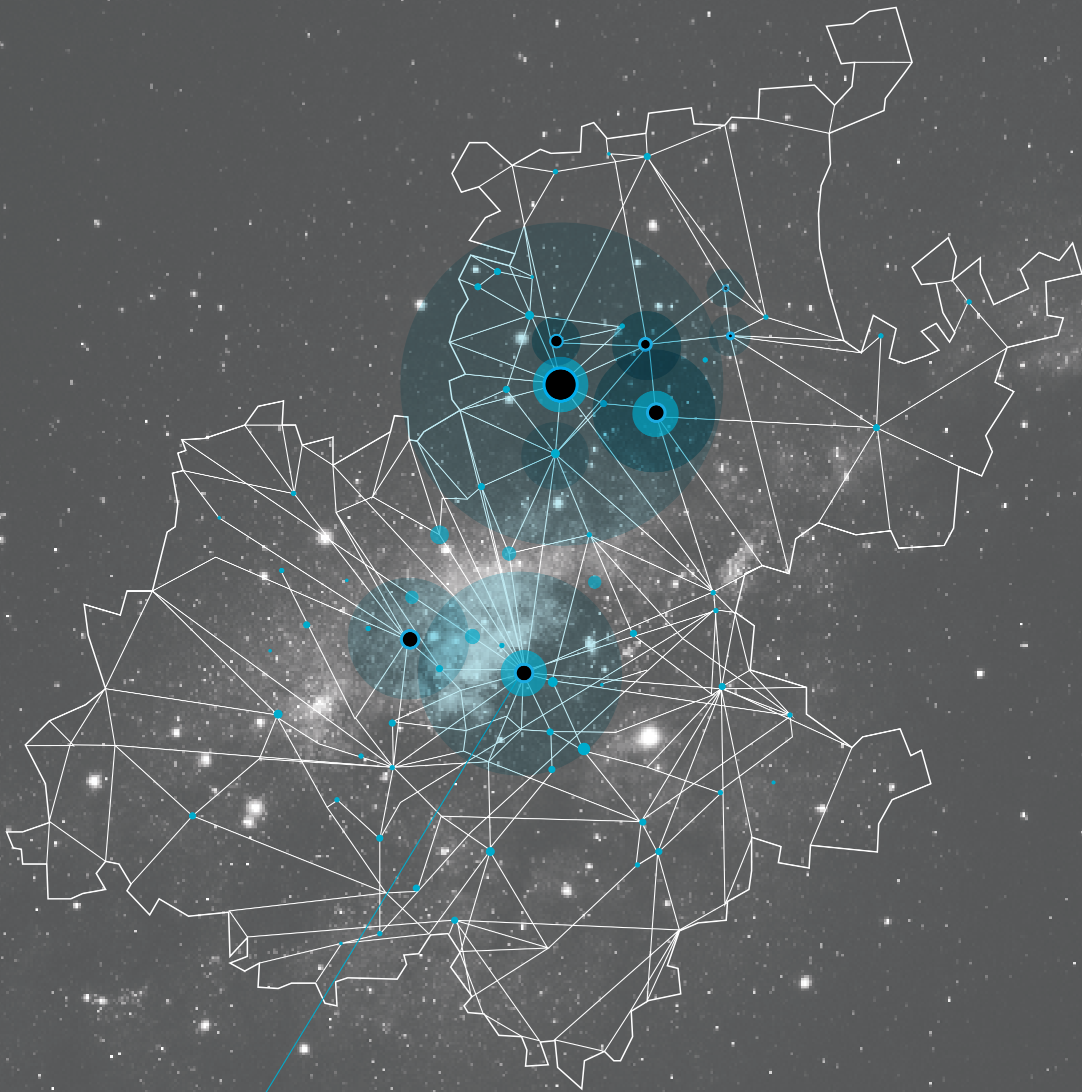
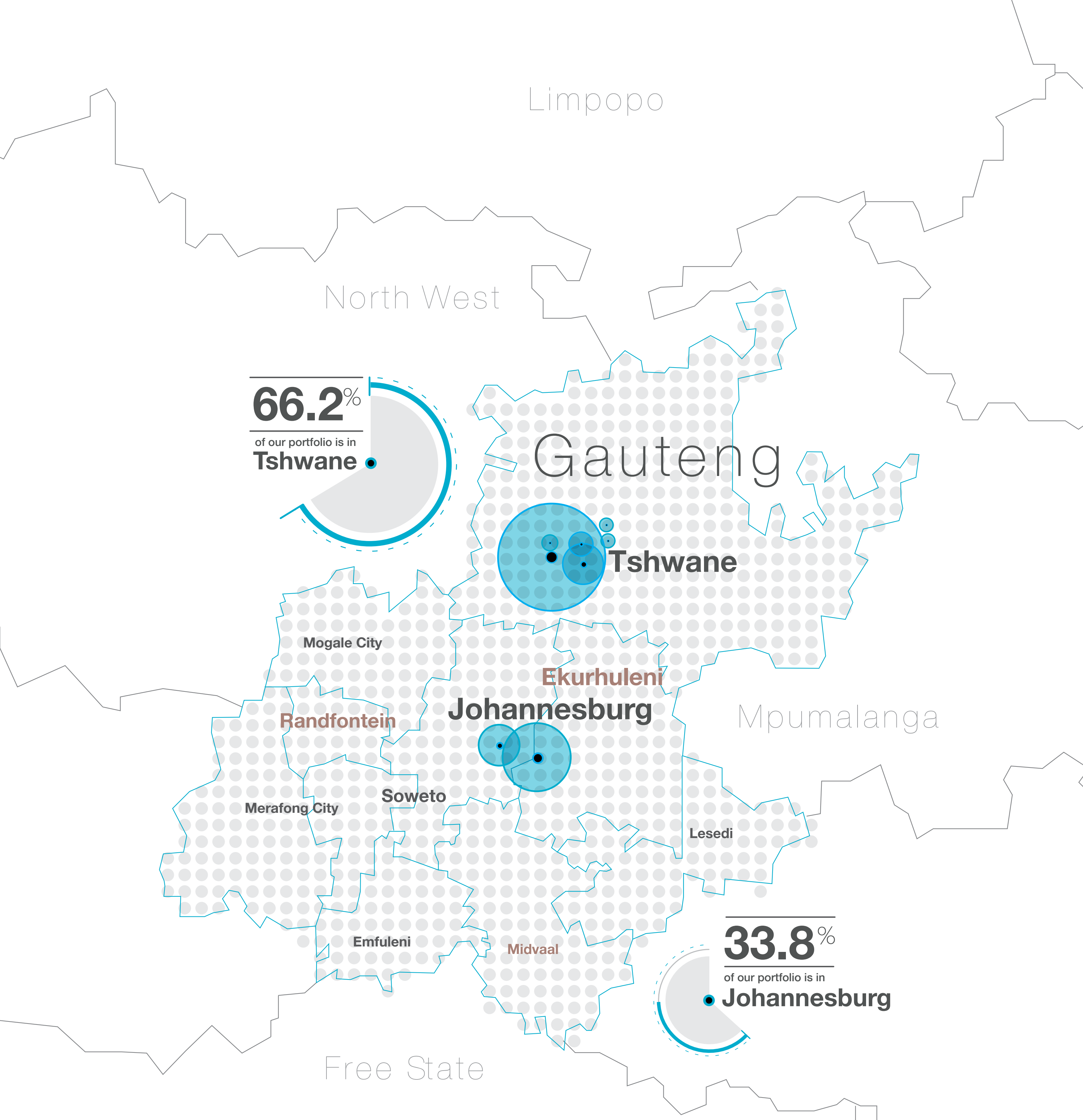
Octodec
INVESTMENTS LIMITED

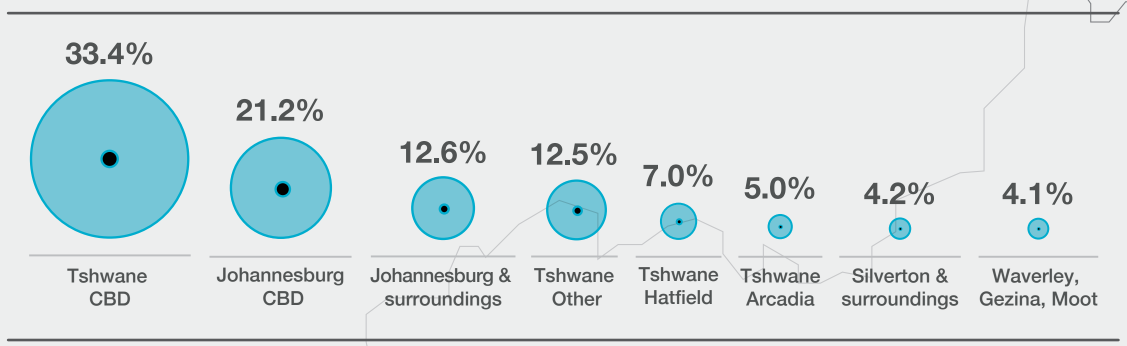


2018 Integrated report

creating value
beyond financial return



Geographical analysis of the rental income



contents

our approach to reporting

Our aim with our reporting is to provide our stakeholders with information that we believe is of material interest and that will provide you with the information needed to make an informed assessment of Octodec Investments Limited's (Octodec's) ability to create sustainable value over the short, medium and long term.

To achieve this, we have provided you with information on:

- 8 Our strategy and our performance against strategy (page 8)
- 12 Our leadership team (pages 12 to 13)
- How we apply our business model to create long-term value
- Our management of risks, opportunities and the material issues on which our reporting is based
- Our approach to governance throughout the report (we have identified where King IV™ principles are being applied in the day-to-day governing of our business and the outcomes achieved), as well as in the *Know-how* section of this report 61 (pages 61 to 64).

Our reporting also considers feedback from our stakeholders on the information they require to assess our performance against their investment strategies and priorities.

How to access the information you need from our print and online reporting

Our icons

Auto dealerships
Development pipeline buildings
Educational facilities
Government buildings
Healthcare facilities
Hotels
Industrial
Mixed-use buildings
Offices
Parking
King IV™
Places of worship
Residential
Retail street shops
Shopping centres

Our reports

	Available in print
	Available online Our integrated report for 2018 in pdf format
00	**Page number/s should you wish to access additional information in this report**
AFS	**Annual financial statements**
WWW	**Worldwide web**

Reporting scope and boundary

This report, which is our primary report to our stakeholders, covers the period 1 September 2017 to 31 August 2018 (our previous report covered the period 1 September 2016 to 31 August 2017). Its scope includes details of the Octodec property portfolio (located in the Gauteng province of South Africa), which has not undergone any significant change to its size, structure or ownership during the year under review, our future growth prospects and the key functions over which we exercise control. Our reporting process has been guided by the principles and/or requirements of the International Integrated Reporting Council's (IIRC) International <IR> Framework, King IV™, the JSE Listings Requirements and the Companies Act. Our annual financial statements (pages 93 to 130) comply with International Financial Reporting Standards and are audited by Deloitte & Touche, whose unqualified audit report can be found on page 96 of this report.

93
96

To ensure comparability, all significant information is reported on a like-for-like basis and where comparative information has been restated, this has been indicated.

In terms of the United Nations Sustainable Development Goals (SDGs), we have identified the goal to which Octodec is contributing as SDG 11:

Sustainable cities and communities, the aim of which is to make cities and human settlements inclusive, safe, resilient and sustainable. We believe that our commitment to providing safe, dignified accommodation and unlocking value in urban spaces supports the sustainable development of the cities of Tshwane and Johannesburg.

Forward-looking statements

Certain statements in this report constitute forward-looking statements. Such statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance, objectives or achievements of Octodec, as well as the industry in which it operates, to be materially different from the projected results, performance, objectives or achievements expressed or implied by these forward-looking statements. The performance of the Octodec group is subject to the effect of changes in the economic environment and prevailing market conditions.

Board approval

The Octodec board assumes responsibility for the integrity of the integrated report.

5

The board has critically assessed the content of the report and has satisfied itself as to the assurance provided by Octodec's combined assurance model. The model enables an effective internal control environment that supports the integrity of information used for internal decision-making by management, the board and its committees, and supports the integrity of the integrated report.

The board also considered materiality for the purposes of the integrated report and estimated the effect that the presence or absence of an item of information might have on the accuracy or validity of a statement in the integrated report, or a decision by a stakeholder (see *Our approach to materiality* on page 21 of this report).

21

Our overall objective with this integrated report is to provide information that could materially impact Octodec's ability to create value over the short, medium and long term. The board is of the view that, to the best of its knowledge and belief, our integrated reporting addresses matters material to our stakeholders' decision-making by explaining how Octodec creates value over time and takes into consideration the group's impact on its stakeholders and the environment in which it operates.

The board unanimously approved our integrated reporting for 2018 on 12 December 2018.

Sharon Wapnick Chairman Non-executive	**Jeffrey Wapnick** Managing director
Derek Cohen Lead independent non-executive director	**Gerard Kemp** Independent non-executive director
Myron Pollack Non-executive director	**Pieter Strydom** Independent non-executive director
Anthony Stein Financial director	

measuring our performance

Creating value for our stakeholders

Sharon's Place

74.5%
of exposure to interest rate risk is hedged
FY2017: 82.1%

37.4%
loan to fair value of portfolio
FY2017: 37.1%

9.0%
all-in annual weighted average cost of borrowings
FY2017: 9.2%

100%
the development costing **R357.4 million** completed during the year and residential units fully let upon completion

2018 Tshwane
Sharon's Place

Financial summary

Highlights

5Y

9.1%

Annual compounded return over five years

10Y

9.6%

Annual compounded return over ten years

Five-year financial summary

	2018	2017	2016	2015**	2014
Investment property and straight-line rental accrual (R'000)	**12 743 363**	12 549 048	12 065 688	11 380 104	3 471 507
Shareholders' funds (R'000)	**7 824 398**	7 828 229	7 413 800	6 987 679	2 889 449
Interest-bearing borrowings (R'000)	**4 846 533**	4 826 334	4 779 027	4 380 873	1 551 763
Revenue – earned on contractual basis (R'000)*	**1 893 806**	1 836 251	1 767 871	1 634 159	540 359
Net property income – earned on contractual basis (R'000)*	**946 020**	914 802	906 337	819 032	249 992
Interest received (including investment income from joint ventures) (R'000)	**28 994**	28 750	20 455	15 610	73 951
Net interest paid (R'000)	**438 881**	408 702	394 751	376 491	125 665
Distribution (R'000)	**541 444**	536 432	510 750	228 839	206 602
(Loss)/profit on sale of investment property (R'000)	**(916)**	2 943	8 490	(61)	44
Net operating profit to revenue (%)	**50.0**	49.8	51.3	50.1	46.3
Net operating profit to property investments (%)	**7.4**	7.3	7.5	7.2	7.2
Expenses (net of recoveries) to rental income (%)	**35.6**	36.0	34.8	35.8	36.7
Shares/linked units in issue ('000)	**266 198**	266 864	254 551	252 322	117 348
Distribution per share (cents)	**203.4**	203.1	201.5	189.2	175.7
Growth in distribution per share (%)	**0.1**	0.8	6.5	7.7	11.5
Net asset value per share (cents)	**2 939**	2 933	2 913	2 769	2 462
Market price per share year end (cents)	**2 058**	2 274	2 299	2 425	2 106
Market capitalisation at year end (R'000)	**5 478 345**	6 068 495	5 852 127	6 118 803	2 471 347

** Excludes the straight-lining of lease rental*

*** With effect from 1 September 2014 Octodec acquired the remaining interest in Premium that it did not already own, thereafter Premium became a 100% subsidiary.*

2018 Tshwane Sculpture by Angus Taylor – next to One on Mutual

Our strategy

During the year under review Octodec revisited its strategy to ensure it remains relevant in the current socio-economic environment.

We aim to optimise our property portfolio for sustainable value creation by:
- a medium-term focus on growing our residential portfolio in high demand areas
- improving the quality of the portfolio, by selling non-core assets that cannot be viably upgraded by us in a sustainable, cost-effective manner, thereby enhancing core nodes.

We will achieve this by:
- attracting, developing and retaining talent to ensure we have the appropriate skills available to deliver on our strategy
- lengthening our loan expiry profile to exceed 2.5 years
- extracting maximum value from our portfolio through continually finding innovative solutions
- transforming the group
- lengthening the lease expiry profile where possible
- achieving loans to property values of 35% over three years.

Our performance against strategy

Our performance against strategy	What we've achieved
1 Grow our existing portfolio by focusing on redeveloping and upgrading properties	The construction of 399 residential units and 5 647 m² of retail (Sharon's Place) The redevelopment of Nzunza House at a cost of R34.8 million Various other smaller upgrades, including Lister Medical Centre and The Tannery
2 Maintain our medium-term focus on growing our residential portfolio in our core areas of expertise	399 residential units at Sharon's Place
3 Continue to investigate new opportunities by exploring equity growth opportunities, including joint ventures and strategic partnerships as well as applying our expertise in diversified locations	Various new investment opportunities were explored in our core zone as well as other areas within South Africa. These various opportunities were found to be unfeasible

leadership review

2018 Tshwane
Sharon Wapnick
and Jeffrey Wapnick

leadership review continued

The financial year under review was characterised by a number of events that dramatically changed the environment and resulted in lower levels of consumer and business confidence that affected the way in which the listed sector operates. The already weak economy deteriorated further, and the economic data released for the second quarter of the year confirmed that South Africa had entered a technical recession. The political turmoil experienced earlier in the year, uncertainty arising from government's policy relating to the expropriation of land without compensation and the poor performance of the Rand against other major currencies, juxtaposed with the improved confidence in the world economy, has collectively contributed towards an outflow of capital investment from South Africa.

These factors resulted in immense pressure being brought to bear on every aspect of the local economy, including the South African REIT sector which seems to have lost some favour in recent months with investors. The advent of the so-called "construction mafia" (unscrupulous and corrupt labour brokers purporting to represent the local community) and the lack of government spend on infrastructure development further compounded a difficult situation, resulting in a number of construction companies, both private and public, being placed under business rescue. This has had, and will continue to have, a negative impact on the property sector.

Against this backdrop, the highlight for us this year has been the completion of our flagship mixed-use complex, Sharon's Place, located in the Tshwane CBD adjacent to the municipality's new Tshwane House office complex. Despite the tough times in which we are operating, take-up of the residential units in Sharon's Place exceeded expectations, with all 399 residential units fully let shortly after the final units were completed in June 2018. When we reported to you last year, we anticipated a slow take-up of the units in Sharon's Place. Notwithstanding the write down of investment value, the rapid take-up of these units has confirmed that there is still strong demand for a quality lifestyle offering in the Tshwane and Johannesburg CBDs, especially where the residential demand is underpinned by a strong demand for quality accommodation located close to the workplace.

2018
Tshwane
Sharon's Place

> Despite the tough times in which we are operating, take-up of the residential units in Sharon's Place exceeded expectations, with all 399 residential units fully let shortly after the final units were completed in June 2018.

The quick take up did not result in any cannibalisation of our portfolio and residential vacancies in the geographic area in the Octodec portfolio did not increase. The retail street shops have proved popular with the national tenants (e.g. Clicks, Shoprite and KFC) as well as some smaller operators who are trading well thanks to the heavy foot traffic around this block. The parking is popular with our residential tenants and we anticipate that the additional bays will be let on a bulk basis post year end. We refer you to pages 42 to 43 of this report for information on the spacious multipurpose recreational facilities that make Sharon's Place a very attractive option for prospective tenants.

Performance against our strategy in tough times

The medium-term focus of our strategy remains on redeveloping and upgrading our portfolio to create sustainable value for all our stakeholders. Any potential new project will be carefully considered before we make a decision to proceed with it, especially considering the affordability factor in the current economic climate. We will however, be ready to proceed as soon as circumstances indicate that it is the right time to do so. While the redevelopment of Sharon's Place has been well received in the market, we will continue to investigate opportunities available to extract value from existing assets. Certain projects in our development pipeline will, given the current economic and political circumstances, remain on hold for now in line with the conservative approach that we have adopted.

The board took the decision in 2017 to reassess our portfolio and dispose of non-core and underperforming properties, and to reinvest the proceeds from these sales in the most appropriate investment opportunities in our existing portfolio. We have made substantial progress in this regard (see page 27 of the financial review for details), having sold a number of properties (post year end) in excess of R122 million in value. This will place us in a good position to take advantage of development opportunities when the economic climate improves and to reduce our LTV. The sale prices of our non-core and underperforming assets, which closely approximate their book value, validate our conservative approach to valuations of our property portfolio.

Maintaining distributions to our shareholders

Despite the macroeconomic climate, increased costs and the resultant pressure on our rental income growth, the group achieved a 0.9% increase in the net profit available for distribution. This achievement is the result of our consistent application of sound property principles and an ethical approach to doing business, and speaks to the credibility of our results which take into account purely rental income with no distribution of transactional profits.

Relationships

We concluded the renegotiation of our new management agreement with City Property during the year. This was a lengthy and robust process conducted in a transparent and professional manner, involving an *ad hoc* subcommittee whose members were all non-executive directors. This subcommittee was advised by independent consultants such as PwC and CDH.

We continue to make every effort to provide the investor community with the information it needs to make informed decisions regarding our business, and we engage with the investor community regularly to achieve this.

Our commitment to good corporate governance

Our board reviewed our code of ethics this year to ensure it remains relevant in today's business environment, and it was updated to encourage adherence to the International Ethics Standards Board for Accountants' (IESBA®) Code of Ethics for Professional Accountants™ by employees and board members who are chartered accountants. The board also ensured that the new management agreement between Octodec and City Property sets out the conduct and standards that the group requires of City Property. The board also approved a policy addressing how to deal with non-compliance with laws and regulations.

The way forward

We expect that the current weak macroeconomic environment in South Africa will continue in the short term. Our diversified portfolio and large number of tenants, sound operating fundamentals, prudent capital management and our experienced management team provide Octodec with the resilience required to weather these difficult times and the flexibility to respond rapidly when conditions start changing.

While Octodec was comfortable to take on projects in the past that were not immediately accretive in nature, there is no appetite to proceed with any projects in the current economic climate unless yields are accretive, given the current uncertainty. An increase in competition in certain nodes, tenant affordability, service delivery concerns and government policies also weigh heavily when considering the merits of new developments. We anticipate only a slight improvement in aggregate rental income in the short to medium term.

As we mentioned previously, we continue to investigate new opportunities to ensure that we are poised to spring into action when conditions improve. We remain committed to the turnaround of the Tshwane and Johannesburg CBDs and to maintain our buildings to the same high standards that we have always subscribed to.

Appreciation

The commitment of our board of directors, our executive management, our employees and those of City Property, and their excellent service and devotion to Octodec in these challenging times made it possible for us to maintain our distribution to our shareholders. Our thanks to you all for your efforts.

Sharon Wapnick
Chairman
Non-executive

Jeffrey Wapnick
Managing director

leadership

as at 31 August 2018

Non-executive directors

Sharon Wapnick

Chairman
BA LLB (*cum laude*)
Chairman of the investment committee and a member of the nominations, SERT and risk committees

Sharon (55), who joined the board on 4 October 1994, has considerable experience in the property sector, as well as in legal-related property, commercial and corporate matters. She is an attorney and a senior partner of Tugendhaft Wapnick Banchetti & Partners and a director of various unlisted companies, including City Property. Sharon was appointed the chairman of Octodec on 1 October 2011.

Myron Pollack

CA(SA)
A member of the audit, investment, risk, nominations and SERT committees

Myron (71) joined the board on 4 October 1994. His areas of expertise include finance and property.

Executive directors

Anthony Stein

Financial director
CA(SA)
Member of the risk committee

Anthony (51) was appointed to the board on 1 July 2009. He has considerable experience in finance in a listed company environment, as well as in the property industry, and was the treasurer of the SA REIT Association from its inception until 2015. He is the chief financial officer of City Property.

Jeffrey Wapnick

Managing director
BCom
Member of the risk committee

Jeffrey (58), who was appointed to the board on 2 October 1998, is responsible for the management of the group, with a strong emphasis on upgrading and the development of properties. He has a wealth of experience in the property industry. He is also managing director of City Property.

Independent non-executive directors

Derek Cohen

Lead independent director
AEP (Unisa)
Chairman of the nominations committee and a member of the audit, investment, risk, and SERT committees

Derek (67), who joined the board on 1 October 2009, has many years of experience in banking and finance, and provides consulting services with a specific focus on mergers, acquisitions and corporate finance-related matters. He is chairman of the Smart Life Insurance Company Limited.

Gerard Kemp

MSc (Mining Engineering), DPLR, MDP
Chairman of the SERT committee and a member of the audit, investment, risk and nominations committees

Gerard (64) has been a member of the board since 1 October 2013. He was formerly the chief executive officer of KCS Resources Proprietary Limited, a division of Transafrika Resources and the Pamodzi Resources Fund. Prior to that he was director of business development (resources) at Rand Merchant Bank (RMB), head of investment banking and head of equities research at BoE Merchant Bank and BoE Securities. Gerard was formerly an independent non-executive director of Keaton Energy Holdings Limited.

Pieter Strydom

MCom (*cum laude*), CA(SA)
Chairman of the audit and risk committees and a member of the nominations, investment, and SERT committees

Pieter (70) was appointed to the Octodec board on 6 February 2012. He has 46 years of experience in external auditing, special investigations and all disciplines of risk management, and serves on the boards of Old Mutual Nigeria Life Assurance Company Limited, Old Mutual West Africa Limited, Old Mutual General Insurance Company Nigeria Limited, and the Smart Life Insurance Company Limited.

Our board and its committees

		Attendance at meetings							
			Committees						
Name and status of director	Length of service	Board[1, 3]	Audit[2]	Risk	Investment	Nominations	SERT	Ad hoc subcommittee	Directors to be re-elected at the AGM on 1 February 2019
Non-executive directors (non-independent)									
Sharon Wapnick (chairman of the board and the investment committee)	24 years 11 months (appointed chairman 1 October 2011)	8/8	5/5*	4/4	4/4	2/2	2/3[8]	3/5*	✓
Myron Pollack	24 years 11 months	8/8	5/5	4/4	4/4	2/2	3/3	5/5	
Non-executive directors (independent)									
Derek Cohen (lead independent director and chairman of the nominations committee)	8 years 11 months	8/8	5/5	4/4	4/4	2/2	3/3	5/5	✓
Akua Koranteng	9 months[9]	6/8[7,9]	3/5[9]	–	3/4[9]	–	1/3[9]	–	
Gerard Kemp (chairman of the SERT committee)	4 years 11 months	8/8	5/5	3/4[5]	3/4[5]	1/2[5]	2/3[5]	4/5[5]	
Pieter Strydom (chairman of the audit and risk committees)	5 years 7 months	8/8	5/5	4/4	4/4	2/2	3/3	4/5[6]	✓
Executive directors									
Jeffrey Wapnick (managing director)	19 years 11 months	8/8	5/5*	4/4	4/4*	2/2*	3/3*	5/5*	
Anthony Stein (financial director)	9 years 2 months	7/8[4]	4/5*, [4]	4/4	4/4*	2/2*	3/3*	5/5*	

** Attended by invitation*

[1] Includes four special board meetings

[2] Includes a special audit committee meeting

[3] Includes a strategic workshop, annual general meeting and general meeting

[4] Apologies received for the special board and audit committee meetings held on 21 November 2017.

[5] Apologies received for the investment and nominations committee meetings held on 27 September 2017, the ad hoc subcommittee held on 6 February 2018, the risk and SERT committee meetings held on 21 June 2018.

[6] Apologies for the ad hoc subcommittee meeting held on 6 February 2018.

[7] Apologies for the special board meeting held on 5 December 2017.

[8] After arriving at the meeting and signing the attendance register for the SERT committee meeting held on 25 January 2018, Ms Sharon Wapnick had to excuse herself to attend a funeral.

[9] Ms Akua Koranteng resigned from the board of directors of Octodec with effect from 10 May 2018.

Invitees to the audit committee include the chief risk officer and senior financial manager of City Property. The chief risk officer also attends the risk and SERT committee meetings as an invitee. The human resources executive of City Property attended the SERT committee meetings as invitee.

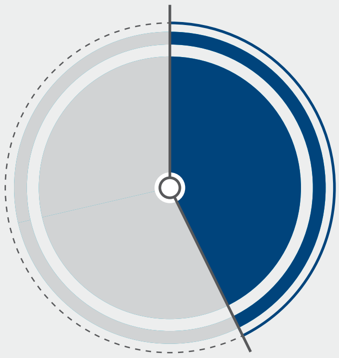
External advisers from Deloitte & Touche attend the audit committee meetings, while PwC attended some of the *ad hoc* subcommittee meetings.

Our board gender and race diversity targets

The board's objective to ensure that at least 25% of its members were made up of women by the end of 2017, was successfully achieved through the appointment of Ms Akua Koranteng, who resigned on 10 May 2018 to join Equities Property Fund Limited in an executive capacity. To meet the voluntary gender and race diversity targets determined in terms of the amended policy on the promotion of race and gender diversity at board level, adopted during the year under review, Octodec plans to introduce a female black South African independent non-executive director to its board during 2019. It will further increase the racial diversity of the board by appointing an additional black South African to its board in the year ahead. The board has committed to implementing the necessary changes required to improve its delivery on gender and race diversity targets.

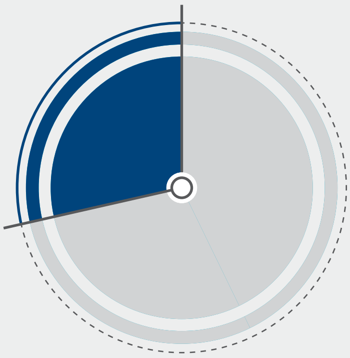
Board independence

as at 31 August 2018



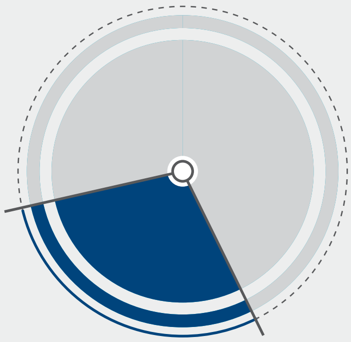
42.8%

Independent non-executive directors
(55.6% once two new directors are appointed)



28.6%

Non-executive directors
(22.2% once two new directors are appointed)

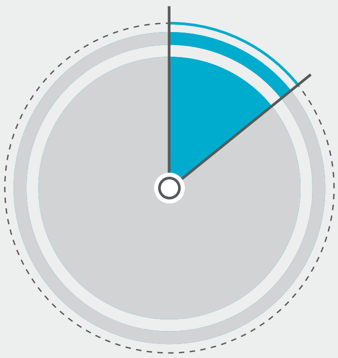


28.6%

Executive directors
(22.2% once two new directors are appointed)

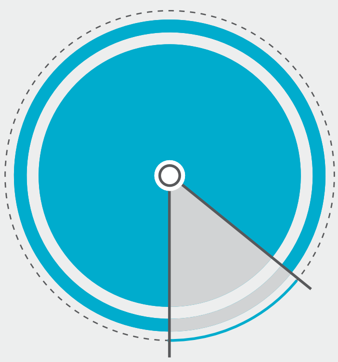
Board gender profile

as at 31 August 2018



14.3%

Female
(22.2% once one new female director is appointed)



85.7%

Male
(77.8% once one new male director is appointed)

our business

Octodec listed on the JSE in 1990 and obtained real estate investment trust (REIT) status in 2013. Octodec continues to focus on maintaining sound property fundamentals. In the management of its portfolio as one of the major owners of property in the central business districts (CBDs) of Tshwane (the administrative capital of South Africa) and Johannesburg (the economic hub of South Africa) we are known for our ability to unlock value in urban spaces.

Our vision

To innovatively unlock long-term value in spaces where people can thrive

Our values

Honesty and integrity are our foundation

Quality is our cornerstone

Relationships are key

We dare to pave the way and make it happen

Our purpose

Our purpose is to manage our assets cost-effectively and provide our shareholders with sustainable returns. We will not, however, compromise on the integrity of our operations or the longevity of our assets.

To ensure the sustainability of our business we will continue with its transformation. Transforming the areas in which we operate into nodes that will continue to remain relevant in the long term is central to the transformation of the business.

We unlock value through:

- applying specialist skills and experience in property management and development (see pages 62 to 63) 62
- fostering long-term relationships with our key stakeholders (see pages 57 to 61) 57
- creating innovative property opportunities that deliver long-term sustainable stakeholder value (see page 39) 39
- efficiencies that the scale and concentration of our properties make possible (see page 64) 64

Our market capitalisation as at 31 August 2018 was:

R5.5 billion

(2017: R6.1 billion)

Beneficial shareholders with a holding greater than 3% of Octodec issued shares:

Shareholder	% Ownership
Wapnick family and directors	38.9
Nedbank Group	6.9
Old Mutual Group	6.8
Allan Gray	4.5
GEPF	3.9

2018 Braamfontein Johannesburg
Nzunza House

Business model

Our revenue

Rental income and recoveries generated from our properties

Our value proposition

Tenants

We provide safe, quality, well-located spaces in the residential, office, retail and light industrial sectors

Employees

Culture values honesty, integrity and promotes education as a mechanism for career advancement, thereby enabling a knowledge-based workforce that is future ready

Investors

Consistent returns through application of sound property and asset management principles applied to a portfolio where yield-enhancing opportunities abound

CBD

The impact of development and redevelopment of assets ignites interest in areas of the CBDs that attract tenants and improve the CBD experience for all its users

Our costs

Emphasis on cost management, especially:

Finance

Capex

Water and electricity consumption and management

Procurement of goods and services

Efficiencies of scale across the business

Operational costs including cleaning

Our activities

- Selling non-core assets that cannot be upgraded in a sustainable, cost-effective manner
- Reducing LTVs as determined by the board
- Lengthening our loan expiry profile
- Applying technology to improve efficiencies
- Extracting maximum value from our portfolio through striving to find innovative solutions
- Attracting, developing and retaining talent to ensure that we can deliver on our strategy

Issues impacting our strategy

- Weak economy
- Tenant affordability with resultant limitation / pressure on rental growth
- Increased competition in certain areas
- Increasing regulatory requirements
- Loss of investment confidence in the listed property sector
- Local government service delivery issues
- Local and national government policies including “inclusionary housing” and “expropriation without compensation”

Value creation – what makes us different

- Our developments take a long-term view – quality over quantity means higher initial costs, but resultant steady rentals from more reliable tenants
- New opportunities and know-how – the availability of well-located assets have positioned us well to redevelop our assets to recognise and address the changing needs of the mass markets that have access to, and want to be in, the CBD
- Our developments have changed the face of the CBDs. We have relationships with all stakeholders based on mutual trust and we are recognised as long-term, responsible operators
- Environmental impact – we strive to reduce the consumption of electricity and water through improved efficiencies and management thereof in our buildings, and continuously investigate better options that seek to achieve this result, be it through the use of innovative technology or intensive management
- We are consistent – our results and distributions are based on the net rental income generated by our portfolio

Outcomes

Financial resources

- Value realised through our ability to maintain our distribution to our shareholders at 203.4 cents per share
- Weighted average cost of finance at an acceptable level of 9.0% per annum (2017: 9.2%) in an environment of increasing upward pressure on interest rates

24 See financial review on pages 24 to 29

Our people and know-how

- Unique intellectual capital gained over time as pioneers in the management and redevelopment of inner city properties
- Understanding of the property market and changing tenant needs leading to effective, innovative decision-making
- Upskilling employees provides building managers with a career path in property management
- Digitalisation of certain aspects of our business, increasing efficiency and scalability, improving our ability to communicate with our tenants

Physical resources

- 0.2% year-on-year decrease in like-for-like valuation of property portfolio. The proceeds from the sales of our properties in 2018 are in line with valuations

24 See financial review on pages 24 to 29

- Continuing to extract value from our retail street shops through strong demand from nationals and affordable options for independent retailers
- 2.6% growth in like-for-like rental income in year under review
- Improved growth of 3.9% in like-for-like rental income in residential portfolio (2017: like-for-like growth of 2.5%)
- Average residential sector occupancy rates of 94.2% (92.8% in 2017)
- R166.2 million invested in properties in Tshwane and Johannesburg and surrounding areas in the year under review
- Diversification of our portfolio addressing risk and exploiting opportunities
- Total core vacancies of 11.6% in our portfolio

Relationships

- Effective stakeholder relationships and partnerships contributing to inner city upliftment

Giving back

- R16.5 million (in monetary and non-monetary contributions) invested in supplier development in FY2018
- Safer inner cities
- Making safe, quality accommodation available where people want to live, work and play
- Increased procurement from black-owned SMMEs, which created 37 jobs
- Community upliftment through efforts to increase their self-sufficiency

65 For more information see page 65

Operating context

Known issues

New and changing issues

External environment

Macroeconomic conditions

- South Africa's sovereign rating
- Regulatory environment
- Country's poor reputation with regard to governance
- Municipal and court systems remain under threat

Emerging risks

- Land expropriation without compensation
- City of Johannesburg inclusive housing policy
- Negative impact on construction-related issues
- Tenant affordability
- Increasing supply of residential units by competitors
- Social unrest
- Impact of disruptive technologies
- Increases in utility and assessment rate charges
- Uncertainty regarding 2019 elections

Key risks and opportunities

Internal environment

Operations: internal issues

- Cost efficiencies
- Water management
- Energy management
- Succession planning and skills retention
- Regulatory amendments and increased regulatory scrutiny

Changes in execution: strategy

- Impact of disruptive technologies on marketing of our properties, competing in a competitive environment and managing risks appropriately
- Understanding the needs of our tenants in an ever-changing environment
- Impact of social media, mobile applications and other internet-based applications on our brand, customer relationships and regulatory obligations

Managing our risks and opportunities

The board of Octodec assumes responsibility for the governance of risk, sets the direction for how we approach and address risk, and mandates the audit and risk committees to exercise ongoing oversight of risk management.

4,11
77

This section sets out the outcome of this oversight (see page 77 of this report for information on our governance of risk).

Enterprise risk and opportunity management

68

Octodec's enterprise risk management (ERM) policy and framework aligns our strategy, processes, people, use of technology and knowledge with the purpose of evaluating and managing the uncertainties we face in protecting and creating shareholder value. Our risk governance structures and processes (see pages 68 and 71), which include the oversight, management and assurance of risk management, are based on three lines of defence in a combined assurance model. They are designed to enable an effective internal control environment and support the integrity of information used for internal decision-making, strategy development and planning by management, the board and its committees.

Business level risk and opportunity management

Octodec's risk and opportunity management function sets the tone for risk management within the business and provides the framework for the identification and mitigation of risks and opportunities in its everyday processes.

Each department within City Property which monitors Octodec's risks in line with its ERM policy and framework, has its own risk and opportunities register through which it actively identifies, monitors and manages the risks and opportunities.

City Property has recently appointed an internal audit resource, who will undertake a thorough risk-based internal audit in accordance with the risk-based internal audit plan approved by the audit committee. The internal audit resource will work in collaboration with an external audit firm in a co-sourced relationship.

The matters material to our ability to create value

Our approach

58

Octodec identifies its most material matters through a range of internal and external engagement processes with the stakeholders that we have identified as being key to our ability to create value. Externally, the stakeholders from whom we seek feedback include investors, providers of debt, government, councils, regulators, industry bodies, our tenants, informal trader associations and taxi associations. The issues we identify as material are presented to the Octodec board for its input and approval. Refer to pages 58 to 61 for the communication channels.

We have matched our material matters to our top ten risks in the table that follows. We have also included both the inherent and residual rankings of our risks, which provide guidance on how our actions have reduced the potential impact of certain risks on Octodec.

Octodec's top ten risk and material issues

risk ranking | H high S significant M moderate L low

	Inherent risk ranking	Residual risk ranking	Potential risks and opportunities	Material issues	Actions taken to address the risks and opportunities they present	Capitals impacted
01	H	H	• Increased levels of social unrest may increase the potential of our properties being damaged and it could also impact on the confidence levels of both internal and external counterparties	• Socio-political environment • Making the right decisions in the current environment that will result in sustainable value creation • Stakeholder engagement and responsiveness	• Octodec ensures it is in regular communication with the city councils and the police and other key stakeholders • Effective insurance programme in place	• Relationship capital • Human capital • Financial capital
02	H	H	• Sovereign debt downgrade by major rating agencies could result in the reduced availability of funding and/or an increase in funding costs resulting in a lower yield from our property portfolio	• Socio-political environment • Stakeholder engagement and responsiveness	• Funding diversification, combined with ensuring business units are prepared to respond quickly to changes as and when they occur • Prudent capital management	• Financial capital
03	H	H	• Sustained low levels of growth coupled with severe and sustained austerity measures could result in severe reductions in capital availability and insufficient capital to support our required levels of growth	• Socio-economic environment • Effective and efficient capital management	• Conservative approach to capital management and ongoing communication with providers of debt • Regular and consistent monitoring by executive team combined with Octodec's ability and agility which allows it to respond rapidly to changes in the business environment	• Financial capital • Human capital
04	H	H	• Possible unfettered expropriation of land by government, without compensation, may affect the company's medium- to long-term income and result in an inability to generate revenue and compete in a competitive market	• Effective and efficient capital management	• Strategic discussions ongoing with regards to acquisition and development of property that may be earmarked for expropriation, without compensation • Active involvement in lobbying through various forums and as a member of the South African Property Owners Association, we are committed to finding a workable land reformation solution	• Financial capital
05	H	S	• Deteriorating power and water resources, as well as municipal and court systems which remain under threat for sustained periods of time, would negatively impact our ability to collect from defaulting tenants, which would undermine rental income levels	• Stakeholder engagement and responsiveness • Management of our properties in a challenging environment	• Continually investigate and identify alternative sources of power, monitor consumption to detect abnormalities in usage • We monitor and manage power consumption per property to ensure we optimise our recovery from our tenants • To address supply difficulties, generators have been installed in our larger properties and we are investigating the installation of generators at our smaller properties • Internal dispute resolution policies are in place and we negotiate settlements with defaulting tenants to limit the need to take legal action	• Financial capital • Intellectual capital • Natural capital

risk ranking | H high S significant M moderate L low

	Inherent risk ranking	Residual risk ranking	Potential risks and opportunities	Material issues	Actions taken to address the risks and opportunities they present	Capitals impacted
06	H	S	• Inability to attract and retain talent, resulting in inadequate succession planning for key management roles could affect Octodec's ability to implement its strategy, which is likely to result in a decline in investor confidence	• Clarity regarding composition of Octodec's executive team • Availability of adequate and appropriate skills	• While Octodec has an experienced and effective management team in place, it is identifying and training skilled and experienced leaders within City Property as succession candidates for leadership positions in the organisation • Retention plans are in place to retain key employees • Octodec also continually invests in the knowledge and skills of its employees	• Human capital
07	H	S	• Non-compliance with legislation (particularly by tenants) could result in litigation, possible prosecution and increased compliance requirements could increase the cost of compliance	• Governance and ethical conduct • Increasing regulatory and compliance requirements	• Dedicated legal and company secretariat teams monitor compliance and changes to legislation and address the resolution of any legal disputes • Consultants are appointed to address specialised areas	• Financial capital • Relationship capital
08	H	S	• Inability to raise financing may result in our inability to meet debt covenants and may result in having to dispose of assets to pay debt	• Effective and efficient capital management • Octodec has set financial parameters and targets	• In-depth negotiation with our funders with a view to extending existing bonds and swops • A comprehensive analysis of interest yields and impacts on LTV are performed in respect of all major projects / expenses – which are subject to board approval	• Financial capital • Relationship capital
09	S	M	• Non-compliance with B-BBEE best practice could restrict the company's ability to secure long-term lease agreements with government / key account tenants	• Governance and ethical conduct	• Various B-BBEE initiatives are under consideration, in consultation with an advisory company specialising in empowerment transactions	• Human capital • Relationship capital
10	H	M	• Exposure to the constantly changing macroeconomic environment resulting in an increase in arrears, a reduction in demand for rental space and a consequent reduction in our ability to grow the business	• Socio-economic environment • Ensuring our properties are well-positioned to meet demand	• Our stringent credit controls and stringent prospective tenant vetting controls keep our arrears at a minimum • The diversification of the sectors in which we operate and our diverse tenant base provide a level of protection from the impact of a poor economy	• Financial capital • Intellectual capital

financial review

93 We have chosen to present our financial review in a condensed and simplified form for ease of reference and understanding. It should be read together with the full audited financial statements set out on pages 93 to 130.

Dividend to shareholders

With a constrained consumer and an economy under pressure, growth across our sectors was negatively impacted. However, Octodec has demonstrated an ability to show positive growth and continues to deliver on its long-term strategy. A continued focus on the core property fundamentals provides Octodec with a sustainable platform for growth, including through a stronger and more relevant tenant offering.

Octodec's dividends are based on income generated from sustainable rental income net of costs. The rental Octodec receives from its property portfolio, including the distributable income from its equity-accounted investments, less operating costs, interest on debt and normal taxation, is distributed to shareholders biannually. Octodec does not distribute its capital profits.

Given the nature of its business, Octodec uses the amount of dividend per share as a key performance measure, as it is considered a more relevant performance measure than earnings or headline earnings per share.

