



The Alma, Ruaka

CYTONN INVESTMENTS SHAREHOLDERS' UPDATES FOR H1'2017

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1. Executive Summary

To begin with, all of us at Cytonn hope that the first half of 2017 was fruitful and productive, and that you are looking forward to the rest of the year being even better. The team at Cytonn is moving ahead, growing at a fast yet manageable pace and working hard to deliver to our investors and clients. The purpose of this newsletter, which going forward we shall be circulating quarterly, is to update our shareholders on what is going on at Cytonn.

During the 1st half of 2017, we made a group profit after tax (PAT) of Kshs 321.0 mn, a 523.3% growth from Kshs 51.5 mn in H1'2016. This was driven by:

- A 290.3% increase in operating profit to Kshs 434.4 mn from Kshs 111.3 mn in a similar period last year, which was mainly attributed to a 145.7% increase in revenue due to increased house sales as we continue to grow our real estate portfolio and the distribution team,
- Fair value adjustments increased by 61.2% to Kshs 430.3 mn from Kshs 267.0 mn in a similar period last year as a result of our holdings in real estate, which are up an average of 15.4% year-to-date, and listed equities, which includes 27 million shares in Kenya Commercial Bank (KCB) Group Limited, where we are the 6th largest local shareholder; we saw a rare opportunity to accumulate shares in KCB Group,
- Our balance sheet assets grew by 21.2% to Kshs 14.9 bn from Kshs 12.3 bn in FY'2016, attributed to a 15.4% increase in investment property to Kshs 11.8 bn from Kshs 10.2 mn in the same period; investment property growth is mainly driven by an increase in our holdings in real estate.

Total number of staff has grown from 200 people in December 2016, to 334 as at the end of June 2017, which includes permanent staff of 156, 86 on probation and 92 interns. This growth is mainly to support our real estate business, which currently stands at about Kshs 82 billion of projects under mandate. We recruited 99 Real Estate Financial Advisors during the half-year period, growing the team to 150 in June, from just 51 in December 2016.

With the growth of our real estate team and hence development capability, we have managed to grow our real estate projects under mandate value by 12.3% to Kshs 82 billion from Kshs 73 billion in December 2016, with our Summary of Investment Ready Projects containing 11 projects.

We continue to invest in our brand and hence in the beginning of the year, we launched the second phase of our brand campaign, dubbed **“Become a Cytonnaire”**, a campaign about how to think and act differently to achieve extraordinary results; this rhymes with our focus on alternative investments, especially real estate, to deliver above average returns to our investors.

The real estate projects are progressing smoothly, with the Project Management team working hard to keep progress steady and mitigate against any possible risks that may affect the project timelines, quality and costs. During H1'2017:

- We broke ground on our Kshs 2.5 billion lifestyle mixed-use development in Ruaka on 27th March, 2017, **“Taraji Heights”**. See Taraji,
- We broke ground on our Kshs 12.1 billion comprehensive and luxurious mixed-use development located in Ridgeways on 15th May 2017, **“The Ridge”**. See The Ridge,
- We launched **“RiverRun Estates”**, our first project in Ruiru. RiverRun Estates is a Kshs 15.0 billion 100-acre master-planned development on 17th June, 2017. See RiverRun,
- We acquired a unique 4-acre piece of land in the Kilimani/Kileleshwa area for a mixed use development, whose concept we shall launch in September this year.

In private equity, we managed to secure a significant deal in January, which is the 25% stake acquisition in a leading real estate development firm, Superior Homes Kenya Ltd (SHK). SHK is the developer of the 163-acre Greenpark masterplan in Athi River on Mombasa Road, having put up over 400 homes and shall be our partner for satellite town master-planned developments.

We have also enhanced our fund raising efforts, and we have a team that is focused on institutional fundraising to supplement our high net-worth fundraising efforts.

