



# ROCKCASTLE

GLOBAL REAL ESTATE COMPANY LIMITED

# REVIEWED SUMMARISED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND WITHDRAWAL OF CAUTIONARY

for the three and twelve months ended 30 June 2016  
 Incorporated in the Republic of Mauritius Reg no 108869 C1/GBL ISIN MU0364N00003  
 Primary listing SEM (SEM code ROC.N0000) and JSE (JSE code ROC) ("Rockcastle" or "the Company" or "the Group")

## DIRECTORS' COMMENTARY

### 1 STRUCTURE AND LISTING

Rockcastle is a Category One Global Business Licence Company registered in Mauritius. The Company has primary listings on both the Stock Exchange of Mauritius Ltd ("SEM") and the Johannesburg Stock Exchange ("JSE"). Its objectives are investing in direct property in Central and Eastern Europe as well as listed real estate securities globally.

Shareholders were provided with the option of electing to receive shares in lieu of cash for the six months ended 31 December 2015 interim dividend. Over 90% opted to take the scrip dividend resulting in the issue of 18.45 million new shares.

### 2 DISTRIBUTABLE EARNINGS

The Board has declared a dividend of 4.782 USD cents per share for the six months ended 30 June 2016. This represents an increase of 8.2% over the comparable prior period and is within the guidance of between 8% and 10%.

### 3 OPTION TO RECEIVE A SCRIP DIVIDEND

Subject to final regulatory approvals, shareholders will be given the option to receive their dividend either in cash or as a scrip dividend at a ratio of 1.937 new shares for every 100 shares held.

A circular containing details of this election, accompanied by announcements on the Stock Exchange News Service ("SENS") of the JSE as well as the website of the SEM will be issued in due course.

### 4 COMMENTARY

Global property markets have continued to show strong momentum although there are numerous signs of easing in the developed economies. Uncertainty is set to remain heightened and therefore volatility can be expected to continue for a prolonged period.

The result of the UK's EU referendum worsened sentiment significantly across the region with the decline most pronounced in the depreciation of the British pound and the valuation of UK REITs. The pound fell to a 31-year low to the US dollar and continues to trade at this level as a result of the structural uncertainty of the UK's unprecedented exit from the European Union. Another consequence of this surprising result by UK voters is that the interest rate regime is now certain to remain lower for longer supporting demand for all higher yielding investments. With many equity markets, especially the US, now at all-time high valuations are vulnerable to a correction. In addition, the extraordinary political environment prevailing globally means that investors remain more cautious and bearish than normal.

Both global real estate listed companies, with the notable exception of those in the UK, and bonds are trading at historically low yields. Direct property asset capitalisation rates will therefore also compress further but this may not happen across all asset classes. Secondary assets will continue to trade at widening discounts to those of premium assets in primary markets. Rockcastle's net asset value per share increased from USD1.46 to USD1.70 for the 12-month period ended 30 June 2016 mainly as a result of the appreciation of the listed securities portfolio. The Company continues to focus on growing its net asset value and its dividend-paying capacity for the 2016 financial year.

The Company's strategy to focus on investing in direct properties and developments has resulted in these assets increasing from approximately 17% to 23% of total investment assets during the six-month period. An additional USD140 million was invested in retail property in the Czech Republic and Poland in the last six months. The increase in exposure to direct property provides the Company with the flexibility to concentrate its listed security portfolio on a core number of property stocks that meet Rockcastle's distribution growth, market capitalisation and liquidity requirements.

### LISTED SECURITY PORTFOLIO

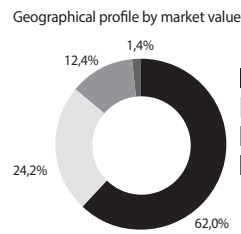
Management's proactive decision in Q1 of 2016 to reduce gearing as well as the Company's investment bias towards the US, UK and European markets has provided substantial protection from market volatility. This was most evident in the aftermath of the UK's EU Referendum result crisis where the defensive positioning of the portfolio proved its quality.

