

NEWPARK REIT LIMITED

(Incorporated in the Republic of South Africa)
 (Registration number 2015/436550/06)
 JSE share code: NRL ISIN: ZAE000212783
 (Approved as a REIT by JSE)
 (“Newpark” or “the Company” or “the group”)



**UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED
 31 AUGUST 2016**

COMMENTARY**Nature of Business**

Newpark is a property holding and investment company that is currently invested in A-grade commercial properties situated in the heart of Sandton.

Property portfolio

Newpark’s property portfolio consists of two buildings located in the heart of Sandton, Gauteng, namely the JSE which has 18,162m² of gross lettable area (“GLA”) and an adjoining building known as 24 Central, which has 15,089m² GLA. The combined independent valuations of these properties as at 29 February 2016 was R1,065 million.

Strategy

Newpark’s investment strategy is to seek well positioned prime commercial properties which provide quality cash flows with the potential of upward rating on lease renewals and/or redevelopment opportunities within the medium to long-term (5 to 20 years).

Acquisitions and Developments

Newpark made no further acquisitions and no developments took place during the period under review.

Vacancies and Arrears

Vacancies at 31 August 2016 were 6,8% of GLA which had been factored into management’s forecasts for the year. No bad debts were incurred nor is it considered necessary to provide for any potential bad debts.

Funding

	Amount	Margin
Facility drawn down	R’millions	over Jibar
Expiry August 2020	270	1.65%
	Amount	Rate
Interest rate applicable	R’millions	Rate
Interest rate swap	135	8.52%
Interest rate cap	135	10.17%
Both the swap and cap expire in January 2019		

The RMB facility is secured by a first mortgage bond over fixed property with a carrying value of R975 578 291 and currently attracts a floating rate of three-month JIBAR plus 1.65%. The RMB facility is repayable in August 2020. Newpark has an interest rate swap and interest rate cap on this facility. The interest rate cap has the effect that 50% of the interest on the RMB facility is capped at a rate of 10.17%. In addition, the interest rate swap secured with RMB has the effect that in respect of the remaining 50% of the interest on the RMB facility, the floating portion of the current rate is swapped for a fixed rate of 8.52%, before the RMB margin of 1.65%. The interest rate swap and cap expire on 18 January 2019 and interest is payable quarterly.

Percentage of debt hedged

The all-in weighted average cost of funding is 9.57% and the average hedge-term is 2.25 years. It is the board’s policy to hedge at least 70% of the exposure to interest rate risk.

Summary of financial performance

	31 August 2016	29 February 2016
Shares in issue	100,000,001	100,000,001
Net asset value per share	R8.18	R7.91
Loan-to-value ratio *	20.8%	22.3%
Gross property operating expense ratio	17.6%	34.9%

*The loan-to-value ratio is calculated by dividing interest bearing borrowing net of cash on hand by the total of investment property.

Outlook

The board is confident that Newpark will deliver on its forecast distribution of 49.47 cents per share for the year ended 28 February 2017 as set out in the Pre-Listing Statement. The forecast is based on the assumption that a stable macro-economic environment will prevail and operating cost increases will not be above inflation. This forecast has not been audited or reviewed by the Company's auditors.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited 31 August 2016 (R'000)	Audited 29 February 2016 (R'000)
Assets		
Non-current assets		
Investment properties	4 983 329	982 308
Straight-line lease asset	49 226	44 823
Deferred tax	1 150	55
Derivative financial instruments	-	699
Lease incentive	21 173	22 496
	1 054 878	1 050 381
Current Assets		
Trade and other receivables	5 989	6 157
Straight-line lease asset	16 376	12 727
Lease incentive	2 647	2 647
Cash and cash equivalent	47 338	32 217
Total Current Assets	72 350	53 748
Total Assets	1 127 228	1 104 129
Equity and Liabilities		
Equity		
Share capital	619 918	620 006
Reserves	180 412	180 412
Retained income/(loss)	17 719	(9 759)
	818 049	790 659
Liabilities		
Non-Current Liabilities		
Bank borrowings	270 000	270 000
Deferred tax	16 895	14 640
Derivative financial instruments	2 072	-
	288 967	284 640
Current liabilities		
Trade and other payables	20 212	28 830
Total Liabilities	309 179	313 470
Total Equity and Liabilities	1 127 228	1 104 129
Net asset value per share	R8,18	R7,91

