STANLIB FAHARI I-REIT
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

CONTENTS

OUR CORPORATE INFORMATION

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OUR CORPORATE INFORMATION (Continued)

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THE CHAIRMAN'S STATEMENT

On behalf of the REIT Manager's Board of Directors, it gives me great pleasure to present the STANLIB Fahari I-REIT's annual report for the year ended 31 December 2018.

2018 at a glance

At the beginning of the year we successfully concluded a transaction which entailed purchasing all of the partnership interests in Starling Park Properties LLP which owns a newly built office building situated in Lavington, Nairobi. The transaction was completed on 29 May 2018; and as a result, our investment property portfolio accounts for 90% of net asset value as at 31 December 2018 which is above the regulatory minimum of 75%.

We also embarked on the construction of a cinema at our retail property – Greenspan Mall in Donholm, Eastlands. This entailed the conversion of a third floor former exhibition hall into a modern 300 seat capacity, 3-screen cinema. The cinema will be run by an experienced cinema operator and will be underpinned by a 10 year lease. The redevelopment has contributed to the uplift of the mall's market value as at 31 December 2018 with rental income expected to flow from the second quarter of 2019. This will be the first cinema in the Eastlands area.

At Greenspan Mall, a number of our key tenants renewed their leases for a second term which reinforces the mall's market dominance in its surrounds. We did however experience an increase in vacancies following a clean-up exercise to remove delinquent tenants in the first half of 2018. At a portfolio level, the vacancy factor increased to 11.7% (2017: 6.7%), which includes the single-tenanted property in the portfolio, known as Highway House which remained vacant for nine months in 2018 following the exit of the tenant at expiry of the lease.

We experienced strong recovery in tenant arrears which reached a record low since inception in the second half of 2018. This is testament to the implementation of vigorous collection processes by the Property Manager and the strengthening of tenant relationships to ensure improved collections. As at 31 December 2018, tenant arrears (excluding service charge accruals) stood at KShs. 18.5 million (2017: KShs. 41.9 million).

The Board of the REIT Manager is pleased with the REIT's overall financial results for the year ended 31 December 2018. The REIT delivered a 13% growth in net earnings to KShs. 193 million (2017: KShs. 171 million). On the strength of the results, the REIT Manager's Board recommended and the REIT Trustee has approved a first and final distribution of KShs 0.75 per unit (2017: KShs. 0.75) to be paid by 30 April 2019.

Tax legislation

The pending tax legislation for the exemption of REIT owned subsidiaries affected our net earnings as more tenants designated as tax agents withheld tax from rental income due to the REIT owned subsidiaries. The total tax leakage caused by the current gap in the tax legislation amounted to KShs. 13.5 million (2017: KShs. 8.6 million). The REITs Association of Kenya as well as tax consultants played a pivotal role in the engagement and lobbying of regulators. We look forward to the resolution of the pending tax legislation, a move that will help boost the REIT's earnings and help remove the uncertainty in the market around this tax issue.

The year ahead

In the year ahead, we aim to deliver on our growth strategy which entails partnering with pension schemes as well as insurance companies that are currently overweight with `investment property and desire to rebalance their portfolios in line with the relevant pension and insurance regulations in Kenya. The targeted transactions will be implemented through asset-for-unit swaps.

THE CHAIRMAN'S STATEMENT (Continued)

The year ahead (continued)

We also aim to continue undertaking initiatives aimed at creating and increasing value such as the implementation of a sound leasing strategy to attract good quality tenants who will enhance the property portfolio's tenant mix and reduce vacancies. We look forward to the launch of the new cinema at Greenspan Mall in the second quarter of 2019 as well as seeing this vibrant mall transform into a preferred shopping and entertainment destination.

Overall, we are optimistic about the REIT's future prospects and continue our commitment to ensuring its ability to generate sustainable income returns for unitholders.

Appreciation

I would like to thank the Directors for their contribution as well as the management team for their dedication as we all continue to make STANLIB Fahari I-REIT a success.

Surinder Kapila
Chairman, STANLIB Kenya Limited

REIT MANAGER'S BOARD OF DIRECTORS

1. SURINDER KAPILA

Appointment date: 30 May 2018

Chairman – Ms Kapila is an Advocate of the High Court of Kenya and a business law expert with deep knowledge of trade and regional integration having among others, helped establish the Common Market for East and Southern Africa (COMESA) Court of Justice and provided technical support to USAID regional trade team to encourage free movement of goods and trade between member states. She also has over 30 years experience in governance for banks, bilateral and multilateral donor agencies, research institutes as well as businesses at large.

In her career, Ms Kapila has held several roles including but not limited to Assistant Legal Officer for KCB Bank Limited, Legal Advisor and Company Secretary for CBA Bank Limited, Legal Consultant for World Bank – Agriculture Division, Legal Consultant for USAID Regional Legal Office and Legal Consultant for International Centre for Research in Agroforestry (ICRAF). Currently, she is a Development Consultant.

She is a current board member of International Federation of Women Lawyers (FIDA) (also former president), FIDA Kenya (also co-founder), Capital Club East Africa, and the Beth Mugo Cancer Foundation. She is a past board member of Ecobank Kenya Limited, the East African Building Society Bank, and Hillcrest International Schools.

Ms Kapila holds a B.A. (Hon) Economics and Political Science degree, a Diploma in Journalism as well as an LL.B. Public and Private International Law degree all from the University of Mumbai, India. She also holds an Executive MBA, International Business Development, and Leadership from Inoorero University, Kenya/CBS-SIMI Executive, Denmark. She is also a Chartered Meditator and Conciliator duly commissioned by the Kenya Institute of Chartered Mediators and Conciliators and the Mediation Training Institute East Africa.

2. NKOREGAMBA MWEBESA

Appointment date: 8 December 2016

Managing Director, STANLIB Kenya – Mr Mwebesa has more than 28 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 SBG Securities (SBGS), a licensed Investment Bank in Kenya, Uganda and Rwanda and a member of the Standard Bank Group. Prior to joining SBGS, Mr Mwebesa had a successful tenure as the Chief Executive Officer of the Nairobi Securities Exchange Limited (NSE), the largest securities exchange in the East African Region.

Mr Mwebesa was appointed Managing Director of STANLIB Kenya Limited on 8th December 2016, however this is his second stint at the helm of this business. Mr Mwebesa served as the founding Executive Director of STANLIB Kenya's predecessor, Stanbic Investment Management Services (SIMS) from 1999 to 2004.

Mr Mwebesa holds an Upper Second Class Honours B.A. Degree in Economics and Philosophy from the University of Nairobi and an Executive MBA from the Maastricht School of Management.

REIT MANAGER'S BOARD OF DIRECTORS (Continued)

3. MIKE DU TOIT

Appointment date: 22 February 2006

Non-executive Director – Mr du Toit joined Liberty in 2010. He is the Managing Director of NSE-listed Liberty Kenya Holdings 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).

4. 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 23 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.

5. JOHN STURGEON

Appointment date: 30 May 2018

Non-executive Director – Mr Sturgeon is currently a Consultant to Liberty Holdings Limited in South Africa, responsible for the Liberty Property Portfolio, Chairman of the Pension and Provident Funds as well as over sight of certain of Liberty's non South African subsidiaries. Prior to this he was the Group Executive - Corporate Finance and Capital Management for the Liberty Group (2004 – 2017). Prior to this, he was a Consultant to the Standard Bank Equity Fund division on Management Buyouts and Private Equity Investments (2000 – 2004).

He began his career as an articled clerk with Peat Marwick Mitchell and grew his financial experience through various positions from Financial and Cost Accountant to Financial Controller for companies within the Dorbyl Group, then becoming Group Financial Manager for Calan Limited. From May 1982, Mr Sturgeon became the Group Financial Director/Company Secretary for Natyre Limited/Calan Group. Since then, he has held various Financial Director positions including for Argus Holdings Limited (1993 – 1994) and the Premier Group Limited (1994 – 1999). Mr Sturgeon holds a Post-Graduate Certificate in the Theory of Accounting (CTA) from the University of Witwatersrand. He also holds a CMA and HDip Tax also from the University of Witwatersrand. He is a registered Chartered Accountant with the South African Institute of Chartered Accountants.

6. PETER WAIYAKI

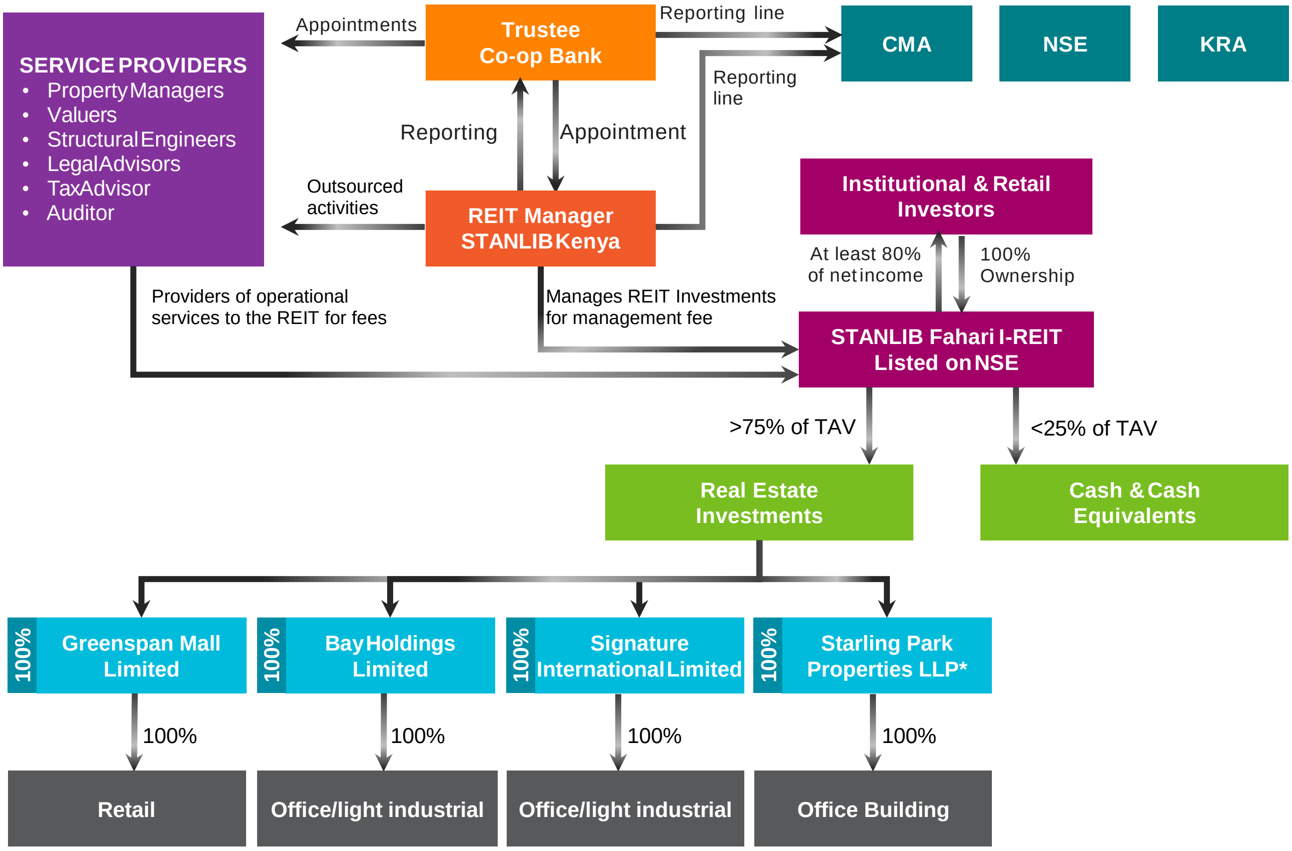
Appointment date: 1 January 2013

Resignation date: 31 December 2018

Non-executive Director – Mr Waiyaki is an advocate of the High Court of Kenya and a Partner at Mboya Wangong'u & Waiyaki Advocates responsible for Strategy and Development. He is an accomplished practitioner ranked as a top commercial lawyer over several years. He specializes in corporate and commercial law with particular emphasis on capital markets law and practice, corporate restructurings, mergers and acquisitions and corporate finance. He previously worked as the founding Chief Executive of the Central Depository & Settlement Corporation in Kenya and oversaw 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.

THE REIT STRUCTURE



* Greenspan Mall Limited holds 1% of the partnership interest in Starling Park Properties LLP in trust on behalf of STANLIB Fahari I-REIT. No economic benefit flows to Greenspan Mall Limited as a result of this arrangement.

REIT MANAGEMENT TEAM

1. NOZIPHO MAKHOBA

Acting Chief Executive Officer: STANLIB Fahari I-REIT, and
Chief Financial Officer: STANLIB Fahari I-REIT

Nozipho has 18 years working experience spanning across financial management, external audit, property investment and corporate finance. In her role as Acting Chief Executive Officer, she is responsible for driving strategic growth, stakeholder engagement, 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 the largest asset manager in Africa - the Public Investment Corporation as a Finance and Operations Manager in the Property Investment Division. While at the Public Investment Corporation, 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 the South African Institute of Chartered Accountants.

2. RUTH OKAL

Property Asset Manager: STANLIB Fahari I-REIT

Ruth has 15 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. She is a member of the Valuers Registration Board.

3. IRENE MALOBA

Financial Manager: STANLIB Fahari I-REIT

Irene has over 6 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.

REIT MANAGEMENT TEAM

4. EVELYNE KINARA

Risk and Compliance Manager: STANLIB Fahari I-REIT

Evelyne has 9 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

STATEMENT OF COMPLIANCE

STANLIB Kenya Limited, the duly licensed REIT Manager for the STANLIB Fahari i-REIT has engrained corporate governance as the pivotal framework through which its strategic objectives are set, attained and its performance monitored. The Board of the REIT Manager has and continues to put in measures to ensure compliance with the key principles as set out in 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 as well as the ethical standards prescribed in the Company's Code of Conduct. 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 REIT in its enviable position as the first income real estate investment trust to be listed on the Nairobi Securities Exchange, has and continues to actively participate in policy review forums as well as other industry forums aimed at bringing about key reforms, including in taxation of Kenyan REITs, that will enable the success of REITs as an investment product in this market.

