ANNUAL REPORT AND FINANCIAL STATEMENTS 2017

STANLIB
Fahari I-REIT

2017 HIGHLIGHTS

KShs 171.1m net earnings	**3.7%** management expense ratio	**6.7%** portfolio vacancy rate
61% growth in earnings	**KShs 20.26** NAV per unit	**KShs 2.5bn** investment property
82c distributable earnings per unit	**34%** property expense ratio	**KShs 1.2bn** cash and near cash instruments
75c distribution per unit	**91%** distribution ratio	**KShs 3.7bn** NAV
50% growth in distribution	**8.4%** total property return	**KShs 1.9bn** market cap

STANLIB
Fahari I-REIT

CONTENTS

OUR CORPORATE INFORMATION

REGISTERED OFFICE OF THE REIT

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Email: customercare.kenya@stanlib.com

COMMERCIAL BANKER

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Email: customerservice@co-opbank.co.ke;
custodial@co-opbank.co.ke

TRUSTEE

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COMPLIANCE OFFICER – REIT MANAGER

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OUR CORPORATE INFORMATION...Continued

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STRUCTURAL ENGINEER

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THE CHAIRMAN'S STATEMENT

PETER WAIYAKI
Appointment date: 1 January 2013

2017 Performance

STANLIB Fahari I-REIT's results for 2017 demonstrate the REIT's potential and its transition to a normalized state of operations. The 61% growth in earnings was achieved through increased rental and related income and the significant reduction in fund management costs, which in the comparative period were high. Bringing the REIT into the market in late 2015 as the first such investment vehicle in East Africa resulted in set-up and listing costs that affected both equity and profit or loss in 2016. Such costs were, however, not recurring in nature. It is on the back of the 2017 financial year's strong performance that the REIT Manager has recommended and the Trustee has approved a distribution of 75 cents per unit, which is a 50% growth from the prior period's distribution of 50 cents per unit. The distribution amounts to 91% of distributable earnings (2016: 92%) against a minimum regulatory threshold of 80%.

Regulatory compliance on asset allocations

During 2017 we circulated a notification to the unitholders through the REIT's website to the effect that we had obtained a 6 month extension from the CMA to comply with the requirements of Regulation 65(6) of the REIT's Regulations. This Regulation requires a REIT to invest at least 75% of its total net asset value in income-producing real estate within 2 years of being authorised as a REIT scheme. Unfavourable pricing of property transactions in the market was the single most contributing factor to the inability to conclude a transaction in the best interest of the unitholders within this timeline. We are, however, pleased that the REIT has successfully identified a suitable property and concluded an agreement to purchase the same within the regulatory extension period, subject to CMA approval, unitholder approval

"We remain optimistic about the REIT's future prospects and are committed to ensuring that it generates sustainable income returns for unitholders"

and other conditions precedent. The targeted transaction completion date is 1 May 2018. The REIT Manager remains committed to complying with all regulatory requirements and to always act in the best interest of unitholders.

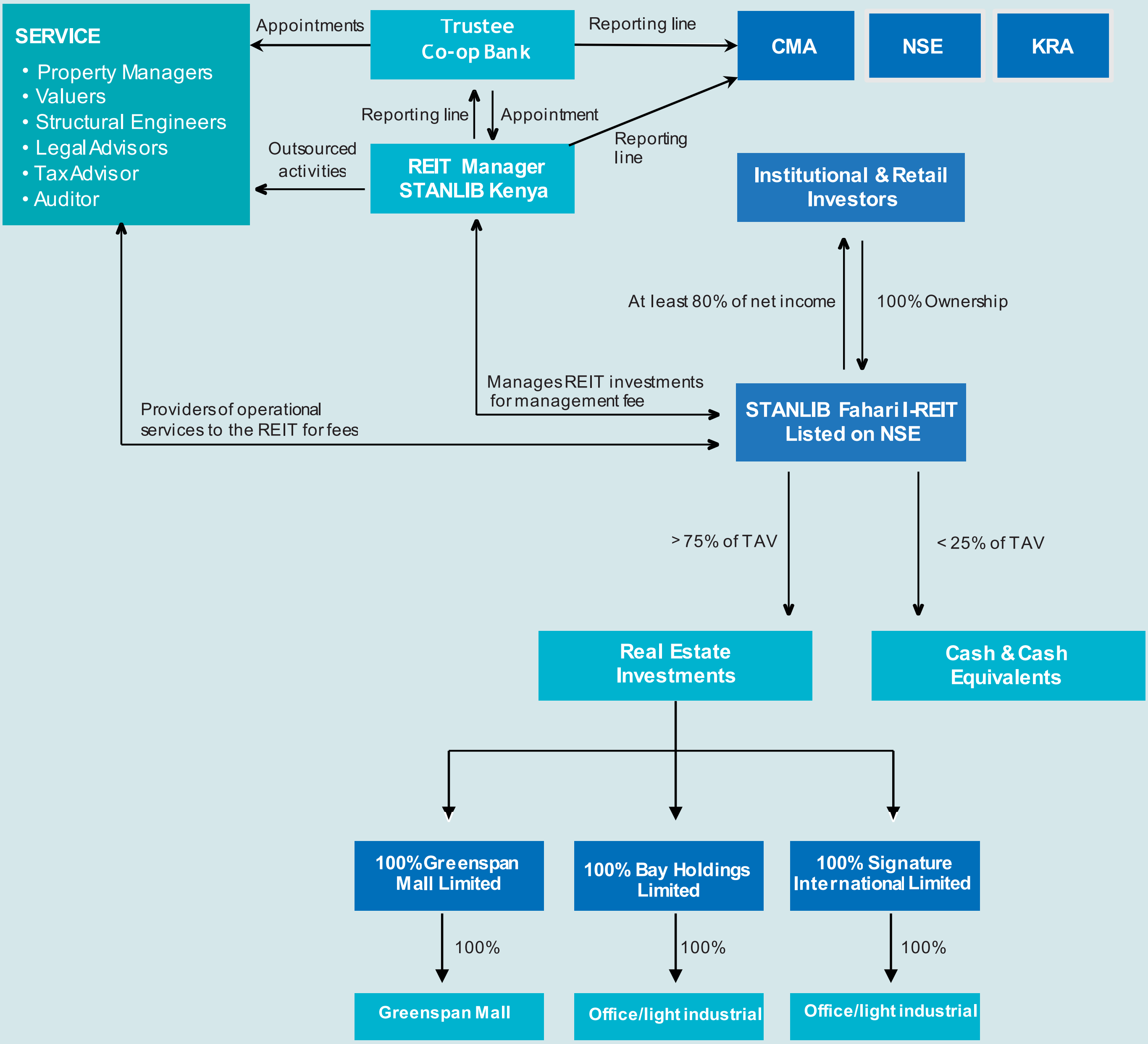
The year ahead

The REIT Manager will continue its strategic focus 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 locations. This will require additional capital to be raised. Regarding the existing portfolio, the REIT Manager is committed to undertaking initiatives aimed at increasing value such as implementation of a sound leasing strategy to attract good quality tenants who will enhance the property portfolio's tenant mix. The installation of a multi-purpose state-of-the-art 3-D cinema at Greenspan Mall is one such initiative. The cinema will comprise three screens with 100 seats each and is expected to not only increase returns, but also to enhance the mall's entertainment offering, complement existing tenancies, increase foot traffic, extend dwelling time in the mall as well as create cross-selling opportunities that will lead to improved customer experience and loyalty. The project is expected to be completed by the fourth quarter of 2018.

We remain optimistic about the REIT's future prospects and are committed to ensuring that it generates sustainable income returns for unitholders.

Peter Waiyaki
Acting Chairman, STANLIB Kenya Limited

THE REIT STRUCTURE



REIT MANAGER'S BOARD OF DIRECTORS

PETER WAIYAKI
Appointment date: 1 January 2013

Acting Chairman – 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 the 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 Laws Degree from 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 Law Society of Kenya Chartered Institute of Arbitrators (Kenya Branch) and the Institute of Certified Public Secretaries of Kenya.

NKOREGAMBA MWEBESA
Appointment date: 8 December 2016

Managing Director, STANLIB Kenya – Mr Mwebesa has more than 26 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. 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.

REIT MANAGER'S BOARD OF DIRECTORS...Continued

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 Plc 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 in Kenya (previously 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).

PATRICK MAMATHUBA
Appointment date: 23 March 2016

Non-executive Director – Mr Mamathuba is Head of Alternative Investments and Portfolio Manager at STANLIB Limited. Mr Mamathuba has 22 years experience in the investment industry. He joined STANLIB Limited 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 Limited including the passive funds offering, establishment of infrastructure capability and seeking private equity partner for the group.

Mr Mamathuba has held the position of 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.

JEFF HUBBARD
Appointment date: 29 November 2017

Non-executive Director – Mr Hubbard has 32 years working experience and has extensive experience in financial reporting and management. Having begun his career at Deloitte & Touche in 1985, Mr Hubbard has held several financial director roles for large entities across different industries. He joined Liberty Group in 2004 as a Head of Financial Reporting responsible for group financial and regulatory reporting and oversight and training of business unit CFOs. Mr Hubbard subsequently has held various positions in Liberty including the Group's Chief Financial Officer. During his tenure, Liberty ranked first in the EY's Excellence in Integrated Reporting Awards 2015 and ranked in the top 10 in several other years. Mr Hubbard is currently the Liberty Group Business Development Executive which includes responsibility for Liberty's businesses outside of South Africa as well as components of the South African insurance operations. He holds a B.Com (UCT) degree and is a registered Chartered Accountant with SAICA.

REIT MANAGEMENT TEAM

KENNETH MASIKA
Chief Executive Officer: STANLIB Fahari I-REIT

Kenneth has over 19 years of experience in the Property Industry most of which he gained as a Partner at Lloyd Masika Limited. Kenneth's 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 Institution of Surveyors of Kenya and a licensed and registered valuer by The Valuers Registration Board of Kenya. Kenneth joined the STANLIB Kenya Limited team on 1 November 2016.

NOZIPHO MAKHOBA
Chief Financial Officer: STANLIB Fahari I-REIT

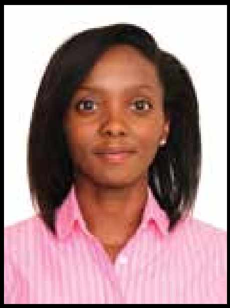
Nozipho has 17 years working experience spanning across financial management, external audit, property investment and corporate finance. She is responsible for financial and risk management, financial reporting and strategic resource planning. Before joining STANLIB Kenya Limited, Nozipho worked for 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, Nozipho 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) degree and a Post-graduate Diploma in Accounting, both from the University of Kwa-Zulu Natal. She is a registered Chartered Accountant with SAICA.

RUTH OKAL
Property Asset Manager: STANLIB Fahari I-REIT

Ruth has 14 years industry experience and is responsible for optimizing STANLIB Kenya Limited's real estate portfolio through market research, data analysis, revenue forecasting and industry reporting to inform business decisions. She holds an MA in Property Management and Valuation and a BA in Land Economics both from University of Nairobi, and has been instrumental in the originating, negotiating and closing many property transactions. Ruth is both a registered Valuer and Registered Estate Agent. She has completed CFA Level 1. Ruth joined STANLIB Kenya Limited in 2013 from Knight Frank Kenya Limited, where she gained experience within Commercial Agency, Property Management, Valuation, Market Research, Feasibility Studies and Development Advisory.

REIT MANAGEMENT TEAM...Continued

HILDA NJOROGE
Property Analyst: STANLIB Fahari I-REIT



Hilda has 6 years working experience and is responsible for real estate market research, asset management and investment analysis by evaluating relevant statistics and providing recommendations regarding the investment attractiveness of properties and property related investments under STANLIB Kenya Limited's Property portfolio. Hilda joined STANLIB Kenya Limited 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 and 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, United Kingdom. She is a registered member of the Institute of Certified Investment and Financial Analysts (ICIFA), a final candidate of the Royal Institute of Chartered Surveyors (RICS) and a continuing candidate of the Chartered Institute for Securities & Investment (CISI).

IRENE MALOBA
Financial Accountant: STANLIB Fahari I-REIT

Irene has over 5 years of experience in the financial sector. She is adept at budget forecasting, financial planning, financial reporting and analysis, treasury operations as well as banking. She is responsible for evaluating the company's performance, risk management and financial reporting. Prior to joining STANLIB Kenya Limited, Irene worked as a Management Accountant at Centum Investment Company Plc, the largest investment firm in East Africa where she was responsible for financial reporting and analysis for the Holding Company as well as Two Rivers Development and its subsidiaries. Before joining Centum, Irene spent over three years at Equity Group Holdings Limited where she developed her career in Finance. She was in charge of the finance department of Equity Investment Bank at the time of exit. Irene holds a Master of Science in Finance from the University of Nairobi and a Bachelor's degree in Business Management (Finance and Banking) from Moi University. She is a Certified Public Accountant of Kenya and a member of ICPAK.

EVELYNE KINARA
Risk and Compliance Manager: STANLIB Fahari I-REIT

Evelyne has 8 years working experience in legal and compliance field in the financial and capital markets industry across East Africa. Before joining STANLIB Kenya Limited, Evelyne worked for SBG Securities Limited (a member of the Standard Bank Group) from 2009 in the Legal and Compliance Department where she was in charge in overseeing the daily compliance functions pertaining to the capital markets industry in three jurisdictions where the Company is licensed-Kenya, Uganda and Rwanda. Evelyne holds a Bachelor of Laws Degree (LLB) from Moi University.

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. In any instances of non-compliance the REIT Manager takes proactive measures to ensure that the same is remedied as soon as practically possible.

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, COMPOSITION AND APPOINTMENTS

The Board comprises of 5 directors of whom four are non-executive directors, and one independent non-executive director. Following the resignation of the Chair of the Board (who was an independent non-executive director), the Board of the REIT Manager and its shareholders are in the process of replacing the Chairman with another independent non-executive director. The non-executive directors are required to demonstrate complete independence in character, judgment and action in fulfilling their duties.

A member of the Board shall retire once they get to the age of 70 years.

SEPARATION OF POWERS AND DUTIES

The separation of functions between the Chairman (a non-executive director) and managing director (executive director) ensures independence of the 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 REIT's business and overseeing the implementation of strategy and policies approved by the Board.

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

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 are provided with an induction programme, where required, to acquaint them with the business.

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

The Board reviews 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 of directors are asset management, strategy, business management, banking and finance, economics, marketing, project management, risk management, governance, legal and ethics among others. The directors' biographies appear on page 8 to 9 of this Annual Report.

AUDIT AND RISK COMMITTEE

The Board of the REIT Manager has established the Audit and Risk Committee which consists of two non-executive Directors and one executive director, the Acting Chairman being an independent non-executive Director.

The mandate and scope of responsibilities of the committee is aligned with the Capital Markets Authority's Code of Corporate Governance. The mandate of the Audit Committee inter alia includes:

- Internal control and risk management;
- Review of the external auditors scope and monitor their performance;
- Monitoring compliance of the laws and regulations governing the REIT; and
- Ensure 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 is the chief legal and governance advisor to the Board. She co-ordinates the Board work plan, meetings as well as manages communication between the organization and shareholders.