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited 6 months ended 31 August 2016 (R'000)	Unaudited 6 months ended 31 August 2015 (R'000)	Audited 12 months ended 29 February 2016 (R'000)
Revenue	54 993	36 350	95 185
Property operating expenses	(10 861)	(15 061)	(33 206)
Other income	-	-	100
Administrative expenses	(1 374)	(1 342)	(6 000)
Operating profit	42 758	19 947	56 079
Finance income	1 568	179	1 161
Fair value adjustments	(2 772)	233 912	242 524
Finance costs	(12 916)	(11 537)	(22 191)
Profit / (loss) before taxation	28 638	242 501	277 573
Taxation	(1 160)	87 387	85 537
Profit / (loss) for the period	27 478	329 888	363 110
Other comprehensive income	-	-	-
Total comprehensive income	27 478	329 888	363 110
Earnings per share (cents)			
Per share information			
Basic earnings per share	5	27.48	366.54
Diluted earnings per share	5	27.48	366.54

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital (R'000)	Share issue costs (R'000)	Total share capital (R'000)	Capital reorganisation reserve (R'000)	Retained (loss)/income (R'000)	Total equity (R'000)
Balance at 1 March 2015	1	-	1	-	452 918	452 919
Profit for the period	-	-	-	-	363 110	363 110
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	363 110	363 110
Issue of shares	625 000	(4 994)	620 006	-	-	620 006
Capital reorganisation	(1)	-	(1)	180 412	(180 474)	(63)
Dividends	-	-	-	-	(645 313)	(645 313)
Total contributions by and distributions to owners of company recognised directly in equity	624 999	(4 994)	620 005	180 412	(825 787)	(25 370)
Balance at 29 February 2016	625 000	(4 994)	620 005	180 412	(9 759)	790 659
Profit for the period	-	-	-	-	27 478	27 478
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	27 478	27 478
Share issue costs	-	(88)	(88)	-	-	(88)
Total contributions by and distributions to owners of company recognised directly in equity	-	(88)	(88)	-	-	(88)
Balance at 31 August 2016	625 000	(5 082)	619 918	180 412	17 719	818 049

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited 31 August 2016 (R'000)	Audited 29 February 2016 (R'000)
Cash flows from operating activities		
Cash generated from operations	27 654	48 223
Finance income	1 568	1 161
Finance costs	(12 916)	(22 191)
Taxation received	-	958
Net cash from operating activities	16 306	28 151
Cash flows from investing activities		
Purchase of furniture and fixtures	(1 185)	(1 100)
Acquisition of investment in subsidiary	-	(62)
Net cash from investing activities	(1 185)	(1 162)
Cash flows from financing activities		
Proceeds from share issue	-	62
Repayment of shareholders' loan	-	(47)
Dividends paid	-	(83)
Bank borrowings advanced	-	270
Bank borrowings repaid	-	(198)
Net cash from financing activities	-	4
Total cash and cash equivalent movement for the period	15 121	30 986
Cash and cash equivalents at beginning of period	32 217	1 231
Total cash and cash equivalents at end of period	47 338	32 217

Additional info on cash flow:

Cash generated from operations before working changes	36 104	29 009
Working capital changes	(8 450)	19 214
Cash generated from operations	27 654	48 223

SECTORAL SPLIT

	GLA	Gross Rentals
Based on:		
Retail	15.03%	15.76%
Office	84.97%	84.24%
	100.0%	100.0%

LEASE EXPIRY PROFILE (unaudited)

	GLA	Gross Rentals
Based on:		
Vacant	6.8%	0.0%
Feb 2017	1.8%	2.7%
Feb 2018	13.0%	9.6%
Feb 2019	11.8%	15.2%
Feb 2020	7.6%	5.5%
Feb 2021	1.2%	1.5%
> Feb 2021	57.8%	65.5%
	100.0%	100.0%

SIGNIFICANT FINANCIAL STATEMENT NOTES

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in accordance with the requirements of the JSE Listings Requirements and the requirements of the Companies Act of South Africa applicable to summary financial statements. The JSE Listings Requirements require reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, and to also, as a minimum, contain the information required by IAS 34, Interim Financial Reporting. The accounting policies applied in the preparation of these interim financial statements are in terms

of International Financial Reporting Standards and are consistent with those applied in the previous consolidated annual financial statements.

