

UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2019 AND DIVIDEND DISTRIBUTION DECLARATION

74,10c

INTERIM DIVIDEND PER SHARE
(UP 1,7%)

3,0%

VACANCIES

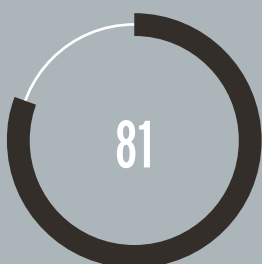
1 787c

NET ASSET VALUE PER SHARE

35,1%

LOAN TO VALUE
(REDUCED TO)

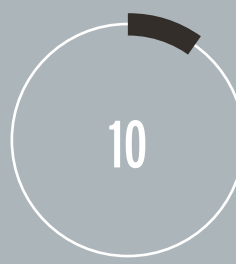
INVESTMENTS (%)



DIRECT PROPERTY
LOCAL

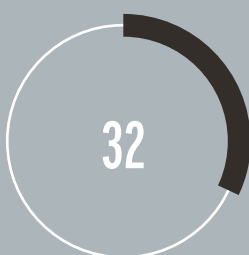


INDIRECT PROPERTY
LOCAL

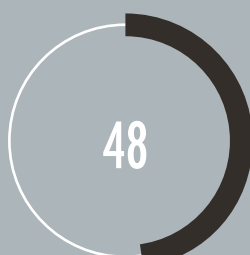


INDIRECT PROPERTY
OFFSHORE

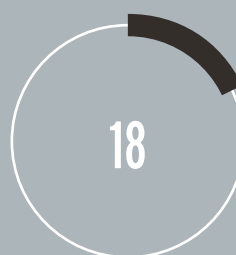
DIRECT PROPERTY LOCAL: VALUE SPLIT PER SECTOR (%)



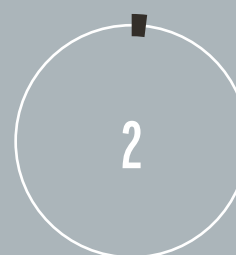
OFFICES



URBAN RETAIL



INDUSTRIAL



RESIDENTIAL

COMMENTARY

The board of directors of Emira ("Board") is pleased to announce that an interim dividend of 74,10 cents per share has been declared for the six months to 31 December 2019. This is a year-on-year increase of 1,7% which is in line with the positive guidance communicated in August 2019.

DISTRIBUTABLE EARNINGS

While the South African economy continues to be constrained, hindering growth, the steps taken by the Fund in recent years, specifically the rebalance of its portfolio, the continued reinvestment into the portfolio and capital allocation to more resilient economies, has resulted in Emira's ability to maintain distribution growth.

Tenant retention remains a key focus area. The Company's ability to understand its tenants' needs and deliver appropriate good quality and well-priced real estate has kept vacancies at low levels but not at the expense of growth.

Revenue reduced year-on-year by 11,4% from R869,9m to R770,3m (excluding straight-lining adjustments in respect of future rental escalations). This reduction was due to the R1,8bn office portfolio disposal to Inani Property Fund ("Inani"), where 25 properties were transferred between January 2019 and December 2019. The static portfolio performed well, with a pleasing like-for-like revenue growth of 6,6%, driven mostly by contractual escalations and lower vacancies.

Property expenses decreased by 6,9%, also driven by the Inani office portfolio disposal. Expenses on the static portfolio showed a like-for-like increase of 12,5% for the year, in line with expectations and driven by escalating electricity and municipal costs. The Company continues to invest in alternative energy sources and initiatives to reduce electricity and water consumption. The gross cost-to-income ratio increased to 39,2% from 37,3%, demonstrating that expenses grew at a faster rate during the period when compared to income.

Income from the Fund's listed investment in Growthpoint Australia Limited ("GOZ") decreased by 43,4% to R15,3m (which includes R5,8m recognised for distribution purposes only in respect of the *cum* dividend element of 12 885 956 GOZ units sold during the period). The decrease in income was due to the GOZ units sold during the year. The underlying Australian dollar ("AUD") distribution per unit of GOZ increased period-on-period by 3,5% to 11,8 AUD cents per share.

Distributable income from equity-accounted investments of R107,9m includes the following:

- › Income from investments made in the United States of America ("USA" or "US") of R61,3m represents Emira's share of the net distributable income from the nine property investments held in the US.
- › Income from Enyuka Property Fund ("Enyuka") of R39,0m, being the interest received on Emira's loan to Enyuka (R40,2m) less Emira's 49,9% portion of Enyuka's net loss (R1,2m after interest). Enyuka's net loss is post an asset management fee of R3,2m of which Emira receives 50%.
- › Income from Transcend Residential Property Fund ("Transcend") of R7,6m, which comprises interest received on Emira's loan to Transcend. In addition, an amount of R15,9m has been accrued for distribution purposes only in respect of the dividend declared by Transcend on 14 February 2020 in respect of the six-month period ended 31 December 2019.

Administration expenses, which includes property management fees and staff costs, decreased marginally by 0,6% to R58,6m (December 2018: R59,0m).

Other income of R1,7m includes a raising fee of R0,1m in respect of the mezzanine loan provided by Emira to Inani for the final property transferred during the period, as well as 50% of the asset management fee charged to Enyuka (R1,6m).

During the period, there was a realised foreign exchange gain of R2,2m compared to a loss of R0,5m the previous period. This relates primarily to the Fund's US investments on which income is accounted for at a weighted average monthly rate and then converted on a cash flow basis at the forward exchange contract rates.

The ESA Trust ("the Trust") is a trust that was set up during the prior year to hold shares for the benefit of Emira's executive directors. In June 2019, the Trust acquired 7 200 000 Emira shares utilising loan finance provided by both Emira and Sanlam Capital Markets ("Sanlam"). Emira is deemed to control the Trust and accordingly it is consolidated. The shares held by the Trust are re-classified as treasury shares for accounting purposes. On the basis that the net income of the Trust is for the benefit of its beneficiaries and not Emira, the dividends received on the shares classified as treasury shares are not included in the distribution statement. Likewise, the interest charge relating to the Sanlam debt and other Trust charges, totalling R1,9m for the period, which are consolidated by Emira, are added back in the calculation of Emira's distributable earnings.

Net finance costs for the year have reduced to R178,8m. Debt levels were lower as a result of proceeds received from the Inani office portfolio disposal as well as the GOZ disposal proceeds. Interest received increased substantially, primarily due to interest received on the mezzanine loan of R331,1m provided to Inani, which interest is payable quarterly in arrears.

The "premium on BEE share option" represents interest received on the Vendor Loans provided under the BEE Transaction (as defined in the circular to shareholders dated 29 May 2017). The Vendor Loans issued under the BEE Transaction are not recognised for accounting purposes as they are deemed to be the granting of a call option on Emira's shares. In terms of the loan agreements, interest is charged to the BEE parties at a rate equal to Emira's dividend yield and is recognised for distribution purposes. For accounting purposes, the income earned from the BEE parties is classified as a "premium on BEE share option" and recognised as equity. The BEE parties settle the interest charged on a six-monthly basis.