No effort is without challenges; we continue to face, but manage, the following key challenges, however we continue to be very focused on execution and should be well positioned for even faster growth going forward:

- Economic environment – A slow-down in private sector credit growth to 2.1% in May 2017 from 21% in January 2016, the uncertainty surrounding the upcoming elections and the high inflationary environment have created a tough operating environment for SMEs. This has been exacerbated by the enactment of the Banking (Amendment) Act, 2015 that brought on the capping of interest rates, thus leading to banks preferring to lend to the risk free government, meaning less fund availability for the private sector,
- Talent – it is difficult to hire and retain the best talent that can thrive in a team context. However, through our Cytonn Young Leaders Programme (CYLP), we hire graduates that are driven and passionate to make a difference, and blend well into Cytonn’s culture,
- Culture – our unique and high performing culture is key to our competitiveness and growth, however as we grow in numbers, it has become harder to infuse and sustain the culture that has been the key driver for the firm. However, we continue to mitigate this by having as many culture building forums and discussions as we can, and being deliberate about propagating and sustaining our culture.

2. Financial Performance

We completed the 2016 financial year audit with Grant Thornton Kenya Limited, and released the audited financials to our shareholders and the public during our Annual General Meeting that was held on 3rd March 2017. This is a significant improvement from last year where we held the AGM in August 2016. The year ended with balance sheet assets of Kshs 12.3 bn, an 88.0% increase from Kshs 6.5 bn in FY'2015. From our half-year management accounts, we can see that H1'2017 ended with balance sheet assets worth about Kshs 14.9 bn, an annualized growth of 42.4%, and a profit of Kshs 321.0 mn, which grew by 523.3% from Kshs 51.5 mn in H1'2016.

a. Income statement

During the 1st half of 2017, we made a profit after tax (PAT) of Kshs 321.0 mn, a 523.3% growth from Kshs 51.5 mn in H1'2016.

- Revenue grew by 145.7% to Kshs 638.8 mn from Kshs 259.9 mn in a similar period last year, due to a rise in revenue from sale of houses and residual income due to increased collection effort from our fund operations team and as our real estate projects continue to yield high returns. The cost of sales increased by 118.0% to Kshs 353.3 mn from Kshs 162.1 mn, leading to a gross profit of Kshs 285.5 mn from Kshs 97.8 mn in H1'2016,
- Operating expenses declined by 18.8% to Kshs 117.4 mn from Kshs 144.5 mn because of a 44.5% decline in advertising & marketing costs, while employee costs increased by 86.5% to Kshs 234.1 mn from Kshs 125.5 mn, as the team grew to 334 employees by the end of June, from 200 at the end of December 2016,
- Operating profit grew by 290.3% to Kshs 434.4 mn from Kshs 111.3 mn in H1'2016, as a result of the 191.9% growth in gross profit that outpaced the 86.5% increase in employee costs,
- Fair Value (FV) adjustments, which form part of our core business, because we are in the business of generating FV gains throughout the real estate development cycle, grew by 61.2% to Kshs 430.3 mn from Kshs 267.0 mn, mainly due to our Active Strategy (our active equities investment portfolio) investment gaining traction as stocks that we invested in appreciated in value,
- Our balance sheet assets grew by 21.2% to Kshs 14.9 bn from Kshs 12.3 bn in FY'2016, attributed to a 216.2% increase in short term investments in the local equities market to Kshs 1.1 bn from Kshs 338.7 mn in the same period, as we continue to grow our active equities investment portfolio.

Statement of Profit/Loss (Kshs in Millions)	Group Unaudited Jun 17 YTD	Group Audited Jun 16 YTD*	Y/Y Change (%)
Revenue	638.8	259.9	↑ 145.7%
Cost of Sales	(353.3)	(162.1)	↑ 118.0%
Gross Profit	285.5	97.8	↑ 191.9%
Other Income	117.7	64.3	↑ 83.0%
Operating Expenses	(117.4)	(144.5)	↓ (18.8%)
Employee Costs & Staff Bonuses	(234.1)	(125.5)	↑ 86.5%
Imperial Bank Ltd Impairment Loss	(47.8)	(47.8)	
Fair Value Adjustments	430.3	267.0	↑ 61.2%
Operating Profit	434.4	111.3	↑ 290.3%
Finance Costs	(106.2)	(49.4)	↑ 115.0%
Profit Before Tax	328.2	61.9	↑ 430.2%
	(7.2)	(10.4)	↓ (30.8%)
Profit / (Loss) After Tax	321.0	51.5	↑ 523.3%

*Group Audited results for June 16 YTD are prorated

b. Business Operations

a. People

Total number of staff has grown from 200 staff in December 2016, to 334 as at the end of June. At the close of H1'2017, our staff comprised of 156 permanent staff, 86 on probation and 92 interns in our Cytonn Young Leaders Programme (CYLP).