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. Further the Board has an obligation to maintain a reliable system of managing financial information, so that the REIT scheme objectives of providing unitholders with stable annual cash distributions, improving and maximizing unit value are met.

BOARD SIZE, COMPOSITION AND APPOINTMENTS

The Board comprises of 5 members made up of a non-executive and independent Chairman, one executive Managing Director and three non-executive directors. 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 OF THE CHAIRMAN AND MANAGING DIRECTOR

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 Manager'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.

ROLE OF THE BOARD

The Board offers strategic guidance, leadership and control of the REIT Manager by defining its strategic intent, its objectives and values; reviews this strategic direction and adopts business plans proposed by Management. The Board monitors Management's implementation of the plans and strategies, ensures ethical behaviour and compliance with relevant laws and regulations, audit and accounting principles, corporate policies and procedures and the Code of Ethics.

TRAINING AND PERFORMANCE EVALUATION

The Board of the REIT Manager is focused on continued improvements in its effectiveness and corporate governance performance. On-going training is provided to members of the Board to enable them to fulfil 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 5 to 7 of this Annual Report.

AUDIT AND RISK COMMITTEE (ARC)

The Board of the REIT Manager has established the Audit and Risk Committee (constituted as a sub-committee of the Board). As at 31 December 2018, the Committee's composition constituted of three non-executive directors, the Chairman being an independent non-executive director. The Chairman of the ARC resigned effective 31 December 2018. Following the resignation and in line with the ARC Mandate, the remaining members elected one of the members to chair the meeting awaiting appointment of a substantive Chairman. The Acting Chairman is a 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;
- Ensure that the other Board members are made aware of matters which may significantly impact the financial conditions or affairs of the REIT.

CORPORATE GOVERNANCE (Continued)

INVESTMENT COMMITTEE

The STANLIB Fahari I-REIT Investment Committee ("SFIR-IC") is constituted by the Board of the REIT Manager and structured as its sub-committee. The reporting at the Board is by the SFIR-IC Chairman. The Committee is constituted of three directors; two non-independent and the Managing Director of the REIT Manager.

The mandate of the Committee inter alia includes:

- Review and approval of the execution of the approved investment strategy from time to time.
- Setting the criteria and targets for investment, including asset mixes and/or allocations.
- Oversight over the strategic direction of the REIT; making decisions on purchasing, developing and selling of properties within the limits of this Mandate and the CMA REIT's Regulations.

The mandate of the Committee allows it to routinely invite a specialist(s) for relevant professional contribution and advice.

The Committee has an independent role with accountability to the Board, the REIT Trustee and unitholders. The Committee does not assume the functions of management, which remain the responsibility of the REIT management team and the executives of STANLIB Kenya.

The Committee held 6 meetings which were attended by all the Members in line with the Committee Mandate.

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 UNITHOLDING

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 2018 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. Mr Peter Waiyaki was a non-executive director of the REIT Manager up to 31 December 2018 when he resigned as a non-executive director.

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.

CORPORATE GOVERNANCE (Continued)

BOARD MEMBERS' MEETINGS (Continued)

Below is the attendance roster for the year under review.

Board Member	**Classification**	**27th Mar 2018**	**30th May 2018**	**26th Jul 2018**	**30th Jul 2018**	**6th Sep 2018**	**7th Nov 2018**	**8th Nov 2018**
Surinder Kapila*	Non- Executive Chairman	NA	Yes	Yes	Yes	Yes	Yes	Yes
Nkoregamba Mwebesa	Executive Director	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Mike du Toit	Non- Executive Director	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Jeff Hubbard**	Non- Executive Director	Apologies	N/A	N/A	N/A	N/A	N/A	N/A
Patrick Mamathuba	Non- Executive Director	Yes	Yes	Yes	Apologies	Yes	Yes	Yes
John Sturgeon*	Non- Executive Director	N/A	Yes	Yes	Yes	Yes	Yes	Yes
Peter Waiyaki***	Non- Executive Director	Yes	Yes	Yes	Yes	Yes	Yes	Yes

* Appointed 30th May 2018
** Resigned 26th April 2018
***Resigned 31st December 2018

RISK MANAGEMENT

The REITs Regulations require the REIT Manager to report on identified risks likely to impact on the future performance of the REIT Scheme and its capacity to fulfil its objectives.

KEY RISKS

Industry specific risks

As is common in other investment classes, property goes through different performance cycles and trends affected by several factors including socio-economic and regulatory changes. 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.

One of the key risks that emerged in the Kenyan property market in 2018 is the demolishing of property built on riparian land or road reserves leading to significant financial loss to affected property owners.

As a mitigating factor, the STANLIB Fahari I-REIT performs thorough due diligence prior to any property acquisition including compliance with laws and regulations. In future, greater focus will be put on ensuring that properties purchased are not built on riparian land or road reserves.

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.

RISK MANAGEMENT (Continued)

Risks associated with the STANLIB Fahari I-REIT structure (continued)

Market risk (continued)

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

Securities liquidity risk

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

Regulatory risk

Changes to the regulatory framework applicable to a REIT could impact the REIT's financial performance and after-tax returns to unitholders. The STANLIB Fahari I-REIT is subject to the 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.

RISK MANAGEMENT (Continued)

Risks associated with the STANLIB Fahari I-REIT structure (continued)

Tax risks

STANLIB Fahari I-REIT is exempt from income tax as per Section 29(1)(c) of the Kenyan Income Tax Act (formerly Section 20). 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.

In 2018, 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. Due to unforeseen circumstances, enacting of these subsidiary tax regulations is now scheduled for 2019.

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. The REIT Manager is also extensively involved, alongside industry bodies such as the REITs Association of Kenya, in lobbying for the required tax reforms affecting REITs in Kenya to be duly implemented.

Risks associated with the Scheme's proposed investment portfolio

Risks arising from acquisition of special purpose vehicles

The STANLIB Fahari I-REIT has and continues to acquire investment properties through the purchase of shares in limited liability companies or partnerships (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.

RISK MANAGEMENT (Continued)

Risks associated with the Scheme's proposed investment portfolio (continued)

Risks arising from acquisition of special purpose vehicles (continued)

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 mitigates 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

STANLIB Fahari I-REIT continues to pursue 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.

REFLECTING ON 2018

Below are some of the key environmental and social activities achieved throughout 2018 in a quest to improve our processes from an Environmental and Social (E&S) perspective:

ACHIEVEMENTS

Property	E&S area	Details
Greenspan Mall	Energy efficiency	LED retrofit of all common areas.
Greenspan Mall	Waste management	Implementation of policy including separation of waste and proper management of hazardous waste by tenants.
Greenspan Mall	Fire fighting equipment	Updated and improved fire fighting capacity including replacing the fire alarm panel, enhancing the fire alarm system and also placement of smoke detectors through the entire mall.
Greenspan Mall	Social	Facilitated food and clothes donation to children's home in collaboration with tenants.
Greenspan Mal	Incident reporting	Established a reporting and monitoring process.
Greenspan Mall	Security	Investment in CCTV covering entire mall.

CHALLENGES

CHALLENGE	STRATEGIC RESPONSE
Environment pollution – the effluent treatment plant at the newly acquired property, 67 Gitanga Place, did not perform optimally for some time owing to the presence of organic material in the treated water. As a result the discharged water had a foul odour.	Corrective measures have been taken to prevent organic material that hampers the purification process from entering the effluent treatment plant. The water flow within the plant has also been reconfigured to aid the aeration process and ensure high quality treated water at the end of the process.
Water supply – the supply of water at Greenspan Mall was severely disrupted on several occasions throughout 2018 due to an inconsistent and unreliable service from the water vendor.	Having secured regulatory approval at end of 2018, a borehole was drilled in January 2019. Investment in steel water storage tanks is expected in 2019. This will not only drastically improve the reliability of supply but will also decrease costs going forward.

CONSTRUCTION PROJECT

An exhibition/conference hall on the third floor is being converted into a three-screen cinema. As at the first quarter of 2019, the cinema was still under construction but nearing completion. The construction involves modification of the exhibition hall through raising of the walls and roof as well as retrofitting of the hall for the purpose of the cinema including cinema seats, screens, equipment coupled with the requisite installation of various fittings, wiring, piping as well as ventilation ducts. The completed cinema will include three cinema halls, a janitor room, projector rooms, an office, customer lounges, storage facility, gents and ladies' washrooms, a kitchen, waste consolidation area and a fire escape stairwell and balcony.

The cinema provides for a large scope of safety features including fire doors, heat and smoke detectors, emergency exit lighting, fire alarm break glass and sounder and a fire escape corridor. The entire cinema fire alarm will be linked to the main fire alarm panel of the mall. In addition, the cinema will have wide corridors (1.5 meters) to avoid collision, illuminated staircases for visibility, carpet cladding for the staircases to reduce the risk of slips, high balustrade guards to prevent falls and stickers/decals placed on large glass panels to ensure visibility.

NEW PROPERTY

The new property 67 Gitanga Place is a highly rated green building with impressive environmental and safety features including advanced fire fighting capabilities including smoke detectors with alarm, fire sprinklers, automatic fire extinguishers that are heat activated, fire hose, fire blankets, fire exits and extensive emergency signage. In addition, there is limited day lighting requirements due to large panel windows and sunlight through the glass roof coupled with energy saving bulbs and automatic lighting sensors. The building also has an effluent treatment plant (ETP).

SUSTAINABILITY REPORT (Continued)

KEY PRIORITIES FOR 2019

Property	E&S area
Greenspan Mall	Waste segregation at tenant level
	Complete borehole drilling and tank installation
	Consider water harvesting and recycling
	Link fire fighting equipment to new water tank
	Emergency/fire drill
67 Gitanga Place	Resolve challenges with the effluent treatment plant
	Compile the risk register
	Emergency drill
	Consider water harvesting and recycling
Bay Holdings	Replace asbestos roof

REPORT OF THE REIT MANAGER

The REIT Manager submits its report together with the audited financials for the year ended 31 December 2018, 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 licenced 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
Surinder Kapila	Non-executive Chairman	Appointed 30 May 2018
Nkoregamba Mwebesa	Managing Director	
Mike du Toit*	Non-executive Director	
Jeff Hubbard*	Non-executive Director	Resigned 26 April 2018
Patrick Mamathuba*	Non-executive Director	
John Sturgeon*	Non-executive Director	Appointed 30 May 2018
Peter Waiyaki	Non-executive Director	Resigned 31 December 2018

*South African

ACQUISITIONS

Acquisitions during the period

STANLIB Fahari I-REIT successfully completed the acquisition of 100% of the partnership interests in Starling Park Properties LLP on 29 May 2018. Greenspan Mall Limited, a subsidiary of the REIT, holds 1% of the partnership interest in Starling Park Properties "in trust" on behalf of the REIT. As such, no economic benefits flow to Greenspan Mall Limited as a result of this holding.

Entity	Transaction date	Purchase consideration	Property market value @ acquisition	Property market value @31 Dec 2018
		KShs	KShs	KShs
Starling Park Properties LLP	29 May 2018	850,037,500*	850,000,000	857,000,000

*Purchase consideration also included the value of equipment and utility deposits acquired from the vendor

Starling Park Properties LLP is a limited liability partnership that owns an investment property known as 67 Gitanga Place situated in Lavington, Nairobi. Further details on this property are set out on page 40 of this annual report. Axis Real Estate Limited conducted the independent valuation of the property at acquisition and returned the following values:

Methodology	Market value
	KShs
Discounted cash flow	849,000,000
Market comparison	834,000,000
Cost approach	831,000,000
Income capitalisation	808,000,000
Average valuation	830,000,000

The REIT Manager considered the value arrived at by the independent valuer using the discounted cash flow method to be the fair value of the property and arrived at a fair value of KShs. 850 million at acquisition. Other factors were also taken into account such as the fact that rental income is received six months in advance, and the tenant paid a substantial cash security deposit with interest accruing to the landlord. The property was independently valued by Knight Frank Valuers Limited at 31 December 2018 who returned a valuation of KShs 857,000,000 based on the discounted cash flows methodology on which all other properties of the REIT are valued. The full valuation reports for 67 Gitanga Place 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).

Real estate assets contracted for purchase or sale

At time of report date, no real estate assets are contracted for purchase or sale. The property known as Highway House has been earmarked for disposal in 2019 and hence is treated as an 'asset held for sale' as at 31 December 2018. Refer to Note 14 to the financial statements.

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.

CONSTRUCTION PROJECT

Details of the construction project

During 2018, a redevelopment project was undertaken at Greenspan Mall. The project entailed the conversion of a third floor hall facility set on 6,416 square feet into a three screen modern cinema comprising approximately 100 seats each. The cinema will be operated by Crimson Media who have extensive experience in running cinema businesses in Kenya. Crimson Media will enter into a 10 year lease with Greenspan Mall Limited and is expected to take occupation in the second quarter of 2019.

Regulatory approvals

The following regulatory approvals were obtained in respect of the project:

(i) **Architectural Drawings** – Approvals received on 21 June 2018 under reference number CPF-AP454.

(ii) **Structural Drawings** – Approved on 25 July 2018.

(iii) **National Construction Authority (NCA) Approval** – lodging of filing acknowledged on 13 August 2018. Approval pending filing of certain administrative documentation.

Construction cost budget and variations

Construction cost budget against actual*	**Landlord**	**Tenant**	**Total**
Contractor costs	33,225,175	-	33,225,175
Acoustics panels and carpets	-	7,274,825	7,274,825
Total approved contractor costs	**33,225,175**	**7,274,825**	**40,500,000**
Professional Fees	4,909,992	946,455	5,856,447
Total original approved budget	**38,135,167**	**8,221,280**	**46,356,447**
1st Construction cost variation (a)	3,216,017	-	3,216,017
2nd Construction cost variation (b)	5,034,163	-	5,034,163
Tenant relocation costs (c)	1,195,471	-	1,195,471
Additional consultant costs (d)	524,234	-	524,234
Lease commission (e)	346,464	-	346,464
Revised approved budget	**48,451,516**	**8,221,280**	**56,672,796**

*amounts exclude VAT

(a) The first cost variation was occasioned by unforeseen site conditions which required among others the upgrade of the electrical distribution; relocation of water supply pipes; replacement of roof sisalation; enhancement of shoring of concrete slab as well as the extra removal and reinstallation of warping tiles.

