Octodec INVESTMENTS LIMITED

Unaudited

Interim Results

for the six months ended 28 February

creating value
beyond financial return

2019

creating value beyond financial return

Octodec Investments Limited (Octodec or the group or the company) is listed on the JSE Limited (JSE) as a real estate investment trust (REIT) with a portfolio of 293 properties valued at R13.0 billion. The group is a long-term investor in a Gauteng-focused property portfolio with most of its properties situated in the Tshwane and Johannesburg CBDs.

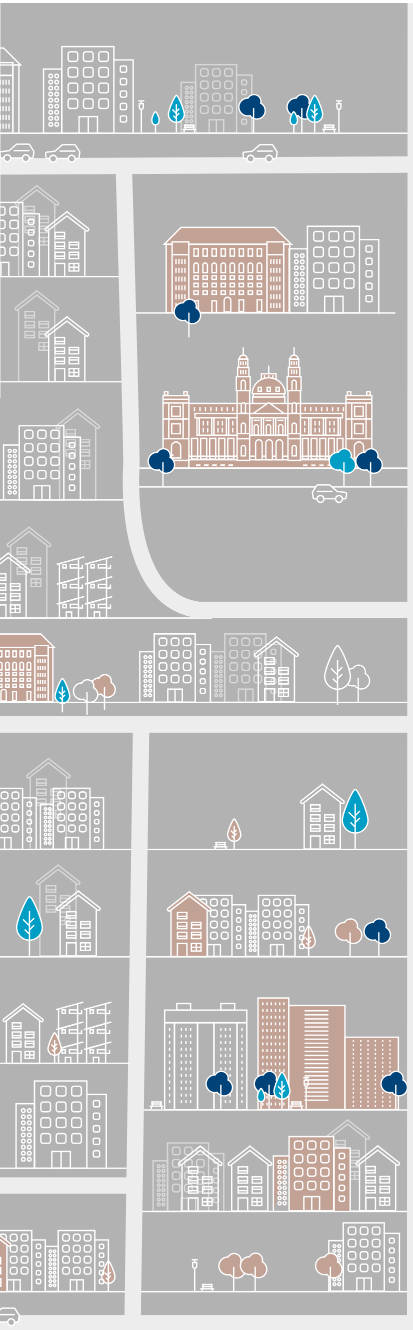
Octodec is well-positioned to continue taking advantage of opportunities in the Tshwane and Johannesburg CBDs. The group's primary objective is to improve the existing properties in strategic and well located investment nodes with the objective of attracting new tenants and improving rental income. The group continues to invest in the defensive residential asset class, with a focus on properties that offer affordable rentals and which are located in densely populated urban areas.

Octodec has contracted City Property Administration (Pty) Ltd (City Property), to perform its asset and property management functions.

293 properties valued at R13.0bn

66.1% of our portfolio is in Tshwane

33.9% of our portfolio is in Johannesburg



Measuring performance

101.7 cents per share distributed for the six month period (February 2018: 101.7 cents)

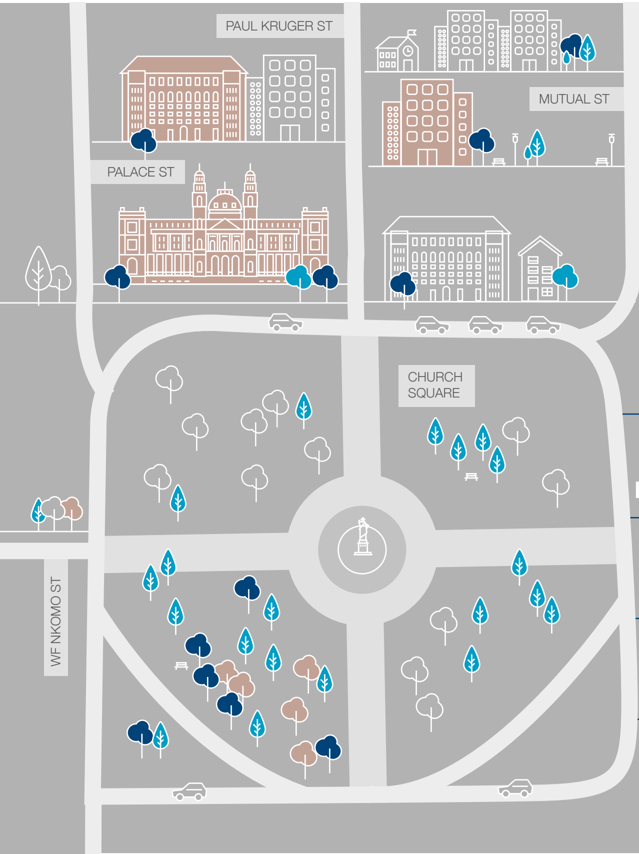
R29.16 net asset value (NAV) per share

2.2% like-for-like growth in rental income for the six month period

75.5% of exposure to interest rate risk is hedged (August 2018: 74.5%)

38.3% loan to investment value (LTV) (August 2018: 37.8%)

9.4% all-in annual weighted average cost of borrowings (February 2018: 9.2%)



Rental income % by sector

Retail shopping centres **10.1%**
Feb 2018: 10.4%

shops **23.9%**
Feb 2018: 24.2%

Residential **31.9%**
Feb 2018: 30.6%

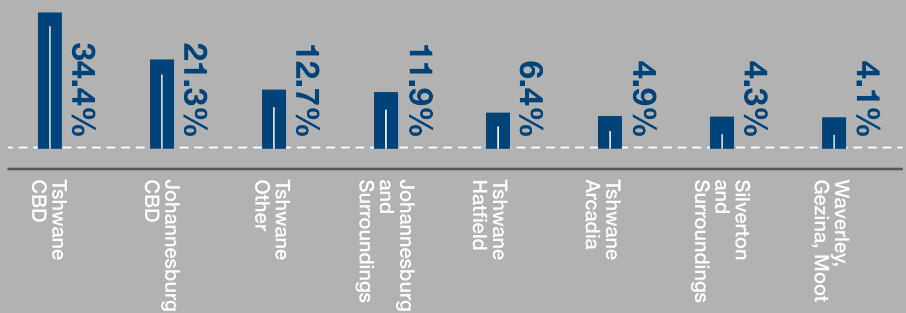
Offices **15.6%**
Feb 2018: 16.6%

Industrial **7.0%**
Feb 2018: 7.2%

Specialised and other **11.5%**
Feb 2018: 11.0%

Geographical analysis of rental income

% of total portfolio



* *The information on rental income and property portfolio up to page 14 includes 100% of the joint ventures and not only the group's share.*

contents

review of results

The prevailing poor economic and trading environment, exacerbated by political and policy uncertainty has weighed heavily on consumer confidence and spending power. We continue to focus on the core property fundamentals and have positioned ourselves to provide shareholders with long-term sustainable value creation.