The listed security portfolio is focused on large, liquid counters which dominate their markets and consistently outperform their competitors. Investments in Singapore and Australia were sold down and proceeds rotated into Europe and the UK as well as into direct assets in Poland and the Czech Republic. Rockcastle's investments in UK REITs, Hammerson, British Land and Land Securities were negatively affected by the market's reaction to the unexpected result of the UK's EU Referendum, however the Company's strategy to match underlying gearing against these investments in base currency resulted in a more muted currency impact. Subsequent to the reporting period the prices of these companies have largely recovered and Rockcastle has been able to take advantage of this temporary depreciation to increase its investment in these counters at attractive prices. Management maintain their view that these companies will continue to provide consistent distribution growth.

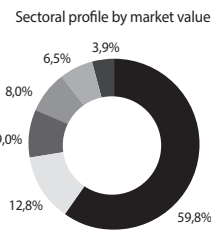
The low levels of gearing currently being maintained by the Company are in anticipation of several large direct property acquisitions anticipated to be completed by the end of 2016.

### Listed security portfolio composition

Geographical profile by market value



Sectoral profile by market value



### Listed security portfolio composition

The following table indicates the Group's top 10 investment holdings by market value as at 30 June 2016:

| Company                   | Sector            | Jurisdiction | Market value as at Jun 2016 (USD Million) |
|---------------------------|-------------------|--------------|---|
| Simon Property            | Retail            | USA          | 377.4                                     |
| Hammerson                 | Retail            | UK           | 372.6                                     |
| Unibail Rodamco           | Retail            | Europe       | 229.6                                     |
| Prologis Inc              | Industrial        | USA          | 226.6                                     |
| Ventas Inc                | Healthcare        | USA          | 167.5                                     |
| AvalonBay Communities Inc | Residential       | USA          | 147.2                                     |
| Host Hotels & Resorts Inc | Hotel             | USA          | 119.3                                     |
| KIMCO                     | Retail            | USA          | 103.6                                     |
| Land Securities Group     | Other/Diversified | UK           | 38.0                                      |
| British Land Co plc       | Other/Diversified | UK           | 34.1                                      |

### DIRECT PROPERTY

#### Central and Eastern Europe

During the last six months the Company has continued to expand its CEE executive management team and to apply the relevant asset management efficiencies and value creation strategies to its existing retail centres acquired in late 2015. Positive benefits from this operational rollout are already evident in the turnovers and financial results of the assets. The combined value of the Company's existing assets in Poland and the Czech Republic is now approximately USD519 million and represents a substantial deployment of capital to our direct property portfolio.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

|  | Reviewed as at 30 Jun 2016 USD'000 | Audited as at 30 Jun 2015 USD'000 |
|--|------------------------------------|-----------------------------------|
| <b>ASSETS</b>                                      |                                    |                                   |
| <b>Non-current assets</b>                          | <b>2 421 613</b>                   | <b>2 295 139</b>                  |
| Investment property                                | 466 982                            | 58 708                            |
| Straight-lining of rental revenue adjustment       | 39                                 | 415                               |
| Investment property under development              | 55 328                             | 7 436                             |
| Listed security investments                        | 1 841 226                          | 2 161 724                         |
| Property, plant and equipment                      | 159                                | -                                 |
| Investment in and loans to joint ventures          | 31 619                             | 41 727                            |
| Rockcastle management incentive loans              | 26 260                             | 25 129                            |
| <b>Current assets</b>                              | <b>31 648</b>                      | <b>31 366</b>                     |
| Investment income receivable                       | 5 847                              | 7 589                             |
| Cash and cash equivalents                          | 16 355                             | 3 035                             |
| Trade and other receivables                        | 9 446                              | 15 410                            |
| Loans to development partners                      | -                                  | 5 332                             |
| <b>Total assets</b>                                | <b>2 453 261</b>                   | <b>2 326 505</b>                  |
| <b>EQUITY AND LIABILITIES</b>                      |                                    |                                   |
| <b>Total equity attributable to equity holders</b> | <b>1 578 817</b>                   | <b>1 241 128</b>                  |
| Stated capital                                     | 1 351 387                          | 1 180 670                         |
| Retained income                                    | 411 383                            | 183 601                           |
| Non-distributable reserves                         | (186 429)                          | (123 947)                         |
| Currency translation reserve                       | 2 476                              | 804                               |
| Minority interest                                  | 116                                | -                                 |
| <b>Total equity</b>                                | <b>1 578 933</b>                   | <b>1 241 128</b>                  |
| <b>Total liabilities</b>                           | <b>874 328</b>                     | <b>1 085 377</b>                  |
| <b>Non-current liabilities</b>                     | <b>55 266</b>                      | <b>16 614</b>                     |
| Interest-bearing borrowings                        | 55 266                             | 16 614                            |
| <b>Current liabilities</b>                         | <b>819 062</b>                     | <b>1 068 763</b>                  |
| Trade and other payables                           | 37 813                             | 4 966                             |
| Interest-bearing borrowings                        | 780 878                            | 1 063 777                         |
| Income tax payable                                 | 371                                | 20                                |
| <b>Total equity and liabilities</b>                | <b>2 453 261</b>                   | <b>2 326 505</b>                  |
| Total number of shares in issue                    | 930 994 319                        | 847 862 018                       |
| Net asset value per share (USD)                    | 1.70                               | 1.46                              |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

