Reviewed condensed consolidated interim results

for the six months ended 31 August 2020

DELTA

PROPERTY FUND

COMPANY PROFILE

Delta is a JSE-listed Real Estate Investment Trust ("REIT") with a property portfolio of R8.7 billion and a net asset value of R3.9 billion as at 31 August 2020.

Delta's primary focus is long-term investment in quality, rental income-generating properties situated in strategic nodes that are attractive to sovereign entities.

PERFORMANCE

▼ Net asset value per share
540 cents

▼ All-in-cost of debt reduced to
8.2%

▼ Rental collections
80.8%

▼ Disposed of two properties
11 154m²
R40 million

▼ Weighted average rental increased to
R127.98m²

(Registration number 2002/005129/06) (Incorporated in the Republic of South Africa)
Share code: DLT ISIN: ZAE000194049 ("Delta" or "the Fund" or "the Group") (REIT status approved)

Directors: P Langeni~ (Chairman), B Masinga* (Interim CEO), M de Lange* (CFO), N Khan~, DN Motau^, MJN Njeke#, NN Afolayan^, MCR Rampheri^, **Executive; ^Independent non-executive; ~Non-executive; #Lead independent director*
Registered office: Silver Stream Office Park, 10 Muswell Road South, Bryanston (Postnet Suite 210, Private Bag X21, Bryanston, 2021) **Transfer secretaries:** Computershare Investor Services Proprietary Limited
Sponsor: Nedbank Corporate and Investment Banking, a division of Nedbank Limited

COMMENTARY

Introduction

The results for the six months ended 31 August 2020 ("the interim results" or "the review period") mark a period of significant change for the Group. These include the appointment of new members to the Board of Directors ("the Board") and the appointment of a new interim executive leadership team, as well as two separate independent forensic investigations into irregularities which resulted in the withdrawal and reissue of the financial statements for the year ended 29 February 2020 ("2020 Financial Statements").

As the 2020 financial statements have a bearing on and are used as a comparative basis for the Company's interim results, the Company was not in a position to release the interim results within three months after the period end. As a consequence of the withdrawal of the 2020 financial statements, the JSE suspended trading in the shares of Delta on 15 December 2020. Subsequent to the publication of the interim results, the Board will approach the JSE Limited to reinstate the trading of Delta's shares on the main board of the exchange.

Despite corporate governance challenges, and significant macro-economic constraints largely as a result of COVID-19 (or "the pandemic") related hard economic lockdowns from 26 March 2020 until on 1 June 2020, Delta's portfolio proved defensive, supported by its sovereign underpin.

Financial results

Contractual rental income decreased by 5.5% and was largely affected by increased vacancies in the portfolio and reversion on leases renewed. Property operating expenses increased by 15.7% due to higher assessment rates, utility costs, security costs and increased bad debt provisions during the pandemic period.

Administrative expenses for the period increased by 15.0% mainly due to increased legal expenses and the consolidation of DPAM which resulted in the elimination of the asset management fee and concomitant replacement with the salary expenses and the IFRS 9 expense. Dividend income of R13.8 million was received from our investment in Grit. Foreign exchange movements relating to the Bank of China dollar-denominated loan decreased by 4.8% due to lower foreign exchange rate fluctuations during the period.

Finance costs and interest income decreased by 20.2% and 9.9% respectively due to the reduction of the repo rate during the pandemic.

Property portfolio

It is the Company's policy to value investment property on an annual basis. Nothing has come to the attention of the Company (including COVID-19) that would necessitate valuations to be performed at the interim period.

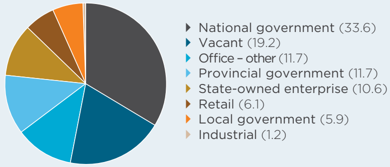
Delta's property portfolio of R8.7 billion consists of 100 properties with a total GLA of 932 605m^2.

COMMENTARY continued

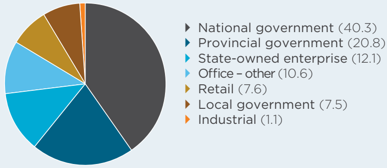
The segmental and geographic breakdown of the portfolio (per tenant) at the reporting date was as follows:

31 August 2020

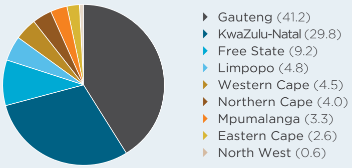
Detailed tenant breakdown by GLA (%)



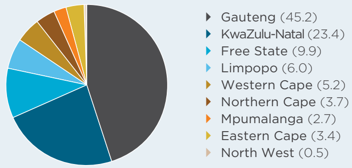
Detailed tenant breakdown by revenue (%)



Geographic profile by GLA (%)

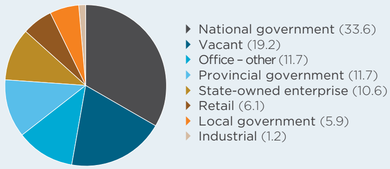


Geographic profile by rental (%)

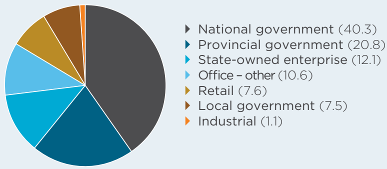


31 August 2019

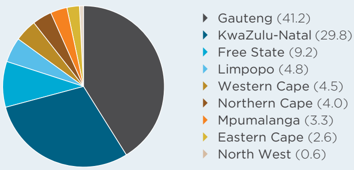
Detailed tenant breakdown by GLA (%)



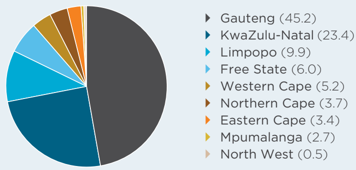
Detailed tenant breakdown by revenue (%)



Geographic profile by GLA (%)



Geographic profile by rental (%)



Acquisition and disposals

The transfer of Broadcast House and Protea Coin Cape Town, occurred on 31 May 2020 and on 6 August 2020, respectively. The proceeds from disposals of R40 million from the disposals were used to settle debt.

No acquisitions were made during the reporting period.

Major capital projects

Capital investment takes highest priority to ensure assets meet our tenants' requirements. Post the period-end, various capex projects commenced and are in progress.

- Poyntons – Phase 1 of 3 of the lift upgrades which commenced in the prior period is expected be completed by December 2021 at a cost of approximately R22 million. The fire compliance project which commenced in 2019 will be completed by September 2021 at an expected cost of R5 million. The Ground floor façade was also upgraded and completed. Total spend on this project amounts to R27 million.
- Veritas – lifts, air-conditioning, flooring and electrical compliance is being upgraded and replaced at a cost of approximately R10 million.
- Nelspruit portfolio – air-conditioning has been upgraded at a cost of R9 million.

These projects are mainly funded from operational cash with the upgrade of Poyntons being funded by debt facilities.

Letting and vacancies

Delta renewed 26 leases totalling 24 268m^2 of which the majority relate to non-government commercial tenants followed by retail and state-owned enterprise tenants. Of the leases signed two-thirds have a tenure of three years and the balance a tenure of between 12 and 18 months. Of the remaining 18 leases to be renewed with DPW, four of these leases are in three buildings that constitute 96 502m^2 combined.