Octodec has delivered a dividend of 101.7 cents per share which is in line with its guidance to shareholders of flat growth. The dividend was impacted by pressure on rental income growth as well as an increase in property operating costs.

Salient features	% Change	**Unaudited 6 months 28 February 2019 R'000**	Unaudited 6 months 28 February 2018 R'000
Revenue – earned on a contractual basis	5.2	**977 603**	929 656
Net property income – earned on a contractual basis	1.6	**527 303**	518 866
Investment property including joint ventures	0.6	**12 980 069**	12 904 343
Shareholders' funds	(1.5)	**7 763 260**	7 884 600
Interest bearing borrowings	2.8	**4 966 627**	4 832 687
Shares in issue ('000)	–	**266 198**	266 198
Net asset value (NAV) per share (cents)	(1.6)	**2 916**	2 962
Loan to investment value (LTV) ratio (%)	1.3	**38.3%**	37.8%
Distributable profit	1.0	**273 458**	270 779
Dividend per share (cents)	**–**	**101.7**	**101.7**

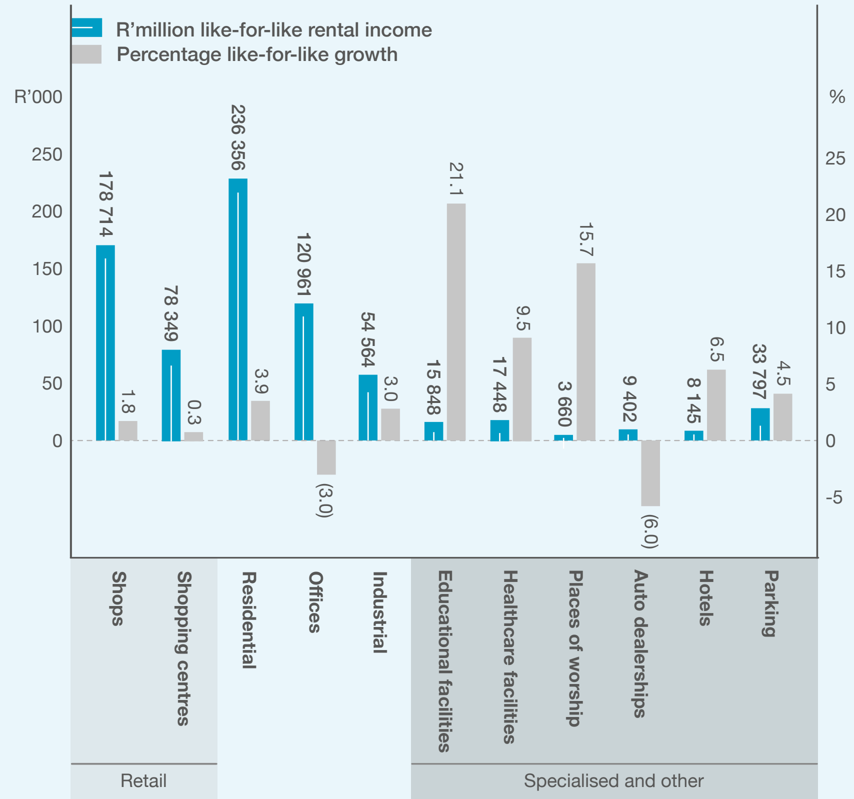
Rental income grew by R47.9 million or 5.2% compared to the corresponding reporting period, mainly attributable to the increase in rental income of Sharon's Place as well as the inclusion of 100% of Gerlan Properties (Pty) Ltd ("Gerlan") (Toyota Auto dealership) acquired on 1 July 2018 and Jardtal Properties (Pty) Ltd ("Jardtal") (Kempton Place and The Brooklyn) acquired on 1 November 2018. The remaining 50% interests in Gerlan and Jardtal were acquired during the period, and were accounted for as subsidiaries during the reporting period.

The core portfolio, represented by those properties held since the previous comparable period with no major development activity reflected like-for-like rental income growth of 2.2%.

The lower growth in rental income for retail shops, shopping centres, offices and auto dealerships is mainly attributable to increased vacancies during the period as well as rental reversions, a result of the poor economic environment.

Residential rental income increased by 3.9% in an environment of stable occupancy levels and greater focus on tenant retention.

Like-for-like rental income per sector and percentage increase for the six month period ended 28 February 2019 (2.2% increase in total)



review of results continued

Cost to income ratios

	28 February 2019 %	28 February 2018 %	31 August 2018 %
Property costs			
Gross basis	**46.1**	44.2	45.7
Net basis (net of recoveries)	**30.9**	28.3	30.0
Administrative costs			
Gross basis	**4.1**	5.2	4.4
Net basis (net of recoveries)	**5.2**	6.7	5.6
Property and administration costs			
Gross basis	**50.1**	49.4	50.0
Net basis (net of recoveries)	**36.1**	35.0	35.6

Property costs, both on a gross and net basis, have increased compared to the prior period. This is largely due to an increase in utility and assessment rate charges and an overall increase in property management costs.

Bad debt write-offs and provisions during the period increased to 1.3% of total tenant income (28 February 2018: 1.2%). Residential bad debts contributed to the slight increase in the bad debt expense which is a result of the difficult economic conditions facing the consumer. Despite the sustained economic pressure, arrears and doubtful debt provisions remain at acceptable levels as a result of tight credit risk management and collections.

The administration costs decreased by 24.1% compared to the same period in 2018. In the prior period, the administration costs included once-off costs incurred with the negotiation and preparation of the asset and property management agreement as well as a provision for a VAT liability relating to prior periods. The asset management fees reduced to 0.42% (previously 0.5%) in terms of the new asset and property management agreement with City Property which was effective from 1 July 2018.

Finance costs for the period amounted to R225.7 million, an increase of 5.5% compared to the prior period. The all-in weighted cost of borrowings increased to 9.4% per annum (February 2018: 9.2%). This is mainly due to the cost of additional hedging contracts entered into during the prior period as well as the interest expensed on the completed development, Sharon's Place, which was previously capitalised to the cost of the development.