The tax credit of R2,5m relates to foreign withholding taxes that were over provided in the prior period on dividends declared to Emira by its US subsidiary, CIL2.

The distributable loss due to minorities of R0,3m relates to Bet All Investments Proprietary Limited, the subsidiary which owns The Bolton, where minority shareholders hold 25,0%.

Transaction and advisory fees of R0,6m have been excluded from the calculation of distributable earnings. These costs are once-off in nature and relate to the acquisition of the minority shareholders' 3,16% share of CIL2 LLC ("CIL2"), the entity through which Emira invests into the USA.

DISTRIBUTION STATEMENT

R'000	Half-year ended 31 Dec 2019	Half-year ended 31 Dec 2018	% change
Operating lease rental income and tenant recoveries excluding straight-lining of leases	770 325	869 863	(11,4)
Property expenses excluding amortised upfront lease costs	(302 307)	(324 684)	(6,9)
Net property income	468 018	545 179	(14,2)
Income from listed property investment	9 509	25 549	(62,8)
GOZ shares sold cum dividend	5 836	1 574	270,8
Distributable income from equity accounted investments	107 849	68 380	57,7
Dividend received/accrued from Transcend	15 875	9 031	75,8
Administration expenses	(58 639)	(58 971)	(0,6)
Other income	1 695	3 524	(51,9)
Realised foreign exchange gain/(losses)	2 182	(513)	(525,3)
ESA Trust interest and charges	1 995	–	100,0
Net finance costs	(178 768)	(219 852)	(18,7)
Finance income	26 432	8 395	214,9
Finance costs	(205 200)	(228 247)	(10,1)
Interest paid and amortised borrowing costs	(207 053)	(238 764)	(13,3)
Interest capitalised to the cost of developments	1 853	10 517	(82,4)
Premium on share option	9 167	9 013	1,7
Taxation	2 526	(2 054)	(223,0)
Minority shareholders' interests	49	(27)	(281,5)
Dividend payable to shareholders	387 294	380 833	1,7
No. of shares in issue	522 667 247	522 667 247	–
Dividend per share (cents)	74,10	72,86	1,7

NET ASSET VALUE ("NAV")

The NAV has reduced marginally to 1787 cents per share (Jun 2019: 1791 cents). This reduction was mainly due to a reduction in the value of investment properties, all of which were revalued at 31 December 2019 by Emira's own internal registered valuer. The number of shares used to calculate NAV was 500 256 590 and is made up as follows:

	2019	2018
Actual shares in issue	522 667 247	522 667 247
Adjusted for:		
Vendor funded shares under the BEE Scheme ¹	(12 370 510)	(12 370 510)
Shares acquired for the Emira Forfeitable Share Plan ²	(2 840 147)	–
Shares held by the ESA Trust ³	(7 200 000)	–
Adjusted shares in issue	500 256 590	510 296 737

¹ Emira shares relating to the outstanding capital on the Vendor Loans provided to the BEE Parties under Emira's June 2017 BEE Transaction are deemed to not be issued for accounting purposes.

² Emira shares held by Emira's Forfeitable Share Plan are classified as treasury shares for accounting purposes.

³ Emira shares held by the ESA Trust are classified as treasury shares upon consolidation of the ESA Trust.

VACANCIES

Vacancies are pro-actively managed by focussing on tenant retention, innovative letting strategies and, where necessary, the disposal of non-core properties. The absence of local economic growth has increased the pressure on tenants making their retention one of Emira's strategic priorities. Actively engaging with tenants on an on-going basis has become of the utmost importance to Emira.

It is pleasing to report that vacancies are lower, having decreased to 3,0% as at 31 December 2019 from 3,7% as at 31 December 2018 and 3,6% as at 30 June 2019. This is evidence of the hard work and initiatives that Emira continuously pursues. While urban retail sector vacancies have increased to 2,4% (December 2018: 2,0%), they are well below the South African Property Owners Association ("SAPOA") national average of 4,4% (SAPOA reported September 2019). Industrial vacancies have decreased to 2,7% (December 2018: 3,7%), which is also below the SAPOA national average of 3,4% (SAPOA reported June 2019). The decrease is due to letting activity at a number of Emira's industrial parks, specifically Highway Business Park, Industrial Village Jet Park, 34/36 Director Road and Universal Industrial Park, all of which are now fully let. Emira's office sector vacancies have shown an improvement, decreasing to 4,6% (December 2018: 5,6%). This is again well below the SAPOA national levels of 11,0%, and has been driven by disposals, specifically Corobay Corner, Lake Buena Vista and Menlyn Square Office Park.

The Bolton, Emira's sole directly held residential property, was completed in May 2019 and as at 31 December 2019, was 93,6% let, with only 18 units vacant.

COMMERCIAL VACANCIES

	No. of buildings Dec 2019	GLA Dec 2019 (m ²)	Vacancy Dec 2019 (m ²)	Vacancy Dec 2019 (%)	No. of buildings Dec 2018	GLA Dec 2018 (m ²)	Vacancy Dec 2018 (m ²)	Vacancy Dec 2018 (%)
Office	20	160 291	7 349	4,6	44	317 368	17 870	5,6
Retail	20	312 946	7 373	2,4	21	322 696	6 390	2,0
Industrial	38	342 649	9 365	2,7	39	339 010	12 431	3,7
Total	78	815 886	24 087	3,0	104	979 074	36 691	3,7

RESIDENTIAL VACANCIES

	No. of buildings Dec 2019	No. of units Dec 2019	Vacancy Dec 2019	Vacancy Dec 2019	No. of buildings Dec 2018	No. of units Dec 2018	Vacancy Dec 2018	Vacancy Dec 2018
Total	1	282	18	6,4	–	–	–	–

MAJOR LEASES CONCLUDED AND TENANT RENEWALS

The largest new leases concluded during the period under review, by lease value, were Foodserv Solutions at Denver Warehouse in Johannesburg (9 752m² for a total value of R25,1m), Rare Woods at Epping Warehouse in Cape Town (5 490m² for a total value of R16,9m) replacing Transpaco, Redfox Management at Boundary Terraces in Cape Town (435m² for a total value of R8,4m), Transaction Capital Recoveries at Hyde Park Lane in Johannesburg (1 546m² for a total value of R8,0m) and The Local Choice Pharmacy at The Tramshed in Pretoria (263m² for a total value of R6,6m).

A total of 82% by revenue (December 2018: 88%) and 80% by GLA (December 2018: 85%) of expiring leases were renewed and tenants retained during the year. The largest renewals concluded by lease value, were Dis-Chem at Randridge Mall in Johannesburg (2 035m² for a total value of R22,7m), The Beverage Company at Isando (20 Anvil Road) in Johannesburg (12 250m² for a total value of R18,4m), Bidvest at Steiner Services in Johannesburg (4 804m² for a total value of R17,9m), National Debt Advisors at 9 Long in Cape Town (1 803m² for a total value of R7,4m) and CEVA Animal Health at Ceva Midrand in Johannesburg (2 781m² for a total value of R6,3m).

