

Synergy Income Fund Limited  
(Incorporated in the Republic of South Africa)  
(Registration number: 2007/032604/06)  
JSE share code: SGA ISIN: ZAE000202883  
JSE share code: SGB ISIN: ZAE000202891  
("Synergy" or "the company")  
Granted REIT status with the JSE

## **Summarised audited condensed financial results for the period ended 30 September 2016**

- Successful repositioning of Synergy as GemGrow Properties Limited (GemGrow), a specialist, high yielding, high growth fund<sup>^</sup>
- Property revenue for the period ended 30 September 2016 of R181.40 million\*
- Dividends to A shareholders of 49.69 cents per share\*
- Dividends to B shareholders of 29.67 cents per share\*
- Net asset value per combined share at 30 September 2016 of R9.70 \*
- Net asset value per A share at 30 September 2016 of R9.97 \*
- Net asset value per B share at 30 September 2016 of R9.59 \*
- Investment property valued at approximately R2.451 billion\*
- Earnings per A share (cents) 64.74
- Earnings per B share (cents) 64.74
- Headline Earnings per A share (cents) 24.35
- Headline Earnings per B share (cents) 24.35

<sup>^</sup>As communicated via SENS and in the press on 27 October 2016, and in terms of the circular dated 26 September 2016 and further announced on SENS on 25 October 2016, subject to inter alia, applicable approval for the implementation of the transaction having been obtained from the Competition Authorities.

\*The financial information presented represents the six-month period ended 30 September 2016. The comparative period where shown is for the year ended 31 March 2016. Results are presented at 30 September 2016 due to the change in Synergy's year end, as a consequence of the transaction with Vukile Property Fund Limited (JSE : VKE) ("Vukile") and Arrowhead Properties (JSE : AWP) ("Arrowhead"). Accordingly, due to the change in the year end, percentages and movements between periods are not relevant and hence not disclosed.

## **Commentary**

### **1. Profile**

Synergy is a specialised retail property fund with a specific focus on medium-sized community and small regional shopping centres, located in high-growth rural and township nodes. Synergy was listed on the Johannesburg Stock Exchange (“JSE”) on 14 December 2011 with an initial portfolio of three small shopping centres valued at approximately R280 million.

Since listing, Synergy has grown its property portfolio to 14 shopping centres, currently valued at approximately R2.451 billion. Key shopping centres in the Synergy portfolio include Gugulethu Square Shopping Centre in Gugulethu, Western Cape (25 322 m<sup>2</sup>), King Senzangakhona Shopping Centre in Ulundi, KwaZulu-Natal (22 365 m<sup>2</sup>), Atlantis City Shopping Centre in Atlantis, Western Cape (22 115 m<sup>2</sup>), Setsing Crescent Shopping Centre in Phuthaditjhaba, Free State (21 538 m<sup>2</sup>), and Highland Mews Shopping Centre in Emalaheni, Mpumalanga (17 032 m<sup>2</sup>). The Newcastle Taxi City Centre (5 006 m<sup>2</sup>) was sold in the current period.

Synergy has separately listed A and B shares, each offering investors a different risk and reward profile. The A shares have a preferential entitlement to dividends that escalate at 5% annually until 31 March 2018, and thereafter at the lower of 5% or CPI. The remaining distributable income, after payment of dividends to A shareholders, accrues to B shareholders. At 30 September 2016 there were 47.4 million A shares and 106.4 million B shares in issue.

### **2. Financial Results**

Synergy has posted property revenue for the period to 30 September 2016 of R181.4 million, and distributable income of R55.1 million. Vukile has provided asset management services together with outsourced property management services, via Vukile Asset Management Proprietary Limited for the period to 30 September 2016. Synergy’s strategy for this period has been to progress its proposed repositioning as a specialist, high yielding, high growth fund with Vukile and Arrowhead, as previously communicated via SENS and in the press.

The board of directors of Synergy (“the Board”) is pleased to announce dividends of 49.69 cents per A share and 29.67 cents per B share for the period ended 30 September 2016.

At 30 September 2016, Synergy's property portfolio ("the portfolio") comprised 14 shopping centres with a total market value of R2.451 billion. The net asset value ("NAV") per combined share has increased by 1.8% from 31 March 2016 to R9.70 at 30 September 2016. No new shares were issued during the period under review. The combined market capitalisation at 30 September 2016 decreased by 7.8%, relative to that at 31 March 2016, to R1.201 billion.

### **3. Borrowings**

At 30 September 2016, Synergy's total borrowings amounted to R937.7 million (before amortised debt raising costs), with available loan facilities totalling R1 021 million. Synergy's interest rates were hedged at 68% (31 March 2016: 66%) of total borrowings, at a weighted average rate of 9.31% at 30 September 2016 (31 March 2016: 9.25%).