The lease expiry profile by GLA of the portfolio at 31 August 2020 was as follows:

Segment lease expiry	Vacant	Month-to-month	28 February 2021	28 February 2022	28 February 2023	29 February 2024	28 February 2025	Beyond 28 February 2025
Per sector								
Office sovereign	7.5%	29.5%	6.2%	7.2%	4.6%	10.3%	0.4%	0.0%
Office other	10.4%	7.1%	4.2%	2.2%	2.0%	0.6%	0.5%	0.8%
Retail	1.6%	1.7%	0.5%	-	-	-	-	-
Industrial	0.5%	0.1%	0.0%	0.3%	0.1%	0.1%	0.0%	1.4%
Total portfolio profile	20.0%	38.4%	10.9%	9.7%	6.7%	11.0%	0.9%	2.3%

Vacancies have decreased during the period from 21.0% to 20.0%, primarily due to the disposal of Broadcast House and Protea Coin Cape Town.

The weighted average rental is R127.98/m^2 (2019: R123.5m^2) across the portfolio.

COMMENTARY continued

Funding

During the reporting period, the Fund rolled its facilities on a short-term basis mainly due to the delay of the re-issue of the 2020 financial statements that were issued on 22 April 2021. Facilities are only being renewed on a short-term basis until longer dated leases are secured with DPW, as our significant tenant.

The weighted average all-in cost of funding reduced to 8.2% (2019: 10.0%) with the interest cover ratio ("ICR") of 1.78 times (2019: 1.73 times). This improvement was attributed to the low interest rate environment following the reduction in the repo rate during the COVID-19 pandemic.

The average debt facility expiry period and average fixed debt ratio decreased to 0.6 years (2019: 0.8 years) and 45.7% (2019: 44.1%) respectively, impacted by the passage of time and short-term refinancing of facilities.

Loan to value ("LTV"), although high, decreased to 54.1% (Feb 2020: 55.7%), benefiting from cash generated by operations and repayment of debt facilities. The conclusion of disposals is envisaged to further improve the LTV in the short to medium term.

Provision of financial assistance

Delta shareholders are referred to Special Resolution Number 4, of the AGM held on 31 August 2021 relating to the provision of direct or indirect financial assistance in terms of section 45 of the Companies Act, No 71 of 2008 ("the Companies Act") to related or inter-related companies, which was approved at the Annual General Meeting of Delta on 31 August 2020.

Further to the above, Delta shareholders are notified in terms of section 45(5)(a) of the Companies Act, that the Board of directors of the Company ("the Board") passed a resolution on 31 August 2020 ("the Board resolution") granting financial assistance to the following related companies:

- **Somnipoint Proprietary Limited** – R25.9 million in respect of a loan to a company with common directors.
- **Delta Property Asset Management Proprietary Limited** – R11.1 million in the ordinary course of business.
- **Hestitrix Proprietary Limited** – R236.6 million in the ordinary course of business.
- **K2014000273 Proprietary Limited** – R175.5 million in the ordinary course of business.
- **277 Vermeulen Street Properties Proprietary Limited** – R49.1 million in the ordinary course of business.
- **Hendisa Investments Proprietary Limited** – R33 614 in the ordinary course of business.

The financial assistance provided, as detailed above, is greater than one-tenth of 1% of Delta's net worth as at the date of the Board resolution. The Board further confirms that immediately after providing the financial assistance, the Company continues to satisfy the Solvency and Liquidity Test as contemplated in section 4 of the Companies Act and that the terms and conditions of the financial assistance are fair and reasonable to the Company.

Changes to directorate during the period

Significant changes occurred in the Board composition.

On 14 June 2020, the Board advised shareholders of the untimely passing of Mr I Macleod, an independent non-executive director.

On 6 July 2021, the Board announced the appointment of Ms P Langeni as the non-executive deputy chairman of the Board and Ms B Masinga as a non-executive director.

As previously indicated to the Board, Mr JB Magwaza elected not to make himself available for re-election to the Board and retired from the Board at the Annual General Meeting on 31 August 2020. Following the retirement of Mr Magwaza, Ms P Langeni was formally appointed by the Board following the Annual General Meeting as the Chairman of the Board on 31 August 2020.

On 24 August 2020, Mr S Nomvete (Chief Executive Officer) and Mr S Maharaj (Chief Financial Officer) resigned from the Company with immediate effect and Mr O Tshabalala (Chief Operating Officer) elected to not complete his notice period, following his resignation on 1 July 2020.

On 24 August 2020 Ms B Masinga was appointed as the Interim Chief Executive Officer and Ms M de Lange as the Interim Chief Financial Officer. Ms M de Lange has since been appointed as permanent Chief Financial Officer with effect from 1 January 2021.

With Ms M de Lange assuming an executive role, she stepped down as a member of the Audit, Risk and Compliance Committee and Mr C Rampheri was appointed as a member of the said committee. Following the retirement of Mr JB Magwaza, Ms P Langeni was appointed as the chairman of the Nomination Committee. The Remuneration and Nomination Committee was split into two separate Committees.

On 3 November 2020, Mr JJ Njeke tendered his resignation from the Board with effect from 31 December 2020. On 14 December 2020, Mr Njeke withdrew his resignation, which was accepted by the Board. Mr Njeke continues to serve on the Board as the lead independent director and chairman of the Audit and Risk Committee.

Dividend

Delta's distributable income per share amounts to 16.3 cents for the six months ended 31 August 2020 (31 August 2019: 30.33 cents per share). In performing the Solvency and Liquidity Test conducted in terms of S46 of the Companies Act, which takes into consideration the working capital cash flow forecast, expected working capital requirements, capital expenditure requirements and contracted tenant installations relating to historic lease renewals, the Board, resolved not to declare an interim distribution. In 2019 a dividend of 12.19 per share was declared.

COMMENTARY continued

Basis of preparation and accounting policies

The reviewed condensed consolidated interim results have been prepared in accordance with and containing the information required by IAS 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the Companies Act of South Africa. The accounting policies applied in the preparation of these interim results are in terms of International Financial Reporting Standards ("IFRS") and are consistent with those applied in the previous annual financial statements published on 22 April 2021.

Review conclusion report

This reviewed condensed consolidated interim results for the period ended 31 August 2020 have been reviewed by the independent external auditor BDO South Africa Incorporated, who expressed a qualified review conclusion in terms of the International Standards on Review Engagements (ISRE) 2410: Review of Interim Financial Information Performed by the Independent Auditor of the Entity, including an emphasis of matter on a material uncertainty relating to going concern. The qualification pertains to the inability of the Company to ascertain the shareholding of entities. As a result the completeness of related parties and related party balances could not be established. Despite various requests to such entities and searches of public information, management has been unable to obtain the shareholding information. The review report is available for inspection at Delta's registered office and via weblink at https://www.deltafund.co.za/financials/. Comparative information for the six months ended 31 August 2019 was neither audited nor reviewed; the information for the year ended 29 February 2020 was audited.

The auditor's report does not necessarily report on all of the information contained in the interim results announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should refer to the auditor's review report contained via weblink at https://www.deltafund.co.za/financials/.