The board of directors of Octodec declared a dividend of 203.4 cents per share for the year ended 31 August 2018, which is in line with our guidance provided throughout the reporting period. This amounts to a dividend of 101.7 cents per share for each of the first and second half reporting periods.

Five-year dividend trend (cents per share)

	2018	2017	2016	2015	2014
Dividend per share (cents)	**203.4**	203.1	201.5	189.2	175.7
Growth in dividend per share (%)	**0.1**	0.8	6.5	7.7	11.5

Distributable earnings and reconciliation

We have included a simplified income statement aimed at disclosing to the users the basis of which the dividend is calculated for the year ended 31 August 2018. The income statement reflects the operating results and excludes fair value and other non-cash flow adjustments required in terms of IFRS. The group's accounting policies applied in the preparation of the audited financial statements are consistent with those applied in the previous financial statements.

Distributable earnings	% increase	31 August 2018 R'000	31 August 2017 R'000
Revenue earned on contractual basis	3.1	**1 893 806**	1 836 251
Property operating costs	2.5	**(864 911)**	(843 636)
Net rental income from properties	3.7	**1 028 895**	992 615
Administrative costs	6.5	**(82 875)**	(77 813)
Operating profit	3.4	**946 020**	914 802
Interest income	2.7	**18 584**	18 094
Share of income from joint ventures	28.5	**15 721**	12 238
Distributable profit before finance costs	3.7	**980 325**	945 134
Finance costs	7.4	**(438 881)**	(408 702)
Distributable income before taxation	0.9	**541 444**	536 432
Taxation		**–**	–
Distributable earnings attributable to shareholders	0.9	**541 444**	536 432

Reconciliation of distributable earnings	31 August 2018 R'000	31 August 2017 R'000
Total comprehensive income attributable to equity holders	**540 563**	687 695
Adjustments:		
Loss/(profit) on sale of investment properties	**916**	(2 943)
Loss on derecognition of investment in joint venture	**2 770**	–
Impairment of goodwill	**1 992**	–
Fair value changes		
Investment property	**39 084**	(235 106)
Investment property – joint ventures	**9 747**	(2 572)
Interest rate derivatives	**(39 673)**	77 010
Straight-line rental income accrual	**(1 482)**	4 905
Taxation – current and deferred	**(8 493)**	7 443
Share of after tax profit of joint venture – not distributable	**(3 980)**	–
Distributable earnings attributable to shareholders	**541 444**	536 432

Review of results

The slight increase in borrowings to R4.85 billion (FY2017: R4.83 billion) reflects the impact of a measured and sustained capital investment programme in the upgrading of our properties in core nodes. The group's loan to value ratio (LTV) (value of interest-bearing borrowings, net of cash, divided by the fair value of its investment portfolio) at 31 August 2018 is 37.4% (FY2017: 37.1%). The slight increase in LTV is mainly attributable to the downward revaluation of the property portfolio.

The group generated cash flow from operations before interest of R1 006.2 million (FY2017: R948.3 million) and R560.0 million (FY2017: R509.1 million) after interest, which was utilised mainly to fund the dividend and investment activity. Octodec had unutilised available banking facilities amounting to R669 million at 31 August 2018.

Review of results continued

Review of financial position and working capital	31 August 2018		31 August 2017	
	Amount R 'million	**Weighted average interest rate per annum %**	Amount R 'million	Weighted average interest rate per annum %
Interest-bearing borrowings				
Bank borrowings	**3 547.8**	**8.8**	3 710.3	9.1
• Nedbank	**2 689.3**	**8.8**	2 785.3	9.2
• Standard Bank	**858.5**	**8.7**	925.0	8.9
DMTN Programme	**1 298.8**	**8.5**	1 116.0	8.5
• Listed-unsecured	**929.1**	**8.4**	1 116.0	8.5
• Unlisted secured – Standard Bank (HQLA)	**369.7**	**8.9**	–	–
Total borrowings	**4 846.6**	**8.7**	4 826.3	9.0
Cost of swaps		**0.3**		0.2
Total borrowings	**4 846.6**	**9.0**	4 826.3	9.2
Loan to value ratio (%)	**37.4**		37.1	
Borrowings hedged (%)	**74.5**		82.1	
Weighted average term of debt (years)	**2.5**		1.4	
Weighted average term of interest rate swaps (years)	**1.4**		1.6	
Weighted annual average cost of borrowings (all-in cost) (%)	**9.0**		9.2	
Undrawn debt facilities available on demand (R'million)	**669.0**		625.9	

Octodec participates in a listed DMTN Programme through its subsidiary, Premium Properties Limited, that is guaranteed by Octodec. As at 31 August 2018 the total issuance was at R1 298.8 million (FY2017: R1 116.0 million), or 26.8% (FY2017: 23.1%) of the group's borrowings. During the period Octodec issued R771.3 million of new unsecured listed commercial paper and corporate bonds to refinance R958.2 million of maturing notes, with the net repayment of notes amounting to R186.9 million. Octodec also issued a HQLA comprising an unlisted-secured note under its DMTN Programme to Standard Bank for a 60-month term utilising existing security held by them. Subsequent to the financial year end, DMTN Programme notes in the amount of R406 million expiring in September and November 2018 were partly refinanced with new notes amounting to R300 million.

The weighted average term to expiry of the loans increased to 2.5 years (FY2017: 1.4 years), which is in line with our strategy. The process to refinance the remaining short-term borrowings has already started with the respective banks and no issues or concerns are anticipated. 115 Refer to note 16 on pages 115 and 116 of the annual financial statements.

Loan expiry profile

	31 August 2018	
Loan expiry profile (financial year)	**R'000**	**%**
2019	1 605 774	33.1
2020	1 002 517	20.7
2021	385 160	7.9
2022	400 000	8.3
2023	369 687	7.6
2024	1 083 395	22.4
Total	**4 846 533**	**100.0**

	31 August 2018	
Fixed and interest rate swap contracts expiry profile	**R'000**	**%**
2019	1 361 400	37.7
2020	500 000	13.8
2021	1 750 000	48.5
Total	**3 611 400**	**100.0**

Octodec has reduced its exposure to interest rate risk by entering into interest rate swap contracts in respect of 74.5% (FY2017: 82.1%) of its borrowings. The hedges in place are for a weighted average period of 1.4 years (FY2017: 1.6 years). R1.4 billion of swaps and fixed rate loans mature in the FY2019 year. Octodec has commenced the process to enter into new swap contracts as well as to lengthen our swap expiry profile over the next twelve months to align with our strategy of hedging 70% to 80% of our borrowings.

Subsequent to year end Octodec has entered into five swap contracts, the details of which are set out below. The additional swap contracts entered into cater for the swaps expiring in the early part of the 2019 financial year.

	(R'000)	**Weighted term (years)**	Start date	Fixed interest rate per annum (%)	Average interest rate per annum above JIBAR (%)
	250 000	3.00	30 October 2018	7.81	0.65
	250 000	3.00	06 November 2018	7.79	0.64
	250 000	3.00	21 November 2018	7.66	0.51
	250 000	4.00	21 November 2018	7.78	0.63
	250 000	4.00	26 November 2018	7.70	0.55
Total / Weighted	**1 250 000**	**3.40**		**7.75**	**0.60**

Octodec has remained well within its agreed covenant ratios under its financing arrangements.

Capital expenditure

In line with Octodec's strategy to upgrade, maintain and extract value from its property portfolio, the group completed several smaller projects. These included the upgrading of Nzunza House (formerly known as North City), an office block in Braamfontein, Johannesburg, and The Tannery, a multi-tenanted industrial complex in Silverton, Tshwane, for an amount of R34.8 million and R13.6 million, respectively. These projects will not only improve 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. The total cost of Sharon's Place, excluding land costs, was R357.4 million with an expected initial marginal fully let yield of 7%. The yield was impacted by a number of factors, including construction delays and softening of projected rentals.

Octodec acquired the remaining 50% of Gerlan Properties Proprietary Limited (Gerlan), effective 1 July 2018, for a consideration of R33 million at an initial yield of 9.25%. The property in Gerlan comprises a Toyota dealership, situated in Gezina, Tshwane.

Disposals

We increased our focus on disposing of non-core and underperforming properties and investing the proceeds in the most attractive investment opportunities within our existing core portfolio. A further nineteen properties were sold during the year, ten of which had been transferred for a total consideration of R61.6 million by year end. A further two properties were transferred after the year end for a total consideration of R69.8 million. Transfer of the remaining seven properties for a total consideration of R52.8 million is expected to take place within the first half of the 2019 financial year. The properties were sold at a combined exit yield of 6.1% and an aggregate premium of R1.0 million to book value. The proceeds from disposals will improve LTV ratios.

Disposals continued

Properties disposed of and transferred before 31 August 2018

Property	Location	Total consideration R'million	Profit/(loss) on disposal R'million	Transfer date	Exit yield %
Sharp Centre	Tshwane CBD	5.5	–	25 October 2017	10.0
Grariv	Tshwane – Other	0.7	0.1	18 December 2017	5.2
119 and 121 Albertina Sisulu Street	Johannesburg CBD	5.5	0.2	18 December 2017	0.1
Pretwade	Wadeville, Johannesburg	10.2	–	1 February 2018	12.8
Iskemp	Isando, Johannesburg	17.5	1.1	16 February 2018	(0.6)
Pretboy	Tshwane – Other	3.1	(0.4)	18 February 2018	11.3
Tronap	Tshwane – Other	6.5	(0.1)	9 May 2018	9.8
Andpot	Tshwane – Other	7.5	(0.9)	24 July 2018	7.8
Monaco (various units)	Tshwane – Arcadia	5.1	(0.9)	July and August 2018	12.8
Total		**61.6**	**(0.9)**		**6.8**

Transfers after 31 August 2018

Property	Location	Total consideration R'million	Profit/(loss) on disposal R'million	Actual/expected transfer date	Exit yield %
Ken's Court	Tshwane CBD	44.6	1.6	September 2018	3.3
Medical Towers	Johannesburg CBD	25.2	0.8	September 2018	3.3
Notrevlis	Tshwane – Other	11.2	0.5	December 2018	10.1
Supmall	Tshwane – Other	11.2	0.1	December 2018	10.7
Troymona	Tshwane – Other	1.2	(0.8)	December 2018	0.1
Viskin	Tshwane CBD	2.9	0.8	December 2018	10.2
The Pavilion	Tshwane – Other	23.0	(1.5)	January 2019	8.2
Goleda (3)	Tshwane – Other	1.9	0.3	January 2019	13.8
Midchurch	Tshwane CBD	1.5	0.2	January 2019	–
Total		**122.6**	**1.9**		**5.7**

Fair value adjustment and net asset value (NAV)

The group's property portfolio valuation, excluding its share in joint ventures, amounted to R12.7 billion as at 31 August 2018 (FY2017: R12.6 billion).

The table below is a summary of investment property, valuations and assumptions:

	31 August 2018	31 August 2017
Range of capitalisation rates (%)	**8 to 13**	8 to 12
Weighted average capitalisation rates (%)	**9.3**	9.2
(Decrease)/increase in valuation (R'000)	**(37 601)**	230 201
(Decrease)/increase in valuation (%)	**(0.3)**	1.9
(Decrease)/increase in like-for-like valuation (R'000)	**(26 675)**	320 672
(Decrease)/increase in like-for-like valuation (%)	**(0.2)**	2.7

It is the group's policy to perform internal valuations of all its properties at the interim period and at year end. These valuations are based on the net income capitalisation method, which is consistent with the basis used in prior years.

The mark-to-market value of interest rate swaps contracts, which protect the group against adverse interest rate movements, resulted in a fair value gain of R39.7 million (FY2017: R77.0 million loss) for the year.

At 31 August 2018, the NAV per share is 2 939 cents increasing slightly from the 2 933 cents at 31 August 2017.

Forecast

The economy continues to be constrained by increasing unemployment and higher costs of living, which do not bode well for economic growth. We therefore anticipate another challenging year in 2019, which will impact on our ability to deliver growing distributions.

Despite these challenges, Octodec is positioned to continue unlocking value and providing shareholders with a sustainable distribution. Our experienced management team, diversified portfolio, large number of tenants, sound operating fundamentals and prudent capital management provide Octodec with the resilience and flexibility necessary to continue creating value during challenging times.

The disposal of non-core or underperforming properties will remain a key focus area for the foreseeable future. Octodec's objective for the 2019 financial year is to consolidate its portfolio and continue positioning the portfolio for long-term sustainable growth. For this reason Octodec has not committed to commence construction on any major new developments, instead we will continue to focus on improving our existing portfolio and retaining tenants.

The forecast dividend for the year ending 31 August 2019 is expected to be similar to the dividend for the year ended 31 August 2018, and therefore no growth in dividend per share is anticipated for the 2019 financial year.

This guidance is based on:
- the forecast investment property income calculated using contractual rentals and assumed market-related renewals
- an allowance for vacancies using assumptions and historical experience
- no major corporate and tenant failures occurring
- no further deterioration in the socio-economic environment
- no significant adverse interest rate movements.

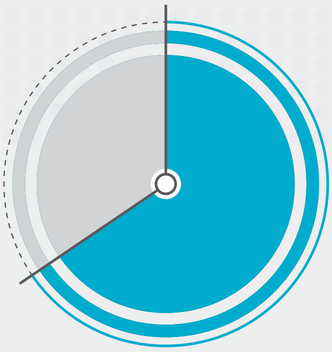
This forecast has neither been reviewed nor reported on by the group's auditors.

Anthony Stein
Financial director

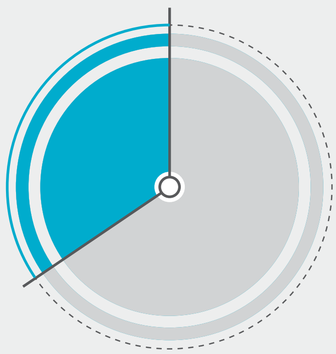
property portfolio review

Our diverse property portfolio

306
properties valued at
R12.9
billion



66.2%
of our portfolio is in
Tshwane



33.8%
of our portfolio is in
Johannesburg

In order to comply with the JSE Listings Requirements and to analyse and understand the rental income from our sectors in a more meaningful way, the group's properties have been aggregated into segments with similar economic characteristics such as the occupier's market that it serves and the nature of the property. This was best achieved by including the following sectors:

Retail which includes retail street shops and shopping centres | **Industrial** | **Offices** | **Residential**

Specialised and other, which includes:

Hotels | Places of worship | Educational facilities | Auto dealerships | Healthcare facilities | Parking

The specialised and other sectors were previously included under retail, offices and industrial and collectively referred to as commercial. Where comparative information is presented, we have restated the relevant comparatives to reflect these changes.

While our portfolio falls into these diverse segments, many of our properties are mixed-use properties offering our tenants the convenience of being able to live, shop and play at their places of residence, while at the same time having easy access to centrally located offices and medical and educational facilities.

61

Our large tenant base in excess of 14 000 tenants and the diversity of our portfolio mitigate the risk of the loss of one large tenant. A large tenant base does, however, require the ability to administer high volumes of leases and tenants (see pages 61 to 64 of the ***Know-how*** section of this report for information on our ability to effectively manage our property portfolio).

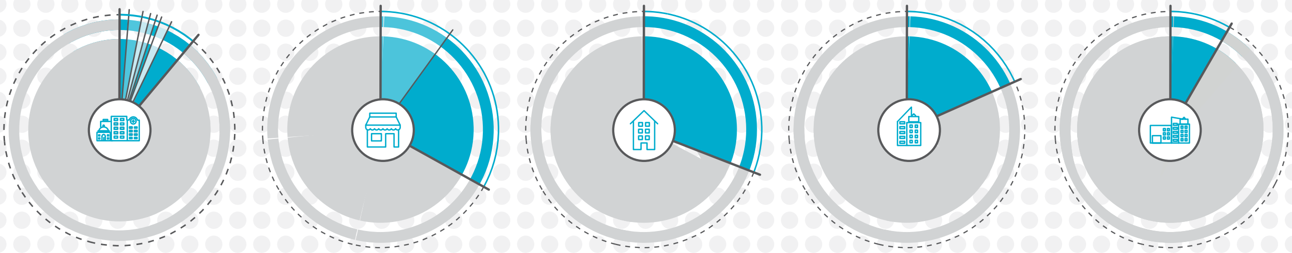
We are currently operating in a property market in which the fundamentals are worse than they have been for some time.

Our approach to the current environment is threefold:

- Maintain our uncompromising approach to the maintenance of our existing buildings and use an innovative approach to market these properties to ensure we maintain the short- and medium-term value of our portfolio.
- Build long-term value through the redevelopment and upgrading of buildings. While we continue to assess potential new projects, we have put these on hold for the short term, but will review our position should the political and economic conditions change. We will only consider new developments when an acceptable projected yield can be achieved.
- Our ongoing review of our portfolio to ensure it maintains its ability to deliver value resulted in the acceleration of our capital recycling strategy. During the year under review we sold nineteen non-core or underperforming properties of which ten were transferred during the year for a total consideration of R61.6 million, net of commission paid. A further nine are expected to be transferred after year end for a consideration of R122.6 million.

The information on rental income and property portfolio included in the property portfolio review includes 100% of the equity-accounted joint ventures and not only the group's share.

Our property portfolio by rental income



11.4%
Specialised and other*
(FY2017: 11.0 %)

4.3%
Parking
(FY2017: 4.2 %)

1.3%
Auto dealerships
(FY2017: 1.3 %)

1.0%
Hotels
(FY2017: 1.0 %)

0.4%
Places of worship
(FY2017: 0.4 %)

2.2%
Healthcare facilities
(FY2017: 2.0 %)

2.2%
Educational facilities
(FY2017: 2.2 %)

34.4%
Retail
(FY2017: 34.6 %)

10.1%
Shopping centres
(FY2017: 10.0 %)

24.3%
Retail street shops
(FY2017: 24.5 %)

31.1%
Residential
(FY2017: 30.0 %)

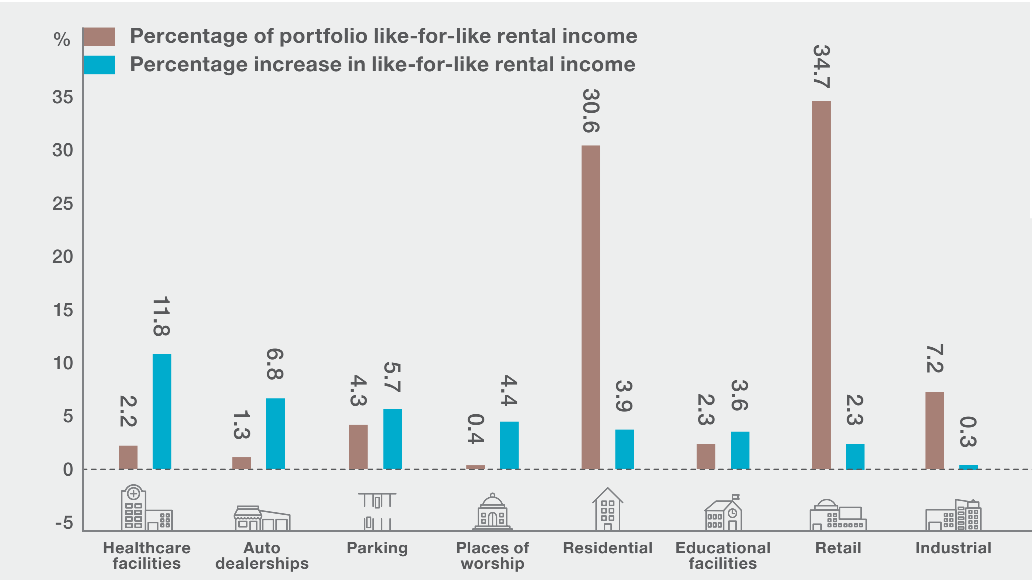
16.0%
Offices
(FY2017: 16.9 %)

7.1%
Industrial
(FY2017: 7.5 %)

** Specialised and other includes parking, educational facilities, hotels, auto dealerships, healthcare facilities and places of worship. These sectors were previously reflected under offices, retail, industrial and parking, but are dedicated facilities and now reflected under specialised and other. The 2017 GLA amounts and percentages have been restated.*

Like-for-like rental income

Overall, we have been able to achieve a like-for-like rental income growth of 2.6%. A more detailed breakdown of our like-for-like rental income growth by sector follows:



Percentage increase in like-for-like rental income for the year ended 31 August 2018

Like-for-like rental income continued

Key statistics of our portfolio as at 31 August

	% change year on year	2018	2017
Number of properties (including those owned in joint ventures)		**306**	315
Investment property including joint ventures (R'000)	0.7	**12 872 102**	12 776 378
Rental income (R'000)	3.4	**1 536 873**	1 486 346
Percentage increase in rental income (like for like) (%)		**2.6**	5.3
Gross lettable area (GLA m^2)	(1.2)	**1 644 433**	1 665 062
Vacancies (GLA m^2)		**306 132**	294 132
Vacancies as a percentage of GLA m^2 (%)		**18.6**	19.0
Core vacancies as a percentage of GLA m^2 (%)		**11.6**	10.7
Property redevelopment pipeline vacant GLA m^2		**109 024**	111 062
Total consideration on disposals during the year (R'000)		**61.6**	77.8

Our portfolio by sector, rental income, gross lettable area, number of tenants and core vacancies

as at 31 August 2018

	Rental income R'000	Rental income %	Total GLA m^2	Total GLA %	Number of tenants	Core vacancies %
Residential	478 660	31.1	393 643	23.8	8 613	5.8
Retail:						
Retail street shops	373 768	24.3	349 633	21.3	1 013	13.1
Retail – shopping centres	154 974	10.1	95 009	5.8	220	5.2
Offices	245 401	16.0	413 581	25.2	1 413	18.7
Industrial	109 254	7.1	253 396	15.4	413	14.0
Specialised and other:						
Parking	66 291	4.4	–	–	2 552	–
Educational facilities	34 151	2.2	56 753	3.5	32	–
Healthcare facilities	33 222	2.2	36 566	2.2	149	12.9
Auto dealerships	20 077	1.3	15 722	1.0	4	–
Hotels	14 448	0.9	13 458	0.8	2	–
Places of worship	6 627	0.4	16 672	1.0	50	–
Total	**1 536 873**	**100.0**	**1 644 433**	**100.0**	**14 461**	**11.6**

Lease expiry profile

Our portfolio has a mix of short- and long-term leases. The majority of our leases, which are in the residential property sector, continue to operate on a month-to-month agreement at the end of the initial lease period. Many of the commercial leases also provide for a continuation of lease on a month-to-month agreement at the end of the original lease period.

Our portfolio has operated on this basis since inception as the nature of the tenants that conclude leases in our CBD buildings (both in the commercial and residential sectors) are inherently risk averse and therefore reluctant to enter into longer term leases. A loyalty programme has been introduced in the residential sector which aims to encourage our tenants to renew their annual leases.

Total of all sectors

Year	GLA m^2	%	Monthly rental R'000	%
2019	824 308	50.1	76 942	62.3
2020	216 287	13.2	18 984	15.4
2021	149 733	9.1	13 058	10.6
2022	51 614	3.1	6 007	4.9
2023 and beyond	96 359	5.9	8 455	6.8
Vacant	306 132	18.6	–	0.0
Grand total	**1 644 433**	**100.0**	**123 446**	**100.0**

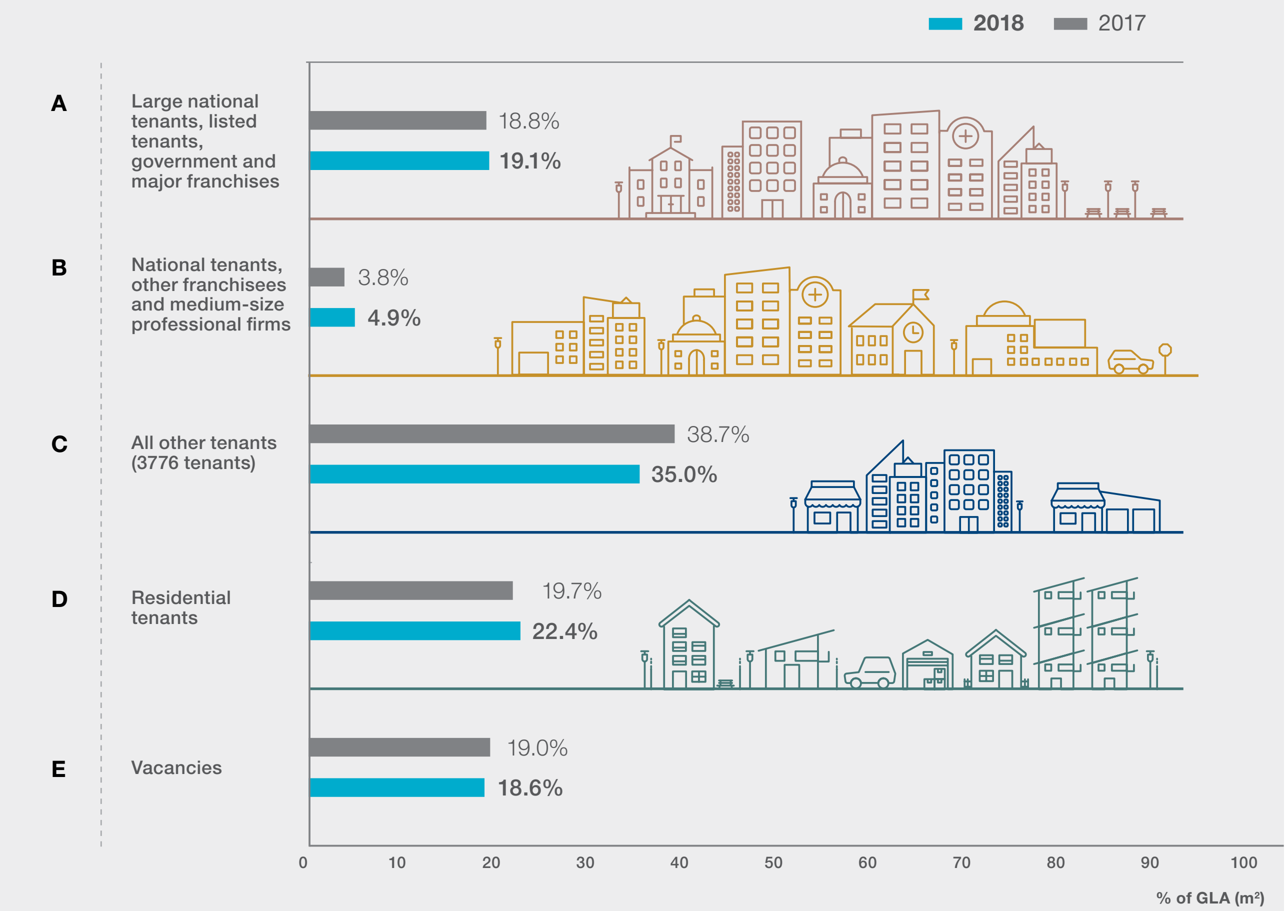
Our top ten properties

Building	Location	Sector	Size (m^2)
The Fields	Hatfield, Tshwane	Mixed use	53 964
Killarney Mall	Killarney, Johannesburg	Shopping centre	46 945
Louis Pasteur	Tshwane CBD	Mixed use	35 511
Kempton Place	Kempton Park, Johannesburg	Mixed use	32 589
Centre Walk	Tshwane CBD	Mixed use	25 407
Nedbank Plaza	Arcadia, Tshwane	Mixed use	23 031
Sharon's Place	Tshwane CBD	Mixed use	19 146
Woodmead Mart	Woodmead, Johannesburg	Shopping centre	18 049
Steyn's Place	Tshwane CBD	Mixed use	15 638
Waverley Plaza	Villieria, Tshwane	Shopping centre	11 289

Geographic analysis of our rental income by rentable area

	Rental income		Property value		GLA	
	R'000	% of total portfolio	R'000	% of total portfolio	m²	% of total portfolio
Tshwane CBD	513 406	33.4	4 602 762	35.0	519 513	31.6
Johannesburg CBD	326 094	21.2	2 783 400	21.2	415 701	25.3
Johannesburg and surroundings	194 055	12.6	1 550 500	11.8	142 235	8.6
Tshwane other	191 990	12.5	1 548 500	11.8	246 186	15.0
Tshwane Hatfield	107 229	7.0	948 500	7.2	68 061	4.1
Tshwane Arcadia	76 976	5.0	626 500	4.8	74 063	4.5
Silverton and surroundings	65 310	4.2	553 400	4.2	116 521	7.1
Waverley, Gezina, Moot	61 813	4.1	526 000	4.0	62 153	3.8
Total	**1 536 873**	**100.0**	**13 139 562**	**100.0**	**1 644 433**	**100.0**

Tenancy profile
% of GLA (m²)



Lease escalations by sector and rentable area and weighted average rental per m²

The leases concluded with a large percentage of our tenants are typically of a short-term nature, where lease periods are generally for a period of twelve months. Consequently no rental escalations are included in these lease agreements. This is particularly prevalent in the residential sector and not uncommon for commercial leases.

	Leases with escalations (GLA m²)	Leases with escalations (%)*	Weighted average lease escalation (%)	Leases with no escalations (GLA m²)**	Leases with no escalations (%)*	Total occupied (GLA m²)	Weighted average rental (R/m²)
Retail:							
Retail – street shops	183 966	60.6	7.3	119 366	39.4	303 332	101.2
Retail – shopping centres	66 620	73.9	6.3	23 479	26.1	90 099	130.6
Industrial	109 004	50.6	5.8	106 441	49.4	215 445	41.9
Offices	86 752	38.2	7.2	140 313	61.8	227 065	86.0
Residential	53 443	14.5	8.0	314 887	85.5	368 330	108.2
Specialised and other:							
Educational facilities	45 318	79.9	7.5	11 435	20.1	56 753	43.0
Healthcare facilities	25 972	82.6	6.5	5 454	17.4	31 426	90.9
Auto dealerships	15 722	100.0	5.9	–	0.0	15 722	97.6
Hotels	13 458	100.0	6.1	–	0.0	13 458	100.0
Places of worship	6 393	38.3	7.5	10 278	61.7	16 671	37.3
Total	**606 648**	**45.3**	**7.1**	**731 653**	**54.7**	**1 338 301**	**89.4**

* *Percentage of total GLA occupied*
** *Includes monthly leases and leases expiring prior to 31 August 2019, with no escalations during the period from 31 August 2018 to 31 August 2019*

2018 Tshwane
Sharon's Place

Vacancies

Vacancies in the Octodec portfolio at 31 August 2018, including properties held for redevelopment, amounted to 18.6% (FY2017: 19.0%) of the gross lettable area. The group's core vacancies, which exclude the gross lettable area relating to properties held for development, those currently being redeveloped and those recently redeveloped or sold, amounted to 11.6% (FY2017: 10.7%).

Our larger vacancies (above 5 000m² by sector)

Sectors and property names	GLA m²	Reason for vacancy
Retail street shops		
Kempton Place	6 697	Recently vacated and replacement tenant not yet found
Offices		
Shoprite Eloff Street	22 338	Mothballed for potential residential development
Fedsure House	19 869	Mothballed for potential residential/office development or for disposal
Reinsurance House	15 034	Mothballed for potential residential development
Inner Court	12 760	Upgraded office block, difficult to let in a tough economic environment
Prinschurch	11 266	Mothballed for potential residential or office development
Education Centre	8 355	Mothballed for potential residential or office development
Van Riebeeck Medical Building	8 167	Mothballed for potential residential or office development
Midtown	7 297	Mothballed, for potential office development
Industrial		
The Tannery Industrial Park	10 313	Difficult to let in a tough economic environment

Vacancy profile by location

Location	Vacant GLA m²	% of total vacancies	% of total GLA m²	% held for development	% of core vacancies
Johannesburg CBD	123 919	40.5	7.5	(4.7)	2.8
Tshwane CBD	96 631	31.6	5.9	(2.2)	3.7
Tshwane West	19 767	6.5	1.2	0.0	1.2
Johannesburg and surrounding areas	19 761	6.5	1.2	0.0	1.2
Silverton and surrounding areas	15 142	4.9	0.9	(0.1)	0.8
Tshwane – Arcadia	12 756	4.2	0.8	0.0	0.8
Hatfield	8 156	2.7	0.5	0.0	0.5
Tshwane South East	2 011	0.7	0.1	0.0	0.1
Tshwane North	1 981	0.6	0.1	0.0	0.1
Sunnyside	1 707	0.6	0.1	0.0	0.1
Waverley, Gezina, Moot	1 602	0.5	0.1	0.0	0.1
Centurion	1 601	0.5	0.1	0.0	0.1
Tshwane Other	1 097	0.4	0.1	0.0	0.1
Grand total	**306 132**	**100.0**	**18.6**	**(7.0)**	**11.6**

Total vacancies by sector as at 31 August 2018	GLA m²	Total vacancies %	Properties held for redevelopment or recently developed or sold %	Core vacancies %
Retail:				
Retail – street 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**

Vacancies continued

Total vacancies by sector as at 31 August 2017	GLA m²	Total vacancies %	Properties held for redevelopment or recently developed or sold %	Core vacancies %
Retail:				
Retail – street shops	341 943	12.6	(1.9)	10.7
Retail – shopping centres	95 036	4.6	–	4.6
Offices	418 428	43.6	(26.5)	17.1
Residential	394 721	12.3	(5.1)	7.2
Industrial	264 129	12.6	–	12.6
Specialised and other:				
Educational facilities	67 076	–	–	–
Healthcare facilities	36 566	13.2	–	13.2
Places of worship	17 983	–	–	–
Auto dealerships	15 722	–	–	–
Hotels	13 458	–	–	–
Total	**1 665 062**	**19.0**	**(8.3)**	**10.7**

** Specialised and other includes parking, educational facilities, hotels, auto dealerships, healthcare facilities and places of worship. These sectors were previously reflected under offices, retail, industrial and parking, but are dedicated facilities and now reflected under specialised and other. The 2017 GLA amounts and percentages have been restated.*

Investing for growth

The completion of Sharon's Place, previously known as Centre Forum, a mixed-use development, is situated adjacent to the new Tshwane House municipal offices. It consists of 399 residential units with ground floor retail and ample basement parking. Its retail component was completed in 2017 and the final residential units were completed in June 2018. The total cost of the project, excluding land costs, is R357.4 million. The residential units are all fully let and the retail space is well let. The initial annual yield is expected to be 7.0% when fully let. The completion of the project, notwithstanding the onslaught of "construction mafia" (unscrupulous and corrupt labour brokers that force their way onto sites purporting to represent local communities or business forums and who delay construction or extort money from contractors) and other challenges, has served us well in that it has changed the landscape of a part of the CBD that otherwise would have resulted in an increase in urban decay. The strategic development has shown us that there remains strong demand for retail and residential space in well located quality buildings and affirms our strategy to reinvest into the CBD where the full impact of the development, especially in terms of increased demand in areas others choose to avoid, has merit.

We have experienced strong demand for medical facilities that are located in the CBDs. In the Johannesburg CBD, the Lister Medical Centre is proving to be very popular both with medical practitioners and patients alike. During the year we installed a tenant, who is a medical doctor, who took up two floors of space which were converted into quality medical facilities to address the need for medical services in the heart of the Johannesburg CBD. The common areas of the Louis Pasteur Private Hospital in Tshwane were also upgraded. We spent R23 million on the two projects.

A number of the units at The Tannery, a light industrial park situated in Silverton, Tshwane, were also upgraded at a cost of R13.6 million. We focused on upgrading the internal aspects of some of these units that are always in demand due to their location and competitive rentals.

Lastly, the completion of North City, an office building in Johannesburg, was celebrated earlier this year. The building's name was changed to Nzunza House, a reference to the magnificent art piece installed by Hannelie Coetzee on the exterior facade of the building. The building, which is well located in the trendy Braamfontein neighbourhood, has seen a reduction in vacancies since its relaunch and we are confident that this trend will continue.

Future developments
We continue to consider the merits of other residential developments situated in prime locations in the Johannesburg and Tshwane CBDs. We are fortunate to have a number of buildings that are suitable for redevelopment and we continue to ready ourselves so that we can proceed with their upgrades as soon as there is a change in market conditions.

2018
Johannesburg
Wits Technikon

2018
Tshwane
Recreational facilities

2018
Tshwane
One on Mutual

Residential property sector review

Key performance statistics as at 31 August	2018	2017
Number of properties	**73**	74
Number of residential units (mostly upgraded well-located secure accommodation)	**9 468**	9 529
Johannesburg (%)	**36**	36
Tshwane (%)	**64**	64
Gross lettable area (GLA m²)	**393 643**	394 721
Rental income (R'million)	**479**	445
Growth in rental income (like-for-like) (%)	**3.9**	2.5
Total vacancies at year-end (% of GLA m²)	**6.4**	12.3
Core vacancies at year-end (% of GLA m²)	**5.8**	7.2

When we reported on the residential sector in our integrated report for 2017, we anticipated a slow take-up of Sharon's Place residential units and that residential occupancy levels would not deteriorate. Instead strong demand saw the residential units in the well-located Sharon's Place, designed to meet the market appetite for quality accommodation, fully let shortly after the final units were completed in June 2018. This result indicates that the inner city demand for well-located quality accommodation at the right price is still strong (see pages 42 to 43 for information on the facilities available to Sharon's Place residents). We also managed to improve overall residential occupancy levels beyond expectations.

42

The average length of our leases in this sector is for twelve months. This enables us to adjust our rentals up or down to ensure that they remain market related. Accordingly, our residential portfolio showed growth in like-for-like rental income (this excludes our new developments, One on Mutual and Sharon's Place) of 3.9% in the year under review, a 1.4% improvement on the sector performance in the previous year.

A number of new competitors have entered the Hatfield, Tshwane and Johannesburg CBD markets, which has resulted in an increased supply of residential accommodation. Our marketing efforts, together with our newly introduced tenant retention strategy and an enhanced tenant offering to address this increased competition, are showing results that are reflected in the reduction of residential vacancies.

We rolled out a loyalty programme to our residential tenants. Working with industry leaders in designing the reward programme, its aim is to reduce churn and increase the average length of occupation.

The appetite for quality inner city accommodation is confirmed by the strong demand for Sharon's Place residential units resulting in all units being let shortly after completion

Where our residential properties are situated

Location	GLA m²	No of units
Tshwane CBD	129 084	3 605
Johannesburg CBD	110 398	2 918
Johannesburg and surrounding areas	33 707	554
Hatfield	28 944	784
Tshwane Arcadia	24 527	593
Centurion	19 894	260
Silverton and surrounding areas	15 733	233
Tshwane West	15 119	214
Sunnyside	8 442	179
Waverley, Gezina, Moot	6 847	99
Tshwane North	772	20
Tshwane Other	176	9
Total	**393 643**	**9 468**

The control of access to our buildings using biometric and electronic tag systems helps to provide our tenants with a safe environment

Types of units

R3 500 - R4 100

27m² average size

No of units 3 548

Bachelor unit

R4 200 - R4 800

43m² average size

No of units 3 499

One-bedroom unit

R5 500 - R6 100

63m² average size

No of units 1 707

Two-bedroom unit

R4 800 - R11 800

77m² average size

No of units 714

Three-bedroom and other units

Our residential sector lease expiry profile

Residential

Year	GLA m²	%	Monthly rental R'000	%
2019	364 299	92.6	39 502	99.2
2020	2 076	0.5	58	0.1
2021	1 955	0.5	275	0.7
2022	–	0.0	–	0.0
2023 and beyond	–	0.0	–	0.0
Vacant	25 313	6.4	–	0.0
Grand total	**393 643**	**100.0**	**39 835**	**100.0**

- Our experience has shown us that tenants attracted to our residential units, whose combined average gross monthly salary is R27 500, are likely to pay their rent on time, which is reflected in our low bad debt record.
- 21% of our residential applicants have a combined gross monthly salary above R35 000.
- 25% of our applicants are government employees.
- The churn (the turnover of tenants) in our residential properties is 43% per annum.

Outlook for our residential property portfolio

We expect rental growth in this sector, in which we have operated for many years, to remain slow in the short term. We are, however, confident that despite increased competition and challenging economic conditions our portfolio of well-positioned buildings, supported by our tenant retention strategy and enhanced tenant offering, is well positioned to meet the demand for quality, well-located residential accommodation in the CBDs of Tshwane and Johannesburg.

Optimising our property portfolio to ensure sustained value creation

Sharon's Place – A new mixed-use property in the heart of Tshwane

Cost of the project

R357.4 million

Initial annual yield (excluding land costs), expected to be

7.0% when fully let

Letting position at year end exceeded expectations in current economic climate:

- **All residential units let**
- **98% of retail space let**

Residential component:

- The residential component of Sharon's Place consists of 399 residential units in three blocks, the final block of which was completed in June 2018
- In total, 19% of the residential units are two-bedroom apartments, 43% are one-bedroom apartments and 38% are bachelor units, while 8% of the units have patios, located on the ground floor
- There are 289 secure underground parking bays available to tenants
- A secure landscaped recreational area of 3 506m^2, planted with 184 indigenous trees has been provided for our residential tenants. The facilities in the recreational area include a 291m^2 braai and seating area, a 367m^2 children's play area and a 301m^2 netted soccer field
- The fibre infrastructure installed in the complex, and the wi-fi routers installed in each unit, provide tenants with easy access to the internet
- The heat pumps installed in the building, instead of geysers, make efficient use of electricity to heat water
- The use of LED lighting also reduces power consumption by both our tenants and in common areas

Sharon's Place is a large well-located mixed-use complex, consisting of residential units, a recreational area, parking and retail street shops, adjacent to the new Tshwane House municipal development in the Tshwane CBD.

Retail component

The 5 647m^2 of retail space in Sharon's Place, which was completed in July 2017, offers our tenants convenience shopping. The anchor stores are Shoprite and Clicks. Among the smaller shops is a new concept male clothing store developed by Railway Clothing. The complex has been specially designed to provide easy access for trucks delivering to our anchor tenants.

Retail property sector review

Key performance statistics as at 31 August	2018	2017
Retail street shops (GLA m²)	**349 633**	341 943
Shopping centres (GLA m²)	**95 009**	95 036
Gross lettable area (GLA m²)	**444 642**	436 979
Retail street shops rental income (R'million)	**374**	365
Shopping centres rental income (R'million)	**155**	149
Rental income (R'million)	**529**	514
Growth in rental income year on year (like for like)		
Retail street shops rental income growth (%)	**1.6**	5.7
Shopping centres rental income growth (%)	**3.9**	6.4
Retail – total vacancies at year end (% of GLA m²)	**11.5**	10.8
Retail – core vacancies at year end (% of GLA m²)	**11.4**	9.3
Retail street shops total and core vacancies (% of GLA m²)	**13.2 and 13.1**	12.6 and 10.7
Shopping centres total and core vacancies (% of GLA m²)	**5.2**	4.6

Where our retail properties are situated

Location	GLA m²
Shopping centres	
Johannesburg and surrounding areas	52 170
Waverley, Gezina, Moot	25 549
Tshwane South East	10 025
Tshwane North	7 265
Total	**95 009**

Location	GLA m²
Retail street shops	
Tshwane CBD	136 045
Johannesburg CBD	83 414
Johannesburg and surrounding areas	20 278
Tshwane – Arcadia	20 078
Waverley, Gezina, Moot	17 227
Tshwane West	16 877
Hatfield	14 399
Silverton and surrounding areas	12 938
Sunnyside	11 055
Tshwane North	10 332
Centurion	5 296
Hermanstad	1 754
Total	**349 633**

Our top ten lessees of retail street shops and shopping centres

for the year under review

Lessee by annual rental	R'000
Shoprite Checkers	35 166
Pepkor	33 858
Standard Bank	18 012
Edcon – Jet	16 293
– Other	1 223
Pick n Pay	16 017
Bidvest	15 298
Foschini Retail Group	14 220
Nedbank	11 953
FNB	9 911
Mr Price Group	9 691
Total	**181 642**

Lessee by lettable area	GLA m^2
Shoprite Checkers	47 670
Pepkor	22 011
Bidvest	16 290
Edcon – Jet	13 647
– Other	679
Pick n Pay	11 948
Standard Bank	11 531
Foschini Retail Group	7 143
Mr Price Group	7 103
Spar/Tops	6 572
Autozone	5 501
Total	**150 095**

Lease expiry profiles by rentable area of retail sectors

as at 31 August 2018

Retail – street shops

Year	GLA m^2	%	Monthly rental R'000	%
2019	127 143	36.4	11 484	37.4
2020	65 856	18.8	6 947	22.6
2021	43 589	12.5	4 635	15.1
2022	32 065	9.2	3 976	13.0
2023 and beyond	34 679	9.9	3 644	11.9
Vacant	46 301	13.2	–	–
Grand total	**349 633**	**100.0**	**30 686**	**100.0**

Retail – shopping centres

Year	GLA m^2	%	Monthly rental R'000	%
2019	24 699	26.0	3 542	30.2
2020	24 845	26.2	2 883	24.5
2021	16 122	17.0	2 192	18.6
2022	9 140	9.6	1 332	11.3
2023 and beyond	15 293	16.0	1 814	15.4
Vacant	4 910	5.2	–	–
Grand total	**95 009**	**100.0**	**11 763**	**100.0**

According to SAPOA's Retail Trends Report for the quarter ended June 2018, trading density growth (as measured by the IPD Trading Density Index) recorded its first positive growth in four quarters, improving by +0.2% year on year, driven mainly by a recovery in the trading density of Super Regional centres. The amount spent per shopper grew at a rate above inflation while foot count per square metre declined at around the same rate.