DIRECTORS UNIT HOLDING

Directors can purchase or sell units of the REIT in the open market. In the financial year under review none of the directors held REIT 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 2017 is as follows:

Name of Director	Number of units held
Patrick Mamathuba	257,000
Mike du Toit	91,900
Peter Waiyaki*	25,000
Total	**373,900**

*Held through Lex Consultants Limited

CORPORATE GOVERNANCE ...Continued

BOARD MEMBERS' MEETINGS

There are four scheduled Board meetings 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 year under review.

Board Member	Classification	17th March 2017	21st June 2017	26th July 2017	20th September 2017	29th November 2017
Wanjiru Mwangi *	Non-executive Chairman	Yes	N/A	N/A	N/A	N/A
Peter Waiyaki	Acting Non-executive Chairman	Yes	Yes	Yes	Yes	Yes
Mike du Toit	Non-executive Director	Yes	Yes	Yes	Yes	Yes
Seelan Gobalsamy***	Non-executive Director	Yes	No	Yes	No	N/A
John Mackie**	Non-executive Director	N/A	N/A	N/A	N/A	N/A
Patrick Mamathuba	Non-executive Director	Yes	Yes	Yes	Yes	Yes
Simphiwe Mdluli***	Executive Director	Yes	Yes	Yes	Yes	N/A
Nkoregamba Mwebesa	Managing Director	Yes	Yes	Yes	Yes	Yes
Jeff Hubbard****	Non-executive Director	N/A	N/A	N/A	N/A	N/A

* Resigned 14th June 2017
** Resigned 17th February 2017
*** Resigned 31st October 2017
**** Appointed 29th November 2017

The Board comprises of 5 directors of whom four are non-executive directors

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

The Board of the REIT Manager has the appropriate mix of skills, knowledge and experience to perform its role effectively

There are four scheduled Board meetings per year

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. REITs Regulations require that an I-REIT must invest at least 75 percent of its total NAV in income producing real estate, within two years of being licensed by the regulator. The nature of real estate investments means that it is difficult to find buyers for or sellers of 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. This risk became a reality for STANLIB Fahari I-REIT. Due to unfavourable pricing of potential transactions which proved to be uneconomical compared to the REIT's expected returns, it was not possible to acquire an additional property within the first two years of operations in order to increase the exposure to investment property to 75% of NAV. The Capital Markets Authority granted the REIT a six month extension to 26 March 2018 in order to comply with the Regulations. In that period, the REIT has identified and executed on an acquisition for a total consideration of KShs. 850 million, subject to regulatory and unitholder approval. The expected completion date of the transaction is 1 May 2018.

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 or loss statement. The REIT prepares its financial statements in accordance with 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 mitigates 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.

RISK MANAGEMENT...Continued

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 REITs 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 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 as per Section 20 of the Kenyan Income Tax Act. As allowed by Regulation 65(1)(b) of the REITs 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 REIT Trustee. 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 Income 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.

At the date of this report, the subsidiary tax legislation had been developed and reviewed by the KRA and the CMA with the view to ensuring these pass through the parliamentary approval process together with other broader tax amendments during 2018.

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 REITs Regulations that require it to have invested at least 75 percent of its NAV in real estate by the end of two years from the initial offer date and thereafter.

As at the date of this report, the REIT had not fully complied with the requirement to invest at least 75% of its NAV in real estate due to unfavourable pricing of potential transactions which proved to be uneconomical compared to the REIT's expected returns. The Capital Markets Authority granted the REIT a six month extension to 26 March 2018 in order to comply with the Regulations. In that period, the REIT has identified and executed on an acquisition for a total consideration of KShs. 850 million, subject to regulatory and unitholder approval. The expected completion date of the transaction is 1 May 2018.

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 environmental and social (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

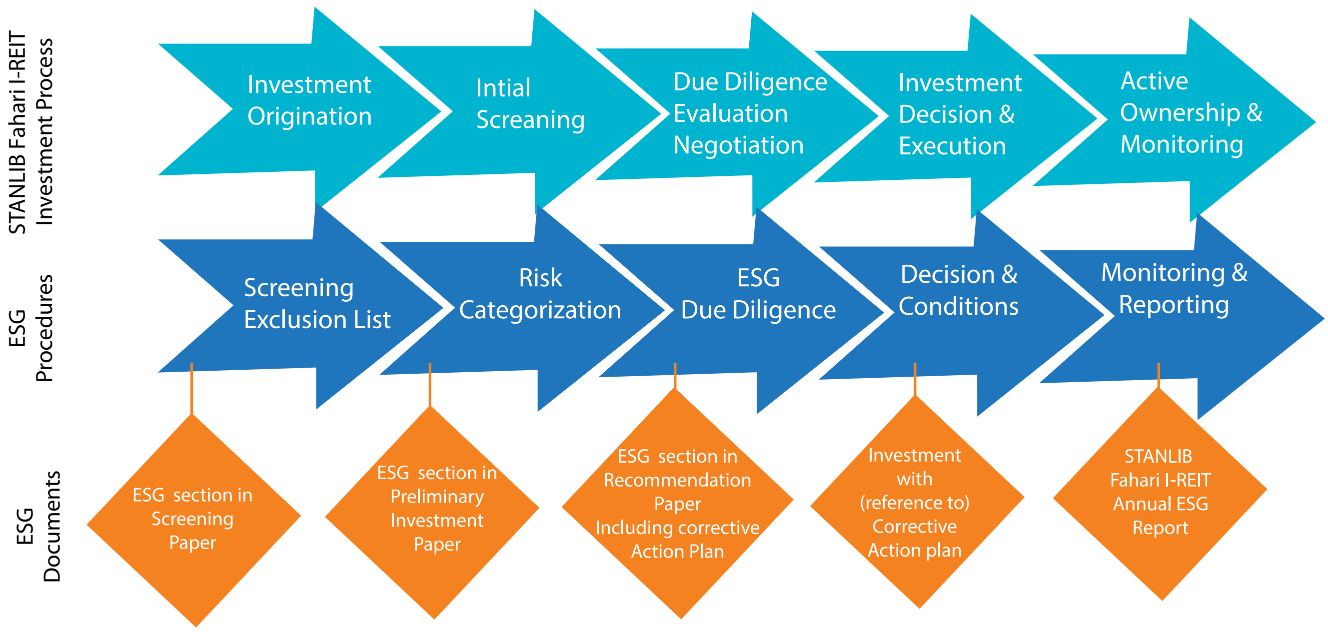
This sustainability report, among other things, outlines the E&S performance of the REIT including a review of the implementation of the environmental and social action plan (ESAP) and ongoing practices within its property portfolio.

Buildings are generally considered medium to low in terms of E&S aspects and impacts. Greening of buildings remains one of the most urgent climate change mitigation efforts since buildings account for 40% of worldwide energy use - which is much more than transportation - and CO_2 emissions from buildings are projected to grow faster than any other sector.

The REIT has invested in three buildings two of which are of exceptionally low impact due to their usage as private business premises with moderate human traffic. The third building, Greenspan Mall, by virtue of being a shopping mall attracts large numbers of visitors and tenants on a daily basis and thus requires more intense E&S focus.

SUSTAINABILITY REPORT...Continued

ESG IMPLEMENTATION IN THE INVESTMENT PROCEDURE



PORTFOLIO E&S PERFORMANCE

Greenspan Mall

E&S Metrics

TYPE OF REAL ESTATE ASSET	SHOPPING MALL		
Investment Date	11 December 2015		
Property size (m^2)	16,105		
E & S Risk Rating	**Environmental**	**Social**	**E & S Systems**
	Medium	Medium	Medium
Staff Numbers (Property Manager's) December 2017	**Permanent Total**	**Male**	**Female**
	2	1	1

Property Manager
Cushman & Wakefield Excellerate

E&S Status as at December 2017

Greenspan Mall stands out in the portfolio for its long-term potential. Situated on 9.5 acres within the densely populated middle-income area of Donholm, it has a diversified tenant base that includes an anchor supermarket, banks, restaurants, health facilities and a variety of other retailers. The area has no other similar properties, underlining its high tenant retention capacity and scope for regular rental income. Being a shopping mall with established standard operating procedures and health and safety policies, Greenspan Mall has a medium environmental and social risk rating. The following is the E&S status of the building as at end of 2017:

i) Assessment and Management of Environmental and Social Risks and Impacts

Based on the Environmental and Social Action Plan (ESAP) done in 2016, an Environmental and Social Management System (ESMS) was to be established and implemented. Greenspan has adopted the STANLIB ESMS which is currently under implementation. One of the key changes made in 2017 in response was the development of a risk register which enables the identification of risks as well as mitigating actions to eliminate, reduce or manage these risks.

Greenspan Mall has a Waste Management Policy within its management programme. It is important that this plan is adhered to by all stakeholders and those concerned.

Additionally, Greenspan Mall continues to showcase diligence in the management of Environmental, Health and Safety (EHS) concerns based on the Mall's EHS Policy. The policy seeks to ensure that the Mall activities do not negatively impact the natural environment and also provides for healthy and safe working conditions. Activities undertaken in 2017 in respect to this policy include environmental, safety and fire audits as well as a risk assessment.

The Mall has implemented the necessary emergency preparedness and response equipment such as a fire warning alarm system, clearly marked emergency exits, a fire assembly point and fire sprinklers at the basement parking lot. Emergency firefighting equipment comprising of fire hydrants and extinguishers have been strategically placed at different sections around the Mall. The extinguishers are inspected and regularly serviced.

EHS matters are monitored and reviewed through records of accidents, occupational sicknesses, audits and risk assessments, solid waste records etc. Stakeholder engagement is promoted

SUSTAINABILITY REPORT...Continued

E&S Status as at December 2017 (Continued)

i) Assessment and Management of Environmental and Social Risks and Impacts (Continued)

through the open-door policy at the management office at the Mall, the suggestion boxes and direct interaction with tenants, shoppers and supplier's 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 Working Conditions

The Mall still has two employees, male and female. All the other activities are outsourced to contractors by the property manager. The Mall's management is cognisant of the requirement to take commercially reasonable efforts to ascertain that the third parties engaged by the Mall operate in a manner that is consistent with its EHS policy. To address this issue, pre-screening is done with the help of a pre-qualification criteria. This is to ensure that the sub-contractors meet the EHS policy and legal requirements. This includes but is not limited to adequate supply of personal protective equipment (PPE), minimum wages, working hours, non-discrimination and equal opportunity during employment, right to be unionised and zero tolerance to child labour.

iii) Resource Efficiency and Pollution Prevention

a) **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 encouraging shoppers to use staircases.

b) **Water consumption**

Greenspan Mall shares a water source with the neighbouring Greenspan Estate. The water comes from the municipal supply as well as a shared borehole. The water is kept in an underground reservoir and pumped up to overhead tanks. The water is metered so the monthly consumption can be monitored. The main water use is for domestic purposes within the Mall and in the residential estate. There is also a reserve for firefighting within the Mall.

c) **Pollution prevention**

By virtue of being a mall with various tenants including eateries, shops, offices and two health care centres - a wide variety of waste, such as normal waste and also potentially hazardous waste is inevitable. Greenspan Mall outsources waste management to registered waste handling companies. Solid waste is deposited by tenants in four bins at the back of the Mall where the NEMA licensed waste management company sorts and takes it out for disposal.

For waste water, Greenspan Mall is connected to the municipal sewer system while there are storm drains all-round the property that channel storm water out into the main municipal drainage.

iv) Community Health, Safety, and Security

a) **Emergency Preparedness and Response**

The existing Emergency Preparedness and Response Procedures are adequate for the safety of the community and are regularly monitored through audits and risk assessments. The following lists the measures put in place in various workplace sections to ensure emergency preparedness:

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

b) **Security**

Security guards are available within the property and manage all the security within the premises. The contracted company is Lavington Security which is registered as per the Private Security Regulation Act No. 13 of 2016 and are members of the Protective Security Industry Association (PSIA). Part of their standard operating procedure is to liaise with the Kenya Police who undertake patrols within the Greenspan Mall during the Mall's operating hours. Armed police officers are always on standby in case of security related incidents. They are trained in crowd management, access control and sentry duty.

c) **Traffic safety**

Due to the nature of its operations, Greenspan Mall has a lot of traffic. With over 700 parking spots, it is expected that there will be traffic issues. The security personnel also offer services of traffic marshals within the premises. There are speed limits and directional markings indicated within the premises of the Mall.

SUSTAINABILITY REPORT...Continued

Bay Holdings Limited

E&S Metrics

TYPE OF REAL ESTATE ASSET	COMMERCIAL BUILDING		
Investment Date	30 June 2016		
Property size (m^2)	2,566		
E & S Risk Rating	**Environmental**	**Social**	**E & S Systems**
	Medium	Medium	Medium
Staff Numbers (Property Manager's) December 2017	**Permanent Total**	**Male**	**Female**
	-	-	-

Property Manager
Cushman & Wakefield Excellerate

E&S Status as at December 2017

Bay Holdings is a small commercial building that hosts three tenants within Nairobi's Industrial Area. Bay Holdings has three tenants, the largest being a bank with minimal operating activities, the other two tenants comprise i) a hardware business that specializes in door and window locks and handles and ii) a general hardware business. The following is the E&S status of the building as at end of 2017:

i) Assessment and Management of Environmental and Social Risks and Impacts

The building has implemented the necessary emergency preparedness and response equipment such as fire exits, clearly marked emergency exits, a fire assembly point and firefighting equipment. Emergency firefighting equipment comprise of fire hydrants and extinguishers which have been strategically placed at different sections around the building. The extinguishers are regularly serviced. Tenants have their own first aid boxes and manage their own individual safety systems.

ii) Resource Efficiency and Pollution Prevention

The roofing on the warehouses of the hardware tenants were designed to allow natural light inside the building so as to save energy use for lighting. Translucent roofing material was used to allow light to the areas of the building. The energy saving initiatives that were implemented in the building like switching off lights in well-lit areas during the day can be augmented with the use of energy saving bulbs in order to reduce electricity consumption. For the banking tenant, large windows and translucent roofing allow natural light into the banking hall.

Water is from the municipal connection and is pumped to water tanks on the roof. Water in the premises is for general domestic use. Conservation measures like water saving taps could be employed to reduce the water usage.

All waste water goes to the municipal sewer system and solid waste bins have been provided in lockable waste areas where tenants are required to store their waste for disposal. Waste is collected by Bins Company Limited, a NEMA licensed waste collector. There are insignificant sources of pollution based on the nature of operations of the tenants.

iii) Community Health, Safety and Security

Procedures are in place for emergency preparedness and response in relation to community health and safety, and these are regularly monitored.

Security guards are available within the property and they manage all the security within the premises. The contracted company Securex are registered as per the Private Security Regulation Act No. 13 of 2016 and are members of the Protective Security Industry Association (PSIA). Additionally, each tenant has installed CCTV cameras within their premises. The property activities result in minimal traffic.

