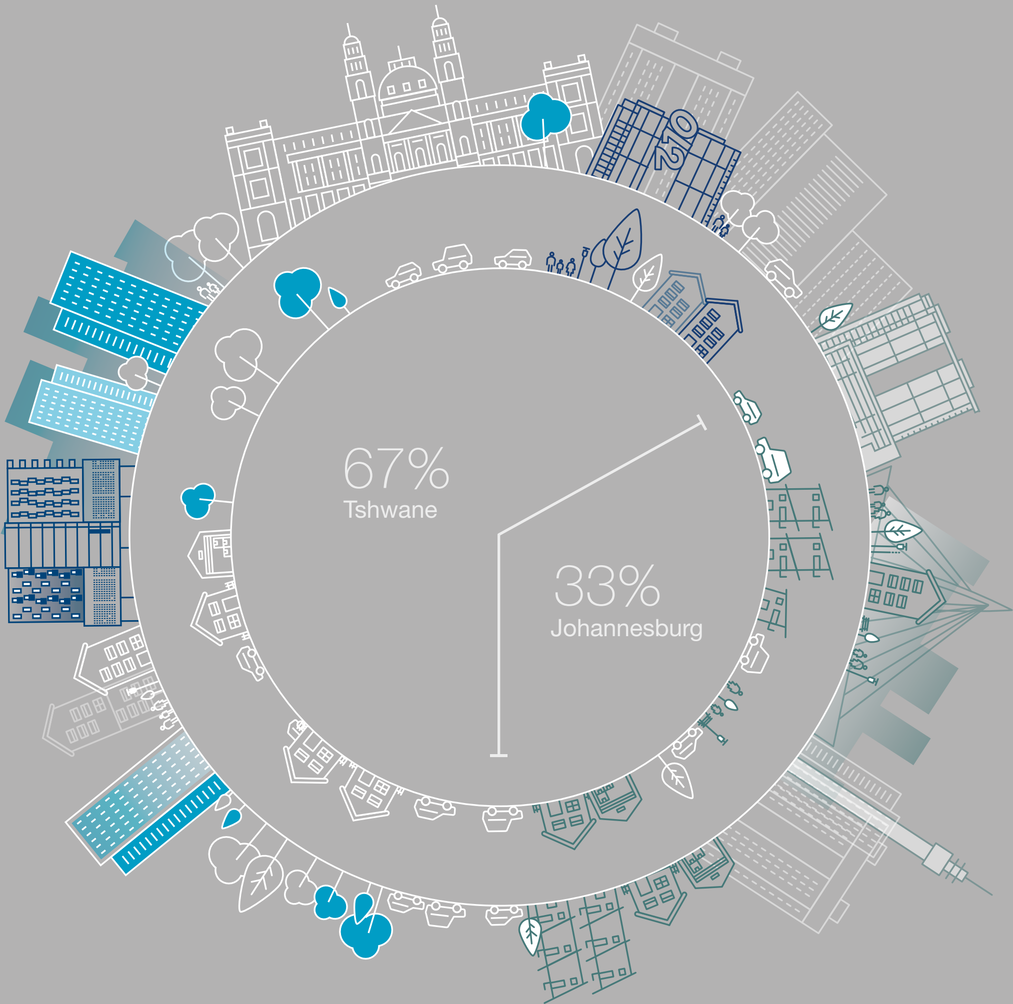


Octodec
INVESTMENTS LIMITED

Reviewed Provisional
Annual Results
for the year ended 31 August

2019

creating value beyond financial return

Octodec Investments Limited (Octodec or the group or the company) is a real estate investment trust (REIT) with a portfolio of 285 properties valued at R12.8 billion and is listed on the JSE Limited. The group is a long-term investor in a Gauteng-focused property portfolio.

Octodec continues investigating how best to take advantage of opportunities in the Tshwane and Johannesburg CBDs. The group's primary objective is to improve and develop its existing properties in strategic and well located investment nodes in order to attract new tenants and retain existing tenants while improving rental income. The group invests in various property sectors including the defensive residential sector, with a focus on properties that offer affordable rentals and which are located in densely populated urban areas.

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

285 properties valued at R12.8bn

67% of our portfolio is in Tshwane

33% of our portfolio is in Johannesburg

2019 performance highlights

200.9	**cents dividend per share declared** (FY2018: 203.4 cents)
R28.47	**net asset value (NAV) per share** (FY2018: R29.39)
2.0%	**like-for-like growth in rental income** (FY2018: 2.6%)
85.4%	**of exposure to interest rate risk is hedged** (FY2018: 74.5%)
38.9%	**loan to value (LTV)** (FY2018: 37.8%)
9.3%	**all-in annual weighted average cost of borrowings** (FY2018: 9.0%)

Rental income % by sector

23.6% FY2018: 24.3%
Retail shops

10.1% FY2018: 10.1%
Retail shopping centres

15.8% FY2018: 16.0%
Offices

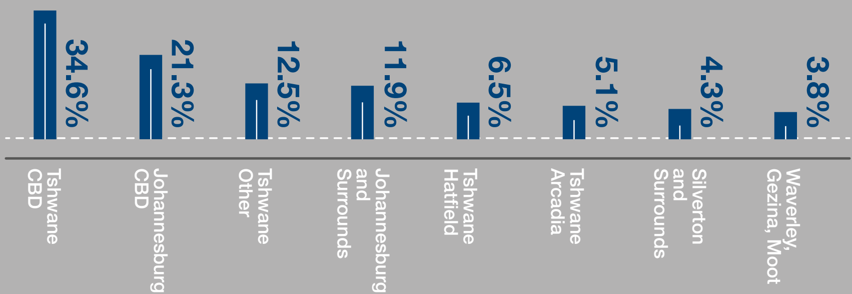
32.2% FY2018: 31.1%
Residential

7.0% FY2018: 7.1%
Industrial

11.3% FY2018: 11.4%
Specialised and other

Geographical analysis of rental income

% of total portfolio



** The information on rental income and property portfolio up to page 15 includes 100% of the joint ventures and not only the group's share.*

contents

review of results

The prevailing poor economic and trading environment has weighed heavily on consumer confidence and spending power. The group continues to focus on the core property fundamentals and has positioned itself to provide shareholders with long-term sustainable value.