Small Regional centres recorded positive year-on-year growth in its annualised trading density of 0.6% for the year ended June 2018. The Community centre segment has shown encouraging results having ended the second quarter with a year-on-year improvement in trading density of -0.3%, well off the -3.8% low it recorded as of December 2017. The Neighbourhood centre segment saw another quarter of negative annualised trading density growth at -1.6% year on year.

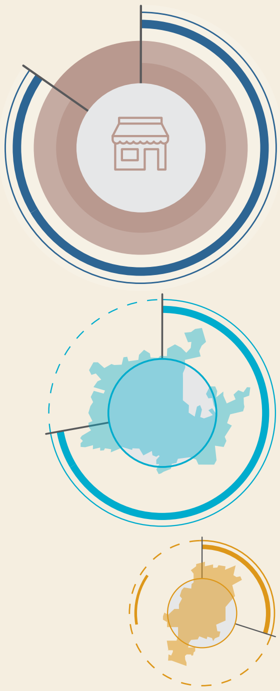
The current retail sector vacancy rate of 4.2% is above its long-term average of around 2.7%. The latest quarter saw quarter-on-quarter increases in the vacancy rates of all retail segments, except for Neighbourhood centres. Both the Community and Neighbourhood centre segments have seen their vacancy rates dip significantly over the course of the last three to four years. The vacancy rate of the Community centre segment increased by 0.3% to 3.7% in the quarter, but remains well off its 2015 high of 8.8%. Neighbourhood centre segment vacancies saw a 0.5% improvement, ending the quarter to June 2018 at 4.9%, much lower than the 9% recorded in the first quarter of 2016.

While the cost of occupancy in the larger Retail segments is at all-time highs, that of the Community and Neighbourhood centre segments has dipped well below 2016 levels with the improvement driven by an improvement in occupancy levels.

Our retail portfolio

Our retail street shops, 70% of which are in the Tshwane CBD, offer a wide range of the brands that research has shown are the brands of choice of the emerging middle-class shopper. Demand remains strong for our retail street shops in well-located CBD retail nodes, which offer retailers more growth opportunities than traditional malls. They also offer lower cost structures.

We view our retail street shops as we do a shopping centre, endeavouring to ensure we provide shoppers with a range of brands, services and food outlets in close proximity to each other, similar to what they would find in a shopping mall.



Retail street shops make up

79%
(FY 2017: 78%)
of our retail portfolio and provide

71%
(FY 2017: 71%)
of our income from the retail portfolio

70%
of our retail street shops are in the **Tshwane CBD**

30%
are in the **Johannesburg CBD**

Our shopping centre portfolio

We have six high-quality neighbourhood convenience shopping centres which all performed above expectations, including:

Johannesburg:

- Killarney Mall, where occupancy levels were stable. Our focus for this centre is on improving the tenant mix.
- Woodmead Value Mart in Johannesburg which experienced an increase in average vacancies during the period due to tenants movement, but by year end vacancies had been reduced to one percent. Rental growth for the year was 2.5%.

Tshwane:

- Elardus Park which is due for a major upgrade for which we have budgeted R46 million. During the year under review, the centre experienced an increase in vacancies to 9.6%.
- Waverley Plaza, Gezina City and Blaauw Village (a 50% held joint venture) which all enjoyed good growth in rental income and were fully let.

2018 Tshwane CBD Centre Walk

These centres provide the convenience of easy access to key services and stores most shoppers use regularly, such as banks, clothing outlets, home stores, pharmacies, restaurants and supermarkets.

Research, combined with our own data, indicates there is scope for investing in the extension and redevelopment of our existing shopping centres, rather than in greenfield developments.

2018 Tshwane Blaauw Village

2018 Johannesburg Woodmead Value Mart

2018 Johannesburg Killarney Mall

Office sector review

Key performance statistics as at 31 August	2018	2017
Let to government (by % of total rental income from offices)	**49.7**	53.3
Other (by % of total rental income from offices)	**50.3**	46.7
Gross lettable area (GLA m²)	**413 581**	418 428
Mothballed office space (GLA m²)	**109 024**	111 062
Office space mothballed (opportunities to sell, develop or enter into partnerships) (%)	**26.4**	26.5
Rental income (R'million)	**245**	251
Growth in rental income year on year (like for like) (%)	**(0.3)**	8.4
Total vacancies at year end (% of GLA m²)	**45.1**	43.6
Core vacancies at year end (% of GLA m²)	**18.7**	17.0

Where our office properties are located

Location	GLA m²
Tshwane CBD	177 194
Johannesburg CBD	150 889
Tshwane Other	20 157
Johannesburg and surrounding areas	17 611
Tshwane Arcadia	15 945
Hatfield	11 320
Silverton and surrounding areas	5 769
Tshwane South East	5 318
Tshwane North	3 058
Centurion	2 689
Waverley, Gezina, Moot	2 284
Tshwane West	1 347
Total	**413 581**

Lease expiry profile of office property sector

as at 31 August 2018

Offices

Year	GLA m²	%	Monthly rental R'000	%
2019	144 776	35.0	12 264	62.8
2020	56 659	13.7	5 124	26.2
2021	11 811	2.9	921	4.7
2022	2 801	0.7	315	1.6
2023 and beyond	11 018	2.7	899	4.7
Vacant	186 516	45.0	–	–
Grand total	**413 581**	**100.0**	**19 523**	**100.0**

Sector performance

SAPOA's Q2 Vacancy Report indicates that the national office vacancy rate of 11.5%, which is very high relative to the retail and industrial sectors, has trended largely sideways since 2011.

The current trend of the office vacancy cycle has been characterised by an oversupply of new developments that have attracted large corporates. The buildings vacated by these large corporates remain vacant, thereby increasing pressure on the sector, which pressure is unlikely to subside until the economy improves. Inner city office vacancy rates are higher at 13.8%.

The performance of our office portfolio

Office vacancies increased during the year mainly due to two large government tenants vacating two premises consisting of a total of 7 139m². As expected, a number of properties held for development, or those which are currently under development, have vacancies.

In recent years, certain office properties located in the Johannesburg CBD (such as Fedsure House, Reinsurance House and Medical Towers) and others located in the Tshwane CBD (such as Van Riebeeck Medical Building and Midtown) were acquired with high vacancy levels. These office properties, with 109 024m² of mothballed space, offer significant opportunities for possible conversions to residential units or office redevelopment or disposals, the value of which will be realised over time. Medical Towers was sold and transferred in September 2018 for a total consideration of R25.2 million, net of commission.

Outlook for our office portfolio

The SMME businesses that rent our offices tend to thrive in a growing economy, but when they are struggling, as they are currently, the demand for this office space wanes. To assist these SMMEs and find ways to reduce vacancies, we are looking at offering shared space solutions and improving our tenant offering. Once the economy improves/strengthens we expect the SMME sector to revive and pick up, and to thrive once again.

We completed these upgrades during the year under review:
- Nzunza House in Braamfontein at a cost of R34 million
- The common areas of Louis Pasteur Private Hospital in the Tshwane CBD at a cost of R12 million
- The Tannery, an industrial complex in Silverton, at a cost of R13.6 million.

2018
Tshwane
012central precinct
Molo Mollo

Industrial sector review

Key performance statistics as at 31 August	2018	2017
GLA in Tshwane (GLA m²)	**211 269**	210 698
GLA in Johannesburg (GLA m²)	**42 127**	53 431
Gross lettable area (GLA m²)	**253 396**	264 129
Rental income (like for like) (R'million)	**109**	112
Growth in rental income year on year (%)	**0.3**	5.8
Total vacancies at year end (% of GLA m²)	**15.0**	12.6
Core vacancies at year end (% of GLA m²)	**14.0**	12.6

Where our industrial properties are located

Location	GLA m²
Silverton and surrounding areas	80 533
Tshwane West	61 147
Hermanstad	32 518
Johannesburg CBD	32 493
Tshwane CBD	20 626
Johannesburg and surrounding areas	9 634
Centurion	5 435
Waverley, Gezina, Moot	5 072
Tshwane – Arcadia	3 400
Tshwane North	2 538
Total	**253 396**

Lease expiry profile of our industrial sector as at 31 August 2018

Industrial

Year	GLA m²	%	Monthly rental R'000	%
2019	112 534	44.3	4 840	53.7
2020	42 796	16.9	1 815	20.1
2021	35 618	14.1	1 438	15.9
2022	5 519	2.2	149	1.6
2023 and beyond	18 978	7.5	788	8.7
Vacant	37 951	15.0	-	0.0
Grand total	**253 396**	**100.0**	**9 030**	**100.0**

Our industrial offering

Our well-maintained and managed, well-located small industrial properties that have been in our portfolio for some time give us a competitive advantage over new builds. The location of these properties is ideal for SMMEs.

The performance of Octodec's industrial property sector

Our portfolio includes well-maintained warehouses, mini factories, workshops and industrial parks that can be priced more competitively than new entrants to the market. We find there is a demand for properties we have recently upgraded and most of our upgrades are tenant driven.

Core vacancies in this sector increased from 12.6% in 2017 to 14.0% in 2018 due to the weak economy.

The Tannery, a multi-tenanted industrial complex in Silverton, Tshwane, was upgraded for an amount of R13.6 million, this has improved occupancy, enhanced the property's value and contributed to the upliftment of an area in which Octodec is invested. Post year end the Tannery enjoyed a further improvement in occupancy.

2018 Tshwane
The Tannery

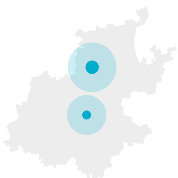
Specialised and other* property sector review

In order to comply with the JSE Listings Requirements and to better analyse and understand the rental income from all sectors in a more meaningful way, the group's properties have been aggregated into segments with similar economic characteristics such as the occupier's market it serves and the nature of the property. This is best achieved by the inclusion of the following sectors.

Hotels	The hotels include the City Lodge and Protea hotels in Hatfield, Tshwane
Places of worship	These are located mainly in the Tshwane and Johannesburg CBDs
Educational facilities	These include schools, colleges and technikons located mainly in Tshwane and Johannesburg CBDs
Auto dealerships	The auto dealerships in our portfolio include three McCarthy dealerships in Tshwane and one Toyota dealership in Johannesburg
Healthcare facilities	These facilities include Louis Pasteur Medical Centre in the Tshwane CBD and Lister Medical Centre in the Johannesburg CBD
Parking	Various parking facilities including stand-alone parking lots and parking within our buildings

* *These sectors were previously included under retail, industrial and office sectors.*

Where our specialised and other properties are situated



Sector	Educational facilities	Healthcare facilities	Places of worship	Auto dealerships	Hotels
Location	Johannesburg CBD	Tshwane CBD	Tshwane CBD	JHB & Surrounds	Hatfield
m²	26 594	24 653	10 556	7 788	13 458
	Tshwane CBD	Johannesburg CBD	Tshwane West	Waverly Gezina Moot	
	21 355	11 913	2 736	5 174	
	Tshwane - Arcadia		Silverton & surrounds	Tshwane - Arcadia	
	7 353		1 548	2 760	
	JHB & surrounds		Sunnyside		
	1 047		1 356		
	Tshwane West		Tshwane North		
	404		476		
Total m²	56 753	36 566	16 672	15 722	13 458

Specialised and other* property sector review continued

Key performance statistics as at 31 August	2018 R'million	2017 R'million
Annual rental income from:		
• Hotels	**14.4**	14.4
• Places of worship	**6.6**	6.3
• Educational facilities	**34.1**	33.0
• Auto dealerships	**20.1**	18.8
• Healthcare facilities	**33.2**	29.8
• Parking	**66.3**	61.0
Growth in core rental income year on year (like for like) (%)	**6.0**	6.3

* *These sectors were previously included under retail, industrial and office sectors.*

2018
Johannesburg
Jeppe House

The GLA for each sector, their percentage of the total GLA and the number of tenants in each sector

	Total GLA m²	GLA %	Number of tenants
Educational facilities	56 753	3.5	32
Healthcare facilities	36 566	2.2	149
Places of worship	16 672	1.0	50
Auto dealerships	15 722	1.0	4
Hotels	13 458	0.8	2
Parking	N/A	N/A	2 552
Total	**139 171**	**8.5**	**2 789**

Sector dynamics:

- The sector with the largest percentage increase in like-for-like rental income was healthcare facilities where the Louis Pasteur Medical Centre in Tshwane is one of our top ten properties. We do not anticipate this sector to grow.
- Second is parking, which achieved a 5.7% increase in like-for-like rental income in the year under review.
- Places of worship showed the third largest increase in like-for-like rental income at 4.4% followed by educational facilities with a 3.6% increase in like-for-like rental income.

Lease expiry profile by rental area of the specialised and other property sector

as at 31 August 2018

Year	GLA m²	%	Monthly rental R'000	%
Educational facilities				
2019	29 087	51.3	1 126	46.2
2020	13 170	23.2	551	22.6
2021	5 873	10.3	327	13.4
2022	495	0.9	14	0.6
2023 and beyond	8 128	14.3	420	17.2
Vacant	–	–	–	–
Grand total	**56 753**	**100.0**	**2 438**	**100.0**

Healthcare facilities

2019	5 633	15.4	604	21.2
2020	3 454	9.4	426	14.9
2021	17 787	48.6	1 334	46.7
2022	1 594	4.4	194	6.8
2023 and beyond	2 958	8.1	298	10.4
Vacant	5 140	14.1	–	–
Grand total	**36 566**	**100.0**	**2 856**	**100.0**

Places of worship

2019	12 446	74.6	477	76.9
2020	3 252	19.5	110	17.7
2021	843	5.1	24	3.8
2022	–	–	–	–
2023 and beyond	131	0.8	10	1.6
Vacant	–	–	–	–
Grand total	**16 672**	**100.0**	**621**	**100.0**

Year	GLA m²	%	Monthly rental R'000	%
Hotels				
2019	–	–	–	–
2020	83	0.6	14	1.0
2021	13 375	99.4	1 332	99.0
2022	–	–	–	–
2023 and beyond	–	–	–	–
Vacant	–	–	–	–
Grand total	**13 458**	**100.0**	**1 346**	**100.0**

Auto dealerships

2019	3 692	23.5	380	24.8
2020	4 096	26.0	–	18.2
2021	2 760	17.6	374	24.4
2022	–	–	–	–
2023 and beyond	5 174	32.9	500	32.6
Vacant	–	–	–	–
Grand total	**15 722**	**100.0**	**1 254**	**100.0**

Parking

2019	–	–	2 723	71.5
2020	–	–	775	20.3
2021	–	–	206	5.4
2022	–	–	26	0.7
2023 and beyond	–	–	82	2.1
Vacant	–	–	–	–
Grand total	**–**	**–**	**3 812**	**100.0**

resources and relationships review

What we draw on to create value

Financial resources

R7 824 million
equity funding
(FY2017: R7 828 million)

R4 847 million
debt funding
(FY2017: R4 826 million)

R669 million
debt facilities available
(FY2017: R626 million)

Our financial resources represent how successful we have been at creating short-, medium- and long-term value through the sustainable development of our physical resources using our human, social and relationship capitals.

Our financial resources include:
- cash flow from rental income
- resources we obtain from equity and debt funding
- proceeds from the disposal of properties.

As a REIT we are tasked with investing our capital wisely in order to return earnings to shareholders in the form of distributions on a sustainable basis.

We use our financial resources to manage, refurbish and redevelop our existing portfolio and grow our portfolio through acquisitions and developments. The disposal of non-core properties contributes to our financial resources.

Our financial resources are also used to remunerate and develop the skills of our employees, deliver on our social commitments and minimise our negative impact on the environment.

24 Detailed information on our financial performance can be found in the financial director's review on pages 24 to 29 of this report.

Physical resources

R1.47 billion
in rental income generated in FY2018
(FY2017: R1.43 billion)

0.3%
decrease year on year in value of property portfolio
(FY2017: 1.9% increase)

Decrease of 20 629m^2 year on year in GLA as a result of the sale of non-core properties
(FY2017: decrease of 4 058m2 year on year)

Sharon's Place introduced a further 399 residential units, 289 parking bays and 5 647m^2 of retail to the market
of which 100% of the residential units and 98% of the retail units have been let

We use our physical resources, which are the land and properties we own, to create value and grow our financial resources by generating rental income.

We employ a portion of our rental income to improve the quality and value of our property portfolio through ongoing maintenance, refurbishment, new builds and redevelopment.

We also grow our physical resources when we unlock value through refurbishment and redevelopment.

30
See the review of our property portfolio on pages 30 to 53 for detailed information on our portfolio.

Our people

236 employees
as at 31 August 2018
(FY2017: 242 employees)

94% of Octodec's employees are black
(FY2017: 95%)

R888 000
was invested in our employees' skills development in FY2018
(FY2017: R900 000)

609 training sessions
presented to Octodec employees during the year

20% of Octodec's employees are female

By using their skills, competencies and experience to achieve Octodec's strategic objectives, our people make it possible for us to achieve our aspiration of creating value beyond return.

Employee benefits and remuneration

The benefits that Octodec provides its employees, in addition to the legally mandated employee benefits, include a defined contribution pension or provident fund and group life assurance, which has several components. The average length of service for Octodec employees is eight years.

Employees can select from defined contribution pension or provident fund options, all of which include a fixed employer monthly contribution of 10%. Employee contributions range from 4.25% to 7.5% on a monthly basis.

Group life assurance, which is payable on the death of an employee, includes options for disability income protection, family benefits and other value-added services, such as ambulance services, legal advice and trauma counselling.

Octodec has implemented an employment equity plan and through its support of the employment equity committee seeks to improve its communication with its employees, create equal opportunities and reduce barriers to progress.

Remuneration
Information on the remuneration of our directors and employees is provided in the remuneration review on pages 80 to 87 of this report.

80

Health and wellness

An annual wellness day is held every year, at which general wellness screening is provided, as is HIV voluntary counselling and testing; financial advice and the drafting of wills is also offered.

All our employees and their family members have access to the ICAS employee assistance programme. The programme provides *ad hoc* counselling services that are available via telephone or face to face; emotional support counselling; life management services for family care; legal and financial issues; critical incident management for employees recovering from traumatic incidents; and coaching services.

Learning and development

The majority of our learning and development programmes, which are aligned to our strategic objectives, are accredited. They include a matrix of learnerships and operational and leadership development.

Our building management team receives regular training to ensure their skills are kept up to date.

One bursary was provided this year for a student to study and obtain his national diploma in Interior Design and another three students supported via the SAPOA Bursary Fund.

In total, 609 training sessions were provided to our 236 employees. We depend on our people to ensure we achieve our purpose and strategic objectives.

Our training programme in 2018

	African males	Coloured males	Indian males	White males	African females	Coloured females	Indian females	White females	Total
Fire fighting	13				3				16
First Aid (Level 1)	26			1	2				29
Handyman skills programme	9								9
Supervisory management	2				1	1			4
Employment equity committee training	6	1		1	2	1		1	12
Discovery Healthcare	140	1		2	36	1		2	182
Financial wellness	103	2		2	33	2	1	2	145
Ethics hotline	93	3	1	7	19	2	1	2	128
Council electrical compliance	64	1		2	5			1	73
Building manager training	11								11
Total	**467**	**8**	**1**	**15**	**101**	**7**	**2**	**8**	**609**

Relationships

We are committed to working with all those who have a stake in the inner cities and who are as committed as we are to the rebirth of our cities.

Everything we do involves relationships and it is challenging to always get these relationships right. Our ability to build good relationships depends on how effective we are at:

- identifying our stakeholders and changes in stakeholder groups
- identifying the forces at play that can affect our relationships
- identifying the matters that are of concern to our stakeholders
- engaging, listening and responding to our stakeholders
- addressing incorrect perceptions regarding our organisation
- assessing the quality of our relationships with our stakeholders.

When engaging with our stakeholders, we endeavour to recognise their interests and provide relevant information to address any queries that they have. Different stakeholders have different perceptions of the issues at hand and our responses are formulated to ensure that key information is communicated consistently.

The matters of concern to Octodec and its stakeholders

Matters of concern to our stakeholders and Octodec

Our tenants and potential tenants

- Ensuring we have happy tenants who want to renew their leases
- Ensuring it is easy for tenants to communicate their concerns and that they are addressed promptly
- Repairs are addressed promptly
- Our buildings are well maintained
- Tenants are safe in our buildings
- Tenants receive regular communication on issues affecting them

The investor community

- Distribution prospects
- Transparency regarding Octodec's strategy and its ability to deliver on its strategy
- Possible impact of economic and political environment on growth and profitability
- Octodec's ability to create stakeholder value in the short, medium and long term
- High standards of ethics and corporate governance

Our employees

- The purpose of the business and its prospects
- Company culture
- Fairness
- Career opportunities
- Rewards and benefits
- Transformation
- Engagement
- Training and development
- Recognising diversity

City Property

- Meeting the key performance targets set out in its new management agreement with Octodec
- Ensuring City Property applies its unique inner city property know-how and experience to provide Octodec with a competitive advantage in its chosen areas of operation
- Transformation of City Property's business
- High standards of ethics and corporate governance
- Compliance with relevant legislation and regulations

Inner city stakeholders, including informal traders, taxi associations and activists

- Recognising the concerns of all stakeholders, engaging to gain a mutual understanding and, where possible, resolving these concerns to the benefit of all parties

The councils of Tshwane and Johannesburg

- Finding ways to work together on the revitalisation of both cities
- Octodec's contribution to urban renewal through its redevelopment and upgrading of buildings
- Compliance with building regulations and controls
- Utility rates
- Provision of services
- Project approvals

The communities in which we operate

- Investing in the socio-economic development of historically disadvantaged communities
- Opportunities to become suppliers to Octodec
- Ensuring we have safe, clean cities where people want to live, work and play

Property and industry forums

- Access to research and benchmarking information
- Participation in industry initiatives
- Access to green building expertise through our membership of the Green Building Council of South Africa

Debt funders

- Ensuring adequate funding to meet business objectives
- Liquidity management

Suppliers

- Prompt payment
- Compliance with Octodec's code of ethics
- Meeting quality and pricing standards
- Participation in Octodec's supplier development programme

Communication

- Face-to-face meetings
- Contact centre (telephonic)
- Website
- Email
- Social media
- SMSes

Joint venture partners

- A common vision for our joint ventures
- Transparency and accountability
- Compliance with legislation and regulations
- Ethical business practices

Our engagement with:

Our tenants and potential tenants

Our goal is to provide our tenants with quality accommodation and customer service that makes them want to renew their leases and recommend our buildings to others. Keeping our tenants informed and providing them with channels through which they can quickly and easily communicate with us is an important part of our customer service. Our building and property managers meet face-to-face with our tenants and also send them SMS messages and emails to keep them informed.

We use facilitated tenant group sessions to gain insight into areas where the customer service to our tenants and offering can be improved.

Investors and potential investors

We communicate with the investor community through our reporting, results presentations, SENS announcements, city tours, one-on-one meetings and at our annual general meeting. Our board makes every effort to ensure that our reporting, presentations, press releases and SENS announcements provide stakeholders with the information they require to make informed assessments of our performance and our short-, medium- and long-term prospects.

Our employees

Having some of our employees based at our various buildings in Tshwane and Johannesburg provides us with a communication challenge, which is addressed at our various buildings in Tshwane and Johannesburg through WhatsApp and SMS messaging, meetings, emails and weekly communication from our managing director.

Our residential building managers are always on the move within their buildings, so they need to be able to communicate and receive communications wherever they are. During the year under review they were provided with devices which, by giving them access to emails wherever they are, keep them up to date and allow them to transact and communicate quickly and easily within Octodec and City Property.

Councils and inner city stakeholders

Establishing and maintaining ethical relationships with the city councils of Tshwane and Johannesburg that are based on mutual understanding and trust, is essential to our business as the councils are responsible for supplying our buildings with electricity, water and infrastructure, without which we would not be able to rent out our properties.

We work with the councils to help resolve operational, security and cleanliness issues in the cities, and in Tshwane we have given our support to the Tshwane Vision 2035, which is to create a liveable, resilient and inclusive city. Our support includes making our event venue, 012central, and other suitable facilities available for events that bring people into the Tshwane CBD.

We work with voluntary city improvement districts (CIDs) including the Arcadia, and Hatfield CIDs, the Retail Improvement District (RID), the South West Improvement District (SWID), Central Improvement District (CID) and Braamfontein Improvement District (BID), where possible, to provide top-up services to those provided by the City of Tshwane and the City of Johannesburg.

These services include cleaning, security and urban initiatives that contribute towards "placemaking" (the process of turning an area from a place you don't want to be in, into one that you never want to leave).

We engage with hawker associations and with informal traders on an individual basis to build relationships.

We also engage with taxi associations that operate outside our buildings to resolve issues and build trust relationships.

2018
Tshwane
Enjoying facilities at Sharon's Place

2018
Tshwane
Infinitive eyes mural

The role of City Property in our communication with our tenants

City Property provides our tenants with a range of communication options, which include a contact centre and mobile and social media platforms. In addition, for those of our tenants who prefer face-to-face communication, City Property's offices in both Tshwane and Johannesburg are in close proximity to our residential properties. Social media has become an important communication tool, especially for our tenants. We have procedures in place to monitor social media platforms, respond and address the issues raised.

The City Property procurement team receives regular feedback from property management on the quality of the service provided by the suppliers they contract with to undertake repairs and maintenance on Octodec's buildings. To help suppliers improve their service delivery they are provided with this feedback.

City Property also works with the municipalities of Tshwane and Johannesburg to resolve billing-related issues emanating from the thousands of utility bills City Property processes for Octodec every month. If these issues are not resolved they will add to Octodec's utility costs. City Property is able to resolve, on average, 87% of all queries within 30 days.

Know-how

Through City Property we are able to manage our resources and relationships in the inner city market which gives us a competitive advantage.

City Property's know-how is what sets our business apart and it is a key driver of our sustainable growth. It encompasses our collective organisational knowledge, culture, governance and leadership structures. It also includes the processes, approach to remuneration, risk management, and ability to deliver on our business strategy.

Our economic value depends on how we manage and use these assets to extract value and make the best possible use of them.

The role of City Property's inner city asset and property management expertise in our business

City Property provides the specialist leasing, portfolio management and marketing skills necessary to deliver excellent customer service to our tenants on our behalf. It is mandated to secure an appropriate mix of tenants for the various sectors of our diverse portfolio at rentals that allow us to create stakeholder value using an innovative approach to retaining tenants and keeping vacancies low.

During the year under review Octodec renegotiated its management agreement with City Property. The new management agreement came into force on 1 July 2018. A comprehensive circular detailing the terms of the agreement was distributed to shareholders of Octodec who approved the terms of the agreement in June 2018.

City Property, which specialises in property and asset management in key strategic nodes in Tshwane and Johannesburg, is a private company. It is owned by the Wapnick family and falls under the control of Jeffrey Wapnick. The Wapnick family also has a major shareholding in Octodec (see page 95 of this report for details). City Property has been operating in the CBDs of Tshwane and Johannesburg and their surrounding areas for 40 and 20 years respectively, during which time it has grown and continually adapted its skills to meet the constantly changing requirements of its operating environment.

95

City Property's responsibilities

The new management agreement between City Property and Octodec was implemented with effect from 1 July 2018. The services that City Property has undertaken to provide for and on behalf of Octodec are summarised below:

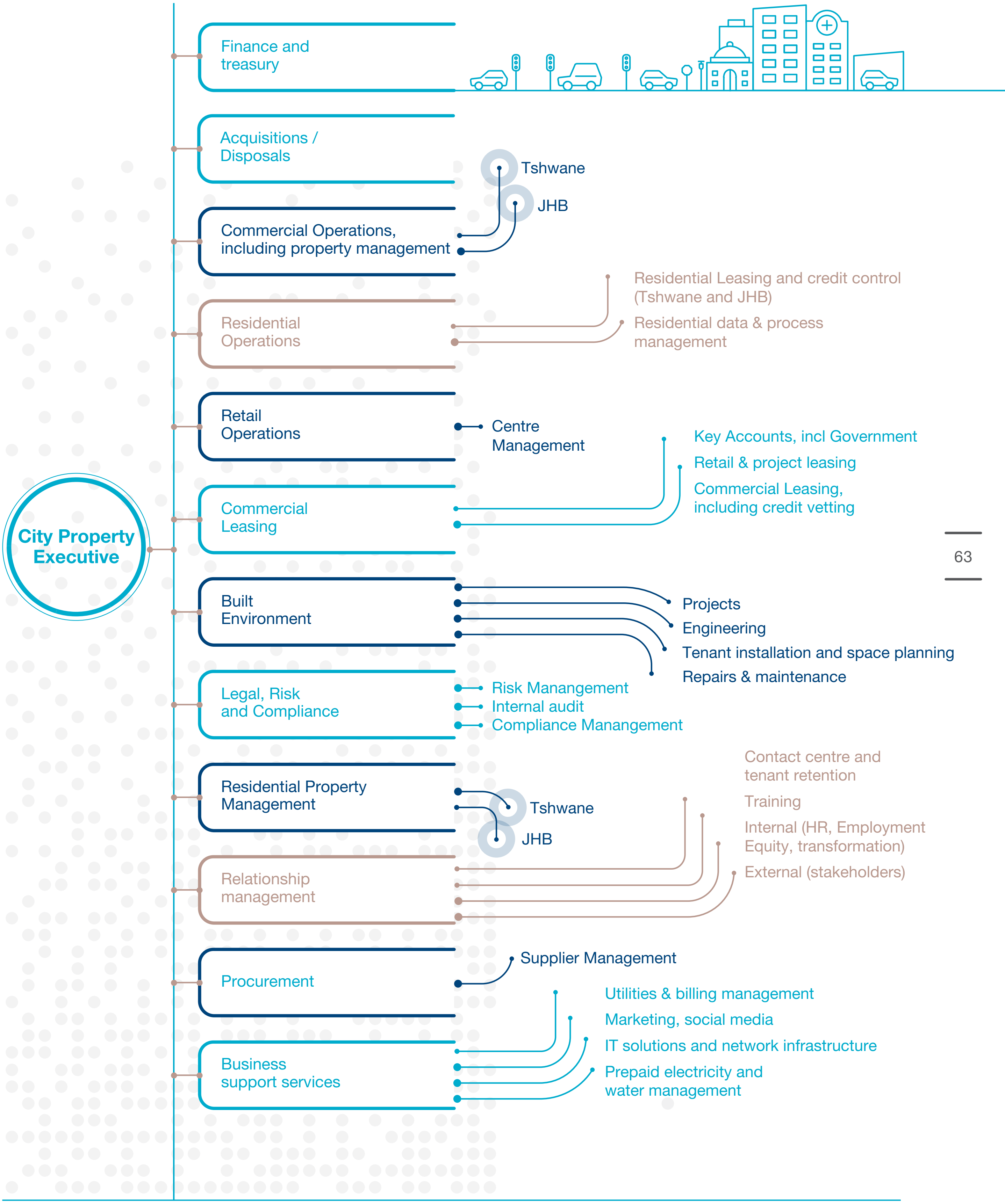
Property management	Asset management	Specialist services
• City Property is responsible for all services that are typical of traditional property management. These include leasing, billing, collections, utility management, property accounting and expense management.	• As part of the "all-in" service rendered by City Property, it sources and advises on investment opportunities, sales and acquisitions (including ancillary processes such as feasibilities and due diligence investigations), and financial management. It monitors the regulatory environment and advises on income enhancing opportunities	• Certain specialist skills have been developed to manage the unique challenges prevalent in the Octodec portfolio. These include the establishment and maintenance of various stakeholder relationships, tenant installation services, repairs and maintenance, risk, legal, HR, IT, compliance and account management, as well as credit control.

How City Property is remunerated

The new management agreement between Octodec and City Property (as with the previous agreement) provides a formula for the calculation of the fee payable to City Property. This fee is partially linked to the performance of Octodec. The key performance indicators (KPIs) which City Property must meet, in order to avoid penalties, are proposed by City Property annually for the Octodec board's consideration and agreement (see pages 84 and 85 for the KPIs that apply to City Property for the 2019 financial year). City Property's performance will be reviewed twice a year; after finalisation of the mid-year results and at financial year-end.

84

City Property structure



The role of procurement in cost-effective quality management

The Octodec board-approved procurement policy is applied by the City Property supply chain office across the tightly controlled procurement processes.

The strict quality control processes that have been put in place ensure the quality of work performed and the products used in our buildings meet Octodec's exacting standards.

During the 2018 financial year the City Property supply chain office logged an average of 2 500 repair or maintenance jobs on Octodec buildings every month.

Our strict policy also ensures that the number of suppliers on the supplier list is controlled to ensure that we can consistently offer our suppliers' sustainable volumes of work. This assists in negotiating the best price for their services.

Natural resources

The natural resources we employ in the building, refurbishing, renovating and redeveloping of our properties include renewable resources, such as timber and water, and non-renewable resources such as fossil fuels and mineral resources, and processes such as energy consumption, waste creation and emissions.

Octodec continually reviews its use of scarce resources with the aim of minimising our negative impact on these resources and their cost to our business. We also ensure we comply with the applicable laws and regulations. By continually monitoring the consumption of water and electricity in our buildings we quickly pick up if there is any infrastructure failure.

We continue to monitor the cost of using renewable energy options in our buildings, but to date we have not as yet found a cost-effective renewable energy option.

All our apartments are fitted with prepaid electricity meters. We apply the National Energy Regulator of South Africa's (NERSA) mandated regulations to the tariffs we charge our tenants. We use modelling to ensure the tariffs we charge our tenants are fair.

When tenants bypass prepaid meters they effectively consume electricity without having to pay for it, which in turn is a cost the landlord carries without the ability to recover it through the prepaid meter of the tenant. Typically, South African landlords lose between 5% and 10% of the electricity consumed in buildings as a result of tenants bypassing meters.

By applying knowledge and expertise we have developed a management tool to oversee the prepaid electricity purchases within the buildings. The management tool highlight's anomalies within the purchase patterns of the tenants. As a result, we have been able to keep our losses at an average of 0.3%.

Another area where theft of electricity occurs is within the distribution boards of the respective apartments. To overcome this, the distribution boards were sealed during 2018 thus restricting access for possible theft of electricity.

Waste disposal

We implemented on site recycling initiatives at 14 of our sites in the year under review. Close to 309 tonnes of waste emanating from these sites were sorted and recycled instead of being disposed of in the relevant landfill sites. Further sites are being investigated and where practical, on site recycling will be implemented at more of our buildings. Where private service providers are contracted for the removal of waste from our sites, they are audited on an annual basis to ensure that they have current valid certificates of compliance from and are in good standing with the various industry regulators, both in terms of the operation of their businesses and the manner in which they dispose of the waste that they collect.

Waste to energy initiatives are also being investigated as longer term, more sustainable options for the disposal of waste that cannot be recycled.

We also ensure that the fluorescent lights used in our buildings are disposed of correctly and are not sent to landfill sites.

Meeting our social investment commitment

83% of Octodec's 494 suppliers comply with the Broad-Based Black Economic Empowerment requirements

2017 only **69%** complied

R16.5 million invested in supplier development in 2018

R3.7 million was spent in 2017

R5.4 million in cash contributions and **R11.1 million** in non-cash contributions.

R182.0 million was spent by Octodec on procurement from Black-owned companies in 2018

9.3% of our total procurement spend

R120.0 million was spent in 2017

R97.8 million was spent on procuring from companies which black woman own 30% or more of the business

5% of our total procurement spend

R73.0 million was spent in 2017

R3.8 million invested in enterprise development in 2018

R650 000 in cash contributions and **R3.1 million** in non-cash contributions.

In 2017 a total **R3.7 million** was spent

Building sustainability in small business

Octodec recognises the challenge cash flow can be to small businesses. To assist them with this challenge we ensure our suppliers are paid within 30 days. Our formal supplier development programme runs over a period of three years during which suppliers receive training in supervisory, management and human resource matters; inhouse training on how to price their services and products; how to tender successfully and how to improve the quality of their workmanship.

We are pleased to see that an increasing number of our suppliers are transforming and five of the companies with whom we do business most frequently have increased their black ownership to 51%. In 2017 only two of our suppliers achieved this transformation.

During the year under review 37 people were employed directly or indirectly as a result of our supplier development programme. Octodec partnered with a small level 1 B-BBEE security company in 2015, as part of our supplier development programme. The programme recruited unemployed persons from the Tshwane CBD, trained them to grade C security officers and then deployed them under the supervision of various City Improvement Districts that operate in Tshwane in areas around our buildings.
These security officers are moved around regularly and have contributed to the numerous arrests of perpetrators of crime and crime prevention initiatives. Most importantly though they serve the Tshwane community with pride and in so doing are slowly helping to change the negative perceptions about the Tshwane CBD.

2018
Rise Against Hunger Project

Supporting our communities

During the year under review our projects focused on youth and the inner city, and included inner city cleaning project using community members on inner city security projects, supporting Rise Against Hunger, Food and Trees for Africa food gardens in Mamelodi and Dignity Dreams.

Projects	Our investment	Communities/age groups/areas that benefited
Dignity Dreams	Rent-free premises provided	Young girls
Food and Trees for Africa	R97 500	Mamelodi residents
Rise Against Hunger	R290 000	Various: 100 000 meals were distributed by Rise Against Hunger and City Property to children and homeless people
Donations:		
African Children's Feeding Scheme	R95 000	Children
Walter Sisulu Environmental Centre	R95 000	Children

Assessing the effectiveness of our approach to corporate governance

Our board and management recognise that to achieve our strategic objectives, to gain the trust of our stakeholders and to enhance both shareholder value and the long-term sustainability of the business requires transparency, sound corporate governance, ethical business practices and responsible corporate citizenship.

We welcome the outcomes-driven approach to corporate governance of King IV™, which provides us with the opportunity to assess whether our approach to corporate governance, an essential element of our know-how, facilitates:

- ethical and effective leadership
- an ethical culture
- responsible corporate citizenship
- accountability and effective control
- effective risk governance
- transparency that ensures our stakeholders are provided with the information they need to make informed decisions about our business
- value creation for all our stakeholders.

Assessing the effectiveness of our approach to corporate governance continued

For more information on our application of these principles

Octodec's application of the King IV™ principles are summarised below:

Towards achieving an ethical culture and responsible corporate citizenship	
Principle 1	The governing body should lead ethically and effectively
Principle 2	The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture
Principle 3	The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen
Towards achieving good performance	
Principle 4	The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process
Principle 5	The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance as custodian of corporate governance in the organisation
Towards achieving effective control and legitimacy	
Principle 6	The governing body should serve as the focal point and custodian of corporate governance in the organisation
Principle 7	The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively
Principle 8	The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement and assist with the balance of power and the effective discharge of its duties
Principle 9	The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness
Principle 10	The governing body should ensure that the appointment of and delegation to management contributed to role clarity and the effective exercise of authority and responsibilities
Principle 11	The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives
Principle 12	The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives
Principle 13	The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen
Principle 14	The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short-, medium- and long-term
Principle 15	The governing body should ensure that assurance services and functions enable an effective control environment and that these support the integrity of information for internal decision-making and of the organisation's external reports
Principle 16	In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time

Towards achieving an etchical culture

Our application of Principles 1, 2 and 3

Our board's efforts to achieve effective leadership include:

- participation in the strategy setting process of the group, which includes an annual board strategy workshop and approving the overall strategy and objectives
- continuous monitoring of performance against strategy
- performing its duties within our approved risk appetite and risk tolerance levels
- continue to develop and review its governance policies and procedures in line with an integrated governance, risk and compliance framework
- setting ethical standards of conduct and monitoring their application
- ensuring the group is a responsible corporate citizen
- overseeing all significant aspects and transactions of the group's subsidiaries
- a formal schedule of matters reserved for its consideration and decision
- delegating certain matters to its committees, which are described in each committee's terms of reference.

Our chairman and managing director have addressed the commitment of the board and management to leading ethically, acting in good faith and in the best interests of the business in their Leadership review (see page 9). The board's assumption of responsibility for the governance of ethics in Octodec includes the approval of the group's code of ethics (the code). The code, which governs ethical culture and behaviour was reviewed this year to ensure it remains relevant in today's business environment and is binding on all directors, employees, managers, employees, independent contractors, agents, service providers and business partners. It was updated to encourage adherence to the International Ethics Standards board for Accountants' (IESBA®) Code of Ethics for Professional Accountants™. The IEASBA code requires chartered accountants to act in the public interest should they become aware of non-compliance or suspected non-compliance with laws and regulations. The board also approved and introduced laws and regulations relating to possible non-compliance with laws and regulations which encourages our professional accountants to respond to areas of non-compliance or suspected non-compliance with laws and regulations (NOCLAR) that they become aware of during the course and scope of their employment or engagement with the company.

The group's implementation of Octodec's code of ethics and our efforts to establish an ethical culture in Octodec are monitored by the social, ethics, remuneration and transformation committee (SERT committee). It monitors City Property's performance in this regard, receives reports on its performance at each of its meetings. (see the report of the social, ethics, remuneration and transformation committee on page 88), which in turn reports to the board on its findings (see the Our people section of this report on page 56 for information on the additional training we provided this year to make sure our people understand the code, what is expected of them, the difference between ethical and unethical behaviour and how to report unethical behaviour).

The independent providers of our ethics hotline service also trained our people in the purpose of our ethics hotline, which is governed by our whistleblowing policy. Flyers advertising our ethics hotline were sent out to our tenants and posters were put up in our buildings. Any calls to the hotline are reported anonymously to the chairman of the audit committee, Octodec's financial director and the chief risk officer. Any calls that need to be addressed are distributed to the relevant official who investigates the matter and reports back to the chief risk officer. We received six calls to our ethics hotline in the year under review, that have all been resolved to the satisfaction of the audit and risk committees.

The concept of responsible corporate citizenship is integrated into our company strategy and its principles underpin all key aspects of our business. Given the broad scope of our social strategy and initiatives, oversight vests with the social, ethics, remuneration and transformation committee. For the activities of this committee, refer to page 77 and page 88 respectively.

Our new corporate citizenship policy, developed by the social, ethics, remuneration and transformation committee and recently approved by our board, addresses our responsible corporate citizenship roles and responsibilities and monitors the group's performance as a responsible corporate citizen with regard to:

- recognising the interests of our shareholders, tenants, the authorities and the public at large
- providing relevant information and actively listening to our stakeholders
- doing our utmost to invest wisely in order to meet our shareholders' expectations.

Our board has established procedures to enable the directors, prescribed officers and employees to notify the company of any actual or potential conflict situation and to declare any significant interest in the company or its contracts. The company regularly obtains details from directors on external shareholdings and directorships that may create conflicts of interest while serving as directors on our board. The declarations are closely scrutinised by the group company secretary, and are tabled at each board meeting. Where a conflict arises, directors must recuse themselves from discussions. As far as possible, the company requires that directors avoid potential conflicts of interest.

In addition to the relevant legislation, Octodec has a policy regulating dealings in its shares by directors and relevant employees. No director or employee may deal, directly or indirectly, in the company's shares based on unpublished, price-sensitive information and in closed periods. These include the periods between our interim and financial year ends and the dates on which those results are published, and any time when Octodec is trading under a cautionary announcement. Employees who are classified as insiders are also prohibited from trading during Octodec's closed periods.

Towards achieving good performance

Our application of Principle 4

Our board has approved the company's strategy and oversees both its implementation and operational plans by management at board meetings. Our board performs its duties within a framework of policies and controls that provide for effective risk assessment and management of our economic, environmental and social performance, which ensures it has a thorough understanding of the sustainability of the business. Octodec recognises that its activities and outputs can have both positive and negative impacts on the triple context (the economy, society and the environment) in which we operate and the capital we employ in our business to create value for our stakeholders by achieving a good performance (see our performance on pages 4 to 6).

When we set our strategic objectives (see page 8) we assess the risks and opportunities they present in relation to our risk appetite and risk tolerance, which considers the triple context. Pursuant to the new management agreement we have established the KPIs for Octodec and City Property for the 2019 financial year and we will be measuring our performance and that of City Property against these. The business model we use to create economic value (see pages 18 to 19) also incorporates the triple context and explains how we use our resources to create value.

Our recent investment in Sharon's Place has provided us with the opportunity to achieve growth, ensure the future sustainability of our business and create value for our stakeholders (see pages 42 and 43)

Our application of Principle 5

We engage with our stakeholders throughout the year to provide them with information on our performance, any challenges we are facing and our view of the future. We do this through our interim and annual reporting, presentations, one-on-one conversations and face-to-face meetings. We also make every effort through our engagement to address stakeholder concerns and their requests for information as transparently as possible.

The materiality process that is followed (see the section on our risks, opportunities and material issues on pages 21 to 23) helps us to identify and address the matters material to our stakeholders in our reporting.