Signature International Limited

E&S Metrics

TYPE OF REAL ESTATE ASSET	COMMERCIAL BUILDING		
Investment Date	30 June 2016		
Property size (m^2)	710		
E & Risk Rating	**Environmental**	**Social**	**E & S Systems**
	Medium	Medium	Medium
Staff Numbers (Property Manager's) December 2017	**Permanent Total**	**Male**	**Female**
	-	-	-

Property Manager
Cushman & Wakefield Excellerate

SUSTAINABILITY REPORT...Continued

Signature International Limited (Continued)

E&S Status as at December 2017

Signature International is a small commercial building within the Nairobi Industrial Area and hosts a tenant that is in the business of importing, distributing, installing and servicing air-conditioning equipment and extractors. The tenant is expected to vacate the building on 31 March 2018 at expiry of the lease. The following is the E&S status of the building as at end of 2017:

i) Assessment and Management of Environmental and Social Risks and Impacts

Signature International does not have a system for managing environmental and social risks. Such a system would enable the property to coherently identify and manage environmental and social risks and opportunities within the scope, impact and size of the property.

ii) Emergency Preparedness and Response

The necessary emergency preparedness and response equipment are installed. Fire exits are clearly marked, there is a fire assembly point and firefighting equipment installed within the building. Firefighting equipment comprise of fire hydrants and extinguishers which have been strategically placed at different sections around the building. The extinguishers are regularly maintained. The tenant has a first aid box in place.

iii) Resource Efficiency and Pollution Prevention

The building has translucent roofing material that allows for natural light. This is also augmented by the large windows on all the floors. There are however some areas that depend on electric lighting but energy saving bulbs are used. There are no significant pollutants because of the nature of operations. Observed coolant cylinders showed that the coolants used are considered environmental friendly (R-410A). The workshop area is well ventilated with cyclone ventilators installed on the rood for natural aeration. The building does not have lifts or escalators and stair cases are used to access the building.

Water is sourced from the municipality water connection. The main water use is for domestic activities such as cleaning floors and for use at the ablution facilities. Rain water harvesting could be encouraged for the building.

All waste water is channeled to the municipal sewer line and solid waste bins are provided for waste depositing before the National Environmental Management Authority (NEMA) registered waste management company collects it for disposal.

REPORT OF THE REIT MANAGER

The REIT Manager submits its report together with the audited financial statements for the year ended 31 December 2017, which shows 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 licensed under the REITs 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 provisions of the Trust Deed. The REIT Scheme is a closed ended Scheme and trades as "FAHR" on the Nairobi Securities Exchange ("NSE").

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 REITs Regulations; and
- Investing in cash, deposits, bonds, securities and money market instruments.

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

The objectives of the REIT Scheme have not changed since 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 assets within regulatory limits.

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
Peter Waiyaki	Acting Non-executive Chairman	
Nkoregamba Mwebesa	Managing Director	
Mike du Toit*	Non-executive Director	
Patrick Mamathuba*	Non-executive Director	
John Mackie*	Non-executive Director	Resigned 17 February 2017
Wanjiru Mwangi	Non-executive Chairman	Resigned 14 June 2017
Seelan Gobalsamy*	Non-executive Director	Resigned 31 October 2017
Simphiwe Mdluli*	Executive Director	Resigned 31 October 2017
Jeff Hubbard*	Non-executive Director	Appointed 29 November 2017

*South African

ACQUISITIONS

Acquisitions during the period

During the period under review, the REIT did not acquire any eligible real estate assets.

Real estate assets contracted for purchase or sale

On 26 March 2018, the REIT (represented by the Trustee) entered into an agreement to acquire an entity that owns an office building at a total consideration of KShs. 850 million subject to regulatory and unitholder approval as well as other conditions precedent. The targeted transaction completion date is 1 May 2018. The total consideration will be financed through the existing cash reserves. Other than this commitment, the REIT has no other commitments to purchase or dispose of real estate assets.

Compliance with Regulation 66

The Scheme completed the acquisitions of the nominated real estate investment within regulatory limit.

Other non-direct real estate assets

Other than the assets mentioned in this report, the REIT does not hold any other non-direct real estate assets.

REPORT OF THE REIT MANAGER...Continued

BUSINESS REVIEW

Performance highlights

Details	12 months to 31.12.2017	13 months to 31.12.2016	% Change
Net profit for the period (KShs)	171,126,409	106,000,288	61%
Rental and related income (KShs)	279,433,136	248,572,436	12%
Distributable earnings (KShs)	149,113,640	98,000,288	52%
Market value of property portfolio (KShs)	2,460,000,000	2,435,000,000	1%
Net asset value per unit (KShs)	20.26	19.81	2%
Distribution per unit (KShs)	0.75	0.50	50%

In its second year of operation ended 31 December 2017, the REIT delivered net earnings growth of 61% and distribution growth of 50%. The following are key highlights of the overall performance:

Rental and related income increased by 12% due to full year contribution of the two office buildings acquired mid-2016 as well as increase in rental income in line with lease escalations. This was partly offset by the rent for the retail property coming slightly under pressure, thus only growing marginally as tenants bargained for discounts at lease renewals during the year in light of the unfavourable economic climate. Whilst in the short term lease renewals at slightly discounted rates might result in reduction in income, in the long run it is expected to benefit the REIT through higher occupancies by tenants who can afford to meet their rental obligations. Service charge income which forms part of rental and related income grew substantially as a result of the recognition of additional recovery income following the completion of the audit of service charge expenses for 2016 and 2017.

The property expense ratio remained flat at 34% of total property income year-on-year though these expenses increased by 14% from prior period. In line with increased credit control measures on delinquent tenants, tenant distress activity increased during the year under review leading to increased recognition of impairment losses.

Partnering with energy efficiency solutions experts to evaluate the energy consumption as well as the electrical plant at the retail asset during the year under review is expected to increase efficiencies and reduce electricity spend in the near future. Benefits from this exercise are expected to flow from the coming year.

Fund operating expenses decreased substantially compared to prior period which experienced significant one-off set-up and listing costs some of which could not be capitalised to equity, such as promotional and marketing expenses, legal and tax advisory fees.

The fair value gain on revaluation of investment property amounted to KShs. 22 million (2016: KShs. 8 million). A finance cost saving of KShs 23 million in the current year under review also contributed to the growth in earnings.

Implementing a sound leasing strategy, debtors management, reducing vacancies and cost reduction initiatives continue to be among the key focus areas of the fund in order to improve returns.

DISTRIBUTION

The REIT Manager has recommended and the Trustee has approved a first and final distribution of KShs. 135,729,225 in relation to the year ended 31 December 2017 (2016: KShs. 90,486,150) subject to unitholder approval at the annual general meeting. The distribution was declared out of distributable earnings and met the requirements of a minimum distribution in terms of the REITs Regulations, which require that a minimum of 80% of net profit after tax, from sources other than realised gains from disposal of real estate assets, is distributed.

The table below outlines the distribution as a percentage of distributable earnings:

Details	12 months to 31.12.2017	13 months to 31.12.2016
Distributable earnings (KShs)	149,113,640	98,000,288
Distribution (KShs)	135,729,225	90,486,150
Distribution as a % of distributable earnings (%)	91	92
Weighted average units in issue (number)	180,972,300	180,972,300
Distributable earnings per unit (KShs)	0.82	0.54
Distribution per unit (KShs)	0.75	0.50

The proposal of the distribution by the REIT Manager occurred after the end of the reporting period ended 31 December 2017 resulting in a non-adjusting event that is not recognised in the financial statements. The distribution is payable by no later than 30 April 2018.

REPORT OF THE REIT MANAGER...Continued

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, the REIT issued 180,972,300 units at a nominal value of KShs. 20 per unit raising a total of capital of KShs. 3,619,446,000. This has been reduced by transaction costs of KShs. 139,905,255 on issue of units.

DIRECTORS OF THE REIT MANAGER'S INTEREST IN THE ISSUED UNITS OF THE REIT

Director's name	Number of units	
	At 31.12.2017	At 31.12.2016
Patrick Mamathuba	257,000	257,000
Mike du Toit	91,900	91,900
Peter Waiyaki*	25,000	25,000
Total units	**373,900**	**373,900**

*Held through Lex Consultants Limited

GOING CONCERN

The annual financial statements have been prepared using appropriate accounting policies consistent with those applied at the last report, supported by reasonable and prudent judgments 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 this report.

BRIEF STATEMENT OF BORROWINGS AND FINANCIAL ARRANGEMENTS

The REIT has not entered into any borrowings or financial arrangement in the period under review.

AUDITORS

The REIT's auditors, KPMG Kenya, continue in office in line with the requirements of the Regulations.

REIT MANAGER'S OPERATIONAL REVIEW

The REIT Manager's focus over the financial period under review was predominantly on seeking a suitable property acquisition in order to bolster the existing portfolio, and more importantly to ensure compliance with Regulations which require that the REIT must invest at least 75% of its net asset value in investment property. This objective has been achieved following the signing of an agreement to acquire an entity that owns an office building for a consideration of KShs. 850 million subject to regulatory and unitholder approval. The targeted completion date of the transaction is 1 May 2018.

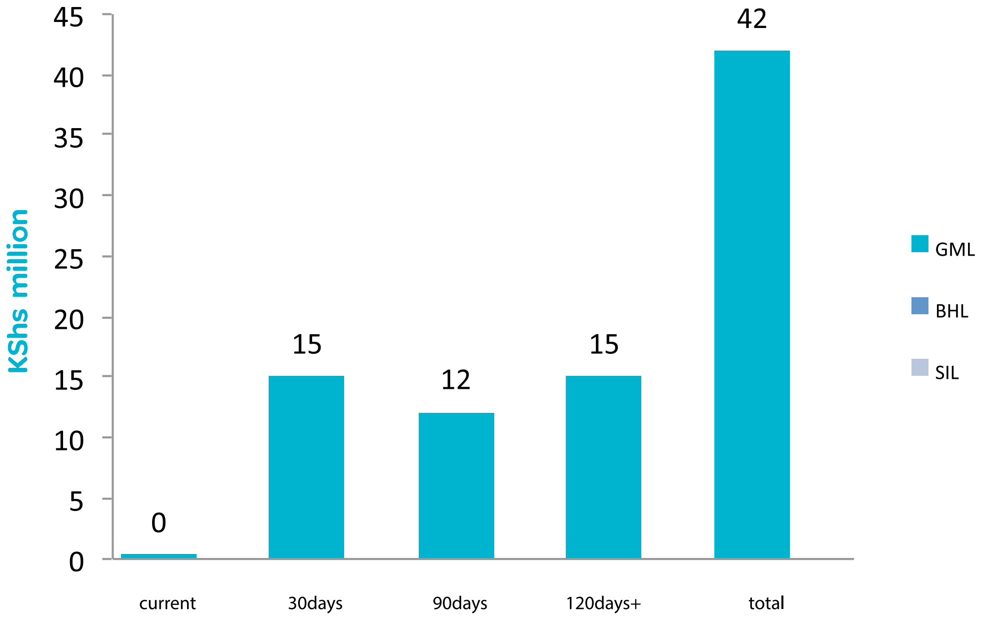
Over and above seeking a suitable property acquisition, the REIT Manager continued to perform strategic and operational functions in managing the existing property portfolio and cash reserves in order to ensure effective long term management of the REIT to deliver investor returns and comply with regulatory and legislative requirements:

- 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 debt financing, vendor placement, and general issuances of new equity);
- Efficient use of capital at the subsidiary 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 is managed and obligations are met through to deal execution;
- Investigation of redevelopment opportunities in the existing portfolio to maximise property returns;
- Implementation of energy saving strategies – to reduce operating costs for the tenants and the REIT as the ultimate landlord;
- 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;
- Debtors management – implementing stringent debt collection policies and procedures that ensure delinquent tenants are managed proactively to minimise impairment risk; and
- Management of service providers, such that their delivery is aligned to property-level as well as portfolio-level strategy.

REPORT OF THE REIT MANAGER...Continued

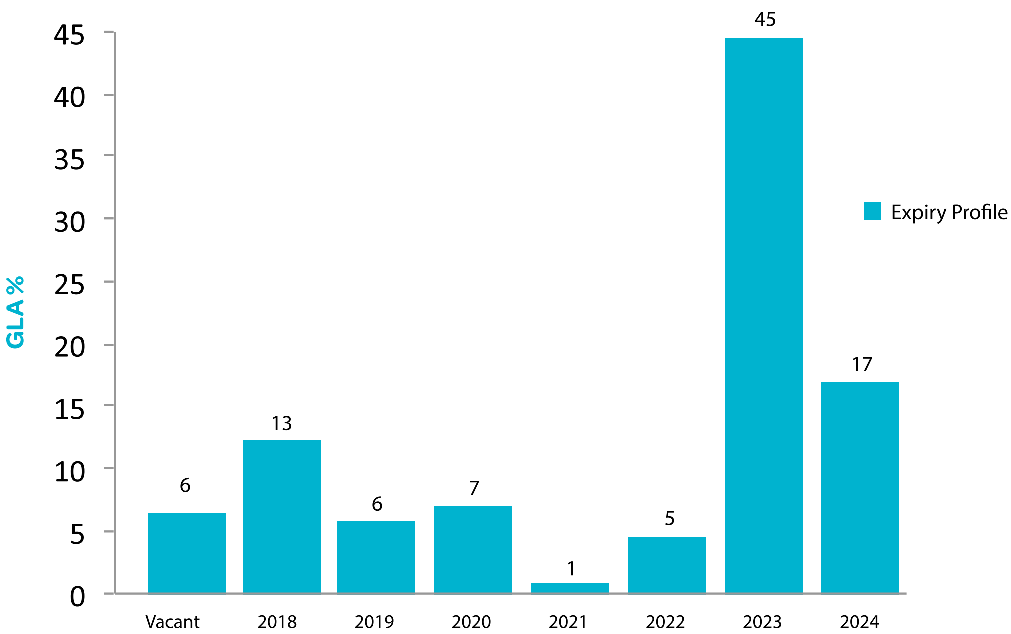
KEY PERFORMANCE INDICATORS

Debtors Age Analysis



Tenant debtors for the portfolio totalled KShs. 41.9 million as at 31 December 2017 before taking into account the provision for doubtful debts of KShs 10,231,039. BHL and SIL had no arrears as at 31 December 2017.The REIT Manager continues (through the property manager) to intensify arrears management processes with the aim of reducing tenant arrears to acceptable levels.

Lease Expiry Profile by GLA



The lease expiry profile is well spread with over 60% of the GLA expiring after six years from reporting date. The spike in 2023 is due to the expiry of the anchor tenant lease in Greenspan Mall.