### **4. Corporate Action**

Management have continued to engage with Vukile and Arrowhead to reposition Synergy as GemGrow in terms of which:

- Synergy's asset management will be internalised;
- Vukile will acquire all of Synergy's retail assets in return for the sale by Vukile to Synergy of the majority of Vukile's office and industrial assets; and
- Synergy will acquire 100% of the shares in Cumulative Properties Limited, a subsidiary of Arrowhead that will house its portfolio of higher yielding retail, office and industrial properties, in return for the issue of Synergy B shares to Arrowhead.

SENS and press announcements have been communicated as milestones have been reached. Shareholder approval for the transaction has been obtained, with the only remaining condition precedent to be fulfilled being Competition Commission approval, which is expected by mid December 2016.

### **5. Post Period Events - Declaration of dividend**

In line with IAS10 – Events after the Reporting Period, the Board of directors of Synergy (the Board) have announced a dividend of 49.68891 cents per A share and 29.67000 cents per B share for the period ended 30 September 2016 amounting to R55.1 million which occurred after the reporting period, resulting in a non-adjusting event that is not recognised in the financial statements.

## 6. Property Portfolio

Synergy's property portfolio is geographically diverse with shopping centres situated in Western Cape, KwaZulu-Natal, Gauteng, Mpumalanga, Free State, Limpopo and Northwest. Most of the Synergy shopping centres are located in township and rural locations targeting the high growth mass consumer market in South Africa. The geographical profile of the portfolio is represented below:

Province	GLA (m <sup>2</sup> )	% composition
Western Cape	52 618	27.0
KwaZulu-Natal	43 765	22.5
Gauteng	24 475	12.6
Mpumalanga	23 671	12.1
Free State	21 538	11.0
Limpopo	17 994	9.2
Northwest	10 887	5.6
<b>Total</b>	<b>194 948</b>	<b>100.0</b>

The split of tenants across the portfolio is represented by category in tabular format below:

	Category A <sup>^</sup>	Category B <sup>#</sup>	Category C <sup>•</sup>	Total
Number of tenants	305	49	347	701
Split	75%	5%	20%	100%
Figures calculated using GLA data as at 30 September 2016				

<sup>^</sup>Large national, listed tenants, major franchises and government

<sup>#</sup> National and listed tenants, franchised and medium to large professional firms

<sup>•</sup>Other tenants

The expiry profile of leases as at 30 September 2016 is represented below:

Period	GLA (m <sup>2</sup> )	% composition
Current vacancy	8 614	4.4
March 2017	28 416	14.6
March 2018	28 669	14.7
March 2019	42 735	21.9
March 2020	40 102	20.6
March 2021	20 653	10.6
March 2022 and beyond	25 759	13.2
<b>Total</b>	<b>194 948</b>	<b>100.0</b>

## 7. Statement of Financial Position

	<b>30 September</b>	31 March
	<b>2016</b>	2016
	<b>R'000</b>	R'000
<b>Assets</b>		
<b>Non-current assets</b>	<b>2 613</b>	2 442 539
Investment properties and related receivables	-	2 441 574
Investment properties	-	2 371 602
Straight-line rental income adjustment	-	69 972
Derivative financial instruments	-	622
Deferred capital expenditure	<b>601</b>	-
Deferred tax asset	<b>2 012</b>	343
<b>Current assets</b>	<b>64 357</b>	53 055
Trade and other receivables	<b>40 512</b>	27 298
Derivative financial instruments	<b>107</b>	141
Cash and cash equivalents	<b>23 738</b>	25 616
<b>Non-Current assets held for sale</b>	<b>2 451 436</b>	-
Investment properties and related receivables	<b>2 451 436</b>	-
Investment properties	<b>2 397 868</b>	-
Straight-line rental income adjustment	<b>53 568</b>	-
<b>Total assets</b>	<b>2 518 406</b>	2 495 594

