT

2016	Furniture and equipment	Office equipment	Total
	KShs	KShs	KShs
Cost			
At start of period	-	-	-
Acquisitions (Note 24)	5,442,382	10,753	5,453,135
At end of period	**5,442,382**	**10,753**	**5,453,135**
Accumulated depreciation			
At start of period	-	-	-
Charge for the period	719,922	3,237	723,159
At end of period	**719,922**	**3,237**	**723,159**
Net book value as at 31 December 2016	**4,722,460**	**7,516**	**4,729,976**

16. INVESTMENT SECURITIES

	2016
	KShs
Government securities	371,001,350
Fixed deposits	362,034,384
	733,035,734

Fixed deposits included in investment securities include fixed deposits with original maturities longer than 90 days. Fixed deposits are invested in top tier banks.

17. TRADE AND OTHER RECEIVABLES

	2016
	KShs
Trade receivables	32,607,834
Service charge debtors	26,177,752
Provision for doubtful debts	(7,484,170)
Net trade receivables	**51,301,416**
Value Added Tax receivable	14,354,014
Interest accrual	18,101,972
Prepayments	6,642,688
Sundry debtors	11,658,961
	102,059,051

In the opinion of the REIT Manager, the carrying amounts of trade and other receivables approximate their fair value and are all denominated in Kenyan Shillings.

NOTES TO THE FINANCIAL STATEMENTS

18. CASH AND CASH EQUIVALENTS

	2016
	KShs
Cash at bank	16,680,270
Cash at hand	6,380
Fixed deposits	423,500,000
	440,186,650

Fixed deposits included in cash and cash equivalents include fixed deposits with original maturities of 90 days or less. Fixed deposits are invested with top tier banks.

For the purposes of the cash flow statement, cash and cash equivalents comprises of cash in hand and deposits held on call with banks.

19. TRUST CAPITAL

	2016
	KShs
Authorised	
625,000,000 units at a nominal value of KShs. 20 per unit	**12,500,000,000**
Issued and paid	
180,972,300 units at a nominal value of KShs. 20 per unit	**3,619,446,000**
Movement in Trust capital	
Opening balance	-
Issue of 180,972,300 new units at KShs. 20 per unit	3,619,446,000
Transaction costs for issue of new units	(139,905,255)
Closing balance	**3,479,540,745**

Issue of new units

During the period under review, 180,972,300 new units were issued as part of an initial public offer, leading to a capital raise of KShs. 3,619,446,000. Of the issued units, 66.9% (120,987,300) are considered free float while 33.1% (59,985,000) is restricted due to a three year lock-in period.

The unissued units are under the control of the REIT Manager and the Trustee, subject to the provisions of the Trust Deed, the Regulations and the Listing Requirements of the Nairobi Securities Exchange.

Distribution

After the reporting date, the following distribution was recommended by the REIT Manager and approved by the Trustee, subject to the unitholder approval at the annual general meeting to take place on 13 April 2017:

	2016
	KShs
KShs 0.50 distribution per qualifying unit	**90,486,150**

The distribution has not been recognised as a liability as at 31 December 2016 as it was declared after the end of the financial reporting period.

NOTES TO THE FINANCIAL STATEMENTS

20. REVALUATION RESERVE

	2016
	KShs
Opening balance	-
Fair value adjustment on investment property (Note 13)	8,000,000
Closing balance	**8,000,000**

The revaluation reserve relates to the revaluation surplus on investment property. The reserve is non-distributable.

21. TRADE AND OTHER PAYABLES

	2016
	KShs
Trade payables	10,080,710
Tenant deposits	26,746,372
Accruals and other payables	87,608,395
	124,435,477

22. TAX PAYABLE

	2016
	KShs
Opening balance	-
Liability assumed at acquisition of subsidiaries (Note 24)	5,034,901
At end of period	**5,034,901**

The REIT is exempt from income tax as per section 20 of the Kenyan Income Tax Act.
The tax liability shown above relates to the tax liability of the REIT's subsidiaries at acquisition date.