Octodec's board has declared a dividend of 200.9 cents per share for the year ended 31 August 2019, a year-on-year decrease of 1.2%. The dividend is in line with the guidance of negative growth of between 0% and 2% given previously to shareholders. This amounts to a first-half dividend of 101.7 cents and a second-half dividend of 99.2 cents. The dividend was negatively impacted by pressure on rental income growth as well as an increase in property operating costs.

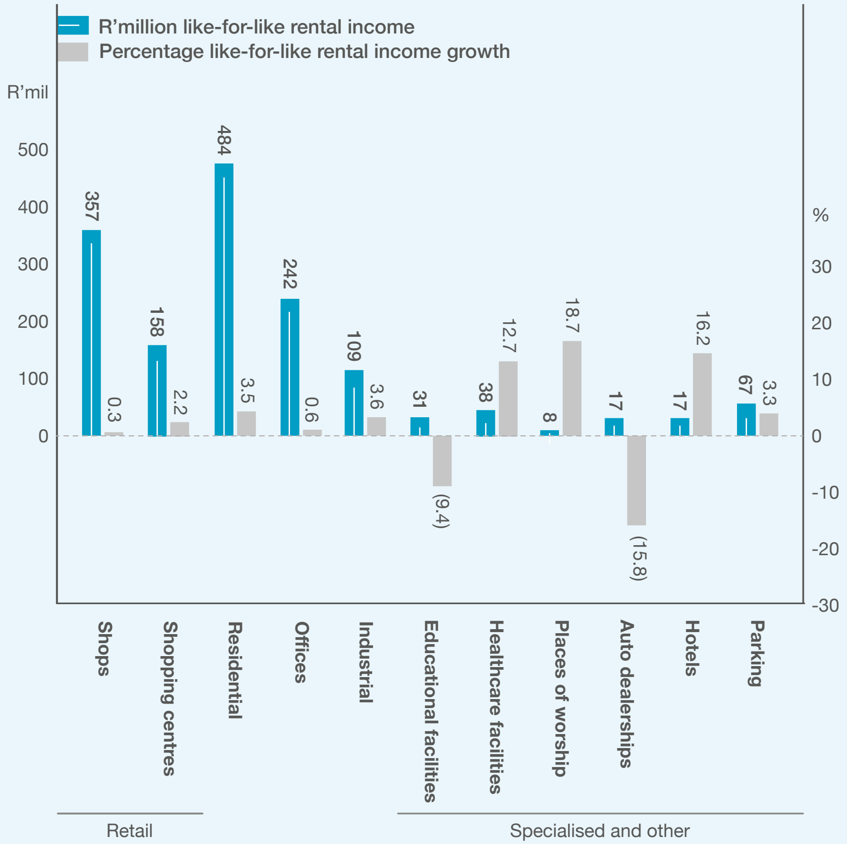
Salient features	% Change	**31 August 2019 R'000**	31 August 2018 R'000
Revenue – earned on contractual basis*	5.0	**1 988 381**	1 893 806
Net property income – earned on contractual basis*	2.9	**1 058 787**	1 028 895
Investment property	0.8	**12 846 539**	12 743 363
Shareholders' funds		**7 578 599**	7 824 398
Interest bearing borrowings		**4 978 079**	4 846 533
Shares in issue ('000)		**266 198**	266 198
NAV per share (cents)	(3.1)	**2 847**	2 939
LTV ratio (%)	2.9	**38.9%**	37.8%
Distributable profit	(1.2)	**534 984**	541 444
Dividend per share (cents)			
– Interim		101.7	101.7
– Final		99.2	101.7
Total	**(1.2)**	**200.9**	**203.4**

* *Revenue for the year ended 31 August 2019 has been reduced by R2.5 million, which relates to the 40.9% rent reduction granted to Edcon in terms of the rent reduction agreement between Edcon and its landlords.*

Revenue earned on a contractual basis grew year-on-year by R94.6 million or 5.0%. This was mainly due to the increase in rental income from Sharon's Place as well as the inclusion of 100% of Gerlan Properties (Pty) Ltd (Gerlan) (Toyota Auto dealership) and Jardtal Properties (Pty) Ltd (Jardtal) (Kempton Place and The Brooklyn).

The remaining 50% shareholdings in Gerlan and Jardtal were acquired on 1 July 2018 and 1 November 2018 respectively. Both of these investments were previously equity accounted and in these results are consolidated as wholly-owned subsidiaries.

Percentage increase in like-for-like rental income for the year ended 31 August 2019



The core portfolio, represented by those properties held for the previous comparable period with no major development activity, reflected like-for-like rental income growth of 2.0%. The weaker growth in like-for-like rental income is mainly attributable to the poor economic environment.