Extract from auditors' independent review report

Basis for qualified conclusion

As a result of a lack of shareholding information for the companies which the Group transacted with, we were unable to satisfy ourselves regarding the completeness of related parties and related party balances, as disclosed in note 7 to the condensed consolidated interim financial statements. Had we been able to obtain shareholding information, matters might have come to our attention, indicating that adjustments might have been necessary to note 7.

Qualified conclusion

Based on our review, except for the effects of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated financial statements of Delta Property Fund Limited for the interim period ended 31 August 2020 are not prepared, in all material respects, in accordance with the International Financial Reporting Standard, (IAS) 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa.

Material uncertainty related to going concern

We draw attention to note 2 to the condensed consolidated interim financial statements of Delta Property Fund Limited which indicates that the Group's current liabilities exceeded its current assets by R4 169 436 000. The Group's ability to continue as a going concern is dependent on the roll-forward of the debt facilities by their banks. As stated in note 2, these events and conditions, along with other matters as set forth in note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

Report on other legal and regulatory requirements

In accordance with our responsibilities in terms of sections 44(2) and 44(3) of the Auditing Profession Act, we report that we have previously identified a Reportable Irregularity in terms of the Auditing Profession Act, and accordingly have reported such matter to the Independent Regulatory Board for Auditors.

The matter pertaining to the reportable irregularity related to the fact that the Group had not prepared interim consolidated financial statements within 3 months of the interim reporting period, thereby contravening paragraph 3.15 the JSE Listings Requirements.

The auditor's report does not necessarily report on all of the information contained in the interim results announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should refer to the auditor's review report contained in these interim financial statements.

By order of the Board

P Langeni
(Chairman)

B Masinga
(Interim Chief Executive Officer)

31 May 2021

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 August 2020

GROUP	Notes	Reviewed as at 31 August 2020 R'000	Unaudited restated* as at 31 August 2019 R'000	Audited as at 29 February 2020 R'000
Assets				
Non-current assets		**8 917 244**	10 208 549	9 072 233
Investment property		**8 716 082**	9 789 446	8 780 933
Fair value of investment property		**8 597 357**	9 625 116	8 639 496
Straight-line rental income accrual		**118 725**	164 330	141 437
Property, plant and equipment		**12 146**	1 434	13 566
Investment in listed security		**189 016**	417 669	277 734
Current assets		**431 118**	487 999	333 026
Loans due from related parties		**-**	36 325	-
Loan receivable		**12 533**	15 789	12 562
Current tax receivable		**-**	526	-
Trade and other receivables		**328 206**	359 575	274 052
Cash and cash equivalents		**90 379**	75 784	46 412
Total assets		**9 348 362**	10 696 548	9 405 259
Equity		**3 859 127**	5 092 863	3 953 345
Share capital		**4 868 461**	4 868 461	4 868 461
Retained income		**(1 000 444)**	223 097	(909 968)
Non-controlling interest		**(8 890)**	1 305	(5 148)
Liabilities				
Non-current liabilities		**888 681**	1 668 773	1 121 365
Derivative financial instruments		**157 344**	56 154	58 427
Interest-bearing borrowings		**687 431**	1 559 906	1 019 509
Lease liabilities		**37 633**	2 177	37 156
Other financial liabilities		**6 273**	50 536	6 273
Current liabilities		**4 600 554**	3 934 912	4 330 549
Interest-bearing borrowings		**4 189 935**	3 650 326	4 014 568
Lease liabilities		**4 153**	213	9 400
Derivative financial instruments		**-**	2 226	3 805
Trade and other payables		**295 466**	226 746	238 034
Current tax payable		**110 989**	2 400	37 590
Bank overdraft		**11**	53 001	27 152
Total liabilities		**5 489 235**	5 603 685	5 451 914
Total equity and liabilities		**9 348 362**	10 696 548	9 405 259

* Certain comparative information has been restated, reclassified or represented, as a result of a correction of prior period errors (refer note 1)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period ended 31 August 2020

GROUP	Notes	Reviewed six months ended 31 August 2020 R'000	Unaudited restated* six months ended 31 August 2019 R'000	Audited for the year ended 29 February 2020 R'000
Revenue				
Rental income	5	**724 698**	766 739	1 486 020
Straight-line rental income accrual		**(22 708)**	(7 514)	(30 383)
		701 990	759 225	1 455 637
Property operating expenses		**(277 639)**	(239 916)	(476 138)
Net property rental and related income		**424 351**	519 309	979 499
Other income		**-**	607	2 499
Dividend income		**13 809**	17 418	42 878
(Loss)/gain on foreign exchange movements		**(11 331)**	(11 905)	(19 326)
Administrative expenses		**(54 910)**	(47 734)	(93 514)
Net operating profit		**371 919**	477 695	912 036
Fair value adjustments		**(172 962)**	(82 478)	(1 140 432)
ECL provisions		**-**	-	(67 754)
Profit/(loss) from operations		**198 957**	395 217	(296 150)
Finance costs		**(238 298)**	(298 552)	(571 530)
Interest income		**10 156**	11 268	20 463
(Loss)/profit before taxation	4	**(29 185)**	107 933	(847 217)
Taxation		**(65 143)**	-	(93 071)
(Loss)/profit for the period		**(94 328)**	107 933	(940 288)
(Loss)/profit for the period attributable to:				
Owners of the parent		**(90 586)**	108 582	(935 800)
Non-controlling interest		**(3 742)**	(649)	(4 488)
Total comprehensive (loss)/income for the period attributable to:				
Owners of the parent		**(90 586)**	108 582	(935 800)
Non-controlling interest		**(3 742)**	(649)	(4 488)
Basic and diluted (loss)/earnings and headline earnings per share:				
Basic and diluted (loss)/earnings per share (cents)	3	**(12.68)**	15.20	(131.02)
Basic and diluted headline (loss)/earnings per share (cents)	3	**(9.63)**	15.37	11.90

* Certain comparative information has been restated, reclassified or represented, as a result of a correction of prior period errors (refer note 1)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period ended 31 August 2020

GROUP	Share capital R'000	Retained income R'000	Non-controlling interest R'000	Total equity R'000
Balance at 1 March 2019*	4 868 461	227 112	(660)	5 094 913
Total comprehensive profit for the six months ended 31 August 2019	–	108 582	(649)	107 933
Profit for the six months ended 31 August 2019	–	108 582	(649)	107 933
Dividend paid	–	(112 597)	–	(112 597)
Balance at 31 August 2019	4 868 461	223 097	(1 309)	5 202 846
Total comprehensive loss for the six months ended 31 August 2020	–	(1 044 382)	(3 839)	(1 048 221)
Loss for the six months ended 31 August 2020	–	(1 044 382)	(3 839)	(1 048 221)
Dividend paid	–	(88 573)	–	(88 573)
Balance at 29 February 2020	**4 868 461**	**(909 858)**	**(5 148)**	**3 953 455**
Total comprehensive loss for the year	**–**	**(90 586)**	**(3 742)**	**(94 328)**
Loss for the year	**–**	**(90 586)**	**(3 742)**	**(94 328)**
Balance at 31 August 2020	**4 868 461**	**(1 000 444)**	**(8 890)**	**3 859 127**