Octodec is a voluntary participating landlord in the Edcon recapitalisation and restructure programme ("the restructure"). Octodec's exposure to Edcon amounted to 0.9% of total gross lettable area (GLA) and 1.2% of rental income and the impact of the restructure on distributable income for the financial year ending 31 August 2019 is R2.2 million or 0.4% of distributable income. For further information on the restructure, please refer to the Octodec SENS announcement dated 12 March 2019.

investing for growth

Developments

Sharon's Place which was completed in phases by 30 June 2018 was 98% occupied as at February 2019, with strong growth in rental income expected for the foreseeable future.

During the current period, the group did not undertake any significant developments. However, the group has several smaller projects underway, in line with Octodec's strategy to upgrade, maintain and extract value from its property portfolio. One of these is the refurbishment of Elarduspark Shopping Centre, a community shopping centre in a south-eastern suburb of Pretoria, which is expected to be completed in October 2019 at a cost of R40.4 million. These various upgrades should not only improve the occupancy levels and enhance the value of the portfolio, but will also contribute to the upliftment of the areas in which Octodec is predominantly invested.

Investments

Octodec acquired the remaining 50% interest in Jardtal, effective 1 November 2018, for a cash consideration of R36.5 million at an initial yield of 9.5%.

Jardtal comprises two properties, Kempton Place, a residential complex with retail and parking, located in Kempton Park and The Brooklyn, a residential building with retail, located in the Johannesburg CBD.

Disposals

In line with the decision to dispose of non-core or under-performing properties, the group disposed of a further fourteen properties during the period. At the date of this report, six of these properties had been transferred for a total consideration of R98.8 million. Transfer of the remaining eight properties for a total consideration of R39.0 million is expected to take place before the 2019 financial year-end. The properties were sold at an average combined exit yield of 5.7% and a combined premium of R2.4 million to carrying value.

investing for growth continued

Properties disposed of and transferred before 28 February 2019

Property	Location	Total consideration R'million	Profit/(loss) on disposal R'million	Transfer date	Exit yield %
Medical Towers	Johannesburg CBD	25.2	0.8	September 2018	3.3
Ken's Court	Pretoria CBD	44.6	1.6	September 2018	4.4
The Pavilion	Sunnyside	23.1	(1.5)	December 2018	7.5
Brianley (2)	Silverton	2.0	(0.7)	December 2018	11.6
Midchurch	Pretoria CBD	1.5	0.2	December 2018	–
Troymona (1 out of 2 houses)	Waverley	1.1	0.2	January 2019	8.2
Monaco (5 out of 12 remaining sectional title units)	Tshwane – Arcadia	1.3	0.1	September to February 2019	7.0
Total		**98.8**	**0.7**		**5.1**

Transfers expected to take place after 28 February 2019

Property	Location	Total consideration R'million	Profit/(loss) on disposal R'million	Expected transfer date	Exit yield %
Supmall	Silverton	11.2	–	April 2019*	9.2
Goleda (3)	Tshwane West	1.9	0.2	April 2019*	4.5
Notrevlis	Silverton	11.2	0.2	May 2019*	5.5
Viskin	Pretoria CBD	2.9	0.8	May 2019	10.2
Brianley (4)	Silverton	2.0	–	May 2019	3.1
Brianley (7)	Silverton	1.7	0.4	May 2019	1.9
Hannyhof (1)	Hermanstad	5.4	0.1	May 2019	9.7
Hannyhof (2)	Hermanstad	2.7	–	May 2019	7.5
Total		**39.0**	**1.7**		**7.3**

** Already transferred*

Vacancies

Vacancies in the Octodec portfolio at 28 February 2019, including properties held for redevelopment, amounted to 17.7% (31 August 2018: 18.6%) of gross lettable area. The core vacancies, which exclude the gross lettable area relating to properties held for development and those currently being redeveloped amounted to 11.3% (31 August 2018: 11.6%).

Vacancies by sector as at 28 February 2019

	Gross lettable area (GLA) m^2	Total vacancies %	Properties held for redevelopment or recently developed %	Core vacancies %
Retail – shops	338 794	12.8	–	12.8
Retail – shopping centres	95 012	6.6	–	6.6
Residential	391 887	5.7	–	5.7
Offices	410 103	43.9	(24.6)	19.3
Industrial	252 015	12.3	(1.05)	11.3
Specialised and other				
Educational facilities	60 268	–	–	–
Healthcare facilities	36 566	14.7	(1.2)	13.5
Places of worship	16 361	–	–	–
Auto dealerships	14 403	–	–	–
Hotels	13 458	–	–	–
Total	**1 628 867**	**17.7**	**(6.4)**	**11.3**

vacancies continued

Vacancies by sector as at 31 August 2018

	Gross lettable area (GLA) m²	Total vacancies %	Properties held for redevelopment or recently developed %	Core vacancies %
Retail – shops	349 633	13.2	(0.1)	13.1
Retail – shopping centres	95 009	5.2	–	5.2
Residential	393 643	6.4	(0.6)	5.8
Offices	413 581	45.1	(26.4)	18.7
Industrial	253 396	15.0	(1.0)	14.0
Specialised and other				
Educational facilities	56 753	–	–	–
Healthcare facilities	36 566	14.1	(1.2)	12.9
Places of worship	16 672	–	–	–
Auto dealerships	15 722	–	–	–
Hotels	13 458	–	–	–
Total	**1 644 433**	**18.6**	**(7.0)**	**11.6**

There has been an overall decrease in core vacancies. The most notable reduction was in the industrial sector, although with lower rentals being achieved. The increase in shopping centre vacancies is mainly attributable to the impact of the upgrade of Elarduspark Shopping Centre, with vacant space not being relet in anticipation of the upgrade. The occupancy levels are expected to improve after the completion of the upgrade of this shopping centre.

In recent years, certain office properties such as Fedsure House, Reinsurance House, Van Riebeeck Medical Building and Midtown were acquired with high vacancy levels. The potential of these office properties, with 101 046 m² of mothballed space, is being investigated and offer significant residential conversion, office redevelopment or disposal opportunities, the value of which will be realised in due course.

Lease expiry profile

Octodec's portfolio features a mix of short to long-term leases due to the nature of the property portfolio. The majority of the leases provide for a monthly agreement at expiry of the lease. When this occurs an effort is made to conclude longer-term leases. This is especially typical of the residential market and leases with small to medium-sized enterprises. The lease expiry profile is in line with historical trends and expectations.