|   | Reviewed for the twelve months ended 30 Jun 2016 USD'000 | Audited for the twelve months ended 30 Jun 2015 USD'000 | Unaudited for the three months ended 30 Jun 2016 USD'000 | Unaudited for the three months ended 30 Jun 2015 USD'000 |
|---|--|---|--|--|
| <b>Net rental and related revenue</b>   | <b>16 592</b>  | <b>1 992</b>  | <b>6 255</b>   | <b>1 740</b>   |
| Recoveries and contractual rental revenue   | 21 602   | 2 240   | 8 149  | 1 988  |
| Straight-lining of rental revenue adjustment                                      | 39   | 415   | 39   | 415  |
| Rental revenue  | 21 641   | 2 655   | 8 188  | 2 403  |
| Property operating expenses   | (5 049)  | (663)   | (1 933)  | (663)  |
| Dividends received from listed security investments and related income            | 80 249   | 77 931  | 30 251   | 27 647   |
| Income from joint ventures  | 1 364  | 5 892   | 755  | 5 136  |
| Fair value gain/(loss) on investment property and listed security investments     | 188 635  | 20 727  | 34 664   | (231 277)  |
| Adjustment resulting from straight lining of rental revenue                       | (39)   | (415)   | (39)   | (415)  |
| Fair value gain on investment property  | 4 822  | -   | 4 822  | -  |
| Fair value gain/(loss) on listed security investments                             | 183 852  | 21 142  | 29 881   | (230 862)  |
| Foreign exchange gain/(loss)  | 12 969   | (77 935)  | 5 652  | 1 626  |
| Operating expenses  | (2 712)  | (2 994)   | (406)  | (1 429)  |
| Profit/(loss) before net finance costs  | 297 097  | 25 613  | 77 171   | (196 557)  |
| <b>Net finance (costs)/income</b>   | <b>(51 591)</b>  | <b>(15 461)</b>   | <b>(12 068)</b>  | <b>18 684</b>  |
| Finance income  | 2 424  | 2 363   | 410  | 470  |
| Interest received   | 2 424  | 2 363   | 410  | 470  |
| Finance costs   | (54 015)   | (17 824)  | (12 478)   | 18 214   |
| Interest on borrowings  | (19 720)   | (11 913)  | (4 745)  | 721  |
| Capitalised interest  | 1 473  | 179   | 995  | 179  |
| Unrealised fair value (loss)/gain on interest rate derivatives                    | (35 768)   | 5 331   | (8 728)  | 17 323   |
| Unrealised fair value loss on bond shorts   | -  | (11 421)  | -  | (9)  |
| <b>Profit/(loss) before income tax expense</b>                                    | <b>245 506</b>   | <b>10 152</b>   | <b>65 103</b>  | <b>(177 873)</b>   |
| Income tax expense  | (376)  | (20)  | 394  | 393  |
| <b>Profit/(loss) for the period attributable to equity holders of the company</b> | <b>245 130</b>   | <b>10 132</b>   | <b>65 497</b>  | <b>(177 480)</b>   |
| <b>OTHER COMPREHENSIVE INCOME NET OF TAX</b>                                      |  |   |  |  |
| Items that may be reclassified subsequently to profit or loss                     |  |   |  |  |
| Exchange differences on translation of foreign operations                         | 1 672  | 804   | 9 180  | 804  |
| <b>Total comprehensive income/(loss) for the period</b>                           | <b>246 802</b>   | <b>10 936</b>   | <b>74 677</b>  | <b>(176 676)</b>   |
| <b>Profit for the period attributable to:</b>                                     |  |   |  |  |
| Equity holders of the company   | 245 309  | 10 132  | 65 669   | (177 480)  |
| Minority interest   | (179)  | -   | (172)  | -  |
| <b>Total comprehensive income/(loss) for the period attributable to:</b>          | <b>245 130</b>   | <b>10 132</b>   | <b>65 497</b>  | <b>(177 480)</b>   |
| Equity holders of the company   | 247 103  | 10 936  | 74 957   | (176 676)  |
| Minority interest   | 246 802  | 10 936  | 74 677   | (176 676)  |