	<b>30 September 2016 R'000</b>	31 March 2016 R'000
<b>Equity and liabilities</b>		
<b>Shareholders' interest</b>	<b>1 491 493</b>	1 463 357
Stated capital	<b>942 472</b>	953 410
Retained earnings	<b>55 085</b>	42 021
Other components of equity	<b>493 936</b>	467 926
<b>Non-current liabilities</b>	<b>367 406</b>	976 954
Borrowings	<b>361 853</b>	976 016
Derivative financial instruments	<b>5 553</b>	938
<b>Current liabilities</b>	<b>659 507</b>	55 283
Trade and other payables	<b>84 340</b>	55 283
Borrowings	<b>575 047</b>	-
Derivative financial instruments	<b>120</b>	-
<b>Total equity and liabilities</b>	<b>2 518 406</b>	2 495 594
<b>Total number of shares in issue</b>	<b>153 704 873</b>	153 704 873
A shares	<b>47 352 203</b>	47 352 203
B shares	<b>106 352 670</b>	106 352 670
<b>Net asset value per combined share (cents)*</b>	<b>970</b>	952
Net asset value per A share (cents)^	<b>997</b>	1 169
Net asset value per B share (cents)	<b>959</b>	855
<b>Fair value per share represented by market price</b>		
Fair value per A share (cents)	<b>965</b>	1 180
Fair value per B share (cents)	<b>700</b>	700

*\*Net asset value includes total equity attributable to equity holders where applicable.*

*^Calculated based on the 60-day volume weighted average trading price at 30 September 2016 (31 March 2016) limited to the combined net asset value in accordance with the provisions of Synergy's Memorandum of Incorporation.*

8.

**Statements of Profit or Loss and Other Comprehensive Income**

	6 months ended September 2016* R'000	12 months ended March 2016 R'000
Property Revenue	181 404	347 654
Straight-line rental income adjustment	(16 404)	51 845
<b>Gross property revenue</b>	<b>165 000</b>	<b>399 499</b>
Property expenses	(80 010)	(148 380)
<b>Net profit from property operations</b>	<b>84 990</b>	<b>251 119</b>
Corporate administrative expenses	(1 708)	(3 210)
Finance income	1 229	1 628
<b>Operating profit before finance costs</b>	<b>84 511</b>	<b>249 537</b>
Finance costs	(46 221)	(84 908)
<b>Operating profit after finance costs and before capital items</b>	<b>38 290</b>	<b>164 629</b>
Loss on sale of investment properties	(2 397)	-
Cost of strategic repositioning	(971)	-
Gain on the ineffective portion of fair value of derivative financial instruments	-	225
Net change in fair value of investment properties	64 483	(57 699)
- Fair value adjustment	48 079	(5 854)
- Straight-line rental income accrual	16 404	(51 845)
<b>Profit before taxation</b>	<b>99 405</b>	<b>107 155</b>
Taxation	110	61
<b>Profit for the period/year</b>	<b>99 515</b>	<b>107 216</b>
<b>Other comprehensive income</b>		
<b>Items that will be reclassified subsequently to profit or loss</b>		
Cash flow hedges – current period (losses)/gains (net of taxation)	(3 833)	609
<b>Total comprehensive income for the period/year</b>	<b>95 682</b>	<b>107 825</b>
Earnings and diluted earnings per combined share (cents)^	64.74	69.75
Earnings and diluted earnings per A share (cents)^	64.74	69.75
Earnings and diluted earnings per B share (cents)^	64.74	69.75
Headline earnings per combined share (cents)^	24.35	107.29
Headline earnings and diluted headline earnings per A share (cents)^	24.35	107.29
Headline earnings and diluted headline earnings per B share (cents)^	24.35	107.29
Total weighted average number of shares in issue at 30 September^	153 704 873	153 704 873
A shares in issue^	47 352 203	47 352 203
B shares in issue^	106 352 670	106 352 670

\*Current period information is presented for the six months to 30 September 2016 due to the change in Synergy's year end, as a consequence of the repositioning of Synergy as GemGrow. The comparative period is presented for twelve months to 31 March 2016.

^Calculated based on the 60-day volume weighted average trading price at 30 September 2016 (31 March 2016) limited to the combined net asset value in accordance with the provisions of Synergy's Memorandum of Incorporation.

## 9. Reconciliation of Profit/Loss to Headline Earnings and to Profit Available for Distribution

	6 months ended September 2016 R'000	12 months ended March 2016 R'000
Profit for the period/year	99 515	107 216
<b>Earnings</b>	<b>99 515</b>	107 216
Loss on sale of investment properties	2 397	-
Net change in fair value of investment properties	<b>(64 483)</b>	57 699
<b>Headline earnings</b>	<b>37 429</b>	164 915
Adjusted for:		
Cost of strategic repositioning	971	-
Amortisation of loan raising costs	391	754
Straight line rental income accrual	16 404	(51 845)
Deferred taxation	<b>(110)</b>	(61)
Gain on the ineffective portion of fair value of derivative financial instruments	-	(225)
<b>Profit available for distribution for the period/year</b>	<b>55 085</b>	113 538