DISPOSALS

As communicated in August 2019, 24 of the 25 assets forming part of the office portfolio disposal to Inani had transferred by 30 June 2019. The final property, being 1059 Francis Baard, transferred to Inani on 20 December 2019, upon the suspensive conditions being met.

As at 31 December 2019, Epsom Downs Shopping Centre valued at R70,2m has been classified as held for sale, and is expected to transfer out of Emira by 30 June 2020.

DEVELOPMENTS AND REFURBISHMENTS

Emira's policy of recycling its capital and strategically investing in tactical upgrades that unlock value and strengthen its asset base was maintained during the period. Given the domestic energy challenges and water shortages, projects that improve the resilience of Emira's properties, specifically those relating to backup water and alternative energy sources, including generators, were prioritised. The quality and attractiveness of the Fund's assets remain key elements in retaining existing and attracting new tenants.

A total of R95,3m capital expenditure was utilised during the year on the Fund's directly held portfolio. The following major projects commenced or were concluded during the period:

- › A redevelopment to modernise the building of Hyde Park Lane Office Park in Johannesburg was completed during the period.
- › A major refurbishment and upgrade of 80 Strand in Cape Town, to accommodate WeWork was undertaken.
- › A general refurbishment of Granada Square in Umhlanga Rocks to upgrade and modernise the building was finalised.
- › The installation of photovoltaic (PV) solar farms at Springfield in Durban, Southern Centre in Bloemfontein and Market Square in Plettenberg Bay, which will reduce the reliance on Eskom produced power, commenced.
- › Upgrades to Epsom Downs Office Park were completed.
- › Water harvesting projects across the portfolio commenced.

DEBT

Emira has diversified sources of funding and banking facilities in place with all the major South African banks. As at 31 December 2019, Emira had a moderate level of gearing with a total indebtedness (interest-bearing debt plus net derivative liabilities less cash) to total income producing assets of 35,1%. The Fund's Group level interest cover ratio was 3,2 times.

Proceeds realised on the disposal of GOZ and the sale of the office portfolio to Inani were partially used to permanently reduce debt, which at reporting date was down to R4,9bn. The weighted average duration to expiry of Emira's debt facilities is 2,3 years as at 31 December 2019. The Fund will continue with its strategy of refinancing debt on a longer-term basis and managing the debt expiry profile such that the amount of debt expiring in any one period is manageable. The Company has R1,2bn of debt maturing in the next 12 months.

During the period, facilities that were either put in place or refinanced included the following:

- › A R300,0m two-year revolving credit facility with RMB was renewed for a further three years at prime less 145 bps; and
- › A R200,0m 12-month general banking facility with Investec was renewed for a further 12 months.

Emira continues to successfully access funding via the debt capital markets at competitive rates. During the current period, Emira issued R505,0m of new listed commercial paper and corporate bonds to refinance R734,0m of maturing notes. The new instruments were issued for an average term of 1,6 years and at an average cost of 1,17% above three-month JIBAR versus the matured notes of 1,9 years and a cost of 1,41%.

The Fund has fixed 86,6% of its debt for periods of between 0,7 and 4,9 years, with a weighted average duration of 3,0 years.

	Weighted average rate (%)	Weighted average term	Amount (Rm)	% of debt
Debt – fixed swap	7,7	–	4 220,6	86,6
Debt – floating	8,5	–	655,8	13,4
Total	7,8	2,3 years	4 876,3	100,0
Less: Costs capitalised not yet amortised	–	–	(6,2)	–
Add: Accrued interest	–	–	35,3	–
Per statement of financial position	–	–	4 905,4	–

Global Credit Rating Company (Pty) Ltd (“GCR”) affirmed a corporate long-term credit rating of A(ZA) and corporate short-term rating of A1(ZA), with the outlook accorded as stable, in July 2019.

As at 31 December 2019, Emira had effective AUD denominated debt of AUD20,5m through its AUD cross-currency interest-rate swaps (“CCIRS”) against assets valued at AUD23,9m. The AUD CCIRS relate to the Fund’s investment in GOZ. In addition, Emira has effective United States dollar (“USD”) denominated debt of USD64,9m through its USD CCIRS. These USD CCIRS relate to investments (including cash) based in the USA valued at USD77,7m.

VALUATIONS

TOTAL PORTFOLIO MOVEMENT

	Dec 2019 (R'000)	Dec 2019 (R/m²)	Jun 2019 (R'000)	Jun 2019 (R/m²)	Difference (%)	Difference (R'000)
Sector						
Office	3 459 247	21 581	3 496 729	21 079	(1,07)	(37 482)
Retail	5 311 190	16 972	5 290 926	16 887	0,38	20 264
Industrial	1 941 790	5 667	1 933 650	5 643	0,42	8 140
Residential	224 600	–	220 000	–	2,09	4 600
Total	10 936 827*	–	10 941 305	–	(0,04)	(4 478)

* Net of lease liability.

INVESTMENTS

TRANSCEND

Transcend is a specialist residential REIT in which Emira has a 34,9% equity interest. The mezzanine loan of R143,4m provided by Emira to Transcend was refinanced during the period, with R50,0m now due on 12 June 2020 and the balance due 30 June 2021.

Transcend announced on 5 February 2020 that the JSE Limited (“JSE”) had approved the transfer of the Company’s listing from the Alternative Exchange to the “SA Listed Property” sector of the Main Board of the JSE with effect from Wednesday, 12 February 2020.

Emira equity accounts its interest in Transcend and the R24,8m recognised includes Emira’s share of Transcend’s net profit of R17,3m and R7,5m of interest received on the mezzanine loan provided to Transcend.

During the period Emira received dividends of R13,8m from Transcend for the six-month period ended 30 June 2019. An amount of R15,9m has been accrued for distribution purposes only in respect of the dividend declared by Transcend on 13 February 2020 in respect of the six-month period ended 31 December 2019.

As at 31 December 2019, Transcend’s total property portfolio was valued at R2,8bn and its loan to value ratio was 47,0%, with the interest cover ratio at 1,64 times.

ENYUKA

Enyuka is a rural retail venture between Emira and One Property Holdings. Emira equity accounts its interest in Enyuka and the R53,0m recognised includes Emira’s share of Enyuka’s net profit of R12,8m (of which R1,2m is a distributable loss) and R40,2m of interest received on the shareholder loan provided to Enyuka.

During the period, Enyuka acquired two new properties for a total consideration of R493,1m, including acquisition costs. The acquisitions were funded by new debt facilities.

As at 31 December 2019, Enyuka’s total property portfolio was valued at R1,7bn and its loan to value ratio was 54,0%. Enyuka’s interest cover ratio was 3,0 times at 31 December 2019.