Lease expiry profile as at 28 February 2019

	By rental income (%)					By GLA m² (%)					
Sector	**2020**	**2021**	**2022**	**2023**	**2024 and beyond**	**2020**	**2021**	**2022**	**2023**	**2024 and beyond**	**Vacant %**
Retail – shops	38.3	20.7	17.6	15.0	8.4	37.3	17.4	15.4	10.0	7.1	12.8
Retail – shopping centres	22.9	33.5	20.6	7.2	15.8	20.2	34.1	12.8	7.3	19.0	6.6
Residential	97.0	3.0	–	–	–	90.7	3.6	–	–	–	5.7
Offices	59.7	28.1	4.2	5.1	2.9	33.7	15.1	2.5	2.8	2.0	43.9
Industrial	50.4	27.0	9.8	1.8	11.0	44.3	22.3	9.9	1.8	9.4	12.3
Specialised and other											
Educational facilities	65.7	8.1	10.5	8.0	7.7	68.6	6.0	9.3	8.1	8.0	–
Healthcare facilities	21.2	19.4	43.3	6.6	9.5	14.8	12.7	47.4	4.6	5.8	14.7
Places of worship	76.8	16.7	4.7	1.8	–	70.8	22.6	5.7	0.9	–	–
Auto dealerships	43.2	25.3	–	–	31.5	54.0	19.2	–	–	26.8	–
Hotels	–	100.0	–	–	–	–	100.0	–	–	–	–
	60.6	**18.6**	**9.2**	**5.7**	**5.9**	**50.1**	**15.5**	**7.6**	**3.9**	**5.2**	**17.7**

borrowings

Borrowings as at 28 February 2019

	Amount R'million	Weighted average interest rate per annum %
Bank loans	3 909.7	8.9
Domestic medium-term note programme (DMTN)	1 057.0	8.7
Total borrowings	4 966.7	8.9
Cost of swaps	–	0.5
Total borrowings	**4 966.7**	**9.4**

The group's loan to value ratio (LTV) as at 28 February 2019 was 38.3% (August 2018: 37.8%), taking into account the loans and investment value of our equity accounted joint ventures.

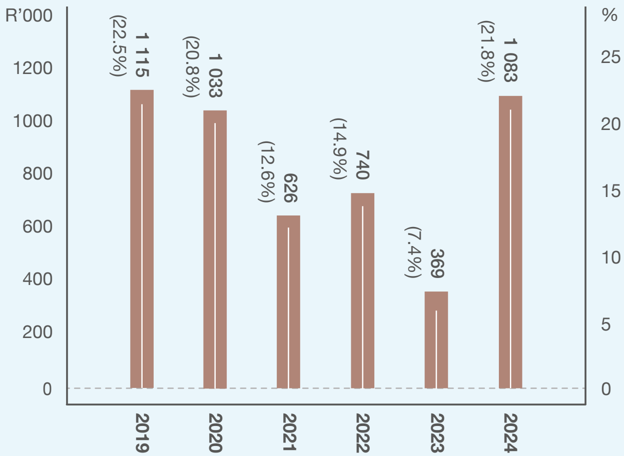
Octodec has reduced its exposure to interest rate risk by entering into interest rate swap contracts. As at 28 February 2019, 75.5%, of its borrowings were hedged (August 2018: 74.5%) with a weighted average period of 2.3 years. Subsequent to 28 February 2019, Octodec entered into an additional swap contract for an amount of R500 million, increasing the hedging of our borrowings to 85.6%.

Including the additional swap contract entered into after 28 February 2019, the hedges in place are for a weighted average period of 2.4 years.

As at 28 February 2019, the all-in weighted average interest rate of all borrowings was 9.4% per annum (February 2018: 9.2%), with a weighted average term to expiry of 2.3 years (August 2018: 2.5 years).

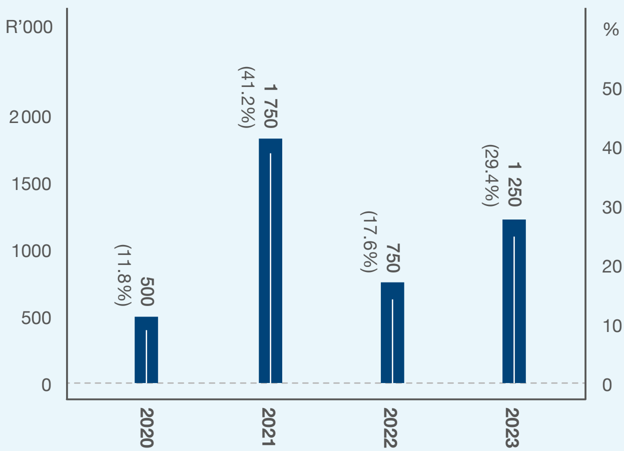
The process to extend or refinance short-term borrowings has already commenced with the banks and Octodec is confident of the successful outcome thereof.

Loan expiry profile per financial year (Rm and %)



Total value of loans
R4.966 billion

Expiry profile of interest rate swap contracts per financial year (Rm and %)



Total interest rate swaps
R4.250 billion

Octodec participates in a DMTN programme through its subsidiary, Premium Properties Limited. As at 28 February 2019 the total issuance was at R1.057 billion, or 21.3% of the group's borrowings. Global Credit Rating's long and short-term national scale ratings of Premium Properties Limited are A-(ZA) and A1-(ZA) respectively.

Octodec had unutilised available banking facilities amounting to R562.1 million at 28 February 2019.

changes in fair value

It is the group's policy to perform internal valuations of all the properties at the interim period and at year-end. The valuations are based on the income capitalisation method, which is consistent with the basis used in prior years. The property portfolio, was internally valued at R13.0 billion at 28 February 2019 after a write down in fair value of R23.0 million, mainly attributable to an increase in the capitalisation rates applied in the valuation of the portfolio, in an environment of low growth.

The mark-to-market value of interest rate swaps contracts, which protect the group against adverse interest rate movements, resulted in a fair value loss of R37.0 million for the period.

prospects

Local market uncertainty continues and no significant improvement in the economy and consumer health is expected in the short-to-medium term. Following the conclusion of the general elections this month, political risk and uncertainty is expected to settle, restoring some level of confidence. South Africa is expected to achieve minimal growth for 2019. Thereafter, improved conditions should provide the stimulus for Octodec to unlock value and provide shareholders with a growing sustainable distribution.

Octodec's experienced management team combined with its diversified portfolio, large number of tenants, sound operating fundamentals and prudent capital management, underpin the group's resilience during these challenging times.

The disposal of non-core or under-performing properties will remain a key focus area for the foreseeable future. The proceeds from the disposals will be applied towards the repayment of borrowings.