With a focus on instilling processes and structures within Cytonn, we continue to grow the team through filling of strategic positions that support our growth. We have added to the team a Cytonn Technologies Business Manager and a Senior Distribution Manager for high net-worth investors. We have also promoted two deserving staff to fill the strategic positions of Senior Manager, Regional Markets, and Senior Project Manager.

At Cytonn, we look for the best people who thrive in a team context. We also believe that an internship graduate, who has had the benefit of all Cytonn members investing time in their development, is the best talent and the one thing that differentiates us in the market. Through CYLP, we have trained 479 university graduates since its inception close to three years ago, and we have made employment offers to 136 of these program participants, 108 of whom are still at the firm.

We continue to make significant investments in embedding our culture and values in our staff, led by a fortnightly staff discussion of a chapter of the book 'Outliers' by Malcolm Gladwell, which follows from the re-reading of 'What it Takes' by Charles D. Ellis, and the reading of 'Winning' by Jack Welch.

b. Processes

To enhance efficiency at Cytonn, we believe in embracing technology and innovation. In that respect, during H1'2017, our Cytonn Technologies (CT) team managed to:

- Make improvements on the Intranet system, which was developed by our CT Team. Now staff can upload their taxi receipts and have them approved by their supervisors on the Cytonn Intranet, thus making the process more efficient, easier for all and less wasteful on resources such as paper,
- Launch the CT-developed Project Management System, which is used to track follow-up items and daily tasks performed by members of the team to be able to identify opportunities to increase efficiency in work input and to ensure that all follow-up items are carried out within agreed-upon timelines. These are just some of the steps made to ensuring a culture of efficiency is promoted in the workplace,
- Launch websites for The Ridge, Taraji Heights and RiverRun Estates to make it easier and straight forward for clients to access information on the projects,
- Refurbish the Cytonn Investments Website to give it a fresh new look and feel.

c. Distribution & Brand

In a bid to distribute the rapidly growing line of products that we offer, the Company has embarked on expanding the current distribution team by recruiting actively with a target of 200 Financial Advisors (FA's) by the end of 2017. We recruited 99 FA's during the half year period, growing the team to 150 in June from just 51 in December 2016. We also successfully opened two offices: Fedha Plaza in Westlands, and Adlife Plaza in Hurlingham, which mainly house our Distribution team and our Cytonn Technologies team, and are looking forward to now opening new offices in other Counties in Kenya.

We invested heavily this year in brand building and in the beginning of the year we launched the second phase of our brand campaign, dubbed **"Become a Cytonnaire"**. We hope that you were positively influenced by the brand campaign as we continue to grow awareness of Cytonn as a leading real estate investment firm.

d. Cytonn Real Estate

Our Research & Deal Origination (RDO) team has been in discussions with a number of landowners for potential Joint Ventures 'JVs' and land purchase transactions, and we have a deal pipeline that can take up to Kshs 82 bn in capital. We now have 11 investment ready projects, offering attractive development returns and buyer's returns of a minimum of 25% p.a. For more information on our investment ready projects, please see our Summary of Investment Ready Projects. Below is a summary of some of our projects and an update on the progress as at the close of the half year:

Project Progress as at 30th June, 2017

Project	Construction Progress	Sales	Jobs Created
Amara Ridge	<p>The project was behind schedule by 10-weeks. However, based on the program of activities, the project shall be completed at the end of August 2017,</p> <p>All works undertaken have conformed to specifications,</p> <p>Testing of the swimming pools is ongoing.</p>	<p>Sales progressed well with 100% of sales achieved,</p> <p>Collections hit 35.2% of the half year target.</p>	The project employed 230 workers
The Alma	<p>54 weeks into its 141-week construction contract period,</p> <p>The project had 24% of construction work complete with only most blocks beyond 4th floor with external walling being done,</p> <p>Excavation for Block J was 80% complete.</p>	<p>Sales progressed well with 55.0% of the units having being sold,</p> <p>Collections hit 79.4% of the half year target</p>	The Alma has employed 408 workers
Taraji Heights	<p>Construction commenced on 18th April 2017 and the project ended the half year period with 12-weeks elapsed in its 104-week contract,</p> <p>We expect the development to be fully completed by April 2019,</p> <p>Site clearance, beacon establishment, access road and site hoarding had been done,</p> <p>Excavation and landscaping work was in progress by the end of the half year period.</p>	<p>10% of the units had been sold by the end of H1'2017,</p> <p>Collections had hit 96.2% of the half year target.</p>	The project employed 37 workers
The Ridge	<p>Enabling works commenced on 29th May 2017 and the project ended the half year period with 6 weeks into the enabling works contract period,</p> <p>Excavation work was 93% complete and site hoarding is at 95%, both steps being necessary before construction commences,</p> <p>The sales and site offices are currently being constructed.</p>	<p>Phase I of The Ridge was 31% sold at the end of H1'2017,</p> <p>Collections however, were at 25.7% of the set target for the half year period, and are expected to pick up now that groundbreaking already took place.</p>	The project employed 34 workers
Newtown	<p>Consultant procurement and the 2nd phase of the detailed plot subdivision design were in its final stages,</p> <p>An advisory team consisting of legal advisors and advisors with masterplan community construction experience was put together to discuss implementation of the project.</p>	<p>Marketing renders were designed but placed on hold until approval was obtained to expend.</p>	N/A
RiverRun Estates	<p>RiverRun Estates was launched in May, with turnout quite high and Phase I sales hitting 6.1% from sales from the launch</p>	<p>Phase I of RiverRun estates is currently 8.7% sold,</p> <p>Sales collections were at 8.6% of the half year target as sales begun after the launch took place.</p>	N/A

e. Private Equity and Affiliates

i. Superior Homes

At Cytonn, one of our target sectors when it comes to Private Equity (PE) is real estate. In that respect, we managed to close a P.E. deal in January, having successfully acquired a 25% stake in a leading real estate development firm, Superior Homes Kenya Ltd, a transaction valued at Kshs 1.0 bn. Cytonn benefits from this deal by getting a partner that has a strong track record in master-planned developments and also construction capabilities, while Superior Homes gains from our strong track record in real estate investment product structuring and our expanding distribution team. For more information on this transaction, please see the Superior Homes Transaction. Our private equity team continues to work hard towards sourcing more similar deals that continue to create value for our shareholders.

