

## GRIT REAL ESTATE INCOME GROUP LIMITED

(Registered in Guernsey)

(Registration number: 68739)

LSE share code: GR1T

SEM share code: DEL.N0000

ISIN: GG00BMDHST63

LEI: 21380084LCGHJRS8CN05

("Grit" or the "Company" or the "Group")



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### UPDATE ON THE PROPOSED ACQUISITION OF MAJORITY CONTROLLING INTERESTS IN GATEWAY REAL ESTATE AFRICA LIMITED AND AFRICA PROPERTY DEVELOPMENT MANAGERS LIMITED

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Grit Real Estate Income Group Limited, a leading pan-African real estate company focused on investing in, developing and actively managing a diversified portfolio of assets underpinned by predominantly US Dollar and Euro denominated long-term leases with high quality multi-national tenants, today provides a further update on the proposed acquisition of majority controlling interests in Gateway Real Estate Africa Limited ("**GREA**") and Africa Property Development Managers Limited ("**APDM**") (the "**Proposed Acquisition**"). The Proposed Acquisition was announced by the Company on 22 November 2021 and in the combined prospectus and circular published on the same date (the "**Prospectus and Circular**"). Today's update is provided further to the long stop date extension announced by the Company on 31 March 2022 ([link here](#)). Terms not otherwise defined in this announcement have the meanings given to them in the Prospectus and Circular.

#### Background to the transaction

The Proposed Acquisition was announced in conjunction with an open offer and placing of new ordinary shares of nil par value ("**Ordinary Shares**") at an issue price of US\$0.52 per new Ordinary Share (the "**Issue Price**") to reduce Grit's overall indebtedness and to provide future capital for the further expansion of Grit's core and expanded business.

The Proposed Acquisition will provide Grit with access to GREA's attractive pipeline of accretive development opportunities, and the Grit Board believes the medium-term NAV growth prospects of the Grit Group will be significantly improved upon completion. The acquisition of a controlling interest in APDM provides Grit with significant influence over GREA's operational activities and is further expected to allow Grit to earn substantial development and asset management fees into the future from internal and third-party clients and joint venture partners.

On 20 December 2021, the Company issued 146,342,312 new Ordinary Shares at the Issue Price, raising gross proceeds of US\$76.1 million. The completion of the acquisition of majority controlling interests in GREA and APDM were subject to the fulfilment or waiver (as applicable) of certain conditions precedent before the long stop date of 31 March 2022, which was recently extended to 8 April 2022.

#### Summary of Amendments to the Proposed Acquisition

Grit has agreed certain amendments to the existing sale and purchase agreements in relation to the Proposed Acquisition (the "**SPAs**"), allowing them to proceed, and has now agreed the acquisition of 77.95 per cent. of APDM and an increase in its interest in GREA to 26.29 per cent.

Additionally, Grit has committed to acquiring a further 8.72 per cent. of GREA by 31 July 2022 for a further payment of US\$19.44 million (payable in either cash and/or by the issue of new Ordinary Shares at the Issue Price, at the election of the Seller), which will increase its shareholding to 35.01 per cent.

Grit has also been granted an option by Gateway Africa Real Estate Limited ("**Gateway Partners**") (the "**Option**") to acquire their remaining 13.61 per cent. interest in GREA and an additional 1 per cent. of APDM owned by Gateway Partners, by 15 December 2022 which, if exercised, would increase Grit's direct shareholding in GREA to 48.62 per cent. and APDM to 78.95 per cent. The Option exercise price will be settled either in cash and/or by an issue of new Ordinary Shares at the Issue Price at the option of Gateway Partners.

Furthermore, Grit's total (direct and indirect) shareholding in GREA would increase to 51.66 per cent. following the issue of APDM's 10.0 per cent. free carry in GREA, which is to be issued to APDM upon the achievement of minimum performance requirements, measured and issued at year five or year seven from GREA's inception or upon on a defined exit event, which the Option exercise is expected to be.

GREA's year five anniversary from inception is in December 2022.

The acquisition by Grit of interests in GREA and APDM (together the "**Transaction**"), when aggregated, is considered a Class 2 Transaction under the FCA's Listing Rules.

**Bronwyn Knight, CEO of Grit Real Estate Income Group Limited, commented:**

"We are pleased to announce today the acquisition of a majority controlling interest in APDM and to agree amendments to the SPAs that set out a clear path for Grit to purchase a controlling shareholding in GREA by December 2022. These are expected to contribute meaningfully to Grit delivering enhanced profitable growth and superior returns to our shareholders, through GREA's extensive attractive pipeline of accretive development opportunities and for Grit to capitalise on new fee income streams through APDM's substantial development and asset management fees. We also expect to deliver additional value to our shareholders from the potential optimisation of the balance sheets of Grit and GREA.