The unaudited condensed consolidated interim financial statements were compiled under the supervision of Dries Ferreira, the financial director.

The directors are not aware of any matters or circumstances arising subsequent to the year-end that require any additional disclosure or adjustment to the financial statements.

The directors take full responsibility for the preparation of this interim condensed report and for ensuring that the financial information has been correctly extracted from the underlying unaudited annual financial statements. These unaudited condensed consolidated interim financial statements have not been reviewed by the Company's auditors.

2. CAPITAL RE-ORGANISATION RESERVE ACCOUNTING

The predecessor accounting method, which is based on equivalent US GAAP and UK GAAP guidance for common control transactions, was applied to the comparative reporting periods. Predecessor accounting does not require the acquirer to restate assets and liabilities to their fair values. No goodwill arises in applying the predecessor accounting method.

In accordance with the predecessor method, any difference between the consideration given and the aggregate book value of the assets and liabilities (as of the date of the transaction) is recognised in a separate reserve within equity called the capital reorganization reserve. The value of this reserve will be analysed on an annual basis.

3. SEGMENTAL ANALYSIS

Segmental information

The appointed Chief Operating Decision Maker within the group is the Group Executive Committee ("EXCO"). This is because it is EXCO's responsibility to meet on a frequent basis to review budgets and to assess the operating performance of its operating segments. The information provided to EXCO summarises financial data and information by property. At 31 August 2016, the group is organised into two main operating segments:

- 24 Central
- JSE

31 August 2016	24 Central (R'000)	JSE (R'000)	Total (R'000)
Revenue	26 705	28 288	54 993
Property operating expenses	(10 861)	-	(10 861)
Fair value adjustments	(1 257)	(1 515)	(2 772)
	14 587	26 773	41 360

29 February 2016			
Revenue	58 160	37 025	95 185
Property operating expenses	(21 896)	(11 320)	(33 206)
Fair value adjustments	123 481	119 043	242 524
	159 745	144 758	304 503

The amounts provided to EXCO with respect to total assets are measured in a manner consistent with that in the statement of financial position. These assets are allocated based on the operations of the segment.

31 August 2016	24 Central (R'000)	JSE (R'000)	Total (R'000)
Investment property	469 713	513 616	983 329
Straight-line lease asset	3 726	61 876	65 602
Lease incentive	-	23 820	23 820
Trade & other receivables	5 605	-	5 605
	479 044	599 312	1 078 356

29 February 2016			
Investment property	471 510	510 798	982 308
Straight-line lease asset	3 490	54 059	57 549
Derivative financial instruments	-	699	699
Lease incentive	-	25 142	25 142
Trade & other receivables	6 028	30	6 058

481 028	590 729	1 071 757
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Reportable segment assets are reconciled to total assets as follows:

	31 August 2016 (R'000)	29 February 2016 (R'000)
Segment assets for reportable segments	1 078 356	1 071 757
Unallocated:		
Deferred tax	1 150	55
Trade and other receivables	384	100
Cash and cash equivalents	47 338	32 217
	1 127 228	1 104 129

The amounts provided to EXCO with respect to total liabilities are measured in a manner consistent with that in the statement of financial position. These liabilities are allocated based on the operations of the segment.

31 August 2016	24 Central (R'000)	JSE (R'000)	Total (R'000)
Bank borrowings	-	270 000	270 000
Derivative financial instruments	-	2 072	2 072
Trade & other payables	4 104	15 557	19 661
	4 104	287 629	291 733

29 February 2016	24 Central (R'000)	JSE (R'000)	Total (R'000)
Bank borrowings	-	270 000	270 000
Trade & other payables	1 521	23 166	24 687
	1 521	293 166	294 687

Reportable segment liabilities are reconciled to total liabilities as follows:

	31 August 2016 (R'000)	29 February 2016 (R'000)
Segment liabilities for reportable segments	291 733	294 687
Unallocated:		
Deferred tax	16 895	14 640
Trade and other payables	551	4 143
	309 179	313 469

4. Investment properties

The valuation of investment properties was determined principally using discounted cash flow projections, based on estimates of future cash flows, supported by the terms of any existing lease contracts and by external evidence such as current market rentals for similar properties in the same location and condition, and using discount rates that reflects current market assessments, of the uncertainty in the amount and timing of the cash flows. The future rental rates were estimated depending on the actual location, type and quality of the properties and taking into account market data and projections at the valuation date, as well as the expiry of existing lease agreement.