Weighted average number of shares in issue

|  | 904 807 699 | 772 800 853 | 930 994 319 | 847 862 018 |
|--|-------------|-------------|-------------|-------------|
| Basic earnings/(loss) per share* from continuing operations (USD cents)    | 27.11       | 1.31        | 7.05        | (20.93)     |
| Headline earnings/(loss) per share* from continuing operations (USD cents) | 26.66       | 0.69        | 6.54        | (21.50)     |

\*Rockcastle has no dilutionary instruments in issue.

Rockcastle's recent entry into the retail sector in the Czech Republic represents a significant milestone in the Company's ambitions to extend its reach into other countries in the region. Although Warsaw is intended to be the operational headquarters of the region, various asset management and leasing resources will be allocated in-country. Numerous opportunities in Poland, the Czech Republic and Hungary enable the Company to leverage off this operational platform. The focus continues to be on established assets as well as increasing the development pipeline to position the business advantageously for the future. Substantial additional capital is expected to be invested in the region as a result of these initiatives.

### Updates on Acquisitions and Developments

#### Forum Liberec Shopping Centre - Czech Republic

In June 2016, Rockcastle concluded an agreement with Tesco Holdings B.V. and Tesco Stores a.s. to acquire the Forum Liberec shopping centre. The shopping centre has a GLA of 46 816 m<sup>2</sup> and opened for trading in February 2009. Liberec is one of the largest cities in the country, has a population of over 100 000 and is the centre of the Liberec region with approximately 440 000 inhabitants. It benefits from well-developed infrastructure and is a popular tourist destination. With an annual footfall of over 12 million, Forum Liberec has the highest footfall in the region and it is located in the city centre with excellent public transport connectivity.

The shopping centre is tenanted by strong retailers including: Cinema City, C&A, Datar, Gant, H&M, Lindex, New Yorker, Nord Blanc, Norma, ProBrest, Reserved, Sportissimo, Tesco and Tiger. Management believes that the tenant profile can be further strengthened which will enhance the mall's dominance and enable it to grow its income into the future. A substantial refurbishment and new retail leasing plan will be executed in the next 12-18 months.

The aggregate purchase price was approximately EUR80 million.

#### Platan Retail Park - Poland

On 1 June 2016, Rockcastle concluded a transaction to purchase the retail park adjoining Platan Shopping Centre in Zabrze, Poland ("Platan"). The retail park has a GLA of 3 277 m<sup>2</sup> and is situated on 11 026 m<sup>2</sup> of land. This acquisition will enable Rockcastle to extend Platan's GLA from 25 336 m<sup>2</sup> to approximately 37 000 m<sup>2</sup> in order to meet tenant demand. The various permits and planning approvals required have been applied for and are expected to be granted in mid-2017.

The purchase price was approximately EUR8.4 million.