REPORT OF THE REIT MANAGER...Continued

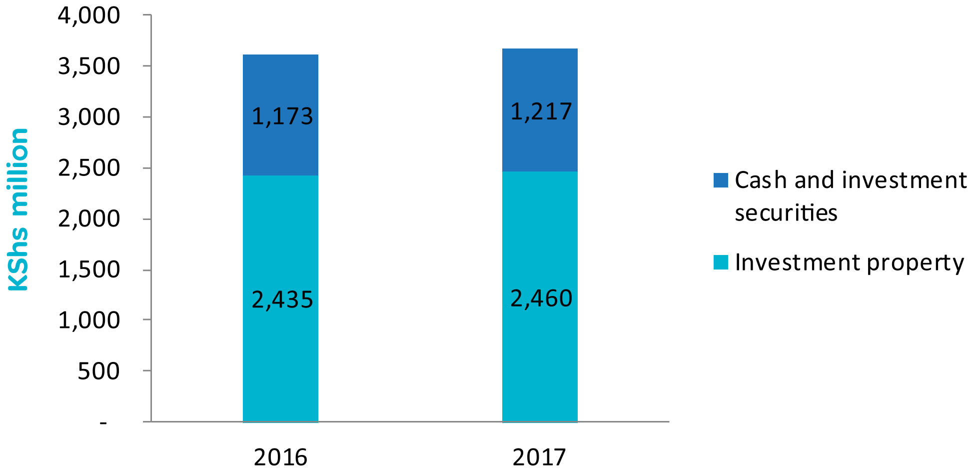
KEY PERFORMANCE INDICATORS (Continued)

Vacancies

The total portfolio vacancy rate is at 6.7%, slightly above the 5% target of the REIT Manager.

Property	GLA	Vacancy GLA	Vacancy %
Greenspan Mall Limited	155,477	13,078	8.4
Bay Holdings Limited	33,265	-	-
Signature International Limited	7,638	-	-
Total weighted average	**196,380**	**13,078**	**6.7**

ASSETS UNDER MANAGEMENT



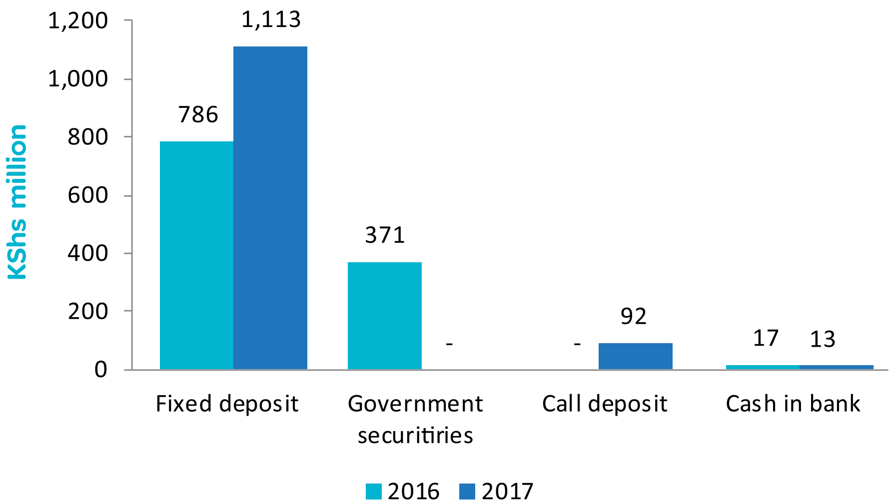
The AUM has held steady since inception, with investment property gaining from a revaluation surplus of KShs. 22 million as at 31 December 2017 and cash and investment securities increasing slightly as at 31 December 2017 compared to 31 December 2016 by KShs. 44 million.

CASH AND NEAR CASH ASSETS (KShs)

Cash instruments	At 31.12.2017	At 31.12.2016
Cash and cash equivalents	688,190,218	440,186,650
Investment securities	529,000,000	733,035,734
Total	**1,217,190,218**	**1,173,222,384**

To ensure optimisation of interest income returns, cash from property subsidiaries is swept into the REIT's investment account on a daily basis and is then invested in competitively priced cash investment instruments. In the above table, fixed deposit and all treasury bill instruments that have a maturity greater than 90 days at inception are classified as investment securities, otherwise they are included in cash and cash equivalents.

Breakdown of Cash and near cash assets



REPORT OF THE REIT MANAGER...Continued

CASH AND NEAR CASH ASSETS (KShs) (Continued)

Breakdown of Cash and near cash assets (Continued)

Fixed deposit instruments and government securities (i.e. treasury bills) dominate the portfolio, though the latter is currently being wound down in anticipation of a property acquisition.

NET ASSET VALUE

Movement in Net Asset Value

(KShs)	At 31.12.2017	At 31.12.2016
Total asset value	3,761,627,663	3,715,011,411
Net asset value	3,666,181,292	3,585,541,033
Number of units in issue	180,972,300	180,972,300
Net asset value per unit	**20.26**	**19.81**

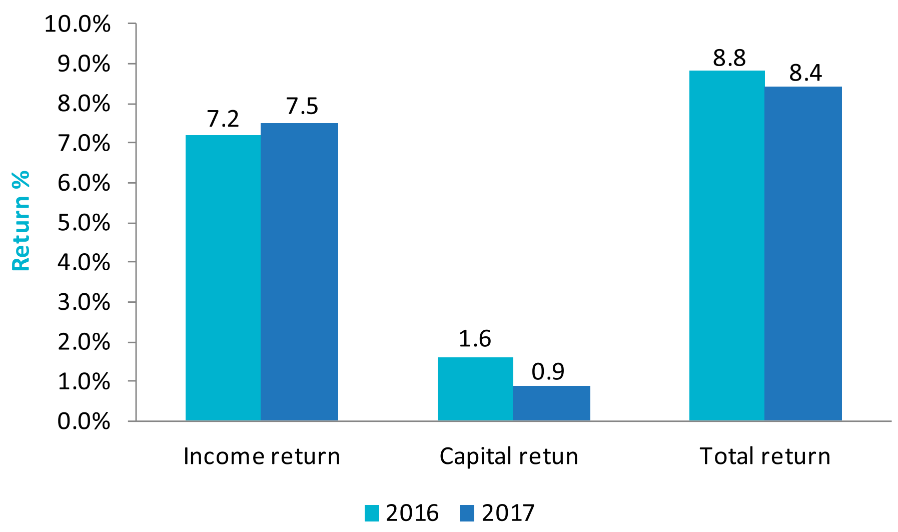
There was a slight increase in total assets and net assets attributable to revaluation gain of KShs. 22 million as well as net operating profit for the year ended December 2017 of KShs. 149 million (net of revaluation gain).

Net Asset Value Prior and Post Distribution of earnings

(KShs)	At 31.12.2017	At 31.12.2016
Net asset value prior to distribution	3,666,181,292	3,585,541,033
Net asset value post distribution	3,530,452,067	3,495,054,883
Net asset value per unit prior to distribution	20.26	19.81
Net asset value per unit post distribution	19.51	19.31
Yield based on the value of the unit as at 31 December	**7.00%**	**4.29%**

FUND RETURNS

Property returns



Property is valued once at the end of the financial year by an independent valuer.

Investment income return (annualised) (%)

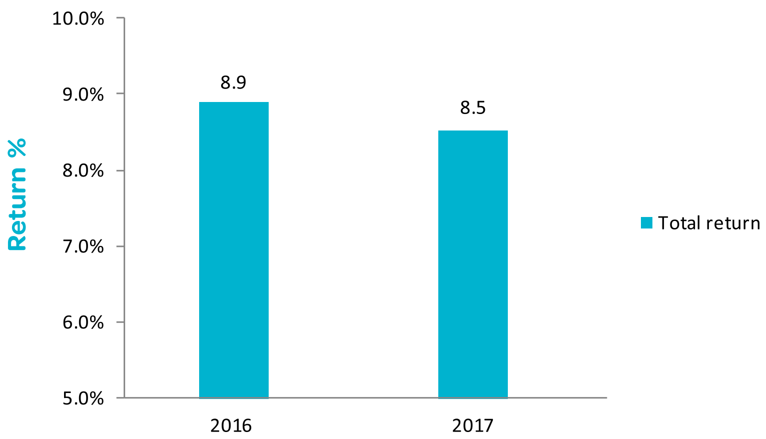
Investment income return (annualised) (%)	12 months to 31.12.2017	13 months to 31.12.2016
Fixed and call deposit interest return	8.5	9.2
Treasury bills income return	10.3	9.3
Weighted average interest return	**8.7**	**9.2**

REPORT OF THE REIT MANAGER...Continued

FUND RETURNS (Continued)

The total portfolio return comprises the weighted property and interest income return over the various reporting periods. The average split between property and cash instruments has been 67% / 33%.

Total Portfolio Return



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

Sources of distribution	12 months to 31.12.2017 KShs	13 months to 31.12.2016 KShs
Net rental/dividend income from wholly owned property companies	**184,894,243**	**190,587,729**
Interest income	99,852,345	111,209,231
	284,746,588	**301,796,960**
Less:		
Fund operating expenses	(135,632,948)	(180,422,344)
Interest paid	-	(23,374,328)
Total potential distributable income	**149,113,640**	**98,000,288**
Distribution	**135,729,225**	**90,486,150**
Distribution as a % and in compliance with Regulation 72	91%	92%

Management Expense Ratio

The management expense ratio ("MER") is the total fees and expenses incurred at a fund level expressed as a percentage of the average NAV for the period under review. The following ratio was achieved during the period under review and the comparative period.

Expense ratio	12 months to 31.12.2017 %	13 months to 31.12.2016 %
MER (%)	3.7	5.0

The reduction in the current year MER compared to the comparative period is due to the comparative period including one-off set-up and listing costs which could not be fully capitalised to equity. The REIT Manager is committed to driving costs down at a fund level in order to improve total fund returns.

DETAILED ANALYSIS OF UNITHOLDINGS

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 unitholders may resolve from time to time.

The units, registered for trading with ISIN Code KE5000003656, are freely transferable on the NSE, and bear no restriction on transfer, save as it relates to the lock-in periods as highlighted below.

REPORT OF THE REIT MANAGER...Continued

DETAILED ANALYSIS OF UNITHOLDINGS (Continued)

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 at the NSE. The market price of the units is market driven and may not necessarily be equal to the NAV of the REIT. There is currently no active secondary market for a REIT in Kenya. However, the 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 with 26.085 million units 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 from inception.

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

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

The REIT has 180,972,300 units in issue as at 31 December 2017. The total number of authorised units is 625,000,000. These have not changed since inception.

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. Units with lock-in periods are disclosed below.

Details of number and 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	12 months to 31.12.2017	13 months to 31.12.2016
Units at the beginning	180,972,300	-
Units issued during period	-	180,972,300
Units in issue at period end	**180,972,300**	**180,972,300**

The REIT has only one class of authorised and issued units. No units were redeemed or issued within the reporting period.

Breakdown of REIT Securities Holdings by Class

The distribution of the REIT's unitholders as at 31 December 2017 was as follows:

RANGE	Units	Units %	Unitholders	Unitholders %
Less than 100	140	-	7	0.1
100-1000	2,067,595	1.1	2,311	40.7
1001-10000	10,991,868	6.1	2,859	50.4
10001-100000	12,278,226	6.8	426	7.5
100001-less than 5% of no. of units in issue	54,711,171	30.2	64	1.1
Holdings above 5% of no. of units in issue	100,923,300	55.8	5	0.1
TOTAL	**180,972,300**	**100.0**	**5,672**	**100.0**

REPORT OF THE REIT MANAGER...Continued

DETAILED ANALYSIS OF UNITHOLDINGS (Continued)

REIT Security Holdings by Country

The REIT security holdings by country as at 31 December 2017 were as follows:

Country	Units	Units %
Kenya	170,311,500	94.1
South Africa	8,404,500	4.6
Uganda	1,631,400	0.9
Others	624,900	0.4
Total	**180,972,300**	**100.0**

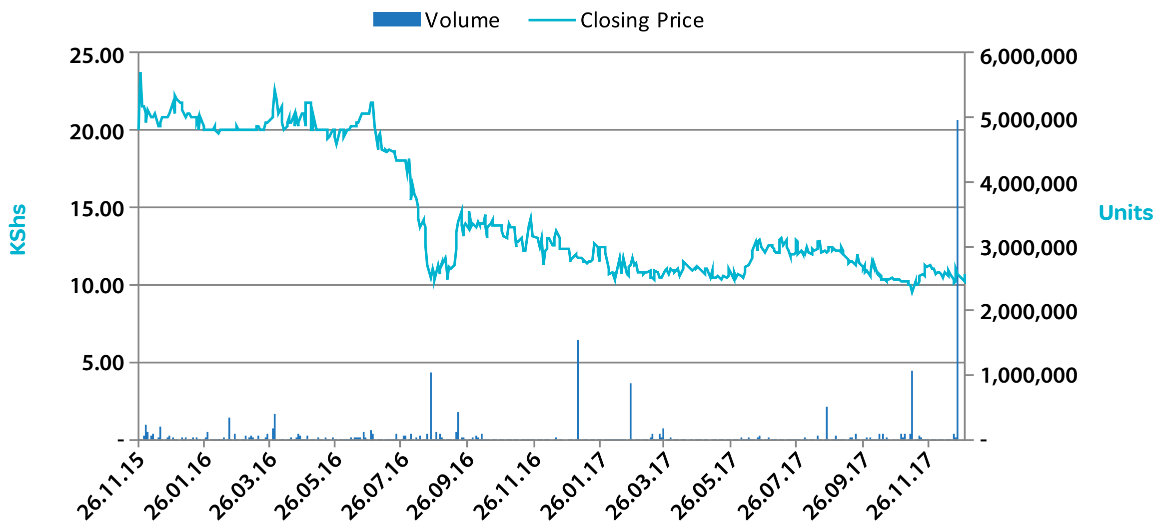
REIT Investor Holdings

Top STANLIB Fahari I-REIT Unitholders as at 31 December 2017 were as follows:

Holder Names	Units	% Holding
Standard Chartered Nominees Non Resd A/C KE11752	33,900,000	18.7
Standard Chartered Nominees Resd A/C KE11401	25,000,000	13.8
STANLIB Kenya Limited	18,384,300	10.2
Kenya Commercial Bank Nominees Limited A/C 926A	13,750,000	7.6
Standard Chartered Nominees Resd A/C KE11443	9,889,000	5.5
Liberty Group Ltd	7,700,700	4.3
Standard Chartered Nominees Non Resd. A/C 9424	5,147,000	2.8
One Globe Holdings Limited	4,940,400	2.7
Kenya Commercial Bank Nominees Limited A/C 1018A	3,241,900	1.8
Standard Chartered Nominees A/C 9265	3,211,100	1.8
TOTAL	**125,164,400**	**69.2**

CLOSING PRICE HISTORY

The REIT daily closing price from inception to 31 December 2017 was as follows:



REPORT OF THE REIT MANAGER...Continued

CLOSING PRICE HISTORY (Continued)

The REIT's closing price at end of year is outlined below:

	At 31.12.2017	At 31.12.2016
Closing price per unit (KShs)	10.70	11.65

CONNECTED PARTY TRANSACTIONS

The following are connected parties to the REIT, who had dealings with the REIT and the relevant transactions:

(a) **Identification of connected parties (as defined in the Regulations) who had dealings with the REIT**

Connected party	Relationship	Transaction
STANLIB Kenya Limited	REIT Manager	Asset management fees
The Co-operative Bank of Kenya Limited	Trustee	Custodial fees
Tysons Limited	Valuer	Valuation
Mboya Wangong'u & Waiyaki Advocates*	Legal Advisor	Legal advisory services

*One of the partners of Mboya Wangong'u & Waiyaki Advocates is a director of the REIT Manager.