(b) The second cost variation was as a result of the hacking and reinforcement of concrete beams on the second floor which is beneath the cinema site as well as on the third floor where the cinema is being constructed to ensure the structure is able to support the additional load being added to it.

(c) These costs relate to the temporary relocation of three tenants, for health and safety reasons, to allow for the necessary works to be undertaken in the respective tenant premises (as detailed in (b) above.

CONSTRUCTION PROJECT (Continued)

Construction cost budget and variations (continued)

(d) Additional consultant costs are in line with the project time extensions and project variations.

(e) Lease commission is payable to the Property Manager for lease broking services in respect of the cinema tenant.

Expected returns

The cinema construction projected is expected to generate an initial net yield of 9.5% in the first year of operation after taking into account all project cost variations. Before cost variations, the project was expected to generate an initial yield of 11.7%.

BUSINESS REVIEW

Performance highlights

Details	2018	2017	% Change
Net profit for the year (KShs)	193,491,759	171,126,409	13%
Rental and related income (KShs)	309,763,210	279,433,136	11%
Distributable earnings (KShs)	127,885,294	149,113,640	(14%)
Market value of property portfolio (KShs)	3,405,700,000	2,460,000,000	38%
Net asset value per unit (KShs)	20.58	20.26	2%
Distribution per unit (KShs)	0.75	0.75	0%

The REIT attained a net earnings growth of 13% to KShs 193.5 million during the year under review. This favourable result was mainly due to an increase in fair value gain on revaluation of investment property. The portfolio's market valuation was bolstered by the addition of a modern 3-screen cinema at Greenspan Mall which is due to open in the second quarter of 2019 underpinned by a 10 year lease. Recent successful renewal of key tenant leases has also boosted the mall's future cash flows and expiry profile and will counter the challenge of vacancies in the portfolio.

Distributable earnings fell by 14% to KShs 127.9 million compared to KShs 149.1 million in the comparative period. Rental income was slightly under pressure due to an increase in vacancies though it experienced growth from the contribution of the new office building acquired at the end of May 2018. The property known as Highway House (owned by the subsidiary company – Signature International Limited) was vacant for nine months during 2018 following the expiry of the tenant's lease on 31 March 2018. This has also impacted on the fair value of this property which declined further as at 31 December 2018.

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.

BUSINESS REVIEW (Continued)

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 2018 (2017: KShs. 135,729,225) 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	**2018**	**2017**	**2016**
Distributable earnings (KShs)	127,885,294	149,113,640	98,000,288
Minimum distribution per Trust Deed and Regulations	102,308,235	119,290,912	78,400,230
Distribution (KShs)	135,729,225	135,729,225	90,486,150
Distribution as a % of distributable earnings (%)	106	91	92
Weighted average units in issue (number)	180,972,300	180,972,300	180,972,300
Distributable earnings per unit (KShs)	0.71	0.82	0.54
Distribution per unit (KShs)	0.75	0.75	0.50

The proposal of the distribution by the REIT Manager occurred after the end of the reporting period ended 31 December 2018 resulting in a non-adjusting event that is not recognised in the financial statements. The distribution is payable by no later than 30 April 2019.

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**	
	2018	**2017**
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. Mr Peter Waiyaki resigned as a non-executive director of the REIT Manager on 31 December 2018

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

Focus in the first part of 2018 was on completion of the acquisition of a new investment property held through a limited liability partnership for a purchase consideration of KShs. 850 million. The property is an A-grade newly built office building situated in Lavington, Nairobi. This transaction was crucial in ensuring that the REIT was compliant with the Regulations which require that it invests at least 75% of its net asset value in investment property. The transaction was completed on 29 May 2018 and the property has been fully on-boarded. Following the acquisition, investment property accounts for 90% of net asset value as at 31 December 2018.

Property development activity ensued at Greenspan Mall in the second part of the year relating to the conversion of part of the third floor space into a three screen cinema with just over 300 seats in total. The construction work is expected to be complete in the second quarter of 2019 and the cinema operational immediately thereafter.

In addition to the above, the REIT Manager continued to perform strategic and operational functions in managing the 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:

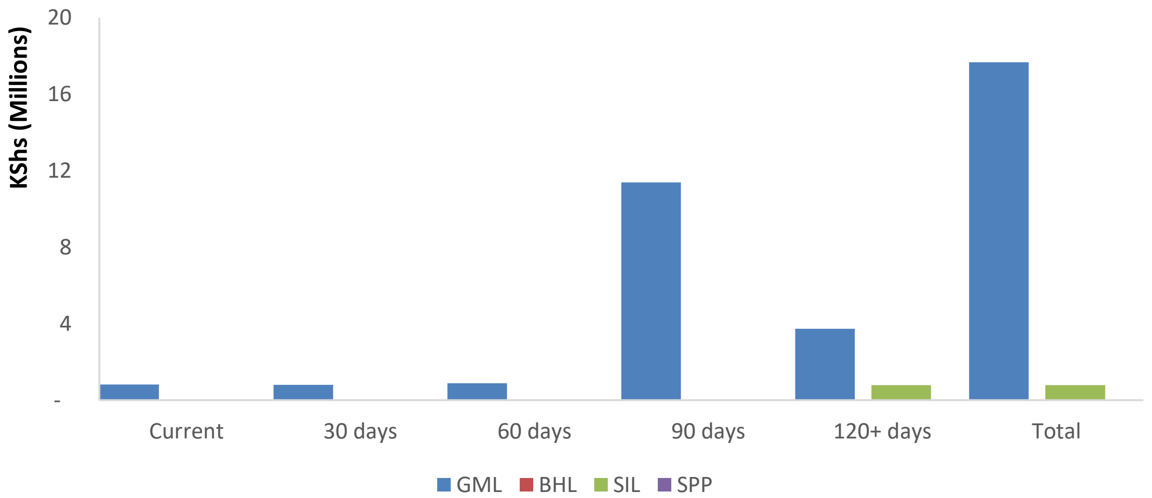
- Redefining and implementation of the portfolio strategy, which manages risk through portfolio diversification and seeks to deliver appropriately risk-adjusted returns through superior asset allocation and selection;
- Cash management (all cash collected from rentals continues to be invested in a diversified 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. The REIT Manager's Investment Committee has reviewed and scrutinised several acquisition opportunities throughout the year in line with the investment criteria. As at end of 2018, two property transactions had been approved to progress to due diligence stage;
- Deal management - ensuring that risk is managed and obligations are met through to deal execution;

REIT MANAGER'S OPERATIONAL REVIEW (Continued)

- 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. At Greenspan Mall, a project was undertaken to replace all lights with LED lighting during 2018;
- 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. Significant strides were made in reducing tenant arrears in 2018 with tenant arrears reaching a record low balance at end of 31 December 2018 compared to preceding years. Also, the tenant distress activity carried out in the early part of the year ensured that the debtors book was cleaned up to prevent further financial loss; and
- Management of service providers, such that their delivery is aligned to property-level as well as portfolio-level strategy.

KEY PERFORMANCE INDICATORS

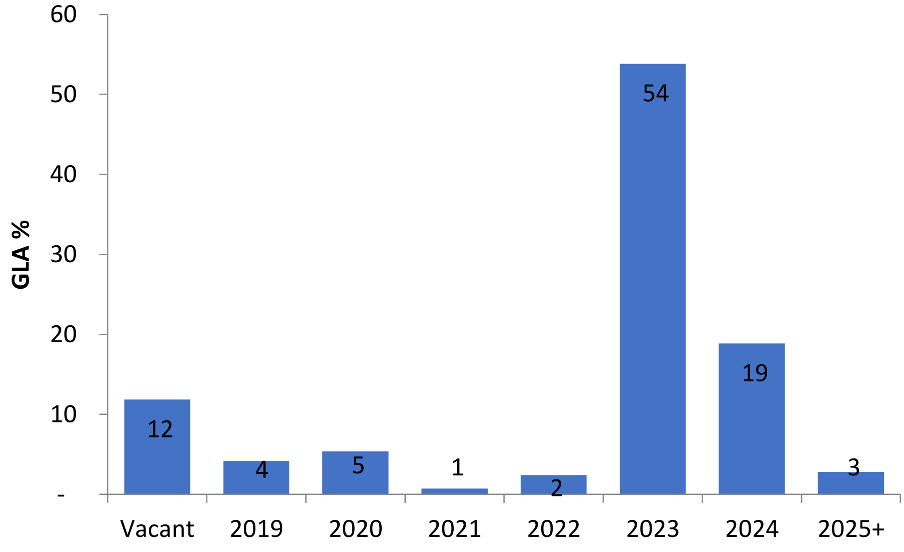
Debtors Age Analysis



Tenant arrears (excluding service charge receivable) stood at KShs. 18.5 million at end of 2018 (2017: KShs. 41.9 million). The significant reduction in arrears is as a result of rigorous debt collection procedures applied across the portfolio leading to timely dealing with delinquent tenants. A number of delinquent tenants for whom adequate provision for bad debts had been raised in the 2017 financial period were subsequently distressed and written off. The REIT Manager in conjunction with the Property Manager continues to ensure arrears remain within target and as a result impairment losses are minimised.

KEY PERFORMANCE INDICATORS (Continued)

Lease Expiry Profile by GLA



The lease expiry profile continues to be well spread with over 70% of the GLA expiring from four years after reporting date. The spike in 2023 is due to the expiry of the anchor tenant lease at Greenspan Mall.

Vacancies

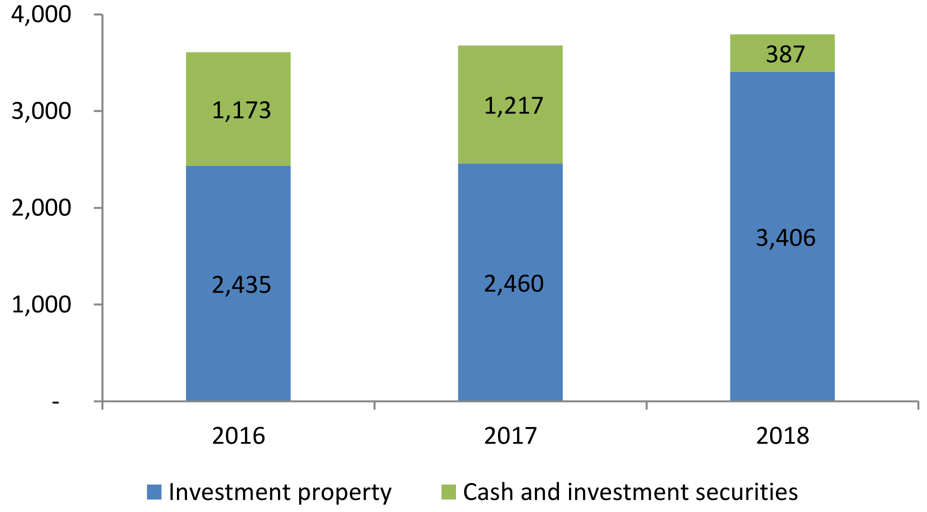
The total portfolio vacancy rate is at 11.7%, slightly above the 5% portfolio target.

Property	GLA	Vacant GLA	Vacancy %
Greenspan Mall	155,477	20,105	12.9
67 Gitanga Place	41,312	-	-
Bay Holdings	33,265	-	-
Highway House	7,638	7,638	100.0%
Total weighted average	**237,692**	**27,743**	**11.7%**

REPORT OF THE REIT MANAGER (Continued)

KEY PERFORMANCE INDICATORS (Continued)

ASSETS UNDER MANAGEMENT (AUM)



The AUM has continued to grow steadily over the years with investment property benefiting from a new property acquisition of KShs 850 million in May 2018 resulting in reduced cash holdings. Investment property has also benefited from marginal gains on revaluation.

CASH & NEAR CASH ASSETS (KShs)

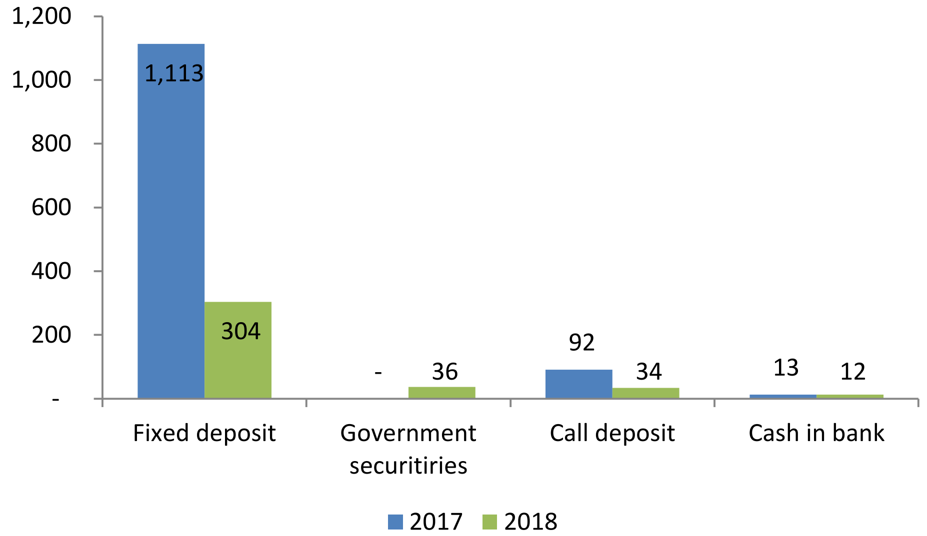
Cash instruments	**2018**	**2017**
Cash and cash equivalents	304,493,635	688,190,218
Investment securities	82,138,600	529,000,000
Total	**386,632,235**	**1,217,190,218**

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.

REPORT OF THE REIT MANAGER (Continued)

CASH & NEAR CASH ASSETS (KShs) (continued)

Breakdown of Cash and near cash assets



Fixed deposit instruments continue to dominate the portfolio though cash and near cash assets as a whole have decreased significantly after the acquisition of the fourth property in 2018.