23. CASH GENERATED FROM OPERATIONS

	2016
	KShs
Profit before tax	106,000,288
Adjusted for:	
Depreciation (Note 15)	723,159
Finance costs (Note 11)	23,374,328
Bargain purchase gain (Note 7 and Note 24)	(25,156,147)
Fair value adjustment to investment property (Note 13)	(8,000,000)
	96,941,628
Working capital changes:	
Decrease in trade and other receivables	13,797,615
Decrease in trade and other payables	(3,926,551)
	9,871,064
Cash generated from operations	**106,812,692**

NOTES TO THE FINANCIAL STATEMENTS

24. ACQUISITION OF SUBSIDIARIES

On 11 December 2015, the REIT acquired 100% shareholding in Greenspan Mall Limited ("GML"), a property investment company owning a mall known as Greenspan Mall situated in Donholm, Nairobi. This was followed by the acquisition of 100% shareholding in Bay Holdings Limited ("BHL") and Signature International Limited ("SIL"), both owning properties that are semi-office and semi-light industrial and based in Industrial Area, Nairobi.

The table below summarises the acquisition date fair value of the consideration transferred.

	GML	BHL	SIL	Total
	KShs	KShs	KShs	KShs
Purchase consideration	2,093,576,710	216,122,547	108,717,670	2,418,416,927
Less: Pre-acquisition income	-	(14,885,126)	(8,000,000)	(22,885,126)
Net purchase consideration	**2,093,576,710**	**201,237,421**	**100 717 670**	**2,395,531,801**
Applied to settling pre-existing debt in subsidiaries	(771,493,000)	-	(38,328,383)	(809,821,383)
	1,322,083,710	**201,237,421**	**62,389,287**	**1,585,710,418**

Pre-acquisition income

The pre-acquisition income pertains to net income generated by Bay Holdings Limited and Signature International Limited during the period 1 July 2015 to 30 June 2016, accruing to the REIT in exchange for payment of the purchase consideration prior to transfer of ownership of these companies to the REIT, as negotiated by the REIT Manager in its capacity as the Promoter of the REIT. This income effectively reduced the purchase consideration and is distributable to the REIT's unitholders.

Pre-existing debt

Greenspan Mall and Signature International both had long term borrowings and shareholder loans which were settled by the respective vendors using the proceeds from the sale of the Company shares. The Greenspan Mall borrowings and shareholder loan were converted to equity through the issue of new shares at a share premium. The Signature International Limited shareholder loan will be converted to equity.

Acquisition related costs

The REIT incurred acquisition-related costs as outlined below:

	2016
	KShs
Valuation costs	1,800,000
Structural engineering due diligence	3,295,027
Mechanical, electrical and plumbing due diligence	3,151,245
Survey and town planning due diligence	638,000
Legal advisory (conveyancing related)	4,377,000
Tax advisory (conveyancing related)	5,805,584
	19,066,856

The valuation, structural engineering due diligence and mechanical, electrical and plumbing due diligence costs have been included in the listing costs capitalised against equity, while the survey and town planning due diligence, legal and tax advisory costs pertaining to conveyancing have been expensed through profit or loss. The appointment of a valuer and a structural engineer is a requirement by the Regulations for seed properties included in the REIT information memorandum.

NOTES TO THE FINANCIAL STATEMENTS

24. ACQUISITION OF SUBSIDIARIES...Continued

Identifiable assets acquired and liabilities assumed

	GML KShs	BHL KShs	SIL KShs	Total KShs
Investment property	2,100,000,000	211,500,000	115,500,000	2,427,000,000
Property and equipment	5,442,382	8,053	2,700	5,453,135
Trade and other receivables	89,992,240	15,071,699	10,792,727	115,856,666
Cash and cash equivalents	28,660,202	-	-	28,660,202
Trade and other payables	(122,081,625)	(3,413,003)	(2,867,400)	(128,362,028)
Tax payable	-	(3,829,433)	(1,205,468)	(5 034,901)
	2,102,013,199	**219,337,316**	**122,222,559**	**2,443,573,074**

Bargain purchase gain

	GML KShs	BHL KShs	SIL KShs	Total KShs
Consideration transferred	2,093,576,710	216,122,547	108,717,670	2,418,416,927
Fair value of identifiable assets	(2,102,013,199)	(219,337,316)	(122,222,559)	(2,443,573,074)
Bargain purchase gain	**(8,436,489)**	**(3,214,769)**	**(13,504,889)**	**(25,156,147)**

25. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Identification of related parties

STANLIB Kenya Limited is the authorised Manager of the REIT in terms of the Regulations. STANLIB Kenya also played the role of Promoter of the REIT ahead of its listing on the Nairobi Securities Exchange. STANLIB Kenya is part of the Liberty Group, a financial services group based in South Africa, with a strong focus in life insurance, asset management, and short-term insurance businesses in South Africa and the rest of Africa. STANLIB Kenya is 50% owned STANLIB Wealth Management Limited and 50% by Liberty Holdings Limited.