(b) **Connected party transactions – fees paid**

Transaction (KShs)	12 months to 31.12.2017	13 months to 31.12.2016
Asset management fee paid to STANLIB Kenya Limited	84,101,266	85,732,408
Custodial fees paid to Co-op Bank	22,952,573	24,298,740
Other administration fees paid to Co-op Bank	870,173	-
Valuation fees paid to Tysons Limited	1,398,000	2,975,000
Legal advisory fees paid to Mboya Wangong'u & Waiyaki Advocates	1,314,100	17,508,000
Valuation fees paid to Lloyd Masika – pre-acquisition valuation	-	1,800,000
Interest paid to STANLIB Kenya Limited	-	23,374,328
Total	**110,636,112**	**155,688,476**

(c) **Connected party balances**

The REIT had the following cash balances held with Co-op Bank:

Bank account name (KShs)	At 31.12.2017 KShs	At 31.12. 2016 KShs
Investment account – fixed deposits	231,000,000	200,000,000
Investment account – call deposits	4,000,000	-
Investment account	1,504,663	7,251,691
Expense account	-	1,298,380
Rent collection account – Greenspan Mall	1,980,127	2,990,000
Service charge account – Greenspan Mall	9,911,525	663,469
Rent collection account – Bay Holdings	330,358	3,100,000
Rent collection account – Signature International	942,671	1,360,800
Total	**249,669,344**	**216,664,340**

REPORT OF THE REIT MANAGER...Continued

CONNECTED PARTY TRANSACTIONS (Continued)

(d) **Units held by connected parties to the REIT**

Promoter Holdings as at 31 December 2017	Units	Holding %
STANLIB Kenya Limited	18,384,300	10.16
Liberty Group Limited	7,700,700	4.26
Total	**26,085,000**	**14.42**

(e) **Units held by the directors of connected parties to the REIT**

Director's name	At 31.12.2017	At 31.12. 2016
Patrick Mamathuba	257,000	257,000
Mike du Toit	91,900	91,900
Peter Waiyaki*	25,000	25,000
Total	**373,900**	**373,900**

*Held through Lex Consultants Limited

INVESTMENTS IN ANY WHOLLY OWNED AND CONTROLLED COMPANY CARRYING OUT REAL ESTATE RELATED ACTIVITIES

- The asset known as Greenspan Mall is held within the wholly-owned subsidiary Greenspan Mall Limited.
- The asset known as Highway House is held within the wholly-owned subsidiary Signature International Limited.
- The asset known as Bay Holdings is held within the wholly-owned subsidiary Bay Holdings Limited.

FEES PAID BY THE REIT as per REGULATIONS

Transaction (KShs)	12 months to 31.12.2017	13 months to 31.12.2016
Asset management fee paid to STANLIB Kenya Limited	84,101,266	85,732,408
Custodial fees paid to Co-op Bank	22,952,573	24,298,740
Other administration fees paid to Co-op Bank	870,173	-
Cushman & Wakefield Excellerate	10,986,190	8,009,728
Valuation fees paid to Tysons Limited	1,398,000	2,975,000
Legal advisory fees paid to Mboya Wangong'u & Waiyaki Advocates	1,314,100	17,508,000
CED Engineers – structural engineering due diligence costs*	998,853	3,295,027
LDK Engineers – MEPS engineering due diligence costs*	998,853	3,151,245
Valuation fees paid to Lloyd Masika – pre-acquisition valuation*	-	1,800,000
Interest paid to STANLIB Kenya Limited	-	23,374,328
Total	**123,620,008**	**170,144,476**

*The above fees in the 2016 financial year only relate to the seed properties and exclude fees on properties not acquired.

CONSTRUCTION AND DEVELOPMENTS

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 six months after the financial period ended 31 December 2017.

Construction and development activities

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

REPORT OF THE REIT MANAGER...Continued

PROPERTIES DETAILED REPORT

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.

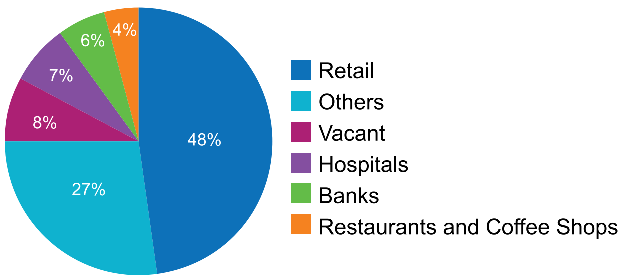
The Property is registered as L.R. No. Nairobi/Block 82/8759 (F1, F2, F3, F4 & F5). It is held as leasehold interest for a term of 99 years less 7 days, with lease commencement date 1 September 2007 at peppercorn rent, if demanded. As at 31 December 2017, the property had an unexpired leasehold term of 89 years.

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 re-configuration 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 2017, the property had an unexpired leasehold term of 38 years.

REPORT OF THE REIT MANAGER...Continued

PROPERTIES DETAILED REPORT (Continued)

SIGNATURE INTERNATIONAL LIMITED (Continued)

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

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

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

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 1 January 1949 and registered as Title Number I.R 93022. The property had an unexpired leasehold term of 31 years as at 31 December 2017.

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

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.

SUMMARY OF RECENT VALUATIONS

The investment properties were revalued by Tysons Limited as 31 December 2017 and 2016. The market values at revaluation are summarized below:

PROPERTY MARKET UPDATE

Despite the challenges faced in 2017, Kenya continues to position itself as a preferred hub by multinationals with operations within East and Central Africa mainly due to its location, connectivity, innovation, access to amenities and recent large scale infrastructural upgrades. While notable progress was made, a combination of downward pull factors such as the prolonged electioneering period, interest rate capping and macro-economic factors posed significant headwinds to the sector in the year 2017 resulting in weak growth.

The fundamentals remain relatively strong, with the year 2018 presenting more optimism as the cooling of political temperatures points to a return to normalcy. This is supported by the significant investor confidence shown by some of the major international investors who up-scaled their real estate operations in Kenya including the UK based Old Mutual Insurance which invested KShs. 6.4 billion in Two Rivers Mall, UK based Pan-African real estate fund Actis which have recently raised US$500 million for its third African property fund, Delta Africa property fund and Retail Africa from South Africa and AVIC International Holding Corporation of China.

Retail Sector

The retail sector in Kenya has grown exponentially over the last decade with marked decentralization within major towns. According to research by JLL and Broll carried out in 2017, Nairobi remains the second largest market after South Africa with approximately 6 million square feet of formal retail space, up 41% from the 3.9 million square feet registered in 2016. Between 2000 and 2008, Nairobi added 0.72 million square feet of retail real estate, while between 2009 and 2017, the capital city added 3.52 million square feet (approximately five times of earlier addition) of retail real estate across 17 developments.

In the year 2017 alone, the city saw additional supply of over 100,000m^2 comprising of Two Rivers Mall (67,000m^2), the largest in East Africa, Ciata City Mall on Kiambu Road (6,000m^2), Village Market Phase 3 (21,367m^2) and Southfield Mall in Embakasi (13,935m^2). Retail developments in the pipeline for 2018 are expected to be over 100,000m^2 spread over major counties.

The sector experienced stagnation attributed to continued oversupply in certain neighbourhoods, a slowdown in the economy coupled by the under-performance of some retailers such as Nakumatt and Uchumi which closed several branches within the year under review. As a result of these, the absorption levels and stabilization in malls are taking longer - approximately 3 to 4 years from construction completion forcing investors to look at longer horizons. Retail yields range between 8% to 10% with vacancies trending up to about 10% for the older malls. Tenant retention was also a major challenge in 2017 with most landlords opting to grant flexible lease terms.

Transaction (KShs)	At 31.12.2017	At 31.12.2016
Greenspan Mall	2,170,000,000	2,150,000,000
Bay Holdings	220,000,000	215,000,000
Signature International	70,000,000	70,000,000
Total	**2,460,000,000**	**2,435,000,000**

Copies of the valuation 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).

REPORT OF THE REIT MANAGER...Continued

PROPERTY MARKET UPDATE (Continued)

Office Sector

According to research by Data Fintech, the recent oversupply has forced developers to reduce rent and prices by an average of 7% in a bid to remain competitive and attract occupiers. This decline in absorption was mainly attributed to the prevailing macroeconomic factors, the political climate, multinationals continuing to downsize, and oversupply within certain commercial nodes. This specifically had an impact on the international corporates looking to enter or expand in the region.

To mitigate this slowdown, landlords resorted to offering additional incentives such as rent discounts, rent-free periods and tenant installation allowances in order to attract and retain good quality tenancies. The increased supply is limiting performance with occupancy rates and yields declining as rents and prices experience slower growth rates. Office yields are between 7.5 to 9%. Consequently, asking rents are expected to largely remain flat in 2018 with very few exceptions.

According to Knight Frank H2 2017 report, notable completions in 2017 totalled about 40,000m^2 while the pipeline in 2018 will be approximately 70,000m^2. Despite the oversupply, there are few niche areas that are letting at a premium e.g. Grade A offices in Lavington, Westlands and Thika Road. As per JLL recent study, future growth opportunities exist in bespoke office solutions with ability to achieve consolidations and fully serviced office suites that allow companies to operate satellite offices or enter the market without the burden of office capital fit-out costs or the onerous lease commitments.

Hospitality Sector

Nairobi is a semi-mature hotel market which ranks as the third largest hotel market in sub-Saharan Africa. Nairobi has witnessed a new supply coming into the market, introducing higher quality assets and new brands. It is estimated to have more than 170 hotels with a total of 10,000 rooms. In 2017, approximately 720 room keys were added in Nairobi compared to an average of 490 room keys for the previous 3 years. This figure is anticipated to rise to 1,400 room keys in 2018. Global brands are penetrating the East African market with new supply of 4,074 room keys due between 2017 and 2020.

This increased level of new supply in markets like Nairobi has caused a short term oversupply and may lead to some distress of over-leveraged assets. In hotel investments in East Africa preference remains mid-market, budget and serviced apartment segments over luxury and upmarket.

Major openings for 2017 include: Sarova Woodlands – 147 rooms, Hilton Garden Inn – 171 rooms, Tamarind Tree Hotel – 160 rooms, Four Points by Sheraton – 144 rooms, Lazizi Premiere – 144 rooms, Hemingways – 39 rooms, Pullman Nairobi Westlands – 320 rooms, Village Market Midscale – 200 rooms.

Proposed new supply includes: 5 star J.W. Marriot luxury hotel at the Avic International complex in Westlands, City Lodge Hotel owned by City Lodge Group next to Two Rivers Mall, Mövenpick Hotel & Residences by Mövenpick Hotels & Resorts in Westlands, Hilton Worldwide is taking over Nairobi's Amber Hotel on Ngong Road under a franchising agreement to be renamed Hilton Double Tree.

To boost the sector, the national carrier Kenya Airways was granted a permit to operate direct flights (both passenger and cargo) to America by the United States government in September. Kenya Airways expects to commence direct flights in Q4 2018 which is expected to boost business between the two countries. Jambojet, a subsidiary of Kenya Airways, also received regulatory approval to fly 16 destinations within East Africa.

Residential Sector

The growth trend in house prices mirrored credit growth to the private sector which is evidently integral in influencing the demand and supply dynamics in the housing market. With a generally depressed demand in the economy and the slowdown in credit expansion, households relying on the credit market towards home acquisition have been adversely affected. Knight Frank recorded an annual drop in prime residential prices of -0.9% and rent of -2.75% in 2017.

Although from data provided by the government, demand for housing outpaces supply, current sub-sectoral mismatches are also as a result of developers focusing on the wrong market segment. This has created oversupply in the middle to upper income segments with not enough takers. It is against this backdrop that 35 savings and credit co-operative societies (Sacco's) unveiled a scheme called Africa Tenancy Purchase Initiative in July 2017, to allow their members to get housing loans with interest-free mortgages. The affordable rent-and-purchase mechanism will have members paying an upfront deposit at 10% of the cost of a unit and the remainder in interest free 'rent' instalments for up to 20 years. According to Knight Frank H2 2017 report, the scheme's pipeline includes KShs. 2 billion Sunset Boulevard Phase 2 and KShs. 22 billion Habitat Heights both in Athi River; KShs. 800 million Wendani Heights in Komarock; KShs. 6 billion Karen Heights and KShs. 6 billion Art Stone in Juja.

From a regulatory front, the Nairobi County Assembly passed a motion in December 2017 to introduce new zoning to allow development of commercial and high rise apartments to curb high demand for business and housing in neighbourhoods like Spring Valley, Riverside Drive, Kileleshwa, Kilimani, Thompson, Woodley, Kyuna, Loresho, Lavington and Dagoretti. This motion replaced the Nairobi Metropolitan Growth Strategy that was formulated in 1973 and expired in 2000.

Special Property – Student Housing

Student housing has also gained significant interest with major deals signed in 2017 including:
Kenyatta University and New York-based private firm Africa Integras signed a KShs. 5.1 billion deal to construct a 10,000 capacity student hostel on a 20-acre land parcel in Kahawa, Nairobi on a build-operate-transfer model. Acorn and UK-based private equity fund Helios have formed a new company, Acorn Newco Limited, each owning 50% and signed a KShs7.4 billion deal to construct 3,800 hostels in Nairobi. IFC will fund the development to the tune of KShs. 4 billion.

Industrial Sector

Industrialization remains a key focus for the development agenda in Kenya. Kenya's strategic location makes it a critical transportation hub for logistical warehousing. Over the past few years, there is a notable increase in the overall warehousing quality and unit sizes per lease within new developments.

REPORT OF THE REIT MANAGER...Continued

PROPERTY MARKET UPDATE (Continued)

Industrial Sector (Continued)

Demand for decentralised high quality industrial space remained strong in 2017 with more investors taking interest in this niche market. In September 2017, South African logistics and warehouse property specialist Improvon Group through a joint venture with Actis concluded an agreement to develop a 104-acre Northlands Commercial Park to tap into the growing demand for long-term logistical and warehousing needs within sub-Saharan Africa. The triple A logistics park will provide lettable space of 2,000m^2 to 50,000m^2 and additional land sale options to tenants.

The demand for warehousing and Logistics Park is further supported by growth in e-commerce from KShs. 2.4 billion in 2014 to KShs. 10 billion in 2016 according to The Communications Authority of Kenya. Hence the need for stock storage space. According to Knight Frank H2 2017 report, Africa Logistics Properties (ALP) has signed the single largest industrial lease ever in Kenya. It is a 10-year lease with Freight Forwarders Solutions Limited (FFS) for 14,000m^2 with expected opening of Q4 2018.

High-end logistic warehouses currently underway include Tatu Industrial and Logistics Park on the Northern Bypass, Infinity Industrial Park as well as the Northlands Commercial Park, both located on the Eastern Bypass, and Tilisi Industrial Park on the Nairobi-Nakuru highway.