We continue to be well positioned to capitalise on the significant recovery potential across Grit's unique high-quality property portfolio. As a Board, we expect significant further potential value to be created through increasing Grit's capital allocation to limited, risk mitigated development returns through servicing existing and target tenants."

**Details of the Amendments to the Proposed Acquisition**

APDM

Grit acquires a 77.95 per cent. controlling interest in APDM, as previously envisaged, and on broadly the same terms announced in November 2021 and set out in the Prospectus and Circular, through the acquisition of:

- Dorado's 21.05 per cent. interest in APDM for US\$5.16 million through an issue of 9,917,788 new Ordinary Shares, at the Issue Price;
- The GREA Executive Share Trust's 26.32 per cent. interest in APDM for US\$3.73 million through an issue of 7,173,077 new Ordinary Shares, at the Issue Price; and
- Gateway Partner's 30.58 per cent. interest in APDM for US\$7.59 million paid in cash by 15 April 2022 following the confirmation of closure of the final administrative conditions precedent. This is paid in cash, which is a change to the terms of the original agreement with Gateway Partners that envisaged the consideration would be satisfied by an issue of new Ordinary Shares at the Issue Price.

Grit has an Option to acquire an additional 1 per cent. of APDM owned by Gateway Africa Real Estate Limited ("**Gateway Partners**"), by 15 December 2022. The Option exercise price will be settled either in cash and/or by an issue of new Ordinary Shares at the Issue Price, at the option of Gateway Partners

APDM provides development management, asset management, advisory and administrative services to GREA under the provisions of Asset Management and Advisory Services Agreement ("**AMASA**"), whereby APDM is entitled to charge development management fees to GREA equal to approximately 4.0 per cent. of the total project costs of each development owned by GREA. APDM is also further entitled to a standard annual fee of 1.5 per cent. payable on fair value of the completed properties owned by GREA.

Grit's controlling interest in APDM affords the Company significant influence over GREA's operations by virtue of the services APDM provides under the AMASA, and APDM's management team will additionally become participants of Grit's long term incentive scheme, further aligning the objectives of GREA and APDM to long term value creation for Grit shareholders.

GREA

Grit also increases its interest in GREA from its existing ownership of 19.98 per cent. to 26.29 per cent. as a result of the following two transactions:

- Grit is purchasing a 0.10 per cent. interest in GREA held by Dorado for US\$0.22 million satisfied by the issue of 423,616 new Ordinary Shares issued at the Issue Price, as described in the Prospectus and Circular; and
- Grit is acquiring an additional 6.21 per cent. shareholding in GREA from Gateway Partners at a purchase price of US\$13.86 million paid in cash by 15 April 2022 following the confirmation of closure of the final administrative conditions precedent. This is a change to the terms of the original agreement with Gateway Partners that envisaged the consideration would be satisfied by an issue of new Ordinary Shares at the Issue Price.

Additionally, Grit is committed to acquire a further 8.72 per cent. shareholding in GREA for a further payment of US\$19.44 million, which will increase its shareholding to 35.01 per cent. This payment is to be made no later than 31 July 2022 and is payable in either cash and/or by the issue of new Ordinary Shares at the Issue Price, at the option of Gateway Partners. Grit will not therefore, at this time, gain control of GREA as originally envisaged.

However, Grit has been granted an option by Gateway Partners (the “**Option**”) to acquire their remaining 13.61 per cent. interest in GREA by 15 December 2022 which, if exercised, would increase Grit’s direct shareholding in GREA to 48.62 per cent. The Option exercise price will be settled either in cash and/or by an issue of new Ordinary Shares at the Issue Price at the option of Gateway Partners. Grit’s total (direct and indirect) shareholding in GREA would increase to 51.66 per cent. following the issue of APDM’s 10.0 per cent. free carry in GREA, issued upon the achievement of minimum performance requirements, measured and issued at year five or year seven from GREA’s inception or upon on a defined exit event. GREA’s year five anniversary from inception is in December 2022.

Applications have been made with the FCA, the LSE and the SEM for the listing of, in aggregate, 17,514,481 new Ordinary Shares being issued on the premium segment of the Official List of the FCA and to be admitted to trading on the Main Market of the LSE and for such new Ordinary Shares to be admitted to trading on the Official Market of the SEM with effect from commencement of trading on Tuesday, 19 April 2022 (“**Admission**”).