* As per restated financial statements issued 22 April 2021

CONSOLIDATED STATEMENT OF CASH FLOW

for the period ended 31 August 2020

GROUP	Notes	Reviewed six months ended 31 August 2020 R'000	Restated unaudited six months ended 31 August 2019 R'000	Audited for the year ended 29 February 2020 R'000
Cash generated from operations	4	**343 362**	506 675	896 129
Interest received		**9 791**	8 437	14 428
Dividend received		**13 809**	17 418	42 878
Finance costs		**(212 483)**	(252 064)	(487 265)
Taxation (paid)/refund		**-**	-	(57 354)
Net cash inflow from operating activities		**154 479**	280 466	408 816
Acquisition of property, plant and equipment		**(243)**	(90)	(102)
Capital expenditure		**(28 266)**	(7 441)	(22 938)
Proceeds on disposal of assets held-for-sale		**14 966**	45 000	49 106
Proceeds on disposal of investment in listed security (Grit)		**37 250**	-	104 351
Repayment of loan receivable		**-**	-	5 000
Repayment of loans with related parties		**30**	5 000	227
Advance of loans with related parties		**-**	(8 498)	-
Net cash inflow from investing activities		**23 737**	33 971	135 644
Dividends paid		**-**	(114 198)	(201 286)
Advance of interest-bearing borrowings		**5 750**	22 666	105 587
Repayment of interest-bearing borrowings		**(112 858)**	(96 336)	(319 803)
Repayment of lease liability		**-**	-	(728)
Repayment of derivative financial instrument		**-**	(23 607)	-
Repayment of other financial liabilities		**-**	-	(28 792)
Net cash outflow from financing activities		**(107 108)**	(211 475)	(445 022)
Net movement in cash and cash equivalents		**71 108**	102 962	99 438
Cash at the beginning the period		**19 260**	(80 178)	(80 178)
Total cash at the end of the period		**90 368**	22 784	19 290

NOTES TO THE GROUP FINANCIAL STATEMENTS
for the period ended 31 August 2020

1. Events after the reporting period

There has been a significant period of time between the reporting date and the date of approving these interim results. The subsequent events below were carefully assessed to ensure that all material events have been disclosed.

Impact of COVID-19

The World Health Organization ("WHO") declared in March 2020 that the coronavirus ("COVID-19") is a global pandemic. On 15 March 2020, the President of the Republic of South Africa declared COVID-19 to be a national disaster in terms of the Disaster Management Act, with stage 5 lockdown implemented from 25 March 2020. Since then, many markets have declined, and credit spreads have widened.

As the effects of COVID-19 are felt around the world, local property companies are being impacted in different ways, largely dependent on region and asset class. Most economic and company-specific forecasts made for 2020 before the onset of COVID-19 are being retracted as it remains challenging to accurately estimate the forward-looking impact of the pandemic. We recognise that the most valuable resources remain our people, and accordingly implemented measures to limit the potential spread of the virus among our employees, tenants, service providers and all personnel linked to the business. We formed a COVID-19 task team to assess and monitor the implemented measures and provided our staff with the relevant tools and capabilities to work-from-home. For those who are part of essential services, the appropriate PPE was provided alongside COVID-19 compliance guidelines.

The Group's strategy of a sovereign focused office fund has limited the negative economic impact of COVID-19 on the business. While rental collection for the period post 29 February 2020 has remained robust, the full impact of COVID-19 on our portfolio has been limited with approximately R5.5 million in relief granted to 31 August 2020 with an additional amount of R6.2 million provided for. The Group continues to generate positive cash flows and accordingly make payments towards all its operating and administration expenses, including interest and capital repayments on its interest-bearing borrowings to the banks.

The portfolio remains defensive and resilient during these turbulent times.

Engagements with lenders and compliance with financial covenants

- Loan to value ratio decreased to 54.1% (February 2020: 55.7%) and interest cover ratio changed to 1.78 times (February 2020: 1.75 times).
- Continued engagement with lenders has been positive with continued support received.
- There has been no default on any facilities.
- The Bank of China facility was renewed with key changes in the terms of the facility including – conversion from a USD-denominated loan to ZAR; increased duration from three to six years, amortisation over six years.

Disposal of properties

At the date of this report, one sale agreement has been concluded for the sale of the Domus building, situated at 57 Kasteel Road, Lynnwood Glen, Pretoria, for R25 million as announced on SENS on 12 February 2021.

Investment in Grit Real Estate Income Group Limited

The value of the Grit shares held by Delta decreased from R277.7 million to R157.1 million as at 28 February 2021. This relates to a decrease in the share price from USD1.13 per share to USD0.65 per share and the exchange rate which also decreased from R15.99/$1 to R15.08/$1.

Regulatory matters

As a direct result of the withdrawal of the audit opinion by our auditor BDO, the withdrawal of the financial statements for the year ended 29 February 2020 by the Board ("Withdrawal"), and the continuation of the investigation into the impact of the forensic investigation on the Company's prior period financial information, as well as the audit procedures being undertaken by BDO, the Board engaged with the JSE to consider a suspension of the listing of the Company's shares on the JSE ("Suspension").

Unfortunately, the JSE could not approve such request as the reasons for the Suspension did not fall within any of the circumstances contained in paragraph 1.10 of the JSE Listings Requirements (suspension at the request of the issuer).

The JSE, however, initiated the suspension provisions as set out in paragraphs 1.6 and 1.7 of the JSE Listings Requirements due to the Withdrawal. The listing of the Company's securities was suspended on the JSE on 15 December 2020.

The Board agreed with and supported the Suspension, the aim being to protect investors and enable accurate price information.

The Board views the Suspension as a temporary measure. The restated 2020 financials were published on 22 April 2021 and the interim results on 31 May 2021. The financial statements for the year ended 28 February 2021 will be published on 30 June 2021 due to the procedures undertaken by management and the auditor to complete the audit process following the delayed publication of the 2020 restated financial results. Upon publication of the 2021 financial statements, the Company will engage with the JSE for the orderly lifting of the suspension.

Whilst we note the impact of this decision on shareholders, the Board believes that the suspension is still in the interest of shareholders and the Company.

With the release of these interim results the Reportable Irregularity relating to the interim financial statements has been remedied.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the period ended 31 August 2020

1. Events after the reporting period continued

Litigation and recovery of funds

The following ligation matters arose since 31 August 2020:

- **Orthotouch**

Orthotouch Proprietary Limited has instituted legal proceedings against the Fund by way of summons, issued out of the High Court of South Africa, in which it seeks payment from Delta of an amount of R210.3 million arising from alleged penalties calculated in relation to the purchase of the Bloemfontein property portfolio.

The Group strongly denies the alleged claim as formulated on various grounds and has defended the action. We have been advised by our attorneys that the Group has very good prospects of success having regard to the claim as formulated, together with the transaction and performance by the Group. Judgement was handed down in this matter in favour of Delta. However, Orthotouch instituted appeal proceedings against Delta which will be defended. It is difficult to estimate the legal costs which are calculated on time spent. However, current estimates range between R800 000 and upwards of R1.5 million depending on the time taken to conclude the matter.