From a regulatory perspective, the Special Economic Zone (SEZ) regulations were gazetted in 2016 paving way for licensing of the Kenya's first privately owned SEZ in July in Eldoret, Uasin Gishu County and a second one at Tatu City. The Eldoret SEZ will sit on over 1,768 acres and contain an industrial park on 700 acres, a science and technology park on 70 acres and an Olympia City on 1,000 acres for commercial, residential and recreational development. The project is expected to cost US$2 billion (KShs. 207 billion) and will be implemented in four phases over the next 10 years, with phase 1 being the construction of the 700-acre industrial park.

REGULATORY LIMITS

Regulation	Regulatory limit	Actual as at 31 December 2017	Complied (√) / not Complied (x)/ n/a
Minimum number of REIT securities holders	7	5,653	√
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	X
Minimum income generation***	70% of rental income	74%	√
Maximum gearing	35% of total asset value	0%	√
Minimum distributions	80%	91%	√

***Regulation 74** (minimum retained investments 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.

****Regulation 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 was applicable from 30 September 2017. The REIT is currently 67% invested in real estate, which falls short of the 75% target. The REIT has entered into an agreement to acquire an entity that owns an office building at a total consideration of KShs. 850 million subject to regulatory and unitholder approval as well as other conditions precedent. The targeted completion date of the transactions is 1 May 2018. If the transaction is successfully completed, it will increase the exposure to real estate to approximately 90%.

PROSPECT STATEMENT AND PIPELINE

The REIT management team is currently engaged in discussions with different vendors regarding various acquisition opportunities with an aim of completing a transaction by 30 September 2017. In addition, the management team is considering various funding options to fund these additional opportunities. All acquisitions will be in line with the portfolio strategy, and provide the key enhancements of sectoral diversification, capital appreciation and income accretion.

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	At least 25 years at inception	At least 25 years at inception	Refer to Page 32-33	Refer to Page 32-33	31.12.2017
Income producing real estate Regulation 65 (6) Minimum of 75% of TAV within 2 years of authorisation	N/A	75%	None	67%	67%	31.12.2017
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%	31.12.2017
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
Income producing assets including listed shares in Kenyan property companies and units in Kenyan I-REITs. Regulation 68 (2) Maximum 10% of value of investment and TAV at time of acquisition	10%	0%	10%	0%	0%	None
For an I-REIT that has converted from a D-REIT 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

REPORT OF THE REIT MANAGER...Continued

MEETINGS OF REIT SECURITIES HOLDERS

The maiden Annual General Meeting (AGM) for REIT securities holders was held on 13 April 2017. The meeting was quorate with 33.99% of the unitholders (by number of units held in the REIT) present in person or by proxy.
The purpose of the meeting was to:

- receive the Annual Report and the Audited Annual Financial Statements for the thirteen-month period ended 31 December 2016;
- note the first and final distribution for the thirteen month period ended 31 December 2016, of KShs. 90,486,150 (50 cents per unit in issue) as recommended by the REIT Manager and approved by the REIT Trustee;
- note that KPMG had expressed their interest to continue as auditors and the REIT Manager and REIT Trustee were happy for them to continue; and
- seek a special resolution to amend the Trust Deed, which is the REIT's constitution, to allow the sending out of notices and reports electronically and specifically by displaying them on the REIT website. This is to reduce costs by taking advantage of the growth of information technology. It also allows the REIT Manager and REIT Trustee to use other technologies that may emerge in due course to keep costs low.

The special resolution was passed by the general meeting.

Other than the above AGM, no other meetings of the REIT unitholders took place during the period under review.

The next AGM is scheduled for 20 April 2018, details of which are contained in the AGM notice accompanying this report.

APPROVAL OF THE REIT MANAGER'S REPORT

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

Peter Waiyaki
Acting Chairman, STANLIB Kenya Limited

Patrick Mamathuba
Director, STANLIB Kenya Limited

Date: 28 March 2018

REPORT OF THE TRUSTEE

The Trustee's report is prepared in accordance with Regulation 101 and the Fifth Schedule of the REITs 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:

- Nairobi Block 82/8759 (No.s F1,F2,F3,F4 & F5) – Property known as Greenspan Mall under the Special Purpose Vehicle, Greenspan Mall Limited;
- L.R. No 37/157 registered as Title No.I.R. 22130 – Property known as Highway House under the Special Purpose Vehicle, Signature International Limited; and
- L.R. No. 209/4125 registered as Title No.I.R. 93022 – Property under the Special Purpose Vehicle, Bay Holdings 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 Trustee wrote to CMA in a letter dated 22nd May 2017 informing them of the changes in the governance structure of the REIT Trustee. Mrs. Rosemary Githaiga resigned as a director representative of the REIT Trustee following her retirement from the Bank. Samuel Kibugi and Debra Ajwang'-Ogada were subsequently appointed as a director representative of the REIT Trustee and company secretary of the REIT respectively. The property valuation was at 68% of the total net asset value of the REIT as at September 2017. Regulation 65(6) of the REIT regulations states that an I-REIT shall invest, within two years of the date of its authorization as a real estate investment trust scheme, at least seventy five percent of the total net asset value in income producing real estate. The REIT Manager notified the CMA of the inability to meet this requirement and requested for an extension.
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	Remedy for b) above. The REIT Manager in a letter dated 22nd September 2017 to the CMA requested for an extension to meet the requirement of Regulation 65(6) of the REIT regulations and was granted an extension period of 6 moths up to 26th March 2018.
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.	The Trustee convened the 1st AGM of the securities holders on 13th April 2017 at All Saints Cathedral, Nairobi. • The Annual Report and the Audited Annual Financial Statements for the thirteen-month period ended 31 December 2016 was tabled and adopted by securities holders. • The first and final distribution for the thirteen month period ended 31 December 2016, of KShs. 90,486,150 (50 cents per unit in issue) as recommended by the REIT Manager and approved by the Trustee was tabled and adopted. • A special resolution to amend the Trust Deed, which is the REIT's constitution, to allow the sending out of notices and reports electronically and specifically by displaying them on the REIT website so as to reduce costs by taking advantage of the growth of information technology and allow the use of other technologies that may emerge in due course to keep costs low was tabled and adopted.

REPORT OF THE TRUSTEE...Continued

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.

   The Trustee convened the 1st AGM of the securities holders on 13th April 2017 at All Saints Cathedral, Nairobi with resolutions summarized as above adopted unanimously.

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 REITs 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 REITs 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:

Henry Kinara
The Compliance Officer

The REIT Trustee
The Co-operative Bank of Kenya Limited
Date: 28 March 2018

COMPLIANCE REPORT

In accordance with Regulation 101 and the Fifth Schedule to the REITs Regulations, the Compliance Officer notes the following for the year ended 31 December 2017:

1. The state of the REIT Manager's compliance program progressed well during the period under review. As part of the Manager's compliance program and to ensure that it is abreast with the evolving business and regulatory environment within which the REIT operates; various processes, policies and procedures continued to be undertaken during the period under review. Furthermore, leverage from Group's matured frameworks remains a big part of the REIT Manager's advantage from a risk and compliance program standpoint.

2. In addition to the above and in line with the above mentioned Regulation, the REIT Manager confirms as follows:

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

        i. The REIT Manager notified the Authority that the REIT had not met the requirement under Regulation 65 of the Capital Markets (Real Estate Investment Trusts) (Collective Investment Schemes) Regulations, 2013 which provides that an I-REIT shall invest, within two years of the date of its authorization as a real estate investment trust scheme, at least 75% of the total net asset value in income producing real estate. As at September 2017, the property valuation was at 68% of the total net asset value of the REIT. The REIT Manager requested for an extension to remedy the non-compliance through a letter to the Authority dated 22nd September 2017.

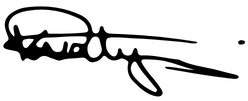
    b. Any failures by the REIT Manager, Trustee or any other party to comply with the provisions of the of the scheme documents, the Act or the Regulations and action taken to remedy the failure;

        i. As mentioned hereinabove, the REIT Manager in a letter dated 22nd September 2017 to the CMA requested for an extension to meet the requirement of Regulation 65(6) of the REIT regulations and was granted an extension period of 6 moths up to 26th March 2018.

    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.

Signed by:



Evelyne Kinara
Risk and Compliance Manager,STANLIB Kenya Limited

Date: 28 March 2018

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 46 to 79 which comprise the consolidated statement of financial position as at 31 December 2017, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year 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 that the REIT 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 and authorised for issue by the REIT Manager on 28 March 2018.

Peter Waiyaki
Acting Chairman, STANLIB Kenya Limited

Nkoregamba Mwebesa
Managing Director, STANLIB Kenya Limited

Date: 28 March 2018

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 year ended 31 December 2017, and certifies, according to the requirements of the Capital Markets (Real Estate Investment Trusts) (Collective Investments Schemes) Regulations, 2013, that these financial statements give a true and fair view of the statement of the financial position of the REIT as at 31 December 2017 and of the profit or loss for the year then ended.

Certified on behalf of The Co-operative Bank of Kenya Limited on 28 March 2018 by:

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

KPMG

REPORT OF THE INDEPENDENT AUDITORS TO THE TRUSTEE AND UNITHOLDERS OF STANLIB FAHARI I-REIT

Report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of STANLIB Fahari I-REIT ("REIT") set out on pages 46 to 79 which comprise the consolidated statement of financial position as at 31 December 2017, 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 year then ended, and notes to the consolidated financial statements including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the REIT at 31 December 2017, and the REIT's consolidated financial performance and consolidated 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 consolidated 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 these requirements and 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**
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 2017. 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: We assessed 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. We evaluated the qualifications and competence of the external valuers. We also read 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.

REPORT OF THE INDEPENDENT AUDITORS TO THE TRUSTEE AND UNITHOLDERS OF STANLIB FAHARI I-REIT...Continued

Report on the consolidated financial statements (Continued)

Key Audit Matters (Continued)	
The key audit matter	**How the matter was addressed**
Valuation of investment property *(See Note 13 to the financial statements) (Continued)*	
	We considered the valuation methodologies used against those applied by other valuers for similar property types. We also considered other alternative valuation methods. We tested the integrity of inputs of the projected cash flows used in the valuation to supporting leases and other documents. We challenged 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. Where the rates were outside the expected range, we undertook further procedures to understand the effect of additional factors and, when necessary, held further discussions with the valuers. We also considered the adequacy of the descriptions 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.

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*** but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 consolidated financial statements

As stated on page 41, the REIT Manager is responsible for the preparation of the REIT's consolidated financial statements that give a true and fair view 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated 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.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

REPORT OF THE INDEPENDENT AUDITORS TO THE TRUSTEE AND UNITHOLDERS OF STANLIB FAHARI I-REIT...Continued

Report on the consolidated financial statements (Continued)

Auditors' responsibilities for the audit of the consolidated financial statements (Continued)

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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated 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 determined 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, the compliance reports are in accordance with the Regulations.

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: 28 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	12 months to 31.12.2017 KShs	13 months to 31.12.2016 KShs
Revenue		**270,689,177**	**337,576,486**
Rental and related income	5	279,433,136	248,572,436
Straight-lining of lease income	14	(8,743,959)	89,004,050
Other income		**101,606,067**	**137,856,149**
Interest income	6	99,852,345	111,209,231
Bargain purchase gain on acquiring property subsidiaries	7	-	25,156,147
Sundry income	8	1,753,722	1,490,771
Operating expenses		**(231,925,563)**	**(265,053,969)**
Property expenses	9	(96,292,615)	(84,631,625)
Fund operating expenses	10	(135,632,948)	(180,422,344)
Increase/(decrease) in fair value of investment property		**30,756,728**	**(81,004,050)**
Fair value adjustment to investment property	13	22,012,769	8,000,000
Straight-lining of lease income	14	8,743,959	(89,004,050)
Operating profit		**171,126,409**	**129,374,616**
Finance costs	11	-	(23,374,328)
Net profit for the year		**171,126,409**	**106,000,288**
Other comprehensive income		-	-
Total comprehensive income attributable to unitholders for the year		**171,126,409**	**106,000,288**
Basic earnings per unit (KShs)	12	0.95	0.59
Headline earnings per unit (KShs)	12	0.78	0.89
Supplementary information: Distributable earnings per unit (KShs)	12	0.82	0.54

The notes set out on pages 50 to 79 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	At 31.12.2017	At 31.12.2016
ASSETS		**KShs**	**KShs**
Non-current assets			
Investment property	13	2,460,000,000	2,435,000,000
Fair value of investment property for accounting purposes		2,379,739,909	2,345,995,950
Straight-line lease accrual	14	80,260,091	89,004,050
Property and equipment	15	4,138,729	4,729,976
		2,464,138,729	**2,439,729,976**
Current assets			
Investment securities	16	529,000,000	733,035,734
Trade and other receivables	17	80,298,716	102,059,051
Cash and cash equivalents	18	688,190,218	440,186,650
		1,297,488,934	**1,275,281,435**
TOTAL ASSETS		**3,761,627,663**	**3,715,011,411**
EQUITY AND LIABILITIES			
Capital and reserves (Page 48)			
Trust capital	19	3,479,540,745	3,479,540,745
Revaluation reserve	20	30,012,769	8,000,000
Retained earnings		156,627,778	98,000,288
		3,666,181,292	**3,585,541,033**
Current liabilities			
Trade and other payables	21	95,446,371	124,435,477
Tax payable	22	-	5,034,901
		95,446,371	**129,470,378**
TOTAL EQUITY AND LIABILITIES		**3,761,627,663**	**3,715,011,411**

The financial statements set out on pages 46 to 79 were approved and authorised for issue by the REIT Manager and by the Trustee on 28 March 2018 and were signed on their behalf by:

Peter Waiyaki
Acting Chairman, STANLIB Kenya Limited

Nkoregamba Mwebesa
Managing Director, STANLIB Kenya Limited

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

The notes set out on pages 50 to 79 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Trust capital KShs	Revaluation reserve KShs	Retained earnings KShs	Total KShs
2017				
Balance at 1 January 2017	3,479,540,745	8,000,000	98,000,288	3,585,541,033
Total comprehensive income				
Net profit for the year	-	-	171,126,409	171,126,409
Transfer to non-distributable reserve	-	22,012,769	(22,012,769)	-
Transactions with owners of equity				
Distribution to unitholders	-	-	(90,486,150)	(90,486,150)
Balance at 31 December 2017	**3,479,540,745**	**30,012,769**	**156,627,778**	**3,666,181,292**
2016				
Balance at 26 November 2015	-	-	-	-
Total comprehensive income				
Net profit for the period	-	-	1 06,000,288	106,000,288
Transfer to non-distributable reserve	-	8,000,000	(8,000,000)	-
Transactions with owners of equity				
Issue of units	3,619,446,000	-	-	3,619,446,000
Transaction costs for issue of new units	(139,905,255)	-	-	(139,905,255)
Total transactions with owners of equity	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 50 to 79 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	12 months to 31.12.2017 KShs	13 months to 31.12.2016 KShs
Cash flows from operating activities			
Cash generated from operations	23	142,476,116	106,812,692
Tax paid by subsidiaries	22	(5,034,901)	-
Interest paid	11	-	(23,374,328)
Distribution paid	19	(90,486,150)	-
Net cash inflow from operating activities		**46,955,065**	**83,438,364**
Cash flows from investing activities			
Acquisition of subsidiaries	24	-	(2,418,416,927)
Additions to investment property	13	(2,987,231)	-
Decrease/(increase) in investment securities		204,035,734	(733,035,734)
Net cash inflow/(outflow) from investing activities		**201,048,503**	**(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		**248,003,568**	**411,526,448**
Cash and cash equivalents at beginning of period		440,186,650	-
Cash and cash equivalents at acquisition of subsidiaries	24	-	28,660,202
Cash and cash equivalents at end of year	18	**688,190,218**	**440,186,650**