On a like-for-like basis, residential rental income increased by 3.5% (FY2018: 3.9%). This lower growth is mainly attributable to increased average vacancies and lower rental rate escalations achieved during the year under review. A number of new competitors entered the Hatfield (Tshwane) and Johannesburg CBD markets, resulting in an increased supply of residential accommodation. Residential vacancies were reduced in the latter half of the financial year due to: concerted efforts of the marketing team; a newly introduced tenant retention strategy and an enhanced tenant offering that addressed this increase in competition.

review of results continued

Despite comprising a smaller portion of the total portfolio, healthcare facilities, hotels and places of worship reflected the strongest growth in income of 12.7%, 18.7% and 16.2% respectively.

The education sector was negatively impacted by rent reversions on lease expiries and a number of tenants vacating premises. The auto dealerships sector was impacted by a McCarthy dealership vacating the premises during the year. This space has been let to a Volkswagen dealership with effect from November 2019, but at lower rentals.

Cost to income ratios

	31 August 2019 %	31 August 2018 %
Property costs		
Gross basis	**46.7**	45.7
Net basis (net of recoveries)	**31.6**	30.0
Total property and administration costs		
Gross basis	**50.6**	50.0
Net basis (net of recoveries)	**36.7**	35.6

Property costs, both on a gross and net basis, have increased compared to the prior year, mainly due to an increase in repairs and maintenance costs which were required and budgeted for in the current year.

Bad debt write-offs and provisions also increased during the year from 1.2% to 1.4% of total rental income. Residential bad debts contributed to the increase in the bad debt expense which is a result of the difficult economic conditions facing tenants. The increase is also attributable to the change in the determination of the provision for bad debts as a result of the adoption of IFRS 9. Despite sustained economic pressure, the group's arrears remained at acceptable levels with tenant arrears remaining unchanged at 3.4% of rental income. This was aided by tight credit risk management and the group does not anticipate any significant deterioration in this regard in the near future.

It is pleasing to report that administration costs decreased by R4.3 million or 5.3% compared to the prior year. This was mainly due to a reduction of certain once off costs incurred in prior periods. Asset management fees reduced to 0.42% of enterprise value subject to a minimum of R3.5 million per month, (previously 0.50% of enterprise value), as a result of the new asset and property management agreement with City Property which became effective from 1 July 2018. This has however been partly set off by additional fees for other services not included in the previous asset and property management agreement.

Net finance costs for the year amounted to R448.5 million, a year-on-year increase of 6.7%. The all-in weighted cost of borrowings increased to 9.3% per annum (FY2018: 9.0%), 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.

investing for the future

Developments

During the current year, the group did not undertake any new major developments. 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 The Park (previously known as Elarduspark Shopping Centre), a community shopping centre in a south-eastern suburb of Tshwane, at a cost of R44.2 million, which was completed in October 2019. These projects will not only improve the occupancy levels and enhance the value of the portfolio, but will also help uplift the areas in which Octodec is predominantly invested.

Investments

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

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 underperforming properties, the group disposed of a further 19 properties during the year. At 31 August 2019, 11 of these properties have been transferred for a total consideration of R129.2 million. The remaining 8 properties were sold for a total consideration of R83.7 million and transfer is expected to take place during the first half of the 2020 financial year.

investing for the future continued

Properties disposed of and transferred before 31 August 2019

Property	Location	Total consideration R'million	Profit/(loss) on disposal R'million	Transfer date	Exit yield %
Medical Towers	Johannesburg CBD	25.3	0.8	September 2018	3.3
Ken's Court	Tshwane CBD	44.6	1.6	September 2018	4.4
Brianley (2)	Tshwane – Silverton	2.0	(0.7)	December 2018	11.6
Midchurch	Tshwane CBD	1.5	0.2	December 2018	–
Troymona	Tshwane – Waverley	1.1	0.2	January 2019	8.2
The Pavilion	Tshwane – Sunnyside	23.0	(1.5)	February 2019	7.5
Supmall	Tshwane – Silverton	11.1	0.1	April 2019	4.0
Notrevlis	Tshwane – Silverton	11.2	0.4	April 2019	11.0
Goleda (3)	Tshwane West	1.9	0.3	April 2019	3.5
Brianley (7)	Tshwane – Silverton	1.7	0.4	June 2019	9.5
Brianley (4)	Tshwane – Silverton	2.0	(0.3)	June 2019	9.5
Monaco (9 out of 12 remaining sectional title units)	Tshwane – Arcadia	3.8	1.1	September 2018 to August 2019	8.0
Total		**129.2**	**2.6**		**5.7**

Transfers expected to take place after 31 August 2019

Property	Location	Total consideration R'million	Profit/(loss) on disposal R'million	Expected transfer date	Exit yield %
Viskin	Tshwane CBD	2.7	(0.1)	September 2019*	7.8
Hannyhof (1)	Tshwane – Hermanstad	5.4	0.1	October 2019*	15.3
Armadale	Johannesburg CBD	53.4	1.9	October 2019*	15.3
LPA	Tshwane – Silverton	2.7	0.1	November 2019	8.4
Hannyhof (2)	Tshwane – Hermanstad	2.7	0.1	December 2019	5.0
Talland	Tshwane – Hatfield	4.2	(0.0)	December 2019	(4.2)
Rosemitch (1) and (5)	Tshwane West	12.6	0.6	January 2020	5.7
Total		**83.7**	**2.7**		**12.0**

** Already transferred*

vacancies

Vacancies in the Octodec portfolio as at 31 August 2019, including properties held for redevelopment, amounted to 17.9% (FY2018: 18.6%) of the gross lettable area (GLA). The group's core vacancies, which exclude the GLA relating to properties held for development and those recently redeveloped or sold, amounted to 11.5% (FY2018: 11.6%).