In the integrated report, we strive to report on linkages and interdependencies between the factors that enable Octodec to create value. This report includes details on our business model and strategy, how we respond to our external environment, risks and opportunities faced, how we identify and respond to the legitimate needs and interests of key stakeholders, activities and performance, as well as the outlook in the medium- to long-term. Our efforts to achieve integrated reporting, which will provide our board and management with an integrated view of our business throughout the year and allow for integrated thinking, are ongoing. Our board assumes ultimate responsibility for the integrity of our integrated reports (see page 3 of this report) and plays an important role in their preparation.

Towards achieving effective control and legitimacy

Our application of Principles 6 and 8

Our board performs its duties within an integrated governance risk and compliance framework (the framework) of policies and controls that apply to Octodec and provide for effective risk assessment and management of our economic, social and environmental performance.
The framework sets out the board's commitment to ethical leadership, the application of ethical business practices and sound corporate governance. It also takes into account the requirements of King IV™, the Companies Act, the JSE Listings Requirements and other relevant legislation, regulations and best practice. The framework, which supports the achievement of our business strategy, is continually reviewed to ensure it continues to support effective decision-making, provides robust controls and is aligned to evolving best practice.

Our board is accountable to shareholders as a whole and it also owes a duty of care and diligence to the group. The board is guided in all matters by the board charter, closely aligned with the recommendations of King IV™, which details the roles and responsibilities of the board, while our MOI addresses the special powers of the company and that of the board.

An annual work plan is developed from the board charter which sets the framework for board meetings. The board takes responsibility for overall corporate governance and ultimate control of the group. The board covers routine business, through operational reports, significant acquisitions and disposal of assets, project approvals to matters of strategy, finance, capital expenditure, significant group wide policies and frameworks and other special items. Reports from committee chairmen and certain administrative items are also considered at each board meeting. Our board meets quarterly and on an *ad hoc* basis, if required. Details of attendance of board and committee meetings for the year under review are set out on page 14. Eight board meetings were held during the financial year.

Our application of Principle 7

Skills

The balance of the board is monitored against the skills set of the directorate to ensure it is able to discharge its governance roles and responsibilities effectively. The board has delegated responsibility for ensuring the board has the appropriate balance of knowledge, skills, experience, diversity and independence to the nominations committee. The profiles of our board and committee members, set out on pages 12 to 13 of our integrated report for 2018, demonstrate that the good balance of knowledge, skills, experience, diversity and independence among our board members adequately equips them to discharge their responsibilities effectively and objectively. We do, however, recognise that there is room for improvement in the composition of our board in terms of achieving an appropriate balance of diversity.

Diversity

The board's objective to ensure that at least 25% of its members were made up of women by the end of 2017, was successfully achieved through the appointment of Ms Akua Koranteng, who resigned on 10 May 2018, to take up an executive position at Equities Property Fund. To meet the voluntary gender and race diversity targets at board level, which are determined in terms of the amended policy on the promotion of race and gender diversity at board level, a board diversity policy was adopted during the year under review. Octodec plans to introduce two black South African independent non-executive directors to its board early in 2019.

Independence of directors

The independence and categorisation of directors are reviewed annually by the nominations committee. The board, on recommendation from the nominations committee has satisfied itself that these directors meet the criteria for independence under King IV™.

As our non-executive chairman cannot be categorised as independent, we have in terms of the JSE Listings Requirements and King IV™, appointed a lead independent director who:

- mitigates any risk of potential conflicts of interest in board meetings
- ensures that the independent members of the board demonstrate impartiality and leadership
- acts as a spokesperson for the various investors in Octodec when required
- tests the independence and objectivity of the board's independent non-executive directors annually
- takes part in the annual evaluation of the chairman's performance.

The lead independent director's appointment, aligned with the recently amended lead independent director charter, is reviewed annually.

Towards achieving effective control and legitimacy continued

As Derek Cohen served in an independent capacity on the board since 1 October 2009, an assessment of his independence by the board on recommendation from the nominations committee has been performed. It was concluded that he exercises objective judgement and that there is no interest, position, association or relationship that is likely to influence unduly or cause bias in his decision making and he will continue to serve, in an independent capacity.

New appointments

The board follows a formal and transparent process when appointing new directors and any appointment is considered by the board as a whole, on the recommendation of the nominations committee, which comprises solely non-executive directors. It evaluates the skills, knowledge and experience required to implement group strategy. New board nominations are assessed against defined competencies to address any potential gaps. Any directors appointed during the year may only hold office until the next Annual genaral meeting (AGM), when they will be required to retire and offer themselves for re-election. By appointing strong, independently-minded directors to its board and separating and clearly defining the roles and responsibilities of the chairman and the managing director.

Induction of directors

A formal induction process is in place. On appointment, directors receive an induction pack with recent board and committee documents, information on legal and governance obligations, the company's MOI and recent integrated reports. Guidance is provided on the JSE Listings Requirements with emphasis in dealing in shares, King IV™ the Companies Act, and the group's internal governance arrangements, the introduction to the electronic meeting management software as well as a property tour. Meetings are arranged between new directors and management to ensure directors develop a full understanding of their areas of responsibility and the complex businesses and operations that make up the group.

Election and retirement of directors

In accordance with our MOI one third of our directors are required to retire from office every year and are eligible for re-election by shareholders at the AGM subject to their availability and contribution to the business for reappointment. Before recommending their re-election to the shareholders, the chairman who leads the performance evaluation of the directors due for re-election, establishes whether or not they are available for re-election, based on their tenure since they were previously elected or re-elected to the board.

The board, on the recommendation from the nominations committee, recommends the re-election of the following retiring directors: Derek Cohen, Pieter Strydom and Sharon Wapnick (see page 144).

144

There is no set retirement age for non-executive directors, and the period in office is reviewed individually by the board on the recommendation of the nominations committee.

Director training and development

All directors are expected to keep abreast of trends in the business and in the group's environment and markets. To assist them, topical presentations and informative sessions are arranged on an *ad hoc* basis.

Site visits to properties identified for acquisition and new developments are held to familiarise directors with operational and environmental aspects of the business. In the current year, site visits to potential property sites in Johannesburg as well as a site visit to the newly completed Sharon's Place were conducted.

Group company secretary

Elize Greeff, who previously represented City Property which was then the appointed company secretary, has been appointed as group company secretary, replacing City Property, with effect from 1 July 2018. It is the board's opinion that Elize, who has over 20 years' corporate law and company secretarial experience:

- maintains an arm's length relationship with the board
- administers the proceedings and affairs of the directorate and the group in accordance with the relevant laws and best practice
- effectively performs the role of gatekeeper of good corporate governance.

As required in terms of paragraph 3.84(h) of the JSE Listings Requirements, having assessed her abilities, based on her qualifications, expertise and levels of competence, the board has endorsed and confirmed her appointment as group company secretary.

8 Our application of Principle 8

Through the appointment of strong, independent directors and the separation and clear definition of the roles and responsibilities of the chairman and managing director, Octodec has established a clear balance of power and authority at board level ensuring that no single director has unfettered powers of decision-making. The board has established a number of committees to enable it to properly discharge its duties and make effective decisions. Each committee acts in accordance with written terms of reference under which specific functions of the board are delegated with defined purposes, membership requirements, duties and reporting procedures. The terms of reference of these committees are available from the group secretariat. Both the statutory audit and SERT committees operate in terms of the Companies Act and King IV™. The majority of our committees are chaired by independent non-executive directors who attend our annual general meetings to respond to any shareholder queries. The activities of each committee in 2018 are reported on separately and can be found on pages 76 to 79 of our 2018 integrated report.

76

9 Our application of Principle 9

The board has adopted the King IV™ recommendation that it conducts assessments of performance of the chairman, the board, committees and individual members every alternate year. In September 2018, the board assessed its own performance and of the appropriateness and effectiveness of its procedures and processes. The evaluation concentrated on the focus areas of ethical leadership, the board's role in setting and overseeing the strategic plan, risk management and opportunity governance, technology, compliance and remuneration governance, assurance, stakeholder relationships, efficiency of core board processes, board dynamics and culture, governance structures, board composition, board expertise, time management, board support, the committees and chairmen as well as priorities for change. For the year under review, results from the various evaluations undertaken were articulated in a document tabled at the nominations committee and board meetings held in October and November 2018. Although no material matters of concern were noted from the evaluation, the board took cognisance of areas in which improvements could be made, and plans are being put in place to implement these improvements. Top priorities for the board in the coming year were identified as:

- refining and executing the strategy, aligned with the new management agreement
- monitoring and enhancing the performance matrix of the executive directors and City Property
- improving the composition and demographics of our board and committees
- implementing succession planning of the board, committees and executives.

Our application of Principle 10

As indicated in the structure below a board-approved delegation of authority framework is in place, which together with the duties and authorities that form part of the board charter, delineate the authority of the managing director who is responsible for the implementation and execution of the group's board-approved strategy, policies and business plans. As an executive director of Octodec, the managing director plays a key role in providing a link between management and the board and ensuring board decisions are communicated to and implemented by management.

In October 2015, the managing director was reappointed by the board for a five-year period.

The nominations committee is actively searching for potential independent non-executive director candidates as part of an ongoing exercise. The City Property team that the managing director has established to assist him in fulfilling his obligations is made up of professionals with the industry skills and experience necessary to ensure the sustainability of Octodec's existing business and the successful implementation of its strategic initiatives.

Our application of Principle 11

Our board annually, and more frequently if necessary, takes responsibility for the governance risk in the Octodec group by:

- setting the direction for how we approach and address risk
- reviewing the group's risk management policies and processes
- reviewing the group's risk appetite and risk tolerance
- ensuring we have the appropriate ERM policy and framework, people, processes and technology in place to evaluate and manage the uncertainties we face in protecting and creating stakeholder value

Our board has ultimate responsibility not only for the governance of the group's risk management, but also for developing our risk appetite and setting and monitoring our risk tolerances.

See *Managing our risks and opportunities* on pages 21 to 23 of this report for details of how our risk governance structures and processes support our strategy development and the achievement of our strategic objectives.

One of the services rendered by City Property to Octodec is that of risk management, i.e. City Property prepares and maintains a corporate risk register, which is updated to reflect new and evolving corporate risks, and which is reviewed and approved by Octodec. The chief risk officer is a resource shared between Octodec, City Property and other property owners falling under City Property's management responsibility.

The risk and opportunities management model implemented by City Property identifies and rates risks and opportunities on a comprehensive risk matrix, which complements Octodec's approach to risk governance.

Our application of Principle 12

Technology and information governance

Technology and information governance are focus areas of the audit committee. The risk committee assists with the monitoring and identification of risks and opportunities associated with technology and information governance and reports. City Property is tasked with implementing the Octodec board-approved policy and strategy that articulates the board's chosen direction with regard to the employment of technology and information to achieve its strategic objectives and contributes to value creation. This includes the ethical and responsible use of technology and information, effective, regularly updated control measures to address cyber risks and threats, and the measures in place to monitor the management of technology and information.

Creating business value through our use of technology

Octodec has outsourced its technology requirements to City Property. City Property ensures that the technology solutions provided to Octodec are relevant, integrated with the existing systems and user friendly so that they add value to the people using them. In so doing the business is enabling itself to operate in the digital era with a view to creating capacity and improving turnaround times.

The recent introduction of a digital system making use of tablets has moved the management of the full range of inspections that take place in over 14 000 units in our residential buildings from a laborious manual system to a scalable digital system. Not only is there now less room for error, the system integrates seamlessly with back office systems, resulting in substantial efficiencies from both a time and cost perspective. An important aspect of this system is that it will not require any additional back office resources to handle the growth of our portfolio. The new system also allows us to provide an improved customer experience as tenants can sign off an inspection immediately on site and the whole process is more transparent.

City Property has been able to increase the efficiency of processing the very large number of council invoices received every month, through the use of optical character recognition (OCR).

City Property updated our disaster recovery plan using a high-speed fibre link to mirror our data on a cloud data storage facility.

Our application of Principle 13

Compliance with laws and regulations

Our board's commitment is to full compliance with all applicable laws and regulations and its support and application of certain non-binding codes and standards. Our regulatory compliance framework, compliance risk policy and our regulatory risk management process, which is managed by our chief risk officer, ensures that the effectiveness of the key internal controls in place to mitigate our compliance risks is continually monitored and that risk management plans are in place to ensure compliance with new legislation or amendments to current legislation. City Property, in terms of its new management agreement with Octodec, monitors and tracks legislation that applies to Octodec using compliance management software, which also allows City Property to identify and prioritise the most current, proposed and impending legislation and regulations relevant to Octodec.

Octodec's compliance in 2018

Octodec continues to strive to comply with all legislation and regulations applicable to our industry, Octodec has complied with the JSE Listings Requirements. We expect that the forthcoming amendments to the Consumer Protection Act, the JSE Listings Requirements, JSE Debt Listings Requirements and Companies Act will have a substantial but manageable impact on our business and are taking into consideration what these may be in order to be prepared for their future impact.

Towards achieving effective control and legitimacy continued

14 Our application of Principle 14

We understand it is essential that our strategy, risks, performance and rewards are aligned if we are to create shareholder value. Our SERT committee mandate includes 80 ensuring our remuneration philosophy, policy and practices achieve this (see pages 80 to 88 of this report). The social, ethics, remuneration and transformation committee also assists the board in fulfilling its obligations to ensure the group remunerates fairly, responsibly and transparently by ensuring our board-approved remuneration framework and supporting policy are applied throughout the group and that our remuneration policies and practices are designed to attract talent, retain key officials and support our succession planning.

In accordance with the requirements of the Companies Act, the fees to be paid by the company to our directors for their services as directors of the group are submitted to shareholders for approval by means of a special resolution at the annual general meeting in advance of this payment.

Our remuneration philosophy, policy and implementation report are tabled every year for separate non-binding votes by 141 shareholders at our annual general meeting (see pages 141 to 151 of the notice of annual general meeting and proxy). Should either our remuneration policy or our implementation report be voted against by 25% or more of the voting rights exercised, our board commits to taking steps in good faith towards engaging to establish the reasons for the dissenting votes and appropriately addressing legitimate and reasonable objections and concerns raised.

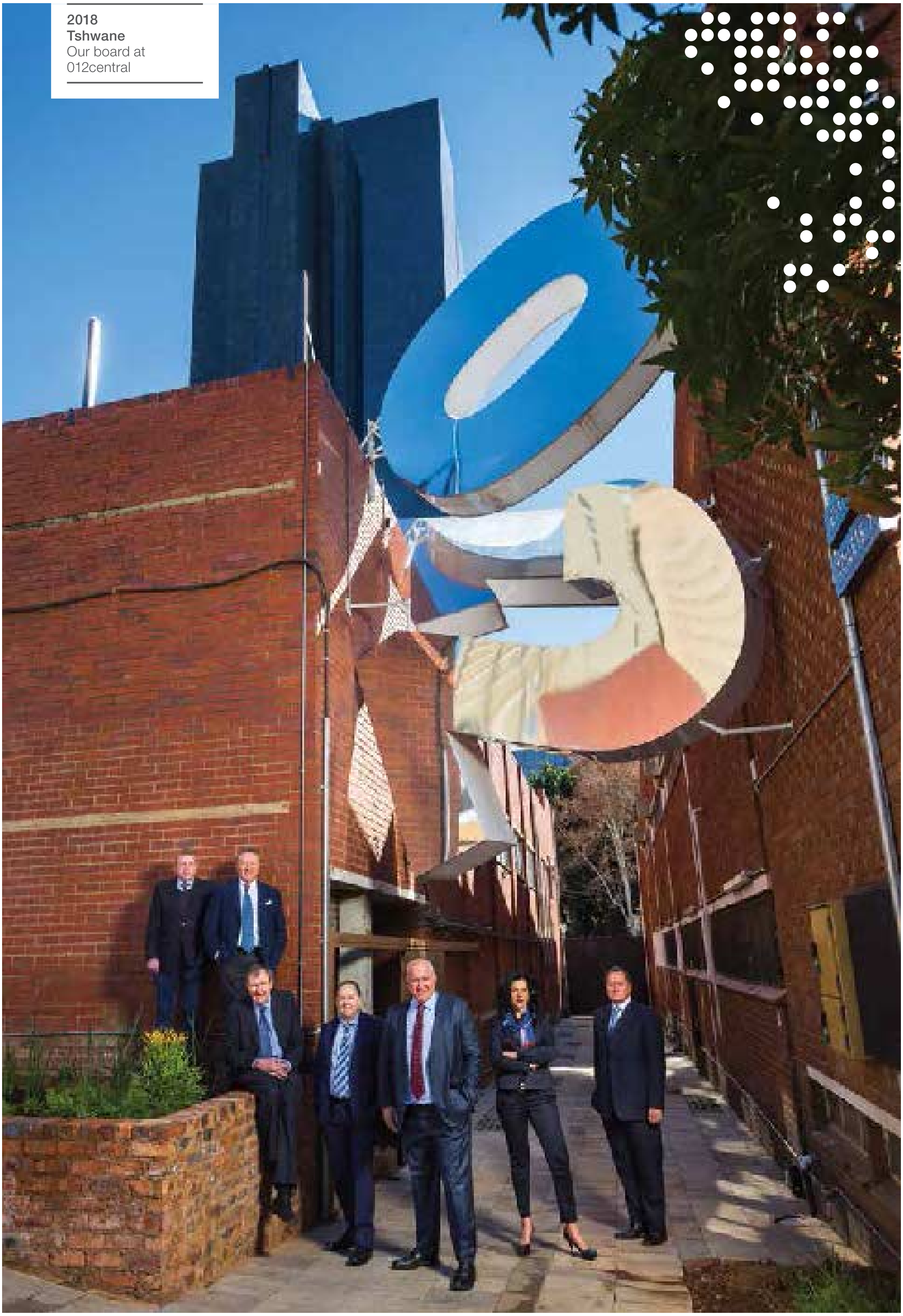
15 Our application of Principle 15

An internal resource has been appointed by City Property to provide an internal audit function on Octodec's behalf, who will undertake a thorough risk-based internal audit in accordance with the internal audit plan approved by the audit committee. The internal audit resource will work in collaboration with an audit firm in a co-sourced relationship.

The audit committee obtained assurance on the financial statements and internal controls included in Octodec's integrated report and carried out its statutory duties in terms 91 of section 90 of the Companies Act (see pages 91 and 92 of the report).

16 Our application of Principle 16

Stakeholder engagement is one of Octodec's material matters. The board is responsible for communicating with the investor community, which it does mainly through the managing director and financial director. Our brand reputation depends on our ability to balance the needs, interests and 57 expectations of Octodec's stakeholders. For an overview of our stakeholder engagement practices, refer to pages 57 to 61.



2018
Tshwane
Our board at
012central

Corporate governance structure designed to create sustainable value

How our governance structures create value for our stakeholders by providing direction and leadership, facilitating the setting and steering of strategy, establishing an ethical culture, effective control and legitimacy through accountability, delegation, monitoring and oversight.

By applying Principle 4

The board

Group company secretary

Provides direction to the business with the aim of creating sustainable value by setting, steering and overseeing our business strategy and plans, risk and opportunity management, performance and sustainable development.

Performs its role as custodian of governance in Octodec by establishing accountability, delegation, monitoring and oversight.

By applying **Principles 1, 2, 3 and 6** ethical leadership, establishing an ethical culture, responsible corporate citizenship. **Principles 3, 11, 12, 13, 14, 15, 16** appropriate strategies, policies, charters, terms of reference, assurance services and functions in place to achieve compliance with relevant laws and regulations, effective control at board, committee, executive and management level; effective risk management and technology and information governance; responsible corporate citizenship, stakeholder inclusiveness.

Principle 10 – board-approved delegation of authority is in place that promotes independent judgement, a balance of power, role clarity and effective discharge of duties at board, committee, executive and management level.

Delegation to board committees

By applying **Principle 8** – accountability monitoring and oversight. Our board committees report to the board on the statutory duties and board-assigned responsibilities set out in their terms of reference every quarter. These terms of reference are regularly reviewed and are available from the group secretariat.

*An *ad hoc* subcommittee chaired by the lead independent director, and whose members were all non-executive directors, was established to renegotiate the management agreement with City Property

Audit committee

The audit committee members, the majority of whom are independent non-executive directors, are elected by the shareholders at the annual general meeting (see page 146). The company is aware of the King IV™ recommendation regarding independence, and, having assessed Myron Pollack, is satisfied that he brings a wealth of knowledge and experience which outweighs the independence recommendation.

146

The role of the audit committee, in addition to its statutory duties, is to review the group's financial statements and integrated reporting and ensure the integrity and transparency of corporate reporting, the adequacy and efficiency of internal controls, and assessment of the independence and effectiveness of external audit. The committee further oversees the effectiveness of the group's external and internal assurance functions and services that contribute to ensuring the integrity of the group's financial and integrated reporting. This assists the board in monitoring the integrity of the group's annual financial statements and related external reports. The committee satisfies itself as to the expertise and experience of the financial director and the finance function, assesses the amount of fees paid to external auditors for non-audit work, and monitors information technology. The audit committee is satisfied that it has complied with all statutory duties as well as other duties given to it by the board under its terms of reference. The statutory committee report is included on pages 91 and 92 of the annual financial statements).

91

Risk committee

The majority of the committee members are independent non-executive directors.

The risk committee assists the board with the discharge of its duties regarding the identification of risks and the assessment of the effectiveness of risk management in Octodec. The committee oversees the development and implementation of the ERM policy and framework, which directs the group's implementation of an effective policy and plan for risk management and compliance. This encompasses the group's risk exposure and control systems and ensures that risk policies and strategies are effectively managed and overseen. The risk committee continues to play an essential role in ensuring that compliance and governance-related matters are dealt with appropriately and that these risks are at the required levels.

Investment committee

The majority of the committee members are independent non-executive directors.

The investment committee considers valuations of the assets in the company's portfolio disposals, acquisitions, investments, major upgrades, developments and redevelopments proposed by management and ensures proposals are in line with the company's overall strategy and that appropriate due diligence procedures are followed when acquiring or disposing assets.

Subcommittee

The majority of the committee members are independent non-executive directors.

Although the subcommittee was originally established to address the renegotiation of the management agreement with City Property, the committee comprising mainly independent directors, plays an important role in protecting the interests of shareholders in related-party transactions.

Nominations committee

The majority of the committee members are independent non-executive directors.

The nominations committee continues to play a crucial role in ensuring board continuity is dealt with appropriately as it assists the board with the nomination, election, and appointment of directors. It ensures a transparent and accountable process to determine an optimally diverse board and board committee composition. It is responsible for succession planning, reviews and reports to the board on the adequacy of succession planning policies for the chairman and directors. The committee further ensures directors retire and are re-elected in accordance with the mandate and the company's MOI and that the induction and ongoing development of directors takes place. The skills, knowledge, expertise and composition of the board are reviewed regularly and recommendations are made to the board regarding any changes deemed necessary.

SERT committee

The majority of the committee members are independent non-executive directors.

Operating with an expanded mandate based on King IV™, the role of the SERT committee ensures that the group's activities support its intent to be a responsible corporate citizen. The committee remains committed to ensuring that Octodec fulfils its responsibilities in support of transformation, sustainable development, inclusive growth and societal value creation, while protecting its reputation. The board, through the committee, establishes the principles of remuneration, is committed to ensuring that director and employee remuneration is fair and responsible in the context of overall remuneration and holds management accountable for ensuring total employee remuneration is distributed fairly.

Accountability and delegation to executive and operational management

The roles and responsibilities of the chairman and the managing director are separate and clearly defined. The managing director is accountable to the board for leading the implementation and execution of our board-approved strategy, policies and business plans. As an executive director of the Octodec board and in his executive role in Octodec, the managing director plays a key role in providing a link between management and the board and ensuring board decisions are communicated to management.

Our board and committee activities in 2018

2018 ↓

What kept our **board** busy this year

Negotiated the new management agreement with City Property, effective 1 July 2018 for five years

The development and approval of Octodec's strategic objectives for the 2019 financial year and KPIs aligned to the achievement of the strategic objectives, against which the performance of both Octodec and its executive directors will be measured

Ongoing review of challenging market conditions and consideration of recommendations to address the identified risks and opportunities

Initiated an action plan to term out the loans and swaps maturing in the short term in an effort to change the debt maturity profile to more acceptable levels. This has resulted in the terming out of the debt maturity profile from 1.4 years at 31 August 2017 to 2.5 years as at 31 August 2018

Approved the repurchase of 5% of Octodec's issued capital for a maximum consideration of R17.50 per share for a maximum consideration of R50 million. This has resulted in the purcahse of 666 784 shares at an average consideration of R17.01 for R11.3 million

The board charter, board annual work plan and the terms of reference of the various committees were reviewed to incorporate the King IV™ principles and were approved by the board

2019 →

What will keep the **board** busy in 2019

Monitoring the performance of City Property in terms of its agreed KPIs aligned to the achievement of the strategic objectives, against which the performance of both Octodec and its executive directors will be measured

Reviewing and refining Octodec's stakeholder engagement plan to ensure it is effective

Approval of a detailed succession plan for the Octodec executive team

Developing a revised broad-based black economic empowerment (B-BBEE) strategy aligned with the amended Codes of Good Practice published in 2018

Reviewing Octodec's actions to ensure they support the establishment of an ethical culture and meet the company's commitment to being a responsible corporate citizen

Ensuring the board and management of Octodec are focused on Octodec's purpose and what needs to be done to create sustainable long-term value for its stakeholders

Focusing on achieving transformation objectives both at board level and within Octodec

Ensuring the board fulfils its responsibility for developing Octodec's risk appetite and the setting and monitoring of risk tolerances

2018 ↓

What kept our **audit committee** busy this year

Monitored actions taken by management to address adverse internal and external audit findings

Monitored developments regarding the independent reviews of KPMG by the South African Institute of Chartered Accountants (SAICA) and the Independent Regulatory Body for Auditors (IRBA)

Reviewed the possible impact of mandatory audit firm rotation after 1 April 2023

Reviewed compliance with the JSE Listings Requirements

Engaged PwC as part of an industry initiative and obtained their opinion on the treatment of VAT for the group

Monitored the streamlining of the group's restructure: This included the repurchase by IPS Investments (Pty) Ltd of its 50% ordinary shares from Premium Properties Limited

Reviewed adherence by City Property (to whom Octodec's technology is outsourced) to the terms and conditions set out in Octodec's board-approved technology and information governance policies and strategy

Reviewed the relevant King IV™ recommendations and the impact of terms of the new management agreement with City Property to ensure the committee's terms of reference and work plan are aligned with their requirements

2019 →

What will keep the **audit committee** busy in 2019

Maintaining a focus on ensuring the group's financial systems, processes and controls remain effective in meeting Octodec's requirements and are able to respond rapidly to any changes

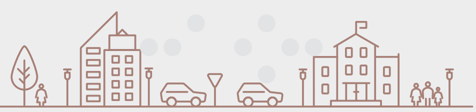
Monitoring Octodec's progress on extending its weighted loan expiry profile and reducing its LTV

Increased focus on information technology risks and opportunities and the rapid changes and opportunities created by digitisation

Considering the requirements arising from the mandatory audit firm rotation and initiating a project to assess and address these requirements

Monitoring the completion of the restructure of the group by reducing the number of individual subsidiaries and share block entities within the group

91 The audit committee report is available on pages 91 and 92 of the annual financial statements



2018 ↓

What kept our **risk committee** busy this year

- Implemented and embedded the risk management process throughout the organisation
- Considered the impact of disruptive technologies on the business of Octodec going forward
- Actively monitored developments relating to the group's top of mind and operational risks in 2018 as well as emerging risks in line with local trends
- Considered the compliance with laws and regulations affecting Octodec, changes and developments/reported legal judgments and regulations affecting Octodec as well as feedback on ongoing legal matters
- Approved the appointment of EOH Legal Services (Pty) Ltd, for the first and second phases of the compliance services project. The aim was to gain an understanding of Octodec's operations, the functional areas of the business to be covered, as well as any exclusions to be defined in order to update and customise Octodec's regulatory universe
- Reviewed the assessment of Octodec and the group's insurance coverage
- Identified the relevant recommendations from King IV™ as well as the relevant provisions of the new management agreement and reviewed the alignment of its terms of reference, annual work plan and enterprise risk management policy and framework

2019 →

What will keep the **risk committee** busy in 2019

- Implementing and embedding the combined assurance model based on solid risk management principles
- Implementing improved business continuity and disaster management mechanisms within Octodec in light of recent cyber breaches experienced by other companies
- Enhancing the risk appetite and tolerance of Octodec's ERM policy and framework
- Embedding the KnowRisk software enabling tool towards an integrated management process, including the successful integration with internal audit, and achieving a risk-informed culture that operates within approved (and monitored) risk appetite and tolerance limits
- Implementing an integrated assurance risk management monitoring framework that would provide adequate assurance to the board that material risks are monitored and mitigated to acceptable levels of tolerance, in a cost-effective and optimal manner
- Expanding the office of the chief risk officer with additional capacity to further enhance the risk management activities

2018 ↓

What kept our **SERT committee** busy this year

- Performed its statutory duties as prescribed by the Companies Act, King IV™, with specific reference to social and economic development, good corporate citizenship, environment, health and safety matters, and consumer relationships, as well as labour, employment, remuneration and transformation matters
- Recommended to the board the reappointment of Premier Verification to conduct the annual B-BBEE audit for the 2017/2018 year
- Reviewed the revised remuneration policy and implementation report to ensure it is aligned to King IV™ and complies with JSE Listings Requirements
- Monitored income differentials with a view to ensuring fair and responsible remuneration outcomes in Octodec
- Formulated the board diversity policy's voluntary targets and recommended them to the board for approval
- Reviewed key employee benefits and the material terms and conditions of service of all employees to ensure they are fair and competitive
- Considered the performance of the investments held by the Octodec retirement funds and the appointment of MenteNova (Pty) Ltd as asset consultant to these retirement funds
- Approved the overall remmuneration increases, effective from 1 January 2018, and the performance bonuses that were awarded in November 2017 for all staff, excluding the executive directors
- Identified the relevant recommendations from King IV™ as well as the relevant provisions of the new management agreement and reviewed the alignment of its terms of reference and annual work plan. The amended terms of reference are aligned with the King IV™ principle of ensuring that the group remunerates in a manner that is fair, responsible and transparent in the context of the group's overall remuneration and promotes the achievement of strategic objectives and positive outcomes

2019 →

What will keep our **SERT committee** busy in 2019

- The development of a B-BBEE strategy and relevant plans aligned to the amended Codes of Good Practice
- Reviewing the development of remuneration/performance strategy aligned with corporate objectives and the development of individual KPIs
- Evaluating the continued relevance of the remuneration policy
- Reviewing Octodec's corporate social investment to ensure it meets its commitment to good corporate citizenship

88 The SERT committee report is available on page 88.

Our board and committee activities in 2018 continued

2018 ↓

What kept our **investment committee** busy this year

- Considered and deliberated on the biannual interim and year-end valuations of the group's investment properties on an in-depth basis
- Considered and deliberated on the status reports on disposals, major redevelopments and projects
- Presented to the board the proposed capital recycling strategy to dispose of underperforming and/or non-core assets as a key initiative to combating competitive threats and minimising the amount of capital tied up in lower-quality and non-core tail assets. Assessed and made decisions as to whether underperforming assets, which did not meet our investment criteria, should be put up for sale and made recommendations to the board. The details of these disposals can be found on pages 27 and 28 27
- Conducted investigations and identified potential new geographic locations
- Conducted investigations and identified new types of properties to potentially enhance Octodec's product offering
- Thoroughly investigated the potential of certain existing properties for redevelopment and made recommendations to the board. The details of these redevelopments can be found on page 39 39
- Identified the relevant recommendations from King IV™ as well as the relevant provisions of the new management agreement and reviewed the alignment of its terms of reference and annual work plan

2019 →

What will keep our **investment committee busy in 2019**

- Continued focus on sourcing, assessing, evaluating and reporting on investment and sale opportunities for the group and on any new developments. Considered due diligences and feasibility studies in relation to potential acquisitions, sales and or projects in respect of various properties and rental enhancement opportunities
- Continued identification of new investment opportunities, including portfolio acquisitions, share acquisitions and joint ventures, and commissioned market research in support of these activities
- Assessing the potential of new opportunities for replicating Octodec's successful residential model in nodes where we currently have properties and in new nodes

2018
Kempton Place

2018 ↓

What kept our **nominations committee** busy this year

- In line with King IV™, the independence and categorisation of all the non-executive directors were assessed holistically, on a substance-over-form basis
- Recommended to the board that the directors who retired, and who had offered themselves for re-election, be re-elected by the shareholders by way of separate resolutions at the annual general meeting to be held on 25 January 2019. Details are included on page 144 144
- Recommended to shareholders that the appointment of Ms Akua Koranteng, who had been appointed as a director of the company on 1 September 2017, be confirmed
- Recommended the approval of the chairmanships of the board committees for the financial year ended 31 August 2018 to the board
- Recommended to the board that Ms Sharon Wapnick be reappointed as the chairman of the board for the financial year ended 31 August 2018
- Recommended to the board that Derek Cohen be reappointed as the lead independent director for the financial year ended 31 August 2018
- Assessed the performance of the managing director
- Assessed the independence and performance of the group company secretary for the financial year ended 31 August 2018
- Considered the findings of the performance evaluation of the board and its committees, which were conducted in line with established governance practices. Details are included on page 71 71
- The performance of the individual directors was assessed for the financial year ended 31 August 2018

2019 →

What will keep our **nominations committee** busy in 2019

- Board and board committee composition: Is the talent in the boardroom aligned with the strategy and the future needs of Octodec, taking into account the diversity and gender targets, experience, industry knowledge and average age, while ensuring that the experience and tenure on the board and committees remain appropriate

2018 ↓

What kept our **subcommittee** busy this year

- Finalised and recommended the approval of the new management agreement to the board, effective from 1 July 2018
- Attended a property tour of the properties owned by a related party and considered the proposed related-party transaction in consultation with Van Zyl Valuers and BDO Corporate Finance (Pty) Ltd, which was not pursued further
- Approved the terms of the lease agreements of investment properties leased to City Property and related party expenditure

2019 →

What will keep our **subcommittee** busy in 2019

- Monitoring and reviewing all related-party transactions

shareholder information

Remuneration review

> If we are to create stakeholder value, it is essential that our strategy, risks, performance and reward are aligned.

2018
#SheDecides
conference 012central

Part 1: Background statement

In our vision to unlock maximum value in urban spaces for our stakeholders, the board recognises Total Remuneration as a critical tool to ensure that the business creates value in a sustainable manner within the economic, social and environmental context in which Octodec operates.

The SERT (Social, Ethics, Remuneration and Transformation) committee is responsible for establishing and overseeing Octodec's Total Remuneration philosophy, strategy, policy and implementation practices, as mandated by the board, and within the ambit of:

- Octodec's business strategy
- best interests of stakeholders
- the SERT committee's terms of reference and delegated authority
- regulatory and legal compliance requirements
- applicable codes of good governance such as the King IV™.

Governance controls and protocols

No executive director or prescribed officer is involved in deciding their own remuneration.

In 2018, the SERT committee received advice from Reward Partners, as independent advisors.

During the year under review, the SERT committee recommended to the board the following resolutions, in compliance with regulatory and good governance requirements, to be tabled at the annual general meeting for our shareholders' vote:

- A binding vote on directors' fees
- A non-binding advisory vote on the Octodec remuneration policy
- A non-binding advisory vote on the remuneration policy implementation report.

The Octodec remuneration philosophy and implementation policy were put to a shareholder vote at the previous annual general meeting and endorsed with an overwhelming majority (2017: AGM on 29 January 2018, remuneration philosophy and implementation policy 79.18% and 81.14% respectively), and the outcome of each vote will be acknowledged when considering the remuneration policy and implementation thereof.

Part 2: Remuneration philosophy, strategy and policy

The SERT committee regularly reviews our remuneration philosophy, strategy and policy to ensure it remains relevant and subscribes to all requirements.

Our remuneration philosophy

The aim of Octodec's remuneration philosophy is to ensure it promotes the achievement of our strategic objectives in the short, medium and long term to continually improve the creation of value for our stakeholders. It also commits Octodec to remunerating its directors, prescribed officers and employees fairly, responsibly and transparently and ensure that our Total Remuneration offering is attractive and competitive.

Our remuneration strategy

The primary focus of our remuneration strategy is to provide a remuneration package that will attract and retain high-calibre, high-performing and independent-minded directors and employees who subscribe to our shared values, ethical culture and our aspiration to good corporate citizenship.

Our remuneration policy

Our remuneration policy provides the framework around which the remuneration philosophy and strategy can be executed in an optimal and effective manner. This policy sets out the model, key principles and elements which underpin the remuneration philosophy and strategy and is intended to inform all remuneration decisions, processes and practices within Octodec. The key principles of this policy include:

- adoption of a Total Remuneration approach which includes all elements of remuneration, benefits and incentives
- the practice of fair, transparent and ethical remuneration practices
- ensuring external competitiveness and internal parity through consistent, appropriate and responsible remuneration decision-making, aligned with our values
- remunerating employees in a manner which is reflective of both company and individual performance
- non-discriminatory practices and promotion of diversity
- affordability to Octodec
- ensuring legislatively compliant practices
- justifiable differentiation, where appropriate and necessary.

In terms of the management agreement between City Property and Octodec, all administrative functions relating to human resources and the administration of the payroll of Octodec employees are undertaken by City Property.

To ensure appropriate oversight of these practices in City Property, the Octodec SERT committee monitors these remuneration practices applied to Octodec employees to ensure that they are fair, responsible and transparent.

Elements of employee remuneration

The key elements of remuneration in 2018 are outlined below.

Guaranteed package

This consists of a cash component together with compulsory, albeit flexible, benefits and allowances collapsed into a total guaranteed package structure. The guaranteed package is reviewed annually, and increases are subject to company performance, affordability and linked to inflationary movements. Octodec further consider the following:

- Industry and sector salary adjustments for the preceding year and forecasted for the year ahead. This includes accounting for wage settlements for the industry and sector
- A market benchmarking exercise to determine levels of competitiveness against an appropriate peer group. This is to determine whether the company maintains its ability to attract and retain key skills critical for achieving Octodec's objectives
- An internal review of packages to determine, on a grade and occupation basis, whether any anomalies exist in terms of employment equity/parity
- Minimum wage requirements which also inform annual adjustments to the guaranteed package.

Benefits and allowances

The provision of benefits and allowances to employees forms part of the Total Remuneration offering and gives effect to Octodec's commitment to continually improve its employee value proposition through the flexibility afforded to employees in delivery of these elements.

The core benefits available to Octodec employees include membership of a defined contribution pension or provident fund, group life assurance, and medical scheme membership.

Part 2: Remuneration philosophy, strategy and policy continued

The defined contribution pension and provident funds cater for various flexible options which are selected by the employees, all of which include a fixed employer contribution of 10%, with varying life, income disability and funeral cover. As a general rule, a portion of these funds is invested into low-risk investment portfolios.

Group life assurance, which is payable on death of an employee and includes options for capital disability, income protection, family benefits and other value-added services which include free ambulance services, legal advice and trauma counselling.

All Octodec employees have the option to join the Discovery Medical Health Scheme on a plan of their choice. Contributions are paid by the employee from the guaranteed package. Octodec employees that earn below the monthly salary threshold of R6 000 receive a full company contribution toward membership of the Discovery Primary Care Plan.

Other occasional allowances and financial assistance are provided by Octodec under certain circumstances and are dependent on the nature of the role. These include, amongst others, car allowances, reimbursed travel payments, accommodation if it is a prerequisite for the role, contribution towards the cost of electricity and educational assistance for employees who wish to further their studies. These are provided in line with company policy, statutory requirements and agreements with employees.

Incentives

The purpose of Octodec's non-guaranteed incentive scheme is to foster a culture of performance and to motivate and reward employees for sustainably achieving and exceeding the performance requirements of the role.

Short-term Incentives (STI)	
Participation:	All employees.
Criteria for payment:	STI payments are dependent on the company's performance against strategic objectives and targets, affordability and individual performance scores on a 5-point rating scale. Any employee with a performance score of less than 3.00 does not qualify for an incentive.
Quantum of payment:	STI's are determined as a percentage of total guaranteed package ranging from 100% to 200% of monthly salary at an individual performance score of 3.00 to 5.00, respectively and are approved by the SERT committee.
Discretionary bonuses	
Participation:	Employees in management roles.
Criteria for payment:	Individual performance above and beyond ordinary responsibilities. Discretionary bonuses are awarded after nomination by Directors and/or Executives for the SERT committees approved.
Quantum of payment:	Discretionary.
Long-term Incentives	
Octodec has no long-term incentive scheme in place at present.	

Remuneration of directors

It is Octodec's view that the remuneration and fees paid to executive and non-executive directors should recognise their responsibility and skill to provide input on an ongoing basis throughout the year and not only through their attendance at meetings.

Octodec's approach is based on the key principles that:

- the remuneration of Octodec's directors should be consistent with market-related best practice and sufficient to attract and retain talent to our board
- the quantum and structure of the remuneration of our directors will be reviewed annually by the SERT committee, who will make recommendations to the board on any changes they believe should be made to directors' remuneration
- Octodec sets KPIs for its executive directors annually who are both employed by City Property. These are aligned with the KPIs as required in terms of the new management agreement.
- 84 The KPIs for City Property and the executive directors have been agreed and are recorded on pages 84 and 85.

Executive directors

Octodec views its executive directors as prescribed officers, as defined in terms of the Companies Act. There are no service contracts in place with these directors.

The executive directors do not receive any salaries from Octodec, but are remunerated by City Property. The proportionate salaries payable to the executive directors by City Property, as well as the amount(s) payable by City Property to Ms Sharon Wapnick, for her approximate time spent on Octodec affairs, is set out below.

The executive directors are rewarded by Octodec for their services as directors by way of board fees. This includes the committees on which they serve and attend by invitation.

	2018			2017		
	Salary R'000	**Pension fund contributions R'000**	**Total R'000**	Salary R'000	Pension fund contributions R'000	Total R'000
Salaries paid by City Property to directors of Octodec						
AK Stein	**4 251**	**73**	**4 324**	2 597	47	2 644
JP Wapnick	**4 102**	**–**	**4 102**	2 707	–	2 707
S Wapnick	**1 817**	**–**	**1 817**	1 435	–	1 435
	10 170	**73**	**10 243**	6 739	47	6 786

There are no service contracts in place with the directors of Octodec. The proportionate salaries paid by City Property for JP Wapnick and AK Stein, the executive directors of Octodec, who are employed by City Property, are based on an approximation of the time spent on Octodec in relation to their employment at City Property for the year ended 31 August 2018. Ms Sharon Wapnick, the non-executive chairman, was remunerated by City Property for the year ended 31 August 2018 on an approximation of her time spent on Octodec affairs.

Non-executive directors

The quantum and structure of the remuneration of our non-executive directors is reviewed annually by the SERT committee, who make recommendations to the board on any changes they believe to be appropriate.

All directors receive an annual retainer for services they render as directors of Octodec, which is paid quarterly, in arrears, in four equal instalments. In addition to receiving a retainer, directors are entitled to a fee for each board, subcommittee and annual general meeting that they attend. These fees are also paid quarterly in arrears.

Both the retainer and attendance fees payable to directors are reviewed annually by the SERT committee and the board and are also subject to the approval of the company's shareholders at the annual general meeting. Non-executive directors are not entitled to receive any remuneration or company benefits (including pension schemes or share arrangements) other than retainer and meeting fees.

Non-binding advisory vote

141
Shareholders are requested to cast a non-binding advisory vote on part 2 of this report. Refer to the notice of the AGM on pages 141 to 148.

Part 3: Implementation of the remuneration policy for the financial year

Remuneration linked to strategy and performance

Octodec continually assesses the remuneration strategy, practices and policies to ensure they remain aligned with and continue to support the strategic objectives of the company.

The following KPIs have been agreed to measure the performance of City Property and the executive directors of Octodec. The criteria have been established in accordance with the provisions of the new management agreement. City Property and the Octodec executive directors are equally responsible for the implementation of these KPIs.