NET ASSET VALUE

Movement in Net Asset Value (KShs)	**2018**	**2017**
Total asset value	3,852,621,474	3,761,627,663
Net asset value	3,723,943,826	3,666,181,292
Number of units in issue	180,972,300	180,972,300
Net asset value per unit	**20.58**	**20.26**

The increase in total assets and net asset value is attributable to the revaluation gain of KShs. 65.6 million as well as net operating profit for the year ended December 2018 of KShs. 128 million (net of revaluation gain).

NET ASSET VALUE PRIOR AND POST DISTRIBUTION OF EARNINGS

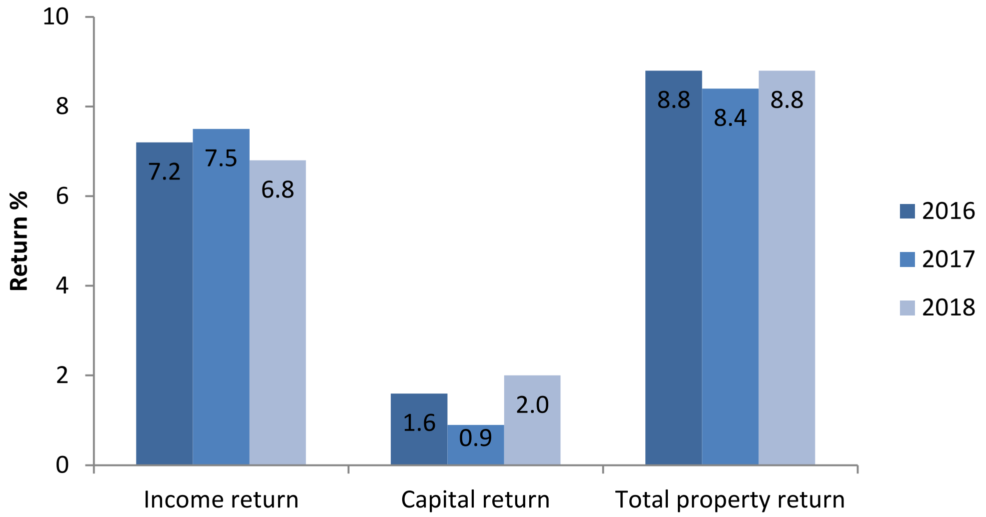
As at 31 December (KShs)	**2018**	**2017**	**2016**
Net asset value prior to distribution	3,723,943,826	3,666,181,292	3,585,541,033
Net asset value post distribution	3,588,214,601	3,530,452,067	3,495,054,883
Net asset value per unit prior to distribution	20.58	20.26	19.81
Net asset value per unit post distribution	19.83	19.51	19.31
Yield based on the value of the unit as at 31 December	**6.8%**	**7.0%**	**4.3%**

REPORT OF THE REIT MANAGER (Continued)

ASSETS UNDER MANAGEMENT (continued)

FUND RETURNS

Property returns



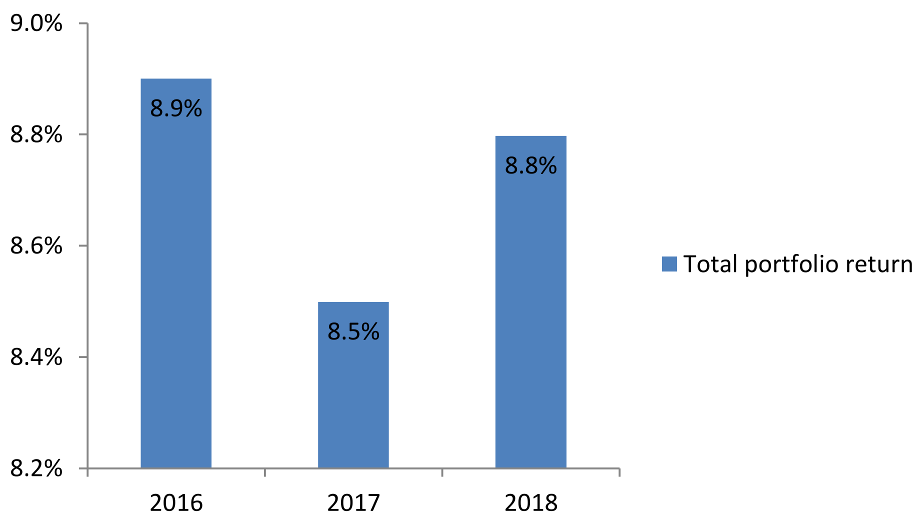
Property is valued once at the end of the financial year by an independent valuer.

Investment income return (annualised) (%)

	2018	2017
Fixed and call deposit interest return	8.6	8.5
Treasury bills income return	11.1	10.3
Weighted average interest return	**8.8**	**8.7**

Total portfolio return

The total portfolio return comprises the weighted average property and interest income return over the various reporting periods. The average split between property and cash instruments has been 79% and 21% in 2018, respectively (2017: 67% : 33%).



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

Sources of distribution	**2018**	**2017**	**2016**
	KShs	**KShs**	**KShs**
Net rental/dividend income from wholly owned property companies	**201,460,125**	**184,894,243**	**190,587,729**
Fund interest and other income	56,646,680	99,852,345	111,209,231
	258,106,805	**284,746,588**	**301,796,960**
Less:			
Fund operating expenses	(130,221,511)	(135,632,948)	(180,422,344)
Interest paid	-	-	(23,374,328)
Total potential distributable income from current earnings	**127,885,294**	**149,113,640**	**98,000,288**
Distribution from prior year retained earnings	7,843,931	-	-
Distribution	**135,729,225**	**135,729,225**	**90,486,150**
Distribution as a % and in compliance with Regulation 72	**106%**	**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	**2018**	**2017**	**2016**
MER (%)	3.5	3.7	5.0

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 are registered for trading with ISIN Code KE5000003656, are freely transferable on the NSE, and bear no restriction on transfer.

DETAILED ANALYSIS OF UNITHOLDINGS (Continued)

Fund Open or Closed Fund, Details of any Restrictions on Applications for Redemption

STANLIB Fahari I-REIT is a closed-ended fund. Its units can only be traded 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

As at 31 December 2018, none of the STANLIB Fahari I-REIT issued units were subjected to any lock-in conditions. Previously, a three-year lock-in period was applicable to the International Finance Corporation ("IFC") held through Standard Chartered Nominees (33.9 million units) and the Liberty Group (26.085 million units). This lock-in period has since lapsed.

The free float as at 31 December 2018 thus amounted to **100%** (31 December 2017: 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 2018 and 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. As at 31 December 2018, no units were subjected to a lock-in period.

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	2018	2017
Units at the beginning	180,972,300	180,972,300
Units issued during period	-	-
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 2018 was as follows:

Range	Units	Units %	Unit holders	Unit holders %
Less than 100	215	-	25	0.5
100-1000	1,976,574	1.1	2,286	41.3
1001-10000	10,539,460	5.8	2,733	49.4
10001-100000	11,927,900	6.6	423	7.6
100001-less than 5% of no. of units in issue	65,567,151	36.2	66	1.2
Holdings above 5% of no. of units in issue	90,961,000	50.3	4	0.2
Total	**180,972,300**	**100.0**	**5,537**	**100.0**

REPORT OF THE REIT MANAGER (Continued)

REIT Security Holdings by Country

The REIT security holdings by country as at 31 December 2018 were as follows:

Country	Units	Units %
Kenya	170,931,200	94.5
South Africa	8,319,400	4.6
Uganda	738,400	0.4
Others	983,300	0.5
Total	**180,972,300**	**100.0**

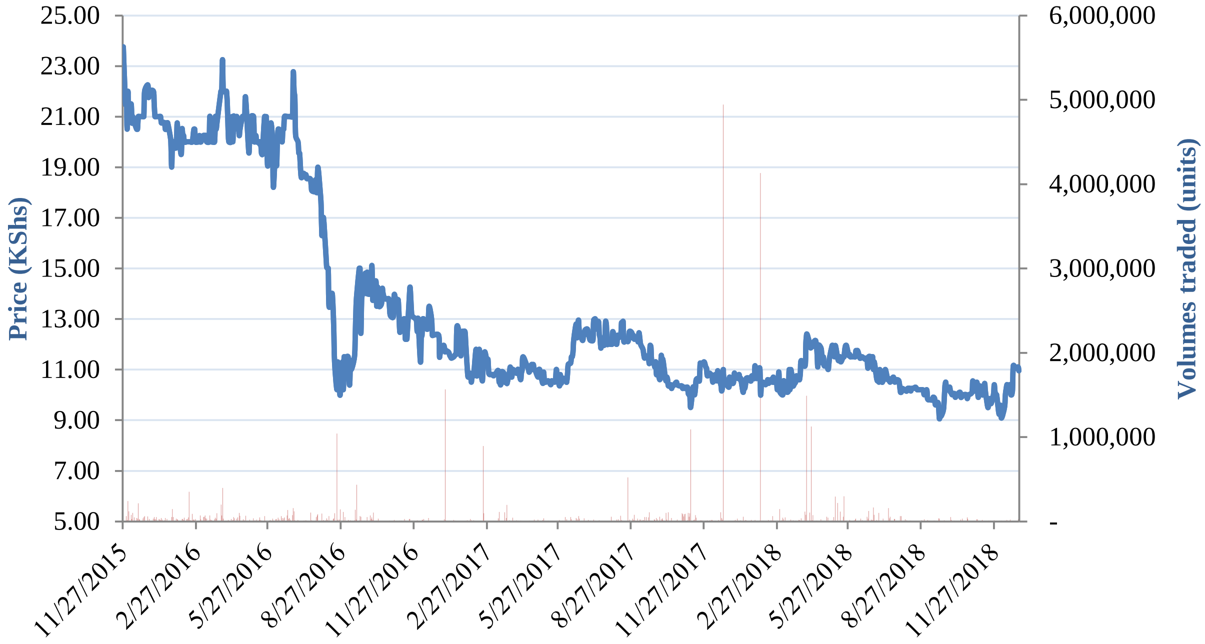
REIT Investor Holdings

Top STANLIB Fahari I-REIT unitholders as at 31 December 2018

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	13,676,700	7.6
Liberty Group Limited	7,700,700	4.3
Standard Chartered Nominees Resd A/C KE11443	7,378,500	4.1
One Globe Holdings Limited	5,200,000	2.9
Standard Chartered Nominees Non Resd A/C 9424	5,147,000	2.8
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	**122,840,200**	**67.9**

CLOSING PRICE HISTORY

The REIT daily closing price from inception to 31 December 2018 was as follows:



REPORT OF THE REIT MANAGER (Continued)

CLOSING PRICE HISTORY

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

	2018	2017
Closing price per unit (KShs)	10.95	10.70

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 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
Knight Frank Valuers Limited	Valuer	Valuation
Crystal Valuers Limited	Valuer	Valuation
Axis Real Estate Limited	Valuer	Valuation
Mboya Wangong'u & Waiyaki Advocates*	Legal Advisor	Legal advisory services

*One of the partners of Mboya Wangong'u & Waiyaki Advocates, Mr Peter Waiyaki was a director of the REIT Manager and resigned at end of 2018.

(b) Connected party transactions – fees paid

Transaction (KShs)	2018	2017
Asset management fee paid to STANLIB Kenya Limited	76,588,864	84,101,266
Custodial and other fees paid to Co-op Bank	22,712,379	22,952,573
Other administrative fees paid to Co-op Bank	965,267	915,990
Valuation fees paid to Knight Frank Valuers Limited	2,500,000	-
Valuation fees paid to Crystal Valuers Limited	400,000	-
Valuation fees paid to Axis Real Estate Limited	626,400	-
Valuation fees paid to Tysons Limited	-	1,398,000
Legal advisory fees paid to Mboya Wangong'u & Waiyaki Advocates	2,128,000	1,314,100
Total	**105,920,910**	**110,681,929**

(c) Connected party balances

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

Bank account name (KShs)	2018	2017
Investment account – fixed deposits	93,000,000	231,000,000
Investment account – call deposits	30,000,000	4,000,000
Investment account	528,520	1,504,663
Rent collection account – Greenspan Mall	2,300,000	1,980,127
Service charge account – Greenspan Mall	5,377,333	9,911,525
Rent collection account – Bay Holdings	1,500,000	330,358
Rent collection account – Signature International	416,980	942,671
Total	**133,122,833**	**249,669,344**

CONNECTED PARTY TRANSACTIONS (continued)

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

Promoter Holdings as at 31 December 2018	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	2018	2017
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. Mr Peter Waiyaki was a non-executive director of the REIT Manager up to 31 December 2018 when he resigned as a non-executive director.

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.
- The asset known as 67 Gitanga Place is held through the partnership - Starling Park Properties LLP. Starling Park Properties is 99% owned by the REIT and 1% by Greenspan Mall Limited which holds the 1% partnership interest in trust on behalf of the REIT.

FEES PAID BY THE REIT as per REGULATIONS

Transaction (KShs)	2018	2017
Asset management fee paid to STANLIB Kenya Limited	76,588,864	84,101,266
Custodial and other fees paid to Co-op Bank	23,677,646	23,822,746
Cushman & Wakefield Excellerate	13,548,533	10,986,190
Valuation fees paid to Tysons Limited	-	1,398,000
Legal advisory fees paid to Mboya Wangong'u & Waiyaki Advocates	2,128,000	1,314,100
CED Engineers – structural engineering due diligence costs	1,160,000	998,853
LDK Engineers – MEPS engineering due diligence costs	1,160,000	998,853
Total	**118,263,043**	**123,620,008**

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 m² (155,477 sq.ft.) 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 2018, the property has an unexpired leasehold term of 88 years.