Following Admission of the new Ordinary Shares issued pursuant to the Transaction, Grit will have a total of 495,092,339 Ordinary Shares in issue.

## **1. Description of the Business**

### **1.1. Grit**

Grit is a leading pan-African real estate company focused on investing in, developing and actively managing a diversified portfolio of assets in carefully pre-selected African countries (excluding South Africa). These high-quality assets are underpinned by predominantly US Dollar and Euro denominated long-term leases with a wide range of blue-chip multinational tenants across a diverse range of property sectors, with the aim of delivering strong sustainable long-term income. Grit currently has a premium listing on the Official List of the FCA and a secondary listing on the Official Market of the SEM.

Given the high economic growth experienced in a number of countries in Africa and the resultant rapid expansion of, and investment in, infrastructure to support this growth, Grit was founded to offer investors direct participation in property markets in Africa (excluding South Africa), whilst earning predominantly Euro and US Dollar-based income from leading international tenants at emerging market yields. The Grit Group’s current portfolio includes assets in Mauritius, Morocco, Mozambique, Zambia, Kenya, Botswana, Senegal and Ghana. Further details on the Existing Portfolio are set out in paragraph 9 (Existing Portfolio) of Part II of the Prospectus and Circular.

The Company has a strong management and support team, supported by in-country asset and property management teams.

### **1.2. GREA**

GREA is a private real estate development company specialising in risk mitigated turnkey construction of real estate solutions for multinational companies wishing to expand their operations in Africa.

GREA partners with blue-chip multinationals seeking real estate solutions on the African continent and develops properties for these companies backed by USD-denominated or USD-linked long-term lease contracts.

GREA:

- was co-founded in 2018 by Grit and Gateway Partners with the support of anchor shareholders such as the PIC and Prudential Financial. At launch GREA raised US\$175 million in equity commitments from these principal shareholders;
- is managed by APDM, an experienced team of professionals with an established track record in African property development, investment and management, delivering projects on time and within budget;
- has strong risk management policies in place to mitigate developmental, operational and other risks associated with African real estate investments;
- is equipped with an extensive knowledge and understanding of Africa, as well as benefiting from an extensive network of trusted partners;
- targets value creation through the active management of both assets under development and completed as tenanted by blue-chip multinational companies; and
- provides investors with high-yielding US Dollar denominated real estate exposure with robust growth potential maximising return for its shareholders.

As at 30 June 2021, GREA had unaudited net assets of US\$193 million, gross assets of US\$199 million and pre-tax profits for the six months ended 30 June 2021 of US\$5.7 million.

### **1.3. APDM**

GREA has appointed APDM, a private company incorporated and domiciled in Mauritius, as its asset manager and adviser with respect to the investment, reinvestment, administration and disposal of GREA's investments. APDM holds a Category 1 Global Business Company license issued by the Mauritian Financial Services Commission (FSC) as well as an Asset Management license pursuant to Section 14 FSC Activity License.

APDM provides development management, asset management, advisory and administrative services to GREA under the provisions of the AMASA.

**APDM's services to GREA are mandated under the AMASA with terms of service and fees summarised as follows:**

#### ***Services***

- provide a senior management team and directors to deliver strategic planning, operational control, and management advice and services to GREA's portfolio companies;
- to source and investigate potential projects/investments;
- to provide management services in respect of projects during and post construction, which includes (but is not limited to) leasing, maintenance, financial management, and marketing services with a view to maximising the returns possible from a project;
- to hire, oversee, manage and control the functioning of third-party contractors, local parties and support services engaged with regard to the acquisition, development and management of a project;
- to provide finance, risk and compliance services to GREA and portfolio companies as required by GREA from time to time in connection with the management of its risk, compliance with applicable laws, reporting, and its general financial functions;
- to provide ongoing portfolio management and monitoring of projects, including where applicable the provision of nominating and providing directors to sit on the boards of portfolio companies;
- to assist GREA in preparing its operational and financial budget, and to prepare APDM's budget in accordance with the agreed budgeting process;
- to furnish all administrative services, including, bookkeeping, secretarial and clerical personnel and services, as may be necessary for the proper conduct of the affairs of GREA and its portfolio companies; and
- to make recommendations to the GREA Board with respect to the disposal of investments.