## 10. Statement of Changes in Equity for the period ended 30 September 2016

	Stated capital R'000	Retained earnings R'000	Other components of equity R'000	Total R'000
<b>Balance at March 2015</b>	<b>1 537</b>	<b>459 054</b>	-	<b>460 591</b>
Profit for the year	-	107 216	-	107 216
Dividends paid	-	(56 932)	-	(56 932)
Change in fair value of investment properties	-	5 854	(5 854)	-
Transfer to other components of equity	-	(473 171)	473 171	-
Capital conversion of debentures to stated capital	952 971	-	-	952 971
Costs of conversion of debentures	(1 098)	-	-	(1 098)
<b>Other comprehensive income/(loss)</b>				
Revaluation of cash flow hedges	-	-	609	609
<b>Balance at March 2016</b>	<b>953 410</b>	<b>42 021</b>	<b>467 926</b>	<b>1 463 357</b>



Profit for the period	-	99 515	-	99 515
Dividends paid	-	(56 608)	-	(56 608)
Change in fair value of investment properties	-	(48 079)	48 079	-
Transfer from other components of equity	-	18 236	(18 236)	-
Costs of strategic repositioning	(10 938)	-	-	(10 938)
<b>Other comprehensive income</b>				
Revaluation of cash flow hedges	-	-	(3 833)	(3 833)
<b>Balance at September 2016</b>	<b>942 472</b>	<b>55 085</b>	<b>493 936</b>	<b>1 491 493</b>

## 11. Cash Flow statement

	<b>6 months ended September 2016 R'000</b>	<b>12 months ended March 2016 R'000</b>
<b>Cash flows from operating activities</b>		
Cash generated from operations	103 479	204 466
Finance income	1 229	1 628
Interest paid	(45 830)	(109 461)
Dividends paid	(56 608)	(56 932)
<b>Net cash inflow from operating activities</b>	<b>2 270</b>	<b>39 701</b>
<b>Cash flows from investing activities</b>		
Additions to investment properties	(17 627)	(25 528)
Proceeds on disposals of investment properties	53 447	-
Deferred capital expenditure	(601)	-
<b>Net cash inflow/(outflow) from investing activities</b>	<b>35 219</b>	<b>(25 528)</b>
<b>Cash flows from financing activities</b>		
Financial liabilities raised	(39 367)	6 521
Costs of conversion of debentures	-	(1 098)
<b>Net cash (outflow)/inflow from financing activities</b>	<b>(39 367)</b>	<b>5 423</b>
<b>Net cash (outflow)/inflow for the year</b>	<b>(1 878)</b>	<b>19 596</b>
<b>Cash and cash equivalents at the beginning of the period/year</b>	<b>25 616</b>	<b>6 020</b>
<b>Cash and cash equivalents at the end of the period/year</b>	<b>23 738</b>	<b>25 616</b>

## 12. Operational Performance

Synergy continues to operate in a challenging macroeconomic environment with highly indebted consumers operating in a stagnant economy.

An overall vacancy of 4.4% existed at 30 September 2016, compared to 4.5% at 31 March 2016. Rental reversions of 5.6% have been achieved across the portfolio. Synergy maintained a national tenant ratio of 80% at 30 September 2016 in line with Synergy's target ratio. 79% (20 555m<sup>2</sup>) of leases to be renewed during the period ended 30 September 2016 were renewed, or are in process of being renewed (March 2016: 84% (33 023m<sup>2</sup>)). The weighted average lease expiry profile for the property portfolio at 30 September 2016 was 2.9 years (31 March 2016: 2.6 years).

## 13. Directorate

At the date of this report the following directors held office. There were no changes in directors for the period under review.

Non-Executive	
MJ Kuscus@	MJ Potts
LX Mtumtum@	SJ Segar@
LG Rapp	I Zwarenstein@
Executive	
GS Moseneke	RC Hawton

@ Independent non-executive director

## 14. Prospects

On the assumption that Competition Commission approval is obtained, Synergy (to be renamed GemGrow) is set to be a consolidator in the market and will create a compelling and differentiated prospect for investors as a specialist, high-growth, high-yield, internally-managed, diversified real estate fund. In the proposed GemGrow, a vehicle has been created that offers shareholders exposure to a unique dual-class share structure with a focus on acquiring assets at attractive yields that will enhance earnings and growth prospects for the company.

## 15. Payment of Dividends

The Board has approved and notice is hereby given of gross dividends of 49.68891 cents per A share and 29.67000 cents per B share for the six months ended 30 September 2016.