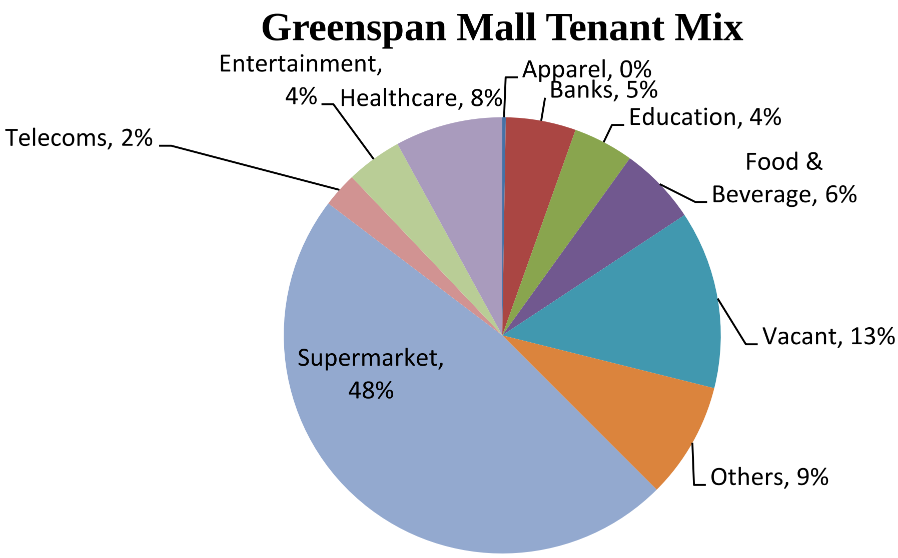
The mall has a parking ratio in excess of 4 bays per 100 m² of GLA, has a captive middle market within the larger Greenspan estate and offers opportunity to develop an additional 2 acres of vacant land forming part of the acquisition.

The property presents an ideal location with potential to improve the returns through development of excess land and reconfiguration of the mall/ tenant mix. Anchored by Tuskys, 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 47.8% of the GLA while the balance is occupied by services, food, clothing and apparel. A newly constructed cinema is expected to be operation from the second quarter of 2019.

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

PROPERTIES DETAILED REPORT (Continued)

GREENSPAN MALL (continued)



SIGNATURE INTERNATIONAL LIMITED

The property known as Highway House is a three storey industrial 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 2018, the property has an unexpired leasehold term of 37 years.

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

The GLA is approximately 710 m² (7,638 sq.ft.), with ample covered parking bays. The property is currently vacant after the previous tenant’s lease expired on 31 March 2018. The property is earmarked for sale.

PROPERTIES DETAILED REPORT (Continued)

BAY HOLDINGS LIMITED

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

The property is registered as 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 has an unexpired leasehold term of 30 years as at 31 December 2018.

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

The GLA is 2,566 m^2 (33,265 sq.ft.) with a covered area for parking.

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

STARLING PARK PROPERTIES LLP

The property known as 67 Gitanga Place is located on Gitanga Road off James Gichuru Road in Lavington, Nairobi.

The property is registered as L.R. No. 3734/917 measuring 0.2830 hectares for a leasehold term of 99 years from 1 April 2016. The property has an unexpired leasehold term of 96 years, 4 months as at 31 December 2018.

The acquisition of Starling Park Properties LLP was concluded on 29 May 2018 for an amount of KShs. 850,037,500 (including the value of equipment and deposits valued at KShs. 37,500).

The GLA is 3,838 m^2 (41,312 sq.ft.). The property has basement parking.

The building is fully let to a single tenant.

PROPERTIES DETAILED REPORT (Continued)

SUMMARY OF RECENT VALUATIONS

The investment properties were revalued by Knight Frank Valuers Limited and Crystal Valuers Limited as at 31 December 2018 (2017: Tysons Limited). The market values at revaluation are summarized below:

Transaction	2018	2017
Greenspan Mall	2,276,000,000	2,170,000,000
Starling Park Properties LLP	857,000,000	-
Bay Holdings	232,700,000	220,000,000
Signature International	40,000,000	70,000,000
Total	**3,405,700,000**	**2,460,000,000**

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).

PROPERTY MARKET UPDATE

Retail

Nairobi's existing formal retail supply registered a 5% growth to 526,000m^2 in the second half of 2018 up from 502,000m^2 in the first half attributed mainly to the opening of The Waterfront Karen, dual-anchored by Game and Shoprite and The Well along Langata Road anchored by Chandarana Food Plus[1]. The year 2018 remained challenging with continued downward pressure on rental. The retail sector had experienced rental growth in recent years following improvement in quality and international retailers debut in the market, but there is likely to be continued downward pressure on rent as a result of saturation, recent political uncertainty, uncertain regulatory environment (interest rate capping and demolitions) and weak economic performance.

Occupancy levels during the first half of 2018 remained high for established malls at 90% and between 60-75% for new retail centres where tenant concessions were rampant[2]. Occupancy increased by 6% year-on-year in the second half of 2018 attributed mainly to new retailers filling up spaces left by Nakumatt and Uchumi and new international retailers in the fashion, footwear and hypermarket retail sectors. The high occupancy levels indicate that there is still good demand for retail space in the right locations. Despite the improving occupancy, it remained a tenant's market with some landlords offering rent-free periods of six months to twelve months in a bid to attract and retain tenants. Average rental rates remained fairly flat throughout the year under review.

Despite the challenges, investor confidence remained positive with new supply noted above. Kiloran Development Group has announced plans to construct a mall in Nairobi by 2020. The gap that was left by failing retailers has been filled up by new larger international retailers who have recently come into this market as well as by other local established retailers.

[1] Broll Kenya Retail Snapshot H2 2018
[2] Knight Frank H1 2018 market Report

PROPERTY MARKET UPDATE (Continued)

Retail (continued)

On the regulatory front, interest rate capping continued to hurt SMEs as banks skew their asset allocation toward higher yielding risk free government papers. Construction and real estate sectors recorded the highest increase in non-preforming loans in the third quarter of 2018 at 35% and 39% respectively (according to Central Bank of Kenya). Recent demolitions of properties purported to be built on riparian land and road reserves across the country including three established malls in Nairobi – Ukay Centre, South-end Mall and Taj Mall (Airgate Mall) has thrown the investors into a regulatory panic and may have long term negative impacts.

Office

The current office stock is estimated at 8.3 million sq.ft. The sector has been hit by a disconnect between quality of supply and quality of stock sought by the market in addition to political and economic factors. It continued to be a tenant market with concessions offered to attract and retain tenants and buyers. These included rent reductions, freezing of escalations and income guarantees by sellers.

Rents increased marginally by 3.6% in the top end of the market driven by new and state of the art buildings within decentralized nodes. On the flipside, other nodes, such as Upperhill continue to be under pressure from a rental and vacancy perspective, with the node registering a vacancy factor of 25% in the period under review.

On an annual comparison, absorption of Grade A and B office space increased by 12% in the first half of 2018 compared to the uptake in the second half of 2017. Fewer completions were recorded in the first half of 2018 in comparison to the second half of 2017, as developers pushed back dates due to delays occasioned by the political climate in 2017. Completions in the period under review in the country's capital included Sanlam Towers (14,864m^2) and Galleria Office Park (7,432m^2).

The year 2019 is expected to record an increase in prime asking rents mainly due to economic recovery and the take up of existing space specifically in prime buildings in the right locations.

Industrial

Industrialization is a key focus of Kenya due to the country's strategic location within the East African community which makes it a critical transportation hub and a gateway to the world. Though heavily influenced by land prices and infrastructure developments, the market potential is large and expanding through new industrial zones away from the existing zones. Most of the existing industrial zones and warehousing areas i.e. the main Industrial Area is out-dated and of poor quality thus new nodes have sprung up such as Africa Logistics Properties (ALP) ALP North a 527,432 sq.ft. grade A warehousing park in Kiambu. Other projects in the pipeline include[3]:

I. ALP's second project ALP West which saw completion of its road infrastructure on its 49 acre site at Tilisi Logistics Park. The plan is to construct a 1,076,391 square feet logistics and distribution warehousing complex.
II. Improvon Group and Actis announced the launch of a 53,820m^2 warehousing development at a cost of KShs. 11 billion. Termed Nairobi Gate Industrial Park, located on the Eastern Bypass will sit on 103 acres and phase 1 is expected to be completed by the first half of 2019.

[3] Ibid 4, pg. 3

REPORT OF THE REIT MANAGER (Continued)

REGULATORY LIMITS

REGULATION	REGULATORY LIMIT	ACTUAL AS AT 31 DECEMBER 2018	COMPLIED (√) / NOT COMPLIED (X)/ N/A
Minimum number of REIT securities holders	7	5,537	√
Minimum Free Float	25%	100%	√
Minimum Promoter investment and retention*	25% of NAV	14.42%	N/A
Eligible Investments	75% real estate	90% real estate	√
Minimum income generation	70% of rental income	84%	√
Maximum gearing	35% of total asset value	0%	√
Minimum distributions	80%	106%**	√

***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.

** This is in respect of the proposed distribution to be paid out by 30 April 2019.

PROSPECT STATEMENT AND PIPELINE

The REIT Manager is pursuing several property acquisition opportunities in line with its ambition to aggressively grow the portfolio with properties that meet the investment criteria. Several funding mechanisms are being considered including debt and equity.

The REIT Manager is also at the final stages of the installation of a multi-functional cinema facility with three screens at Greenspan Mall. This project is expected to yield benefits for the mall, including increased rental income from the cinema operating tenant, increased foot traffic from movie goers and incidental shopping by cinema patriots.

ASSET HOLDINGS VERSUS PRESCRIBED LIMITS

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

I-REIT Eligible Investments (Assets) Regulation 65	Regulation and maximum limit %	Regulation and minimum limit %	Limit in scheme document %	% as at the reporting date	Highest % level during reporting period	Date of most recent valuation/s and ref. to report detailing valuation
If the REIT is an Islamic REIT percentage of Shariah compliant total. If not 100% then for each category set out below specify % that is Shariah compliant	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
All direct eligible real estate:						
a) Freehold	**None**	**None**	**None**	**None**	**None**	**None**
b) Leasehold	**None**	**None**	**None**	**None**	**None**	**None**
All indirect eligible real estate:						
a) Freehold held through investee companies or investee trusts	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
b) Leasehold held through investee companies or investee trusts	**None**	**None**	**None**	**Refer to financials**	**Refer to financials**	**31.12.2018**
Income producing real estate Regulation 65 (6) Minimum of 75% of TAV within 2 years of authorisation	**N/A**	**75%**	**None**	**90%**	**90%**	**31.12.2018**
Land and cost of construction Regulation	**None**	**None**	**None**	**None**	**None**	**None**

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
70 Maximum 15% TAV						
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%**	**31.12.2018**
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 IREIT 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**

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**
Other assets (not eligible) include description	**None**	**None**	**None**	**None**	**None**	**None**

MEETINGS OF REIT SECURITIES HOLDERS

The second Annual General Meeting ("AGM") for REIT securities holders was held on 20 April 2018. The meeting was quorate with 33.86% 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 year ended 31 December 2017;
- ✓ 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 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
- ✓ 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.

The above resolutions were 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 16 April 2019, 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:

Surinder Kapila	Patrick Mamathuba
Chairman, STANLIB Kenya Limited	**Director, STANLIB Kenya Limited**

Date: 28 March 2019

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 SPV Greenspan Mall Limited;
- L.R. No 37/157 registered as Title No.I.R. 22130 – Property known as Highway House under the SPV Signature International Limited;
- L.R. No. 209/4125 registered as Title No.I.R. 93022 – Property under the SPV Bay Holdings Limited; and
- L.R No. 3734/1426 (Original Number 3734/917) – Property known as 67 Gitanga Place under the SPV Starling Park Properties LLP.

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 CMA granted the REIT a period of 6 months up to 26th March 2018 to comply with Regulation 65(6) which requires that investment property should form 75% of the total net asset value of the Fund. This deadline was met as detailed in d) below.
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	In order to comply with the REITs Regulations as detailed in b) above, the REIT had entered into an agreement on 26th March 2018 to effectively purchase the ownership interest of Starling Park Properties LLP, whose only asset is Land Reference Number 3734/1426 (Original Number 3734/917), Nairobi, on which is developed an office block measuring 41,312 square feet of lettable space. The REIT successfully acquired all of the issued partnership interests in Starling Park Properties LLP for a purchase consideration of KShs. 850 million. As at 31st December 2018, the REIT's investment property forms 90% of the total net asset value of the Fund.

1. Confirmation of all matters relating to the title particulars of real estate properties and other assets of the fund (continued)

Details of other matters (continued):

Requirement under the Fifth Schedule	Trustee's report
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 2nd REIT AGM of the securities holders on 20th April 2018 at The Auditorium, All Saints Cathedral, Kenyatta Avenue, Nairobi. • The Annual Report and the Audited Annual Financial Statements for the financial year ended 31st December 2017 was tabled and adopted by securities holders. • The first and final distribution for the period ended 31st December 2017, of KShs. 135,729,225 (75 cents per unit in issue) as recommended by the REIT Manager and approved by the Trustee was tabled and noted. • The unitholders approved the purchase of the ownership interest of Starling Properties LLP, whose only asset is Land Reference Number 3734/1426 (Original Number 3734/917), Nairobi, on which is developed an office block measuring 41,312 square feet of lettable space. The REIT had entered into an agreement on 26th March 2018 to effectively purchase this property to add to its portfolio of properties. • The unitholders approved the continuation of KPMG as the REIT auditors having expressed their interest to continue as auditors. The REIT Manager and REIT Trustee had no objection of them continuing as the REIT auditors. The unitholders also authorized the REIT Manager and the Trustee to fix their remuneration.

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 2nd AGM of the securities holders on 20th April 2018 at All Saints Cathedral, Nairobi. Attendees to the meeting were 247 unitholders in person and 38 in proxy representing 33.86% of units issued. Resolutions put to the unitholders were as above and were voted for unanimously.

REPORT OF THE TRUSTEE (Continued)

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.**

   The REIT Manager's agreement was renewed as the term of their initial appointment had lapsed after the 3 year period as per the Regulations.

Signed by

Henry Karanja
The Compliance officer

The REIT Trustee
The Co-operative Bank of Kenya Limited
Date: 28 Mar 2019

COMPLIANCE REPORT

In accordance with Regulation 101 and the Fifth Schedule to the REITs Regulations, the Compliance Officer notes the following for the period ended 31st December 2018:

1. The state of the REIT Manager's compliance program progressed well during the period under review. As part of its compliance program and in order to meet the evolving business environment within which the REIT operates; various processes to reinforce its compliance frameworks, systems, policies and procedures continued to be undertaken during the said period. Furthermore, leverage from the wider Group's frameworks remains a big advantage to the REIT Manager's from a risk and compliance perspective.