City Property and executive directors' KPIs for FY2019

Octodec Business Scorecard FY2019

KPIs	Metric	Entry	Current target	Stretch	Sub-element weighting (%)	Main element weighting (%)
Portfolio and asset management						
Portfolio quality and development						
1.1 Growth of residential portfolio in construction phase or completed - per annum	number of units	300	325	350	7.5	17.5
		93%	100%	108%		
1.2 Maintain or increase net asset value per share (as at 31 August 2018)	NAVPS	29.39	29.39	30.80	10.0	
		100%	100%	105%		
Property						
1.3 Disposal and transfer of non-core properties to the cumulative average value of R150 million for the financial year ending August 2019	R'million	142.5	150.0	157.5	7.5	7.5
		95%	100%	105%		
Vacancy and tenants						
1.4 Reduction in vacancies (as at 31 August 2018) for properties greater than 3000 m²	number of properties	2	3	5	7.5	20.0
		67%	100%	166%		
1.5 Tenant retention - reduce residential tenant churn rate	%	42	40	38	5.0	
		95%	100%	105%		
1.6 Maintain total core vacancies at the level recorded as at 31 August 2018	%	11.4	11.4	11.0	7.5	
		100%	100%	101%		

Octodec Business Scorecard FY2019

KPIs	Metric	Entry	Current target	Stretch	Sub-element weighting (%)	Main element weighting (%)
Financial						
2.1 Reduction in LTV (loan to value)	%	37.4	37.0	36.5	7.5	37.5
		98%	100%	102%		
2.2 Maintain the loan expiry profile at an average of 2.5 years	years	2.5	2.5	3.0	7.5	
		100%	100%	120%		
2.3 Maintain rental like-for-like growth (as at 31 August 2018)	%	2.6	2.6	3.0	7.5	
		100%	100%	115%		
2.4 Maintain dividends – total distribution per share	cents/share	203.4	203.4	209.5	15.0	
		100%	100%	103%		
People and organisation						
3.1 Shareholder engagement with investor community (measured by external service provider/10)	Score out of 10	8.0	8.0	9.0	5.0	10.0
		100%	100%	113%		
3.2 Identification and implementation of innovative technology based solutions that may result in efficiencies, competitive advantage or reduce Octodec's carbon footprint		Project identification	Implementation of 1 project or part thereof	Realising savings or reduction in carbon footprint	5.0	
Customer						
4.1 Tenant complaints resolutions – maintain dispute resolution turnaround period (measured per complaint)	number of days	12	12	10	2.5	7.5
4.2 Customer satisfaction assessments – 90% participant rating feedback on 7 or above out of 10	score out of 10	85.5	90.0	94.5	5.0	
		95%	100%	105%		
Total score out of 100					**100.0**	**100.0**

Part 3: Implementation of the remuneration policy for the financial year continued

Remuneration paid by Octodec

	Annual retainer (R)		Board and board committee meeting fees (R)		Total (R)	
	12 months to 31 August 2018	12 months to 31 August 2017	**12 months to 31 August 2018**	12 months to 31 August 2017	**12 months to 31 August 2018**	12 months to 31 August 2017
Non-executive directors						
Sharon Wapnick (non-executive chairman of the board and the investment committee)	**675 000**	636 000	**628 100**	**475 940**	**1 303 100**	**1 111 940**
Derek Cohen (lead independent director and chairman of the nominations committee and subcommittee)	**337 000**	265 000	**682 000**	551 200	**1 019 000**	816 200
Akua Koranteng (resigned 10 May 2018)	**195 160**	–	**259 700**	–	**454 860**	–
Gerard Kemp (chairman of the SERT committee)	**281 000**	265 000	**558 500**	479 120	**839 500**	744 120
Myron Pollack	**281 000**	265 000	**650 500**	521 520	**931 500**	786 520
Pieter Strydom (chairman of the audit and risk committees)	**281 000**	265 000	**670 800**	517 280	**951 800**	782 280
Executive directors						
Anthony Stein	**281 000**	265 000	**358 520**	410 220	**639 520**	675 220
Jeffrey Wapnick	**281 000**	265 000	**378 720**	391 140	**659 720**	656 140
Total	**2 612 160**	2 226 000	**4 186 840**	3 346 420	**6 799 000**	5 572 420

	Basic salary (R)	Benefits (incl. retirement and medical aid) (R)	**Total remuneration 2018** (R)
Prescribed officer			
Elize Greeff (Group company secretary)*	232 600	23 160	255 760

* *With effect from 1 July 2018*

	12 months to 31 August 2018	12 months to 31 August 2017
Annual retainer		
Board chairman	**675 000**	636 000
Lead independent director	**337 000**	–
Other executive and non-executive directors	**281 000**	265 000
Fee per meeting		
Board meeting (including annual general meeting)	**16 900**	15 900
Attendance at subcommittee meeting of the board	**20 200**	19 080
Chairman of subcommittee of the board	**24 700**	23 320
Attendance at an *ad hoc* subcommittee meeting of the board	**20 200**	19 080
Chairman of an *ad hoc* subcommittee meeting of the board	**24 700**	23 320

* *Effective 16 August 2017 it was agreed that when more than one meeting is held on the same day, in view of the considerable amount of preparation required for each meeting, non-executive directors would be paid a fee for each meeting they attend. Executive directors will, however, only be paid one meeting fee and that would be whichever is the highest of the fees per meeting, as approved by shareholders .*

Resolutions covering the proposed remuneration of Octodec's directors for the period 1 September 2019 to 31 August 2020, as well as the non-binding advisory votes on the remuneration policy and the remuneration implementation report, will be proposed at the annual general meeting. Please refer to special resolution number 3 and non-binding advisory votes 1 and 2 on pages 143 to 147 of the notice of the annual general meeting. 143

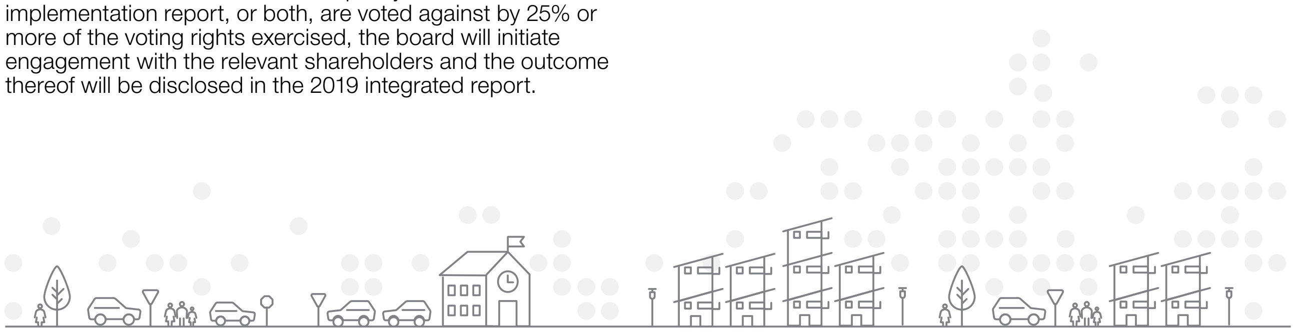
Non-binding advisory votes

Shareholders are requested to cast a non-binding advisory votes on parts 2 and 3 of this remuneration report. In the event that either the remuneration policy or the implementation report, or both, are voted against by 25% or more of the voting rights exercised, the board will initiate engagement with the relevant shareholders and the outcome thereof will be disclosed in the 2019 integrated report.

Stakeholder engagement

We value our continued engagement with our stakeholders, and we endeavour to maintain our relationships with them all in the hope that we will continue to receive their valued input.

Gerard Kemp
Chairman of the social, ethics, remuneration and transformation committee (SERT committee)



SERT committee review

As chairman of Octodec's SERT committee, my responsibility is to report on the matters within this committee's mandate for the period ended 31 August 2018, in terms of the requirements established by the Companies Act.

Our SERT committee comprises three independent non-executive directors and two non-executive directors. The managing director, financial director, group company secretary, chief risk officer and the human resources executive of City Property attended the committee's meetings, by invitation. This committee is accountable to the board and it reports, through its chairman, to shareholders at the company's annual general meeting on matters within its mandate.

Operating with an expanded mandate based on King IV™, our SERT committee aims to ensure that the group's activities support its intent to be a responsible corporate citizen that fairly remunerates its employees, while supporting initiatives that speak to transformation in and of our society, while also recognising that our business has an important role to play in the rejuvenation of the CBDs. The committee therefore remains committed to ensuring that Octodec fulfils its responsibilities in support of transformation, sustainable development, inclusive growth and societal value creation while protecting its reputation. The committee also ensures that the remuneration of our employees is fair and competitive, by applying the "equal work for equal pay" principle and holds management accountable for ensuring total employee remuneration is distributed fairly. All material risks are identified, reported, rated and monitored. Our employees and suppliers all understand the importance of ethics and its role within the business

The committee held 3 meetings this year at which it reviewed reporting on:

- its statutory duties as listed in section 72 of the Companies Act and regulation 43 of the Companies Regulations, 2011
- human resource strategies, policies and practices which are continually renewed and updated
- adherence with the requirement of the South African Employment Equity Act, No 55 of 1998 and Basic Conditions of Employment Act, No 75 of 1997
- remuneration policies and practices
- empowerment credentials
- environmental management, including climate change
- stakeholder engagement
- the group's transformation strategy
- corporate social responsibilities.

Key focus areas of the committee during the year under review included:

- identifying the relevant recommendations from King IV™ as well as the relevant provisions of the new management agreement and aligning its terms of reference and annual work plan to the aforementioned. The amended terms of reference aligns the group with the King IV™ principle of ensuring that the group remunerates in a manner that is fair, responsible and transparent in the context of the group's overall remuneration and promotes the achievement of strategic objectives and positive outcomes
- engaging with Search Partners International to conduct an analysis of the non-executive directors in terms of race, gender, age and skills
- engaging with an independent remuneration consultant, Reward Partners, to:

  provide guidance on the remuneration philosophy, strategy and implementation

  benchmarking the fees payable to non-executive directors and making recommendations in regard thereto.

Reviewing:

- the material terms and conditions of service of all staff of the group to ensure that they are fair and competitive
- progress and providing input to the succession planning of executive directors and the employee talent management process
- the key employee benefits
- all community investments, including strategic sponsorships, donations and charitable contributions
- the performance against the strategy, objectives and board-approved annual corporate social investment budget.

Recommending to the board:

- the approval of the proposed B-BBEE budget
- the approval of B-BBEE software, Sage BEE123/MPowered, to accurately monitor, score and report on B-BBEE performance
- wage adjustments following the implementation of the Paterson job grading and wage benchmarking exercise undertaken in the previous financial year.

Monitored compliance with:

- Broad-Based Economic Empowerment Act, No 53 of 2003, as amended. In this regard please refer to the annual B-BBEE compliance certificate on Octodec's website
- Employment Equity Act, No 55 of 1998, as amended
- The 10 principles set out in the United Nations Global Compact
- OECD recommendations on corruption.

81

I refer you to Octodec's approach to remuneration on pages 81 to 83 of this report.

Conclusion

Octodec continues to meet its commitments relating to governance, the environment and to society. As a group we review our policies and frameworks to ensure that they remain relevant and up to date, and in so doing seek to sustain our commitment to social and economic development, fair labour practices and environmentally responsibility practices.

There has been no material non-compliance with legislation or regulation or non-adherence with codes of best practice in terms of the area within the committee's mandate during the year under review.

The committee is satisfied it has considered and discharged its responsibilities for the financial year in line with its terms of reference, King IV™ and the Companies Act.

Gerard Kemp
Chairman of the social, ethics, remuneration and transformation committee (SERT committee)

audited financial statements

Contents

Directors' responsibility and approval of the financial statements

The directors are required by the Companies Act to maintain adequate accounting records, and are responsible for the content and integrity of the financial statements and related financial information included in this report.

It is their responsibility to ensure that the financial statements fairly present the state of the consolidated and separate financial statements of Octodec Investments Limited as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with IFRS and the Companies Act. The group's external auditors are engaged to express an independent opinion on the consolidated and separate financial statements.

The financial statements are prepared in accordance with IFRS and incorporate disclosures in line with the accounting policies of the group. The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates, and have been audited in compliance with section 29(1) of the Companies Act.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the group and place considerable importance on maintaining a strong control environment.

The directors are of the opinion, based on the information and explanations given by management and results of internal audits, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the group and company's cash flow forecast and, in the light of this review and the current financial position, they are satisfied that the group has access to adequate resources to continue in operational existence for the next twelve months.

91 The financial statements set out on pages 91 to 140, which have been prepared on the going concern basis, were approved by the board of directors on 12 December 2018 and were signed on their behalf by:

Sharon Wapnick
Chairman
Non-executive

Jeffrey Wapnick
Managing director

Certification by group company secretary

In terms of section 88(2)(e) of the Companies Act, I certify that Octodec Investments Limited has lodged with the Companies and Intellectual Property Commission of South Africa all the returns required of a public company by the Companies Act, as amended, and that all such returns appear to be true, correct and up to date.

Elize Greeff
Group company secretary
12 December 2018
Tshwane

Audit committee report

Octodec's independent audit committee (the committee) is pleased to present its report for the financial year ended 31 August 2018. The committee has discharged its responsibilities as mandated by the board, which also allows it to execute its statutory duties in compliance with the Companies Act, as well as the King IV™ principles applicable to audit committees. The committee's terms of reference, which are available from the group secretariat, are aligned with the legislation, regulations and principles set out above.

Composition, meetings and assessment

The committee comprised four non-executive directors, three of whom, including its chairman, are independent directors:

Pieter Strydom
MCom (cum laude) CA(SA),
Chairman

Derek Cohen
AEP

Gerard Kemp
MSc (Mining Engineering), DPLR, MDP

Myron Pollack
CA(SA)

12 A brief profile of each of the members can be viewed on pages 12 and 13.

The committee met on five occasions during the year under review and all members were present at these scheduled meetings.

The chairman of the board, managing director, financial director, KPMG (internal auditors), Deloitte & Touche (external auditors), chief risk officer as well as the senior financial manager of City Property attend these meetings by invitation. Separate meetings are scheduled with the external auditors to allow open discussion without the presence of management. During these meetings no matters of material concern were raised.

Objective and scope

The main purpose of the committee is to:

- perform its statutory duties as prescribed by the Companies Act
- review and report back to the board on all financial matters relating to the group
- further assist the board in discharging its duties relating to safeguarding of assets, the operation of adequate systems, control and reporting processes and the preparation of accurate reporting and financial statements in compliance with the applicable legal requirements and accounting standards;
- provide a forum for discussing business risk and control issues and for developing recommendations for consideration by the board
- oversee the activities of internal and external audits.

The committee has evaluated the consolidated and separate financial statements for the year ended 31 August 2018 and, based on the information provided to the committee, considers that they comply in all material respects with the requirements of the various Acts and regulations governing disclosure and reporting in the financial statements.

The committee made limited use of KPMG as internal auditors of the company and used an internal resource to monitor actions taken by management to address internal audit findings. The focus for the year was on establishing a functional formal risk management system. BDO Risk Advisory Services Proprietary Limited was used to install a risk management system, which was handed over and expanded by the chief risk officer (a shared resource) to include all processes of Octodec as well as City Property. KPMG was requested to give and gave suggested ways forward to utilise the existing risk management processes and link it to future internal audit processes. The committee decided to utilise a co-sourced internal audit arrangement to confirm the implemented risk mitigating processes on a systematic and rotational basis. In October 2018 a qualified in-house internal auditor was appointed (commencing 1 December 2018) and a new external internal audit firm will be appointed in 2019.

The committee is satisfied that an adequate system of internal control is in place to reduce significant financial risks faced by the group to an acceptable level and that these controls have been effective throughout the period under review. The system is designed to manage rather than eliminate the risk of failure and to maximise the opportunities to achieve business objectives. This can provide only reasonable, but not absolute, assurance.

The committee appointed BDO Advisory Services (Pty) Ltd (BDO) to confirm the internal control and risk management activities of the company for the year ended 31 August 2018.

For the year ended 31 August 2018, the committee reviewed the reports of both the internal and external auditors in respect of audits conducted on the internal control environment, took note of any matters arising from these audits and considered the appropriateness of the responses received from management. The committee received confirmation from BDO that following an independent quality assurance audit, the prevailing systems of internal control and risk management activities throughout the company are, to the best of their knowledge, in all material aspects, satisfactory. Nothing was brought to the attention of the committee that would suggest a material breakdown of any internal control system. Accordingly, the committee is satisfied that the internal financial control environment continued to function effectively.

Audit committee report continued

There were no complaints requiring the attention of the committee pertaining to accounting practices, internal audit, the content or audit of the financial statements, internal financial controls or related matters.

Committee activities

In line with its terms of reference, the committee:

- agreed the amount of the fees to be paid to the external auditors and their terms of engagement
- agreed the amount of the fees to be paid to the internal auditors and their terms of reference
- reviewed the quality of the external audit reports and management letters
- considered and satisfied itself that other services provided by the external auditors were not significant and did not have any impact on their independence
- assessed the work done by the internal auditors so as to ensure their independence and effectiveness
- reviewed the existing internal audit charter
- reviewed and pre-approved the provision of non-audit services rendered by the external auditors during the year
- reviewed the newly introduced combined assurance model which will be implemented in the next financial year
- reviewed the effectiveness of the internal financial controls
- reviewed the quarterly compliance and significant legal matters report
- reviewed any whistle-blowers' reports received
- reviewed City Property's chief information officer's report
- reviewed the accounting practices and internal financial controls of the group
- reviewed the documented assessments, as prepared by management, of the going concern status of the group.

Annual confirmations

- **Financial statements and integrated report**
  The committee recommended the financial statements as well as the 2018 integrated report to the board for approval.

  96 The external auditors have provided shareholders with an independent opinion on pages 96 to 98 on whether the financial statements for the year ended 31 August 2018 fairly present, in all material respects, the financial results for the year and the financial position of the company and the group at 31 August 2018. The committee also recommended the financial statements of the 100% held subsidiary, Premium, to its directors for approval.

- **Independence and reappointment of the external auditor is reaffirmed**
  In accordance with paragraph 3.84(g)(iii) of the JSE Listings Requirements, the committee assessed the suitability of both Deloitte & Touche and Patrick Kleb for appointment as auditor firm and designated auditor respectively. In addition, the committee reviewed the performance of the external auditors and recommended the appointment of Deloitte & Touche as external auditor for the 2019 financial year and Patrick Kleb as the designated lead auditor. This will be the forty-second year of the firm as auditors of the company and group and the fifth year of the lead auditor.

  The committee is satisfied that the external audit firm and designated lead auditor are independent, as defined by the Companies Act. To this end, the committee considered fees for non-audit services paid to the external auditor in terms of its non-audit services policy. The committee, in consultation with executive management, agreed to an audit fee for the 2018 financial year, which is considered appropriate for the work that was done. Audit fees are disclosed in note 21 to the financial statements.

- **Risk management policy**
  The risk committee has adopted and implemented an enterprise risk management policy and framework which is in accordance with industry practice and specifically prohibits Octodec from entering into derivative transactions which are not in the ordinary course of business, and has monitored compliance with the policy and is satisfied that Octodec has, in all material respects, complied with the policy during the year under review.

- **Evaluation of the expertise and experience of the financial director and the finance function**
  The committee reviewed the effectiveness of the financial director and is satisfied with the experience and expertise of the financial director and those finance team.

- **Financial reporting**
  The committee has considered the financial reporting procedures adopted by Octodec and is satisfied with the operating effectiveness of those procedures.

- **Solvency and liquidity**
  Based on the quarterly solvency and liquidity tests performed, the committee was comfortable in its declaration to the board that the company and group are going concerns.

- **Effectiveness of internal controls**
  Using the assurance obtained from the various assurance providers the committee recommended to the board that it issues a statement as to the adequacy of the group's internal control measures.

- **Compliance with JSE's report back on proactive monitoring**
  On 16 April 2018, the audit committee considered the JSE's report issued on 20 February 2018 and, where necessary, has taken appropriate action to address the important findings and focus areas identified by the JSE. The audit committee is satisfied that all such findings and focus areas are adequately addressed by the group and that no further remedial action is necessary.

Pieter Strydom
Chairman of the audit committee

12 December 2018

Report of the directors

for the year ended 31 August 2018

To the shareholders of Octodec Investments Limited

The directors have pleasure in submitting their report for the year ended 31 August 2018.

Preparation of the financial statements

The audited financial statements were prepared in accordance with IFRS, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the Companies Act, under the supervision of Mr AK Stein CA(SA), in his capacity as financial director.

Nature of business

Octodec Investments Limited is a REIT listed on the JSE under the Real Estate Investment Trust sector, investing in retail, office, industrial, residential, specialised and other properties, deriving income from the rental of its properties and its investments.

Stated capital

The authorised stated capital comprises 500 000 000 (2017: 500 000 000) shares of no par value. At 31 August 2018 there were 266 197 535 (2017: 266 864 319) shares in issue.

During the year, the company repurchased 666 784 shares in the open market for a total consideration of R11.3 million or R17.01 per share, which shares reverted to authorised unissued shares. The shares were delisted from the JSE on 23 February 2018.

Dividends

Given the nature of the business, Octodec uses dividend per share as the key performance measurement as it is considered the most relevant performance measure.

Summary of consolidated results for the year	**2018 R'000**	2017 R'000
Operating profit	**947 502**	909 897
Fair value changes of investment properties	**(39 084)**	235 106
Fair value changes of interest rate derivatives	**39 673**	(77 010)
Loss on derecognition of share in joint venture	**(2 770)**	–
Impairment of goodwill	**(1 992)**	–
(Loss)/profit on sale of investment property	**(916)**	2 943
Interest and other income	**28 538**	32 904
Profit from ordinary activities before finance costs and taxation	**970 951**	1 103 840
Finance costs	**(438 881)**	(408 702)
Profit before taxation	**532 070**	695 138
Taxation - current and deferred	**8 493**	(7 443)
Profit for the year	**540 563**	687 695
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year attributable to shareholders	**540 563**	687 695
Reconciliation of profit to distributable earnings		
Total comprehensive income attributable to shareholders	**540 563**	687 695
Loss/(profit) on sale of investment properties	**916**	(2 943)
Loss on derecognition of share in joint venture	**2 770**	–
Impairment of goodwill	**1 992**	–
Fair value changes		
Investment property	**39 084**	(235 106)
Investment property - joint ventures	**9 747**	(2 572)
Interest rate derivatives	**(39 673)**	77 010
Straight-line rental income accrual	**(1 482)**	4 905
Taxation - current and deferred	**(8 493)**	7 443
Share of after tax profit of joint venture - not distributable	**(3 980)**	–
Distributable earnings attributable to shareholders	**541 444**	536 432
Distribution per share (cents)		
Interim	**101.7**	98.4
Final	**101.7**	103.1
	203.4	201.5

Report of the directors continued

for the year ended 31 August 2018

Subsidiaries

138

The company's interests in property-owning subsidiaries are fully set out on pages 138 to 139.

Management contract and administration

The group's investment properties are managed by City Property, the entire share capital of which is effectively owned by the Wapnick family. The asset and property management agreement that, replaced the previous agreement which expired on 30 June 2018, was approved by the shareholders on 28 June 2018 and became effective on 1 July 2018.

Valuation of portfolio

In compliance with the JSE Listings Requirements, all the properties are valued at least once over a rolling three-year period by external registered valuation experts. In the current year, 23% (2017: 28%) of the portfolio with a value of R6.1 billion (2017: R3.6 billion) was valued by external registered valuation experts. There have been no changes in judgements and estimates of amounts or valuation techniques from the previous reporting period.

Net asset value

The net asset value per share as at year end was 2 939 cents (2017: 2 933 cents). The closing price per share at 31 August 2018 was 2 058 cents (2017: 2 274 cents), representing a discount of 29.9% (2017: 22.5%) to the net asset value per share.

Events after the reporting date

Other than the dividend, which was declared post the reporting date and is a non-adjusting event, there have been no subsequent events that require reporting.

Directorate

The directors of the company during the year under review were:

Executive directors

JP Wapnick (managing director)
AK Stein (financial director)

Non-executive directors

S Wapnick (chairman)
DP Cohen (lead independent non-executive director)
GH Kemp (independent non-executive director)
MZ Pollack (non-executive director)
PJ Strydom (independent non-executive director)
AA Koranteng (independent non-executive director) (resigned 10 May 2018)

Directors' remuneration

128

We refer you to the detailed information on directors' remuneration set out on pages 128 and 129 of this report.

Report of the directors continued

for the year ended 31 August 2018

Directors' shareholding

The direct and indirect interest held by the directors in the company at the reporting date and up to the date of approval of the financial statements, remained unchanged from the prior year and amounted to:

	2018 and 2017*		
	Direct beneficial	Indirect beneficial	Total
S Wapnick	38 842		38 842
JP Wapnick	39 374		39 374
S Wapnick and JP Wapnick (combined)[1]		99 567 433	99 567 433
AK Stein	180 948	491 791	672 739
MZ Pollack[2]	547 347	2 910 969	3 458 316
	806 511	**102 970 193**	**103 776 704**

[1] Includes the combined holdings of S Wapnick and JP Wapnick including interests held in associates where they are either shareholders, members, trustees or directors of entities holding Octodec shares and/or have the control of voting rights of the respective entities and de facto have the control of the voting rights in respect of the Octodec shares.

[2] Includes the holdings of MZ Pollack including interests held in associates where he is either a shareholder, member, trustee or director of entities holding Octodec shares and/or has the control of the voting rights of the respective entities and de facto has the voting rights in respect of the Octodec shares.

** The prior year has been restated.*

Changes in directors shareholding after year end

There have been no changes in directors' shareholding from reporting date to the approval of the financial statements, except for MZ Pollack who sold 4 112 shares on 31 October 2018.

Going concern

The current liabilities exceed the current assets by R1.785 billion (2017: R1.644 billion), mainly due to the fact that the majority of unsecured notes and some secured loans will be maturing in the 2019 financial year. Subsequent to the financial year end, DMTN Programme Notes in the amount of R226 million, expiring in September 2018, were partly refinanced by DMTN Programme Notes amounting to R30 million and R130 million, for a period of twelve and eighteen months respectively and a DMTN Programme Note in the amount of R180 million, expiring in November 2018, was partly refinanced by DMTN Programme Note amounting to R140 million for a period of six months. The process to extend or refinance the remaining short-term borrowings with the respective banks has commenced. The weighted average term of expiry of the loans increased from 1.4 years to 2.5 years (refer note 16 of the financial statements).

The board has considered the solvency and liquidity tests taking the above into consideration, and has determined that the group has adequate resources to continue to operate for the next twelve months. The financial statements have been prepared on the going concern basis.

Corporate governance

The board endorses the contents of King IV™.

Auditors

Deloitte & Touche have expressed their willingness to continue in office and resolutions proposing their reappointment will be submitted at the upcoming annual general meeting.

Group company secretary

Elize Greeff
City Property House
101 Du Toit Street
Tshwane, 0002

PO Box 15, Tshwane, 0001

Independent auditor's report to the shareholders of Octodec Investments Limited

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of Octodec Investments Limited (the Group) set out on pages 99 to 130, which comprise the statements of financial position as at 31 August 2018, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

99

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group as at 31 August 2018, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities* for the *Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the Group in accordance with the Independent Regulatory Board for *Auditors Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. The matter was addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter. The key audit matter applies to the consolidated and separate financial statements in the same manner.

Key audit matter	How the matter was addressed in the audit
Valuations of investment property As disclosed in Note 2 of the consolidated and separate financial statements, the investment property's carrying value is as follows: Group: R12.2 billion (2017: R12.1 billion) Company: R1 billion (2017: R1.1 billion). Fair value adjustments were taken to net profit as follows: Group: R39 million downward (2017: R235 million upward) Company: R25 million downward (2017: R20 million upward) The Group and Company investment property balance comprises of both completed developments and developments that are currently under construction. Furthermore, the property portfolio of the Group and Company include properties in different sectors being Retail, Industrial, Office, Specialised and other and Residential. The Group has ensured that its entire portfolio of completed developments has been valued on a three year rolling basis by independent, external valuers as per the JSE Listings Requirements. The valuation technique applied by the group is the net income capitalisation method.	In evaluating the valuations that were performed by management and reviewed by the Directors of Octodec (executive management) on the investment properties, focus was placed on the capitalisation rates and the long term vacancy rates as these areas required significant judgement. We performed various procedures, including the following: **Design and implementation and operating effectiveness testing:** As per the understanding obtained of investment property, we identified the review of the internal investment property valuations by the senior financial manager and financial director as a relevant control. The design and implementation of this control was assessed and the operating effectiveness of the control was tested. Additionally, the approval of disposals by the Investment Committee was also identified as a relevant control and therefore the design and implementation was assessed and operating effectiveness tested. **Independent valuers:** We assessed the competence, capabilities and objectivity of the Director's independent valuers, and assessed their qualifications. In addition, we discussed the scope of their work with management and reviewed the terms of the engagement to determine that there were no matters that affected their independence and objectivity or imposed scope limitations upon them. We confirmed that the approach they used are consistent with IFRS and industry norms.

Independent auditor's report continued

Key audit matter	How the matter was addressed in the audit
The inputs with the most significant impact on the valuations that are performed are: • Expense Ratios; • Long term vacancy rates; and • Capitalisation rates. Significant judgement is required in determining the fair value of investment property and for the purposes of our audit; we identified the valuation of investment property as representing a key audit matter due to the significance of the balance to the financial statements as a whole, combined with the judgment associated with determining the fair values.	**Use of an Auditors Expert:** Our independent external valuer compared selected inputs used to market data and entity-specific historical information to confirm the appropriateness of these inputs on a sample basis. For the sample selected, our independent external valuer also assessed the following: • The models used by the Director's and their independent valuers; and • The Significant judgements relating to the assumptions of the capitalisation rate, expense ratio and long term vacancy factor. **Completed developments:** Using a non-representative selection method (a testing technique used to select items in a population that have certain characteristics), we tested the inputs used in the valuation being rental income, property operating costs, vacancy rates and capitalisation rates for the sample selected and found these to be accurate, reliable and complete. Furthermore, we performed a sensitivity analysis on the long term vacancy rates, expense ratios and capitalisation rates and further compared the capitalisation rates used by the Directors to the available market data in order to determine the appropriateness thereof. We found that the valuation models and assumptions used by the Directors were appropriate and the valuations obtained from the valuers for the completed developments are in-line with market comparable data. The disclosure relating to investment property was found to be appropriate.

Other information

The directors are responsible for the other information. The other information comprises the Report of the directors, Audit Committee's report, the Certification by Group Secretary as required by the Companies Act of South Africa, Property portfolio information, Schedule of interest in subsidiaries, Shareholder Analysis, and the Integrated Report which we obtained prior to the date of this report. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report continued

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/ or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte and Touche has been the auditor of Octodec Investment Limited for 41 years.

Deloitte & Touche
Registered Auditor
Per: Patrick Kleb
Partner
13 December 2018

Statements of financial position

as at 31 August 2018

	Notes	consolidated 2018 R'000	consolidated 2017 R'000	company 2018 R'000	company 2017 R'000
ASSETS					
Non-current assets		**12 590 121**	12 568 875	**8 498 132**	8 243 389
Investment property	2	**12 228 808**	12 153 834	**1 061 875**	1 102 803
Straight-line rental income accrual	3	**111 282**	110 864	**19 880**	17 818
Plant and equipment	4	**3 463**	5 300	**64**	94
Tenant installations and lease costs	5	**35 210**	44 550	**582**	928
Investment in subsidiaries	6	–	–	**7 333 113**	7 044 899
Investment in joint ventures	7	**128 740**	177 480	**–**	–
Other financial assets	9	**75 000**	75 000	**75 000**	75 000
Derivative financial instruments	10	**7 618**	1 847	**7 618**	1 847
Current assets		**199 099**	276 047	**67 559**	80 147
Trade and other receivables	11	**130 498**	143 342	**18 517**	14 127
Derivative financial instruments	10	**1 986**	1 736	**1 986**	868
Other financial assets	9	**3 028**	213	**3 028**	213
Taxation receivable		**675**	–	**–**	–
Cash and bank balances	12	**62 912**	130 756	**44 028**	64 939
Non-current assets held for sale	13	**364 600**	284 350	**48 400**	56 700
Total assets		**13 153 820**	13 129 272	**8 614 091**	8 380 236
EQUITY AND LIABILITIES					
Equity		**7 824 398**	7 828 229	**5 235 520**	5 242 809
Stated capital	14	**4 210 134**	4 221 477	**4 210 134**	4 221 477
Non-distributable reserve	15	**3 262 710**	3 269 053	**807 000**	792 866
Distributable reserve		**351 554**	337 699	**218 386**	228 466
Non-current liabilities		**3 345 332**	3 381 370	**2 379 607**	2 846 961
Long-term borrowings	16	**3 240 759**	3 253 517	**2 361 630**	2 799 540
Derivative financial instruments	10	**17 977**	47 421	**17 977**	47 421
Deferred taxation	17	**86 596**	80 432	**–**	–
Current liabilities		**1 984 090**	1 919 673	**998 964**	290 466
Trade and other payables	18	**378 216**	342 548	**81 518**	63 630
Short-term borrowings	16	**1 605 774**	1 572 817	**917 346**	223 311
Derivative financial instruments	10	**100**	4 308	**100**	3 525
Total equity and liabilities		**13 153 820**	13 129 272	**8 614 091**	8 380 236

Statements of profit and loss and other comprehensive income

for the year ended 31 August 2018

	Notes	consolidated 2018 R'000	consolidated 2017 R'000	company 2018 R'000	company Restated* 2017 R'000
Revenue	19	**1 895 288**	1 831 346	**914 990**	788 819
Property operating expenses	20	**(864 911)**	(843 636)	**(87 514)**	(84 017)
Net property income		**1 030 377**	987 710	**827 476**	704 802
Administrative and corporate expenses	21	**(82 875)**	(77 813)	**(26 937)**	(24 388)
Net operating profit		**947 502**	909 897	**800 539**	680 414
Fair value changes to investment property	2.4	**(39 084)**	235 106	**(25 129)**	20 465
Fair value changes to interest rate derivatives		**39 673**	(77 010)	**39 758**	(72 907)
Profit from operations		**948 091**	1 067 993	**815 168**	627 972
(Loss)/profit on sale of investment properties		**(916)**	2 943	**(495)**	2 598
Loss on derecognition of share in joint venture		**(2 770)**	–	**–**	–
Impairment of goodwill	38	**(1 992)**	–	**–**	–
Impairment of loans and investments		**–**	–	**–**	(10 727)
Interest income	22	**18 584**	18 094	**11 186**	9 567
Income from subsidiaries	23	**–**	–	**12 135**	25 286
Share of profit of joint ventures	24	**9 954**	14 810	**–**	–
Profit from ordinary activities before finance costs		**970 951**	1 103 840	**837 994**	654 696
Finance costs	25	**(438 881)**	(408 702)	**(300 889)**	(209 071)
Profit before taxation		**532 070**	695 138	**537 105**	445 625
Taxation	26	**8 493**	(7 443)	**–**	–
Profit for the year		**540 563**	687 695	**537 105**	445 625
Other comprehensive income		**–**	–	**–**	–
Total comprehensive income for the year attributable to shareholders		**540 563**	687 695	**537 105**	445 625
Basic and diluted earnings per share (cents)	28	**202.9**	263.3		

* *Refer to note 19 and 23 relating to the restatement.*

Statements of changes in equity

for the year ended 31 August 2018

	Stated capital R'000	Non distri-butable reserve R'000	Distri-butable reserve R'000	Total R'000
Consolidated				
Balance at 1 September 2016	3 958 207	3 112 885	342 708	7 413 800
Total comprehensive income for the year	–	–	687 695	687 695
Issue of new shares	263 270	–	–	263 270
Dividends paid	–	–	(536 536)	(536 536)
Transfer to non-distributable reserve				
Profit on sale of investment properties	–	2 943	(2 943)	–
Deferred tax	–	(7 443)	7 443	–
Fair value changes				
– Investment property	–	235 106	(235 106)	–
– Investment property - joint ventures	–	2 572	(2 572)	–
– Interest rate derivatives	–	(77 010)	77 010	–
Balance at 31 August 2017	**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				
Loss 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	**4 210 134**	**3 262 710**	**351 554**	**7 824 398**
Company				
Balance at 1 September 2016	3 958 207	842 710	269 533	5 070 450
Total comprehensive income for the year	–	–	445 625	445 625
Issue of new shares	263 270	–	–	263 270
Dividends paid	–	–	(536 536)	(536 536)
Transfer to non-distributable reserve				
Profit on sale of investment properties	–	2 598	(2 598)	–
Fair value changes				
– Investment property	–	20 465	(20 465)	–
– Interest rate derivatives	–	(72 907)	72 907	–
Balance at 31 August 2017	**4 221 477**	**792 866**	**228 466**	**5 242 809**
Total comprehensive income for the year	–	–	537 105	537 105
Shares repurchased	(11 343)			(11 343)
Dividends paid	–	–	(533 051)	(533 051)
Transfer to non-distributable reserve				
Loss on sale of investment property	–	(495)	495	–
Fair value changes				
– Investment property	–	(25 129)	25 129	–
– Interest rate derivatives	–	39 758	(39 758)	–
Balance at 31 August 2018	**4 210 134**	**807 000**	**218 386**	**5 235 520**

Statements of cash flows

for the year ended 31 August 2018

		consolidated		company	
	Notes	**2018 R'000**	2017 R'000	**2018 R'000**	Restated* 2017 R'000
Cash generated/(utilised) from operating activities					
Cash generated from operations	29	**1 006 207**	948 325	**825 273**	721 262
Interest income		**18 584**	18 094	**11 186**	9 567
Finance costs		**(446 227)**	(439 201)	**(300 888)**	(213 675)
Dividends paid		**(533 051)**	(536 536)	**(533 051)**	(536 536)
Net cash generated/(utilised) from operating activities		**45 513**	(9 318)	**2 520**	(19 382)
Cash utilised in investing activities					
Acquisition of investment property - Refurbishments		**(128 570)**	(127 248)	**(1 429)**	(7 159)
Acquisition of investment property - Developments		**(37 635)**	(169 383)	**(322)**	(18 949)
Acquisition of plant and equipment		**(29)**	(332)	**–**	(81)
Tenant installation and lease costs		**(6 830)**	(6 398)	**(837)**	31
Purchase of subsidiary	38	**(32 858)**	–	**–**	–
Proceeds on disposal of investment property		**61 608**	77 200	**25 403**	24 298
Amounts advanced to subsidiaries		**–**	–	**(288 214)**	(1 099 705)
Increase in other financial assets		**(2 815)**	(23 364)	**(2 815)**	(23 364)
Income from joint ventures		**24 916**	9 913	**–**	–
Net cash utilised in investing activities		**(122 213)**	(239 612)	**(268 214)**	(1 124 929)
Cash generated from financing activities					
Issue of new shares		**–**	263 270	**–**	263 270
Shares repurchased		**(11 343)**		**(11 343)**	
Proceeds from long-term borrowings		**1 543 313**	1 916 093	**1 060 265**	1 758 226
Repayment of long-term borrowings		**(1 556 071)**	(2 686 487)	**(1 498 174)**	(1 095 711)
Proceeds from short-term borrowings		**1 605 774**	1 572 817	**917 346**	223 311
Repayment of short-term borrowings		**(1 572 817)**	(755 116)	**(223 311)**	–
Net cash generated from financing activities		**8 856**	310 577	**244 783**	1 149 096
Net (decrease)/increase in cash and bank balances		**(67 844)**	61 647	**(20 911)**	4 785
Cash and bank balances at beginning of year		**130 756**	69 109	**64 939**	60 154
Cash and bank balances at end of year	12	**62 912**	130 756	**44 028**	64 939

* *Refer to note 29 relating to the restatement.*

Notes to the financial statements

for the year ended 31 August 2018

Basis of preparation

The consolidated and company financial statements (financial statements) have been prepared in accordance with IFRS, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the Companies Act, and have been rounded to the nearest thousand (R'000).

The financial statements have been prepared on the historical cost basis, except for the measurement of investment property and certain financial instruments at fair value, and incorporate the principal accounting policies set out below. The accounting policies adopted and methods of computation are consistent with those applied in the financial statements of the previous year.

1. Significant accounting policies

1.1 Basis of consolidation

1.1.1 Investment in subsidiaries

These financial statements include all the entities controlled by the group.

The financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Investments in subsidiaries are stated in the company's financial statements at cost, less any impairment losses.

1.2 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the group, liabilities incurred by the group to the former owners of the acquiree and of the equity interests (if any), issued by the group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree (if any) and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests (if any) in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When a business combination is achieved in stages, the group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss (if any) is recognised in profit or loss.

1.3 Investment in joint ventures

A joint venture is an arrangement in which the group has joint control over the net assets held under the arrangement, rather than rights to its assets and obligations for its liabilities. Joint control is the contractually agreed sharing of control under the arrangement, which occurs only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Interests in joint ventures are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the group's share of the profit or loss and the other comprehensive income of equity-accounted investees, until the date on which the investment ceases to be a joint venture or when the investment is classified as held for sale.

When the group transacts with a joint venture of the group, profits and losses resulting from transactions with the joint venture are recognised in the group's consolidated and company financial statements only to the extent of interests in the joint venture that are not related to the group.

1.4 Interest in joint operations

A jointly controlled operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Jointly controlled operations are accounted for by including the group's share of the jointly controlled assets, liabilities, revenues and expenses on a line-by-line basis in the financial statements from the date that joint control commences until the date that joint control ceases.

The group accounts for these assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRS applicable to the particular assets, liabilities, revenues and expenses.

When the group transacts with a joint operation in which a group entity is a joint operator, the group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the group's consolidated financial statements only to the extent of the other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the group does not recognise its share of the gains and losses until it resells those assets to a third party.

1.5 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

1.6 Stated capital

Ordinary shares are classified as equity. Transaction costs are deducted from equity to the extent they are incremental costs directly related to the equity transaction that would otherwise have been avoided.

Notes to the financial statements continued

for the year ended 31 August 2018

1.6 Stated capital continued

When the group acquires its own shares, the cost is deducted from equity and any gain or loss on the subsequent sale or cancellation of the company's own equity instruments is recognised directly in equity.

1.7 Reserves

Realised profits on the disposal of investment properties, although legally distributable, are transferred to a non-distributable reserve, as it is the group's policy to regard such profits as not being available for distribution. Gains and losses on revaluation of investment property and on interest rate derivatives net of deferred tax as applicable, are similarly transferred to a non-distributable reserve as are revaluation reserves of associates and joint ventures.

1.8 Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are recognised as an asset when it is probable that the future economic benefits that are associated with the investment properties will flow to the group, and the cost of the investment properties can be measured reliably.

Investment properties are initially recognised at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. A gain or loss arising from a change in fair value is recognised in profit or loss. Subsequent refurbishing expenditure relating to investment properties that have been recognised is added to the carrying amount of the investment properties if the refurbishment will enhance or extend the useful lives of the investment properties. All other subsequent expenditure is expensed to profit or loss in the period in which it is incurred.

Investment properties are derecognised on disposal or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal.

The gain or loss on disposal of investment properties is calculated as the difference between the net disposal proceeds and the carrying amount of the investment properties and is recognised in profit and loss in the period in which it arises. Investment properties erected on land secured by means of long-term land leases are classified as investment properties.

1.8.1 Properties under development

Properties under development comprise the cost of the land and development and are stated at fair value. If the fair value cannot be reasonably determined it is stated at cost and is not depreciated. Investment properties that require development are transferred from investment property to investment property under development when development commences.
On completion of the development, these properties are transferred to investment property.

1.8.2 Fair value

At the reporting date all investment properties are measured at fair value as determined by management. The investment committee considers the valuations to determine the appropriateness of the valuation techniques and inputs used for fair value measurements. The valuation process is reviewed by the investment committee and approved by the board of directors at each reporting period.

In estimating the fair value of investment properties, the group uses market-observable data to the extent it is available. In accordance with the JSE Listings Requirements, on a three-year rotational basis, independent valuations are obtained to determine the reasonableness of the directors' portfolio valuations.

1.9 Non-current assets held for sale

A non-current asset is classified as held for sale if it is expected that its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and the sale is highly probable to occur within one year. For the sale to be highly probable, the appropriate approval must be obtained from the board to dispose of the asset.

Non-current assets held for sale comprising investment property are measured in accordance with IAS 40 *Investment Property*, at fair value with gains and losses on subsequent measurement being recognised in profit or loss.

Non-current assets held for sale are presented separately from other assets and liabilities on the statement of financial position. Prior periods are not reclassified.

1.10 Plant and equipment

Plant and equipment are recognised at cost less accumulated depreciation and accumulated impairment losses.

The residual value and the useful life of each asset is reviewed at each financial year end. Each part of an item of plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation is based on the cost of the asset less its residual value and recognised on a straight-line basis, over the current estimated useful lives of the assets. The estimated useful lives of the assets for the current and comparative periods are:

• Furniture, fittings and carpets	6 years
• Security equipment	5 – 6 years
• Lifts	12 years
• Air-conditioning equipment	6 years
• Motor vehicles	4 years

1.11 Financial instruments

Financial assets and liabilities are recognised when the group becomes a party to the contractual provisions of the instruments.

Financial assets and liabilities are initially measured at fair value. All transaction costs directly attributable to the acquisition or issue of financial assets and liabilities are added to or deducted from the value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial instruments at FVTPL are expensed immediately in profit and loss.

1.11.1 Financial assets

Financial assets of the group are classified into the following specified categories: 'financial assets at FVTPL' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined by management at the time of initial recognition.

Notes to the financial statements continued

for the year ended 31 August 2018

1.11 Financial instruments continued

1.11.2 Financial liabilities

Financial liabilities of the group include borrowings and trade and other payables. These are recognised at fair value and subsequently measured at amortised cost using the effective interest method, except for short-term payments where the effect of discounting is immaterial.

1.11.3 Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including loans, trade and other receivables and cash and cash equivalents) are measured at amortised cost using the effective interest method, less any impairment, except for short-term receivables where the effect of discounting is immaterial. Interest earned on loans, trade receivables and cash and cash equivalents is recognised on an accrual basis using the effective interest method.

1.11.4 Derivative financial instruments

The group uses derivative financial instruments to manage its exposure to interest rate risk arising from its financing activities. In accordance with its treasury policy, the group does not hold or issue derivative financial instruments for trading purposes. However, as the hedge relationship is not designated as a hedge for accounting purposes, the derivatives are accounted for as trading instruments. Derivative financial instruments are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss and other comprehensive income.