In accordance with Synergy's status as a REIT, shareholders are advised that the dividend meets the requirements of a "qualifying dividend" for the purposes of section 25BB of the

Income Tax Act, No. 58 of 1962 ("Income Tax Act"). The dividend on the shares will be deemed to be a dividend, for South African tax purposes, in terms of section 25BB of the Income Tax Act.

The dividend received by or accrued to South African tax residents must be included in the gross income of such shareholders and will not be exempt from income tax (in terms of the exclusion to the general dividend exemption, contained in paragraph (aa) of section 10(1)(k)(i) of the Income Tax Act) because it is a dividend distributed by a REIT. This dividend is, however, exempt from dividend withholding tax in the hands of South African tax resident shareholders, provided that the South African resident shareholders 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 company, in respect of certificated shares:

- a declaration that the dividend is exempt from dividends tax; and
- a written undertaking to inform the CSDP, broker or the company, 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 company, 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.

Dividends received by non-resident shareholders will not be taxable as income and instead will be treated as an ordinary dividend which is exempt from income tax in terms of the general dividend exemption in section 10(1)(k)(i) of the Income Tax Act. It should be noted that up to 31 December 2014 dividends received by non-residents from a REIT were not subject to dividend withholding tax. Since 1 January 2015, any dividend received by a non-resident from a REIT will be subject to dividend withholding tax at 15%, 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 15%, the net dividend amount due to non-resident shareholders is 42.23557 cents per A share and 25.21950 cents per B share. A reduced dividend withholding 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 uncertificated shares, or the company, in respect of certificated shares:

- a declaration that the dividend is subject to a reduced rate as a result of the application of a DTA; and
- a written undertaking to inform their CSDP, broker or the company, 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 company, 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.

The salient dates for the dividend will be as follows:

	<b>2016</b>
Last day to trade <i>cum</i> dividend	Tuesday, 6 December
Last day to trade <i>ex</i> dividend	Wednesday, 7 December
Record date	Friday, 9 December
Payment date	Monday, 12 December

Shareholders may not dematerialise or rematerialise their shares between Wednesday, 7 December 2016 and Friday, 9 December 2016, both days inclusive. Payment of the dividend will be made to shareholders on Monday, 12 December 2016. In respect of dematerialised shares, the dividend will be transferred to the CSDP/broker accounts on Monday, 12 December 2016. Certificated shareholders' dividend payments will be paid to certificated shareholders' bank accounts on Monday, 12 December 2016.

A shares in issue at the date of declaration of the dividend: 47 352 203

B shares in issue at the date of declaration of the dividend: 106 352 670

Synergy's income tax reference number: 9068723171

## **16. Preparation, accounting policies and audit opinion**

These summarised audited condensed financial statements for the period ended 30 September 2016 have been prepared in accordance with International Financial Reporting Standards and presented in accordance with the minimum content, including disclosures, prescribed by IAS 34 applied to year-end reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Board, the JSE Listings Requirements and the requirements of the South African Companies Act, 2008. These summarised audited financial statements for the period ended 30 September 2016 are

prepared on a going concern basis and Synergy's accounting policies have been applied consistently to all periods presented.

These statements, which comprise the statement of financial position, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the six months then ended is extracted from audited information, but is itself not audited. The annual financial statements were audited by Grant Thornton, who expressed an unmodified opinion thereon. The audited annual financial statements and the auditor's report thereon are available for inspection at the company's registered office situated at Ground Floor, One-On-Ninth, Cnr Glenhove Road and 9th Street, Melrose Estate. This announcement does not include the information required pursuant to paragraph 16A(j) of IAS 34.

The directors take full responsibility for the preparation of this report and that the financial information has been correctly extracted from the underlying financial statements.

This report was compiled under the supervision of Robert Hawton CA (SA), the financial director of the company.

The directors are not aware of any matters or circumstances arising subsequent to 30 September 2016 that require any additional disclosure or adjustment to the financial statements and which are not disclosed in this announcement.

By order of the Board

Synergy Income Fund Limited

Johannesburg

21 November 2016

JSE sponsor: Java Capital, 6A Sandown Valley Crescent, Sandown, Sandton, 2196

Executive directors: GS Moseneke, RC Hawton

Non-executive directors: LG Rapp, MJ Potts, LX Mtumtum\*\*, SJ Segar\*\*, I Zwarenstein\*\*, MJ Kuscus\*\*

Registered office: One-on-Ninth, corner Glenhove and Ninth Street, Melrose Estate, 2196

Company Secretary: J Neethling.

Transfer secretaries: Link Market Services South Africa (Pty) Ltd, Johannesburg.

Investor and media relations: Marketing Concepts, Telephone +27 11 783 0700, Fax+27 11 783 3702

\*\*Independent non-executive director