2. In addition to the foregoing 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;

   The Capital Markets Authority approved an application by the REIT to conclude a transaction to effectively purchase the ownership interest (100% ownership) in Starling Park Properties LLP, the investment vehicle which would allow the REIT to indirectly acquire the real estate therein. This transaction was completed on 29 May 2018. The said acquisition brought the REIT to full compliance with Regulation 65(6) of the CMA REITs Regulations which requires that investment property should form 75% of the total net asset value of the Fund.

   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;

   None. The above mentioned acquisition effectively remedied the non-compliance of Regulation 65(6) of the CMA REITs Regulations.

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

   None.

Signed by:

Evelyne Kinara
Risk and Compliance Manager: STANLIB Kenya Limited

STANLIB FAHARI I-REIT

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 59 to 105 which comprise the consolidated statement of financial position as at 31 December 2018, 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 2019.

Kapila

Surinder Kapila
Chairman, STANLIB Kenya Limited

Nkoregamba Mwebesa
Director, STANLIB Kenya Limited

Date: 28 March 2019

STANLIB FAHARI I-REIT

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 2018, 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 2018 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 2019 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 audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of STANLIB Fahari I-REIT ("the REIT") set out on pages 59 to 105 which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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.

KPMG

REPORT OF THE INDEPENDENT AUDITORS TO THE TRUSTEE AND UNITHOLDERS OF

STANLIB FAHARI I-REIT (CONTINUED)

Report on the audit of the consolidated financial statements (Continued)

Key audit matters (continued)

Key audit matters	
The key audit matter	**How the matter was addressed**
1.Valuation of investment property *(See Note 11 to the financial statements)*	
Valuation of investment properties is considered a key audit matter because: The REIT owns four investment properties which represent the single largest category of assets on the balance sheet as at 31 December 2018. 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: (a) Testing the control over management review of assumptions used in valuation of investment property. (b) Assessing the REIT's processes for the selection of the external valuers, the determination of the scope of work of the valuers, and the review and acceptance of the valuations reported by the external valuers. (c) Evaluating 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. (d) Considering the valuation methodologies used. 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. (e) Considering 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.

REPORT OF THE INDEPENDENT AUDITORS TO THE TRUSTEE AND UNITHOLDERS OF

STANLIB FAHARI I-REIT (CONTINUED)

Report on the audit of the consolidated financial statements (Continued)

Key audit matters (continued)

Key audit matters	
The key audit matter	**How the matter was addressed**
2. Accounting for the acquisition of Starling Park Properties LLP *(See Note 23 to the financial statements)*	
The REIT makes acquisitions as part of its business strategy. During the year the REIT successfully acquired 100% of the partnership interests in Starling Park Properties LLP (SPP) on 29th May 2018 for KShs 850 million. SPP owns an office building known as 67 Gitanga Place in Lavington, Nairobi. Accounting for business combination is considered a key audit matter because of the significance of the transaction, there is judgment and inherent uncertainty in the estimation used in allocating the overall purchase price to different assets and liabilities that make up the acquisition.	Our audit procedures in this area included, among others: (a) Assessing the Group's processes for the review and determination of the accounting for business combination; (b) Reading the reports and checking the computations to allocate the purchase price to the different assets and liabilities acquired in significant business combinations during the period; (c) Assessing whether acquisition during the year met the criteria of a business combination in accordance with the relevant accounting standards; (d) Comparing the methodologies and key assumptions used in deriving the allocated values to generally accepted market practises and market data; (e) Assessing the accounting implication of the asset purchase agreement; and (f) Assessing the appropriateness of disclosure for significant business combinations.

Other information

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

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

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

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

Report on the audit of the consolidated financial statements (Continued)

Other information (continued)

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

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

Responsibilities of the REIT Manager for the consolidated financial statements

As stated on page 52, 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 auditors' 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.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the REIT's internal control.

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

Report on the audit of the consolidated financial statements (Continued)

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

- 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 auditors' report to the related disclosures in the consolidated 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 auditors' report. However, future events or conditions may cause the REIT to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we 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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

As required by the Capital Markets (Real Estate Investment Trusts) (Collective Investments Schemes) Regulations, 2013 we report to you based on our audit, that the compliance reports are in accordance with Regulations.

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

KPMG Kenya

KPMG Kenya
Certified Public Accountants
PO Box 40612-00100
Nairobi
Date: 28 March 2019

STANLIB FAHARI I-REIT

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 KShs	2017 KShs
Revenue		**332,249,472**	**270,689,177**
Rental and related income	5	309,763,210	279,433,136
Straight-lining of lease income	12	22,486,262	(8,743,959)
Other income		**57,193,985**	**101,606,067**
Interest income	6	56,433,877	99,852,345
Sundry income	7	760,108	1,753,722
Operating expenses		**(239,071,901)**	**(231,925,563)**
Property expenses	8	(108,850,390)	(96,292,615)
Fund operating expenses	9	(130,221,511)	(135,632,948)
Increase in fair value of investment property		**43,120,203**	**30,756,728**
Fair value adjustment to investment property	11	65,606,465	22,012,769
Straight-lining of lease income	12	(22,486,262)	8,743,959
Net profit for the year		**193,491,759**	**171,126,409**
Other comprehensive income		-	-
Total comprehensive income attributable to unitholders for the year		**193,491,759**	**171,126,409**
Basic earnings per unit (KShs)	10	1.07	0.95
Headline earnings per unit (KShs)	10	0.83	0.78
Supplementary information: Distributable earnings per unit (KShs)	10	0.71	0.82

The notes set out on pages 63 to 105 form an integral part of these financial statements.

STANLIB FAHARI I-REIT
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	2018	2017
ASSETS		**KShs**	**KShs**
Non-current assets			
Investment properties	11	3,365,700,000	2,460,000,000
Fair value of investment property for accounting purposes		3,262,953,647	2,379,739,909
Straight-line lease accrual	12	102,746,353	80,260,091
Property and equipment	13	5,140,466	4,138,729
		3,370,840,466	**2,464,138,729**
Current assets			
Investment securities	15	83,809,515	529,000,000
Trade and other receivables	16	55,148,773	80,298,716
Cash and cash equivalents	17	302,822,720	688,190,218
		441,781,008	**1,297,488,934**
Asset held for sale	14	40,000,000	-
		481,781,008	**1,297,488,934**
TOTAL ASSETS		**3,852,621,474**	**3,761,627,663**
EQUITY AND LIABILITIES			
Capital and reserves (Page 61)			
Trust capital	18	3,479,540,745	3,479,540,745
Revaluation reserve	19	95,619,234	30,012,769
Retained earnings		148,783,847	156,627,778
		3,723,943,826	**3,666,181,292**
Current liabilities			
Trade and other payables	20	**128,677,648**	**95,446,371**
TOTAL EQUITY AND LIABILITIES		**3,852,621,474**	**3,761,627,663**

The financial statements set out on pages 59 to 105 were approved and authorised for issue by the REIT Manager and by the Trustee on 28 March 2019 and were signed on their behalf by:

Surinder Kapila
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 63 to 105 form an integral part of these financial statements.

STANLIB FAHARI I-REIT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Trust capital KShs	Revaluation reserve KShs	Retained earnings KShs	Total KShs
2018				
Balance at 1 January 2018	3,479,540,745	30,012,769	156,627,778	3,666,181,292
Total comprehensive income				
Net profit for the year	-	-	193,491,759	193,491,759
Transfer to non-distributable reserve	-	65,606,465	(65,606,465)	-
Transactions with owners of equity				
Distribution to unitholders	-	-	(135,729,225)	(135,729,225)
Balance at 31 December 2018	**3,479,540,745**	**95,619,234**	**148,783,847**	**3,723,943,826**

	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**

The notes set out on pages 63 to 105 form an integral part of these financial statements.

STANLIB FAHARI I-REIT

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 KShs	2017 KShs
Cash flows from operating activities			
Cash generated from operations	22	129,843,795	142,476,116
Tax paid by subsidiaries	21	-	(5,034,901)
Distribution paid	18	(135,729,225)	(90,486,150)
Net cash (outflow)/inflow from operating activities		**(5,885,430)**	**46,955,065**
Cash flows from investing activities			
Acquisition of Limited Liability Partnership net of cash acquired	23	(792,989,940)	-
Additions to investment property	11	(30,093,535)	(2,987,231)
Additions to property and equipment	13	(1,589,078)	-
Decrease in investment securities		445,190,485	204,035,734
Net cash (outflow)/inflow from investing activities		**(379,482,068)**	**201,048,503**
Net movement in cash and cash equivalents		**(385,367,498)**	**248,003,568**
Cash and cash equivalents at beginning of year		688,190,218	440,186,650
Cash and cash equivalents at end of year	17	**302,822,720**	**688,190,218**

The notes set out on pages 63 to 105 form an integral part of these financial statements.

STANLIB FAHARI I-REIT

NOTES TO THE FINANCIAL STATEMENTS
SEGMENTED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Retail KShs	Office and light industrial KShs	Fund KShs	Total KShs
Revenue	**237,492,436**	**94,757,036**	**-**	**332,249,472**
Rental and related income	173,446,800	62,603,161	-	236,049,961
Recoveries	67,264,470	6,448,779	-	73,713,249
Straight-lining of lease income	(3,218,834)	25,705,096	-	22,486,262
Other income	**66,273**	**481,032**	**56,646,680**	**57,193,985**
Interest income	-	-	56,433,877	56,433,877
Sundry income	66,273	481,032	212,803	760,108
Operating expenses	**(94,678,845)**	**(14,171,545)**	**(130,221,511)**	**(239,071,901)**
Property admin expenses (excluding bad debts expense)	(93,668,950)	(14,103,194)	-	(107,772,144)
Bad debts expense	(1,009,895)	(68,351)	-	1,078,246
Fund operating expenses	-	-	(130,221,511)	(130,221,511)
Increase in fair value of investment property	**79,125,299**	**(36,005,096)**	**-**	**43,120,203**
Fair value adjustment to investment property	75,906,465	(10,300,000)	-	65,606,465
Straight-lining of lease income	3,218,834	(25,705,096)	-	(22,486,262)
Net profit/(loss) for the year	**222,005,163**	**45,061,427**	**(73,574,831)**	**193,491,759**

STANLIB FAHARI I-REIT

NOTES TO THE FINANCIAL STATEMENTS
SEGMENTED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Retail KShs	Office and light industrial KShs	Fund KShs	Total 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**
Interest 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 bad debts expense)	(81,720,071)	(8,204,588)	-	(89,924,659)
Bad debts expense	(9,514,212)	3,146,256	-	(6,367,956)
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**

STANLIB FAHARI I-REIT

NOTES TO THE FINANCIAL STATEMENTS
SEGMENTED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Retail KShs	Office and light industrial KShs	Fund KShs	Total KShs
ASSETS				
Non-current assets	**2,280,554,711**	**1,090,285,755**	**-**	**3,370,840,466**
Property and equipment	4,554,711	585,755	-	5,140,466
Investment properties	2,276,000,000	1,089,700,000	-	3,365,700,000
Current assets	**60,874,898**	**46,175,349**	**374,730,761**	**481,781,008**
Investment property reclassified as held for sale	-	40,000,000	-	40,000,000
Investment securities		-	83,809,515	83,809,515
Trade and other receivables	53,193,777	1,954,996		55,148,773
Cash and cash equivalents	7,681,121	4,220,353	290,921,246	302,822,720
TOTAL ASSETS	**2,341,429,609**	**1,136,461,104**	**374,730,761**	**3,852,621,474**
EQUITY AND LIABILITIES				
Capital and reserves	**280,220,161**	**(695,482)**	**3,444,419,147**	**3,723,943,826**
Trust capital	-	-	3,479,540,745	3,479,540,745
Retained earnings	137,300,927	46,604,518	(35,121,598)	148,783,847
Revaluation reserve	142,919,234	(47,300,000)	-	95,619,234
Current liabilities				
Trade and other payables	**68,279,539**	**31,249,938**	**29,148,171**	**128,677,648**
TOTAL EQUITY AND LIABILITIES	**348,499,700**	**30,554,456**	**3,473,567,318**	**3,852,621,474**

STANLIB FAHARI I-REIT

NOTES TO THE FINANCIAL STATEMENTS
SEGMENTED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Retail KShs	Office and light industrial KShs	Fund KShs	Total 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 properties	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 AND 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 AND LIABILITIES	**291,202,543**	**2,384,144**	**3,468,040,976**	**3,761,627,663**

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 2018 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 and Limited Liability Partnership:

- Greenspan Mall Limited
- Bay Holdings Limited
- Signature International Limited
- Starling Park Properties LLP

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.

2. BASIS OF PREPARATION (Continued)

(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 is 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.

(f) Changes in significant accounting policies

The REIT has initially applied IFRS 9 from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the REIT's financial statements.

IFRS 9: Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The REIT has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but have not been generally applied to comparative information.

The transition to IFRS 9 did not have an impact on the opening balances.

2. BASIS OF PREPARATION (Continued)

(f) Changes in significant accounting policies (continued)

IFRS 9: Financial Instruments – continued

i. Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the REIT's accounting policies related to financial liabilities and derivative financial instruments.

For an explanation of how the REIT classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see Note 3(b).

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the REIT's financial assets and financial liabilities as at 1 January 2018.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements.

	Note	Original classification	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
				KShs	KShs
Financial assets					
Trade and other receivables	16	Loans and receivables	Amortised cost	73,055,662	73,055,662
Cash and cash equivalents	17	Loans and receivables	Amortised cost	688,189,343	688,189,343
Total financial assets				**761,245,005**	**761,245,005**
Financial liabilities					
Trade and other payables	20	Other financial liabilities	Other financial liabilities	95,446,371	95,446,371
Total financial liabilities				**95,446,371**	**95,446,371**

2. BASIS OF PREPARATION (continued)

(f) Changes in significant accounting policies (continued)

IFRS 9: Financial Instruments – continued

i. Classification and measurement of financial assets and financial liabilities – continued

Trade and other receivables and cash and cash equivalents that were classified as "loans and receivables" under IAS 39 are now classified at amortised cost. There was no change in the classification of financial liabilities, as all remained under "other financial liabilities". No additional impairment has been recognised at 1 January 2018.

ii. Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The REIT has determined that the application of IFRS 9's impairment requirements at 1 January 2018 did not result in additional allowance for impairment of its financial assets.