Vacancies by sector as at 31 August 2019

	GLA m²	Total vacancies %	Properties held for redevelopment or recently developed or sold %	Core vacancies %
31 August 2019				
Retail – shops	336 435	14.4	–	14.4
Retail – shopping centres	94 012	4.7	–	4.7
Offices	412 627	43.0	(24.7)	18.3
Residential	392 512	6.7	–	6.7
Industrial	246 363	10.2	(0.9)	9.3
Specialised and other				
Educational facilities	58 903	–	–	–
Healthcare facilities	36 612	15.6	(1.2)	14.4
Places of worship	18 054	–	–	–
Auto dealerships	15 722	23.5	–	23.5
Hotels	13 458	–	–	–
Total	**1 624 698**	**17.9**	**(6.4)**	**11.5**

vacancies continued

Vacancies by sector as at 31 August 2018

	GLA m²	Total vacancies %	Properties held for redevelopment or recently developed or sold %	Core vacancies %
31 August 2018				
Retail – shops	349 633	13.2	(0.1)	13.1
Retail – shopping centres	95 009	5.2	–	5.2
Offices	413 581	45.1	(26.4)	18.7
Residential	393 643	6.4	(0.6)	5.8
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 was a marginal decrease in core vacancies. The most notable reduction was in the industrial sector, although at the cost of lower rentals being achieved. The decrease in shopping centre vacancies was mainly as a result of the impact of the improved occupancy levels at Killarney Mall and Woodmead Value Mart. The vacancies at The Park increased slightly while the centre was being upgraded. With the upgrade now complete, occupancy levels are expected to improve with a number of national tenants already having signed new leases.

Octodec owns office properies with 101 046 m² of mothballed space. These properties offer opportunities for residential conversion or office redevelopment. The company is actively considering the disposal of some of these properties.

lease expiry profile

The majority of the leases provide for a monthly agreement at expiry of the lease. On expiry 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 remains in line with historical trends and expectations. The significant movement in healthcare facilities arose as a result of the renewal of the lease with Louis Pasteur private hospital for a period of six years. Although Louis Pasteur private hospital is currently in business rescue, the rentals continue to be paid and the account is current.

Lease expiry profile as at 31 August 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	40.5	21.0	20.4	10.9	7.2	39.7	18.0	14.7	8.0	5.2	14.4
Retail – shopping centres	33.3	26.3	16.1	8.0	16.3	37.9	19.5	12.5	8.9	16.5	4.7
Offices	75.7	11.2	4.5	7.0	1.6	41.8	6.7	3.0	4.1	1.4	43.0
Industrial	55.8	22.8	7.5	4.9	9.0	50.2	20.8	6.7	5.0	7.1	10.2
Specialised and other											
Educational facilities	43.9	14.9	23.4	17.4	0.4	52.4	12.2	18.8	15.1	1.5	–
Healthcare facilities	27.4	12.4	9.8	1.9	48.5	18.1	8.0	6.2	1.4	50.7	15.6
Places of worship	80.5	12.4	3.8	1.7	1.6	82.2	11.2	3.6	0.7	2.3	–
Auto dealerships	20.7	29.7	–	49.6	–	26.0	17.6	–	32.9	–	23.5
Hotels	1.1	98.9	–	–	–	0.6	99.4	–	–	–	–
Subtotal	50.4	19.7	12.6	9.0	8.3	42.3	15.1	8.4	6.5	6.2	21.5
Residential	99.3	0.7	–	–	–	92.7	0.6	–	–	–	–
Total	**66.0**	**13.7**	**8.6**	**6.1**	**5.6**	**54.5**	**11.6**	**6.4**	**4.9**	**4.7**	**17.9**

borrowings

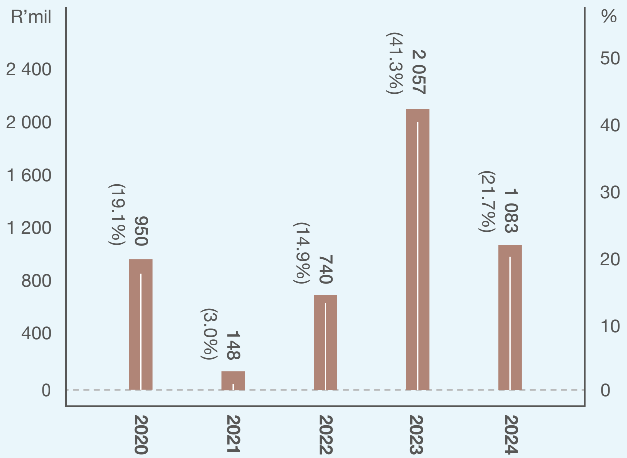
Borrowings as at 31 August 2019

	Amount R'million	Weighted average interest rate per annum %
Bank loans	4 030.0	8.8
Domestic medium-term note (DMTN) programme		
Unsecured	578.8	8.4
Secured (unlisted HQLA)	369.3	8.8
Total borrowings	4 978.1	8.7
Cost of swaps	–	0.6
Total borrowings	**4 978.1**	**9.3**

Octodec continues to strengthen its balance sheet, ensuring prudent financial management in a challenging South African economic environment. The terms to expiry of both loans and interest rate swap contracts were lengthened. The group's LTV as at 31 August 2019 was 38.9% (FY2018: 37.8%), taking into account the loans and investment value of its equity-accounted joint ventures.