The forecast dividend for the second six month period ending 31 August 2019 is expected to be slightly lower than the dividend for the six month period ended 28 February 2019, resulting in an anticipated decrease of approximately 2% in the dividend for the year.

This guidance is based on:

- the current market and trading conditions prevailing for the property portfolio
- the current forecast investment property income calculated using contractual rentals and assumed market-related renewals
- allowance for vacancies using assumptions and historical experience
- no major corporate and tenant failures occurring
- no further deterioration in the political and socio-economic environment
- the cost of terming out of loans and entering into additional interest rate swap contracts

This forecast has been neither reviewed nor reported on by the group's auditors.

declaration of cash dividend

The board of directors of Octodec declared an interim cash dividend of 101.7 cents per share, for the six months ended 28 February 2019, out of the company's distributable income.

Salient dates and times

The salient dates and times for the cash dividend are as set out below:

	2019
Last day to trade cum dividend	Tuesday, 28 May
Shares trade ex dividend	Wednesday, 29 May
Record date to receive cash dividend	Friday, 31 May
Electronic transfer into personal bank account of certificated shareholders[2]	Monday, 3 June
Accounts credited by CSDP or broker to dematerialised shareholders with the cash dividend payment	Monday, 3 June

Notes:

1. *Shares may not be dematerialised or rematerialised between Wednesday, 29 May 2019 and Friday, 31 May 2019, both days inclusive.*
2. *Where the transfer secretaries do not have the banking details of any certificated shareholders, the cash dividend will be held by the company pending receipt of the relevant certificated shareholder's banking details, whereafter the cash dividend will be paid via electronic transfer into the personal bank accounts of certificated shareholders.*

Tax implications for non-resident shareholders

Dividends received by non-resident shareholders from a REIT will not be taxable as income and will be exempt from income tax in terms of the exemption in section 10(1)(k)(i) of the Income Tax Act. Any dividend received by a non-resident from a REIT is subject to dividend tax at 20%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation agreements (DTA) between South Africa and the country of residence of the non-resident shareholders. Assuming dividend tax will be withheld at a current rate of 20% the net dividend amount due to non-resident shareholders is 81.36 cents per share.

A reduced dividend tax in terms of the applicable DTA may only be relied on if the non-resident shareholder has submitted the following forms to his/her CSDP or broker, as the case may be, in respect of uncertificated shares, or the transfer secretaries, in respect of certificated shares:

- A declaration that the dividend is subject to a reduced rate as a result of the application of the DTA; and
- A written undertaking to inform the CSDP, broker or the transfer secretaries, as the case may be, should the circumstances affecting the reduced rate change or the beneficial owner cease to be the beneficial owner,

both in the form prescribed by the Commissioner for the South African Revenue Services (SARS).

If applicable, non-resident shareholders are advised to contact the CSDP, broker or the company, as the case may be, to arrange for the above-mentioned documents to be submitted prior to payment of the dividend, if such documents have not already been submitted.

Tax implications for South African resident shareholders

Dividends received by or accrued to South African tax residents must be included in the gross income of such shareholders. They are not exempt from income tax in terms of the exclusion to the general dividend exemption contained in section 10(1)(k)(i)(aa) of the Income Tax Act because they are dividends distributed by a REIT. These dividends are, however, exempt from dividend withholding tax (dividend tax) in the hands of South African resident shareholders, provided that the South African resident shareholders have made submissions to the CSDP or broker, as the case may be, in respect of uncertificated shares, or the company in respect of certificated shares, a DTD (EX) (Dividend Tax: declaration that the dividend is exempt from dividends tax and a written undertaking to inform the CSDP, broker or the company, as the case may be, should the circumstances affecting the exemption change or the beneficial owner ceases to be the beneficial owner, both in the form prescribed by the Commissioner for the South African Revenue Services (SARS).

If resident shareholders have not submitted the above-mentioned documentation to confirm their status as a South African resident they are advised to contact their CSDP or broker, as the case may be, to arrange for the documents to be submitted prior to payment of the cash dividend.

Shareholders are encouraged to consult with their professional advisors should they be in any doubt as to the appropriate action to take.

The number of shares in issue at the date of this declaration is 266 197 535 and Octodec's tax reference number is 9925/033/71/5.

By order of the board

S Wapnick
Chairman

JP Wapnick
Managing director

10 May 2019

notes to the condensed consolidated interim financial statements

Basis of preparation

The unaudited condensed consolidated interim financial statements are prepared in accordance with the JSE Listings Requirements and the requirements of the Companies Act, 71 of 2008 of South Africa. The interim report has been prepared in accordance with 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 accounting policies applied in the preparation of the condensed consolidated interim financial statements are in accordance with International Financial Reporting Standards (IFRS) and, with the exeption of the adoption of IFRS 9 - Financial instruments and IFRS 15 - revenue from contracts, are consistent with those applied in the preparation of the previous consolidated audited financial statements for the year ended 31 August 2018.

The group has adopted IFRS 9 - Financial instruments and IFRS 15 - Revenue from contracts with customers and the adoption thereof did not have any material impact on the results for the period.

These results have been prepared under the historical cost convention, except for investment properties, which are measured at fair value, and certain financial instruments, which are measured at either fair value or amortised cost.

These condensed consolidated interim financial statements were prepared under the supervision of Mr AK Stein CA(SA), in his capacity as group financial director and have not been reviewed or reported on by the company's auditors.

Fair value measurement

The valuation techniques used for calculating fair value have remained unchanged compared to the previous reporting period.

Investment property

The fair value of the group's investment property as at 28 February 2019 was arrived at on the basis of a valuation technique using the net income capitalisation method by taking into account prevailing market rentals, occupation levels and capitalisation rates.

The first key input used in the valuation calculation is the capitalisation rate. The range of annual capitalisation rates applied to the property portfolio is between 8.0% and 12.5% (August 2018: 8.0% and 13.0%) with a weighted annual average of 9.4% (August 2018: 9.3%).

Investment property continued

The second key input used in the valuation calculation is the long-term net operating income margin, of which the expense ratio is the significant unobservable input. Expense ratios used ranged from 6.3% to 48.9% (August 2018: 5.7% to 49.1%) with a weighted average of 25.5% (August 2018: 25.1%).

The third key input used in the valuation calculation is the long-range vacancy factor. The expected long-range vacancy factor takes into account historic and future vacancy trends. The long-range vacancy factor indicates the expected vacancy to be applied over the long-term that best approximates the actual experience. The long-range vacancy factor used ranged from 0.0% to 25.0% (August 2018: 0.0% to 30.0%) with a weighted average of 5.7% (August 2018: 5.6%).