The fair value of interest rate swaps is the estimated amount that the group would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

1.11.5 Derecognition

The group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the entity is recognised as a separate asset or liability.

The group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

1.11.6 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

Objective evidence of impairment for a portfolio of receivables includes the group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the tolerance credit period of 60 days, as well as observable changes in local economic conditions that result in default on receivables.

An estimate is made for credit losses based on a review of all outstanding amounts at year end. Doubtful debts are written off to profit or loss during the year in which they are identified. A reversal of an impairment of financial assets at amortised cost is recognised immediately in profit and loss.

1.12 Impairment of non-financial assets

At each reporting date the group assesses whether there is any indication that an asset may be impaired. If any such indication exists, the group estimates the recoverable amount of the asset.

If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell, and its value in use. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss.

The group assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated. A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in profit or loss.

1.13 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

1.14 Taxation

Current and deferred tax expenses are recognised in profit and loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax expenses are also recognised in other comprehensive income or directly in equity respectively.

1.14.1 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the statement of profit and loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years, and items that are never taxable or deductible. The group's current tax is calculated using tax rates that have been enacted by the end of the reporting period.

Notes to the financial statements continued

for the year ended 31 August 2018

1.14 Taxation continued

1.14.2 Deferred tax

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

The group is a REIT and any capital gains arising on the disposal of investment property are exempt from capital gains tax. The group therefore does not recognise deferred tax on the changes in fair value of investment properties. Deferred tax is also not calculated on timing differences of those assets and liabilities that when reversed will be distributed to shareholders. Deferred tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit nor loss.

Deferred tax assets are not recognised as the company is a REIT and any subsequent profits will be distributed to the shareholders and therefore the likelihood of utilising a deferred tax asset is remote.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the period-end and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity where there is an intention to settle the balances on a net basis.

1.15 Revenue

1.15.1 Rental income and recoveries

Revenue is measured at the fair value of the consideration received or receivable. Revenue comprises rental income and operating cost recoveries and excludes value added taxation. Rental income is recognised on the straight-line basis over the lease term and recoveries are recognised on the accrual basis. Turnover-based rental is recognised when it is due in terms of the lease agreement and the amount can be measured reliably.

1.15.2 Dividend income from subsidiaries

Dividends are recognised when a shareholder's right to receive payment has been established and the amount of income can be measured reliably.

1.16 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

1.16.1 The group as lessor – operating leases

Contractual rental income is recognised on a straight-line basis over the period of the lease term and rental income based on a percentage of turnover is recognised when due and the amount can be measured reliably.

An adjustment is made to contractual rental income earned to bring to account in the current period, the difference between the rental income to which the group is currently entitled and the rental for the period calculated on a straight-line basis.

Letting commission and tenant installation costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

1.16.2 The group as lessee - operating leases

Operating lease payments, which are based on a percentage of rental income, are charged to the statement of profit and loss and other comprehensive income.

1.17 Fair value information

The group measures financial instruments, such as derivatives and investment properties, 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.

1.17.1 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)

1.18 Earnings, headline earnings and distributable earnings per share

Earnings per share are calculated based on the weighted number of shares in issue for the year and profit attributable to shareholders. Headline earnings per share is calculated in terms of the requirements set out in circular 4/2018 issued by SAICA.

1.19 Critical accounting judgements and estimates

In the application of the accounting policies above, the directors are required to make judgements about the carrying amount of assets and liabilities that are not apparent from other sources. The estimates and judgements are based on historical experience and other factors, including expectations of future events, and are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Areas in which estimates and judgements are made include the following:

Notes to the financial statements continued

for the year ended 31 August 2018

1.19 Critical accounting judgements and estimates continued

1.19.1 Investment property

In the application of the accounting policies which are described in note 1.8, management is required to make judgements, estimates and assumptions about the fair value of investment properties that are not readily apparent from other sources.

The fair value of investment properties is determined using current rentals, expected market rentals, expected vacancies, maintenance requirements and appropriate capitalisation rates. The valuations are regularly compared to actual transactions executed by the group and those obtained by the market. Market rentals are determined by reference to current market rentals for similar buildings in the same location and condition.

1.20 Segmental reporting

The group determines and presents operating segments based on information that is provided internally to the chief operating decision-maker, namely the managing director.

Segment results that are reported to the chief operating decision-maker include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis.

On a primary basis the operations are organised into five major operating segments:

- Industrial
- Retail
- Office
- Residential
- Specialised and other (which includes parking, auto dealerships, healthcare facilities, places of worship, hotels and education facilities).

The group's properties have been aggregated into segments with similar economic characteristics such as the occupier's market that it serves and the nature of the property.

The chief operating decision-maker assesses each investment property on an individual basis in making decisions about its performance.

1.21 Standards applicable to the group not yet effective

The group has not adopted the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9 – Financial instruments effective for financial years beginning on or after 1 January 2018

IFRS 9 introduces a new approach to the classification of financial assets, which is driven by the business model in which the asset is held and their cash flow characteristics. A new business model was introduced which does allow certain financial assets to be categorised as “fair value through other comprehensive income” in certain circumstances.

The requirements for financial liabilities are mostly carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk.

The new model introduces a single impairment model being applied to all financial instruments, as well as an “expected credit loss” model for the measurement of financial assets.

IFRS 9 contains a new model for hedge accounting that aligns the accounting treatment with the risk management activities of an entity, and in addition, enhanced disclosures will provide better information about risk management and the effect of hedge accounting on the financial statements.

The group will adopt the standard in its 2019 financial statements. The board has considered the impact on the financial assets and liabilities and believes that the financial assets and liabilities will continue to be classified and measured on the same basis as is currently classified and measured under IAS 39. Due to the nature of its trade receivables, the application of the expected credit loss is not considered to result in a material difference from the method currently used in calculating the impairment loss under IAS 39.

IFRS 15 – Revenue from contracts with customers effective for financial years beginning on or after 1 January 2018

IFRS 15 replaces the two revenue recognition standards IAS 18 – *Revenue* and IAS 11 – *Construction contracts* and their related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognised when a performance obligation is satisfied, which is when the goods or services underlying the particular performance obligation are transferred to the customer.

IFRS 15 also contains comprehensive disclosure requirements.

The group will adopt the standard in its 2019 financial statements. The group revenue component impacted by the adoption of the standard is "Recoveries" and "Other income". Existing contracts containing performance obligations are very few and the consideration minimal and these will not have any material impact on the financial statements.

IFRS 16 – Leases effective for financial years beginning on or after 1 January 2019

IFRS 16 replaces IAS 17 – *Leases* and its related interpretations when it becomes effective. IFRS 16 will result in almost all the leases of lessees being recognised in the statement of financial position as it removes the distinction between operating and finance leases with the only exception being for short-term and low-value leases. Under the new standard the lessee will recognise an asset representing the right of use of the asset and a financial liability to pay rentals.

The accounting for lessors will not change significantly and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

The new standard contains extensive disclosures for both lessees and lessors.

The group has non-cancellable lease commitments in respect of land of R54.1 million. Management has considered the impact of the new standard on the treatment of leases as a lessee and does not believe that it will have a material impact on the financial performance or financial position of the group when it adopts the standard in its 2020 financial statements.

Amendments to IAS 40 – Investment property for financial years beginning on or after 1 January 2018

This amendment clarifies that a transfer to or from investment property necessitates an assessment of whether a property meets, or has ceased to meet the definition of investment property.

The amendments can either apply retrospectively or prospectively. The group will apply these amendments prospectively and they should not have any impact on the financial position of the group in the future.

Notes to the financial statements continued

for the year ended 31 August 2018

	Notes	consolidated 2018 R'000	consolidated 2017 R'000	company 2018 R'000	company 2017 R'000
2. Investment property					
Developed		**12 118 908**	11 777 991	**994 675**	1 035 660
Under development		**109 900**	375 843	**67 200**	67 143
		12 228 808	12 153 834	**1 061 875**	1 102 803
All the group's investment properties are leased out under operating leases.					
2.1 Reconciliation of investment property – developed					
Carrying value at beginning of year		**11 777 991**	11 300 939	**1 035 660**	937 818
Acquisitions - refurbishments		**128 570**	127 248	**1 429**	7 159
Disposals		**–**	(14 494)	**–**	–
Additions through business combination		**76 000**	–	**–**	–
Transferred from under development		**307 100**	195 700	**–**	78 700
Fair value changes		**(71 117)**	318 247	**(40 994)**	28 986
Transfer to non-current assets held for sale		**(99 636)**	(149 649)	**(1 420)**	(17 003)
		12 118 908	11 777 991	**994 675**	1 035 660
2.2 Reconciliation of investment property – under development					
Carrying value at beginning of year		**375 843**	475 900	**67 143**	135 559
Upgrades and developments including borrowing costs		**50 595**	199 535	**322**	23 553
Transferred to developed		**(307 100)**	(195 700)	**–**	(78 700)
Fair value changes		**(9 438)**	(103 892)	**(265)**	(13 269)
		109 900	375 843	**67 200**	67 143
2.3 Reconciliation of valuation to carrying value – investment property					
Valuation of portfolio at end of year		**12 743 363**	12 598 898	**1 130 801**	1 178 343
Less:					
Straight-line rental income accrual	3	**(111 282)**	(110 864)	**(19 880)**	(17 818)
Plant and equipment	4	**(3 463)**	(5 300)	**(64)**	(94)
Tenant installation and lease costs	5	**(35 210)**	(44 550)	**(582)**	(928)
Non-current assets held for sale	13	**(364 600)**	(284 350)	**(48 400)**	(56 700)
Carrying amount at end of year		**12 228 808**	12 153 834	**1 061 875**	1 102 803

The investment properties are valued biannually by the management of City Property and the portfolio valuation is reviewed by the investment committee and approved by the board.

Over a three-year cycle, all properties are valued on a rotational basis by independent external valuers. Van Zyl Valuers CC (Gert van Zyl) and Amanda de Wet Consultants and Investors CC (Amanda de Wet) are registered valuers in terms of section 19 of the Property Valuers Profession Act No, 47 of 2000 and have extensive experience in property valuations. In the current year, 23% (2017: 28%) of the portfolio with a value of R6.1 billion (2017: R3.6 billion) was valued by the external registered valuation experts.

Investment property amounting to R42.7 million (2017 : R42.6 million) currently under development is stated at cost due to the difficulty in determining a reliable fair value.

2.4 Fair value information

The fair value of the group's investment property as at 31 August 2018 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 calculation is the capitalisation rate. The range of annual capitalisation rates applied to the property portfolio is between 8.0% (2017: 8.0%) and 13.0% (2017: 13.0%) with a weighted annual average of 9.3% (2017: 9.2%).

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 5.7% to 49.1% (2017: 4.5% to 49.2%) with a weighted average of 25.1% (2017: 24.5%).

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 30.0% (2017: 0.0% to 30.0%) with a weighted average of 5.6% (2017: 5.8%).

In estimating the fair value of the properties, the highest and best use is taken into account. There have been no changes in judgements or estimates of amounts or valuation techniques from the previous reporting periods. Investment property has been categorised as a Level 3 in the fair value hierarchy, and there have been no transfers made between Level 1, 2 or 3 during the year under review. (Refer to the fair value information in accounting policies.)

Notes to the financial statements continued

for the year ended 31 August 2018

2. Investment property – continued

2.4 Fair value information – continued

Relationship of unobservable inputs to fair value
An increase of 1% in the capitalisation rate, while all other inputs remain constant, would result in a decrease in the carrying amount of investment property of R1.2 billion (2017: R1.2 billion). A decrease of 1% in the capitalisation rate, while all other inputs remain constant, would result in an increase in the carrying amount of investment property of R1.5 billion (2017: R1.5 billion).

An increase/decrease of 1% in the weighted average of the expense ratios used to calculate the long-term net operating income margin, while all other inputs remain constant, would result in an increase/decrease in the carrying amount of investment property of R168.8 million (2017: R167.4 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 R133.9 million (2017: R134.1 million).

	consolidated		company	
	2018 R'000	2017 R'000	**2018 R'000**	2017 R'000
Reconciliation of fair value changes to investment property				
Investment property – developed	**(71 117)**	318 247	**(40 994)**	28 986
Investment property – under development	**(9 438)**	(103 892)	**(265)**	(13 269)
Non-current assets held for sale	**41 471**	20 751	**16 130**	4 748
	(39 084)	235 106	**(25 129)**	20 465

2.5 Investment property pledged as security

The group has encumbered certain of its investment properties to secure mortgage loan facilities as set out in note 16. There are no other restrictions on the realisability of investment property or distribution of its income.

2.6 Investment property held under operating leases

Woodmead Value Mart and Intersite are situated on leasehold land and classified as investment property. The lease of Woodmead Value Mart commenced in April 1995. The term of the lease is forty years and is renewable for a further forty years at the election of Woodmead Value Mart Proprietary Limited, a subsidiary of the group. The lease of Intersite commenced in September 1996 for a period of fifty years.

131
A schedule of investment properties owned by the group is set out on pages 131 to 137.

	consolidated		company	
	2018 R'000	2017 R'000	**2018 R'000**	2017 R'000
3. Straight-line rental income accrual				
Carrying value at beginning of year	**110 864**	115 849	**17 818**	14 138
Movement during the year	**1 482**	(4 905)	**2 112**	3 829
Disposals	**–**	(6)	**–**	–
Transferred to non-current assets held for sale	**(1 064)**	(74)	**(50)**	(149)
	111 282	110 864	**19 880**	17 818
4. Plant and equipment				
Cost	**22 110**	22 949	**387**	387
Accumulated depreciation	**(18 647)**	(17 649)	**(323)**	(293)
Carrying value	**3 463**	5 300	**64**	94
Movement during the year:				
Carrying value at beginning of year	**5 300**	6 810	**94**	40
Disposals	**–**	(111)	**–**	–
Additions	**29**	332	**–**	81
Transferred to non-current assets held for sale	**(190)**	–	**–**	–
Depreciation charge	**(1 676)**	(1 731)	**(30)**	(27)
	3 463	5 300	**64**	94

Plant and equipment which forms an integral part of investment property is pledged as security as per note 2.5.

Notes to the financial statements continued

for the year ended 31 August 2018

	consolidated 2018 R'000	consolidated 2017 R'000	company 2018 R'000	company 2017 R'000
5. Tenant installation and lease costs				
Carrying value at beginning of year	**44 550**	57 133	**928**	2 003
Additions	**6 830**	6 398	**837**	(31)
Transferred to non-current assets held for sale	**(287)**	(176)	**–**	–
Amortisation	**(15 883)**	(18 805)	**(1 183)**	(1 044)
	35 210	44 550	**582**	928
6. Investment in subsidiaries				
Shares at cost			**3 057 988**	3 057 989
Net amounts due by subsidiaries			**4 275 125**	3 986 910
Amounts due by subsidiaries			**4 275 157**	3 986 936
Amounts owed to subsidiaries			**(32)**	(26)
			7 333 113	7 044 899
A schedule of the company's interest in subsidiaries is set out on pages 138 to 139.				
7. Investment in joint ventures				
Cost of investment	**1**	1		
Loans to joint ventures	**121 625**	131 230		
Reserves since acquisition	**7 114**	46 249		
	128 740	177 480		
A loan of R74.1 million bears interest at prime plus 1% per annum and a loan of R9.1 million bears interest at 15% (2017: 15%) per annum. The remaining loans are interest free.				

138

Proportion of ownership interest/voting rights held by the group	**2018 %**	2017 %
Name of joint venture		
Gerlan Properties Proprietary Limited	–	50
Jardtal Properties Proprietary Limited	**50**	50
Prensas Properties Proprietary Limited	**50**	50

The joint ventures are property investment companies deriving income from rentals. The companies are all incorporated in the Republic of South Africa and have the same financial year end as the company.

All the above joint ventures are accounted for using the equity method in these consolidated financial statements. Octodec has the right to cast 50% of the voting rights at shareholder meetings for each of the above joint ventures.

IPS Investments Proprietary Limited, a subsidiary of the group, acquired the remaining 50% of Gerlan Properties Proprietary Limited on 1 July 2018, thereby becoming a wholly owned subsidiary of the group. Gerlan Properties Proprietary Limited is included in the consolidated financial statements of the group from 1 July 2018. (Refer to note 38.)

Notes to the financial statements continued

for the year ended 31 August 2018

	consolidated	
	2018 R'000	2017 R'000
7. Investment in joint ventures – continued		
7.1 Summarised financial information of the joint ventures as at 31 August 2018		
The summarised financial information below represents amounts shown in the joint ventures' financial statements prepared in accordance with IFRS.		
As the financial information for each joint venture is not individually material when compared as a percentage to the group's total assets, the financial information is disclosed in aggregate.		
Assets		
Non-current	**396 200**	490 700
Investment property	**390 168**	482 508
Straight-line rental income accrual	**4 700**	6 958
Tenant installations and lease costs	**1 332**	1 234
Current	**9 988**	9 444
Trade and other receivables	**3 457**	2 798
Loan – Tenant deposits	**3 157**	3 205
Cash and bank balances	**3 374**	3 441
	406 188	500 144
Equity and liabilities		
Equity	**14 230**	92 500
Share capital	**1**	5 768
Non-distributable reserve	**18 724**	98 560
Accumulated loss	**(4 495)**	(11 828)
Non-current liabilities	**206 134**	395 203
Shareholder loan accounts	**189 011**	193 501
Long-term borrowings	**12 948**	180 698
Derivative financial instruments	**–**	1 137
Deferred taxation	**4 175**	19 867
Current liabilities	**185 824**	12 441
Trade and other payables	**9 836**	12 441
Short-term borrowings	**175 988**	–
	406 188	500 144
Results of operations		
Revenue	**81 766**	67 941
Profit before taxation	**2 318**	12 326
Taxation	**(990)**	(5 015)
Profit for the year	**1 328**	7 311
Other comprehensive income	**–**	–
Total comprehensive income for the year	**1 328**	7 311
The above profit for the year includes the following:		
Fair value changes to investment property	**(9 842)**	4 143
Fair value changes to interest rate derivatives	**1 137**	–
Depreciation and amortisation	**508**	362
Interest income	**281**	546
Interest expense	**30 361**	30 820
7.2 Reconciliation of the above summarised financial information to carrying amount of the interest in joint ventures		
Net assets of the joint ventures	**14 230**	92 500
50% proportion of the group's interest in the joint ventures	**7 115**	46 250
Loans to joint ventures	**121 625**	131 230
Carrying amount of the group's interest in joint ventures	**128 740**	177 480

7.3 Facilities

Included in the short-term borrowings is an amount of R154 million which matured in September 2018 and has been refinanced for an amount of R180 million for a period of two years.

7.4 Commitments and contingencies of joint ventures

The group has signed sureties for R190.5 million (2017: R190.5 million) for Jardtal Properties Proprietary Limited and R11 million (2017: R11 million) for Prensas Properties Proprietary Limited for loan facilities provided by Nedbank Limited.

Notes to the financial statements continued

for the year ended 31 August 2018

	consolidated		company	
	2018 R'000	2017 R'000	**2018 R'000**	2017 R'000
8. Joint operation				
The Manhattan (50% interest)				
Included in the assets and liabilities of Octodec is the undivided half share of the immovable property development, The Manhatten. The other 50% undivided share is owned by Burcress Proprietary Limited.				
Assets				
Non-current				
Investment property	**68 500**	76 600		
Current	**250**	2 012		
Trade and other receivables	**236**	241		
Cash and bank balances	**14**	1 771		
	68 750	78 612		
Equity and liabilities				
Equity	**(19 982)**	(14 905)		
Non-distributable reserve	**(22 537)**	(14 400)		
Distributable reserve/(accumulated loss)	**2 555**	(505)		
Non-current liabilities				
Long-term borrowings	**88 123**	91 353		
Current liabilities				
Trade and other payables	**609**	2 164		
	68 750	78 612		
Results of operations				
Revenue	**5 296**	892		
Loss for the year	**(5 077)**	(14 905)		
Other comprehensive income	**–**	–		
Total comprehensive loss for the year	**(5 077)**	(14 905)		
The above loss for the year includes the following:				
Fair value changes to investment property	**(8 137)**	(14 400)		
Interest income	**25**	19		
The Manhatten project was completed in December 2016 and available for letting from January 2017, therefore the results of operations for the comparative period include the period from 1 January 2017 to 31 August 2017.				
9. Other financial assets				
Loan to joint operation partner				
Non-current asset	**75 000**	75 000	**75 000**	75 000
Current asset	**3 028**	213	**3 028**	213
	78 028	75 213	**78 028**	75 213

The loan to the joint operation partner is secured by a mortgage bond over its 50% share of the immovable property, bears interest at prime less 0.5% per annum and is repayable by no later than 16 December 2020.

Notes to the financial statements continued

for the year ended 31 August 2018

	consolidated		company	
	2018 R'000	2017 R'000	**2018 R'000**	2017 R'000
10. Derivative financial instruments				
Interest rate derivatives				
Carrying value at beginning of year	**(48 146)**	28 864	**(48 231)**	24 676
Fair value changes	**39 673**	(77 010)	**39 758**	(72 907)
	(8 473)	(48 146)	**(8 473)**	(48 231)
Reconciliation to statement of financial position				
Derivative financial instruments				
Non-current assets	**7 618**	1 847	**7 618**	1 847
Current assets	**1 986**	1 736	**1 986**	868
Non-current liabilities	**(17 977)**	(47 421)	**(17 977)**	(47 421)
Current liabilities	**(100)**	(4 308)	**(100)**	(3 525)
	(8 473)	(48 146)	**(8 473)**	(48 231)

The notional principal amount of the outstanding contracts for the group at year end was R3.5 billion (2017: R3.6 billion) and for the company R3.5 billion (2017: R3.2 billion).

Fair value information
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
Derivative financial instruments have been categorised as a Level 2 and there have been no transfers made between Levels 1, 2 or 3 during the year under review.

	consolidated		company	
	2018 R'000	2017 R'000	**2018 R'000**	2017 R'000
11. Trade and other receivables				
Net trade receivables	**33 919**	49 644	**3 150**	3 396
Trade receivables	**58 775**	71 160	**8 089**	5 823
Less: Provision for impairment	**(24 856)**	(21 516)	**(4 939)**	(2 427)
Other receivables – utility and assessment rate recoveries	**65 658**	61 075	**9 040**	8 536
Other receivables – assessment rate refunds	**7 361**	10 551	**153**	326
Loans to B-BBEE suppliers and employees	**3 798**	–	**3 798**	
Sundry receivables	**7 419**	13 919	**707**	778
	118 155	135 189	**16 848**	13 036
Payments in advance	**8 819**	8 153	**1 669**	1 091
VAT receivable	**3 524**	–	**–**	–
	130 498	143 342	**18 517**	14 127

All trade and other receivables are short term in nature. Interest is charged at prime plus 4% (2017: 4%) on arrear tenant balances and loans to employees. The loans to B-BBEE suppliers are interest free.

Notes to the financial statements continued

for the year ended 31 August 2018

	consolidated		company	
	2018 R'000	2017 R'000	**2018 R'000**	2017 R'000
12. Cash and bank balances				
Cash on hand and bank balances	**28 104**	89 424	**9 220**	23 607
Bank account held for residential tenant deposits	**34 808**	41 332	**34 808**	41 332
	62 912	130 756	**44 028**	64 939
The bank balance held for residential tenant deposits is not available for use by the group.				
The group has undrawn overdraft facilities of R41.9 million (2017: R41.9 million) which are reviewable on an annual basis.				
The group's overdraft facility is unsecured and bears interest at the prime overdraft rate.				
13. Non-current assets held for sale				
Reconciliation of investment property held for sale				
Carrying value at beginning of year	**284 350**	173 000	**56 700**	56 500
Transferred from investment property	**99 636**	149 649	**1 420**	17 003
Transferred from straight-line rental income accrual	**1 064**	74	**50**	149
Transferred from tenant installation and lease costs	**287**	176	**–**	–
Transferred from plant and equipment	**190**	–	**–**	–
Fair value changes	**41 471**	20 751	**16 130**	4 748
Properties disposed of	**(62 398)**	(59 300)	**(25 900)**	(21 700)
Carrying value at end of year	**364 600**	284 350	**48 400**	56 700
A decision was made by the board to dispose of 43 (2017: 35) non-core or underperforming investment properties.				
The non-current assets will be sold piecemeal. Due to the current economic climate, certain properties could not be sold before 31 August 2018. However, the board remains committed to the disposal of the remaining properties and a plan is in place to dispose of these investment properties through various means, including auctions and brokers.				
The properties classified as held for sale are valued using the net income capitalisation method as detailed in note 2.4 except for those where a firm offer has been received in which case it is valued at the amount of the offer value.				
14. Stated capital				
Authorised				
500 000 000 ordinary shares of no par value	**500 000**	500 000	**500 000**	500 000
Issued				
266 197 535 (2017: 266 864 319) ordinary shares of no par value				
Carrying value at beginning of year	**4 221 477**	3 958 207	**4 221 477**	3 958 207
2018: 666 784 ordinary shares repurchased	**(11 343)**	–	**(11 343)**	–
2017: Issue of 12 312 999 ordinary shares of no par value in terms of a dividend reinvestment programme	**–**	263 270	**–**	263 270
	4 210 134	4 221 477	**4 210 134**	4 221 477
The unissued ordinary shares are under the control of the directors and are subject to the conditions of the company's MOI, the JSE Listings Requirements and the Companies Act. This authority remains in force until the company's next annual general meeting. All shares are fully paid up.				

Notes to the financial statements continued

for the year ended 31 August 2018

	consolidated		company	
	2018 R'000	2017 R'000	**2018 R'000**	2017 R'000
15. Non-distributable reserve				
Capital reserve arising on disposal of investment property	**25 229**	26 145	**13 342**	13 837
Fair value changes to investment property	**2 340 259**	2 379 343	**617 144**	642 273
Fair value changes to derivative financial instruments	**7 325**	(32 348)	**(15 998)**	(55 756)
Fair value changes to joint venture reserves	**18 779**	28 526	**–**	–
Additions through business combination	**871 118**	867 387	**192 512**	192 512
	3 262 710	3 269 053	**807 000**	792 866

			consolidated		company	
	Interest rate %	Expiry date	**2018 R'000**	2017 R'000	**2018 R'000**	2017 R'000
16. Borrowings						
16.1 Loans at amortised cost						
Secured loans						
Nedbank Limited						
Loan 1	Prime less 1.43	2 May 2019	**1 269 152**	1 176 364	**1 269 153**	1 176 364
Loan 2	Prime less 2.15		**–**	30 166	**–**	–
Loan 3	Fixed at 12.15		**–**	160 000	**–**	–
Loan 4	Prime less 2.15		**–**	25 552	**–**	–
Loan 5	Fixed at 12.06		**–**	40 580	**–**	–
Loan 6	Fixed at 12.06		**–**	100 000	**–**	–
Loan 7	Prime less 2.15		**–**	29 999	**–**	–
Loan 8	Prime less 2.15		**–**	790	**–**	–
Loan 9	Prime less 1.77		**–**	259 953	**–**	259 953
Loan 10	Prime less 1.79	1 October 2018	**74 985**	74 988	**–**	–
Loan 11	Fixed at 11.72	1 October 2018	**75 000**	75 000	**–**	–
Loan 12	Fixed at 11.01	1 November 2018	**36 400**	36 400	**–**	–
Loan 13	Prime less 1.65	3 December 2018	**50 695**	50 697	**50 697**	50 697
Loan 14	Prime less 1.67	3 December 2018	**16 369**	16 369	**–**	–
Loan 15	Prime less 1.67	1 February 2019	**4 738**	4 738	**–**	–
Loan 16	Prime less 2.15	1 March 2019	**33 562**	30 724	**–**	–
Loan 17	Prime less 2.00	3 June 2019	**27 726**	27 726	**–**	–
Loan 18	Prime less 1.00		**–**	34 385	**–**	–
Loan 19	Prime less 1.63		**–**	537 066	**–**	537 066
Loan 20	Prime less 1.26	3 February 2020	**440 865**	73 814	**440 865**	73 814
Loan 21	Prime less 1.41	2 May 2019	**357 006**	–	**357 006**	–
Loan 22	Prime less 0.84	4 September 2023	**302 826**	–	**302 826**	–
Loans 2 to 9 and loan 19 have been consolidated into loan 20, loan 21 and loan 22 in the name of Octodec. Loans 10 to 16 will be consolidated on their respective expiry dates into loan 22 in the name of Octodec. An agreement has already been concluded with Nedbank to refinance R400 million and R488.8 million of Loan 1 into two loans maturing on 2 May 2022 and 2 May 2024 respectively. Loan 18 has been repaid.						
Standard Bank of South Africa Limited						
Loan A	Prime less 1.33		**–**	293 826	**–**	293 826
Loan B	3-month JIBAR plus 1.52		**–**	223 311	**–**	223 311
Loan C	Prime less 1.18	1 September 2020	**293 262**	288 036	**293 262**	288 036
Loan D	Prime less 1.55	27 November 2018	**180 007**	119 784	**180 007**	119 784
Loan E	3-month JIBAR plus 1.85	4 December 2020	**385 160**	–	**385 160**	–
Loan A has been refinanced by PMM 46 of the DMTN Programme, by converting into a HQLA facility, utilising existing securities. Loan B has been consolidated into loan E.						
			3 547 753	3 710 268	**3 278 976**	3 022 851

Notes to the financial statements continued

for the year ended 31 August 2018

	Interest rate %	Expiry date	consolidated 2018 R'000	consolidated 2017 R'000	company 2018 R'000	company 2017 R'000
16. Borrowings – continued						
DMTN Programme						
Unsecured loans - listed						
PMM 29 - issuance 12 months	3-month JIBAR plus 1.30		–	119 000	–	–
PMM 30 - issuance 12 months	3-month JIBAR plus 1.30		–	50 000	–	–
PMM 33 - issuance 6 months	3-month JIBAR plus 1.00		–	65 000	–	–
PMM 34 - issuance 12 months	3-month JIBAR plus 1.30		–	260 000	–	–
PMM 35 - issuance 6 months	3-month JIBAR plus 1.00		–	158 500	–	–
PMM 36 - issuance 12 months	3-month JIBAR plus 1.30		–	134 000	–	–
PMM 37 - issuance 6 months	3-month JIBAR plus 1.00		–	160 000	–	–
PMM 38 - issuance 36 months	3-month JIBAR plus 1.85	12 June 2020	155 000	155 000	–	–
PMM 39 - issuance 12 months	3-month JIBAR plus 1.30	4 September 2018	171 000	–	–	–
PMM 40 - issuance 12 months	3-month JIBAR plus 1.30	4 September 2018	55 000	–	–	–
PMM 43 - issuance 12 months	3-month JIBAR plus 1.35	28 February 2019	250 000	–	–	–
PMM 44 - issuance 18 months	3-month JIBAR plus 1.55	7 November 2019	110 000	–	–	–
PMM 45 - issuance 6 months	3-month JIBAR plus 1.10	28 November 2018	180 000	–	–	–
Accrued interest			8 093	14 566	–	–
			929 093	1 116 066	–	–
Subsequent to year end, PMM 39 and PMM 40, which matured on 4 September 2018, have been refinanced by PMM 47 for R30 million maturing on 30 August 2019 and PMM 48 for R130 million maturing on 28 February 2020 and PMM 45, which matured on 28 November 2018, was partly refinanced by PMM 49 for R140 million maturing on 28 May 2019.						
Secured loans - unlisted						
PMM 46 - Standard Bank of South Africa Limited (HQLA)	3-month JIBAR plus 1.95	29 June 2023	369 687	–	–	–
			4 846 533	4 826 334	3 278 976	3 022 851
Reconciliation to statement of financial position						
Non-current			3 240 759	3 253 517	2 361 630	2 799 540
Current			1 605 774	1 572 817	917 346	223 311
			4 846 533	4 826 334	3 278 976	3 022 851

16.1 Loans at amortised cost

The group has R628 million (2017: R626 million) undrawn debt facilities available on demand as at 31 August 2018. The facilities are secured by mortgage bonds over various investment properties with a fair value of R9.8 billion (2017: R10.7 billion).

	consolidated 2018 Carrying value R'000	consolidated 2018 Fair value R'000	consolidated 2017 Carrying value R'000	consolidated 2017 Fair value R'000
16.2 Fair value of long-term loans				
Loans at fixed interest rates				
Nedbank Limited	111 400	111 775	411 980	421 879

The fair values of the fixed interest rate loans were determined using the discounted cash flow method. The average annual interest rate used to discount the cash flows on the fixed interest loans was 8.3% (2017: 9.0%), based on the quoted swap rate at year end for loans with similar maturities. The average credit risk margin used was 1.17% (2017: 1.21%) based on the group's most recent fixed-rate loan agreements with Nedbank Limited.

The fair value of long-term loans has been categorised as a Level 2 in the fair value hierachy and there have been no transfers made between Level 1, 2 or 3 during the year under review.

Notes to the financial statements continued

for the year ended 31 August 2018

	consolidated		company	
	2018 R'000	2017 R'000	**2018 R'000**	2017 R'000
17. Deferred taxation				
The deferred tax liability arises from the following temporary differences:				
Tax losses available for set-off against future taxable income	**(112 262)**	(104 280)	**(694)**	(704)
Building allowances – pre conversion to a REIT	**181 992**	178 943	**–**	–
Wear and tear allowance	**19 239**	19 250	**694**	704
Fair value changes – derivative financial instruments	**(2 373)**	(13 481)	**–**	–
	86 596	80 432	**–**	–
Reconciliation of movement for the year				
Carrying value at beginning of year	**80 432**	72 989	**–**	–
Acquired through business combination	**13 136**	–		
Reversal of fair value adjustment and other temporary differences on conversion to a REIT	**(9 917)**	–		
Tax losses available for set-off against future taxable income	**(8 152)**	29 329	**10**	6 915
Wear and tear allowance	**(11)**	(325)	**(10)**	(6)
Fair value changes - derivative financial instruments	**11 108**	(21 561)	**–**	(6 909)
	86 596	80 432	**–**	–
A deferrred tax asset of R44.3 million (2017: R60.8 million) has not been recognised as profits are distributed to the shareholders and the likelihood of utilising the deferred tax asset is remote.				
A REIT cannot claim building allowances. Allowances claimed in previous years will be recouped on sale of investment property. The deferred tax liability was therefore retained.				
18. Trade and other payables				
Trade payables	**126 365**	111 921	**33 551**	29 947
Tenant deposits	**88 666**	93 811	**9 238**	10 617
Accrued expenses – utilities and assessment rates	**80 028**	76 180	**5 703**	3 137
Accrued expenses – repairs and maintenance	**10 362**	10 393	**646**	872
Other payables	**70 443**	40 244	**30 095**	10 505
Unclaimed dividends	**2 352**	2 207	**1 690**	1 477
	378 216	334 756	**80 923**	56 555
VAT payable	**–**	7 792	**595**	7 075
	378 216	342 548	**81 518**	63 630
The group has financial risk management policies in place to ensure that all payables are paid within the credit framework. Amounts are settled within payment terms to ensure that no interest is payable.				
19. Revenue				Restated
Rental income	**1 468 325**	1 428 347	**127 668**	120 395
Turnover rental income	**2 124**	2 103	**–**	172
Straight-line rental income accrual	**1 482**	(4 905)	**2 112**	3 829
Recoveries and other income	**423 357**	405 801	**53 096**	50 675
REIT dividends received from subsidiaries			**732 114**	613 748
REIT dividends recieved from subsidiaries were previously classified as income from subsidiaries. In the current year, REIT dividends received from subsidiaries are classified as revenue in accordance with IAS 18. The comparative amounts have been restated.				
	1 895 288	1 831 346	**914 990**	788 819

Notes to the financial statements continued

for the year ended 31 August 2018

	consolidated		company	
	2018 R'000	2017 R'000	**2018 R'000**	2017 R'000
20. Property operating expenses				
Fees for services				
Collection fees	**122 746**	123 736	**10 722**	10 312
Commissions	**17 447**	12 194	**1 227**	923
Other				
Assessment rates	**108 316**	99 026	**12 236**	11 094
Depreciation of plant and equipment	**1 676**	1 731	**30**	27
Amortisation of tenant installation costs and commission paid	**15 883**	18 805	**1 183**	1 044
Operating lease – minimum lease payments	**1 045**	1 045	**–**	–
Operating lease – contingent	**5 723**	5 886	**–**	–
Employee costs	**33 322**	30 894	**3 818**	3 387
Repairs and maintenance	**73 749**	76 713	**6 153**	6 148
Security costs	**64 226**	64 892	**5 982**	5 188
Utilities	**288 448**	283 911	**35 756**	35 367
Other property expenditure	**132 330**	124 803	**10 406**	10 527
	864 911	843 636	**87 513**	84 017
21. Administrative and corporate expenses				
Auditors' remuneration				
External audit fee	**2 908**	2 760	**2 908**	2 760
Internal audit fees	**321**	1 414	**321**	1 414
Fees for services				
Management fees	**52 228**	51 471	**(7 708)**	2 938
Paid	**52 228**	51 471	**47 826**	51 471
Recovered from subsidiaries	**–**	–	**(55 534)**	(48 533)
Directors' emoluments	**7 058**	5 622	**7 058**	5 622
Other administrative expenses	**20 360**	16 546	**24 358**	11 654
	82 875	77 813	**26 937**	24 388
22. Interest income				
Bank	**2 986**	3 199	**2 720**	2 077
Loans and sundry receivables	**7 589**	6 673	**7 561**	6 653
	18 584	18 094	**11 186**	9 567
23. Income from subsidiaries				Restated
Interest received	**–**	–	**12 135**	25 286
REIT dividends received from subsidiaries were previously classified as income from subsidiaries. In the current year, dividends from subsidiaries are classified as revenue in accordance with IAS 18. The comparative amounts have been restated.				
24. Share of profit of joint ventures				
Management fees	**606**	500	**–**	–
Interest received	**10 410**	10 656	**–**	–
Equity-accounted (loss)/profit	**(1 062)**	3 654	**–**	–
Share of profits	**8 685**	1 082	**–**	–
Share of fair value changes to investment property	**(9 747)**	2 572	**–**	–
	9 954	14 810	**–**	–
25. Finance costs				
Interest rate derivatives	**12 014**	2 074	**12 317**	2 587
Borrowings	**432 443**	436 666	**283 267**	211 080
South African Revenue Services	**7 477**	–	**5 305**	–
Other suppliers	**33**	461	**–**	8
Less: Interest capitalised	**(13 086)**	(30 499)	**–**	(4 604)
	438 881	408 702	**300 889**	209 071

Notes to the financial statements continued

for the year ended 31 August 2018

	consolidated 2018 R'000	consolidated 2017 R'000	company 2018 R'000	company 2017 R'000
26. Taxation				
Current taxation	**1 522**	–	**–**	–
Deferred taxation	**6 971**	(7 443)	**–**	–
	8 493	(7 443)	**–**	–
Reconciliation of the income tax expense for the year to accounting profit				
Profit before tax	**532 070**	695 138	**537 105**	445 625
Income tax expense calculated at 28% (2017: 28%)	**148 980**	194 638	**150 388**	124 775
Non-taxable income	**(33 895)**	(80 110)	**(13 516)**	(8 151)
Non-taxable equity income	**(298)**	(520)	**–**	–
Non-deductible expenses	**24 471**	29 777	**10 958**	25 326
Amounts not credited to the statement of profit and loss and other comprehensive income	**16 589**	17 056	**1 928**	1 112
Allowances	**(21 230)**	(22 494)	**(1 750)**	(2 747)
Wear and tear	**(10 409)**	(10 033)	**(214)**	(237)
Provision for doubtful debts	**(1 740)**	(1 506)	**(346)**	(170)
Prepaid expenses	**(2 377)**	(2 182)	**(332)**	(306)
Finance costs	**(6 704)**	(8 773)	**(858)**	(2 034)
Reversal of allowances/deductions granted in previous years	**3 688**	3 024	**476**	419
Exempt capital gains	**(140)**	(980)	**–**	(728)
Qualifying distribution	**(151 605)**	(150 230)	**(151 605)**	(150 230)
Assessed losses utilised/limited	**(130)**	(258)	**–**	–
Prior period adjustment to deferred tax	**3 044**	7 539	**–**	–
Limitation of REIT distribution	**11 639**	10 224	**3 121**	10 224
Other timing differences	**2 003**	(223)	**–**	–
Reversal of taxation liability on conversion of company acquired to REIT status	**(11 609)**	–	**–**	–
	(8 493)	7 443	**–**	–
Effective tax rate	**(1.6%)**	1.1%	**0.0%**	0.0%

The group and company have tax losses amounting to R537.0 million (2017: R589.7 million) (company R44.3 million (2017: R44.3 million)) which can be utilised against future taxable income.

	consolidated 2018 R'000	consolidated 2017 R'000	company 2018 R'000	company 2017 R'000
27. Leases				
27.1 As lessor				
Non-cancellable rental lease agreements				
Within one year	**916 211**	842 342	**92 375**	98 867
One to five years	**1 104 581**	1 108 103	**141 109**	169 218
More than five years	**90 862**	99 604	**11 058**	22 371
	2 111 654	2 050 049	**244 542**	290 456

Rental receivable represents contractual rental income and fixed operating costs recovered for leases in existence at year end.

Leases are entered into for an average period of between one and ten years. Residential leases are for a twelve month period and provide for a monthly agreement at expiry.

	consolidated 2018 R'000	consolidated 2017 R'000	company 2018 R'000	company 2017 R'000
27.2 As lessee				
Future minimum lease payments				
Within one year	**1 046**	1 046	**–**	–
Two to five years	**4 183**	4 183	**–**	–
More than five years	**48 918**	49 964	**–**	–
	54 147	55 193	**–**	–

The land leases included above relate to Woodmead Value Mart and Intersite and will be funded from the proceeds of rental income. The lease agreements provide for rental being the greater of the future minimum lease payment and 23.9% of gross monthly rental in respect of Woodmead Value Mart and 6% in respect of Intersite (refer to note 2.6).

Notes to the financial statements continued

for the year ended 31 August 2018

	consolidated		company	
	2018 R'000	2017 R'000	**2018 R'000**	2017 R'000
28. Earnings, headline earnings and distributable earnings per share (cents)				
The calculation of basic earnings per share is based on net income attributable to shareholders and the number of shares in issue during the year.				
Reconciliation of earnings to headline earnings				
Profit after taxation	**540 563**	687 695		
Adjusted for:				
Loss/(profit) on sale of investment properties	**916**	(2 943)		
Loss on derecognition of investment in joint venture	**2 770**	–		
Impairment of goodwill	**1 992**	–		
Fair value changes				
Investment property	**39 084**	(235 106)		
Investment property – joint ventures	**9 747**	(2 572)		
Headline earnings attributable to shareholders	**595 072**	447 074		
Reconciliation of headline earnings to distributable earnings				
Fair value adjustments				
Interest rate derivatives	**(39 673)**	77 010		
Straight-line rental income accrual	**(1 482)**	4 905		
Taxation-current and deferred	**(8 493)**	7 443		
Share of after tax profit of joint ventre - not distributable	**(3 980)**	–		
Distributable earnings attributable to shareholders	**541 444**	536 432		
Actual number of shares in issue (000)	**266 198**	266 864		
Weighted number of shares in issue (000)	**266 389**	261 207		
	Cents	Cents		
Basic and diluted earnings per share	**202.9**	263.3		
Basic headline and diluted headline earnings per share	**223.4**	171.2		
Dividend per share	**203.4**	203.1		
Given the nature of its business, Octodec uses distribution per share as its key performance measure, as it is considered a more relevant performance measure than earnings or headline earnings per share.				
29. Cash generated from operations				Restated
Profit before taxation:	**532 070**	695 138	**537 105**	445 625
Adjusted for:				
Straight-line rental income accrual	**(1 482)**	4 905	**(2 112)**	(3 829)
Fair value changes of investment property	**39 084**	(235 106)	**25 129**	(20 465)
Fair value changes of interest rate derivatives	**(39 673)**	77 010	**(39 758)**	72 907
Loss/(profit) on sale of investment property	**916**	(2 943)	**495**	(2 598)
Loss on derecognition of share in joint venture	**2 770**	–	**–**	–
Impairment of goodwill	**1 992**	–	**–**	–
Impairment of loans	**–**	–	**–**	10 727
Finance costs	**438 881**	408 702	**300 889**	209 071
Investment income	**(28 538)**	(32 904)	**(11 186)**	(9 567)
Depreciation and amortisation	**17 559**	20 536	**1 213**	1 071
Operating income before working capital changes	**963 579**	935 338	**811 775**	702 942
Decrease/(increase) in trade and other receivables	**12 844**	(11 790)	**(4 390)**	(695)
Increase in trade and other payables	**29 784**	24 777	**17 888**	19 015
	1 006 207	948 325	**825 273**	721 262

Notes to the financial statements continued

for the year ended 31 August 2018

	consolidated 2018 R'000	2017 R'000
30. Contingencies		
Guarantees		
The group has issued guarantees for the provision of certain services to its subsidiaries:		
Tshwane Metropolitan Muncipality	**12 686**	12 800
City Power – Johannesburg	**1 092**	800
Eskom	**190**	190
Centurion Town Council	**39**	39
Contingency liability		
The City of Johannesburg (COJ) published its valuation roll in July 2018. Management is of the opinion that certain investment property has been valued at amounts which are in excess of its fair value and have submitted a formal objection to the valuations. Management is confident that the objections will be viewed favourably and therefore have only paid assessment rates, calculated on the value of the property which management believes is a fair value. COJ has already considered some of the objections and reversed the assessment rates previously charged. Management is confident that COJ will consider the remaining objections favourably and has therefore not raised an accrual for the outstanding amount.		
Maximum potential liability should COJ not consider the remaining objections favourably	**7 200**	–
31. Commitments		
Capital expenditure		
The Octodec group has commitments of R25.6 million (2017: R220.2 million) in respect of approved capital expenditure relating to the redevelopment and refurbishments of certain properties. These developments will be financed by way of existing and additional approved bank facilities.		
32. Retirement benefits		
The employees of the group belong to a defined contribution pension fund or provident fund and contributions to the funds are charged to profit and loss in the year they are incurred. The group has no obligation to cover any unfunded benefits.		
Amount contributed by the group to the fund	**1 786**	1 736

33. Capital management

The group's policy is to have an adequate capital base so as to maintain stakeholder confidence and to sustain future development of the business. The capital comprises shareholders' equity, including capital and reserves. The level of dividends paid is determined with reference to the liquidity and solvency of the group as well as consideration of budgets, forecasts and JSE Listings Requirements. There were no changes in the group's approach to capital management during the year.