### Developments

#### Galeria Wolanin

The development, located in the City of Wolomin 30km outside Warsaw, is scheduled to be opened in October 2016. The retail centre which is expected to be 95% let on opening will be 25 000m<sup>2</sup>, anchored by a 5 691m<sup>2</sup> Carrefour hypermarket and tenants include CCC, C&A, Deichmann, H&M, House, Peppco, Reserved, Rossmann, RTV EURO AGD and Sinsay. The original size of the centre has been increased to accommodate a cinema operator which is expected to enhance the leisure and lifestyle offering. The completed development cost is expected to be EUR30 million representing a projected initial yield of 9%.

#### Galeria Tomaszow

The Group's 85% owned 18 500m<sup>2</sup> retail project being developed in the city of Tomaszow Mazowiecki, 120km south west of Warsaw, will open in October 2016. The mall will be 95% let at opening and anchored by French grocer Intermarche and tenants include CCC, C&A, Deichmann, H&M, House, Peppco, Reserved, Rossmann, RTV EURO AGD and Sinsay. The original size of the centre has been increased to accommodate a cinema operator which is expected to enhance the leisure and lifestyle offering. The completed development cost is expected to be EUR30 million representing a projected initial yield of 9%.

### Existing shopping centres

The shopping centres acquired in late 2015 namely, Karolinka, Platan, Pogoria and Solaris have a combined retail GLA of approximately 150 000m<sup>2</sup> and offer potential expansion opportunities of at least 40 000m<sup>2</sup> in the future. All have shown a marked improvement in tenant turnovers in 2016 and their performances are expected to benefit from strong Polish retail sales growth as well as numerous asset management strategies currently being implemented. Extension and refurbishment plans for all centres are currently progressing and it is expected that work at Platan and Solaris will commence in Q3 of 2017.

### ZAMBIA

During the six-month period, the 26 000m<sup>2</sup> GLA Cosmopolitan Mall in Lusaka, Zambia opened. Rockcastle acquired its 50% interest in the centre at a yield of 9.5% on completion. The mall is anchored by Game and Shoprite, and includes Ackermans, Edgars, Foschini, Inscor, Jet, Mr Price, Pep, Truworths and Woolworths as tenants. On 24 June 2016 an agreement to sell Rockcastle's 50% effective interest in the mall was entered into with Mara Delta Property Holdings Limited. The sale is subject to competition commission approval in Zambia as well as Mara Delta Property Holdings Limited obtaining shareholder approval. These conditions were met by 28 October 2016 and Rockcastle has received a non-refundable deposit of USD3 million towards the transaction proceeds.

### 5 POST RESULTS ACQUISITIONS

#### BONARKA CITY CENTRE (KRAKOW, POLAND)

Rockcastle has concluded a preliminary agreement with Trios Dutch Holdings B.V. to acquire Bonarka City Centre Sp. z o.o. and Energ Sp. z o.o., the owner and energy management company respectively of Bonarka City Centre situated in Krakow, Poland. The shopping centre, with a GLA of 92 425m<sup>2</sup>, 20 620 m<sup>2</sup> of which is owned under separate ownership by Auchan, opened for trading in 2009.

Krakow is the second largest city in Poland with a population of 760 000 and a regional catchment area of 1.1 million people. It is the main tourist city in Poland and benefits from the influx of 10 million tourists p.a. and an international airport which handles 4.2 million people p.a. The City's local authority is ranked A- by S&P which is the highest achieved score by any local authority in Poland. It has an unemployment rate of 5%, being half the national average and its economy is geared towards high technologies and modern business services. Krakow ranked 1st in Europe and 9th in the world in the best locations for service centres category in a recent international survey. It has the lowest retail density compared to other major Polish cities and is second only to Warsaw in average vacancy rates.

With an annual footfall of over 14.5 million people in 2015, Bonarka is the largest retail centre in the catchment area. It is located in a dominant location in the South of Krakow with excellent access to major motorways. The shopping centre is anchored by Auchan and tenanted by 270 retailers including C&A, CCC, Deichmann, H&M, Leroy Merlin, Mango, Megasport, New Yorker, Peck & Cloppenburg, Reserved, TK MAXX, ZARA and Cinema City (20 screens). It offers customers a choice of 30 restaurants and cafes and provides 3 300 parking spaces. It has produced consistent growth in footfall and turnovers since opening and a below market average rent-to-sales ratio.