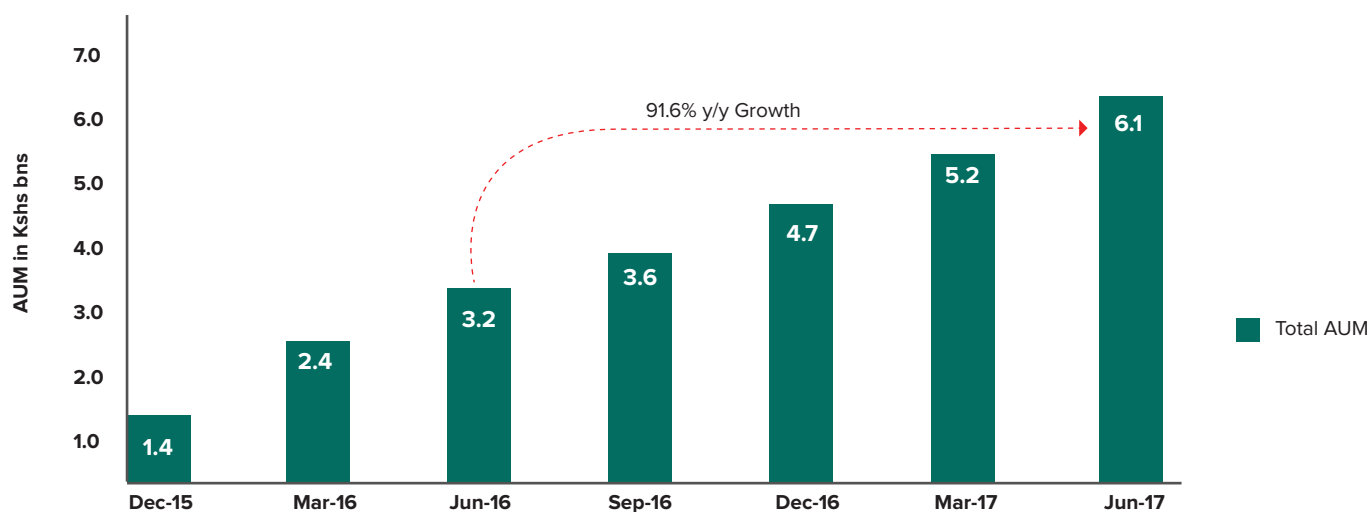
ii. Cytonn Technologies

Our technology affiliate, Cytonn Technologies (CT), has grown and is forming a sound base. To promote gender equality and diversity in the CT team, a female-only internship class was introduced. The team has been fully focused on automating all processes and systems at Cytonn in order to support and grow Cytonn into the most technology savvy and efficient investment manager in the region. With the CT Business Manager on board, Cytonn Technologies is now ready to focus on offering their services to other clients at a fee.

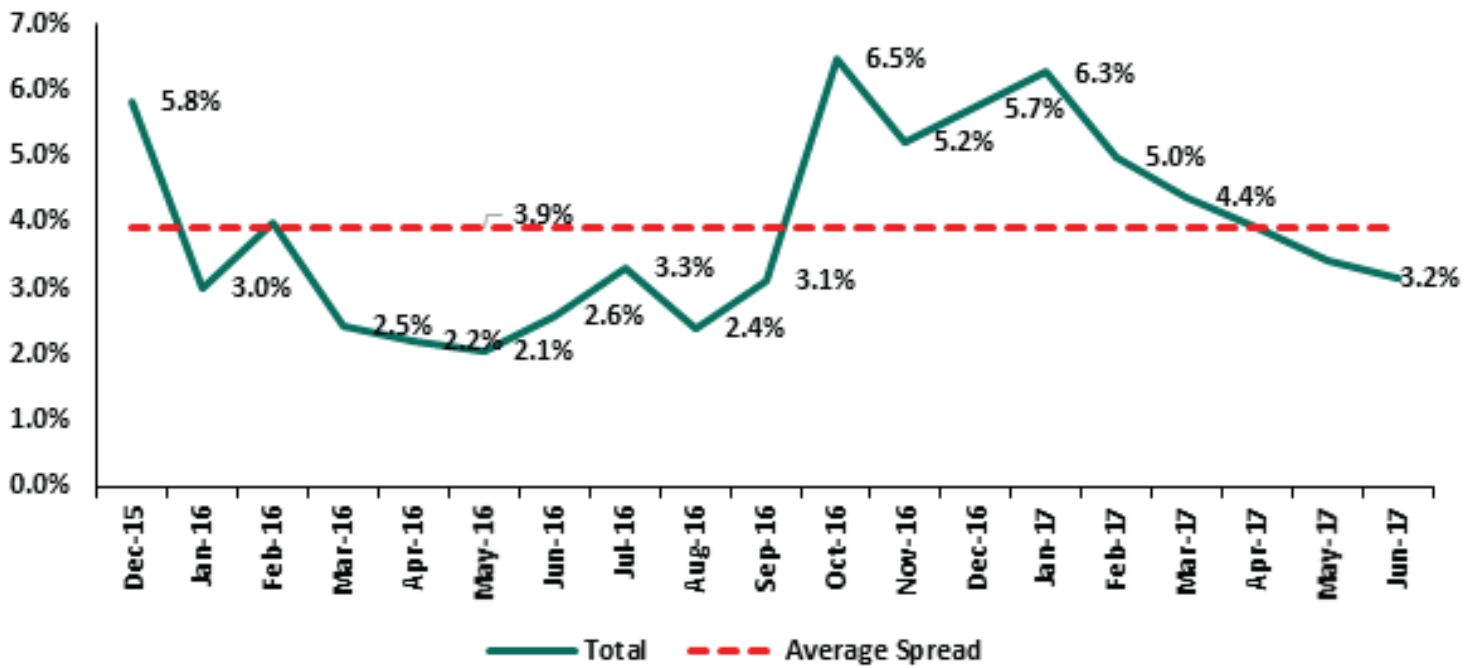
f. Cytonn Cash Management Solution (CMS) and Project Notes (CPN)