#### ***Fees***

- APDM shall charge development management fees to GREA equal to approximately 4 per cent. of the total project costs of each development owned by GREA;
- a standard fee of 1.5 per cent. per annum is payable on fair value of the completed properties owned by GREA; and
- on achieving minimum performance requirements, APDM is entitled to a free carry of 10 per cent. of GREA, to be measured and issued at year five and year seven of GREA's inception or on a defined exit event. The year five anniversary is in December 2022, upon which date the relevant return hurdles will be measured.

Further details on businesses to be carried on by Grit, GREA and APDM are available in the Prospectus and Circular, which can be viewed on the Company's website. [\(link here\)](#)

## **2. The assets the subject of the Transaction**

### ***2.1. Acquisition of ADPM***

In relation to the acquisition of a controlling stake in APDM (an entity that will be consolidated into Grit):

- Gross Assets the subject of the Transaction are US\$1.36 million.
- Liabilities assumed as part of the Transaction are US\$0.71 million.
- Net Assets the subject of the Transaction are US\$0.65 million.

The loss attributable to the assets the subject of the Transaction is US\$ 0.30 million, being 100% of the profits attributable to APDM.

*All figures as per the latest signed financials of APDM dated 31 December 2020.*

## **2.2. Acquisition of GREA**

In relation to the increased shareholding in GREA (an entity that shall continue to be an associate of Grit):

- The Gross and Net Assets the subject of the transaction are US\$33.52 million (being the consideration payable for 15.03 per cent. being acquired in GREA).

## **3. The effect of the Transaction on Grit**

The amendments to the Acquisition agreed today will result in Grit paying, at minimum, US\$21.45 million in cash to Gateway Partners to effect the Acquisition. This would have increased Group reported LTV on a pro forma basis as at 31 December 2021 by 0.7% to 42.10%.

Should Grit exercise its Option and gain control, and therefore consolidation, of GREA, the current low leverage in GREA would still be expected to result in a reduction in consolidated Grit Group LTV, as further described in the Prospectus and Circular.

The Grit management team has sought to improve the growth rate of Grit, and specifically views incremental risk mitigated development returns, limited to no greater than 20 per cent. of the Grit Group's gross asset value, as being key to achieving this goal.

Grit's ability to control its own pipeline and fully service its tenants' real estate needs remains strategically important. Although Grit remains confident of delivering superior total returns in the medium to longer term and is well positioned to capitalise on the significant recovery potential across its unique high-quality property portfolio, the Grit Board additionally sees significant further potential value creation through increasing its capital allocation to limited, risk mitigated development returns and would expect these to increase the Grit Group's total targeted shareholder return over time from 12 per cent. to 13–15 per cent. per annum (this is a target only and is not guaranteed. It is based on a number of assumptions which may or may not materialise).

APDM has a team of highly skilled development staff and can develop in over 15 African countries. With extensive experience delivering projects across the continent, there exists opportunities to provide fee generating professional services to clients external to GREA and to further deliver value to its shareholders.

The Grit Board believes that the Proposed Acquisition therefore brings the following benefits for the Grit Group:

- GREA is the only development company covering every region in Africa and with a multi asset class focus delivering real estate solutions for international global tenants within Grit's existing and target client lists;
- GREA's existing pipeline is fully funded through the existing shareholders' equity contributions (as well as secured construction debt facilities) and is expected to deliver strong NAV growth as projects are completed over the next 24 to 36 months;
- GREA has access to an extensive further pipeline of OBO (US diplomatic housing) and data centre development opportunities which are expected to be accretive to NAV, are extremely resilient asset classes and offer exposure to highly rated tenants to underpin future income levels;
- acquiring a majority stake in APDM offers Grit the potential for new revenue and fee income streams, asset and facilities management with respect to OBO and other discrete asset classes and accelerates Grit's strategy of increasing its exposure to the provision of professional services to its clients and other third parties;
- the Proposed Acquisition would further diversify the Grit Group's geographic exposure (and in particular, will reduce the Company's current exposure to Mozambique, which is currently greater than the target of 25 per cent. of the portfolio in any one country);
- the transaction builds upon an already close working relationship between the management teams of Grit, GREA and APDM; however significant benefits may arise under a streamlined group structure because of current "duplicate functions" within each business; and
- debt funding for the Enlarged Group could be further optimised due to increased geographic and sector diversity and balance sheet size.