- **Somnipoint litigation**

During the 2015 financial year, Delta entered into an agreement with Somnipoint to acquire the asset held in Somnipoint. A R45 million refundable deposit was agreed to be paid to Somnipoint. The asset was presented to the Investment Committee and was subsequently declined. The deposit was not refunded. The common directors in Somnipoint and Delta at the time were Messrs S Nomvete (former CEO) and JB Magwaza (former Chairman) of Delta Property Fund. In February 2020, the asset held in Somnipoint was disposed of and as a result the loan has been impaired.

Subsequent to 31 August 2020, the Board instituted legal proceedings to recover the amounts due from the shareholders of Somnipoint. Mr JB Magwaza settled R5.0 million of the portion of the loan relating to him.

- **MPI PAM claim**

Claim A

MPI Property Asset Management Proprietary Limited ("MPI PAM") claims R200 million with interest from 16 September 2015 and costs based on an alleged obligation on the part of Delta to pay MPI PAM compensation in terms of the Asset Management Services Agreement following the termination thereof by Delta on 15 June 2015; and

Claim B

MPI PAM claims R200 million with interest from 16 October 2015 and costs based on an alleged obligation on the part of Delta to pay the claimant the purchase price of the business of MPI PAM in terms of the Sale Agreement.

The Board is opposing the claims and represent Delta in the dispute. All necessary action will be taken to defend the matter.

2. Going concern

The preparation of financial statements in accordance with IFRS requires, based on the Conceptual Framework of IFRS, that the financial statements be prepared on the underlying assumption that the entity ("entity" being the Company and the Group) is a going concern. This assumption presumes that an entity will continue in operation in the foreseeable future or, if that presumption is not valid, disclosure and a different basis of reporting are required. The Board of directors ("Board") believes that as of the date of this report, this presumption is still appropriate and accordingly the financial statements have been prepared on the going concern basis. The Board has based this assumption on the considerations more fully explained throughout this note.

Ability of the Company and Group to continue as a going concern

IAS 1 Preparation of Financial Statements requires management to assess the Group's ability to continue as a going concern. To this extent, IAS 1 states that when management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, such uncertainties should be disclosed. In conducting this assessment, management has taken into consideration the following factors:

Post-publication on 8 July 2020 of the financial statements for the reporting period ended 28 February 2020, the Board was made aware of certain allegations of irregularities which resulted in the commissioning of two forensic investigations. These investigations confirmed the veracity of these allegations and necessitated the withdrawal of the previously published financial statements.

- The result of the investigations led to the restatement of prior year financial information. These restatements are more fully described in the restatement note to these financial statements as well as the Directors' report have had a significant negative impact to the Group's statement of financial position.
- The Group reported a net loss of R94.3 million for this interim reporting period. This loss is mainly attributed to the fair value adjustment of derivatives and the investment in Grit. These challenges have, in part, been balanced by the performance of the investment property portfolio, which remains strong.
- The Group's total assets of R9.3 billion exceed the total liabilities of R5.4 billion at 31 August 2020.
- The Group's loan to value ratio was 54.1% (February 2020: 55.7%). This ratio exceeded the covenants set by the lenders of 50%. The Group's interest cover ratio was 1.78 times (February 2020: 1.75 times). This ratio exceeded the covenants set by the lenders of 2 times. The Group has engaged lenders regarding the breach in covenants; they remain supportive of the Group and have not called their facilities.
- The Group's current liabilities of R4.6 billion exceeded its current assets by R4.1 billion at 31 August 2020. This is mainly due to the structural tenure of the Group's funding facilities. The Board has engaged with lenders in this regard and the following actions have been agreed:
  - The Group will reduce its debt exposure to acceptable levels by disposing of assets that are non-core to the business.
  - The funders remain supportive of the business.
  - The filling of additional vacancies and the extension of expiring leases.
  - A strategic plan to support the above initiatives.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued
for the period ended 31 August 2020

2. Going concern continued

Solvency

It is the Group's policy to value its investment property at year end and at 29 February 2020, independent valuations of the investment property portfolio indicate that their fair values exceed the external debt of the Group. While the Group intends to hold these assets for their income generating potential, the loan to value ratio of 54.1% indicates that should the Group need to dispose of properties to lower its external debt levels; the quantum of required disposals is considered achievable in the current market conditions.

Liquidity

In assessing the Group's liquidity, management prepared a cash flow forecast up until 28 February 2022, taking into consideration its turnaround plan and other initiatives which, if successfully implemented, indicate that the Group will have sufficient cash resources for the foreseeable future which is defined as 12 months from the date of publishing these financial statements.

Cash flows and liquidity are monitored daily by management with oversight from the Board. Management has considered several estimates, judgments and assumptions in performing the liquidity assessments, the most significant of which are listed and expanded upon below:

- Continued positive engagement and support from the Group's lenders including extension of facilities beyond scheduled maturity dates despite exceeding certain loan covenant ratios;
- The reduction in debt through the sale of properties currently held for sale;
- Continued performance of the property portfolio within expected vacancy not greater than 21%.

Conclusion

The Board is of the view that given the significant headroom in the fair value of the assets over the fair value of the liabilities, the Group and Company remain solvent as at 31 August 2020 and at the date of this report.

The ability of the Group to repay debt as it becomes due is dependent on the timing and quantum of cash flows from operations according to forecasts prepared by management, including scenario analyses, the ability to realise cash through the sale of properties identified as held-for-sale and the ability to extend loan facilities beyond scheduled maturity dates.

The Board has no intention to cease trading, curtail operations or liquidate properties in excess of those already earmarked for sale, other than the orderly disposals that may be necessary to reduce debt. The Board remains focused on and committed to the operation of the Group, renewal of key leases and repayment of debt.

The Board acknowledges the material uncertainty related to unforeseen events or conditions that may affect the orderly execution of the strategy of the Group, including continued support from the Group's principal financiers, that may cast significant doubt on the Group's ability to continue as a going concern.

Notwithstanding the acknowledgement of the material uncertainties and having considered the validity of the principal assumptions set out above, the Board has concluded that the Group is able to discharge liabilities in the normal course of business and is therefore of the opinion that the going concern assumption is appropriate in the preparation of the financial statements.

3. Earnings and headline earnings per share

GROUP	Reviewed six months ended 31 August 2020 R'000	Restated unaudited six months ended 31 August 2019 R'000	Audited for the year ended 29 February 2020 R'000
Earnings and headline earnings			
(Loss)/profit for the period attributable to the owner of the parent	**(90 586)**	108 582	(935 800)
Adjusted for:			
Fair value adjustment of investment property	**21 771**	1 193	1 020 771
Headline earnings	**(68 815)**	109 775	84 971
Number of shares in issue ('000)	**714 230**	714 230	714 230
Weighted average number of shares in issue ('000)	**714 230**	714 230	714 230
Basic and diluted earnings and headline earnings per share (cents)			
Basic and diluted (loss)/earnings per share	**(12.68)**	15.20	(131.02)
Basic and diluted headline (loss)/earnings per share	**(9.63)**	15.37	11.90

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the period ended 31 August 2020

4. Cash generated from operations

GROUP	Reviewed six months ended 31 August 2020 R'000	Restated unaudited six months ended 31 August 2019 R'000	Audited for the year ended 29 February 2020 R'000
Cash generated from operations			
(Loss)/profit before taxation	**(29 185)**	107 933	(847 220)
Adjustments:			
Depreciation on property, plant and equipment	**306**	369	698
Unrealised loss on foreign exchange differences	**11 331**	11 905	22 069
Dividend income – listed security	**(13 809)**	(17 418)	(42 878)
Interest income	**(10 156)**	(11 268)	(20 463)
Finance costs	**238 298**	298 552	571 529
Fair value adjustments			
Investment property	**21 771**	1 193	1 020 771
Derivative financial instruments	**95 111**	37 132	39 923
Listed security	**56 079**	44 154	79 738
Provisions	**(29 516)**	–	32 558
Taxation	**(15 969)**	–	–
Impairment of loan receivable	**–**	–	1 266
Straight-line rental income accrual	**22 708**	7 514	30 383
Operating profit before working capital changes	**346 969**	480 066	883 373
Changes in working capital	**(3 959)**	26 609	7 756
(Decrease)/increase in trade and other receivables	**(54 307)**	(17 976)	67 542
Decrease/(increase) in trade and other payables	**50 700**	44 585	(59 786)
Cash generated from operations	**343 362**	506 675	896 129

5. Rental income

Rental income comprises gross rental income and recoveries from tenants.