GOZ

During the six-month period to 31 December 2019, the Company disposed a further 12 885 956 GOZ units at an average price of AUD4,33 per unit. Emira considers its remaining investment in GOZ to be non-core and anticipates trading out of the balance by 30 June 2020.

As at 31 December 2019, GOZ’s unit price was AUD4,15. Emira’s remaining investment of 5 752 491 units is valued at R234,3m.

USA

Emira has, on a deal-by-deal basis, co-invested into nine grocery-anchored dominant value-oriented power centres in the USA, together with its USA-based partner, The Rainier Companies ("Rainier"). Emira, through its US subsidiary CIL2, owns a minority share in each of the nine direct property-owning entities but has a unanimous voting arrangement on all major decisions.

Underpinned by sound property fundamentals and a quality tenant base, the US investments have a consolidated weighted average lease expiry of 5,2 years (by GLA) and a vacancy rate of 2,6%.

Emira equity accounts the nine direct property-owning entities and R71,2m was recognised as its share of the net profit for the period of which R61,3m is distributable. The carrying value of the equity-accounted investments as at 31 December 2019 was R1,1bn (or USD76,7m).

While there were no new investments concluded during the period, Emira and Rainier actively pursue new opportunities but not at the expense of the quality of the real estate or price. Subsequent to reporting date, on 3 February 2020, Emira acquired a 49,8% equity interest in Dawson Marketplace, a grocery-anchored power centre in Dawsonville, Georgia, at a total cost to Emira of USD13,3m at a forecast year 1 cash-on-cash equity yield of 10,65%.

OTHER FINANCIAL ASSETS

The investment in Inani is classified as a financial asset through profit and loss with a fair value of R28,6m as at 31 December 2019.

FOREIGN INCOME HEDGING

To minimise potential adverse foreign exchange fluctuations on Emira's earnings, a portion of the expected net foreign income, after offsetting foreign interest on CCIRS, is hedged.

For Emira's US investments at least 90% of the first four years of expected net income was hedged on the date that each investment was made. Subsequently, additional hedges have been put in place to extend the hedged profile. It is anticipated that this policy will be maintained for future investments.

Future dated AUD hedges were settled during the period in anticipation of Emira's remaining investment in GOZ being disposed.

The following hedges were in place as at 31 December 2019:

	GOZ (AUD)	USA (USD)
Forward rate against Rand		
Jun 2020	R11,40	R14,85
Dec 2020	–	R15,24
Jun 2021	–	R15,54
Dec 2021	–	R16,04
Jun 2022	–	R16,50
Dec 2022	–	R17,19
Jun 2023	–	R17,76
Dec 2023	–	R18,39

WORLEY PARSONS UPDATE

As communicated in August 2019, Emira filed a notice of appeal in respect of the award delivered by the arbitrator on 26 June 2019. The arbitration appeal panel has been finalised and consists of three retired judges. The parties are yet to agree on a date when the appeal will be heard.

SUBSEQUENT EVENTS

Other than the acquisition referred to above under the USA Investment section, there have been no other significant events subsequent to the reporting date.

TRANSFORMATION AND B-BBEE

In its pursuit to remain a responsible corporate citizen, Emira fully recognises and acknowledges the importance of adhering to the country's Broad-Based Black Economic Empowerment ("B-BBEE") policies in order to promote true transformation within a South African context. The Fund is pleased to report that through implementation of various initiatives and policies, its B-BBEE rating has improved to a Level 5 contributor from a Level 7, with a verified effective black ownership of 50,25% and notes that it will continue to find meaningful ways in which to improve its impact on the economy and society.

SA REIT ASSOCIATION BEST PRACTICE RECOMMENDATIONS

The SA REIT Association recently released a second edition, Best Practice Recommendations ("BPR"), which deals with best practice reporting for SA REITs. The new BPR is applicable for year-ends starting from 1 January 2020. Emira is currently assessing the BPR and will as far as possible, endeavour to comply with the recommendations contained therein. Emira confirms that this set of results is compliant with the current BPR as published by the SA REIT Association.

PROSPECTS

Delivering sustainable, consistent earnings and ensuring the longevity of Emira is the Board's primary objective. The rebalancing of the portfolio over the past three years together with the reallocation of capital to different geographies have been key strategies to achieve this objective. The balance sheet is well positioned, with assets fairly valued and conservative gearing in place. While these initiatives have provided Emira with a solid platform to face the challenges ahead, the Board is realistic in terms of what can be achieved in a low growth, uncertain environment and will continue to act responsibly in this regard.

Factoring in the current and expected market conditions for the period ahead, vacancy profiles and expected rental reversions, as well as anticipated opportunities, shareholders can continue to expect a comparable growth in dividends for the next six-month period.

This forecast is the responsibility of the directors of Emira and has not been reviewed or reported on by Emira's external auditors.

DIVIDEND DISTRIBUTION DECLARATION

The Board has approved, and notice is hereby given that an interim gross dividend of 74,10 cents per share has been declared (December 2018: 72,86 cents), payable to the registered shareholders of Emira on 16 March 2020. The issued share capital at the declaration date is 522 667 247 listed ordinary shares. The source of the dividend comprises net income from property rentals, income earned from the Company's listed property investment, income earned from the Company's equity accounted investments, interest earned on loans receivable and interest earned on cash on deposit. Please refer to the condensed consolidated statement of comprehensive income for further information.

Last day to trade <i>cum</i> dividend	Tuesday, 10 March 2020
Shares trade <i>ex</i> dividend	Wednesday, 11 March 2020
Record date	Friday, 13 March 2020
Payment date	Monday, 16 March 2020

Share certificates may not be dematerialised or rematerialised between Wednesday, 11 March 2020 and Friday, 13 March 2020, both days inclusive.

TAX IMPLICATIONS

In accordance with Emira's status as a REIT, shareholders are advised that the dividend meets the requirements of a "qualifying distribution" for the purposes of section 25BB of the Income Tax Act, No. 58 of 1962 ("Income Tax Act"). Accordingly, qualifying distributions received by local tax residents must be included in the gross income of such shareholders (as a non-exempt dividend in terms of section 10(1)(k)(aa) of the Income Tax Act), with the effect that the qualifying distribution is taxable as income in the hands of the shareholder. These qualifying distributions are, however, exempt from dividend withholding tax in the hands of South African tax resident shareholders, provided that the South African resident shareholders have provided the following forms to their Central Securities Depository Participant ("CSDP") or broker, as the case may be, in respect of uncertificated shares, or the transfer secretaries, in respect of certificated shares:

- (a) a declaration that the dividend is exempt from dividends tax; and
- (b) a written undertaking to inform the CSDP, broker or the transfer secretaries, as the case may be, should the circumstances affecting the exemption change or the beneficial owner cease to be the beneficial owner, both in the form prescribed by the Commissioner for the South African Revenue Service. Shareholders are advised to contact their CSDP, broker or the transfer secretaries, as the case may be, to arrange for the abovementioned documents to be submitted prior to payment of the dividend, if such documents have not already been submitted.