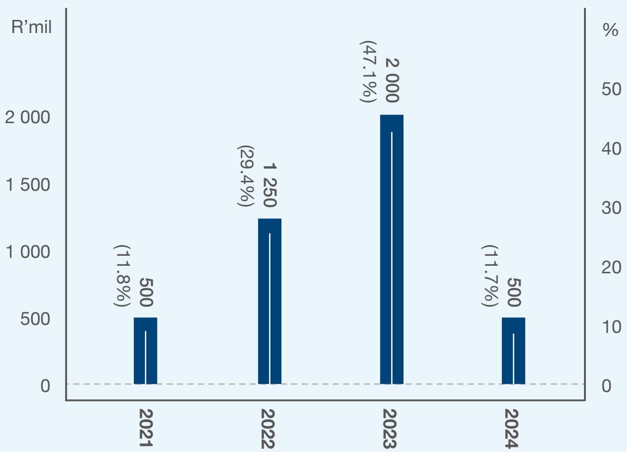
Octodec reduced its exposure to interest rate risk by entering into interest rate swap contracts. As at 31 August 2019, 85.4%, of its borrowings were hedged (FY2018: 74.5%) with a weighted average term of 3.0 years. The all-in average weighted interest rate of all borrowings is 9.3% per annum (FY2018: 9.0%).

Loan expiry profile per financial year (R'mil and %)



Total value of loans
R4.978 bn

Expiry profile of interest rate swap contracts per financial year (R'mil and %)



Total interest rate swaps
R4.250 bn

Octodec participates in a DMTN programme through its subsidiary, Premium Properties Limited. As at 31 August 2019 the total unsecured issuance was at R578.8 million, or 11.6% (FY2018: R929.1 million or 19.2%) of the group's borrowings. Global Credit Ratings (GCR) re-affirmed the long-term national scale rating of A-(ZA) and revised the short-term rating to A2(ZA), (on the change in GCR's Rating Scales, Symbols and Definitions, May 2019), with the outlook accorded as stable. Octodec had available unutilised banking facilities amounting to R625.5 million at 31 August 2019 (FY2018: R669.0 million).

prospects

The flat GDP growth, rife unemployment, reduced disposable income and the uncertain political environment remain at levels that are not conducive to local economic growth. This continued pressure will diminish the economic outlook for South Africa. As such, 2020 is expected to be another challenging year, which will have a negative impact on the company's ability to deliver growth in distributions.

Despite these obstacles, Octodec is looking to ways of unlocking value. The group's experienced management team, diversified portfolio, large tenant base, sound operating fundamentals and prudent capital management, provide Octodec with the resilience and flexibility necessary to continue navigating through these uncertain times.

The disposal of non-core or underperforming properties will remain a key focus area for the foreseeable future. Portfolio consolidation will remain of primary importance in 2020 and the group will continue to optimise its balance sheet and position its portfolio for long-term sustainability. Octodec has not committed to commence work on any major new developments because it cannot achieve the necessary initial yield in the current economic environment. Instead it will continue to focus on improving the existing portfolio and tenant retention.

The forecast dividend for the period ending 31 August 2020 is expected to be similar to the dividend for the year ended 31 August 2019 and therefore no growth in dividend per share is expected for FY2020.

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

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 a cash dividend of 99.2 cents per share, for the six months ended 31 August 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 shares cum dividend	Tuesday, 19 November
Shares trade ex dividend[1]	Wednesday, 20 November
Record date to receive cash dividend[1]	Friday, 22 November
Electronic transfer into personal bank account of certificated shareholders[2]	Monday, 25 November
Accounts credited by CSDP or broker to dematerialised shareholders with the cash dividend payment	Monday, 25 November

Notes:

1. *Shares may not be dematerialised or rematerialised between Wednesday, 20 November 2019 and Friday, 22 November 2019, both days inclusive. The above dates and times are subject to change. Any changes will be announced on SENS.*
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 79.36 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*

25 October 2019

financial statements

Condensed consolidated statement of financial position

	Reviewed 31 August 2019 R'000	Audited 31 August 2018 R'000
ASSETS		
Non-current assets	**12 733 048**	12 590 121
Investment property	**12 500 173**	12 228 808
Plant and equipment	**1 841**	3 463
Straight-line rental income accrual	**104 099**	111 282
Tenant installations and lease costs	**31 127**	35 210
Interest in and loans to joint ventures	**21 044**	128 740
Loan granted	**74 764**	75 000
Derivative financial instruments	**–**	7 618
Current assets	**201 633**	199 099
Accounts receivable and prepayments	**119 274**	130 498
Derivative financial instruments	**–**	1 986
Loan granted	**–**	3 028
Taxation receivable	**675**	675
Cash and bank balances	**81 684**	62 912
Non-current assets held for sale	**209 300**	364 600
TOTAL ASSETS	**13 143 981**	13 153 820
EQUITY AND LIABILITIES		
Equity	**7 578 599**	7 824 398
Stated capital	**4 210 134**	4 210 134
Non-distributable reserve	**3 029 059**	3 262 710
Retained income	**339 406**	351 554
Non-current liabilities	**4 220 988**	3 345 332
Long-term borrowings	**4 027 644**	3 240 759
Derivative financial instruments	**99 694**	17 977
Deferred taxation	**93 650**	86 596
Current liabilities	**1 344 394**	1 984 090
Short-term borrowings	**950 435**	1 605 774
Trade and other payables	**393 959**	378 216
Derivative financial instruments	**–**	100
TOTAL EQUITY AND LIABILITIES	**13 143 981**	13 153 820