GROUP	Reviewed six months ended 31 August 2020 R'000	Unaudited restated six months ended 31 August 2019 R'000	Audited for the year ended 29 February 2020 R'000
Contractual	**542 092**	564 952	1 114 840
Parking	**49 663**	50 688	101 272
Antennae	**2 563**	2 435	5 138
Storage	**5 415**	5 250	10 579
Signage	**76**	376	453
Recoveries	**124 889**	143 038	253 738
	724 698	766 739	1 486 020

6. Investment in listed security

Grit Real Estate Income Group Limited	Reviewed as at 31 August 2020 R'000	Unaudited restated as at 31 August 2019 R'000	Audited as at 29 February 2020 R'000
Reconciliation of Investment in GRIT			
Opening balance	**277 734**	381 868	461 822
Disposal of shares	**–**	–	(104 350)
Fair value adjustment	**(88 718)**	35 801	(79 738)
Closing balance	**189 016**	417 669	277 734

Grit is an African-focused property income fund listed on the Johannesburg Stock Exchange Limited ("JSE"), Stock Exchange of Mauritius ("SEM") and London Stock Exchange ("LSE"). Delta holds 5.7% (2019: 7.8%) of Grit shares on the JSE, while 2.1% was disposed of during the year to an international consortium for R104.4 million. The proceeds were utilised to settle debt facilities geared against these shares. This investment was fair valued at year-end to R15.99 per share (2019: R19.35 per share), which resulted in a negative fair value adjustment at Group and Company of R79.8 million (2019: R79.9 million). The changes in fair value of this investment is recognised in profit and loss according to the requirements of IFRS 9. Subsequent to year-end Grit delisted from the JSE, moved to a premium listing on the LSE and retained its listing on the SEM.

This investment is categorised as level 1 under the fair value hierarchy which is defined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the period ended 31 August 2020

7. Related parties

Parties are considered related if one party has the ability to exercise control or significant influence over the other party in making financial or operational decisions. All transactions with related parties are at arm's length. At 31 August 2020, the previous executive directors are no longer related parties. However, transactions during the period have been disclosed as related party transactions.

Relationship

Subsidiaries

Atterbury Parkdev Consortium Proprietary Limited
Choice Decisions 300 Proprietary Limited
Hendisa Investments Proprietary Limited
Hestitrix Proprietary Limited
K2014000273 Proprietary Limited
Phamog Properties Proprietary Limited
277 Vermeulen Street Properties Proprietary Limited
Delta Property Asset Management Proprietary Limited

Members of key management

SH Nomvete – Chief Executive Officer (resigned)
S Maharaj – Chief Financial Officer (resigned)
ON Tshabalala – Chief Operating Officer (resigned)
S Masinga – Interim Chief Executive Officer (appointed 24 August 2020)
M de Lange – Chief Financial Officer (appointed 24 August 2020)

Common directors

Shameless Way Trading Proprietary Limited
Somnipoint Proprietary Limited

	Reviewed six months ended 31 August 2020 R'000	Restated unaudited six months ended 31 August 2019 R'000	Audited for the year ended 29 February 2020 R'000
Shameless Way Trading			
Travel expense	–	219	219
Somnipoint			
Loan receivable	**25 987**	25 267	26 018
Interest income	**1 304**	1 260	2 634

8. Condensed segmental analysis

The Group has five reportable segments based on the type of property, i.e. retail, office government, office other, industrial and administration and corporate costs. Where a property has more than one tenant the segment is classified based on the majority tenant type. For each strategic business segment, the entity's executive directors review internal management reports on a monthly basis. All operating segments are located in South Africa with a foreign investment in Grit.

The accounting policies of the segments are the same as those applied in the Group. There were no inter-segment sales during the period.

Reviewed for the six months ended 31 August 2020 GROUP	Retail R'000	Office government R'000	Office other R'000	Industrial R'000	Administration and corporate costs R'000	Total R'000
Revenue	15 559	548 414	157 236	3 184	305	724 698
Net property rental and related income	7 645	347 131	72 708	308	(2 441)	424 351
Total assets	319 133	6 753 467	1 858 179	97 124	320 459	9 348 362
Total liabilities	157 489	3 211 493	1 142 390	19 641	958 220	5 489 235
Unaudited restated for the six months ended 31 August 2019						
Revenue	19 061	563 245	174 339	9 900	195	766 739
Net property rental and related income	11 217	395 397	96 176	8 081	8 438	519 309
Total assets	313 973	7 288 054	2 336 210	149 663	608 648	10 696 548
Total liabilities	160 053	3 714 762	1 499 576	31 303	197 991	5 603 685
Audited for the year ended 29 February 2020						
Revenue	39 325	1 099 566	332 355	14 774	-	1 486 020
Net property rental and related income	24 961	755 019	187 987	11 532	-	979 499
Total assets	314 019	6 722 985	1 945 496	108 203	314 556	9 405 259
Total liabilities	156 901	3 497 433	1 291 288	32 387	473 905	5 451 914

The segmental report has been populated based on a per building classification which is in accordance with the majority tenant.

DERIVATIVE FINANCIAL INSTRUMENTS

for the period ended 31 August 2020

	Reviewed six months ended 31 August 2020 R'000	Unaudited restated six months ended 31 August 2019 R'000	Audited for the year ended 29 February 2020 R'000
Non-current liabilities			
Balance at the beginning of the year	**62 232**	51 101	51 101
Additions during the period	**–**	–	–
Derecognition of a derivative	**–**	–	–
Fair value adjustment	**95 112**	7 280	11 131
Balance at the end of the year	**157 344**	58 381	62 232

Interest rate swaps – future cash flows are discounted using the Johannesburg Interbank Agreed Rate ("JIBAR") swap curve.

Cross-currency swap – represents the present value of net future cash payments and receipts, which fluctuates based on changes in market interest rates and the dollar/rand exchange rate.

The Group uses a combination of interest rate swaps, cross-currency swaps (settled during the year) and fixed bank facilities to hedge its exposure to interest rate risk. The group pays the nominal interest rate and receives three-month JIBAR as the floating rate.

Valuation techniques used to determine fair values

The fair value of derivative financial instruments are not traded in an active market and are determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. All significant inputs required to fair value a derivative financial instrument are observable and the derivative instrument are included as level 2.