For the period under review the property value includes movement made up of the increase in straight lining of the lease assets (R8 053 219) and the decrease in lease incentives (-R1 323 288) as well as additions and depreciation relating to furniture and fixtures (R1 184 529 and -R163 562 respectively).

	31 August 2016 (R'000)			29 February 2016 (R'000)		
	Cost/ Valuation	Accumulated depreciation	Carrying value	Cost/ Valuation	Accumulated depreciation	Carrying value
Investment property	980 747	-	980 747	980 747	-	980 747
Furniture and fittings	3 514	(933)	2 582	2 330	(769)	1 561
Total	984 262	(933)	983 329	983 077	(769)	982 308

Reconciliation of investment properties - 31 August 2016

	Opening balance	Additions	Fair value adjustments	Depreciation	Closing balance
Investment property	980 747	-	-	-	980 747
Furniture and fixtures	1 561	1 185	-	(164)	2 582
Total	982 308	1 185	-	(164)	983 329

Reconciliation of investment properties - 29 February 2016

	Opening balance	Additions	Fair value adjustments	Depreciation	Closing balance
Investment property	738 923	-	241 825	-	980 747
Furniture and fixtures	669	1 100	-	(208)	1 561
Total	739 591	1 100	241 825	(208)	982 308

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011 is available for inspection at the registered office of the company.

	31 August 2016 (R'000)	29 February 2016 (R'000)
JSE Building		
Portion 25 of Erf 7 Sandown Johannesburg, South Africa		
-Purchase price	18 070	18 070
-Fair value adjustment	573 491	573 491
	591 561	591 561
24 Central		
Portion 20 of Erf 7 Sandton Township, registration division IR, Province of Gauteng		
-Purchase price	238 000	238 000
-Fair value adjustment	234 021	234 021
-Net capitalised expenditure	2 439	1 418
	474 460	473 439
	31 August 2016 (R'000)	29 February 2016 (R'000)
Fair value of investment property for accounting purposes		
Opening fair value of property assets	1 065 000	800 000
Gross fair value adjustment on investment property	-	241 825
Additions and depreciation	1 021	892
Straight-line lease asset and lease incentive movement	6 730	22 283
	1 072 751	1 065 000
Less: straight-line lease income adjustment	(65 602)	(57 549)
Less: lease incentive receivable	(23 820)	(25 142)
Closing fair value of property assets	983 329	982 308

Securities

Mortgage bonds have been registered over investment property with a fair value of R983 329 190 (February 2016: R982 308 223) as security for interest bearing liabilities at a nominal value amounting to R270 000 000 (February 2016: R270 000 000).

Details of valuation

The properties were valued on 29 February 2016 using the discounted cash flow of future income streams method. The valuations of the properties were performed by an independent valuer, Peter Parfitt of Quadrant Properties Proprietary Limited, who is a registered valuer in terms of section 19 of the Property Valuers Professional Act, No 47 of 2000.

At the 29 February 2016, the key assumptions and unobservable inputs used by the company in determining fair value were as follows:

These assumptions are based on current market conditions.

	24 Central	JSE Head Office
Discount rate	14,50%	14,25%
Exit capitalisation rate	9,00%	8,50%
Capitalised rate	8,50%	8,25%

Investment property is required to be fair valued with sufficient regularity that the value is representative of the fair value.

Measurement of fair value

Valuation techniques:

Discounted cash flows: The valuation model considers the present value of net cash flows to be generated from the property, taking into account expected rental and expense growth rates, vacant periods, lease incentive costs such as rent-free periods and other costs not recovered from tenants. The expected net cash flows are discounted using a discount rate. The discount rate applied is derived using an appropriate capitalisation rate and adding a growth rate based on market-related rentals, testing this for reasonableness by comparing the resultant Rand rate per m2 against comparative sales of similar properties in similar locations. Amongst other factors, the capitalisation rate estimation considers the quality of the building, its location, the tenants' credit quality and their lease terms.

Inter-relationship between key unobservable inputs and fair value measurements:

The estimated fair value would increase/ (decrease) if:

- expected market rental growth was higher/ (lower);
- expected expense growth was lower/ (higher);
- vacant periods were shorter/ (longer);
- the occupancy rate was higher/ (lower);
- rent-free periods were shorter/ (longer);
- discount rate was lower/ (higher); and
- reversionary capitalisation rate was lower/ (higher).