Loan to value ratio

The board reviews the capital structure on a quarterly basis. As part of the review, the board considers the cost of capital and the risks associated therewith over time. The group and company's current borrowings amount to 37.4% (2017: 37.1%) and 38.6% (2017: 36.5%) respectively of its total investment portfolio, which is within the guidance given by the board of a loan to value ratio not exceeding 40%.

	consolidated		company	
	2018 R'000	2017 R'000	**2018 R'000**	2017 R'000
Total borrowings (note 16)	**4 846 533**	4 826 334	**3 278 976**	3 022 850
Less: Cash on hand and bank balances	**(28 104)**	(89 424)	**(9 220)**	(23 607)
Net debt	**4 818 429**	4 736 910	**3 269 756**	2 999 243
Total investment portfolio*	**12 872 103**	12 776 378	**8 463 914**	8 214 294
Loan to value ratio	**37.4%**	37.1%	**38.6%**	36.5%

* *Total investment portfolio includes the investment property (at valuation), property under development, non-current assets held for sale, and investment in joint ventures.*

Notes to the financial statements continued

for the year ended 31 August 2018

33. Capital management continued

Financial covenants

The following financial covenants apply in respect of the consolidated financial position of the group.

Nedbank Limited

- Net rental income (gross rental income less property operating expenses, administration costs and management fees, but excluding rental income attributable to existing vacancies) before net interest paid, tax, depreciation and amortisation, income from revaluation of properties and any abnormal items divided by net interest paid (all interest paid on third party debt, but excluding interest and distributions payable to shareholders, less any interest earned), shall be at least 2.0 times.
- Total debt (all interest-bearing debt excluding tenant deposits, tax payable and trade creditors, but including all financial liabilities arising from underlying interest rate derivatives) expressed as a percentage of total assets (value of direct investment in property holdings plus investments held in unlisted companies) shall not exceed 55%.

Standard Bank of South Africa Limited

- The loan to value ratio shall not exceed 55% (loan to value shall mean the ratio of the outstanding balance under the facilities granted by Standard Bank to the value of the properties bonded to Standard Bank).
- The group's overall debt shall not exceed 50% of total assets.
- The ratio of earnings before net interest payable, taxation and any non-cash items in respect of the investment properties to net interest charged (interest payable less any interest receivable) shall not be less than 2.0 times.
- The ratio of net rental income (all rental income from properties bonded to Standard Bank less all property-related expenses) to all interest payable in respect of the facilities granted by Standard Bank shall not be less than 1.8 times.

The group complied with all financial covenants during the year and at year end.

34. Financial risk management

The group's financial instruments consist mainly of deposits with banks, bank overdrafts, loans from banks and note holders, interest rate swaps, trade receivables and payables and loans to and from subsidiaries. In respect of all financial instruments listed above,the carrying value approximates fair value.

The group is exposed to the following risks arising from its exposure to financial instruments:

- Credit risk
- Interest rate risk
- Liquidity risk

34.1 Credit risk

Credit risk relates mainly to cash deposits, cash equivalents and trade and other receivables. The group only deposits cash with major banks with high-quality credit standing and limits exposure to any one counterparty. The concentration of credit risk relating to trade and other receivables is limited due to the large and unrelated tenant base.

Before accepting any new tenant, a vetting process is applied to assess the potential tenant's credit quality. The group monitors the financial position of its tenants on an ongoing basis. Provision is made for specific doubtful debts and all balances 120 days and over. Balances between 60 and 90 days are provided for based on estimated recoverable amounts by reference to past default experience. At year end management did not consider there to be any material credit risk exposure. The carrying amount of financial assets represents the maximum credit exposure.

All of the group's trade and other receivables have been reviewed for impairment. Certain trade receivables were found to be impaired and a provision of R24.9 million (2017: R21.5 million) (company R4.9 million (2017: R2.4 million)) has been recorded accordingly.

Included in the group's trade receivable balance are tenant balances with a carrying amount of R33.9 million (2017: R49.6 million) (company: R3.2 million (2017: R3.4 million)) which are past due at reporting date and not provided for, as there has not been significant change in the credit quality and the amounts are still considered recoverable.

Notes to the financial statements continued

for the year ended 31 August 2018

	consolidated		company	
	2018 R'000	2017 R'000	**2018 R'000**	2017 R'000
34. Financial risk management continued				
34.1 Credit risk continued				
The ageing of trade receivables outstanding and not provided for is as follows:				
30 days or less	**23 489**	37 916	**2 173**	1 806
More than 30 days and less than 60 days	**2 622**	2 456	**273**	227
More than 60 days	**7 808**	9 272	**704**	1 363
	33 919	49 644	**3 150**	3 396
Reconciliation of provision for impairment of trade and other receivables:				
Carrying value at beginning of year	**21 516**	17 080	**2 427**	1 611
Additional provisions for the year	**23 777**	17 647	**4 191**	2 419
Amounts written off as uncollectable	**(20 437)**	(13 211)	**(1 679)**	(1 603)
	24 856	21 516	**4 939**	2 427

34.2 Interest rate risk

At 31 August 2018, the group had borrowings of R4.8 billion (2017: R4.8 billion) (company R3.2 billion (2017: R3.0 billion)) at various interest rates. The all-in weighted average cost of borrowings, including the cost of interest rate swaps, was 9.0% (2017: 9.2%) (company 9.1% (2017: 9.1%)) per annum. At the reporting date, 74.5% (2017: 82.1%) (company 106% (2017: 106%)) of borrowings were fixed or hedged by way of interest rate swap contracts, and exposure of borrowings to interest rate movements was 25.5% (2017: 17.9%) (company 0% (2017: 0%)) of total borrowings. A breakdown of the borrowings is detailed in note 16.

Interest rate trends are constantly monitored and appropriate steps taken to ensure the group's exposure to interest movements is managed. The policy is to reduce interest rate risk exposure on long-term financing by entering into interest rate swap contracts.

The group analyses its interest rate exposure on a continuous basis and calculates the impact on profit and loss of a defined interest rate shift by using different scenarios. The scenarios are calculated only for liabilities that represent the major interest-bearing obligations and the impact on post-tax profit. A 0.5% per annum shift would represent a maximum increase or decrease of R4.5 million (2017: R3.1 million) (company Rnil (2017: Rnil)) in post-tax profits and equity per annum. The calculations are done monthly to verify that the maximum potential additional expense is within risk tolerance limits.

	consolidated		company	
	Nominal amount R'000	**All-in weighted average interest rate per annum %**	**Nominal amount R'000**	**All-in weighted average interest rate per annum %**
2018				
Fixed-rate borrowings expiry				
October 2018	**75 000**	**11.72**	**–**	**–**
October 2018	**36 400**	**11.01**	**–**	**–**
	111 400	**11.50**	**–**	**–**
Variable rate borrowings excluding interest rate derivatives	**4 735 133**	**8.60**	**3 278 976**	**8.80**
Total borrowings	**4 846 533**	**8.70**	**3 278 976**	**8.80**

Notes to the financial statements continued

for the year ended 31 August 2018

	consolidated		company	
	Nominal amount R'000	**All-in weighted average interest rate per annum %**	**Nominal amount R'000**	**All-in weighted average interest rate per annum %**
34. Financial risk management continued				
34.2 Interest rate risk continued				
2017				
Fixed-rate borrowings expiry				
May 2018	160 000	12.15	–	–
May 2018	100 000	12.06	–	–
May 2018	40 580	12.06	–	–
October 2018	75 000	11.72	–	–
October 2018	36 400	11.01	–	–
	411 980	11.90	–	–
Variable rate borrowings excluding interest rate derivatives	4 414 354	8.70	3 022 851	8.80
Total borrowings	4 826 334	8.90	3 022 851	8.80

	consolidated		company	
	Amount R'000	**Average all-in margin over/ (below) variable rate per annum %**	**Amount R'000**	**Average all-in margin over/ (below) variable rate per annum %**
2018				
Interest rate derivatives maturity				
November 2018	**500 000**	**(0.01)**	**500 000**	**(0.01)**
January 2019	**750 000**	**(0.47)**	**750 000**	**(0.47)**
January 2020	**500 000**	**0.85**	**500 000**	**0.85**
December 2020	**500 000**	**0.83**	**500 000**	**0.83**
January 2021	**750 000**	**1.27**	**750 000**	**1.27**
February 2021	**500 000**	**0.01**	**500 000**	**0.01**
Total interest rate derivatives	**3 500 000**	**0.41**	**3 500 000**	**0.41**
Fixed-rate borrowings	**111 400**		**–**	
Total fixed-rate loans and interest rate derivatives	**3 611 400**	**0.41**	**3 500 000**	**0.41**
2017				
Interest rate derivatives maturity				
September 2017	100 000	0.56	50 000	0.56
January 2018	150 000	0.68	50 000	0.68
April 2018	200 000	(1.40)	100 000	(1.40)
May 2018	50 000	1.38	50 000	1.38
July 2018	400 000	0.43	400 000	0.43
August 2018	150 000	0.38	50 000	0.65
November 2018	500 000	(0.07)	500 000	(0.07)
January 2019	750 000	(0.54)	750 000	(0.54)
January 2020	500 000	0.79	500 000	0.79
January 2021	750 000	1.20	750 000	1.20
Total interest rate derivatives	3 550 000	0.29	3 200 000	0.33
Fixed-rate borrowings	411 980	–	–	–
Total fixed rate loans and interest rate derivatives	3 961 980	0.29	3 200 000	0.33

Notes to the financial statements continued

for the year ended 31 August 2018

34. Financial risk management continued

34.3 Liquidity risk

The group's risk to liquidity is reduced as a result of the undrawn banking facilities to cover future commitments. Cash flows are monitored on a monthly basis to ensure that cash resources are adequate to meet funding requirements.

The table below analyses the group's financial liabilities into relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date. The amounts disclosed are the undiscounted cash flows.

	Less than 1 year R'000	Between 1 and 2 years R'000	Between 2 and 5 years R'000	Over 5 years R'000
Consolidated 2018				
Borrowings	**1 904 954**	**1 151 853**	**1 339 842**	**1 083 547**
Trade and other payables	**378 216**	**–**	**–**	**–**
Company 2018				
Borrowings	**1 140 939**	**544 758**	**1 170 376**	**842 493**
Trade and other payables	**81 518**	**–**	**–**	**–**
Consolidated 2017				
Borrowings	1 884 084	2 624 130	565 848	288 108
Trade and other payables	342 548	–	–	–
Company 2017				
Borrowings	476 751	2 307 676	396 673	288 108
Trade and other payables	198 284	–	–	–

In the prior year the financial liabilities were grouped in the contractual maturity period, excluding the impact of finance costs, and the finance costs maturity period was reflected in a separate table. In the current year it has been consolidated into one table thereby reflecting the undiscounted maturity of the financial liabilities. The prior year amounts have been restated to include the finance costs.

	Loans and receivables R'000	At amortised cost R'000	At fair value R'000	Fair value Level 2 R'000
34.4 Analysis of financial instruments				
Consolidated 2018				
Financial assets				
Cash and bank balances	**–**	**62 912**	**–**	**–**
Derivative financial instruments	**–**		**9 604**	**9 604**
Trade and other receivables	**118 155**	**–**	**–**	**–**
Other financial assets	**78 028**	**–**	**–**	**–**
Financial liabilities				
Derivative financial instruments	**–**	**–**	**18 077**	**18 077**
Trade and other payables	**–**	**378 216**	**–**	**–**
Long-term borrowings	**–**	**3 240 759**	**–**	**–**
Short-term borrowings	**–**	**1 605 774**	**–**	**–**
Company 2018				
Financial assets				
Cash and bank balances	**–**	**44 028**	**–**	**–**
Derivative financial instruments	**–**	**–**	**9 604**	**9 604**
Trade and other receivables	**16 848**	**–**	**–**	**–**
Other financial assets	**78 028**	**–**	**–**	**–**
Financial liabilities				
Derivative financial instruments	**–**	**–**	**18 077**	**18 077**
Trade and other payables	**–**	**80 923**	**–**	**–**
Long-term borrowings	**–**	**2 361 630**	**–**	**–**
Short-term borrowings	**–**	**917 346**	**–**	**–**

Notes to the financial statements continued

for the year ended 31 August 2018

	Loans and receivables R'000	At amortised cost R'000	At fair value R'000	Fair value Level 2 R'000
34. Financial risk management continued				
34.4 Analysis of financial instruments continued				
Consolidated 2017				
Financial assets				
Cash and bank balances	–	130 756	–	–
Derivative financial instruments	–		3 583	3 583
Trade and other receivables	135 189	–	–	–
Other financial assets	75 213	–	–	–
Financial liabilities				
Derivative financial instruments	–	–	51 729	51 729
Trade and other payables	–	334 756	–	–
Long-term borrowings	–	3 253 517	–	–
Short-term borrowings	–	1 572 817	–	–
Company 2017				
Financial assets				
Cash and bank balances	–	64 939	–	–
Derivative financial instruments	–	–	2 715	2 715
Trade and other receivables	13 036	–	–	–
Other financial assets	75 213	–	–	–
Financial liabilities				
Derivative financial instruments	–	–	50 946	50 946
Trade and other payables	–	56 555	–	–
Long-term borrowings	–	2 799 539	–	–
Short-term borrowings	–	223 311	–	–

35. Related parties

A related party is a person or entity that is related to Octodec, and that person or entity:

(i) has control or joint control of the reporting entity;
(ii) has significant influence over the reporting entity; or
(iii) is a member of the key management of the reporting entity.

Relationships where control existed during the year:

Directors: S Wapnick; DP Cohen; GH Kemp; MZ Pollack; AK Stein; PJ Strydom; JP Wapnick and AA Koranteng (resigned on 10 May 2018).

138

Subsidiary companies: Refer to schedule of interest in subsidiaries on pages 138 and 139.

Other: City Property, a company which manages the group's property portfolio and over which significant influence is exercised by JP Wapnick.
Tugendhaft Wapnick Banchetti and Partners, a firm of attorneys that renders legal services and over which significant influence is exercised by S Wapnick.

Notes to the financial statements continued

for the year ended 31 August 2018

	consolidated		company	
	2018 R'000	2017 R'000	**2018 R'000**	2017 R'000
35. Related parties continued				
35.1 City Property				
The following related party transactions took place during the year under review and the fees paid are in terms of the asset and property management agreement in operation until 30 June 2018 and the new asset and property management agreement which became effective 1 July 2018.				
Related party transactions				
Income				
Rent received	**10 315**	9 961	**7 039**	6 579
Expenditure				
Asset management fees paid	**52 228**	51 471	**47 826**	51 471
Collection fees	**122 746**	123 736	**10 722**	10 312
Commissions paid	**13 365**	11 591	**734**	711
Commissions paid on sale and purchase of investment property, refurbishments and developments	**8 814**	4 967	**245**	1 023
Related party balances				
Trade and other receivables	**1 209**	–	**822**	–
Trade and other payables	**4 617**	605	**450**	146
35.2 Tugendhaft Wapnick Banchetti and Partners				
Related party transaction				
Expenditure				
Professional and legal fees	**668**	639	**163**	33

Notes to the financial statements continued

for the year ended 31 August 2018

	consolidated		company	
	2018 R'000	2017 R'000	**2018 R'000**	2017 R'000
35. Related party transactions – continued				
35.3 Subsidiaries				
Related party transactions				
Dividends received				
Anke Properties Proprietary Limited	**–**	–	**6 410**	6 495
IPS Investments Proprietary Limited	**–**	–	**113 167**	66 017
Killarney Mall Properties Proprietary Limited	**–**	–	**20 000**	11 600
Octprop Properties Proprietary Limited	**–**	–	**73**	–
Premium Properties Limited	**–**	–	**421 833**	360 000
Presmooi Proprietary Limited	**–**	–	**110 000**	102 250
Ramreg Properties Proprietary Limited	**–**	–	**1 131**	1 151
Tribeca Properties Proprietary Limited	**–**	–	**4 300**	5 150
Waverley Plaza Properties Proprietary Limited	**–**	–	**26 400**	30 285
Woodmead Mart Proprietary Limited	**–**	–	**28 800**	30 800
	–	–	**732 114**	613 748
Interest received				
Premium Properties Limited	**–**		**950**	7 274
Woodmead Mart Proprietary Limited	**–**	–	**12 135**	18 012
		–	**13 085**	25 286
Asset management fees recovered				
Anke Properties Proprietary Limited	**–**	–	**504**	437
IPS Investments Proprietary Limited and its subsidiaries	**–**	–	**11 352**	9 995
Killarney Mall Properties Proprietary Limited	**–**	–	**3 111**	2 735
Octprop Properties Proprietary Limited	**–**	–	**74**	124
Premium Properties Limited and its subsidiaries	**–**	–	**28 536**	25 029
Presmooi Proprietary Limited	**–**	–	**6 738**	5 883
Ramreg Properties Proprietary Limited	**–**	–	**61**	53
Tribeca Properties Proprietary Limited	**–**	–	**327**	274
Waverley Plaza Properties Proprietary Limited	**–**	–	**1 496**	1 402
Woodmead Mart Proprietary Limited	**–**	–	**3 335**	2 601
	–	–	**55 534**	48 533
Related party balances				
138 Refer to page 138 for details of loans due by/(to) subsidiaries.				
35.4 Directors' and prescribed officers' remuneration				
S Wapnick (chairman)	**1 302**	1 112	**1 302**	1 112
DP Cohen (lead independent director)	**1 019**	816	**1 019**	816
GH Kemp	**839**	744	**839**	744
MZ Pollack	**932**	787	**932**	787
AA Koranteng (resigned 10 May 2018)	**455**	–	**455**	–
AK Stein	**640**	675	**640**	675
PJ Strydom	**952**	782	**952**	782
JP Wapnick	**660**	656	**660**	656
E Greeff	**256**	–	**256**	–
	7 055	5 572	**7 055**	5 572
VAT and Skills Development Levy contributions	**3**	50	**3**	50
	7 058	5 622	**7 058**	5 622

Notes to the financial statements continued

for the year ended 31 August 2018

	2018			2017		
	Salary R'000	**Pension fund contributions R'000**	**Total R'000**	Salary R'000	Pension fund contributions R'000	Total R'000
Salaries paid by City Property to directors of Octodec						
AK Stein	**4 251**	**73**	**4 324**	2 597	47	2 644
JP Wapnick	**4 102**	**–**	**4 102**	2 707	–	2 707
S Wapnick	**1 817**	**–**	**1 817**	1 435	–	1 435
	10 170	**73**	**10 243**	6 739	47	6 786

There are no service contracts in place with the directors of Octodec. The proportionate salaries paid by City Property for Messrs JP Wapnick and AK Stein, the executive directors of Octodec, who are employed by City Property, are based on an approximation of the time spent on Octodec in relation to their employment at City Property for the year ended 31 August 2018. Ms S Wapnick, the non-executive chairman, was remunerated by City Property on an approximation of her time spent on Octodec affairs.

	consolidated					
	2018		Restated 2017		Reclassification of sectors	Audited year to 31 August 2017
	R'000	**%**	R'000	%	R'000	R'000
36. Segmental report						
36.1 Segmental reporting						
The group earns revenue in the form of property rentals. On a primary basis the group is organised into five operating segments: • Office • Retail • Industrial • Residential • Specialised and other						
Rental income by sector						
Offices	**244 470**	**16.6**	249 908	17.5	(67 480)	317 388
Retail	**502 923**	**34.2**	497 766	34.8	(25 282)	523 048
Industrial	**109 254**	**7.4**	111 900	7.8	(2 899)	114 799
Residential	**446 730**	**30.4**	415 129	29.0	618	414 511
Specialised and other						
Parking	**65 080**	**4.4**	60 734	4.3	30	60 704
Healthcare facilities	**33 223**	**2.3**	29 728	2.1	29 728	–
Auto dealerships	**13 543**	**0.9**	11 532	0.8	11 532	–
Hotels	**14 448**	**1.0**	14 435	1.0	14 435	–
Places of worship	**6 627**	**0.5**	6 348	0.4	6 348	–
Educational facilities	**34 151**	**2.3**	32 970	2.3	32 970	–
Total rental income	**1 470 449**	**100.0**	1 430 450	100.0	–	1 430 450
Recoveries	**424 839**		400 896		–	400 896
Revenue	**1 895 288**		1 831 346		–	1 831 346

In order to align with the JSE Listings Requirements property portfolio information disclosures, the group changed its reporting sectors to reflect the occupier of the property instead of the nature of the property. The comparative amounts were restated to reflect the changes in the sectors.

Other than revenue, information on expenses, assets and liabilities 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, therefore the company has not reported on a geographical basis.

Notes to the financial statements continued

for the year ended 31 August 2018

37. Events after reporting date

A dividend of 101.7 cents per share (2017: 98.3 cents per share) was declared after the reporting date.

Subsequent to the financial year end, Joybee Properties Proprietary Limited, a wholly owned subsidiary of the group, acquired the remaining 50% of Jardtal Properties Proprietary Limited for an amount of R36 500 000 settled in cash, increasing its shareholding from 50% to 100%, effective 1 November 2018.

The directors are not aware of any other events subsequent to 31 August 2018 and up to the date of approval of these financial statements, not arising in the normal course of business, which are likely to have a material effect on the financial information contained in this report.

	consolidated 2018 R'000
38. Business combinations	
38.1. Gerlan Properties Proprietary Limited (Gerlan)	
With effect from 1 July 2018, IPS Investments Proprietary Limited (IPS), a subsidiary of the company, acquired the remaining 50% of Gerlan, a property-owning company, for a consideration of R33 million, settled in cash, increasing its shareholding from 50% to 100%. This resulted in IPS acquiring control of Gerlan and Gerlan changed from a joint venture to a subsidiary.	
38.2 Fair value of assets acquired and liabilities recognised at the date of acquisition	
Non-current assets	
Investment properties	**76 000**
Current assets	
Cash and cash equivalents	**142**
Non-current liabilities	
Deferred taxation	**(13 136)**
Current liabilities	
Non-interest-bearing borrowings	**(144)**
Taxation liability	**(846)**
Total identifiable net assets	**62 016**
Fair value of equity interest held before the business combination	**(31 008)**
Goodwill on acquisition	**(1 992)**
Acquisition date fair value consideration paid in cash	**33 000**
38.3 Net cash outflow on acquisition	
Cash consideration paid	**33 000**
Less: Cash and cash equivalents acquired	**(142)**
Net cash outflow on acquisition	**32 858**

Octodec acquired the remaining shares in Gerlan as *inter alia*, it provided Octodec shareholders with an attractive return.

Goodwill arose on the acquisition of Gerlan because the cost of the combination included a control premium. Since investment property is already stated at fair value, the goodwill was impaired and included in profit and loss in the 2018 financial year. The goodwill arising on the Gerlan acquisition is not deductible for tax purposes.

38.4 Impact of acquisition on the results of the group

Included in revenue and profit for the year is R1 259 372 and R1 230 625 respectively, in respect of Gerlan. Had this business combination been effected on 1 September 2017, the impact on the group would be as follows.

	Gerlan as joint venture R'000	Gerlan R'000	Gerlan as subsidiary R'000
Revenue	1 895 288	4 796	1 900 084
Share of equity profits of joint venture - Gerlan	1 597	–	–
Profit before tax	532 070	1 597	533 667

Property portfolio information

for the year ended 31 August 2018

Investment properties owned by the group

Property name	GLA per sector	Weighted average rental per m² at 31 August 2018 - commercial	Weighted average rental per unit at 31 August 2018 - residential	Rental income R'000	GLA m²	Vacancy at 31 August 2018 %
Centurion						
Andpot	Sold	–	–	718	–	–
FNB Centurion*	Retail - shops (1 863)	165	–	2 644	1 863	35.0
Lenchen Centre*	Retail - shops (3 331)	121	–	4 661	3 331	–
Lenchen Park*	Industrial (5 469)	78	–	5 061	5 469	0.6
Prime Cure House* †	Offices (2 689)	91	–	3 124	2 689	–
The Hangar	Residential (19 860) Retail - shops (102)	–	5 923	18 137	19 962	4.6
Weighted average per location		**105**	**5 923**	**34 347**	**33 314**	**4.8**
Hatfield						
Highlands*	Residential (1 156)	–	6 414	1 278	1 156	–
Intersite*	Offices (2 379), Retail - shops (3 189)	125	–	6 963	5 568	12.9
Protea Hotel*	Retail - shops (1 697), Hotels (3 666)	82	–	5 320	5 363	–
Talland †	Retail - shops (570)	80	–	363	570	100.0
The Fields*	Offices (8 941), Residential (27 788), Retail - shops (8 883), Hotels (9 792)	136	5 983	93 305	55 404	12.4
Weighted average per location		**126**	**5 993**	**107 229**	**68 061**	**12.0**
Hermanstad						
Erf One Eight One	Industrial (12 865)	29	–	4 486	12 866	–
Hannyhof Centre	Retail - shops (1 754)	59	–	1 204	1 754	–
Hardwood	Industrial (1 112)	29	–	392	1 112	–
Pretboy	Sold	–	–	208	–	–
Steyns Industrial Park*	Industrial (11 668)	40	–	5 342	11 668	–
Talkar †	Industrial (6 873)	61	–	5 067	6 873	–
Weighted average per location		**41**	**–**	**16 699**	**34 272**	**–**
Johannesburg and surrounding areas						
3 West Street*	Offices (1 654), Retail - shops (1 642)	83	–	3 080	3 296	10.0
CCMA Place*	Offices (3 503), Retail - shops (649)	87	–	4 155	4 152	3.6
Druthon Centre	Offices (1 063), Retail - shops (2 335)	78	–	1 905	3 398	34.5
Erand Gardens* †	Offices (2 663)	141	–	5 179	2 663	–
Iskemp	Sold	–	–	555	–	–
Kempton Place* ^	Residential (22 659), Retail - shops (8 883), Educational facilities (1 047)	96	4 707	42 611	32 589	22.7
Killarney Mall*	Offices (8 728) Retail - shopping centre (34 121), Auto dealerships (4 096)	142	–	78 289	46 945	12.8
Kyalami Crescent*	Industrial (9 634)	56	–	6 213	9 634	9.9
McCarthy Midrand* †	Auto dealerships (3 692)	101	–	4 483	3 692	–
Motor City Strijdom Park	Retail - shops (6 769)	81	–	5 548	6 769	11.1
Pretwade	Sold	–	–	608	–	–
The Manhattan ^	Residential (11 048)	–	7 624	4 876	11 048	26.0
Woodmead Value Mart*	Retail - shopping centre (18 049)	172	–	36 553	18 049	0.7
Weighted average per location		**126**	**5 370**	**194 055**	**142 235**	**13.9**
Johannesburg CBD						
119 Albertina Sisulu Street	Sold	–	–	–	–	–
121 Albertina Sisulu Street	Sold	–	–	131	–	–
Anderson Place*	Offices (5 180), Retail - shops (205)	78	–	5 667	5 385	–
Arlington House*	Offices (384), Retail - shops (2 521)	155	–	4 682	2 905	13.2

* *Properties securing long-term borrowings (notes 2 and 16).*
† *Single-tenanted property*
^ *Properties in which the group has a 50% interest.*

Property portfolio information continued

for the year ended 31 August 2018

Investment properties owned by the group continued

Property name	GLA per sector	Weighted average rental per m² at 31 August 2018 - commercial	Weighted average rental per unit at 31 August 2018 - residential	Rental income R'000	GLA m²	Vacancy at 31 August 2018 %
Johannesburg CBD continued						
Armadale	Offices (1 842), Residential (6 094), Retail - shops (2 850), Educational facilities (1 842)	85	5 345	10 579	12 628	14.7
Bradlows Corner*	Offices (926), Retail - shops (1 523)	101	–	956	2 449	74.7
Bram Fischer Towers*	Offices (9 768), Retail - shops (1 896)	74	–	8 729	11 664	19.0
Brisk Place*	Offices (12), Residential (3 225), Retail - shops (2 387)	78	3 901	5 948	5 624	27.7
Castle Mansions*	Residential (10 162), Retail - shops (6 002)	140	4 645	19 257	16 164	3.4
City Block	Industrial (4 074)	23	–	1 103	4 074	14.0
CPA Place*	Offices (666), Residential (3 392), Retail - shops (760)	104	4 392	6 634	4 818	4.6
Dan's Place*	Residential (5 910), Retail - shops (2 401)	126	4 114	9 894	8 311	14.5
Education Centre*	Offices (8 355), Retail - shops (2 581)	149	–	4 651	10 936	76.6
Elephant House*	Offices (4 777)	71	–	2 990	4 777	36.1
Empisal	Retail - shops (802), Educational facilities (826)	80	–	1 554	1 628	–
Essenby	Residential (4 372), Retail - shops (1 934)	118	4 377	8 139	6 306	2.0
Fedsure House*	Offices (19 869), Retail - shops (27)	67	–	1 230	19 896	99.9
Focus House*	Offices (2 683), Retail - shops (350)	59	–	1 904	3 033	20.4
Frank's Place*	Residential (8 916), Retail - shops (3 398)	139	4 597	17 492	12 314	9.5
Howard House	Offices (1 270), Retail - shops (311)	97	–	1 742	1 581	6.3
Inner Court*	Offices (12 760), Retail - shops (10 788)	106	–	14 025	23 548	54.5
Jeppe House*	Offices (59), Retail - shops (2 610), Educational facilities (5 674)	62	–	6 040	8 343	0.7
John Street*	Industrial (15 439)	39	–	6 906	15 439	4.8
Kings City Parkade*	Retail - shops (1 578)	214	–	7 630	1 578	–
Klamson Towers*	Offices (5 085), Retail - shops (1 431)	82	–	5 060	6 516	20.5
Lara's Place*	Offices (783), Residential (5 567), Retail - shops (973)	122	4 274	10 366	7 323	3.6
Lister Medical Centre*	Retail - shops (3 290), Healthcare facilities (11 913)	94	–	13 544	15 203	32.3
London House	Offices (3 978), Retail - shops (334)	56	–	2 456	4 312	12.8
Lusam Mansions*	Offices (154), Residential (3 093), Retail - shops (506)	161	3 831	4 575	3 753	12.2
Marlborough House	Offices (7 429), Retail - shops (829)	114	–	9 660	8 258	12.1
Medical Towers	Offices (4 767), Retail - shops (1 079)	167	–	2 166	5 846	82.6
Mr Price*	Offices (1 662), Retail - shops (1 751)	120	–	4 308	3 413	22.4
Nzunza House (formerly North City)*	Offices (7 899), Retail - shops (774)	104	–	6 566	8 673	47.2
Plaza Place*	Residential (7 055), Retail - shops (1 436)	67	3 894	10 557	8 491	16.0
Presmooi	Retail - shops (2 836), Educational facilities (838)	54	–	2 442	3 674	–
Record House*	Residential (1 024), Retail - shops (503)	169	3 624	2 771	1 527	3.1
Reinsurance House	Offices (15 034)	–	–	–	15 034	100.0
Reliance Centre*	Industrial (6 564), Offices (526)	36	–	2 404	7 090	10.9
Ricci's Place*	Residential (9 071), Retail - shops (1728)	138	4 154	15 776	10 799	16.4
Royal Place*	Offices (6 717), Residential (5 261), Retail - shops (2549)	106	3 915	17 294	14 527	14.7
Selby 515*	Industrial (6 416)	46	–	3 176	6 416	12.1
Shoprite – Eloff Street* †	Offices (22 338), Retail - shops (9 402)	24	–	3 174	31 740	70.6
Splendid Place*	Residential (7 526), Retail - shops (988)	127	4 345	9 100	8 514	6.6
Tali's Place	Offices (2 555), Residential (12 703), Retail - shops (2 727)"	59	3 908	18 796	17 985	16.0
Temple Court*	Residential (2 004), Retail - shops (331)	124	4 401	2 938	2 335	2.6
The Brooklyn* ^	Residential (3 938), Retail - shops (2 157)	43	3 278	6 963	6 095	8.2
Union Club*	Residential (2 853), Retail - shops (955)	185	3 339	4 686	3 808	8.5

Property portfolio information continued

for the year ended 31 August 2018

Investment properties owned by the group continued

Property name	GLA per sector	Weighted average rental per m² at 31 August 2018 - commercial	Weighted average rental per unit at 31 August 2018 - residential	Rental income R'000	GLA m²	Vacancy at 31 August 2018 %
Johannesburg CBD continued						
Vuselela Place*	Offices (24), Residential (8 161), Retail - shops (937)	178	4 114	11 350	9 122	7.7
Wits Technikon* †	Educational facilities (16 937)	30	–	6 112	16 937	–
Works@Main*	Offices (3 458), Retail - shops (974), Educational facilities (477)	34	–	1 971	4 909	8.0
Weighted average per location		**76**	**4 135**	**326 094**	**415 701**	**29.8**
Tshwane – Arcadia						
470 Pretorius Street †	Industrial (917)	–	–	332	917	–
Apollo Centre	Offices (2 664), Retail - shops (1 021), Educational facilities (5 414)	64	–	5 822	9 099	19.2
Benrico*	Retail - shops (503), Educational facilities (1 939)	48	–	1 299	2 442	–
BP Leyds Street* †	Retail - shops (1 411)	67	–	1 541	1 411	–
Corner Place	Residential (3 722)	–	4 414	6 024	3 722	3.3
Craig's Place*	Residential (5 149)	–	4 596	8 310	5 149	7.9
LPA Beleggings †	Industrial (954), Offices (100)	30	–	382	1 054	–
Leo's Place	Offices (106), Residential (5 464), Retail - shops (175)	136	4 195	9 044	5 745	5.5
Ludwigs †	Industrial (1 529)	49	–	904	1 529	–
MBA Building	Offices (3 050)	101	–	2 783	3 050	32.2
McCarthy Church Street* †	Auto dealerships (2 760)	131	–	4 433	2 760	–
Monaco	Residential (1 440)	–	6 308	1 756	1 440	5.4
Nedbank Plaza*	Offices (4 548), Residential (7 110), Retail - shops (11 373)	101	5 862	21 690	23 031	32.8
Numall*	Retail - shops (5 220)	65	–	4 465	5 220	–
Provisus*	Offices (5 479), Retail - shops (375)	105	–	7 102	5 854	19.2
Tiny Town	Residential (310), Offices (85), Residential (1 245), vacant land	–	7 734	1 089	1 640	25.7
Weighted average per location		**84**	**4 851**	**76 976**	**74 063**	**17.2**
Tshwane CBD						
228 Pretorius Street	Retail - shops (641), Educational facilities (2 844)	94	–	3 926	3 485	–
250 Pretorius Street	Offices (3 098), Retail - shops (963)	88	–	3 101	4 061	25.4
28 Church Square*	Offices (6 545), Retail - shops (245)	90	–	6 941	6 790	3.7
Alec's Place*	Residential (4 741), Retail - shops (484)	138	4 942	6 297	5 225	1.7
Amanda Court*	Residential (1 150), Retail - shops (1 453)	97	4 574	2 917	2 603	1.7
AVN* †	Offices (7 073)	95	–	8 781	7 073	–
Bank Towers*	Offices (5 792), Retail - shops (1 735)	109	–	8 488	7 527	17.8
Bosch Building †	Parking	–	–	441	–	–
Boschurch	Retail - shops (922)	76	–	843	922	–
Burlan*	Offices (1 072), Retail - shops (879)	72	–	1 696	1 951	–
Callaway*	Educational facilities (1 426), Places of worship (576)	43	–	1 074	2 002	–
Capitol Towers North*	Offices (12 086), Retail - shops (1 852)	92	–	15 667	13 938	1.5
Central House*	Offices (3 694), Retail - shops (1 898)	118	–	6 208	5 592	26.0
Central Towers	Offices (6 655), Retail - shops (804)	122	–	6 271	7 459	44.3
Centre Place*	Offices (1 670), Residential (5 808), Retail - shops (3 308)	214	3 761	19 036	10 786	19.2
Centre Walk*	Offices (20 015), Retail - shops (5 392)	111	–	35 011	25 407	7.1
City Corner*	Retail - shops (913), Places of worship (547)	128	–	2 230	1 460	0.8
City Place*	Residential (9 539), Retail - shops (1 974)	108	3 939	19 262	11 513	3.5

** Properties securing long-term borrowings (notes 2 and 16).*
† Single-tenanted property
^ Properties in which the group has a 50% interest.

Property portfolio information continued

for the year ended 31 August 2018

Investment properties owned by the group continued

Property name	GLA per sector	Weighted average rental per m² at 31 August 2018 - commercial	Weighted average rental per unit at 31 August 2018 - residential	Rental income R'000	GLA m²	Vacancy at 31 August 2018 %
Tshwane CBD continued						
City Towers*	Offices (2 164), Retail - shops (780)	121	–	2 205	2 944	72.8
CPA House	Offices (4 579), Retail - shops (3314)	89	–	8 771	7 893	–
Curpro †	Industrial (157)	57	–	647	157	–
Cuthchurch*	Offices (4 419), Retail - shops (5 237)	136	–	7 393	9 656	52.7
Daloria*	Retail - shops (1 349), Places of worship (189)	67	–	1 250	1 538	–
Damalis	Offices (64), Retail - shops (435)	–	–	–	499	–
Demar Building*	Residential (3 440), Retail - shops (1551)	51	4 760	4 813	4 991	13.8
Du Proes	Places of worship (1 251), Retail - shops (508)	55	–	1 071	1 759	7.7
Du Proes	Vacant land	–	–	–	–	–
Dupro	Vacant land	–	–	–	903	–
Dusku †	Retail - shops (336)	59	–	238	336	–
Eland House	Residential (1 086), Retail - shops (411)	111	5 121	1 480	1 497	16.8
Filkem House	Offices (893), Retail - shops (645)	173	–	2 076	1 538	46.7
FNB Church Street	Offices (466), Educational facilities (1 057)	36	–	460	1 523	30.6
Govpret*	Offices (5 868), Retail - shops (348)	104	–	8 338	6 216	–
Hacklu Enterprises	Retail - shops (683)	143	–	940	683	25.0
Indacom	Retail - shops (1 127), Places of worship (2 001), Industrial (2 423), Offices (366)	36	–	2 562	5 917	–
Jardown*	Industrial (3 816), Offices (1 081), Retail - shops (2 274), Educational facilities (1 885)	48	–	4 531	9 056	29.4
Jeff's Place*	Residential (14 771)	–	4 406	21 674	14 771	3.8
Joan's Place*	Residential (980), Retail - shops (207)	131	3 631	1 596	1 187	10.0
Karps*	Offices (556), Residential (423), Retail - shops (1 391)	27	5 374	822	2 370	31.3
Ken's Court	Industrial (783), Offices (25), Residential (2 550), Retail - shops (446)	62	5 663	2 775	3 804	89.1
Letari Building	Industrial (1 097), Retail - shops (1 031), Educational facilities (495), Places of worship (345)	37	–	1 056	2 968	17.7
Lisa's Place	Residential (3 090)	–	4 279	5 059	3 090	8.9
Locarno House*	Offices (5 083), Retail - shops (272)	116	–	4 795	5 355	35.7
Louis Pasteur*	Offices (7 161), Retail-shops (3 283), Healthcare facilities (24 653), Industrial (414)	87	–	38 359	35 511	12.1
Maravin	Offices (353), Retail-shops (401)	82	–	404	754	46.8
MidChurch	Retail - shops (1 424)	3	–	30	1 424	–
Midtown	Offices (7 297), Retail - shops (1 085)	391	–	774	8 382	96.9
Navy House*	Offices (5 576), Retail - shops (1 305)	124	–	5 339	6 881	46.5
Olivetti House	Offices (3 232), Retail - shops (604)	74	–	3 339	3 836	6.9
One on Mutual	Offices (609), Residential (5 310), Retail - shops (1 543)	95	5 411	11 259	7 462	14.7
Orpheum Mansions	Residential (1 600), Retail - shops (1 139)	84	5 120	2 490	2 739	–
Parking@Sophie de Bruyn †	Parking	–	–	245	–	–
Perl Modes Building*	Offices (930), Retail - shops (1 240)	79	–	1 931	2 170	–
Pete's Place*	Residential (6 789), Retail - shops (127)	181	4 181	9 054	6 916	2.6
Potmeul	Vacant land	–	–	–	–	–
Potproes	Industrial (2 907), Retail-shops (5 589), Places of worship (113), Educational facilities (638)	48	–	4 135	9 247	21.1
Poyntons*	Retail-shops (3 035)	68	–	2 471	3 035	–
Praetor Forum*	Offices (4 518), Retail - shops (1 587)	106	–	5 455	6 105	24.3
Premium Towers	Offices (6 232), Retail - shops (1 491)	124	–	8 040	7 723	29.0
Pretjolum*	Offices (127), Retail-shops (4 011), Places of worship (804), Educational facilities (1 054), Industrial (837)	52	–	4 246	6 833	–

Property portfolio information continued

for the year ended 31 August 2018

Investment properties owned by the group continued

Property name	GLA per sector	Weighted average rental per m² at 31 August 2018 - commercial	Weighted average rental per unit at 31 August 2018 - residential	Rental income R'000	GLA m²	Vacancy at 31 August 2018 %
Tshwane CBD continued						
Prime Towers*	Offices (3 620), Retail - shops (498)	99	–	3 950	4 118	24.0
Prinsben	Retail - shops (1 312)	78	–	1 103	1 312	–
Prinschurch	Offices (11 358), Retail - shops (1 770)	157	–	3 895	13 128	90.0
Prinsman*	Residential (5 253), Retail - shops (6 525), Educational facilities (399), Offices (25)	63	3 899	13 965	12 202	2.9
Prinsproes	Retail-shops (1 432), Educational facilities (2 979), Places of worship (211)	26	–	1 082	4 622	21.2
Prinstruben	Retail - shops (1 695), Places of worship (514)	45	–	1 052	2 209	21.9
Protea Towers*	Offices (8 550), Retail - shops (821)	100	–	6 798	9 371	36.9
Provincial House	Offices (1 197), Retail - shops (1 850)	21	–	357	3 047	39.3
Rapier*	Retail - shops (920)	187	–	2 059	920	–
Rezmep	Offices (1 413), Retail-shops (4 860), Educational facilities (2 255), Residential (2 076), Industrial (1 868)	53	–	6 389	12 472	28.7
Ross Electrical	Retail - shops (263)	–	–	–	263	100.0
Russell's Place*	Residential (7 116), Retail - shops (1 049)	101	4 339	11 057	8 165	3.8
Samchurch	Retail - shops (189)	351	–	797	189	–
SchoeCourt	Industrial (776), Retail - shops (568), Places of worship (1 107)	28	–	746	2 451	15.5
Scott's Corner*	Retail - shops (4 810)	85	–	4 913	4 810	–
Sharon's Place*	Residential (13 464), Retail - shops (5 647)	122	4 368	15 447	19 111	5.9
Sharp Centre	Sold	–	–	170	–	–
Shepstru*	Offices (129), Retail - shops (2 006), Places of worship (915)	47	–	1 619	3 050	20.4
Shoprite*	Offices (4 029), Retail - shops (14 871)	72	–	16 348	18 900	–
SKD	Industrial (2 631), Offices (50), Retail - shops (282), Places of worship (1 079)	35	–	1 660	4 042	1.7
Standard Bank Chambers*	Offices (7 782)	90	–	7 427	7 782	8.6
Station Place*	Residential (11 398), Retail - shops (732), Educational facilities (4 199)	37	3 842	18 891	16 329	5.8
Steyn's Place*	Residential (13 745), Retail - shops (1 893)	154	4 550	23 975	15 638	7.9
Steynscor*	Offices (1 042), Retail - shops (2 770)	160	–	7 393	3 812	1.4
Time Place	Residential (4 638), Retail - shops (743)	140	4 048	7 752	5 381	8.3
Toitman	Educational facilities (2 124)	58	–	1 493	2 124	–
Tom's Place*	Residential (9984)	–	4 579	17 419	9 984	6.4
Tuel	Retail - shops (1 093)	78	–	1 006	1 093	–
Valcourt	Industrial (848), Offices (287), Retail - shops (557), Places of worship (904)	37	–	1 079	2 596	–
Vanstrub	Industrial (1 757), Retail - shops (2 693)	71	–	2 392	4 450	53.6
Viskin †	Industrial (312)	63	–	235	312	–
Van Riebeeck Building	Mothballed offices (8 167)	–	–	–	8 167	100.0
Volks Building*	Parking	–	–	624	–	–
Weighted average per location		**87**	**4 304**	**513 406**	**519 513**	**18.6**
Tshwane South East						
Elarduspark Shopping Centre*	Offices (2 216), Retail - shopping centre (10 025)	147	–	18 713	12 241	16.4
Odeon Forum* †	Offices (3 102)	147	–	6 109	3 102	–
Weighted average per location		**147**	**–**	**24 822**	**15 343**	**13.1**

* *Properties securing long-term borrowings (notes 2 and 16).*
† Single-tenanted property
^ Properties in which the group has a 50% interest.