Additional information about how the REIT measures the allowance for impairment is described in Note 25(b)(ii).

iii. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

— The REIT has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.

— If an investment debt security had low credit risk at the date of initial application of IFRS 9, then the REIT has assumed that the credit risk on asset had not increased significantly since its initial recognition.

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 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Financial instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the REIT becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at:

- amortised cost;
- fair value through other comprehensive income – debt investment;
- fair value through other comprehensive income – equity investment
- fair value through profit or loss.

Financial assets are not reclassified subsequent to their initial recognition unless the REIT changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL.

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets: and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Financial instruments (continued)

(ii) Classification and subsequent measurement – continued

Financial assets – Policy applicable from 1 January 2018 – continued

On initial recognition of an equity investment that is not held for trading, the REIT may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the REIT may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces accounting mismatch that would otherwise arise.

Financial assets – Business Model and Assessment: Policy applicable from 1 January 2018

The REIT makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the REIT's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the REIT's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Financial instruments (continued)

(ii) Classification and subsequent measurement – continued

Financial assets — Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from 1 January 2018

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative cost), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the REIT considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the REIT considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the REIT's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend are recognised in profit or loss. These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment Interest losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Financial instruments (continued)

(ii) Classification and subsequent measurement – continued

Financial assets — Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from 1 January 2018 – continued

Debt investments at FVOCI	These assets subsequently measured at fair value. Interest income calculated at FVOCI using the effective interest method, foreign exchange gains and losses and impairment recognised in profit or loss. Other net gains losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial assets – Policy applicable before 1 January 2018

The REIT previously classified its financial assets into one of the following categories under IAS 39:

— loans and receivables;
— held to maturity;
— available for sale; and
— at FVTPL, and within this category as:
  - held for trading;
  - derivative hedging instruments; or
  - designated as at FVTPL.

Financial assets – Subsequent measurement and gains and losses: Policy applicable before 1 January 2018

Financial assets at FVTPL	Measured at fair value and changes therein, including any interest or dividend income, were recognised in profit or loss.
Held to maturity financial assets	Measured at amortised cost using the effective interest method.
Loans and receivables	Measured at amortised cost using the effective interest method.
Available-for-sale financial assets	Measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognised in OCI and accumulated in the fair value reserve. When these assets were derecognized, the gain or loss accumulated in equity was reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Financial instruments (continued)

(ii) Classification and subsequent measurement – continued

Financial liabilities — Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) Derecognition

Financial assets

The REIT derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the REIT neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The REIT enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The REIT derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The REIT also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when and only when the REIT currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) 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 11 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Tangible assets (continued)

(ii) Property and equipment – continued

Depreciation on property and equipment is calculated using the following annual rates:

Furniture and fittings	–	12.5% on a reducing balance basis
Borehole equipment	–	10% on straight-line basis
Borehole infrastructure	–	4% on a straight-line basis
Office equipment	–	12.5% on a straight-line and reducing balance basis; and
	–	20% on a straight line basis

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.

(d) Impairment of assets

(i) Non-derivative financial assets

Policy applicable from 1 January 2018

Financial instruments and contract assets

The REIT recognises loss allowances for ECLs on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI; and
- contract assets.

The REIT measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the REIT considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the REIT's historical experience and informed credit assessment and including forward-looking information.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Impairment of assets (continued)

(i) Non-derivative financial assets – continued

Policy applicable from 1 January 2018 – continued

Financial instruments and contract assets - continued

The REIT assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The REIT considers a financial asset to be in default when:

- the debtor is unlikely to pay its credit obligations to the REIT in full, without recourse by the REIT to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the REIT is exposed to credit risk.

Measurement of ECLs

The REIT's non-derivative financial assets have short durations. Accordingly, discounting of cash shortfalls to reflect the time value of money when measuring ECL's is not generally required.

Credit impaired financial assets

At each reporting date, the REIT assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the REIT on terms that the REIT would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Impairment of assets (continued)

(i) Non-derivative financial assets – continued

Policy applicable from 1 January 2018 – continued

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

Write-off

The gross carrying amount of a financial asset is written off when the REIT has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For tenant arrears, the REIT has a policy that where a tenant has absconded, or is declared insolvent, is in liquidation or has ceased trading for four months or longer and is thus unable to service the debt, that such arrears are written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the REIT's procedures for recovery of amounts due.

Policy applicable before 1 January 2018

(ii) Non-derivative financial assets

The REIT assessed at each statement of financial position date whether there was objective evidence that a financial asset was impaired. A financial asset was impaired and impairment losses incurred only if there was objective evidence of impairment as a result of one or more events that had occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset that could be reliably estimated.

Objective evidence included observable data that came to the attention of the REIT about the following events:

- Significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or delinquency in payments;
- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the REIT, including:
    - adverse changes in the payment status of issuers or debtors in the REIT; or
    - national or local economic conditions that correlate with defaults on the assets in the REIT.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Impairment of assets (continued)

Policy applicable before 1 January 2018 – continued

(ii) Non-derivative financial assets – continued

If there is objective evidence that an impairment loss has been incurred on a financial asset measured at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient, the REIT may measure impairment on the basis of an instrument's fair value using an observable market price.

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improved credit rating), the previously recognised impairment loss is reversed in profit or loss.

(iii) Non-financial assets

At each reporting date, the REIT reviews the carrying amount of its non-financial assets (other than biological assets, investment property, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units (CGU's).

Goodwill arising from a combination is allocated to CGUs or groups of CGU's that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated cash flows, 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Impairment of assets (continued)

Policy applicable before 1 January 2018 – continued

(iii) Non-financial assets – continued

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

Revenue comprises gross rental and related income including all recoveries from tenants, net of Value Added Tax (VAT). Rental and related income from investment property 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, is 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 11. Lease income is recognised over the term of the lease on a straight-line basis.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) 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.

(j) Taxation

(i) *Current taxation*

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

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

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(ii) Deferred taxation

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Taxation (continued)

(ii) Deferred taxation - continued

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 29(1)(c) of the Kenyan Income Tax Act (formerly section 20). 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 the Kenyan Income Tax Act; 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.

The Kenya Revenue Authority (“KRA”) had provided an opinion that REIT owned subsidiaries are exempt from income tax under section 20(1)(c) of the Kenyan Income Tax Act (now section 29(1)(c) unless legislated otherwise. The opinion was valid up until November 2017 and was to be followed by the immediate development of the subsidiary tax legislation. Such legislation has been developed and approved by the KRA and the Capital Markets Authority and is pending publication.

(k) 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.

(l) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) 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.

(n) 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 at amortised cost, at FVOCI (formerly available-for-sale financial assets) and finally FVTPL at a REIT level.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) 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.

(o) 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.

(p) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) New standards and interpretations

New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2018

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2018, and have not been applied in preparing these financial statements.

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

— IFRS 16 Leases	1 January 2019
— Prepayment Features with Negative Compensation (Amendments to IFRS 9)	1 January 2019
— Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	1 January 2019
— Plan Amendment, Curtailment or Settlement (Amendment to IAS 19)	1 January 2019
— Annual improvement cycle (2015 – 2017) – various standards	1 January 2019
— Amendments to References to Conceptual Framework in IFRS standards	1 January 2020
— Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020
— Definition of a Business (Amendments to IFRS 3)	1 January 2020
— 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

The REIT Manager has assessed that the adoption of these new standards, save for IFRIC 23 Income Tax Exposure, is not expected to have a significant impact on the financial statements of the REIT.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) New standards and interpretations (continued)

New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2018 - continued

IFRIC 23 Clarification on accounting for Income Tax Exposures

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 on its financial statements resulting from adopting IFRIC 23 Income Tax Exposure.

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.

4. KEY JUDGMENTS AND ESTIMATES (Continued)

Key judgments and sources of estimation uncertainty (continued)

(a) Investment property

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

The valuer adopted a market capitalisation rate ranging from 8.5% to 9.5% (2017: 8% to 9.5%) in capitalizing the future cash flows to arrive at the market value of the property. These have been set out in Note 11.

(b) Impairment of financial assets

Critical estimates are made by the REIT Manager in determining the impairment of impaired financial assets. The carrying amount of impaired receivables is set out in Note 25(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(c)(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 23.

5. RENTAL AND RELATED INCOME

	2018 KShs	2017 KShs
Rental income	231,015,569	205,453,306
Recoveries	73,713,249	70,369,770
Promotional income	5,034,392	3,610,060
	309,763,210	**279,433,136**

6. INTEREST INCOME

	2018 KShs	2017 KShs
Interest on fixed deposits and treasury bills	35,833,488	96,744,559
Interest on call deposits	20,600,389	3,107,786
	56,433,877	**99,852,345**

7. SUNDRY INCOME

	2018 KShs	2017 KShs
Other income	**760,108**	**1,753,722**

8. PROPERTY EXPENSES

The following items are included in property expenses:

Property administration expenses	2018 KShs	2017 KShs
Electricity and water	33,203,440	29,849,012
Property management fees	13,548,533	10,986,190
Irrecoverable withholding tax	13,484,433	8,550,835
Gardening and cleaning	9,971,938	7,839,947
Repairs and maintenance	8,052,543	7,582,941
Security	7,952,000	7,932,000
Movement in bad debts provision	1,078,246	6,367,956
Insurance	4,819,957	5,928,010
Advertising and sales promotion	4,407,773	2,521,486
Property valuation fees	3,139,000	1,050,000
Letting fees	810,494	288,415
Legal and professional fees	360,000	664,500
Licences and permits	-	39,500
	100,828,357	**89,600,792**

8. PROPERTY EXPENSES (Continued)

	2018 KShs	2017 KShs
Other operating property expenses		
Audit fees	3,919,924	2,079,323
Consultancy fees	2,053,172	222,520
Depreciation	617,341	591,247
Other professional fees	439,119	10,800
Sundry expenses	311,550	1,508,162
Rent and rates	277,442	325,942
Postage and telephone	157,727	138,090
Bank charges	82,002	45,817
Subscription	78,207	-
Printing and stationery	48,361	37,135
Staff expenses	24,395	591,938
Penalties	12,793	1,134,849
Salaries and wages	-	6,000
	8,022,033	**6,691,823**
	108,850,390	**96,292,615**

9. FUND OPERATING EXPENSES

The following items are included in fund operating expenses:

	2018 KShs	2017 KShs
Asset management fees	76,588,864	84,101,266
Trustee fees	22,712,379	22,952,573
Public relations and marketing	9,468,899	8,805,770
Business acquisition expenses	8,268,924	3,469,305
Professional and other fees	8,021,362	7,340,826
Audit fees	3,539,144	3,748,667
Licenses	1,580,159	1,650,000
Legal fees	-	851,372
Penalties	20,000	-
Bank charges	12,500	-
Sundry expenses	9,280	9,280
Irrecoverable withholding tax	-	2,703,889
	130,221,511	**135,632,948**

10. BASIC AND HEADLINE EARNINGS PER UNIT

	2018 KShs	2017 KShs
Basic earnings – comprehensive income attributable to unit holders for the period	193,491,759	171,126,409
Adjusted for:		
Fair value adjustment to investment properties (including straight-line lease accrual movement)	(43,120,203)	(30,756,728)
Headline earnings	**150,371,556**	**140,369,681**
Adjusted for:		
Straight-line lease accrual movement	(22,486,262)	8,743,959
Distributable earnings	**127,885,294**	**149,113,640**
Distribution to unitholders (Note 18)	**135,729,225**	**135,729,225**
Distributable earnings per unit (KShs)	0.71	0.82
Distribution per unit (KShs)	0.75	0.75
Basic earnings and diluted earnings per unit (KShs)	1.07	0.95
Headline earnings per unit (KShs)	0.83	0.78
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**

11. INVESTMENT PROPERTIES

	2018 KShs	2017 KShs
At 1 January	2,460,000,000	2,435,000,000
Additions – acquisitions (Note 23)	850,000,000	-
- development expenditure	29,389,403	-
- capital expenditure	704,132	2,987,231
Fair value adjustment to investment properties	65,606,465	22,012,769
Transfer to asset held for sale (Note 14)	(40,000,000)	-
At 31 December	**3,365,700,000**	**2,460,000,000**

The investment properties were independently valued by Knight Frank Valuers Limited who valued three of the properties in the portfolio as well as Crystal Valuers Limited who valued one of the properties in the portfolio as at 31 December 2018. The valuers are registered and licensed by the Valuers Registration Board of Kenya and have the relevant experience and knowledge of valuing the various properties in the portfolio.

Previously, the properties were valued by Tyson’s Limited. The REIT valuation policy requires change of valuers after every three years.

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

11. INVESTMENT PROPERTIES (Continued)

The valuers 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:

	2018	2017
Retail sector	%	%
Term capitalisation rate	9.50	9.50
Exit capitalisation rate	11.50	10.50
Discount rate	9.50	9.50
Office and light industrial		
Term capitalisation rate	8.50 – 9.00	8.00 – 9.00
Exit capitalisation rate	9.00 – 10.75	8.50 – 10.00
Discount rate	8.50 – 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.

12. STRAIGHT-LINE LEASE ACCRUAL

	2018 KShs	2017 KShs
At 1 January	80,260,091	89,004,050
Change in straight-line lease accrual through profit or loss	22,486,262	(8,743,959)
At 31 December	**102,746,353**	**80,260,091**

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

13. PROPERTY AND EQUIPMENT

2018	Furniture and equipment KShs	Other equipment KShs	Total KShs
Cost			
At start of the year	5,442,382	10,753	5,453,135
Additions from acquisition of subsidiary (Note 23)	-	30,000	30,000
Additions	-	1,589,078	1,589,078
At end of year	**5,442,382**	**1,629,831**	**7,072,213**
Accumulated depreciation			
At start of year	1,310,229	4,177	1,314,406
Charge for the year	516,519	100,822	617,341
At end of year	**1,826,748**	**104,999**	**1,931,747**
Net book value as at 31 December 2018	**3,615,634**	**1,524,832**	**5,140,466**

2017	Furniture and equipment KShs	Other 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**

14. ASSET HELD FOR SALE

In November 2018, REIT Manager and the Trustee through the 2019 strategy, committed to a plan to sell the investment property. Accordingly, the property is presented as an asset held for sale. Efforts to sell the property have started and a sale is expected by the end of the year.