Qualifying dividends received by non-resident shareholders will not be taxable as income and instead will be treated as ordinary dividends but which are exempt in terms of the usual dividend exemptions per section 10(1)(k) of the Income Tax Act. Any distribution received by a non-resident from a REIT will be subject to dividend withholding tax at 20%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation ("DTA") between South Africa and the country of residence of the shareholder. Assuming dividend withholding tax will be withheld at a rate of 20%, the net amount due to non-resident shareholders will be 59,2800 cents per share. A reduced dividend withholding tax rate in terms of the applicable DTA, may only be relied on if the non-resident shareholder has provided the following forms to their CSDP or broker, as the case may be, in respect of the uncertificated shares, or the transfer secretaries, in respect of certificated shares:

- (a) a declaration that the dividend is subject to a reduced rate as a result of the application of a DTA; and
- (b) a written undertaking to inform their CSDP, broker or the transfer secretaries, as the case may be, should the circumstances affecting the reduced rate change or the beneficial owner cease to be the beneficial owner, both in the form prescribed by the Commissioner for the South African Revenue Service. Non-resident shareholders are advised to contact their CSDP, broker or the transfer secretaries, as the case may be, to arrange for the abovementioned documents to be submitted prior to payment of the dividend if such documents have not already been submitted, if applicable.

Local tax resident shareholders as well as non-resident shareholders are encouraged to consult their professional advisors should they be in any doubt as to the appropriate action to take.

The Company's tax reference number is 9995/739/15/9.

By order of the Emira Property Fund Limited Board

Acorim Proprietary Limited

Company Secretary

Gerhard van Zyl

Chairman

Bryanston

19 February 2020

Geoff Jennett

Chief Executive Officer

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

R'000	Unaudited 31 Dec 2019	Unaudited 31 Dec 2018	Audited 30 Jun 2019
ASSETS			
Non-current assets	14 056 300	13 819 840	14 405 813
Investment properties	10 503 635	10 391 847	10 440 564
Right-of-use asset	35 300	–	–
Fixtures and fittings	106 764	100 722	105 324
Allowance for future rental escalations	222 994	247 075	225 028
Unamortised upfront lease costs	33 237	48 209	32 420
Fair value of investment properties	10 901 930	10 787 853	10 803 336
Furniture, fittings, computer equipment and intangible assets	3 121	–	2 949
Listed property investment	234 334	918 057	759 716
Investment and loans in equity accounted investments	2 356 598	1 947 167	2 315 524
Other financial assets	28 641	–	30 822
Loans receivable	472 072	119 372	455 906
Derivative financial instruments	59 605	47 391	37 560
Current assets	350 073	2 282 556	398 713
Accounts receivable and prepayments	90 043	183 379	114 636
Derivative financial instruments	93 767	82 438	72 597
Cash and cash equivalents	96 063	94 906	73 230
Investment properties held for sale	70 200	1 921 833	138 250
Total assets	14 406 373	16 102 396	14 804 526
EQUITY AND LIABILITIES			
Share capital and reserves	8 941 712	9 100 622	8 983 398
Non-current liabilities	3 897 884	3 461 457	4 191 897
Interest-bearing debt	3 742 047	3 345 689	4 009 083
Other financial liabilities	–	22 636	–
Lease liability	30 405	–	–
Derivative financial instruments	125 432	93 132	182 814
Current liabilities	1 566 777	3 540 317	1 629 231
Short-term portion of interest-bearing debt	1 163 472	3 178 695	1 283 930
Accounts payable	269 924	261 899	309 764
Short-term portion of lease liability	4 894	–	–
Derivative financial instruments	127 651	99 723	32 175
Taxation	836	–	3 362
Total equity and liabilities	14 406 373	16 102 396	14 804 526
Net asset value per share (cents)	1 787,4	1 783,4	1 790,8

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

R'000	Unaudited six months ended 31 Dec 2019	Unaudited six months ended 31 Dec 2018	Audited year ended 30 Jun 2019
Revenue	770 905	878 631	1 686 962
Operating lease rental income and tenant recoveries	770 325	869 863	1 698 802
Allowance for future rental escalations	580	8 768	(11 840)
Property expenses	(302 671)	(325 642)	(640 756)
Income from listed property investment	9 509	25 549	47 818
Administration expenses	(56 953)	(61 142)	(128 483)
Transaction and advisory fees	(668)	(887)	(855)
Depreciation	(4 931)	(5 707)	(10 555)
Operating profit	415 191	510 802	954 131
Net fair value adjustments	(17 293)	15 611	47 548
Change in fair value of investment properties	(37 473)	(24 612)	(46 685)
Revaluation of derivative financial instruments relating to share appreciation rights scheme	8	6 388	(2 989)
Unrealised deficit on interest-rate swaps	(4 546)	(11 607)	(43 910)
Unrealised gain on fair valuation of listed property investment	24 718	45 442	141 132
Expected credit loss	(1 256)	–	(3 646)
Impairment of Worley Parson's receivable	–	–	(41 042)
Foreign exchange (loss)/profit	4 439	23 645	(20 823)
Other income	1 695	3 524	7 949
Income from equity accounted investments	162 852	163 288	344 233
Profit before finance costs	565 628	716 870	1 288 350
Net finance costs	(178 768)	(219 852)	(402 933)
Finance income	26 432	8 395	30 451
Finance costs	(205 200)	(228 247)	(433 384)
Profit before income tax charge	386 860	497 018	885 417
Taxation	2 526	4 539	1 207
Profit for the year	389 386	501 557	886 624
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translation of foreign operations	(2 983)	17 415	1 919
Total comprehensive income for the year	386 403	518 972	888 543
Total profit for the year attributable to:			
Emira shareholders	389 040	500 121	882 509
Non-controlling interest	346	1 436	4 115
	389 386	501 557	886 624
Total comprehensive income for the year attributable to:			
Emira shareholders	386 057	517 485	884 428
Non-controlling interest	346	1 487	4 115
	386 403	518 972	888 543