Condensed consolidated statement of profit or loss and other comprehensive income

	% Change	**Reviewed 31 August 2019 R'000**	Audited 31 August 2018 R'000
Revenue	4.6	**1 982 695**	1 895 288
earned on contractual basis	5.1	**1 990 886**	1 893 806
straight-line rental income accrual		**(8 191)**	1 482
Property operating expenses	7.5	**(929 594)**	(864 911)
Net property income	2.2	**1 053 101**	1 030 377
Administrative and corporate expenses	(5.3)	**(78 515)**	(82 875)
Net operating profit	2.9	**974 586**	947 502
Fair value changes		**(232 599)**	589
investment property		**(138 873)**	(39 084)
unlisted equity shares		**(2 505)**	–
interest rate derivatives		**(91 221)**	39 673
Profit from operations		**741 987**	948 091
Profit/(loss) on sale of investment property		**2 629**	(916)
Gain/(loss) on derecognition of share in joint venture		**3 029**	(2 770)
Impairment of goodwill		**–**	(1 992)
Share of income from joint ventures		**3 595**	9 954
share of after tax profit		**517**	9 291
share of fair value gains/(losses)		**342**	(9 747)
interest received		**2 736**	10 410
Profit from ordinary activities before finance costs	(21.1)	**751 240**	952 367
Net finance costs	6.7	**(448 541)**	(420 297)
finance income		**18 844**	18 584
finance costs	3.4	**(467 385)**	(451 967)
finance costs capitalised		**–**	13 086
Profit before taxation		**302 699**	532 070
Taxation charge		**(7 052)**	8 493
current		**–**	6 971
deferred		**(7 052)**	1 522
Profit for the year	(45.3)	**295 647**	540 563
Other comprehensive income		**–**	–
Total comprehensive income for the year attributable to shareholders	(45.3)	**295 647**	540 563
Basic and diluted earnings per share (cents)	(45.3)	**111.1**	202.9

Condensed consolidated statement of changes in equity

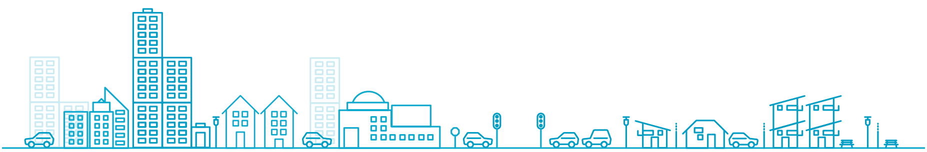
	Stated capital R'000	Non-distributable reserve R'000	Retained earnings R'000	Total R'000
Balance at 1 September 2017 (audited)	4 221 477	3 269 053	337 699	7 828 229
Total comprehensive income for the year	–	–	540 563	540 563
Shares repurchased	(11 343)	–	–	(11 343)
Dividends paid	–	–	(533 051)	(533 051)
Transfer to non-distributable reserve				
profit on sale of investment property	–	(916)	916	–
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 changes				
investment property	–	(39 084)	39 084	–
investment property - joint ventures	–	(9 747)	9 747	–
interest rate derivatives	–	39 673	(39 673)	–
Balance at 31 August 2018 (audited)	**4 210 134**	**3 262 710**	**351 554**	**7 824 398**
Total comprehensive income for the year	–	–	295 647	**295 647**
Dividends paid	–	–	(541 446)	**(541 446)**
Transfer to non-distributable reserve				
profit on sale of investment property	–	2 629	(2 629)	**–**
gain on derecognition of share in joint venture	–	3 029	(3 029)	**–**
deferred tax	–	(7 052)	7 052	**–**
fair value changes				**–**
investment property	–	(138 873)	138 873	**–**
investment property - joint ventures	–	342	(342)	**–**
unlisted equity shares	–	(2 505)	2 505	**–**
interest rate derivatives	–	(91 221)	91 221	**–**
Balance at 31 August 2019 (reviewed)	**4 210 134**	**3 029 059**	**339 406**	**7 578 599**

Condensed consolidated statement of cash flows

	Reviewed 31 August 2019 R'000	Audited 31 August 2018 R'000
Cash flows from operating activities		
Net rental income from properties	**974 586**	947 502
Adjusted for:		
straight-line rental income accrual	**8 191**	(1 482)
depreciation and amortisation	**15 989**	17 558
working capital changes	**25 213**	42 629
Cash generated from operations	**1 023 979**	1 006 207
Interest income	**18 844**	18 584
Finance costs	**(471 737)**	(446 227)
Dividend paid	**(541 446)**	(533 051)
Net cash flows from operating activities	**29 640**	45 513
Cash flows from investing activities		
Acquisition of investment property	**(82 617)**	(173 062)
Purchase of subsidiary	**(35 585)**	(32 858)
Repayment of loan granted	**3 264**	(2 817)
Repayment to joint ventures	**(5 199)**	–
Income from joint ventures	**2 861**	24 916
Proceeds from disposal of investment property	**129 179**	61 608
Net cash flows from investing activities	**11 903**	(122 213)
Cash flows from financing activities		
Shares repurchased	**–**	(11 343)
Proceeds from borrowings	**2 781 576**	3 149 087
Repayment of borrowings	**(2 804 347)**	(3 128 888)
Net cash flows from financing activities	**(22 771)**	8 856
Net increase/(decrease) in cash and bank balances	**18 772**	(67 844)
Cash and bank balance at beginning of year	**62 912**	130 756
Cash and bank balance at end of year	**81 684**	62 912