The notes set out on pages 50 to 79 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

SEGMENTED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME - 2017

	Retail 12 months to 31.12.2017 KShs	Office and light industrial 12 months to 31.12.2017 KShs	Fund 12 months to 31.12.2017 KShs	Total 12 months to 31.12.2017 KShs
Revenue	**241,213,800**	**29,475,377**	**-**	**270,689,177**
Rental and related income	177,002,932	32,060,434	-	209,063,366
Recoveries	70,369,770	-	-	70,369,770
Straight-lining of lease income	(6,158,902)	(2,585,057)	-	(8,743,959)
Other income	**581**	**1,753,141**	**99,852,345**	**101,606,067**
Finance and other investment income	-	-	99,852,345	99,852,345
Sundry income	581	1,753,141	-	1,753,722
Operating expenses	**(91,234,283)**	**(5,058,332)**	**(135,632,948)**	**(231,925,563)**
Property admin expenses (excluding provision for receivables impairment)	(81,720,071)	(8,204,588)	-	(89,924,659)
Provision for receivables impairment	(5,893,125)	3,146,256	-	(2,746,869)
Bad debts written off	(3,621,087)	-	-	(3,621,087)
Fund operating expenses	-	-	(135,632,948)	(135,632,948)
Increase in fair value of investment property	**23,171,671**	**7,585,057**	**-**	**30,756,728**
Fair value adjustment to investment property	17,012,769	5,000,000	-	22,012,769
Straight-lining of lease income	6,158,902	2,585,057	-	8,743,959
Net profit/(loss) for the year	**173,151,769**	**33,755,243**	**(35,780,603)**	**171,126,409**

NOTES TO THE FINANCIAL STATEMENTS...Continued

SEGMENTED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME - 2016

	Retail	Office and light industrial	Fund	Total
	13 months to 31.12.2016	13 months to 31.12.2016	13 months to 31.12.2016	13 months to 31.12.2016
	KShs	KShs	KShs	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 admin 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)
Decrease 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**

NOTES TO THE FINANCIAL STATEMENTS...Continued

SEGMENTED STATEMENT OF FINANCIAL POSITION - 2017

	Retail At 31.12.2017 KShs	Office and light industrial At 31.12.2017 KShs	Fund At 31.12.2017 KShs	Total At 31.12.2017 KShs
ASSETS				
Non-current assets	**2,174,132,152**	**290,006,577**	**-**	**2,464,138,729**
Property and equipment	4,132,152	6,577	-	4,138,729
Investment property	2,170,000,000	290,000,000	-	2,460,000,000
Current assets	**82,258,965**	**1,314,635**	**1,213,915,334**	**1,297,488,934**
Investment securities	-	-	529,000,000	529,000,000
Trade and other receivables	72,346,438	41,607	7,910,671	80,298,716
Cash and cash equivalents	9,912,527	1,273,028	677,004,663	688,190,218
TOTAL ASSETS	**2,256,391,117**	**291,321,212**	**1,213,915,334**	**3,761,627,663**
EQUITY & LIABILITIES				
Capital and reserves	**218,961,537**	**(4,143,452)**	**3,451,363,207**	**3,666,181,292**
Trust capital	-	-	3,479,540,745	3,479,540,745
Retained earnings	151,948,768	32,856,548	(28,177,538)	156,627,778
Revaluation reserve	67,012,769	(37,000,000)	-	30,012,769
Current liabilities				
Trade and other payables	**72,241,006**	**6,527,596**	**16,677,769**	**95,446,371**
TOTAL EQUITY & LIABILITIES	**291,202,543**	**2,384,144**	**3,468,040,976**	**3,761,627,663**

NOTES TO THE FINANCIAL STATEMENTS...Continued

SEGMENTED STATEMENT OF FINANCIAL POSITION - 2016

	Retail	Office and light industrial	Fund	Total
	At 31.12.2016	At 31.12.2016	At 31.12.2016	At 31.12.2016
	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**	**1,275,281,435**
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...Continued

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. The REIT is managed by STANLIB Kenya Limited ("the REIT Manager").

The consolidated financial statements of the REIT for the year ended 31 December 2017 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 cash flows.

Details of the REIT's significant accounting policies are included in Note 3.

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS...Continued

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (Continued)

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 equipment (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.

(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.

NOTES TO THE FINANCIAL STATEMENTS...Continued

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Financial instruments (Continued)

(iii) Subsequent measurement (Continued)

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS...Continued

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Impairment of assets (Continued)

(ii) Impairment of non-financial assets (Continued)

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-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. This reserve comprises unrealized fair value adjustments on the revaluation of investment property.

(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.

NOTES TO THE FINANCIAL STATEMENTS...Continued

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Taxation (Continued)

(ii) Deferred taxation (Continued)

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 reporting date.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS...Continued

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Segment reporting (Continued)

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 unit holders 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 unit holders 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.

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

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

The REIT has adopted the following new standards and amendments during the year ended 31 December 2017, including consequential amendments to other standards with a date of initial application of 1 January 2017. The nature and effects of the changes are as explained 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 Unrealised Losses (Amendments to IAS 12)	1 January 2017
–	Annual Improvement Cycle (2014 – 2016) – various standards	1 January 2017

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.

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 apply for annual periods beginning on or after 1 January 2017 and early application is permitted.

The adoption of these changes did 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)

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

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

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

Unrealised 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 utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The standard was 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 did not have an impact on the financial statements of the REIT as the REIT is exempt from income tax.

Annual improvement cycle (2014 – 2016) – various standards

Standard	Amendments
IFRS 12 Disclosure of Interests in Other Entities	**Interest in other entities** The disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution. The amendments apply retrospectively for annual periods beginning on or after 1 January 2017.

The adoption of these amendments will not have an impact on the amounts and disclosures of the financial statements of the REIT.

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2017

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2017, and have not been applied in preparing these financial statements.

	New and amended standards and interpretations	Effective Date
–	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
–	IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
–	IAS 40 Transfers of Investment Property	1 January 2018
–	IFRS 16 Leases	1 January 2019
–	IFRIC 23 Income Tax Exposures	1 January 2019
–	IFRS 9 Prepayment Features with Negative Compensation	1 January 2019
–	IAS 28 Long-term Interests in Associates and Joint Ventures	1 January 2019
–	IFRS 17 Insurance contracts	1 January 2021
–	Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28)	To be determined
–	Annual improvement cycle (2015 – 2017)	1 January 2019

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 year ended 31 December 2017 (Continued)

IFRS 15 Revenue from Contracts with Customers

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 Company is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

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 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 is 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.

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 year ended 31 December 2017 (Continued)

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

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.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

This Interpretation applies to a foreign currency transaction (or part of it) when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income (or part of it).

This Interpretation stipulates that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

This Interpretation does not apply to income taxes, insurance contracts and circumstances when an entity measures the related asset, expense or income on initial recognition:

(a) at fair value; or

(b) at the fair value of the consideration paid or received at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability arising from advance consideration (for example, the measurement of goodwill applying IFRS 3 Business Combinations).

The amendments apply retrospectively for annual periods beginning on or after 1 January 2018, with early application permitted.

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

Transfers of Investment Property (Amendments to IAS 40)

The IASB has amended the requirements in IAS 40 Investment property on when a company should transfer a property asset to, or from, investment property.

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

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.

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:

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

b) leases of low-value assets

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 year ended 31 December 2017 (Continued)

IFRS 16: Leases (Continued)

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.

IFRIC 23 Clarification on accounting for Income tax exposures

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency.

IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority.

If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made. Uncertainty is reflected in the overall measurement of tax and separate provision is not allowed.

The entity is required to measure the impact of the uncertainty using the method that best predicts the resolution of the uncertainty (that is, the entity should use either the most likely amount method or the expected value method when measuring an uncertainty).

The entity will also need to provide disclosures, under existing disclosure requirements, about:

(a) judgments made;

(b) assumptions and other estimates used; and

(c) potential impact of uncertainties not reflected.

The REIT is assessing the potential impact of these changes based on the outstanding KRA subsidiary tax legislation on REITs.

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The amendments clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

The amendments apply for annual periods beginning on or after 1 January 2019 with retrospective application, early adoption is permitted.

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

Long-term Interests in Associates and Joint Ventures (Amendment to IAS 28)

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate and joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

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

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts sets out the requirements that an entity should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds. An entity shall apply IFRS 17 Insurance Contracts to:

(a) insurance contracts, including reinsurance contracts, it issues;

(b) reinsurance contracts it holds; and

(c) investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

IFRS 17 requires an entity that issues insurance contracts to report them on the statement of financial position as the total of:

(a) the fulfilment cash flows—the current estimates of amounts that the entity expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and

(b) the contractual service margin—the expected profit for providing insurance coverage. The expected profit for providing insurance coverage is recognised in profit or loss over time as the insurance coverage is provided.

IFRS 17 requires an entity to recognise profits as it delivers insurance services, rather than when it receives premiums, as well as to provide information about insurance contract profits that the Company expects to recognise in the future.

IFRS 17 requires an entity to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be loss making. Any expected losses arising from loss-making, or onerous, contracts are accounted for in profit or loss as soon as the Company determines that losses are expected.

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 year ended 31 December 2017 (Continued)

IFRS 17 Insurance Contracts (Continued)

IFRS 17 requires the entity to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and of discount rates. The entity:

(a) accounts for changes to estimates of future cash flows from one reporting date to another either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it; and

(b) chooses where to present the effects of some changes in discount rates -either in profit or loss or in other comprehensive income.

IFRS 17 also requires disclosures to enable users of financial statements to understand the amounts recognised in the entity's statement of financial position and statement of profit or loss and other comprehensive income, and to assess the risks the Company faces from issuing insurance contracts.

IFRS 17 replaces IFRS 4 Insurance Contracts. IFRS 17 is effective for financial periods commencing on or after 1 January 2021. An entity shall apply the standard retrospectively unless impracticable. A Company can choose to apply IFRS 17 before that date, but only if it also applies IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

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

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 Company 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 Company 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 a material impact on the financial statements of the REIT.

Annual improvement cycle (2015 – 2017) – various standards

Standard	Amendments
IFRS 3 Business Combinations and IFRS 11 Joint Arrangements	Clarifies how a company accounts for increasing its interest in a joint operation that meets the definition of a business: – If a party maintains (or obtains) joint control, then the previously held interest is not remeasured. – If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.
IAS 12 Income taxes	Clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI or equity.
IAS 23 Borrowing costs	Clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

The amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The adoption of these amendments is not expected to affect the amounts and disclosures of the Company's financial statements.

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.

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 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.

The valuer adopted a market capitalisation rate ranging from 8% to 9.5% (2016: 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 property 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.

	12 months to 31.12.2017 KShs	13 months to 31.12.2016 KShs
5. RENTAL AND RELATED INCOME		
Rental income	205,453,306	195,136,897
Recoveries	70,369,770	46,030,157
Promotional income	3,610,060	7,405,382
	279,433,136	**248,572,436**
6. INTEREST INCOME		
Interest on fixed deposits and treasury bills	96,744,559	92,436,350
Interest on call deposits	3,107,786	18,772,881
	99,852,345	**111,209,231**
7. BARGAIN PURCHASE GAIN ON ACQUIRING PROPERTY SUBSIDIARIES		
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	12 months to 31.12.2017 KShs	13 months to 31.12.2016 KShs
Other income	1,753,722	980,006
Recovery of repairs and maintenance expenditure	-	510,765
	1,753,722	**1,490,771**

NOTES TO THE FINANCIAL STATEMENTS...Continued

9. PROPERTY EXPENSES

	12 months to 31.12.2017 KShs	13 months to 31.12.2016 KShs
The following items are included in property expenses:		
Property administration expenses		
Electricity and water	29,849,012	27,661,921
Property management fees	10,986,190	8,009,728
Irrecoverable withholding tax	8,550,835	-
Security	7,932,000	8,728,980
Gardening and cleaning	7,839,947	8,260,666
Repairs and maintenance	7,582,941	4,421,271
Insurance	5,928,010	5,853,585
Bad debts written off	3,621,087	4,663,407
Bad debts provision – net of recoveries	2,746,869	7,484,170
Advertising and sales promotion	2,521,486	2,294,261
Property valuation fees	1,050,000	1,050,000
Legal and professional fees	664,500	228,460
Letting fees	288,415	92,543
Licenses and permits	39,500	47,200
	89,600,792	**78,796,192**
Other operating property expenses		
Audit fees	2,079,323	1,974,614
Sundry expenses	1,508,162	242,808
Penalties	1,134,849	315,608
Staff expenses	591,938	521,124
Depreciation	591,247	723,159
Rent and rates	325,942	277,885
Consultancy fees	222,520	-
Postage and telephone	138,090	145,663
Bank charges	45,817	66,254
Printing and stationery	37,135	59,732
Other professional fees	10,800	-
Salaries and wages	6,000	1,499,963
Foreign exchange losses	-	8,623
	6,691,823	**5,835,433**
	96,292,615	**84,631,625**

NOTES TO THE FINANCIAL STATEMENTS...Continued

10. FUND OPERATING EXPENSES

	12 months to 31.12.2017 KShs	13 months to 31.12.2016 KShs
The following items are included in fund operating expenses:		
Asset management fees	84,101,266	85,732,408
Trustee fees	22,952,573	24,298,740
Public relations and marketing	8,805,770	40,131,045
Professional and other fees	7,340,826	8,169,329
Audit fees	3,748,667	2,500,000
Business acquisition expenses	3,469,305	11,999,680
Irrecoverable withholding tax	2,703,889	-
Licenses	1,650,000	1,875,069
Legal fees	851,372	4,377,000
Sundry expenses	9,280	1,339,073
	135,632,948	**180,422,344**

11. FINANCE COSTS

Interest paid	**-**	**23,374,328**

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

12. BASIC AND HEADLINE EARNINGS PER UNIT

	12 months to 31.12.2017 KShs	13 months to 31.12.2016 KShs
Basic earnings - comprehensive income attributable to unit holders for the period	171,126,409	106,000,288
Adjusted for:		
Fair value adjustment to investment property		
(including straight-line lease accrual movement)	(30,756,728)	81,004,050
Bargain purchase on acquiring a property subsidiary	-	(25,156,147)
Headline earnings	**140,369,681**	**161,848,191**
Adjusted for:		
Straight-line lease accrual movement	8,743,959	(89,004,050)
Distributable non-cash items	-	25,156,147
Distributable earnings	**149,113,640**	**98,000,288**
Distribution to unitholders (Note 19)	**135,729,225**	**90,486,150**
Distributable earnings per unit (KShs)	0.82	0.54
Distribution per unit (KShs)	0.75	0.50
Basic earnings and diluted earnings per unit (KShs)	0.95	0.59
Headline earnings per unit (KShs)	0.78	0.89
Weighted average units in issue (units)	180,972,300	180,972,300
Units in issue at the end of the period (units)	**180,972,300**	**180,972,300**

NOTES TO THE FINANCIAL STATEMENTS...Continued

13. INVESTMENT PROPERTY

	At 31.12.2017 KShs	At 31.12.2016 KShs
At start of period	2,435,000,000	-
Acquisitions during the year	2,987,231	-
Acquisitions of subsidiaries (Note 24)	-	2,427,000,000
Fair value adjustment to investment property	22,012,769	8,000,000
At end of year/period	**2,460,000,000**	**2,435,000,000**

The investment property was independently valued by Tyson's Limited as at 31 December 2017 and 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:

	At 31.12.2017	At 31.12.2016
Retail sector	**%**	**%**
Term capitalisation rate	9.50	10.00
Exit capitalisation rate	10.50	10.75
Discount rate	9.50	10.00
Office and light industrial		
Term capitalisation rate	8.00 – 9.00	8.00 - 9.00
Exit capitalisation rate	8.50 – 10.00	9.00 - 10.00
Discount rate	8.00 – 9.00	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

	At 31.12.2017 KShs	At 31.12.2016 KShs
At start of period	89,004,050	-
Change in straight-line lease accrual through profit or loss	(8,743,959)	89,004,050
At end of year/period	**80,260,091**	**89,004,050**

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

NOTES TO THE FINANCIAL STATEMENTS...Continued

15. PROPERTY AND EQUIPMENT

2017	Furniture and equipment KShs	Office equipment KShs	Total KShs
Cost			
At start and end of year	**5,442,382**	**10,753**	**5,453,135**
Accumulated depreciation			
At start of year	719,922	3,237	723,159
Charge for the year	590,307	940	591,247
At end of year	**1,310,229**	**4,177**	**1,314,406**
Net book value as at 31 December 2017	**4,132,153**	**6,576**	**4,138,729**
2016			
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

	At 31.12.2017 KShs	At 31.12.2016 KShs
Fixed deposits	529,000,000	362,034,384
Government securities	-	371,001,350
	529,000,000	**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.