The directors value the entire property portfolio bi-annually. The effect of the fair value measurement on investment properties resulted in a decrease in profit of R23.0 million in the statement of profit and loss and other comprehensive income.

Financial instruments

Financial instruments measured at fair value include interest rate swaps. The fair values of the interest rate swaps are determined on a mark-to-market valuation calculated by discounting the estimated future cash flows based on the terms and maturity of each contract and using the market interest rate indicated on the SA swap curve.

Fair value hierarchy

The fair value hierarchy reflects the significance of the inputs used in making fair value measurements. The level within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement.

The different levels have been defined as:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Input 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)
- Level 3: Input for the asset or liability that is not based on observable market data

The following table reflects the levels within the fair value hierarchy of financial and non-financial assets measured at fair value at 28 February:

	2019 R'000		**2018 R'000**	
	Level 2	**Level 3**	**Level 2**	**Level 3**
Derivative financial instruments				
Assets	1 090		3 989	
Liabilities	46 593		45 793	
Non-financial instruments				
Investment property		12 667 011		12 488 106
Investment property held for sale		290 700		242 800

There were no transfers between Level 1, 2 and 3 during the six months ended 28 February 2019.

Fair value measurements using significant unobservable inputs

	Investment property, plant and equipment 28 February 2019 R'000	Investment property, plant and equipment 31 August 2018 R'000
Balance at beginning of period	**12 743 362**	12 598 898
Total fair value changes for the period included in profit and loss	**(23 021)**	(39 084)
Straight-line rental income accrual	**(1 423)**	1 482
Depreciation and amortisation	**(7 977)**	(17 558)
Acquisitions, disposals and other movements:		
Developments and subsequent expenditure	**34 621**	185 232
Acquired through business combination	**310 200**	76 000
Disposals	**(98 050)**	(61 608)
Balance at end of period	**12 957 712**	12 743 362
Included in profit and loss for the period:		
Changes in fair value of investment property	**(23 021)**	(39 084)

Relationship of unobservable inputs to fair value

The significant unobservable inputs used in the fair value measurement of the group's investment properties are the capitalisation rates, the expense to income ratios as well as the long-range vacancy factor. Significant increases/(decreases) in any of these inputs in isolation would result in a significantly lower/(higher) fair value measurement.

An increase of 1% in the capitalisation rate, while all other variables remain constant, would result in a decrease in the carrying amount of investment property of R1.2 billion. A decrease of 1% in the capitalisation rate, while all other variables remain constant, would result in an increase in the carrying amount of investment property of R1.5 billion.

An increase/(decrease) of 1% in the weighted average expense ratio used to calculate the long-term net operating income margin, while all other variables remain constant, would result in an increase/(decrease) in the carrying amount of investment property of R173.2 million.

An increase/decrease of 1% in the long-range vacancy factor, while all other inputs remain constant, would result in an increase/decrease in the carrying amount of investment property of R136.9 million.

Stated capital

There have been no changes in the issued shares of the company.

	28 February 2019	28 February 2018	31 August 2018
Shares in issue ('000)	**266 198**	266 198	266 198
Weighted shares in issue ('000)	**266 198**	266 586	266 389

Events after the reporting date

There have been no material subsequent events that require reporting.

Commitments

The group has approved capital commitments in the amount of R63.9 million, relating to various redevelopments, upgrades of properties and committed tenant installations. These will be funded out of existing unused banking facilities.

Related party transactions

Octodec and City Property are related parties in that Jeffrey Wapnick and Sharon Wapnick are directors of Octodec and City Property, and the Wapnick family is a shareholder of both companies.

Total rental income received from City Property for the lease of its two offices in Pretoria and Johannesburg, amounts to R4.2 million and total payments made to City Property amount to R95.1 million. This includes fees for collections, leasing, property management, asset management, commission on acquisitions and disposals as well as upgrades and developments.

At 28 February 2019, an amount of R5.8 million was owing to City Property.

Business combination

With effect from 1 November 2018, Joybee Properties (Pty) Ltd (Joybee), a subsidiary of the group, acquired the remaining 50% of Jardtal, a property-owning company, for a consideration of R36.5 million, settled in cash, increasing its shareholding from 50% to 100%. This resulted in Joybee acquiring control of Jardtal and accordingly Jardtal changed from a joint venture to a subsidiary of the group.

Fair value of assets acquired and liabilities recognised at the date of acquisition.

	R'000
Non-current assets	
Investment property	310 165
Current assets	
Loans receivable	2 994
Accounts receivable and prepayments	1 590
Bank balance and cash	915
	5 499
Non-current liabilities	
Interest bearing borrowings	(154 316)
Current liabilities	
Interest bearing borrowings	(74 100)
Non-interest bearing borrowings	(8 189)
	(82 289)
Total identifiable net assets	79 059
Fair value of equity interest held before the business combination	(39 530)
Bargain purchase on acquisition	(3 029)
Acquisition date fair value consideration paid in cash	36 500

Net cash outflow on acquisition

	R'000
Cash consideration paid	36 500
Bank and cash acquired	(915)
Net cash outflow on acquisition	35 585

Octodec acquired the remaining shares in Jardtal as it provided Octodec shareholders with an attractive return.

Impact of acquisition on the results of the group

Included in revenue and profit for the period is R15.0 million and R4.5 million respectively, in respect of Jardtal. If the acquisition had occurred on 1 September 2018, consolidated revenue for the period ended 28 February 2019 would have been R984.0 million compared to R977.6 million and consolidated profit after tax would have been R209.3 million compared to R209.6 million.