Reconciliation of profit or loss and other comprehensive income to headline earnings

	Reviewed 31 August 2019 R'000	Audited 31 August 2018 R'000
Total profit for the year attributable to shareholders	**295 647**	540 563
Headline earnings adjustments		
(Profit)/loss on sale of investment properties	**(2 629)**	916
Impairment of goodwill	**–**	1 992
(Gain)/loss on derecognition of interest in joint venture	**(3 029)**	2 770
Fair value changes		
investment property	**138 873**	39 084
investment property - joint ventures	**(342)**	9 747
Headline earnings attributable to shareholders	**428 520**	595 072
Headline and diluted headline earnings per share (cents)	**161.0**	**223.4**
Weighted number of shares in issue (000)	**266 198**	**266 389**



Condensed consolidated segmental information

The group earns revenue in the form of property rentals. On a primary basis the group is organised into five major operating segments:

Rental income by sector	Reviewed 31 August 2019 R'000	%	Audited 31 August 2018 R'000	%
Retail	**517 226**	**33.3**	502 923	34.2
Offices	**247 456**	**15.9**	244 470	16.6
Residential	**499 610**	**32.2**	446 730	30.4
Industrial	**110 287**	**7.1**	109 254	7.4
Specialised and other:				
Parking	**68 043**	**4.4**	65 080	4.4
Healthcare facilities	**37 434**	**2.4**	33 223	2.3
Auto dealerships	**16 911**	**1.1**	13 543	0.9
Hotels	**16 793**	**1.1**	14 448	1.0
Places of worship	**7 534**	**0.5**	6 627	0.5
Educational facilities	**30 928**	**2.0**	34 151	2.3
Total rental income	**1 552 222**	**100.0**	**1 470 449**	100.0
Recoveries and other income	**430 473**		424 839	
Revenue	**1 982 695**		1 895 288	

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 philosophy 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

	%	Reviewed 31 August 2019 R'000	Audited 31 August 2018 R'000
Total comprehensive income attributable to shareholders		**295 647**	540 563
(Profit)/loss on sale of investment properties		**(2 629)**	916
(Gain)/loss on derecognition of investment in joint venture		**(3 029)**	2 770
Impairment of goodwill		**–**	1 992
Fair value changes			
Investment property		**138 873**	39 084
Investment property - joint ventures		**(342)**	9 747
Unlisted equity shares		**2 505**	–
Interest rate derivatives		**91 221**	(39 673)
Straight-line rental income accrual		**8 191**	(1 482)
Taxation - Current and deferred		**7 052**	(8 493)
		537 489	545 424
Amount not distributed			
Amount attributable to Edcon rent reduction*		**(2 505)**	–
Share of after tax profit of joint venture		**–**	(3 980)
Distributable earnings attributable to shareholders		**534 984**	541 444
Represented by:			
Revenue			
earned on contractual basis*	5.0	**1 988 381**	1 893 806
Property operating expenses	7.5	**(929 594)**	(864 911)
Net property income	2.9	**1 058 787**	1 028 895
Administrative and corporate expenses	(5.3)	**(78 515)**	(82 875)
Net operating profit	3.6	**980 272**	946 020
Share of income from joint ventures		**3 253**	15 721
Distributable profit before finance costs		**983 525**	961 741
Net finance costs	6.7	**(448 541)**	(420 297)
Distributable income before taxation	(1.2)	**534 984**	541 444
Taxation - Current and deferred		**–**	–
Distributable earnings attributable to shareholders	(1.2)	**534 984**	541 444

* *Revenue for the year ended 31 August 2019 has been reduced by R2.5 million, which relates to the 40.9% rent reduction granted to Edcon in terms of the rent reduction agreement between Edcon and its landlords. Management valued the shares acquired in lieu of the rent reduction at nil value and reduced the distributable amount accordingly.*

notes to the condensed consolidated financial statements

Basis of preparation

The condensed consolidated provisional financial statements are prepared in accordance with the JSE Listings Requirements and the requirements of the Companies Act, 71 of 2008. The condensed consolidated provisional financial statements have been prepared in accordance with the conceptual framework and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Pronouncements as issued by the Financial Reporting Standards Council and as a minimum, contains the information required by IAS 34 Interim financial reporting. The accounting policies applied in the preparation of the condensed consolidated financial statements, with the exception of the adoption of IFRS 9 – Financial instruments and IFRS 15 – Revenue, are consistent with those applied in the preparation of the previous consolidated financial statements. The adoption of IFRS 9 and IFRS 15 did not have any significant impact on the 2019 financial statements. Revenue from recovery of utilities and other income continues to be measured and recognised as revenue on the same basis as under IAS 18 and the adoption of the new impairment model under IFRS 9 did not result in a significant change to the amounts reported in the current year.

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 reviewed condensed consolidated provisional financial statements were prepared under the supervision of Mr AK Stein CA (SA), in his capacity as group financial director.

The condensed consolidated provisional financial statements were reviewed by Deloitte and Touche and their report is available for inspection at the company's registered address.

Fair value measurement

The group measures investment properties as well as financial instruments (which includes interest rate swaps and unlisted equity investments) at fair value at each reporting date. The fair values of financial instruments measured at amortised cost are disclosed when the carrying value of these instruments does not reasonably approximate their fair value at the reporting date.