NOTES TO THE FINANCIAL STATEMENTS...Continued

17. TRADE AND OTHER RECEIVABLES

	At 31.12.2017 KShs	At 31.12.2016 KShs
Trade receivables	41,955,898	32,607,834
Service charge and promotional fund debtors	25,818,812	26,177,752
Less: Provision for doubtful debts	(10,231,039)	(7,484,170)
Net trade receivables	**57,543,671**	**51,301,416**
Value Added Tax (VAT) receivable	2,094,448	14,354,014
Interest accrual	7,910,671	18,101,972
Prepayments	5,148,606	6,642,688
Sundry debtors	7,601,320	11,658,961
	80,298,716	**102,059,051**

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

18. CASH AND CASH EQUIVALENTS

	At 31.12.2017 KShs	At 31.12.2016 KShs
Cash at bank	12,689,343	16,680,270
Cash at hand	875	6,380
Call deposits	91,500,000	-
Fixed deposits	584,000,000	423,500,000
	688,190,218	**440,186,650**

Fixed deposits included in cash and cash equivalents include fixed deposits with original maturities of 90 days or less. Fixed and call 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

	At 31.12.2017 KShs	At 31.12.2016 KShs
(a) Authorised		
625,000,000 units at a nominal value of KShs. 20 per unit less capitalised unit issue costs	**12,500,000,000**	**12,500,000,000**
(b) Issued and paid		
180,972,300 units at a nominal value of KShs. 20 per unit net of unit issue costs	**3,479,540,745**	**3,479,540,745**
Movement in Trust capital		
Opening balance	3,479,540,745	**-**
2016 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**	**3,479,540,745**

NOTES TO THE FINANCIAL STATEMENTS...Continued

19. TRUST CAPITAL (Continued)

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

On 13 April 2017, the unitholders approved the declaration and payment of a distribution of KShs. 90,486,150 in relation to the thirteen month period ended 31 December 2016.

After the reporting date for the year ended 31 December 2017, 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 20 April 2018:

	At 31.12.2017 KShs	At 31.12.2016 KShs
KShs. 0.75 (2016: KShs. 0.50) distribution per qualifying unit	**135,729,225**	**90,486,150**

The distribution of KShs. 135,729,225 has not been recognised as a liability as at 31 December 2017 as it was declared after the end of the financial reporting period (2016: KShs. 90,486,150).

20. REVALUATION RESERVE

	At 31.12.2017 KShs	At 31.12.2016 KShs
At start of period	8,000,000	-
Fair value adjustment on investment property (Note 13)	22,012,769	8,000,000
At end of year/period	**30,012,769**	**8,000,000**

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

21. TRADE AND OTHER PAYABLES

	At 31.12.2017 KShs	At 31.12.2016 KShs
Trade payables	8,556,074	10,080,710
Tenant deposits	27,962,165	26,746,372
Accruals	24,979,118	33,415,661
Other payables	33,949,014	54,192,734
	95,446,371	**124,435,477**

22. TAX PAYABLE

	At 31.12.2017 KShs	At 31.12.2016 KShs
At start of period	5,034,901	-
Liability assumed at acquisition of subsidiaries (Note 24)	-	5,034,901
Tax paid	(5,034,901)	-
At end of year/period	**-**	**5,034,901**

The REIT is exempt from income tax as per section 20 of the Kenyan Income Tax Act. The tax payable shown as at 31 December 2016 related to the tax liability of the REIT's subsidiaries at acquisition date. The tax was subsequently paid in 2017.

NOTES TO THE FINANCIAL STATEMENTS...Continued

23. CASH GENERATED FROM OPERATIONS

	12 months to 31.12.2017 KShs	13 months to 31.12.2016 KShs
Net profit for the year	**171,126,409**	**106,000,288**
Adjusted for:		
Depreciation (Note 15)	591,247	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)	(22,012,769)	(8,000,000)
	149,704,887	**96,941,628**
Working capital changes:		
Decrease in trade and other receivables	21,760,335	13,797,615
Decrease in trade and other payables	(28,989,106)	(3,926,551)
	(7,228,771)	**9,871,064**
Cash generated from operations	**142,476,116**	**106,812,692**

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 KShs	BHL KShs	SIL KShs	Total 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 was subsequently converted to equity.

Acquisition related costs

The REIT incurred acquisition-related costs as outlined below:

NOTES TO THE FINANCIAL STATEMENTS...Continued

24. ACQUISITION OF SUBSIDIARIES (Continued)

Acquisition related costs (Continued)

	13 months to 31.12.2016 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.

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)**

NOTES TO THE FINANCIAL STATEMENTS...Continued

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 and the Trust Deed. STANLIB Kenya Limited also played the role of Promoter of the REIT ahead of its listing on the Nairobi Securities Exchange. STANLIB Kenya Limited 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 Limited 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

	12 months to 31.12.2017 KShs	13 months to 31.12.2016 KShs
Asset management fee paid to STANLIB Kenya Limited	84,101,266	85,732,408
Custodial fees paid to Co-operative Bank Kenya Limited	22,952,573	24,298,740
Other administration fees paid to Co-operative Bank of Kenya Limited including distribution cheque writing fees	870,173	-
Interest paid to STANLIB Kenya Limited (Note 11)	-	23,374,328

All related party transactions were done on an arm's length basis. The above service fees are inclusive of Value Added Tax (VAT).

STANLIB Kenya and Liberty Group held the following units in the REIT as at 31 December 2017 and 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**

NOTES TO THE FINANCIAL STATEMENTS...Continued

25. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(c) Related party balances

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

Bank account name	Entity	12 months to 31.12.2017 KShs	13 months to 31.12.2016 KShs
Investment account - fixed deposits	REIT	231,000,000	200,000,000
Investment account - call deposits	REIT	4,000,000	-
Investment account	REIT	1,504,663	7,251,691
Expenses Account	REIT	-	1,298,380
STANLIB REIT Rent Coll A/C - Greenspan Mall	Greenspan Mall Limited	1,980,127	2,990,000
Excellerate Kenya Greenspan Mall Account	Greenspan Mall Limited	9,911,525	663,469
STANLIB REIT Rent Coll A/C – Signature	Signature International Limited	942,671	3,100,000
STANLIB REIT Rent Coll A/C - Bay Holdings	Bay Holdings Limited	330,358	1,360,800
Total		**249,669,344**	**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

Foreign exchange risk

Foreign exchange risk arimses 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:

2017	**USD**	**KShs**
Trade and other payables	-	-
Net exposure	**-**	**-**
2016	**USD**	**KShs**
Trade and other payables	3,250	327,447
Net exposure	**3,250**	**327,447**

NOTES TO THE FINANCIAL STATEMENTS...Continued

26. RISK MANAGEMENT (Continued)

(b) Financial risk management (Continued)

(i) Market risk (Continued)

Foreign exchange risk (Continued)

The following significant exchange rates have been applied:

	12 months to 31.12.2017	13 months to 31.12.2016
Average rate		
1 US Dollar	-	100.307
Year-end spot rate		
1 US Dollar	-	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	
	At.31.12.2017 USD	At.31.12. 2016 USD	At.31.12. 2017 USD	At.31.12. 2016 USD
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 2017.

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. As at end of the current reporting period, the REIT had no exposure to foreign denominated assets or liabilities (2016: USD 3,250 included in trade and other payables).

(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.

NOTES TO THE FINANCIAL STATEMENTS...Continued

26. RISK MANAGEMENT (Continued)

(b) Financial risk management (Continued)

(ii) Credit risk (Continued)

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

	At 31.12.2017 KShs	At 31.12.2016 KShs
Trade receivables (Note 17)	41,955,898	32,607,834
Service charge debtors (Note 17)	25,818,812	26,177,752
Sundry debtors (Note 17)	7,601,315	11,658,961
Cash and cash equivalents less cash in hand (Note 18)	688,189,343	440,180,270
	763,565,368	**510,624,817**

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

	At 31.12.2017 KShs	At 31.12.2016 KShs
Neither past due or impaired	317,234	(2,373,496)
Past due 1 - 30 days	14,438,209	1,641,368
Past due 31 - 90 days	12,134,793	21,727,691
Past due 91 - 120 days	15,065,662	11,612,271
	41,955,898	**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:

	At 31.12.2017 KShs	At 31.12.2016 KShs
Balance at the beginning of the period	7,484,170	-
Movement in provision	4,404,544	7,484,170
Effect of write offs	(1,657,675)	-
Balance at 31 December (Note 17)	**10,231,039**	**7,484,170**

During the year under review, bad debts for outstanding rent arrears of KShs. 3,621,087 were written off, net of security deposits appropriated (2016: KShs. 4,663,407). This amount had partially been provided for in the previous financial period.

NOTES TO THE FINANCIAL STATEMENTS...Continued

26. RISK MANAGEMENT (Continued)

(b) Financial risk management (Continued)

(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
As at 31 December 2017:	
Trade payables and accrued expenses (Note 21)	**67,484,206**
As at 31 December 2016:	
Trade payables and accrued expenses (Note 21)	**97,689,105**

(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

NOTES TO THE FINANCIAL STATEMENTS...Continued

26. RISK MANAGEMENT (Continued)

(c) Fair value hierarchy (Continued)

(ii) Valuation hierarchy (Continued)

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 2017:

2017 KShs	Level 1	Level 2	Level 3	Total
Assets				
Investment property	-	-	2,460,000,000	2,460,000,000
Total assets	**-**	**-**	**2,460,000,000**	**2,460,000,000**
2016				
KShs				
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

On 26 March 2018, the REIT, represented by the REIT Trustee, entered into an agreement to acquire an entity that owns an office building at a total consideration of KShs. 850 million subject to regulatory and unitholder approval as well as other conditions precedent. The targeted completion date of the transactions is 1 May 2018. The total consideration will be financed through the existing cash reserves. Other than this commitment, the REIT had no other capital commitments (2016: None).

28. CONTINGENT LIABILITIES

As at 31 December 2017, the REIT had no significant contingent liabilities (2016: None).

29. SUBSEQUENT EVENTS

In line with IAS 10, Events after the Reporting Period, the declaration of the KShs. 135, 729,225 distribution in relation to the 2017 financial year 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.

Subsequent to the end of the financial reporting period ended 31 December 2017, the REIT, entered into a capital commitment as detailed in Note 27.

Other than the above, there are no other subsequent events.

GLOSSARY

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);
"AGM"	means Annual General Meeting;
"CBD"	means central business district;
"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 Property Income Fund is permitted to invest in;
"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 m2 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, being Tysons Limited as at 30 June 2017;
"I-REIT"	means Income REIT;
"KRA"	means Kenya Revenue Authority;
"LDK"	means LDK Africa Limited;
"Legal Advisor"	means the legal advisor to the REIT, being Mboya Wangong'u and Waiyaki Advocates;
"m²" or "sqm"	means square metres;
"MER"	means the management expense ratio as defined in the REITs Regulations;
"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 I-REIT;
"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 STANLIB Fahari I-REIT, being CDSC Registrars Limited;
"REIT"	means Real Estate Investment Trust, an unincorporated common law trust that has been authorised as such by the CMA;

GLOSSARY...Continued

Term or abbreviation	Meaning
"REIT Manager"	means STANLIB Kenya;
"REITs 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;
"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 property fund, 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 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 and Co-op Bank establishing the STANLIB Fahari I-REIT property fund 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;
"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 Second Annual General Meeting of the unitholders of the STANLIB Fahari I-REIT ("REIT") will be held at The Auditorium, All Saints Cathedral, Kenyatta Avenue, Nairobi, Kenya on Friday, 20 April 2018, commencing at 10:30am 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 year ended 31 December 2017.
4. To note the first and final distribution for the year ended 31 December 2017, of KShs. 135,729,225 (75 cents per unit in issue) as recommended by the REIT Manager and approved by the Trustee. The distribution will be paid by 30 April 2018 to unitholders who are on the register of members by close of business 6 April 2018.
5. To note that KPMG continue as Auditors for the REIT.
6. To approve the acquisition by the REIT of 100% interest in STARLING PARK PROPERTIES LLP, which owns Land Reference Number 3734/1426 (Original Number 3734/917), Nairobi, on which is developed an office block measuring 41,312 square feet, subject to all statutory approvals.

BY ORDER OF THE TRUSTEE

Debra Ajwang'-Ogada
Trustee Company Secretary
The Co-operative Bank of Kenya Limited
P.O. Box 48231 – 00100
Nairobi, Kenya
Date: 28 March 2018

NOTE:

1. The Form of Proxy will be available on the STANLIB Fahari I-REIT website at www.stanlibfahariireit.com from 31 March 2018.
2. The duly completed Form of Proxy should reach the Registrar not later than 48 hours before the time set for the meeting.

PROXY FORM

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 Friday 20 April 2018 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___________________________ 2018.

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 officer or authorised in writing.
2. Form of proxy must be lodged with or emailed 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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1st Floor, Liberty House, Nyerere Road
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