The Co-operative Bank Kenya Limited is the authorised Trustee of the REIT in terms of the Regulations and the Trust Deed.

As disclosed in the information memorandum of the REIT, the REIT Manager and Trustee earn a management fee and custodial fee respectively, for services rendered to the REIT.

The REIT has invested in the companies below which are wholly owned subsidiaries:

(i) Greenspan Mall Limited
(ii) Bay Holdings Limited
(iii) Signature International Limited

(b) Related party transactions

	2016 KShs
Asset management fee paid to STANLIB Kenya Limited	85,732,408
Interest paid to STANLIB Kenya Limited (Note 11)	23,374,328
Custodial fees paid to Co-operative Bank Kenya Limited	24,298,740

All related party transactions were done on an arm's length basis.

NOTES TO THE FINANCIAL STATEMENTS

25. RELATED PARTY TRANSACTIONS AND BALANCES...Continued

STANLIB Kenya and Liberty Group held the following units in the REIT as at 31 December 2016. These are subject to a three year lock-in period from date of issue.

HOLDER'S NAME	NUMBER OF UNITS	% HOLDING
STANLIB Kenya Limited	18,384,300	10.16
Liberty Group Limited	7,700,700	4.26
TOTAL	26,085,000	14.42

(c) Related party balances

At 31 December 2016, the REIT had the following cash balances held with The Co-operative Bank of Kenya Limited:

BANK ACCOUNT NAME	ENTITY	BALANCE
Investment account – fixed deposits	REIT	200,000,000
Investment account	REIT	7,251,691
Expenses account	REIT	1,298,380
STANLIB REIT Rent Coll a/c - Greenspan Mall	Greenspan Mall Limited	2,990,000
Excellerate Kenya Greenspan Mall account	Greenspan Mall Limited	663,469
STANLIB REIT Rent Coll a/c - Signature	Signature International Limited	3,100,000
STANLIB REIT Rent Coll a/c - Bay Holdings	Bay Holdings Limited	1,360,800
TOTAL		216,664,340

26. RISK MANAGEMENT

(a) Risk governance structures, roles and responsibilities

The Board of Directors of the REIT Manager is primarily responsible for ensuring the REIT's activities are within the adopted risk management framework of the REIT.

(b) Financial risk management

The REIT's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The REIT's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance, but the REIT does not hedge any risks.

Financial risk management is carried out under policies approved by the REIT Manager.

(i) Market risk (continued)

Foreign exchange risk

Foreign exchange risk arises from recognised assets and liabilities. The REIT's exposure to foreign currency risk arose from a creditor's balance denominated in US Dollars and was as follows at 31 December:

	2016 USD	2016 KShs
Trade and other payables (denominated in US dollars)	3,250	327,447
Net exposure	**3,250**	**327,447**

NOTES TO THE FINANCIAL STATEMENTS

26. RISK MANAGEMENT...Continued

(b) Financial risk management..Continued

(i) Market risk..continued

The following significant exchange rates have been applied:

	2016 Average rate	2016 Year-end spot rate
1 US Dollar	**100.307**	**100.753**

Sensitivity analysis

A reasonably possible strengthening or weakening of the Kenyan Shilling against the US Dollar would have affected the measurement of financial liabilities denominated in US dollars and affected equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular, interest rates, remain constant.

	Profit or loss and equity	
	Strengthening	Weakening
US Dollar (3% movement)	**(9,823)**	**9,823**

Price risk

The REIT does not hold any financial instruments subject to price risk.

Cash flow and fair value interest rate risk

The REIT is not exposed to cash flow and fair value interest rate risk as it does not have any interest bearing liabilities as at 31 December 2016.

Currency risk

The REIT is exposed to currency risk to the extent that there is a mismatch between the currencies in which sales and purchases are denominated and the functional currency of the REIT and the subsidiaries. The functional currency of the REIT and its subsidiaries is Kenyan Shillings. The currencies in which these transactions are primarily denominated are Kenyan Shillings and US dollars.

(ii) Credit risk

Credit risk is the risk that counterparty to a financial instrument will fail to discharge an obligation and cause the REIT to incur a financial loss.

The REIT is exposed to credit risk on its financial assets, i.e. trade and other receivables and cash. The risk of tenant default is managed through conducting tenant credit worthiness checks and the collection and maintenance of security deposits prior to tenants taking occupation.