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R'000	Share capital	Revaluation and other reserves	Changes in ownership	Foreign currency translation reserve	Retained earnings	Non-controlling interest	Total
Balance as at 1 July 2018	3 775 458	4 844 848		17 918	330 351	107	8 968 682
Premium on share option	-	-	-	-	9 420		9 420
Profit for the year	-	-	-	-	500 121	1 436	501 557
Exchange differences on translation of foreign operations	-	-	-	17 364	-	51	17 415
Equity settled share scheme	-	2 192	-	-	-	-	2 192
Transfer to fair value reserve	-	23 421	-	-	(23 421)	-	-
Dividend paid – September 2018	-	-	-	-	(397 998)	-	(397 998)
Dividend paid – subsidiary	-	-	-	-	-	(646)	(646)
Balance as at 31 December 2018	3 775 458	4 870 461		35 282	418 473	948	9 100 622
Balance as at 1 July 2019	3 654 591	4 893 802	-	19 776	412 634	2 595	8 983 398
Shares acquired for the Emira Forfeitable Share Plan	(17 480)	-	-	-	-	-	(17 480)
Premium on share option	-	-	-	-	9 708	-	9 708
Profit for the year	-	-	-	-	389 040	346	389 386
Exchange differences on translation of foreign operations	-	-	-	(2 982)	-	-	(2 982)
Equity settled share scheme	-	4 125	-	-	-	-	4 125
Transfer to fair value reserve	-	(37 473)	-	-	37 473	-	-
Dividend paid – September 2019	-	-	-	-	(404 525)	-	(404 525)
Dividend paid – subsidiary	-	-	-	-	-	(924)	(924)
Non-controlling interest acquired	-	-	(20 180)	-	-	1 186	(18 994)
Balance as at 31 December 2019	3 637 111	4 860 454	(20 180)	16 794	444 331	3 203	8 941 712

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

R'000	Unaudited six months ended 31 Dec 2019	Unaudited six months ended 31 Dec 2018	Audited year ended 30 Jun 2019
Cash generated from operations	417 772	468 765	1 021 980
Finance income	22 859	8 395	30 451
Income from equity accounted investments	–	69 080	–
Interest paid	(207 053)	(237 255)	(454 250)
Taxation paid	–	(2 054)	(2 964)
Dividends paid to shareholders	(404 525)	(397 998)	(778 800)
Dividends paid to non-controlling interests	(924)	(646)	(1 688)
Cash flows from operating activities	(171 871)	(91 713)	(185 271)
Acquisition of, and additions to, investment properties excluding capitalised interest	(89 611)	(184 947)	(297 098)
Acquisition of furniture, fittings, computer equipment and intangible assets	(172)	–	(3 315)
Proceeds on sale of investment properties and fixtures and fittings	54 495	150	1 842 983
Disposal of investment in listed property investments	559 478	77 324	327 368
Investment in equity accounted investments	117 940	(700 388)	(870 275)
Loans granted and other financial assets	(44 832)	–	(351 222)
Cash flows from investing activities	597 298	(807 861)	648 441
REIT restructure costs	–	–	–
Non-controlling interest acquired	(18 994)	–	–
Premium on share options	9 708	9 420	18 433
Shares acquired for the Emira Forfeitable Share Plan	(17 480)	–	(20 929)
Repurchase of Emira shares held by ESA Trust	–	–	(99 545)
Interest-bearing debt raised	200 000	4 158 000	40 642
Interest-bearing debt repaid	(575 829)	(3 282 395)	(437 995)
Cash flows from financing activities	(402 594)	885 025	(499 394)
Net increase in cash and cash equivalents	22 833	(14 549)	(36 225)
Cash and cash equivalents at the beginning of the year	73 230	109 455	109 455
Cash and cash equivalents at the end of the year	96 063	94 906	73 230

BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") including IAS 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the Companies Act, No. 71 of 2008 of South Africa. The accounting policies used in the preparation of these financial statements are in terms of IFRS and are consistent with those used in the audited annual financial statements for the year ended 30 June 2019, other than the adoption of those amendments or new standards that became effective in the current period.

This report was compiled under the supervision of Greg Booyens CA(SA), the Chief Financial Officer of Emira.

These condensed consolidated interim financial statements have not been reviewed or audited by Emira's independent auditor, Ernst & Young Inc.

CHANGE IN ACCOUNTING POLICY

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

Emira has initially adopted IFRS 16 – Leases from 1 July 2019 and has adopted the modified retrospective method of application. Emira has elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

On adoption, Emira has recognised right-of-use assets and lease liabilities in relation to land leases which had previously been classified as operating leases under the principles of IAS 16 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the interest rate implicit in each lease. Subsequently each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

On transition date, the right-of-use assets were measured at the amount equal to the lease liability. The right-of-use assets relating to land leases are subsequently remeasured at fair value in terms of IAS 40.

RECONCILIATION BETWEEN EARNINGS AND HEADLINE EARNINGS AND DISTRIBUTION

R'000	Unaudited six months ended 31 Dec 2019	Unaudited six months ended 31 Dec 2018	Audited year ended 30 June 2019
Profit for the year attributable to Emira shareholders	389 040	501 557	882 509
Adjusted for:			
Change in fair value of properties (net of NCI)	37 868	24 612	46 685
– Change in fair value of investment properties	37 473	24 612	46 685
– Non-distributable portion of non-controlling interest	395	–	–
Gain on bargain purchase	–	–	(129 028)
Headline earnings	426 908	526 169	800 166
Adjusted for:			
Allowance for future rental escalations	(580)	(8 768)	11 840
Amortised upfront lease costs	364	958	1 738
Unrealised surplus on revaluation of interest-rate swaps	4 546	11 607	43 910
Revaluation of share appreciation rights scheme derivative financial instruments	(8)	(6 388)	2 989
Charge/(credit) in respect of leave pay provision and share appreciation rights scheme	(1 345)	2 171	5 312
Unrealised (gain)/loss on revaluation of listed property investment	(24 718)	(45 442)	(141 132)
Non-distributable income from equity accounted investments	(55 003)	(94 908)	(57 248)
Unrealised foreign exchange (profit)/loss	(2 257)	(24 158)	18 031
Dividend received/accrued from Transcend	15 875	9 031	29 616
Depreciation	4 590	5 707	10 478
Transaction and advisory fees	668	887	855
IFRS9 expected credit loss	1 256	–	3 646
Impairment of Worley Parson's receivable	–	–	41 042
ESA Trust interest and charges	1 995	–	–
Deferred taxation	–	(6 593)	(6 435)
Distributable portion of non-controlling interest	–	(27)	1 867
Dividend received on treasury shares	–	–	–
Enyuka associate accounting adjustment	–	–	–
IFRS 2 charge – BEE transaction	–	–	–
Premium on share option	9 167	9 013	18 723
GOZ shares sold cum dividend	5 836	1 574	5 592
Distribution payable to shareholders	387 294	380 833	790 990
Dividend per share			
Interim (cents)	74,10	72,86	72,86
Final (cents)	–	–	78,48
Total (cents)	74,10	72,86	151,34
Number of shares in issue at the end of the year	522 667 247	522 667 247	522 667 247
Weighted average number of shares in issue	500 256 590	510 296 737	501 648 438
Earnings per share (cents)	77,77	98,29	175,92
The calculation of earnings per share is based on net profit for the year of R389,0 million (2018: R501,6 million), divided by the weighted average number of shares in issue during the year of 500 256 590 (2018: 510 296 737).			
Diluted earnings per share (cents)	77,56	98,08	175,46
The calculation of diluted earnings per share is based on net profit for the year of R389,0 million (2018: R501,6 million), divided by the diluted weighted average number of shares in issue during the year of 501 614 382 (2018: 511 387 515).			
Headline earnings per share (cents)	85,34	103,11	159,51
The calculation of headline earnings per share is based on net profit for the year, adjusted for headline items, of R426,9 million (2018: 526,2 million), divided by the weighted average number of shares in issue during the year of 500 256 590 (2018: 510 296 737).			
Diluted headline earnings per share (cents)	85,11	102,89	159,09
The calculation of diluted headline earnings per share is based on net profit for the year, adjusted for headline items, of R426,9 million (2018: R526,2 million), divided by the diluted weighted average number of shares in issue during the year of 501 614 382 (2018: 511 387 515).			
Diluted weighted average number of shares in issue			
Weighted average number of shares in issue	500 256 590	510 296 737	501 648 438
Issued for zero consideration under the call option to BEE parties, Treasury shares issued to the ESA Trust and the Emira Forfeitable Share Plan	1 363 662	1 090 778	1 329 977
	501 614 382	511 387 515	502 978 415