Our Assets under Management (AUM) has grown by 91.6% in a 1-year period, to Kshs 6.1 bn from Kshs 3.2 bn in June 2016; and it consists of funds invested in both CMS and CPN products. The average total spread averaged 4.4% during the half-year period, which is higher than our 3.0% target spread and a notch higher than the 3.9% average since December 2015. The target spread is the difference between our CMS cost of funds and the CMS return / yield on investments. We have also enhanced our fund raising efforts and have a team that is focused on institutional fundraising to supplement our high net-worth fundraising efforts.

Assets Under Management (AUM) Composition



Total Spread on Investments(%)



g. Others

i. Investments

In a bid to continue providing informative and engaging research to the public, we released the following reports:

- Kenya Banking Sector Report: FY'2016 and Q1'2017,
- Kenya Insurance Sector FY'2016 Report,
- Nairobi Commercial Office Report - 2017,
- Nairobi Metropolitan Area Land Report – 2017, and
- Cytonn Corporate Governance Index Report - 2017.

In addition to this, we have been releasing our weekly report, the **“Cytonn Weekly”** religiously every Sunday to continue providing in-depth analysis of the public markets, private equity market and the real estate market to the investing public. The report, alongside all our other releases, have been extremely well received by the investments and real estate market, and continue to gain prominence on the calendar of research releases. Through reports, newspaper articles and appearances on TV and Radio, our investment and real estate research teams have garnered Kshs 831.7 mn and Kshs 126.9 mn worth of PR Value (PRV), respectively, in the first half of 2017, jointly contributing to 94.8% of the total PRV generated by the whole firm of Kshs 1.0 bn (this means that we have also surpassed the Kshs 1.0 bn target set to be achieved throughout the whole year).

ii. Corporate Governance

Corporate governance is very important to us at Cytonn, as can be seen in our Corporate Governance Index Report that was released in H1'2017. In light of this, we have taken certain steps to improve our corporate governance as a firm, which are:

- (i) Adding two independent board members, Madhav Bandari and Nancy Asiko Onyango, to the Cytonn Investments Management Ltd (CIML) Board.
- (ii) Cytonn Cash Management Solutions Board was inaugurated and held its Annual General Meeting (AGM) together with CIML in March, and
- (iii) We now have a Special Purpose Vehicles (SPVs) Board to improve our governance of our project-specific SPVs.

Being the industry experts on corporate governance, and a growing company, we strive to improve our corporate governance standards to meet those of the top most compliant listed companies.

h. Other Initiatives

i. Real Estate Regional Expansion Plan

As we continue providing exceptional real estate solutions in the country, we are looking to diversify our portfolio of real estate developments in terms of location by venturing into the region. With that in mind, the RDO team has begun exploring countries within the East and West African regions that Cytonn can venture into. We are looking to venture into Rwanda through JV Partnerships as we carry out comprehensive market research on Uganda, Nigeria and Ghana. With this, we hope to provide diversification for our shareholders and improve our presence in Africa.

ii. Cytonn Foundation

To further educate our clients on financial literacy, our client services team begun organizing for Wealth Management Trainings on a bi-weekly basis. The programme has been ongoing since 2016 through to 2017, we have had trainings on a wide range of topics from real estate investments to structured high yielding investments. These trainings have been well received by our clients.