Where the recoverability of receivables is doubtful, a provision for doubtful debts is raised, and where it is certain that a receivable is not collectible, it is impaired, in both cases, net of security deposits held. Cash is invested with financial institutions with a good quality credit record.

The gross amount that best represents the REIT's maximum exposure to credit risk at 31 December is made up as follows:

	2016 KShs
Trade receivables (Note 17)	32,607,834
Service charge debtors (Note 17)	26,177,752
Sundry debtors (Note 17)	11,658,961
Cash and cash equivalents less cash in hand (Note 18)	440,180,270
	510,624,817

NOTES TO THE FINANCIAL STATEMENTS

26. RISK MANAGEMENT...Continued

(b) Financial risk management..Continued

(ii) *Credit risk..continued*

No collateral is held for any of the above assets. The REIT does not grade the credit quality of receivables.

Debtors ageing

At 31 December 2016, the ageing of trade and other receivables that were not impaired was as follows:

	2016 KShs
Neither past due or impaired	(2,373,496)
Past due 1 - 30 days	1,641,368
Past due 31 - 90 days	21,727,691
Past due 91 - 120 days	11,612,271
	32,607,834

The REIT Manager believes that the unimpaired amounts outstanding for longer than 30 days are still collectible in full based on the extensive analysis of tenant credit risk and payment behaviours of tenants. The REIT Manager further believes that adequate provisions have been raised against tenant debtors considered doubtful.

Movement in provision for doubtful debts

The movement in the allowance for impairment in respect of trade and other receivables during the period was as follows:

	2016 KShs
Balance at 1 December 2015	-
Provisions within the period (Note 9)	7,484,170
Balance at 31 December 2016	**7,484,170**

During the period under review, bad debts for outstanding rent arrears of KShs. 4,663,407 were written off. These amounts had not been provided for previously.

(iii) Liquidity risk

Liquidity risk is the risk that the REIT, although solvent is not able to meet its payment obligations as they fall due (funding liquidity risk), or is only able to do so at materially disadvantageous terms (market liquidity risk).

Prudent liquidity risk management includes maintaining sufficient cash balances, and the availability of funding from an adequate amount of committed credit facilities. Through the issue of new shares at a premium during the period under review, the REIT was able to repay all its long term liabilities.

Management monitors rolling forecasts of the REIT's liquidity reserves on the basis of expected cash flow. Below is the outline of the REIT's current liabilities:

	Less than one year KShs
at 31 December 2016:	
Trade payables and accrued expenses (Note 21)	**97,689,105**

NOTES TO THE FINANCIAL STATEMENTS

26. RISK MANAGEMENT...Continued

(c) Fair value hierarchy

(i) Determination of fair value

The REIT has not disclosed the fair values of short term financial assets and short term financial liabilities since their fair values approximate to the carrying amounts as shown in the statement of financial position.

(ii) Valuation hierarchy

The valuation hierarchy, and types of instruments classified into each level within that hierarchy, is set out below:

	LEVEL 1	LEVEL 2	LEVEL 3
Fair value determined using:	Unadjusted quoted prices in an active market for identical assets and liabilities	Valuation models with directly or indirectly market observable inputs	Valuation models using significant non-market observable inputs
Types of financial assets:	Actively traded government and other agency securities Listed derivative instruments Listed equities	Corporate and other government bonds and loans Over-the-counter (OTC) derivatives	Corporate bonds in illiquid markets Highly structured OTC derivatives with unobservable parameters
Types of financial liabilities:	Listed derivative instruments	Over-the-counter (OTC) derivatives	Highly structured OTC derivatives with unobservable parameters

The table below shows the classification of financial assets, financial liabilities and non-financial assets held at fair value into the valuation hierarchy set out below as at 31 December 2016:

2016 KShs	Level 1	Level 2	Level 3	Total
Assets				
Investment property	-	-	2,435,000,000	2,435,000,000
Total assets	**-**	**-**	**2,435,000,000**	**2,435,000,000**

Details of changes in valuation techniques

There have been no changes in the valuation techniques during the period under review. Investment property was fair valued using the discounted cash flow and cost approaches. Refer to Note 13 to the financial statements.

27. CAPITAL COMMITMENT

As at 31 December 2016, the REIT had no capital commitments.

28. CONTINGENT LIABILITIES

As at 31 December 2016, the REIT had no significant contingent liabilities.