SEGMENTAL INFORMATION FOR THE HALF YEAR ENDED 31 DECEMBER 2019

R'000	Office	Retail	Industrial	Residential	Corporate	Local	Inter-national	Total
Revenue	237 504	369 412	150 205	13 784	–	770 905	–	770 905
Operating lease rental income and tenant recoveries	232 901	375 951	147 689	13 784	–	770 325	–	770 325
Allowance for future rental escalations	4 603	(6 539)	2 516	–	–	580	–	580
Property expenses	(89 516)	(153 289)	(56 404)	(3 462)	–	(302 671)	–	(302 671)
Income from listed property investment	–	–	–	–	–	–	9 509	9 509
Administration expenses	–	–	–	–	(52 469)	(52 469)	(4 483)	(56 953)
Transaction and advisory fees	–	–	–	–	(668)	(668)	–	(668)
Depreciation	–	–	–	–	(4 931)	(4 931)	–	(4 931)
Operating profit	147 988	216 123	93 800	10 322	(58 068)	410 165	5 026	415 191
Net change in fair value	(22 522)	(6 142)	(10 388)	1 578	(7 498)	(44 971)	27 678	(17 293)
investment properties	(22 522)	(6 142)	(10 388)	1 578	–	(37 473)	–	(37 473)
Derivative financial instruments relating to share appreciation rights scheme	–	–	–	–	8	8	–	8
Interest-rate derivatives	–	–	–	–	(4 546)	(4 546)	–	(4 546)
Property investments	–	–	–	–	(2 960)	(2 960)	27 678	24 718
Expected credit loss	–	–	–	–	(1 256)	(1 256)	–	(1 256)
Foreign exchange loss	–	–	–	–	–	–	4 439	4 439
Other income	–	–	–	–	1 695	1 695	–	1 695
Income from equity accounted investments	–	53 019	–	38 600	–	91 619	71 232	162 852
Distributable	–	39 026	–	7 527	–	46 553	61 295	107 848
Non-distributable	–	13 993	–	31 073	–	45 066	9 937	55 003
Profit before finance costs	125 467	263 000	83 413	50 500	(65 126)	457 254	108 375	565 628
Net finance costs	–	–	–	–	(149 146)	(149 146)	(29 621)	(178 768)
Profit before income tax charge	125 467	263 000	83 413	50 500	(214 272)	308 108	78 753	386 860
Taxation	–	–	–	–	–	–	2 526	2 526
Profit for the period	125 467	263 000	83 413	50 500	(214 272)	308 108	81 279	389 386
Investment properties	3 459 250	5 263 864	1 954 216	224 600	–	10 901 930	–	10 901 930
Investment properties held for sale	–	70 200	–	–	–	70 200	–	70 200
Listed property investment	–	–	–	–	–	–	234 334	234 334
Loans receivable	–	–	–	–	472 072	472 072	–	472 072
Other assets	–	695 513	–	595 291	335 584	1 626 388	1 101 449	2 727 838
Total assets	3 459 250	6 029 577	1 954 216	819 891	807 656	13 070 589	1 335 783	14 406 373
Interest bearing borrowings	–	–	–	–	4 905 519	4 905 519	–	4 905 519
Other liabilities	–	–	–	–	556 153	556 153	2 988	559 141
Total liabilities	–	–	–	–	5 461 672	5 461 672	2 988	5 464 660

SEGMENTAL INFORMATION FOR THE HALF YEAR ENDED 31 DECEMBER 2018

R'000	Office	Retail	Industrial	Residential	Corporate	Local	Inter-national	Total
Revenue	368 682	358 361	151 588	-	-	878 631	-	878 631
Operating lease rental income and tenant recoveries	362 171	353 693	153 999	-	-	869 863	-	869 863
Allowance for future rental escalations	6 511	4 668	(2 411)	-	-	8 768	-	8 768
Property expenses	(138 769)	(126 180)	(60 693)	-	-	(325 642)	-	(325 642)
Income from listed property investment	-	-	-	-	-	-	25 549	25 549
Administration expenses	-	-	-	-	(61 142)	(61 142)	-	(61 142)
Transaction and advisory fees	-	-	-	-	(887)	(887)	-	(887)
Depreciation	-	-	-	-	(5 707)	(5 707)	-	(5 707)
Operating profit	229 913	232 181	90 895	-	(67 736)	485 253	25 549	510 802
Net change in fair value	(30 344)	(11 158)	16 890	-	40 223	15 611	-	15 611
investment properties	(30 344)	(11 158)	16 890	-	-	(24 612)	-	(24 612)
Derivative financial instruments relating to share appreciation rights scheme	-	-	-	-	6 388	6 388	-	6 388
Interest-rate derivatives	-	-	-	-	(11 607)	(11 607)	-	(11 607)
Property investments	-	-	-	-	45 442	45 442	-	45 442
Foreign exchange profit	-	-	-	-	-	-	23 645	23 645
Other income	-	-	-	-	3 524	3 524	-	3 524
Income from equity accounted investments	-	51 391	-	795	-	52 186	111 102	163 288
Distributable	-	37 542	-	795	-	38 337	30 043	68 380
Non-distributable	-	13 849	-	-	-	13 849	81 059	94 908
Profit before finance costs	199 569	272 414	107 785	795	(23 989)	556 574	160 296	716 870
Net finance costs	-	-	-	-	(219 852)	(219 852)	-	(219 852)
Profit before income tax charge	199 569	272 414	107 785	795	(243 841)	336 722	160 296	497 018
Taxation	-	-	-	-	-	-	4 539	4 539
Profit for the year	199 569	272 414	107 785	795	(243 841)	336 722	164 835	501 557
Investment properties	3 451 880	-	1 936 655	195 888	-	10 785 919	-	10 785 919
Investment properties held for sale	1 827 833	5 201 496	-	-	-	1 921 833	-	1 921 833
Investment and loans in equity accounted investments	-	94 000	-	527 475	-	1 186 884	760 283	1 947 167
Listed property investment	-	659 409	-	-	-	-	918 057	918 057
Loans receivable	-	-	-	-	119 372	119 372	-	119 372
Other assets	-	-	-	-	399 565	399 565	10 483	410 048
Total assets	5 279 713	5 954 905	1 936 655	723 363	518 937	14 413 573	1 688 823	16 102 396
Interest bearing borrowings	-	-	-	-	6 524 384	6 524 384	-	6 524 384
Other liabilities	-	-	-	-	469 168	469 168	8 222	477 390
Total liabilities	-	-	-	-	6 993 552	6 993 552	8 222	7 001 774