Cytonn Foundation, under its entrepreneurship pillar, held its annual Cytonn Entrepreneurs Hub (Cytonn eHub) Discussion Forum during H1'2017. The event had a 4-person panel, with our Senior Partner and Chief Investment Officer, Elizabeth Nkukuu, CFA, as part of the panel; and was attended by over 100 budding entrepreneurs looking to learn from one another and the distinguished set of panellists. Eric Kinoti - Founder and CEO, Shade Systems, Michelle Ntalami – Founder and CEO, Marini Naturals, and Kamal Budhabhatti – Founder and CEO, Craft Silicon, formed the rest of the panel, moderated by Terryanne Chebet - Founder, Keyara Organics and Scarlet Digital. For more information, please see Event Note.

iii. Over The Counter (OTC) Trade and Listing Ambitions

From our last Annual General Meeting in March 2017, one of the resolutions that was passed was to convert Cytonn Investments Management Limited (CIML) to a public company (PLC) from a private company. We are happy to inform you that the process is now complete, and the next step is to announce the conversion. We appreciate our shareholders' support and for making the conversion possible.

There has been a lot of interest from investors looking to be part of Cytonn's growth story, and as you may know the number of shares that were put in the market were limited, and what this has meant is that we cannot satisfy the demand. In our view and in line with our policy of giving the clients the best we started an over-the-counter trading platform where investors wishing to get some liquidity can now sell part of their shares while new investors can buy shares and become shareholders. The Cytonn shares are currently priced at Kshs 60 per share. To better provide shareholder liquidity, continue to strengthen investor confidence in the Company and provide an avenue for raising capital, Cytonn is planning to list on the Alternative Investment Market (AIM) of the London Stock Exchange (LSE). We trust that our shareholders will support us in this venture as well.

In conclusion, we can only thank you for the support and belief you have shown in Cytonn and the team. We are committed to the region, and through our real estate and investment strategy, we look to create jobs, grow the economy and improve standards of living, while delivering attractive returns for our investors and shareholders. In case of any queries or any clarifications, please do not hesitate to contact the undersigned.

Yours Sincerely,

For and on behalf of Cytonn Investments Management Limited

Edwin H. Dande
Managing Partner & Chief Executive Office

Appendices

1. Appendix I: Financial Statement Extracts

a. Statement of Financial Position

From our half-year management accounts we can see that H1'2017 ended with balance sheet assets worth about Kshs 14.9 bn.

- Our balance sheet assets grew by 21.2%, attributed to a 15.4% increase in investment property to Kshs 11.8 bn from Kshs 10.2 mn in the same period,
- Investment property, which constituted 79.4% of total assets, increased by 15.4% on account of addition to our live real estate projects,
- Investment in our active strategy portfolio also grew by a notable 216.2% to Kshs 1.1 bn from Kshs 338.7 mn as our investments in the Kenyan equities market gained value.

Statement of Financial Position (Kshs in Millions)	Group Unaudited Jun 17 YTD	Group Audited FY 2016	YTD Change (%)
Property, plant & equipment	92.9	48.3	↑ 92.3%
Investment in Subsidiaries & Associates	395.5	245.5	↑ 61.1%
Investment Property	11,797.4	10,218.9	↑ 15.4%
Total Non-Current Assets	12,285.9	10,512.7	↑ 16.9%
Cash & Cash Equivalents	76.4	40.7	↑ 87.7%
Inventories	312.2	289.9	↑ 7.7%
Investments - Active Strategy	1,071.0	338.7	↑ 216.2%
Investments – CMS	451.4	641.1	↓ (29.6%)
Other current assets	661.5	435.2	↑ 52.0%
Total Current Assets	2,572.4	1,745.7	↑ 47.4%
Total Assets	14,858.3	12,258.4	↑ 21.2%
Total Equity	1,194.4	894.3	↑ 33.6%
Non-controlling Interest	3,373.7	3,373.7	
Total Equity & Non-controlling Interest	4,568.1	4,267.9	↑ 7.0%
Borrowings	9,111.7	7,096.9	↑ 28.4%
Total Non-Current Liabilities	9,111.7	7,096.9	↑ 28.4%
Total Current Liabilities	1,178.4	893.6	↑ 31.9%
Total Equity & Liabilities	14,858.3	12,258.4	↑ 21.2%