29. SUBSEQUENT EVENTS

In line with IAS 10, Events after the Reporting Period, the declaration of the distribution occurred after the end of the reporting period, resulting in a non-adjusting event that is not recognised in the financial statements. Refer to Note 19 of the financial statements for the distribution declared.

DEFINITIONS AND INTERPRETATIONS

TERM OR ABBREVIATION	MEANING
"the Act"	means The Capital Markets Act, Chapter 485A of the Laws of Kenya, (Amended by Act No. 48 of 2013);
"Auditor" or "KPMG"	means KPMG Kenya, a partnership formed in terms of the laws of Kenya, full details of which are set out in the "Corporate information" section;
"CBD"	means central business district;
"CBK"	means Central Bank of Kenya;
"CDSC"	means Central Depository and Settlement Corporation Limited;
"CED"	means Civil Engineering Design (K) Ltd;
"CMA" or "Capital Markets Authority" or "Authority"	means the Capital Markets Authority in Kenya established by statute (and includes any successor thereto (whether immediate or derivative));
"Co-op Bank"	means The Co-operative Bank of Kenya Limited;
"Distribution Date"	means date by which distributions to Unitholders are required to be made, being 30 April annually;
"Eligible Assets"	means the eligible real estate and/or eligible cash investments that the STANLIB Fahari I-REIT is permitted to invest in;
"GDP"	means Gross Domestic Product;
"GLA"	means gross lettable area, being the total area of a building that can be let to a tenant. GLA comprises primary GLA plus supplementary areas which include for example, storerooms, balconies, terraces, patios and signage/advertising areas dedicated for the use by the tenant and exclude basements and parking. Unless otherwise noted, any reference within the report to m^2 is based on GLA;
"IFRS"	means the International Financial Reporting Standards;
"Independent Property Valuers" or "Valuer"	means the independent property valuers of the I-REIT's properties, being Tysons Limited as at 31 December 2016;
"I-REIT"	means Income REIT;
"KBRR"	means Kenya Banks Reference Rate;
"KShs"	means Kenyan Shilling;
"LDK"	means LDK Africa Limited;
"Legal Advisor"	means the legal advisor to the REIT, being Mboya Wangong'u and Waiyaki Advocates;
"m^2" or "sqm"	means square metres;
"NAV"	means net asset value, being the value of all the STANLIB Fahari I-REIT's assets after subtracting the value of all of its liabilities as determined in accordance with the consolidated financial statements of STANLIB Fahari Property Income Fund;
"NSE"	means Nairobi Securities Exchange Limited, approved as a securities exchange under the Act;
"p.a."	means per annum;
"Registrar"	means the registrar of REIT securities in relation to the STANLIB Fahari REIT, being CDSC Registrars Limited;

DEFINITIONS AND INTERPRETATIONS...CONTINUED

TERM OR ABBREVIATION	MEANING
"REIT"	means Real Estate Investment Trust, an unincorporated common law trust that has been authorised as such by the CMA;
"REIT Manager"	means STANLIB Kenya Limited;
"REIT Regulations" or "the Regulations"	means the Capital Markets (Real Estate Investment Trusts) (Collective Investment Schemes) Regulations, 2013 as may be amended or modified from time to time;
"REIT Trustee" or "Trustee"	means the Co-operative Bank or Co-op Bank of Kenya Limited;
"SPV"	means Special Purpose Vehicle;
"STANLIB East Africa"	means STANLIB entities in Kenya Uganda, Tanzania and South Sudan, and inclusive of STANLIB Kenya Limited;
"STANLIB Fahari I-REIT" or "the REIT Scheme" or "the Scheme" or "the Trust"	means the STANLIB Fahari I-REIT;
"STANLIB Kenya"	means STANLIB Kenya Limited, Certificate of Incorporation number C.9522;
"Subsidiary" or "Subsidiaries"	means a subsidiary or the subsidiaries of the STANLIB Fahari I-REIT, being an entity or entities owned more than 50% by the REIT Trustee on behalf of the REIT;
"TAV"	means total asset value, being the value of all the STANLIB Fahari I-REIT's assets prior to any adjustments or deduction of liabilities;
"Technical Engineer"	means one or both of the technical engineers being, Civil Engineering Design (K) Ltd and/or LDK Africa Limited;
"Trust Deed"	means the trust deed between STANLIB Kenya Limited and The Co-operative Bank of Kenya Limited establishing the STANLIB Fahari I-REIT as an Income Real Estate Investment Trust Scheme, 30 September 2015;
"Unitholder(s)" or "REIT Unitholder(s)" or "Securities holder"	means any person including the Promoter, who has purchased or otherwise acquired (including through the exchange, or in consideration of any transfer, of Property) and holds any Units and is registered in the Register as evidence that he holds the units;
"Units"	means units of the STANLIB Fahari I-REIT;
"USD"	means United States Dollar;
"VAT"	means value-added tax as defined in the Value-Added Tax Act, 2013, as amended;
"ZAR"	means South African Rand.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the First Annual General Meeting of the unit holders of the STANLIB Fahari I-REIT ("the REIT") will be held at The Auditorium, All Saints Cathedral, Kenyatta Avenue, Nairobi, Kenya on Thursday, 13 April 2017, commencing at 09:00am for the purpose of transacting the following business:

1. To table the proxies and note the presence of a quorum.
2. To read the notice convening the meeting.
3. To receive the Annual Report and the Audited Annual Financial Statements for the thirteen-month period ended 31 December 2016.
4. To note the first and final distribution for the thirteen-month period ended 31 December 2016, of KShs. 90,486,150 (KShs. 0.50 per unit in issue) as recommended by the REIT Manager and approved by the Trustee, to be paid by 30 April 2017 to unit holders who are on the register of members by close of business 31 March 2017.
5. To note that KPMG continue as Auditors for the REIT.
6. To approve, as a special resolution, the amendment of the Trust Deed at Clause 35 thereof to read as hereunder to facilitate the distribution of the Annual Report and notices to unitholders by electronic means including the display thereof on the Website of the REIT:

   "35.1 Any notice or document required to be served upon or delivered to a holder shall be deemed to have been duly served if it is displayed on the website of the REIT or sent by electronic means of communication or is sent by post to or left at holder's address appearing in the register.

   35.2 Any notice required to be served or information to be supplied or given to any other person, including the Authority, shall be in writing or in such other form as enables the recipient to know or to record the date of receipt and to preserve a legible copy of the notice.

   35.3 Any notice or document served or delivered by post shall be deemed to have been served on the fourth day following that on which the letter containing the same is posted, and in proving such service it shall be sufficient to prove that such letter was properly addressed, stamped and posted; and any notice or document left at a registered address or served or delivered other than by post shall be deemed to have been served on the day it was so left or delivered, or sent or displayed, as the case may be."

BY ORDER OF THE TRUSTEE

Amos Mwita
Trustee Compliance Officer
The Co-operative Bank of Kenya Limited
P.O. Box 48231 – 00100
Nairobi, Kenya
Date: 23 March 2017

NOTE:
In accordance with Clause 34 of the STANLIB Fahari I-REIT Trust Deed a unitholder entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote on his behalf. The proxy need not be a unitholder of the REIT.

The Form of Proxy is attached to this Notice and may also be downloaded from the REIT's website www.stanlibfahariireit.com.

The duly completed Form of Proxy should reach CDSC Registrars not later than 48 hours before the time set for the meeting.

PROXY FORM

PROXY FORM - STANLIB FAHARI I-REIT

I/We____

Of (address) ____

Being holders of units of STANLIB Fahari I-REIT, hereby appoint:

____or failing him/her

____ or failing him/her

the Chairman of the Meeting, as my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the STANLIB Fahari I-REIT to be held on Thursday 13 April 2017 and at any adjournment thereof; and to vote for and/or against the ordinary or special resolutions and/or abstain from voting in respect of the units registered in my/our name(s).

Unless otherwise directed, the proxy shall be entitled to vote as he/she thinks fit.

Signed at ___________________________________on this day of_______________________________2017.

Signed____

Signed____

Note:

1. In the case of a unitholder being a Limited Company or other body corporate this form must be completed under its common seal or under the hand of an office or attorney duly authorised in writing.
2. Forms of proxy must be lodged with or mailed to the addresses below so as to reach the Registrar not later than 48 hours before the time of the meeting:

Hand deliveries to:

CDSC Registrars Limited
10th Floor, Nation Centre
Kimathi Street
Nairobi, Kenya

Postal deliveries to:

CDSC Registrars Limited
P.O. Box 3464 – 00100
Nairobi, Kenya

3. Alternatively, duly signed proxies can be scanned and emailed to helpdesk@cdsckenya.com in PDF format.

NOTES

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STANLIB Fahari I-REIT

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