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

FAIR VALUE ADJUSTMENTS

for the period ended 31 August 2020

GROUP	Reviewed six months ended 31 August 2020 R'000	Unaudited six months ended 31 August 2019 R'000	Audited for the year ended 29 February 2020 R'000
Investment property	**(21 771)**	(1 193)	(1 013 943)
Investment in listed securities	**(56 079)**	(44 154)	(79 738)
Derivative financial instruments	**(95 112)**	(37 132)	(39 923)
Balance at the end of the year	**(172 962)**	(82 478)	(1 133 604)

It is the policy of the Group to value investment properties on an annual basis and adjust to its open market value. Due to the limited impact of COVID-19 on the portfolio, valuations were not performed during the interim period.

The fair value hierarchy has the following levels:
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

EXPECTED CREDIT LOSS

GROUP	Reviewed six months ended 31 August 2020 R'000	Unaudited six months ended 31 August 2019 R'000	Audited for the year ended 29 February 2020 R'000
ECL provision – financial guarantee	**-**	(38)	2 353
ECL provision – related party receivables	**-**	-	26 018
ECL provisions – loan receivables	**-**	-	4 188
ECL provision – trade receivables	**-**	55 730	35 195
Balance at the end of the year	**-**	55 692	35 195

All significant inputs required to fair value expected credit loss financial instrument are observable and the derivative instrument are included as level 2.

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

SUPPLEMENTARY INFORMATION

Distributable earnings

for the period ended 31 August 2020

GROUP	Reviewed six months ended 31 August 2020 R'000	Restated unaudited six months ended 31 August 2019 R'000	Audited for the year ended 29 February 2020 R'000
Distributable earnings per share			
(Loss)/profit for the period attributable to the owner of the parent	**(90 586)**	108 582	(935 800)
Adjusted for:			
Straight-line rental income accrual	**22 708**	7 514	30 383
Fair value adjustment	**172 962**	82 479	1 137 019
Foreign exchange losses	**11 331**	11 905	19 326
Adjustment to dividends from listed security	**-**	6 120	(3 813)
Distributable earnings attributable to owners of the parent	**116 415**	216 600	247 115
Less: dividend declared	**-**	(87 089)	(87 089)
Interim	**-**	(87 089)	(87 089)
Final	**-**	-	-
Number of shares in issue ('000)	**714 230**	714 230	714 230
Distributable earnings per share (cents)	**16.30**	30.33	34.60
Dividend per share (cents)	**-**	12.19	12.19
Interim	**-**	12.19	12.19
Final	**-**	-	-

Restatement of prior period errors

As reported in the Reissued Annual Financial Statements ("Reissued results") which was released on 22 April 2021, the Board received an anonymous tip-off from a whistle-blower regarding irregularities being perpetrated by senior executives of Delta Property Fund. A preliminary investigation was conducted and completed by Deloitte on 12 November 2019. After the initial investigation, an in-depth investigation was conducted by Mazars Forensic Services ("the first forensic investigation") and a preliminary report was issued on 13 August 2020 following the receipt of the preliminary findings of the first forensic investigation. The Board has subsequently engaged with the Company's auditor, BDO South Africa Incorporated, (the auditor) in respect of the preliminary findings and the circumstances surrounding the resignation of the relevant executive directors.

The findings of the forensic investigations and subsequent Internal Assessments by management overseen by the Board revealed and confirmed a number of irregularities that gave rise to material misstatements in the previously issued financial statements that have subsequently been addressed and corrected in the Reissued results with the interim period restatements reflected below.

The nature and impact of the irregularities and concomitant misstatement of previously reported results have been set out below.

Full detail of the restatements is contained in the Restated results with extracts thereof explained in the following notes.

SUPPLEMENTARY INFORMATION continued

Restatement of prior period errors continued

Impact of the restatements on the statement of financial position as at 31 August 2019:

GROUP	Unaudited 31 August 2019 as previously reported R'000	1.1 Commissions R'000	1.3 Contractor rental income R'000
Assets			
Non-current assets			
Investment property	9 913 379	–	–
Fair value of investment property	9 762 271	–	–
Straight-line rental income accrual	151 108	–	–
Loans due from subsidiaries*	18 633	–	–
Current assets			
Trade and other receivables	370 729	(35 111)	–
Loans due from related parties*	36 325	–	–
Cash and cash equivalents	36 516	–	–
Non-current assets held-for-sale$	1 391 520	–	–
Equity			
Non-controlling interest	–	–	–
Retained income$	1 766 634	(35 111)	10 947
Liabilities			
Non-current liabilities			
Lease liabilities	–	–	–
Other financial liabilities	–	–	–
Current liabilities			
Trade and other payables	232 597	–	–
Lease liabilities	–	–	–
Current tax payable	13 347	–	(10 947)
Bank overdraft	52 870	–	–

* R18.6 million was reclassified from loans due from related parties to loans due to from subsidiaries following the consolidation of DPAM

$ The R357 000 relates to incorrect opening balances published in August 2019

1.4 Property valuations R'000	1.5 Reclassification of NCAHFS R'000	1.6 Recognition of guarantee liability R'000	1.7 Consolidation of DPAM R'000	Unaudited restated 31 August 2019 R'000
(1 515 453)	1 391 520	–	–	9 789 446
(1 515 453)	1 378 298	–	–	9 625 116
–	13 222	–	–	164 330
–	–	–	(18 633)	–
–	–	–	23 956	359 575
–	–	–	–	36 352
–	–	–	39 268	75 784
–	(1 391 520)	–	–	–
–	–	–	1 305	1 305
(1 515 453)	–	(3 921)	–	223 097
–	–	–	2 177	2 177
–	–	3 921	46 615	50 536
–	–	–	(5 851)	226 746
–		–	214	214
–		–	–	2 400
–	–	–	131	53 001

SUPPLEMENTARY INFORMATION continued

Restatement of prior period errors continued

Impact of the restatements on the statement of comprehensive income for the period ended 31 August 2019:

GROUP	Unaudited 31 August 2019 as previously reported R'000	1.1 Commissions R'000	1.2 Fraudulent payments R'000
Revenue			
Rental income	766 544	–	–
Property operating expenses	(251 770)	–	(1 500)
Administration expenses*	(35 566)	–	–
Loss on foreign exchange movements	(13 405)	–	(1 500)
Finance costs	(296 522)	–	–
Taxation			
Profit/(loss) for the year*	108 582	–	

* R378 000 was reallocated in the opening balance of August 2019 and relates to Administration Expenses corrected in August 2019

1.1. Commissions

The forensic investigation revealed various broker commissions paid to brokers without valid broker mandates or with no mandates. Some of the commissions were paid to companies of which the directors are directly or indirectly acquaintances of the previous executive team. These commissions were not disclosed to the Board of Delta Property Fund Limited ("Delta") at the time of the payment of the broker commissions. The standard broker commission agreed with parties such as DPAM and Broll Property Group Proprietary Limited ("Broll"), which provides property management services to Delta, is 100% for new leases and 50% for renewal leases based on the following sliding scale:

5.00% of the first year's gross rental

5.00% of the second year's gross rental

2.50% of the third year's gross rental

2.50% of the fourth year's gross rental

2.50% of the fifth year's gross rental

1.50% of the sixth year's gross rental

1.50% of the seventh year's gross rental

1.50% of the eight years' gross rental

1.00% of the year's thereafter gross rental

In many instances the broker commissions exceeded the above rate (of 50% for renewal of leases). The brokers used were also not registered with the Estate Agency Affairs Board ("EAAB") and did not provide fidelity fund certificates as required by Delta. Therefore, the commissions are classified as irregular expenditure. The Board is in the process of reporting the unregistered brokers to the EAAB.