MEASUREMENTS OF FAIR VALUE

1. FINANCIAL INSTRUMENTS

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

R'000	Level 1 Dec 2019	Level 2 Dec 2019	Level 3 Dec 2019	Total Dec 2019	Level 1 Dec 2018	Level 2 Dec 2018	Level 3 Dec 2018	Total Dec 2018
GROUP								
Assets								
Investments	234 334	–	–	234 334	918 057	–	–	918 057
Derivative financial Instruments	–	–	–	–	–	–	–	–
	–	153 372	–	153 372	–	129 433	396	129 829
Other financial assets	–	–	28 641	28 641	–	–	–	–
Total	234 334	153 372	28 641	416 347	918 057	129 433	396	1 047 886
Liabilities								
Derivative financial instruments	–	–	–	–	–	–	–	–
	–	253 083	–	253 083	–	192 855	–	192 855
Total	–	253 083	–	253 083	–	192 855	–	192 855
Net fair value	234 334	(99 711)	28 641	163 264	918 057	(63 422)	396	855 031

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

INVESTMENTS

This comprises shares held in a listed property company at fair value which is determined by reference to quoted closing prices at the reporting date.

DERIVATIVE FINANCIAL INSTRUMENTS

The fair values of the interest-rate swap contracts are determined using discounted cash flow projections based on estimates of future cash flows, supported by the terms of the relevant swap agreements and external evidence such as the ZAR 0-coupon perfect-fit swap curve.

The fair values of the cross-currency interest-rate swap contracts are valued by discounting the future cash flows using the basis swap curve of the respective currencies at the dates when the cash flows will take place.

The AUD and USD forward exchange contracts are valued by discounting the forward rates applied at the period end to the open hedged positions.

The forward contracts relating to the employee share scheme are valued using a cost of carry financial model. The risk-free discount rate used ranged between 6,7% and 6,8%. Management considers the key input in the valuation to be the spot price. A 10% increase in the spot price results in an increase to the forward contracts of R6,2m. A 10% decrease in the spot price results in a decrease to the forward contracts of R6,2m.

OTHER FINANCIAL ASSETS

The fair value of other financial assets is measured in terms of Inani's net asset value at reporting date.

2. NON-FINANCIAL ASSETS

The following table reflects the levels within the hierarchy of non-financial assets measured at fair value as at 31 December 2019:

R'000	2019 Level 3	2018 Level 3
Assets		
Investment properties*	10 866 630	10 787 853
Investment properties held for sale	70 200	1 921 833

* Net of lease liability.

FAIR VALUE MEASUREMENT OF INVESTMENT PROPERTIES

The fair value of commercial buildings is estimated using an income approach which discounts the estimated rental income stream, net of projected operating costs, as well as an exit value, using a discount rate derived from market yields. The estimated rental stream takes into account current occupancy levels, estimates of future vacancy levels, the terms of in-place leases and expectations of rentals from future leases over the remaining economic life of the buildings.

The most significant inputs, all of which are unobservable, are the estimated rental value, assumptions regarding vacancy levels, the discount rate and the reversionary capitalisation rate. The estimated fair value increases if the estimated rentals increase, vacancy levels decline or if discount rates (market yields) and reversionary capitalisation rates decline. The overall valuations are sensitive to all four assumptions. Management considers the range of reasonable possible alternative assumptions to be greatest for reversionary capitalisation rates, rental values and vacancy levels and that there is also an interrelationship between these inputs. The inputs used in the valuations as at 31 December 2019 were the following:

- › The permanent vacancy factor for retail ranged between 0,25% and 10,0% (December 2018: 0,25% and 5,0%), offices between 2% and 10,0% (December 2018: 1,0% and 5,0%) and industrial between 2,5% and 10,5% (December 2018: 0,25% and 5,0%).

- › The weighted average rental escalation percentage, by value applied for retail was 7,1% (December 2018: 7,5%), offices 7,5% (December 2018: 7,5%) and industrial 7,6% (December 2018: 7,8%), and for renewals and new leases ranged between 5,0% and 9,0% (December 2018: 6,0% to 9,0%).
- › The range of the reversionary capitalisation rates applied to the portfolio are between 7,25% and 11,75% with the weighted average, by value, being 9,04% (December 2018: 9,06%).
- › The discount rates applied range between 12,5% and 16,25% with the weighted average, by value, being 14,08% (December 2018: 14,13%).
- › Changes in discount rates and reversionary capitalisation rates attributable to changes in market conditions can have a significant impact on property valuations. A 25 basis points increase in the discount rate will decrease the value of investment property by R182,8m (1,67%) and a 25 basis points decrease will increase the value of investment property by R189,5m (1,73%). A 25 basis points decrease in the reversionary capitalisation rate will increase the value of investment property by R198,6m (1,82%) and a 25 basis points increase will decrease the value of investment property by R187,5m (1,71%).
- › The market rentals applied play a significant role and these are assessed on a property-by-property basis and unit-by-unit basis, taking cognisance of location, quality, size and type as well as all the relevant and prevailing market conditions which are then benchmarked against research and asset manager projections.

Fair values are estimated twice a year by Emira's internal registered valuer, whereafter they are reviewed by the executive directors and approved by the Board. One third of the portfolio is valued externally each year end on a rolling basis.

FAIR VALUE MEASUREMENT OF INVESTMENT PROPERTIES HELD FOR SALE

The fair value of investment properties held for sale is based on the expected sale price.

DIRECTORS

G van Zyl (Chairman)*, GM Jennett (CEO), MS Aitken*, GS Booyens (CFO), BH Kent*, V Mahlangu*, NE Makiwane*, W McCurrie*, V Nkonyeni*, J Nyker*, D Thomas**, U van Biljon (COO)

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

REGISTERED ADDRESS

1st Floor, Block A, Knightsbridge, 33 Sloane Street, Bryanston, 2191

SPONSOR

Questco Corporate Advisory (Pty) Ltd

TRANSFER SECRETARIES

Computershare Investors Services (Pty) Ltd, 70 Marshall Street, Johannesburg, 2001

EMIRA PROPERTY FUND LIMITED

(Incorporated in the Republic of South Africa)

Registration number: 2014/130842/06

JSE Share code: EMI JSE Interest Rate Issuer Code: EMII

ISIN: ZAE000203063

(Approved as a REIT by the JSE)

("Emira" or "the Fund" or "the Company")