5. Earnings per share

Basic earnings per share

	Unaudited 6 months ended 31 August 2016 (R'000)	Unaudited 6 months ended 31 August 2015 (R'000)	Audited 12 months ended 29 February 2016 (R'000)
Profit attributable to shareholders	27 478	329 888	363 110
Weighted average number of ordinary shares in issue	100 000	90 000	90 740
Basic earnings per share (cents per share)	27,48	366,54	400,17

Diluted earnings per share

There are no dilutive instruments in issue

Profit attributable to shareholders	27 478	329 888	363 110
Weighted average number of ordinary shares in issue ('000)	100 000	90 000	90 740

Basic diluted earnings per share (cents per share) **27,48** **366,54** **400,17**

Headline earnings per share

Profit attributable to shareholders	27 478	329 888	363 110
Adjusted for:			
Change in fair value of investment property and tax thereof	-	(323 863)	(331 603)
	27 478	6 024	31 507

Weighted average number of ordinary shares in issue ('000)	100 000	90 000	90 740
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Headline earnings per share (cents per share) **27,48** **6,69** **34,72**

Distributable income			
Headline earnings	27 478	6 024	31 507
Adjusted for:			
Change in fair value of investment property as a result of amortisation of straight-line lease asset and tax thereof	(5 798)	(6 831)	(12 176)
Change in fair value of investment property as a result of amortisation lease incentive and tax thereof	1 323	1 323	2 647
Deferred tax movement		-	
Fair value adjustment of financial derivative instruments and the tax thereof	1 996	-	(503)
	24 999	517	21 474
Weighted average number of ordinary shares in issue ('000)	100 000	90 000	100 000
Distributable income per share (cents per share)	25,00	0,57	21,47

6. Payment of interim dividend

The board has approved and notice is hereby given of an interim dividend of 24,99884 cents per share for the six months ended 31 August 2016.

The dividend is payable to Newpark shareholders in accordance with the timetables set out below:

Last day to trade <i>cum</i> dividend	Tuesday, 1 November 2016
Share traded <i>ex</i> dividend	Wednesday, 2 November 2016
Record date	Friday, 4 November 2016
Payment date	Monday, 7 November 2016

Share certificates may not be dematerialised or materialised between Wednesday, 2 November 2016 and Friday 4 November 2016, both days included.

In respect of dematerialised shareholders the dividend will be transferred to CSDP accounts/ broker accounts on Monday, 7 November 2016. Certificated shareholders' dividend payments will be deposited on or about Monday, 7 November 2016.

An announcement informing shareholders of the tax treatment of the dividend will be released separately on SENS.

7. Related parties

Relationships

Subsidiary	Newpark Towers Proprietary Limited
Former shareholders of subsidiary	B Van Wyk Ellerine Bros Proprietary Limited Ellwain Investments Proprietary Limited FHP Manager Proprietary Limited Renlia Developments Proprietary Limited

	GROUP 31 August 2016 (R'000)	GROUP 29 February 2016 (R'000)
Interest paid to related parties		
Barry Daniel Van Wyk	-	35
Ellerine Bros Proprietary Limited	-	548
Ellwain Investments Proprietary Limited	-	548
Renlia Developments Proprietary Limited	-	376
Newpark Towers Proprietary Limited	-	-
	-	1 057

Changes to the board

Effective 31 August 2016, Ron Hill resigned as the financial director of the Company and Dries Ferreira was appointed as financial director effective 1 September 2016. The board would like to thank Ron for his valuable contribution.

By order of the board.



Simon Fifield
Chief Executive Officer



Dries Ferreira
Financial Director

Johannesburg
19 October 2016

DIRECTORS

G D Harlow (Chairman) **, S P Fifield (Chief Executive Officer), JAI Ferreira (Financial Director), B D van Wyk *, D T Ellerine*, K M Ellerine*, H C Turner **, D I Sevel **

* Non-executive director ** Independent non-executive director

REGISTERED OFFICE

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WEBSITE

www.newpark.co.za

COMPANY SECRETARY

CIS Company Secretaries Proprietary Limited

TRANSFER SECRETARY

Computershare Investor Services Proprietary Limited

DESIGNATED ADVISOR

Java Capital