The aggregate purchase price of approximately EUR361 million is subject to a closing balance reconciliation on the effective date, being the date on which the various conditions precedent have been fulfilled or waived, and represents an acquisition yield of 5.4%. It will be settled by the taking over of existing financing arrangements in place of EUR191 million and the balance from Rockcastle's existing cash resources. The transaction is subject to various conditions precedent. The transaction is categorised as a category 2 transaction in terms of the JSE Listings Requirements and is considered as an acquisition in the ordinary course of business of Rockcastle and will not trigger the provisions of Chapter 13 of the SEM listing rules.

#### AVIVA-FOCUS PORTFOLIO

Rockcastle has concluded preliminary agreements with Focus Park Zielona Gora Sp. z o.o. and Focus Park Piotrkow Trybunalski Sp. z o.o. to acquire the shopping centres known as Focus Park Zielona Gora and Focus Mall Piotrkow Trybunalski.

#### 1. FOCUS PARK - ZIELONA GORA, POLAND

The shopping centre, with a GLA of 26 800m<sup>2</sup> opened for trading in 2008 and is the largest retail destination in the town. Zielona Gora is a city with a population of 138 000 inhabitants and is a joint-capital city of the region populated by over 1 million inhabitants. It is one of two places in Poland with wine grape cultivation and has a university and a College of International Trade and Finance with 18 000 students studying in the city. It has one of the lowest unemployment rates in Poland of only 6.8% against the national average of approximately 9%.

## RECONCILIATION OF PROFIT FOR THE PERIOD TO HEADLINE EARNINGS

|  | Reviewed for the twelve months ended 30 Jun 2016 USD'000 | Audited for the twelve months ended 30 Jun 2015 USD'000 |
|--|--|---|
| <b>Basic earnings - profit for the period attributable to equity holders</b> | <b>245 309</b>   | <b>10 132</b>   |
| Adjusted for:  |  |   |
| - fair value gain on investment property                                     | (4 822)  | -   |
| - fair value adjustment on sale of interest in joint ventures                | 706  | -   |
| - fair value gain on investment property of joint ventures                   | -  | (4 814)   |
| <b>Headline earnings</b>   | <b>241 193</b>   | <b>5 318</b>  |
| Headline earnings per share (USD cents)                                      | 26.66  | 0.69  |

Rockcastle has no dilutionary instruments in issue.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

|   | Stated capital USD'000 | Retained income USD'000 | Minority interest USD'000 | Non-distributable reserves USD'000 | Currency translation reserve USD'000 | Total USD'000 |
|---|------------------------|-------------------------|---------------------------|------------------------------------|--------------------------------------|---------------|
| <b>Audited for the twelve months ended 30 June 2015</b>               |                        |                         |                           |                                    |                                      |               |
| <b>Opening balance</b>  | 871 154                | 131 714                 | -                         | (19 684)                           | -                                    | 983 184       |
| Issue of shares   | 277 242                | -                       | -                         | -                                  | -                                    | 277 242       |
| Dividends declared  | 32 274                 | (62 508)                | -                         | -                                  | -                                    | (30 234)      |
| Exchange differences on translation of foreign operations             | -                      | -                       | -                         | -                                  | 804                                  | 804           |
| Profit for the period   | -                      | 10 132                  | -                         | -                                  | -                                    | 10 132        |
| Transfer to non-distributable reserves                                | -                      | 104 263                 | -                         | (104 263)                          | -                                    | -             |
| <b>Balance at 30 June 2015</b>  | 1 180 670              | 183 601                 | -                         | (123 947)                          | 804                                  | 1 241 128     |
| <b>Reviewed for the twelve months ended 30 June 2016</b>              |                        |                         |                           |                                    |                                      |               |
| <b>Opening balance</b>  | 1 180 670              | 183 601                 | -                         | (123 947)                          | 804                                  | 1 241 128     |
| Shares issued and cum distribution portion on issue during the period | 94 783                 | 3 378                   | -                         | -                                  | -                                    | 98 161        |
| Dividends declared  | 75 934                 | (81 730)                | -                         | -                                  | -                                    | (5 796)       |