	1.4 Property valuations R'000	1.5 Reclassification of NCAHFS R'000	1.6 Recognition of guarantee liability R'000	1.7 Consolidation of DPAM R'000	Unaudited restated 31 August 2019 R'000
	–	–	–	195	766 739
	–	–	–	13 354	239 916
	–	–	–	(12 168)	(47 733)
	–	–	–	–	(11 905)
	–	–	–	(2 030)	(298 552)
	–	–	–	(649)	107 934

In the prior financial periods, commissions were accounted for in the statement of financial position under the trade and other receivables category as deferred payments. This category is part of current assets.

In terms of IAS 17 paragraph 4, commissions are defined as "incremental costs that are directly attributable to negotiating and arranging a lease" and should therefore be added to the carrying amount of the leased asset and further recognised as an expense over the lease term on the same basis as the lease income (IAS 17 paragraph 52).

In terms of IFRS 16 paragraph 83, a lessor shall add initial direct costs incurred in obtaining an operating lease to the carrying amount of the underlying asset and recognise those costs as an expense over the lease term on the same basis as the lease income.

Sales commissions are regarded as initial direct costs. Two aspects arose from the treatment of commissions:

1. The reclassification of commissions from the deferred expenditure classification (current asset) to the carrying amount of the leased asset (investment property – non-current asset). This movement will have a corresponding amendment to the fair value adjustments of investment property. This relates to the commissions paid that are not irregular; and
2. The expensing of the irregular expenditure that was considered to be off-market as identified above.

The commissions paid were claimed as a tax deduction in the year in which the expense was incurred. The amendments referred to above do not have an impact on the deductibility of the expense.

SUPPLEMENTARY INFORMATION continued

Restatement of prior period errors continued

1.2. Fraudulent payments

Two payments totalling R2.1 million were made to two companies as facilitation fees. The party who ultimately received the payments from the two companies in turn confirmed his involvement in the transaction and that the fees were to facilitate the renewal of a facility. This transaction was reported by the Board to the South African Police Service ("SAPS") as the payment constituted a bribe.

The first payment of R1.5 million was initially incorrectly classified in the accounts of Delta as an unrealised loss on foreign exchange differences. The second payment of R600 000 was expensed and classified in the category administration expense. Both errors have now been corrected by reclassifying the expense as an irregular expense in the statement of comprehensive income.

This R1.5 million payment was not deducted for tax purposes as it was incorrectly classified as an unrealised loss on foreign exchange differences. The second payment of R600 000 was classified as a donation within the category of administration expenses and as no s18A certificate existed, the amount was not deducted for tax purposes. The amounts remain non-deductible for tax purposes.

1.3. Contractor rental income

During the 2018 and 2019 financial years, rental income contained income classified as contractor rental income. This income was purportedly generated from contractors who performed capital projects (capex) for Delta. As the contractors took a substantial amount of time to complete the work, the contractors entered into lease agreements with Delta to pay rental to Delta and subsequently increase the cost of the contract for work done as part of the capital project. In certain cases, the contractor rentals were not documented in commercial contracts with the respective contractors. Valid contractor rentals should be offset against the corresponding capex incurred within the respective investment property and not recognised as rental income.

Although this practice did not have an impact on the bottom line of Delta as the extent of rental income reclassified to investment property is offset by an increase in the fair value adjustment, the accounting treatment did lead to the overstatement of rental income and the overstatement of capex which have been capitalised to investment property.

Although the overstatement of rental income did not impact the net profit/(loss) for the various years, the overstatement impacted the distributable income and consequently the distributions paid. This in turn would have impacted the qualifying distribution in terms of S25BB of the Income Tax Act, and the tax paid in 2019.

1.4. Property valuations

Property valuations are performed by various independent property valuers. During the February 2019 and February 2020 valuation process, some valuers were instructed by the previous management team to specifically exclude commissions, property management fees, insurance and valuation fees when performing the valuations. This practice was contradictory to prior financial years and generally accepted valuation practice. The valuations were reperformed after including the property-related expenses previously excluded.

Further assessments revealed off-market assumptions used in certain of the property valuations for the years ended February 2018, 2019 and 2020 that led to the amendment of the assumptions to align with property-specific and market information available at the date of the fair value determination.

As stated in the reissued 2020 results (published on 22 April 2021) the correction of the erroneous valuations resulted in a decrease in the valuation of investment property (including investment property held-for-sale) from R10.6 billion (2019: R11.3 billion and 2018: R11.5 billion) to R8.8 billion (2019: R9.8 billion and 2018: R10.6 billion) in the financial statements for the year ended February 2020 (“2020 financial statements”). Of the total decrease of R1.8 billion (2019: R1.5 billion and 2018: R0.9 billion), R0.6 billion (2019: R0.8 billion) relates to the exclusion of the property-related expenses from the valuations and R1.2 billion (2019: R0.7 billion and 2018: R0.9 billion) resulting from a difference in assumptions that were not aligned to property-specific and market information available at the date of the fair value determination as follows. The impact on August 2019 was a reduction from R9.9 billion to R9.8 billion.

1.5. Reclassification of non-current assets held-for-sale (“NCAHFS”) to investment properties

A review of the status of properties classified as held-for-sale revealed a number of properties that did not meet the required criteria and were required to be reclassified to investment properties amounting to R1.4 billion as at 31 August 2019. The reclassification did not have a direct impact on the valuation of such properties, as the Group accounting policy is to measure properties classified as non-current assets held-for-sale in accordance with IAS 40 Investment Property at fair value.

SUPPLEMENTARY INFORMATION continued

Restatement of prior period errors continued

1.6. Recognition of guarantee liability

A guarantee has been provided to Investec Bank Limited ("Investec") in respect of the debt obligations of Freedom Property Fund SARL and Grit Property Holdings Limited (as "borrower") for the lower of EUR30 million or 58% of the outstanding debt of Grit to Investec.

The instrument is considered to be a financial guarantee contract in accordance with IFRS 9 Financial Instruments and accordingly is measured at the higher of the loss allowance determined in accordance with the ECL determined in accordance with IFRS 9 and the amount initially recognised less cumulative income subsequently recognised.

The accounting recognition of the financial guarantee contract gave rise to a guarantee liability of R3.92 million at 31 August 2019. There were no tax accounting effects upon recognition of the guarantee liability.

1.7. Consolidation of Delta Property Asset Management Proprietary Limited ("DPAM")

Although the Company does not own the ordinary shares of DPAM, it is considered to have control over the company in accordance with the control definitions contained in IFRS 10 Consolidated Financial Statements and is classified as a subsidiary company.

Accordingly, DPAM has been consolidated resulting in a decrease in Group net asset value of R1.3 million at 31 August 2019.

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