	2018 KShs	2017 KShs
At 1 January	-	-
Transfer from investment property (Note 11)	40,000,000	-
At 31 December	**40,000,000**	**-**

14. ASSET HELD FOR SALE (Continued)

The REIT Manager and the REIT Trustee resolved that the property will be recovered through sale and not. No sale agreement had been signed at the end of the financial reporting period and up to the date of this report.

15. INVESTMENT SECURITIES

	2018 KShs	2017 KShs
Fixed deposits	47,326,959	529,000,000
Government securities	36,482,556	-
	83,809,515	**529,000,000**

Fixed deposits included in investment securities include fixed deposits with original maturities longer than 90 days. Fixed deposits are invested in top tier banks. Government securities relate to treasury bills held with the government of Kenya.

16. TRADE AND OTHER RECEIVABLES

	2018 KShs	2017 KShs
Trade receivables	18,520,713	41,955,898
Service charge debtors	14,251,866	25,818,812
Less: Provision for doubtful debts	(3,477,170)	(10,231,039)
Net trade receivables	**29,295,409**	**57,543,671**
Value Added Tax (VAT) receivable	11,101,692	2,094,448
Interest accrual	-	7,910,671
Prepayments	7,142,856	5,148,606
Sundry debtors	7,608,816	7,601,320
	55,148,773	**80,298,716**

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.

17. CASH AND CASH EQUIVALENTS

	2018 KShs	2017 KShs
Fixed deposits	256,693,524	584,000,000
Call deposits	33,699,199	91,500,000
Cash at bank	12,426,206	12,689,343
Cash at hand	3,791	875
	302,822,720	**688,190,218**

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 with banks with maturities as described above.

18. TRUST CAPITAL

	2018 KShs	2017 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 of KShs. 139,905,255	**3,479,540,745**	**3,479,540,745**

The units issued 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 20 April 2018, the unitholders approved the declaration and payment of a distribution of KShs. 135,729,225 in relation to the year ended 31 December 2017.

After the reporting date for the year ended 31 December 2018, the following distribution was recommended by the REIT Manager and approved by the Trustee:

	2018 KShs	2017 KShs
KShs. 0.75 (2017: KShs. 0.75) distribution per qualifying unit	**135,729,225**	**135,729,225**

The distribution of KShs. 135,729,225 has not been recognised as a liability as at 31 December 2018 as it was declared after the end of the financial reporting period (2017: KShs. 135,729,225).

19. REVALUATION RESERVE

	2018 KShs	2017 KShs
At 1 January	30,012,769	8,000,000
Fair value adjustment on investment properties (Note 11)	65,606,465	22,012,769
At 31 December	**95,619,234**	**30,012,769**

The revaluation reserve relates to the revaluation surplus and deficit on investment properties. The reserve is non-distributable.

20. TRADE AND OTHER PAYABLES

	2018 KShs	2017 KShs
Trade payables	8,947,842	8,556,074
Tenant deposits	51,747,592	27,962,165
Accruals	55,066,097	24,979,118
Other payables	12,916,117	33,949,014
	128,677,648	**95,446,371**

21. TAX PAYABLE

At 1 January	-	5,034,901
Tax paid	-	(5,034,901)
At 31 December	**-**	**-**

The REIT is exempt from income tax as per section 29(1)(c) of the Kenyan Income Tax Act (formerly section 20). The tax paid in 2017 related to the tax liability of the REIT's subsidiaries at acquisition date. The Kenya Revenue Authority (“KRA”) had provided an opinion that REIT owned subsidiaries are exempt from income tax under section 20(1)(c) of the Kenyan Income Tax Act (now section 29(1)(c) unless legislated otherwise. The opinion was valid up until November 2017 and was to be followed by the immediate development of the subsidiary tax legislation. Such legislation has been developed and approved by the KRA and the Capital Markets Authority and is pending publication in the Finance Bill in 2019.

22. CASH GENERATED FROM OPERATIONS

	2018 KShs	2017 KShs
Net profit for the year	**193,491,759**	**171,126,409**
Adjusted for:		
Depreciation (Note 13)	617,341	591,247
Fair value adjustment to investment property (Note 11)	(65,606,465)	(22,012,769)
	128,502,635	**149,704,887**
Working capital changes:		
Decrease in trade and other receivables	25,587,370	21,760,335
Decrease in trade and other payables	(24,246,210	(28,989,106)
	1,341,160	**(7,228,771)**
Cash generated from operations	**129,843,795**	**142,476,116**

23. ACQUISITION OF SUBSIDIARY

On 29 May 2018, the REIT, represented by the Trustee, acquired 100% of the partnership interests in Starling Park Properties LLP. 1% of the partnership interest is held by Greenspan Mall Limited in trust, on behalf of the REIT without any economic benefits accruing to Greenspan Mall Limited. The Partnership owns an office building known as 67 Gitanga Place in Lavington, Nairobi.

23. ACQUISITION OF SUBSIDIARY (continued)

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

	2018 KShs
Purchase consideration	850,037,500
Applied to settling pre-existing debt in Limited Liability Partnership	(215,000,000)
Applied to settling trade and other payables	(66,135,168)
	568,902,332

Pre-existing debt and other liabilities

Starling Park Properties LLP had a short term loan of KShs. 215,000,000 as well as creditors and accrual balances which were settled by the vendor using the proceeds from the sale of the Partnership interest.

Acquisition related costs

The REIT incurred acquisition-related costs as outlined below:

	2018 KShs
Legal due diligence and contracting costs	1,768,000
Structural engineering due diligence	1,160,000
Mechanical, electrical and plumbing due diligence	1,160,000
Tax due diligence	694,260
Property valuation	626,400
Environmental, social and governance due diligence	464,000
Survey and town planning due diligence	162,400
Other administrative business acquisition costs	2,233,864
	8,268,924

The above business acquisition costs have all been expensed in line with the requirements of IFRS 3: Business Combinations and are reported inclusive of VAT.

Identifiable assets acquired and liabilities assumed

	2018 KShs
Investment property	850,000,000
Property and equipment	30,000
Trade and other receivables (deposits and prepayments)	437,427
Cash and cash equivalents	57,047,560
Trade and other payables (security deposit and rent)	(57,477,487)
Net assets acquired	**850,037,500**
Less: cash acquired	(57,047,560)
Acquisition of LLP net of cash acquired	**792,989,940**

24. 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 100% owned 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 entities below which are wholly owned subsidiaries and Limited Liability Partnership:

(i) Greenspan Mall Limited
(ii) Bay Holdings Limited
(iii) Signature International Limited
(iv) Starling Park Properties LLP

(b) Related party transactions

	2018 KShs	2017 KShs
Asset management fee paid to STANLIB Kenya Limited	76,588,864	84,101,266
Custodial fees paid to Co-operative Bank Kenya Limited	22,712,379	22,952,573
Other administration fees paid to Co-operative Bank of Kenya Limited for cheque writing fees	884,915	870,173
Bank charges	80,352	45,817

All related party transactions were done on an arm’s length basis. The above service fees are inclusive of VAT where applicable.

STANLIB Kenya Limited and Liberty Group Limited held the following units in the REIT as at 31 December 2018 and 31 December 2017. These were previously subjected to a three year lock-in period which expired at end of 2018.

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**

24. 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	2018 KShs	2017 KShs
Investment account - fixed deposits	REIT	93,000,000	231,000,000
Investment account - call deposits	REIT	30,000,000	4,000,000
Investment account	REIT	528,520	1,504,663
STANLIB REIT Rent Coll A/C - Greenspan Mall	Greenspan Mall Limited	2,300,000	1,980,127
Excellerate Kenya Greenspan Mall Account	Greenspan Mall Limited	5,377,333	9,911,525
STANLIB REIT Rent Coll A/C – Signature	Signature International Limited	416,980	942,671
STANLIB REIT Rent Coll A/C - Bay Holdings	Bay Holdings Limited	1,500,000	330,358
Total		**133,122,833**	**249,669,344**

25. 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 arises from recognised assets and liabilities. There were no foreign denominated balances as at 31 December 2018.

Price risk

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

25. RISK MANAGEMENT (Continued)

(b) Financial risk management (continued)

(i) Market risk - continued

Cash flow and fair value interest rate risk

The REIT holds interest accruing financial assets and is thus exposed to interest rate risk. The REIT invested in call and fixed deposits as well as treasury bills during the year under review. These investments generated a combined weighted average fixed interest rate of 8.8% in the current year (2017: 8.7%).

Sensitivity analysis

At 31 December, if the interest rate at that date had been 1% lower/higher, with all other variables held constant, net profit for the year would have been KShs. 564,339 (2017: KShs. 998,523) lower/higher, arising mainly as a result of lower/higher interest income on cash deposits at banks.

The REIT Manager manages interest rate risks by monitoring interest rates on a regular basis. There were no borrowings or loans outstanding during the year under review which attracted interest exposure to the entity.

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 (2017: Nil).

(ii) Credit risk

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

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

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

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

25. RISK MANAGEMENT (Continued)

(b) Financial risk management (continued)

(ii) Credit risk – continued

	2018 KShs	2017 KShs
Trade receivables (Note 16)	18,520,713	41,955,898
Service charge debtors (Note 16)	14,251,866	25,818,812
Sundry debtors (Note 16)	7,608,816	7,601,315
Cash and cash equivalents less cash in hand (Note 17)	302,818,929	688,189,343
	343,200,324	**763,565,368**

Collateral is held in respect of trade receivables comprising tenant security deposits.

Debtors ageing

At 31 December 2018, the ageing of the gross trade receivables was as follows:

	2018 KShs	2017 KShs
Neither past due or impaired	828,056	317,234
Past due 1 – 30 days	858,871	14,438,209
Past due 31 – 90 days	12,287,894	12,134,793
Past due 91 – 120 days	4,545,892	15,065,662
	18,520,713	**41,955,898**

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:

25. RISK MANAGEMENT (Continued)

(b) Financial risk management (continued)

(i) Credit risk – continued

	2018 KShs	2017 KShs
Balance at the beginning of the period	10,231,039	7,484,170
Movement in provision for bad debts (Note 8)	1,078,246	6,367,956
Write offs during the year	(7,832,115)	(3,621,087)
Balance at 31 December (Note 16)	**3,477,170**	**10,231,039**

During the year under review, bad debts for outstanding rent arrears of KShs. 7,832,115 were written off, net of security deposits appropriated (2017: KShs. 3,621,087).

(ii) 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 2018:	
Trade payables and accrued expenses (Note 20)	**128,677,648**
As at 31 December 2017:	
Trade payables and accrued expenses (Note 20)	**95,446,371**

(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.

25. RISK MANAGEMENT (Continued)

(c) Fair value hierarchy (continued)

(ii) Valuation hierarchy

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

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

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

2018 **in KShs**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Investment property	-	-	3,365,700,000	3,365,700,000
Asset held for sale	-	-	40,000,000	40,000,000
Total assets	**-**	**-**	**3,405,700,000**	**3,405,700,000**

2017 **in KShs**				
Assets				
Investment property	-	-	2,460,000,000	2,460,000,000

25. RISK MANAGEMENT (Continued)

(c) Fair value hierarchy (continued)

(ii) Valuation hierarchy

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 11 to the financial statements.

26. CAPITAL COMMITMENT

The REIT had the following capital commitments in respect of building projects authorised and contracted but not yet paid:

	2018 KShs	2017 KShs
Cinema project	**26,412,595**	**-**

27. CONTINGENT LIABILITIES

As at 31 December 2018, the REIT had no significant contingent liabilities (2017: None).

28. 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 2018 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 18 to the financial statements for the distribution declared.

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

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the third 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 Tuesday, 16 April 2019, commencing at 10:00am for the purpose of transacting the following business:

1. To table the proxies and note the presence of a quorum.
2. To read the notice convening the meeting.
3. To receive the Annual Report and the Audited Annual Financial Statements for the year ended 31 December 2018.
4. To note the first and final distribution for the year ended 31 December 2018, of KShs. 135,729,225 (75 cents per unit in issue) as recommended by the REIT Manager and approved by the Trustee.
5. To note that KPMG continue as Auditors for the REIT.
6. To ratify the remuneration of the REIT Manager for the financial year ended 31 December 2018 as disclosed in the annual report.
7. To ratify the reappointment of the REIT Manager for another period of three years effective from 1 October 2018, in accordance with the REITs Regulations.

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 2019

NOTE:

1. The Form of Proxy will be available on the STANLIB Fahari I-REIT website at www.stanlibfahariireit.com.

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

Hand deliveries to:	**Postal deliveries to:**
CDSC Registrars Limited 1st Floor, Occidental Plaza Muthithi Road, Westlands Nairobi, Kenya	CDSC Registrars Limited P.O. Box 6341 – 00100 Nairobi, Kenya

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

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 Tuesday 16 April 2019 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_______________________2019.

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 meetin:

   Hand deliveries to:
   CDSC Registrars Limited
   1st Floor, Occidental Plaza
   Muthithi Road, Westlands
   Nairobi, Kenya

   Postal deliveries to:
   CDSC Registrars Limited
   P.O. Box 6341 – 00100
   Nairobi, Kenya
3. Alternatively, duly signed proxies can be scanned and emailed to helpdesk@cdsckenya.com in PDF format.

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;
"CGU"	means Cash-Generating Unit;
"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;
"FVOCI"	means fair value through other comprehensive income;
"FVTPL"	means fair value through profit or loss;
"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

Term or abbreviation	Meaning
	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, as appointed from time to time on a 3 year cycle or in line with the independence rules per the Regulations;
“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;
“LLP”	means Limited Liability Partnership;
“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;
“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;

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;
“sq.ft.”	means square foot or square feet;
“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;

Term or abbreviation	Meaning
“VAT”	means value-added tax as defined in the Value-Added Tax Act, 2013, as amended;
“ZAR”	means South African Rand.