Grit would have the ability to significantly influence (and should Grit exercise the Option, ultimately control), additional activities that would create potential value, which include:

- Balance sheet optimisation and disposal of non-core assets specifically reducing exposures to the retail segment. Such asset recycling would be expected to free up capital that can be recycled into new project opportunities within GREA.
- When combined with Grit's balance sheet upon potentially gaining control, and therefore consolidation, GREA's current low leverage would be expected to result in a material reduction in consolidated Grit Group LTV metrics.
- Whilst GREA is expected to remain relatively lowly geared, its construction debt facilities will be amortising and are relatively expensive compared to Grit's debt facilities and a potential consistent and consolidated Grit Group approach would be expected to provide GREA with cheaper debt funding and, crucially, the ability to recycle operational cashflow into new projects rather than debt repayments, thereby securing enhanced levels of growth.

#### 4. Details of key individuals

- GREA has a strong board and, through APDM, an equally strong executive management team and investment committee comprising individuals with exceptional track records in creating, building and managing property development and investment companies. This will be supplemented by Grit senior management through the appointment of Grit nominees to the relevant Boards and investment committees, which is expected to occur shortly after obtaining the controlling interest in APDM.
- APDM's management team and staff will become employees of the Enlarged Group on, essentially, the same employment terms as they currently enjoy at APDM, immediately upon the acquisition of the controlling interest in APDM. The consideration payable by Grit to the GREA Executive Share Trust pursuant to the GREA Executive Share Trust Share Purchase Agreement shall be settled by Grit shares. Such shares are to be retained by the GREA Executive Share Trust, for the benefit of designated participants under a long-term incentive plan, vesting on a future date or earlier if sufficient value is achieved in GREA. Certain participants will also be enrolled to the Grit long-term incentive plan and awarded shares upon the fulfilment of specific key performance indicators.
- The APDM team is led by chief executive officer, Greg Pearson. Greg is a co-founder of Grit and was instrumental in sustaining its rapid growth from its inception in 2014 through to 2018, when he left Grit to focus his attention on GREA. Greg has successfully completed a series of developments across the office, retail, leisure, education and healthcare sectors and also sits on the Board of GREA as its de facto CEO.
- Greg is supported by the following executive team members:
  - Krishnen Kistnen, Chief Financial Officer
  - Andre Janari, Chief Investment Officer
  - Craig Glutz, Head of Developments
  - Shevira Bissessor, Chief Operating Officer

Except as disclosed, there has been no significant change affecting any matter contained in the earlier notification and no other significant new matter has arisen which would have been required to be mentioned in that earlier notification if it had arisen at the time of the preparation of that notification.

By order of the Board

11 April 2022

#### FOR FURTHER INFORMATION, PLEASE CONTACT:

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**NOTES:**

Grit Real Estate Income Group Limited is the leading pan-African real estate company focused on investing in, developing and actively managing a diversified portfolio of assets in carefully selected African countries (excluding South Africa). These high-quality assets are underpinned by predominantly US\$ and Euro denominated long-term leases with a wide range of blue-chip multi-national tenant covenants across a diverse range of robust property sectors.

The Company is committed to delivering strong and sustainable income for shareholders, with the potential for income and capital growth.

The Company holds its primary listing on the Main Market of the London Stock Exchange (LSE: GR1T and a secondary listing on the Stock Exchange of Mauritius (SEM: DEL.N0000).

Further information on the Company is available at [www.grit.group](http://www.grit.group)

**Directors:**

Peter Todd+ (Chairman), Bronwyn Knight (Chief Executive Officer)\*, Leon van de Moortele (Chief Financial Officer)\*, David Love+, Sir Samuel Esson Jonah+, Nomzamo Radebe, Catherine McIlraith+, Jonathan Crichton+, Cross Kgosidiile and Bright Laaka (Permanent Alternate Director to Nomzamo Radebe).

(\* Executive Director) (+ independent Non-Executive Director)

**Company secretary:** Intercontinental Fund Services Limited

**Registered office address:** PO Box 186, Royal Chambers, St Julian's Avenue, St Peter Port, Guernsey GY1 4HP

**Registrar and transfer agent (Mauritius):** Intercontinental Secretarial Services Limited

**SEM authorised representative and sponsor:** Perigeum Capital Ltd

**UK Transfer secretary:** Link Assets Services Limited

**Mauritian Sponsoring Broker:** Capital Markets Brokers Ltd

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This notice is issued pursuant to the FCA Listing Rules and SEM Listing Rule 15.24 and 15.36A and the Mauritian Securities Act 2005. The Board of the Company accepts full responsibility for the accuracy of the information contained in this communiqué.