Changes to the board

The board welcomes Mr NC Mabunda, who was appointed to the board with effect from 11 February 2019, and looks forward to working with him.

financial statements

Condensed consolidated statement of financial position

	Unaudited 28 February 2019 R'000	Unaudited 28 February 2018 R'000	Audited 31 August 2018 R'000
ASSETS			
Non-current assets	**12 765 459**	12 739 824	12 590 121
Investment property	**12 521 319**	12 331 263	12 228 808
Plant and equipment	**2 731**	4 530	3 463
Straight-line rental income accrual	**110 838**	111 998	111 282
Tenant installation and lease costs	**32 123**	40 315	35 210
Other financial assets	**75 000**	75 000	75 000
Derivative financial instruments	**1 090**	3 281	7 618
Investment in joint ventures	**22 358**	173 437	128 740
Current assets	**171 175**	215 149	199 099
Accounts receivable and prepayments	**118 490**	134 827	130 498
Derivative financial instruments	**–**	708	1 986
Other financial assets	**2 802**	1 491	3 028
Taxation receivable	**675**	–	675
Bank and cash	**49 208**	78 123	62 912
Non-current assets held for sale	**290 700**	242 800	364 600
TOTAL ASSETS	**13 227 334**	13 197 773	13 153 820
EQUITY AND LIABILITIES			
Equity	**7 763 260**	7 884 600	7 824 398
Stated capital	**4 210 134**	4 210 134	4 210 134
Non-distributable reserve	**3 200 260**	3 327 048	3 262 710
Retained earnings	**352 866**	347 418	351 554
Non-current liabilities	**3 990 746**	4 218 706	3 345 332
Interest-bearing borrowings	**3 851 395**	4 093 637	3 240 759
Derivative financial instruments	**46 593**	44 591	17 977
Deferred taxation	**92 758**	80 478	86 596
Current liabilities	**1 473 328**	1 094 467	1 984 090
Interest-bearing borrowings	**1 115 232**	739 050	1 605 774
Non-interest bearing borrowings	**358 096**	354 215	378 217
Derivative financial instruments	**–**	1 202	99
TOTAL EQUITY AND LIABILITIES	**13 227 334**	13 197 773	13 153 820

Condensed consolidated statement of comprehensive income

	% Change	**Unaudited 6 months 28 February 2019 R'000**	Unaudited 6 months 28 February 2018 R'000	Audited 12 months 31 August 2018 R'000
Revenue	4.9	**976 180**	930 924	1 895 288
earned on a contractual basis	5.2	**977 603**	929 656	1 893 806
straight-line rental income accrual		**(1 423)**	1 268	1 482
Property operating costs	9.6	**(450 300)**	(410 790)	(864 911)
Net rental income from properties	1.1	**525 880**	520 134	1 030 377
Administration expenses	(24.1)	**(39 625)**	(52 238)	(82 875)
Operating profit	3.9	**486 255**	467 896	947 502
Fair value (losses)/gains		**(60 051)**	61 075	589
investment property		**(23 021)**	54 733	(39 084)
interest rate derivatives		**(37 030)**	6 342	39 673
Profit/(loss) on disposal of investment property		**719**	1 051	(916)
Gain/(loss) on derecognition of share in joint venture		**–**	–	(2 770)
Bargain purchase on business combination		**3 029**	–	–
Impairment of goodwill		**–**	–	(1 992)
Interest income		**8 987**	9 498	18 584
Finance costs	5.5	**(225 675)**	(213 869)	(438 881)
interest on borrowings		**(225 675)**	(223 035)	(451 967)
interest capitalised		**–**	9 166	13 086
Share of income from joint ventures		**2 482**	4 437	9 954
share of after tax profit		**1 106**	4 026	9 291
share of fair value gains/(losses)		**14**	(4 085)	(9 747)
interest & management fees		**1 362**	4 496	10 410
Profit before taxation	(34.6)	**215 746**	330 088	532 070
Taxation charge		**(6 161)**	(46)	8 493
current		**–**	–	1 522
deferred		**(6 161)**	(46)	6 971
Profit for the period	(36.5)	**209 585**	330 042	540 563
Other comprehensive income for the period - Items that will not be reclassified to profit and loss		**–**	–	–
Total comprehensive income for the period attributable to equity holders	(36.5)	**209 585**	330 042	540 563
Basic and diluted earnings per share (cents)	(36.4)	**78.7**	123.8	202.9

Condensed consolidated statement of changes in equity

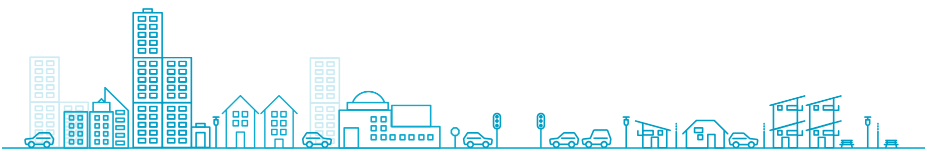
	Stated capital R'000	Non-distributable reserve R'000	Retained earnings R'000	Total R'000
Balance at 31 August 2017 (audited)	4 221 477	3 269 053	337 699	7 828 229
Total comprehensive income for the period	–	–	330 042	330 042
Shares repurchased	(11 343)	–	–	(11 343)
Dividends paid	–	–	(262 328)	(262 328)
Transfer to non-distributable reserve				
Profit on sale of investment property	–	1 051	(1 051)	–
Fair value gains/(losses)				
investment property	–	54 733	(54 733)	–
joint ventures	–	(4 085)	4 085	–
interest rate derivatives (net of deferred tax)	–	6 296	(6 296)	–
Balance at 28 February 2018 (unaudited)	**4 210 134**	**3 327 048**	**347 418**	**7 884 600**
Total comprehensive income for the period	–	–	210 521	210 521
Dividends paid	–	–	(270 723)	(270 723)
Transfer to non-distributable reserve				
Loss on sale of investment property	–	(1 967)	1 967	–
Loss on derecognition of investment in Joint venture	–	(2 770)	2 770	–
Impairment of goodwill	–	(1 992)	1 992	–
Deferred tax	–	8 493	(8 493)	–
Fair value gains/(losses)				
investment property	–	(93 817)	93 817	–
investment property - joint ventures	–	(5 662)	5 662	–
interest rate derivatives (net of deferred tax)	–	33 377	(33 377)	–
Balance at 31 August 2018 (audited)	**4 210 134**	**3 262 710**	**351 554**	**7 824 398**
Total comprehensive income for the period	**–**	**–**	**209 585**	**209 585**
Dividends paid	**–**	**–**	**(270 723)**	**(270 723)**
Transfer to non-distributable reserve				
Profit on sale of investment property	**–**	**719**	**(719)**	**–**
Deferred tax	**–**	**(6 161)**	**6 161**	**–**
Profit on derecognition of investment in joint venture	**–**	**3 029**	**(3 029)**	**–**
Fair value gains/(losses)				
investment property	**–**	**(23 021)**	**23 021**	**–**
investment property - joint ventures	**–**	**14**	**(14)**	**–**
interest rate derivatives (net of deferred tax)	**–**	**(37 030)**	**37 030**	**–**
Balance at 28 February 2019 (unaudited)	**4 210 134**	**3 200 260**	**352 866**	**7 763 260**