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 in its entirety.

The different levels have been defined as follows:

- 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 is 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 (unobservable input)

Level 2 instruments

The fair values of the interest rate swaps are determined on a mark-to-market valuation, 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.

Level 3 instruments

The investment properties are valued bi-annually by a dedicated valuation team at City Property and the portfolio valuation is reviewed and approved by the board. In terms of the JSE Listings Requirements, all the properties are valued at least once over a rolling three-year period by external independent valuers. In the current year 94 properties representing 24.7% of the portfolio, with a carrying amount of R3.2 billion were externally valued.

Valuation of property portfolio

The portfolio was valued by the following independent valuers who are all registered valuers in terms of section 19 of the Property Valuers Profession Act, 47 of 2000 and have extensive experience in property valuations.

Entity	Valuator	Qualifications
Jones Lang LaSalle (Pty) Ltd	Shawn Crous	MRICS, Professional valuer
Mills Fitchet Global	William Hewitt	NDPV, MIEA, FIVSA, RICS Registered Valuer
Realworx CC	Stanton Alberts	Professional Associate Valuer
Amanda de Wet Consultants and Investors CC	Amanda Bruyns	BProc.LLB (UP) N.D RE (Unisa), Professional Valuer
Gert van Zyl Valuation	Gerhardus Jacobus Van Zyl	Professional Associate Valuer

Jones Lang LaSalle (Pty) Ltd and Mills Fitchet Global valued the properties using the discounted cash flow model and Realworx CC, Amanda de Wet Consultants and Investors CC and Gert van Zyl Valuation valued the properties using the capitalisation of income method. The entire property portfolio was also internally valued using the capitalisation of income method.

The key assumptions and unobservable inputs used by the group in determining fair value were as follows:

	2019 Range (weighted average)		2018 Range (weighted average)	
Capitalisation rate (%)	8.5 – 14.5	(9.5)	8.0 – 13.0	(9.3)
Expense ratio (%)	5.1 – 44.1	(26.2)	5.7 – 49.1	(25.1)
Long-range vacancy factor (%)	0.0 – 35.0	(5.7)	0.0 – 30.0	(5.6)

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 and 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.

Effect of a 1% shift on the carrying value of investment property

	2019 R'000		2018 R'000	
	Increase of 1%	**Decrease of 1%**	Increase of 1%	Decrease of 1%
Movement in capitalisation rates, while all other inputs remain constant	**(1 217 789)**	**1 505 343**	(1 224 992)	1 519 461
Movement in expense ratio, while all other inputs remain constant	**(172 764)**	**172 764**	(168 784)	168 784
Movement in long-range vacancy factor, while all other inputs remain constant	**(135 187)**	**135 187**	(133 957)	133 957

Investment properties and derivative financial instruments have been categorised as Level 3 and Level 2, respectively, and there have been no significant transfers made between Levels 1, 2 and 3 during the year. There have been no material changes in judgements or estimates of amounts as reported in previous reporting periods.

Fair value measurement continued

Movement in Level 3 instruments

	Investment property, plant and equipment R'000
Balance as at 31 August 2018	**12 743 362**
Total fair value changes for the year included in profit and loss	**(138 873)**
Straight-line rental income accrual	**(8 191)**
Depreciation and amortisation	**(15 989)**
Acquisitions, disposals and other movements:	
Developments and subsequent expenditure	**82 616**
Acquired through business combination	**310 165**
Disposals	**(126 550)**
Balance as at 31 August 2019	**12 846 540**
Included in profit and loss for the year:	
Changes in fair value of investment property	**(138 873)**

Valuation of unlisted equity shares

The unlisted equity shares relate to the shares and notes acquired from Edcon in lieu of the rent reduction given to Edcon in terms of the rent reduction agreement between Edcon and its landlords.

Due to the uncertainty around the manner of disposal of the unlisted equity shares and notes at the end of the 'rent reduction' term and the uncertainty regarding the financial position of Edcon, the fair value of the shares and notes has been estimated at nil value and this will be reassessed once more information is available.

Events after the reporting date

There have been no material subsequent events that require reporting.

Commitments

The group has approved capital commitments in the sum of R39.5 million (FY2018: R25.6 million), relating to various redevelopments, upgrades of properties, committed tenant installations and property contracts. 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 members of the Wapnick family are shareholders of both companies.

Total payments made to City Property amounted to R201.9 million (FY2018: R197.1 million). This included fees for collections, leasing, property and asset management, commission on acquisitions and disposals, upgrades and developments as well as repairs. Octodec received R8.4 million from City Property in respect of rent and operating costs recovered.

As at 31 August 2019, the following amounts were owing from/(to) City Property:

	2019 R'000	2018 R'000
Due to City Property	**(2 220)**	(4 617)
Due by City Property	**1 068**	1 209

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.

Business combination

With effect from 1 November 2018, Joybee Properties (Pty) Ltd (Joybee), a subsidiary of the group, acquired the remaining 50% shareholding in 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 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

Revenue for the year includes an amount of R39.9 million and the loss for the year has decreased by R5.1 million (after the fair value change to investment property of R5.8 million) as a result of the Jardtal acquisition. If the acquisition had occurred on 1 September 2018, consolidated revenue for the year ended 31 August 2019 would have been R1 991.0 million compared to R1 982.7 million and profit after tax would have been R295.0 million compared to R295.6 million.

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JSE share code: OCT
ISIN: ZAE000192258 (Approved as a REIT by the JSE)

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