Condensed consolidated statement of cash flows

	Unaudited 6 months 28 February 2019 R'000	Unaudited 6 months 28 February 2018 R'000	Audited 12 months 31 August 2018 R'000
Cash flow from operating activities			
Net rental income from properties	**486 255**	467 896	947 502
Adjusted for:			
straight-line rental income accrual	**1 423**	(1 268)	(1 482)
depreciation, amortisation and impairments	**7 977**	8 214	17 558
working capital changes	**(9 914)**	20 182	42 629
Cash generated from operations	**485 741**	495 024	1 006 207
Interest income	**8 987**	9 498	18 584
Finance costs	**(227 476)**	(223 035)	(446 227)
Dividend paid to equity holders	**(270 723)**	(262 328)	(533 051)
Net cash (utilised)/generated from operating activities	**(3 471)**	19 159	45 513
Cash flow from investing activities			
Acquisition/development of investment property	**(34 655)**	(109 293)	(173 062)
Increase in financial assets	**226**	–	(2 817)
Income from joint ventures	**–**	–	24 916
Net repayment to joint venture	**(4 765)**	–	–
Purchase of subsidiary	**(35 585)**	–	(32 858)
Proceeds from disposal of investment property	**98 769**	42 491	61 608
Net cash generated/(utilised) used in investing activities	**23 990**	(66 802)	(122 213)
Cash flow from financing activities			
Shares repurchased	**–**	(11 343)	(11 343)
Proceeds from borrowings	**1 167 115**	1 657 187	2 714 034
Repayment of borrowings	**(1 201 338)**	(1 650 834)	(2 693 835)
Net cash (utilised)/generated from financing activities	**(34 223)**	(4 990)	8 856
Net decrease in bank and cash balance	**(13 704)**	(52 633)	(67 844)
Bank and cash balance at beginning of period	**62 912**	130 756	130 756
Bank and cash balance at end of period	**49 208**	78 123	62 912

Reconciliation of comprehensive income to headline earnings

	Unaudited 6 months 28 February 2019 R'000	Unaudited 6 months 28 February 2018 R'000	Audited 12 months 31 August 2018 R'000
Total comprehensive income attributable to equity holders	**209 585**	330 042	540 563
Headline earnings adjustments:			
Profit on sale of investment properties	**(719)**	(1 051)	916
Impairment of goodwill	**–**	–	1 992
(Gain)/loss on derecognition of interest in joint venture	**(3 029)**	–	2 770
Fair value gains/(losses)			
investment property	**23 021**	(54 733)	39 084
investment property – joint ventures	**(14)**	4 085	9 747
Headline earnings attributable to equity holders	**228 844**	278 343	595 072
Headline and diluted headline earnings per share (cents)	**86.0**	104.4	223.4



Condensed consolidated segmental information

The group earns revenue in the form of property rentals. The group's properties are aggregated into segments with similar economic characteristics such as the occupier's market it serves and the nature of the property.

Rental income by sector	**Unaudited 6 months 28 February 2019 R'000**	**%**	Unaudited 6 months 28 February 2018 R'000	%	Re-classification of sectors R'000	Unaudited 6 months 28 February 2018 R'000
Offices	**120 807**	**15.8**	124 408	17.2	(27 661)	152 069
Retail	**257 029**	**33.7**	251 875	34.8	(16 951)	268 826
Industrial	**54 582**	**7.2**	55 084	7.6	(1 303)	56 387
Residential	**241 788**	**31.7**	214 449	29.6	–	214 449
Specialised and other						
Parking	**34 029**	**4.4**	32 186	4.5	–	32 186
Healthcare facilities	**17 448**	**2.3**	15 939	2.2	15 939	–
Auto dealerships	**9 402**	**1.2**	6 078	0.8	6 078	–
Hotels	**8 145**	**1.1**	7 648	1.1	7 648	–
Places of worship	**3 660**	**0.5**	3 162	0.4	3 162	–
Educational faciities	**15 848**	**2.1**	13 088	1.8	13 088	–
Total rental income	**762 738**	**100.0**	723 917	100.0	–	723 917
Straight-line rental income accrual	**(1 423)**		1 268		1 268	–
Recoveries	**214 865**		205 739		(1 268)	207 007
Revenue	**976 180**		930 924		–	930 924

In order to provide a more meaningful analysis, the group changed its reporting sectors in August 2018 to reflect the occupier of the property instead of the nature of the property. The comparative amounts for 28 February 2018 were restated to reflect the changes in the sectors.

Further segment results cannot be allocated on a reasonable basis due to the "mixed use" of certain of the properties. It is the company's policy to invest predominantly in properties situated in the Gauteng area and therefore the company has not reported on a geographical basis.

Reconciliation of earnings to distributable earnings

	%	**Unaudited 6 months 28 February 2019 R'000**	Unaudited 6 months 28 February 2018 R'000	Audited 12 months 31 August 2018 R'000
Total comprehensive income attributable to equity holders		**209 585**	330 042	540 563
(Profit)/loss on sale of investment properties		**(719)**	(1 051)	916
(Gain)/loss on derecognition of investment in joint venture		**(3 029)**		2 770
Impairment of goodwill		**–**	–	1 992
Fair value gains/(losses)				
investment property		**23 021**	(54 733)	39 084
investment property – joint ventures		**(14)**	4 085	9 747
Straight-line rental income accrual		**1 423**	(1 268)	(39 673)
Fair value gains/(losses) of interest rate derivatives		**37 030**	(6 342)	(1 482)
Taxation – Current and deferred		**6 161**	46	(8 493)
Share of after tax profit of joint venture - not distributable		**–**	–	(3 980)
Distributable earnings attributable to equity holders		**273 458**	270 779	541 444
Represented by:				
Revenue				
earned on a contractual basis	5.2	**977 603**	929 656	1 893 806
Property operating costs	9.6	**(450 300)**	(410 790)	(864 911)
Net rental income from properties	1.6	**527 303**	518 866	1 028 895
Administrative expenses	(24.1)	**(39 625)**	(52 238)	(82 875)
Operating profit	4.5	**487 678**	466 628	946 020
Interest income		**8 987**	9 498	18 584
Share of income from joint ventures		**2 468**	8 522	15 721
Distributable profit before finance costs		**499 133**	484 648	980 325
Finance costs	5.5	**(225 675)**	(213 869)	(438 881)
Distributable income before taxation	1.0	**273 458**	270 779	541 444
Taxation		**–**	–	–
Equity holders distributable earnings	1.0	**273 458**	270 779	541 444

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