Property portfolio information continued

for the year ended 31 August 2018

Investment properties owned by the group continued

Property name	GLA per sector	Weighted average rental per m² at 31 August 2018 - commercial	Weighted average rental per unit at 31 August 2018 - residential	Rental income R'000	GLA m²	Vacancy at 31 August 2018 %
Tshwane North						
Blaauw Village* ^	Retail - shopping centre (7 265)	119	–	10 317	7 265	–
Erf Agt Nul Nege	Offices (402), Retail - shops (1 096), Places of worship (257)	58	–	798	1 755	30.1
Erf Six Five One	Industrial (1 136), Places of worship (219)	44	–	647	1 355	–
Normed*	Offices (2 656), Retail - shops (3 208)	62	–	3 871	5 864	5.4
Ramreg	Residential (772), Retail - shops (993)	76	3 836	1 711	1 765	4.7
Rosnew	Industrial (1 402), Retail - shops (5 035)	92	–	5 862	6 437	16.3
Tronap Investments †	Sold	–	–	604	–	–
Weighted average per location		**89**	**3 836**	**23 810**	**24 441**	**8.1**
Tshwane Other						
Persequor Park*	Offices (8 074)	120	–	12 549	8 074	–
91 Rauch	Land	–	–	–	–	–
Rentmeester Park*	Offices (12 083), Residential (176)	117	–	16 824	12 259	8.9
Weighted average per location		**118**	**–**	**29 373**	**20 333**	**5.4**
Tshwane West						
Asland*	Industrial (4 807), Offices (469)	33	–	1 833	5 276	9.0
Carlzeil*	Industrial (8 387), Retail-shops (290)	28	–	2 263	8 677	35.3
Goleda	Industrial (7 093), Retail-shops (411)	25	–	1 335	7 504	43.8
Grariv	Sold	–	–	19	–	–
Henwoods	Industrial (3 577)	51	–	2 127	3 577	–
H&S Mansions	Industrial (2 055), Offices (6), Residential (364), Retail - shops (1 085)	27	4 446	1 489	3 510	1.1
Imbuia	Residential (1 155)	–	5 154	676	1 155	9.1
Ischurch	Industrial (3 191), Retail-shops (3 065), Residential (416), Place of worship (106)	36	4 087	2 388	6 778	30.4
Jakaranda	Residential (1 782)	–	4 357	1 590	1 782	6.1
Kiaat	Residential (3 080)	–	4 354	1 978	3 080	2.5
Lasmitch Properties †	Industrial (201), Retail - shops (3 071)	28	–	1 117	3 272	–
Lutbridge	Industrial (3 883), Retail-shops (888), Offices (557), Residential (1 632), Industrial (3 128),	33	–	2 105	5 328	–
Metromitch	Retail - shops (3 509), Offices (315), Places of worship (1 257), Educational facilities (404)	33	4 490	4 640	10 245	17.9
Mimosa	Residential (1 890)	–	5 219	1 112	1 890	5.6
Mitchpap	Industrial (1 779), Residential (293), Retail - shops (1 262), Places of worship (1 373)	40	–	1 930	4 707	5.4
Nedwest Centre	Industrial (7 216), Retail - shops (2 128)	51	–	4 945	9 344	16.0
Panag Investments	Industrial (1 237), Retail - shops (733)	44	–	1 048	1 970	–
Rosemitch*	Industrial (8 885), Residential (874)	28	3 918	1 689	9 759	51.5
Rovon Investments	Industrial (3 869), Retail - shops (435)	50	–	1 833	4 304	33.3
Soutwest Properties	Industrial (1 839)	68	–	1 498	1 839	–
Syringa	Residential (3 633)	–	4 703	2 202	3 633	10.8
Weighted average per location		**37**	**4 515**	**39 817**	**97 630**	**20.2**
Silverton and surrounding areas						
Brianley	Industrial (9 531). Offices (3 170), Places of worship (567)	36	–	5 060	13 268	6.2
Janvoel	Industrial (916), Retail - shops (882)	43	–	919	1 798	–
Notrevlis	Industrial (1 378), Offices (49), Retail - shops (634)	54	–	1 350	2 061	–
Sildale Park*	Industrial (22 734), Offices (35), Retail - shops (73)	48	–	12 046	22 842	4.9
Silver Place	Offices (347), Residential (15 733), Retail - shops (9 104), Places of worship (981)	73	5 070	22 235	26 165	6.7

Property portfolio information continued

for the year ended 31 August 2018

Investment properties owned by the group continued

Property name	GLA per sector	Weighted average rental per m² at 31 August 2018 - commercial	Weighted average rental per unit at 31 August 2018 - residential	Rental income R'000	GLA m²	Vacancy at 31 August 2018 %
Silverton and surrounding areas continued						
Silverfas*	Industrial (2 689), Offices (5)	38	–	1 160	2 694	13.5
Silvertondale 36*	Industrial (1 472), Offices (346)	49	–	1 062	1 818	–
Supmall	Offices (18), Retail - shops (1 308)	86	–	1 358	1 326	–
Tomzeil*	Industrial (6 191), Offices (395)	39	–	2 402	6 586	–
The Tannery Industrial Park*	Industrial (35 622), Offices (1 404), Retail - shops (937)	50	–	17 718	37 963	29.2
Weighted average per location		**50**	**5 070**	**65 310**	**116 521**	**13.0**
Sunnyside						
Karelia Flats*	Residential (1 464)	–	4 351	2 411	1 464	8.3
Les Nize Flats*	Residential (1 456)	–	3 919	2 491	1 456	7.1
Savyon Place*	Residential (1 952), Retail - shops (665)	162	5 450	3 096	2 617	2.8
Selmar*	Residential (1 512)	–	5 057	1 079	1 512	25.4
Sunnyside Galleries*	Residential (394), Retail - shops (3 200), Places of worship (606)	80	4 512	3 869	4 200	–
The Pavilion*	Retail - shops (2 327)	131	–	3 760	2 327	14.6
The Village*	Retail - shops (4 273), Places of worship (750)	66	–	3 733	5 023	10.2
Unity Heights*	Residential (1 664), Retail - shops (590)	137	6 114	2 684	2 254	7.8
Weighted average per location		**91**	**4 699**	**23 123**	**20 853**	**8.2**
Waverley, Gezina, Moot						
Bouwer Broers	Retail - shops (2 719)	37	–	1 118	2 719	–
Gerlan †	Auto dealerships (5 174)	122	–	7 793	5 174	–
Gezina City Shopping Centre*	Retail - shopping centre (16 218)	64	–	12 472	16 218	–
Motor City Capital Park	Industrial (3 417), Retail - shops (4 044)	64	–	5 084	7 461	6.0
Orion	Residential (1 482), Retail - shops (923)	44	4 484	1 856	2 405	4.1
Ou Holland	Residential (1 393), Retail - shops (958)	55	4 427	1 664	2 351	1.6
Swemvoor	Industrial (1 030), Retail - shops (1 353)	43	–	1 192	2 383	4.5
Trekfred	Retail - shops (2 792)	80	–	2 497	2 792	13.3
Trekmin	Industrial (625), Offices (326), Residential (3 972), Retail - shops (4 438)	67	4 851	6 768	9 361	3.2
Troymona	Residential (house)	–	7 744	178	–	–
Waverley Plaza Shopping Centre*	Offices (1 958), Retail - shopping centre (9 331)	159	–	21 191	11 289	2.1
Weighted average per location		**85**	**4 719**	**61 813**	**62 153**	**2.6**
Weighted average for portfolio of properties		**83**	**4 579**	**1 536 873**	**1 644 433**	**18.6**
Investment properties 100% held		83	4 593	1 470 449	1 598 484	
Investment properties 50% held		100	4 377	66 424	45 949	
		83	**4 579**	**1 536 873**	**1 644 433**	

* *Properties securing long-term borrowings (notes 2 and 16).*
† Single-tenanted property
^ Properties in which the group has a 50% interest.

Schedule of interest in subsidiaries

for the year ended 31 August 2018

Subsidiary name	Cost of shares 2018 R	Cost of shares 2017 R	Amounts owing by/(to) subsidiaries 2018 R	Amounts owing by/(to) subsidiaries 2017 R
Alert Investments Proprietary Limited	600	600	(600)	(600)
Anke Properties Proprietary Limited	1 000	1 000	20 696 882	21 426 314
Carine Properties Proprietary Limited	107 875	107 875	(200)	(200)
Cold Air Properties Proprietary Limited	1 000	1 000	(1 000)	(1 000)
Dirk du Toit Share Block Proprietary Limited	–	100	–	(100)
Dusku Investments Proprietary Limited	803 933	803 933	(100)	(100)
Elarduspark Shopping Centre Proprietary Limited	7 362 821	7 362 821	(1 000)	(1 000)
Erf 181 Hermanstad Proprietary Limited	100	100	(100)	(100)
Erf 651 Pretoria North Proprietary Limited	1 000	1 000	(1 000)	(1 000)
Erf 809 Proprietary Limited	95	95	(95)	(95)
Frederika Straat Beleggings Share Block Proprietary Limited	–	100	–	(100)
Gezfarm Properties Proprietary Limited	1 000	1 000	(1 000)	(1 000)
Goleda Properties Proprietary Limited	200	200	(200)	(200)
Hannyhof Proprietary Limited	1 000	1 000	(1 000)	(1 000)
Hardwood Properties Proprietary Limited	3	3	(3)	(3)
Henwoods (Pretoria) Development Company Proprietary Limited	1 000	1 000	(1 000)	(1 000)
Heracle Proprietary Limited	753 047	753 047	(8 442)	(8 442)
Indacom Properties Proprietary Limited	16	16	(16)	(16)
IPS Investments Proprietary Limited^	968	968	1 874 677 266	1 202 101 063
Janvoel Properties Proprietary Limited	1 000	1 000	(1 000)	(1 000)
Karkap Properties Share Block Proprietary Limited	–	100	–	(100)
Killarney Mall Properties Proprietary Limited	2 392 153	2 392 153	359 527 245	261 887 974
Lasmitch Properties Proprietary Limited	1 000	1 000	(1 000)	(1 000)
Lutbridge Investment Proprietary Limited	70	70	(70)	(70)
Metromitch Proprietary Limited	100	100	(100)	(100)
Middle Pip Proprietary Limited	1 000	1 000	(1 000)	(1 000)
Mitchpap Proprietary Limited	200	200	(200)	(200)
Muntstreet Properties Share Block Proprietary Limited	–	1 000	–	(1 000)
Nedwest Centre Proprietary Limited	4 000	4 000	(4 000)	(4 000)
Octprop Properties Proprietary Limited	100	100	15 217 008	15 155 496
Panag Investments Proprietary Limited	200	200	(200)	(200)
Potproes Properties Proprietary Limited	3 086 426	3 086 426	(1 000)	(1 000)
Premium Properties Limited#	3 024 919 806	3 024 919 806	447 431 362	972 798 051
Presmooi Proprietary Limited	523 031	523 031	899 162 567	895 131 888
Pretboy Share Block Proprietary Limited	100	100	(100)	(100)
Pretvin Share Block Proprietary Limited	4 000	4 000	(4 000)	(4 000)
Pretwade Share Block Proprietary Limited	2	2	(2)	(2)
Prinsben Properties Proprietary Limited	1 000	1 000	(1 000)	(1 000)
Prinstruben Proprietary Limited	1 000	1 000	(1 000)	(1 000)
Ramreg Properties Proprietary Limited	1	1	4 543 829	4 552 358
Rovon Investments Proprietary Limited	316 642	316 642	(4)	(4)
Rumpro Investments Proprietary Limited	1 713 213	1 713 213	(120)	(120)
SKD Beleggings (Skof Vyf) Proprietary Limited	100	100	(100)	(100)
Steynscor Proprietary Limited	18	18	(18)	(18)
Swemvoor Share Block Proprietary Limited	100	100	(100)	(100)
Talkar Properties Proprietary Limited	100	100	(100)	(100)
Tribeca Properties Proprietary Limited	11 752 737	11 752 737	48 605 599	49 952 444
Tronap Investments Proprietary Limited	100	100	(100)	(100)
Tuel Proprietary Limited	300	300	(300)	(300)
Viskin Share Block Proprietary Limited	1 000	1 000	(1 000)	(1 000)
Waverley Plaza Properties Proprietary Limited	794 399	794 399	100 955 202	102 472 588
Woodmead Mart Proprietary Limited	3 438 345	3 438 345	504 340 301	461 458 048
	3 057 987 901	3 057 989 201	4 275 124 991	3 986 910 095

Schedule of interest in subsidiaries continued

for the year ended 31 August 2018

All the subsidiaries are 100% owned by the company and are all included in the consolidated financial statements of the group. All subsidiaries are incorporated in the Republic of South Africa.

The subsidiaries' principal activities are that of property companies, deriving income from rentals. There are no restrictions on the subsidiaries.

 # Premium Properties Limited - wholly owned subsidiaries

Bartlucia Investments Proprietary Limited
Brianley Properties Proprietary Limited
Centpret Properties Proprietary Limited
Centuria 369 Proprietary Limited
Du-Proes Proprietary Limited
Filkem House Proprietary Limited
Hacklu Enterprises Proprietary Limited
L.P.A. Beleggings (Eiendoms) Beperk
Landjack Properties Proprietary Limited
Notrevlis Proprietary Limited
Prinsman Properties Proprietary Limited
Prinsproes Properties Proprietary Limited
Roslev Properties Proprietary Limited
Savyon Building Proprietary Limited
Tomzeil Proprietary Limited

^ IPS Investments Proprietary Limited - wholly owned subsidiaries

Gerlan Properties Proprietary Limited
Inspret Properties Proprietary Limited
Johnbuild Properties Proprietary Limited
Joybee Properties Proprietary Limited
OPC Properties Proprietary Limited
Simprit Properties Share Block Proprietary Limited
Vuselela Investments Proprietary Limited
Waltpost Properties Proprietary Limited

Shareholders' analysis

for the year ended 31 August 2018

	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Shareholders' classification				
1 - 1 000	862	20.74	412 111	0.15
1 001 - 10 000	2 287	55.02	8 947 036	3.36
10 001 - 100 000	777	18.69	23 936 742	8.99
100 001 - 1 000 000	179	4.31	55 307 538	20.78
Over 1 000 000	52	1.25	177 594 108	66.72
Total	**4 157**	**100.00**	**266 197 535**	100.00
Distribution of shareholders				
Assurance companies	29	0.70	7 685 333	2.89
Close corporations	66	1.59	27 473 487	10.32
Collective investment schemes	116	2.79	62 641 695	23.53
Control accounts	2	0.05	100	0.00
Custodians	28	0.67	3 297 984	1.24
Foundations and charitable funds	103	2.48	7 554 037	2.84
Hedge funds	1	0.02	1 493 925	0.56
Insurance companies	3	0.07	35 539	0.01
Investment partnerships	15	0.36	6 195 276	2.33
Managed funds	12	0.29	238 117	0.09
Medical aid funds	3	0.07	928 761	0.35
Organs of state	5	0.12	11 290 163	4.24
Private companies	167	4.02	66 457 032	24.97
Public companies	5	0.12	1 264 354	0.47
Public entities	2	0.05	42 797	0.02
Retail shareholders	3 037	73.06	28 246 979	10.61
Retirement benefit funds	86	2.07	9 400 820	3.53
Scrip lending	6	0.14	756 393	0.28
Stockbrokers and nominees	18	0.43	2 946 980	1.11
Trusts	453	10.90	28 247 763	10.61
Total	**4 157**	**100.00**	**266 197 535**	**100.00**
Shareholder type				
Non-public shareholders				
Directors and associates	67	1.61	103 776 704	38.98
Public shareholders	4 090	98.39	162 420 831	61.02
Total	**4 157**	**100.00**	**266 197 535**	**100.00**
Fund managers with a holding greater than 3% of the issued shares				
Old Mutual Investment Group			17 949 914	6.74
Bridge Fund Managers			17 243 527	6.48
Allan Gray			12 512 260	4.70
Public Investment Corporation			10 989 401	4.13
Total			**58 695 102**	**22.05**
Beneficial shareholders with a holding greater than 3% of the issued shares				
Lefkopaul CC			21 000 312	7.89
Nedbank Group			18 476 234	6.94
Tomneff Investments Proprietary Limited			18 331 418	6.89
Old Mutual Group			18 054 522	6.78
City Property Administration Proprietary Limited			12 680 413	4.76
Allan Gray			11 966 846	4.50
Government Employees Pension Fund			10 239 495	3.85
Total			**110 749 240**	**41.61**

Share price performance	
Opening Price 01 September 2017 (R)	22.90
Closing Price 31 August 2018 (R)	20.58
Closing High for period (R)	23.67
Closing low for period (R)	16.56
Number of shares in issue	266 197 535
Volume traded during period	97 039 419
Ratio of volume traded to shares issued (%)	36.45
Rand value traded during the period (R)	1 887 300 527
Price/earnings ratio as at 31 August 2018	10.95
Market capitalisation at 31 August 2018 (R)	5 478 345 270

Notice of annual general meeting

OCTODEC INVESTMENTS LIMITED
(Registration number: 1956/002868/06)
(Incorporated in the Republic of South Africa)
ISIN: ZAE000192258
JSE share code: OCT
(Approved as a REIT by the JSE)
(Octodec or the company)

Notice is hereby given in terms of section 62(1) of the Companies Act, of the AGM of shareholders of Octodec on Friday, 25 January 2019, at 11:30 that will be held at CPA House, 101 Du Toit Street, Tshwane, to consider and, if deemed fit, to approve, with or without modification, the special and ordinary resolutions listed below in the manner required by the Companies Act, as read with the Listings Requirements of the JSE Limited (JSE Listings Requirements).

156 The definitions on page 156 of the integrated report, to which this notice is attached apply, *mutatis mutandis*, to this notice.

Record date

In terms of section 59(1)(a) and (b) of the Companies Act, the board of the company has set the record date for the purpose of determining which shareholders are entitled to:

a. receive notice of the AGM (being the date on which a shareholder must be registered in the company's securities register in order to receive notice of the AGM) as Friday, 7 December 2018; and
b. participate in and vote at the AGM (being the date on which a shareholder must be registered in the company's securities register in order to participate in and vote at the AGM) as Friday, 18 January 2019.

The last day to trade in the company's shares in order to be recorded on the securities register of the company in order to be able to attend, participate and vote at the AGM is Tuesday, 15 January 2019.

Voting

Voting will be conducted on every resolution proposed at the AGM of Octodec shareholders by way of a poll. Every Octodec shareholder shall therefore have that number of votes equal to the number of shares in Octodec held by him or her.

The percentage of voting rights that will, in terms of section 62(3)(c) of the Companies Act, be required for the resolutions to be adopted is 75% (seventy-five percent) in respect of the special resolutions and more than 50% (fifty percent) in respect of the ordinary resolutions other than ordinary resolution 3 which is required to be adopted by 75% (seventy-five percent) of shareholders present in person/or by proxy in terms of the JSE Listings Requirements. Non-binding advisory votes are of an advisory nature and allows shareholders to express their views on the extent of implementation of the company's remuneration policy, but will not be binding on the company.

In terms of section 64(1)(a) of the Companies Act, a shareholders' meeting may not begin until a quorum is present at the meeting. In terms of section 64(2)(a) of the Companies Act, a meeting may not begin unless at least three shareholders are present or represented by proxy and are entitled to vote at the AGM. Kindly note that in terms of section 63(1) of the Companies Act, meeting participants (including proxies) will be required to provide reasonably satisfactory identification before being entitled to participate in or vote at the AGM. Forms of identification that will be accepted include original and valid identity documents, driver's licences and passports.

Presentation of financial statements

The audited consolidated financial statements of the company and its subsidiaries, incorporating the reports of the auditors, the audit committee and the directors for the year ended 31 August 2018, will be presented to shareholders as required in terms of section 30(3)(d) of the Companies Act.

Notice of annual general meeting continued

Report of the social, ethics, remuneration and transformation (SERT) committee

In accordance with regulation 43(5)(c), issued in terms of the Companies Act, the chairman of the (SERT) committee will present a verbal report to shareholders at the AGM.

Resolutions for consideration and approval

Special resolution 1 – To approve financial assistance to related and inter-related companies

To consider and, if deemed fit, to pass, with or without modification, the following special resolution:

"RESOLVED THAT by way of special resolution as required in terms of sections 44 and/or 45(2) of the Companies Act and the MOI, as a general approval, the board of the company may, from time to time, authorise the company to provide financial assistance to any of its present or future subsidiaries and/or any company that is or becomes related or inter-related to the company, at such times and on such terms and conditions as the directors of the company in their sole discretion may determine, and subject to all relevant statutory and regulatory requirements being met, such authority to remain in place until renewed by way of special resolution passed at a duly constituted AGM of the company."

The reason for and effect of special resolution 1

Sections 44 and 45(2) of the Companies Act authorise the board to authorise the company to provide direct or indirect financial assistance to a related or inter-related company as defined in the Companies Act, subject to subsections (3) and (4) of section 45 of the Companies Act and unless otherwise provided in the company's MOI. In terms of section 45(3) of the Companies Act, a special resolution of shareholders is required in these instances. The main purpose of the special resolution as set out in the notice of the meeting is to approve the granting of inter-company loans, a recognised and well-known practice, details of which are also set out in the notes to the financial statements.

Special resolution 2 – To authorise the company and/or its subsidiaries to acquire its shares

To consider and, if deemed fit, to pass, with or without modification, the following special resolution:

"RESOLVED THAT the company and/or any of its subsidiaries be and are hereby authorised, by way of a general approval as contemplated in section 48 of the Companies Act and the JSE Listings Requirements, to acquire the issued securities of the company, upon such terms and conditions and in such amounts as the directors of the company may from time to time determine but subject to the MOI of the company, the provisions of the Companies Act and the JSE Listings Requirements, where applicable, and provided that:

a. the repurchase of securities is implemented through the order book of the JSE trading system, without any prior understanding or arrangement between the company and the counterparties;

b. this general authority shall only be valid until the company's next AGM, provided that it shall not extend beyond 15 (fifteen) months from the date of passing of this special resolution;

c. the company or any subsidiary is authorised thereto by its MOI;

d. the general repurchase by the company is limited to a maximum of 5% (five percent) in aggregate of the company's issued capital in any one financial year;

e. the general repurchase by the subsidiaries of the company is limited to a maximum of 5% (five percent) in aggregate of the company's issued share capital in any one financial year and not more than 10% (ten percent) in aggregate of the company's issued capital may be held by or for the benefit of all the subsidiaries taken together;

f. the repurchase is not made at a price greater than 5% (five percent) above the weighted average of the market value of the securities for 5 (five) business days immediately preceding the date on which the repurchase was effected;

g. the repurchase does not take place during a prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements, unless there is in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and has been submitted to the JSE in writing prior to the commencement of the prohibited period;

h. the company publishes an announcement after it or its subsidiaries have cumulatively acquired 3% (three percent) of the number of securities in issue at the time that the shareholders' authority for the repurchase is granted and for each 3% (three percent) in aggregate of the initial number acquired thereafter;

i. it reasonably appears that the company will satisfy the solvency and liquidity test immediately after completing the proposed distribution as contemplated in section 46(1)(b) of the Companies Act;

j. the board of the company, by resolution, has acknowledged that it has applied the solvency and liquidity test, as set out in section 4 of the Companies Act, and has reasonably concluded that the company will satisfy the solvency and liquidity test immediately after completing the repurchase, as contemplated in section 46(1)(c) of the Companies Act;

k. the company and the group are in a position to repay their debts in the ordinary course of business for a period of 12 (twelve) months after the date of such repurchase;

l. the assets of the company and the group being fairly valued are in excess of the liabilities of the company and the group for a period of 12 (twelve) months after the date of such repurchase;

m. the capital and reserves of the company and the group are adequate for a period of 12 (twelve) months after the date of such repurchase;

n. the available working capital is adequate to continue the operations of the company and the group for a period of 12 (twelve) months after the date of such repurchase; and

o. the company appoints only one agent to effect any repurchase on its behalf."

Notice of annual general meeting continued

Resolutions for consideration and approval continued

Other disclosures in terms of paragraph 11.26 of the JSE Listings Requirements relating to special resolution 2

The following additional information, some of which may appear elsewhere in the integrated report of which this notice forms part, is provided in terms of the JSE Listings Requirements for purposes of this general authority:

17
a. major beneficial shareholders – pages 17 and 140

93 114
b. share capital of the company – page 93 of the financial statements and note 14 of the financial statements (page 114)

The directors may utilise this general authority to acquire its shares as and when suitable opportunities present themselves.

Directors' responsibility statement

12
The directors in office whose names appear on pages 12 and 13 of the integrated report collectively and individually accept full responsibility for the accuracy of the information pertaining to special resolution 2 and certify that, to the best of their knowledge, there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the special resolution contains all information required by the JSE Listings Requirements.

Material changes

Other than the facts and developments reported on in the integrated report, there have been no material changes in the financial position of the company and its subsidiaries since the company's financial year end and the date of signature of the integrated report.

The reason for and effect of special resolution 2

The reason for and effect of the resolution is to authorise the company and its subsidiaries, by way of general approval, to acquire its own issued securities, on terms and conditions and in amounts to be determined by the directors of the company, subject to certain statutory provisions and the JSE Listings Requirements. Section 48 of the Companies Act authorises the board of directors of a company to approve the acquisition of its own shares subject to the provisions of section 48 and section 46 of the Companies Act having been met. The JSE Listings Requirements require the shareholders of the company to approve the authority to repurchase shares and the approval of a 75% (seventy-five percent) majority of the votes cast by shareholders present or represented by proxy at the AGM for special resolution 2 is required to become effective.

Special resolution 3 – Approval of directors' remuneration for the period 1 September 2019 to 31 August 2020

To consider and, if deemed fit, to pass, with or without modification, the following special resolution:

"RESOLVED THAT, in terms of section 66(9) of the Companies Act, the company be and is hereby authorised to remunerate its directors for their services as directors (inclusive of the committees on which they serve, and attend by invitation as set out in the integrated report) and/or pay any fees related thereto on the basis and on any other basis as may be recommended by the SERT committee and approved by the board of directors, provided that the aforementioned authority shall be valid with effect from 1 September 2019 for a period of 12 (twelve) months ending 31 August 2020, as follows:

	12 months to 31 August 2020 (R)	12 months to 31 August 2019 (R)
		Annual retainer
Board chairman	715 500	675 000
Lead independent director	357 220	337 000
Non-executive directors	297 860	281 000
Executive directors	297 860	281 000
		Fee per meeting
Board meeting (including AGM)	17 914	16 900
Meeting fee for attendance at subcommittee meeting of the board	21 412	20 200
Chairman of subcommittee of the board	26 182	24 700
Meeting fee for attendance at an *ad hoc* subcommittee meeting of the board	21 412	20 200
Chairman of an *ad hoc* subcommittee of the board	26 182	24 700

Notice of annual general meeting continued

Resolutions for consideration and approval continued

The reason for and effect of special resolution 3

In terms of section 66(8) and section 66(9) of the Companies Act, companies may pay remuneration to directors for their services as directors, unless otherwise provided by the MOI and on approval of shareholders by way of special resolution. The role of directors is under increasing focus of late with greater accountability and risk attached to the position. Octodec compensates and remunerates its directors according to their scope of responsibility and contribution to the group, considering industry norms as well as the external market and benchmarks.

The proposed fees for the period 1 September 2019 to 31 August 2020 reflect an increase of a minimum of 6% (six percent) or CPI whichever is the higher, on the fees paid for the period ending 31 August 2019, as recommended by the board, following the advice from an independent remuneration consultant, to ensure it remains market related, accords with the increasing level of responsibility being placed upon directors and remains adequate for the purposes of and in a manner which enables it to attract and retain high-calibre and professional directors thereby ensuring that the board has the necessary skills required to execute on its mandate.

Accordingly the approval of the shareholders is sought to increase the remuneration paid to directors, in respect of services rendered as directors in terms of section 66 of the Companies Act, so as to ensure that market-related remuneration, benchmarked against similar companies in size and complexity is paid by the company, as detailed above.

The amounts in special resolution 3 are exclusive of VAT. For clarity, to the extent that VAT is applicable, the company is authorised to pay the VAT thereon in addition to the proposed remuneration. The above remuneration to be effective from 1 September 2019 is to be paid quarterly in arrears.

Special resolution 4 – Authority to issue shares to directors who elect the share reinvestment alternatives

To consider and, if deemed fit, to pass, with or without modification, the following special resolution:

"RESOLVED THAT, subject to the provisions of the Companies Act and to the extent required, the JSE Listings Requirements and the MOI, the directors be and they are hereby authorised by way of a specific standing authority to issue ordinary shares as and when they deem appropriate, for the exclusive purpose of affording shareholders, who are also persons as contemplated in section 41(1) of the Companies Act, opportunities from time to time to elect to reinvest their distributions in new ordinary shares of Octodec, for which purpose such ordinary shares are hereby placed under the control of the directors."

The reason for and effect of special resolution 4

Special resolution 4 is required to be passed to comply with the provisions of section 41 of the Companies Act, which requires an issue of shares to present or future directors or officers of the company or their related persons to be approved by special resolution. To the extent that the company elects to offer shareholders the opportunity to reinvest their distributions, the passing of special resolution 4 will allow present or future directors or officers of the company to reinvest their distributions.

Ordinary resolution 1 – Re-election of directors

To elect, by way of separate resolutions, directors in the place of those retiring in accordance with the company's MOI. The directors retiring are Derek Cohen, Pieter Strydom and Sharon Wapnick, who, being eligible, offer themselves for re-election.

Ordinary resolution 1.1 – Re-election of Derek Cohen

"RESOLVED THAT Derek Cohen be and is hereby re-elected as a director of the company."

13

An abridged curriculum vitae of Derek Cohen is set out on page 13 of the integrated report of which this notice forms part.

Ordinary resolution 1.2 – Re-election of Pieter Strydom

"RESOLVED THAT Pieter Strydom be and is hereby re-elected as a director of the company."

13

An abridged curriculum vitae of Pieter Strydom is set out on page 13 of the integrated report of which this notice forms part.

Ordinary resolution 1.3 – Re-election of Sharon Wapnick

"RESOLVED THAT Sharon Wapnick be and is hereby re-elected as a director of the company."

12

An abridged curriculum vitae of Sharon Wapnick is set out on page 12 of the integrated report of which this notice forms part.

The reason for and effect of ordinary resolutions 1.1 – 1.3

In accordance with the company's MOI, one-third of the non-executive directors are required to retire at each AGM and may offer themselves for re-election. In addition, any person appointed to the board of directors following the previous AGM is similarly required to retire and is eligible for re-election at the next AGM. The following directors are eligible for re-election: Derek Cohen, Pieter Strydom and Sharon Wapnick. Brief biographical details of Derek Cohen, Pieter Strydom and Sharon Wapnick and the remaining members of the board are contained on pages 12 to 13 of the integrated report of which this notice forms part. The nominations committee has considered Derek Cohen, Pieter Strydom and Sharon Wapnick's past performance and contribution to the company and recommends that they be re-elected as directors.

12

Notice of annual general meeting continued

Resolutions for consideration and approval continued

Ordinary resolution 2 – To place the unissued shares under the directors' control

To consider, and if deemed fit, to pass, with or without modification, the following ordinary resolution:

"RESOLVED THAT the directors, be and are hereby authorised, as required by the company's MOI and subject to the provisions of section 41 of the Companies Act, to allot and issue, at their discretion, the unissued but authorised shares in the share capital of the company, subject to the following terms and conditions:

a. No more than 10% (ten percent) of the company's issued shares will be allotted and issued by the directors other than by way of a transaction that will be subject to shareholders' approval; and

b. The maximum discount at which shares will be allotted and issued is 5% (five percent) of the weighted average price on the JSE Limited of those shares over 10 (ten) business days prior to the date that the price of the issue is agreed between the company and the party subscribing for the shares (collectively, the company's undertaking) provided that such transaction(s) has/have been approved by the JSE Limited, if so required, and is/are subject to the JSE Listings Requirements, which authority shall endure until the next AGM of the company. The weighted average price shall be adjusted for a dividend where the "ex" date (being the day after the last day to trade in order to be entitled to such dividend) occurs during the 10 (ten) business days in question. Where the allotment or issue is undertaken in terms of a vendor consideration placing pursuant to the JSE Listings Requirements, the minimum placing price is subject to the pricing limitations set out in the JSE Listings Requirements.

The reason for and effect of ordinary resolution 2

The reason for ordinary resolution 2 is that the board requires authority from shareholders in terms of article 6.10 of its MOI to issue shares in the company. This general authority, once granted, allows the board from time to time, when it is appropriate to do so, to issue ordinary shares as may be required, inter alia, in terms of capital raising exercises, and to maintain a healthy capital adequacy ratio that may be required from time to time. This general authority is subject to the restriction that it is limited to 10% (ten percent) as provided in a. above of the number of shares in issue at 25 January 2019 on the terms more fully set out in ordinary resolution 2 above.

Ordinary resolution 3 – To approve the issue of shares for cash

To consider and, if deemed fit, to pass, with or without modification, the following ordinary resolution:

"RESOLVED THAT, subject to not less than 75% (seventy-five percent) of the shareholders present in person or by proxy and entitled to vote at the AGM at which this ordinary resolution is to be considered voting in favour thereof, in terms of the JSE Listings Requirements, the mandate given to the directors of the company that they are authorised by way of a general authority to issue all or any of the authorised but unissued shares in the capital of the company for cash as they in their discretion deem fit, be renewed subject to the following conditions and limitations:

a. this authority shall not extend beyond the later of the date of the next AGM of the company or the date of expiry of 15 (fifteen) months from the date of this AGM;

b. issues in terms of this authority shall not exceed 5% (five percent) (being an equivalent of 13 309 877 shares) in the aggregate of the number of shares in the company's issued share capital at the date of this notice of AGM;

c. the number of shares to be issued shall be based on the number of shares in issue at the date of this notice of AGM, less any shares issued in terms of this general authority by the company during the period;

d. in the event of a subdivision or consolidation of issued shares during the period of this general authority, the general authority must be adjusted accordingly to represent the same allocation ratio;

e. an announcement giving full details, including the intended use of funds, will be published at the time of any issue representing, on a cumulative basis within the period, 5% (five percent) or more of the number of shares in issue prior to such issue;

f. in determining the price at which an issue of shares will be made in terms of this authority, the maximum discount permitted will be 5% (five percent) of the weighted average traded price of such shares, as determined over a 30 (thirty) business day period to the date that the price of the issue is determined;

g. any such issue will only be made to public shareholders as defined by the JSE, and not related parties; and

h. the shares which are the subject of the issue for cash must be of a class already in issue or, where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue."

The reason for and effect of ordinary resolution 3

For listed entities wishing to issue shares for cash, it is necessary for the board not only to obtain the prior authority of shareholders as may be required in terms of their MOI contemplated in ordinary resolution number 3 above but it is also necessary to obtain the prior authority of shareholders in accordance with the JSE Listings Requirements. The reason for ordinary resolution number 3 is accordingly to obtain a general authority from shareholders to issue shares for cash in compliance with the JSE Listings Requirements. The authority granted in terms of ordinary resolution 3 above and the exercise thereof will be subject to the conditions contained in ordinary resolution 3. Such issue may not exceed 5% (five percent) (being 13 309 877 shares) of the number of shares issued as at the date of this notice.

The directors confirm that there is no specific intention to issue any shares for cash as at the date of this notice.

Note: Ordinary resolution 3 requires the approval of not less than 75% (seventy0five percent) of the votes cast by shareholders present or represented by proxy and entitled to vote at the AGM in order for ordinary resolution 3 to become effective.

Notice of annual general meeting continued

Resolutions for consideration and approval continued

Ordinary resolution 4 – To approve the reappointment of members of the audit committee

To approve, by way of separate resolutions, the appointment of the following non-executive directors as members of the audit committee:

4.1 Pieter Strydom (chairman)

4.2 Derek Cohen

4.3 Gerard Kemp

4.4 Myron Pollack

12

Abridged curricula vitae of Gerard Kemp and Myron Pollack are set out on pages 12 to 13 of the integrated report of which this notice forms part.

The reason for and effect of ordinary resolutions 4.1 – 4.4

In terms of section 94(2) of the Companies Act, a public company must at each AGM elect an audit committee comprising at least 3 (three) members who are directors and who meet the criteria of section 94(4) of the Companies Act. Regulation 42 to the Companies Act specifies that one-third of the members of the audit committee must have appropriate academic qualifications or experience in the areas as listed in the regulation.

The board of directors of the company is satisfied that the proposed members of the audit committee meet all relevant requirements.

Ordinary resolution 5 – To approve the reappointment of auditors

To reappoint, on the recommendation of the audit committee, Deloitte & Touche as independent auditors of the company, the designated auditor, Patrick Kleb, meeting the requirements of section 90(2) of the Companies Act.

The reason for and effect of ordinary resolution 5

Deloitte & Touche has indicated its willingness to continue in office and ordinary resolution 5 proposes the reappointment of Deloitte & Touche as the company's auditors with effect from the date of approval of ordinary resolution 5. Section 90(3) of the Companies Act requires the designated auditor to meet the criteria as set out in section 90(2) of the Companies Act. In accordance with paragraph 3.84 (h)(iii) of the JSE Listings Requirements, the audit committee has assessed the suitability of Deloitte & Touche and of Patrick Kleb for appointment as auditors.

The board of directors of the company is satisfied that both Deloitte & Touche and the designated auditor meet all of the relevant requirements.

Ordinary resolution 6 – Specific authority to issue shares to afford shareholders distribution reinvestment alternatives

To consider and, if deemed fit, to pass, with or without modification, the following ordinary resolution:

"RESOLVED THAT, subject to the provisions of the Companies Act, the JSE Listings Requirements and the MOI, the directors be and they are hereby authorised by way of a specific standing authority (which is separate from and in addition to the authority referred to in ordinary resolution 2 of the notice of this AGM) to issue ordinary shares of no par value (new shares) as and when they deem appropriate, for the exclusive purpose of affording shareholders opportunities from time to time to elect to reinvest their distributions in new ordinary shares of Octodec, for which purpose such ordinary shares are hereby placed under the control of the directors.

The reason for and effect of ordinary resolution 6

Pursuant to the shareholders' distribution reinvestment programme already previously implemented, shareholders will be provided with an election form on which they can indicate whether they wish to reinvest any of their distributions in shares in the company. The election form will provide details of the process and timing of the programme.

Ordinary resolution 7 – To provide signing authority

To consider and, if deemed fit, to pass, with or without modification, the following ordinary resolution:

"RESOLVED THAT any one director of the company or the group company secretary be and is hereby authorised to do all such things as necessary and to sign all such documents as to give effect to all the ordinary and special resolutions passed at the AGM."

The reason for and effect of ordinary resolution 7

Authority is required to do all such things and sign all documents and take all such action as is necessary to implement the resolutions set out in the notice and approved at the AGM at which this ordinary resolution will be considered and approved. It is proposed that the group company secretary and/or any one director be authorised accordingly.

Notice of annual general meeting continued

Explanatory notes

Non-binding advisory vote 1 - To endorse the remuneration policy

To consider and, if deemed fit, to endorse, with or without modification, the following non-binding advisory vote:

81

"RESOLVED THAT shareholders endorse the remuneration policy for the year ended 31 August 2018 as set out on pages 81 to 83 of the integrated report of which this notice forms part."

The reason for and effect of non-binding advisory vote 1

Shareholders are reminded that in terms of King IV™, the endorsement of the remuneration policy is by way of an advisory, non-binding vote. This enables shareholders to express their views on the remuneration policy adopted and is of an advisory nature only, and failure to endorse the remuneration policy will therefore not have any legal consequences relating to existing remuneration arrangements. The board will however take the outcome of the votes into consideration when considering amendments to the company's remuneration policy. Should 25% (twenty-five percent) or more of the votes cast be recorded against the remuneration policy, then:

- *Octodec undertakes to engage with shareholders to address their objections, concerns and ascertain the reasons for the dissenting votes. This will form part of Octodec's existing biannual engagement process with key institutional shareholders. Where considered appropriate, members of the SERT committee may participate in these engagements with selected shareholders; and*
- *The executive directors will make specific recommendations to the SERT committee as to how the legitimate and reasonable objections of shareholders might be addressed, either in the company's remuneration policy or through changes in how the remuneration policy is implemented.*

Non-binding advisory vote 2 - To endorse the remuneration implementation report

To consider and, if deemed fit, to endorse, with or without modification the following non-binding advisory vote:

84

"RESOLVED THAT shareholders endorse the remuneration implementation report for the year ended 31 August 2018 the details of which are set out on pages 84 to 87 of the integrated report of which this notice forms part."

The reason for and effect of non-binding advisory vote 2

Shareholders are reminded that in terms of King IV™, the endorsement of the remuneration implementation report is by way of an advisory, non-binding vote. This enables shareholders to express their views on the remuneration implementation report and is of an advisory nature only and failure to endorse the remuneration implementation report will therefore not have any legal consequences relating to existing remuneration arrangements. The board will however take the outcome of the votes into consideration when considering amendments to the company's remuneration policy and how such policy is implemented. Should 25% (twenty-five percent) or more of the votes cast be recorded against the remuneration implementation report, then:

- *Octodec undertakes to engage with shareholders to address their objections, concerns and ascertain the reasons for the dissenting votes. This will form part of Octodec's existing biannual engagement process with key institutional shareholders. Where considered appropriate, members of the SERT committee may participate in these engagements with selected shareholders; and*
- *The executive directors will make specific recommendations to the SERT committee as to how the legitimate and reasonable objections of shareholders might be addressed, either in the company's remuneration policy or through changes in how the remuneration policy is implemented.*

Notice of annual general meeting continued

Electronic participation

Octodec shareholders or their proxies may participate in (but not vote at) the AGM by way of a teleconference call. If they wish to do so, they must contact the transfer secretaries on +27 11 370 7873 or email proxy@computershare.co.za (Attention: Meetings Department) by no later than 11:30 on Friday, 18 January 2019 and identify themselves to the satisfaction of Computershare to obtain the dial-in code and pin number. Shareholders participating in this manner will still have to appoint a proxy to vote on their behalf at the AGM of Octodec shareholders. Access by means of electronic communication will be at the expense of the Octodec shareholder.

Proxies

An Octodec shareholder entitled to attend and vote at the AGM may appoint one or more persons as its proxy to attend, speak and vote in its stead. A proxy need not be a shareholder of Octodec. Octodec shareholders are referred to the attached form of proxy in this regard. If you are a certificated Octodec shareholder or a dematerialised Octodec shareholder with own-name registration and are unable to attend the AGM and wish to be represented thereat, you must complete and return the attached form of proxy in accordance with the instructions contained therein. The completed forms of proxy should be deposited at or posted to the office of the transfer secretaries of the company, Computershare Investor Services Proprietary Limited, at Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 (PO Box 61051, Marshalltown, 2107), or by email to proxy@computershare.co.za.

Alternatively, the form of proxy may be handed to the chairman of the AGM or to the transfer secretaries present at the AGM or at any time prior to the commencement of the AGM or prior to voting on any resolution proposed at the AGM. Any member who completes and lodges a form of proxy will nevertheless be entitled to attend and vote in person at the AGM should the member subsequently decide to do so.

Additional proxy forms are obtainable from Octodec's group company secretary, Octodec's website or the transfer secretaries.

If you have dematerialised your Octodec shares with a CSDP or broker, other than with own-name registration, you must arrange with them to provide you with the necessary letter of representation to attend the AGM or you must instruct them as to how you wish to vote in this regard. This must be done in terms of the agreement entered into between you and the CSDP or broker, in the manner and cut-off time stipulated therein.

General

Shareholders and proxies attending the AGM on behalf of shareholders are reminded that section 63(1) of the Companies Act requires that reasonably satisfactory identification be presented in order for such shareholder or proxy to be allowed to attend or participate in the meeting. This could be in the form of an original or certified copy of an identity document, driver's licence or passport.

By order of the board

Elize Greeff

Group company secretary

Octodec Investments Limited
12 December 2018

Form of proxy

OCTODEC INVESTMENTS LIMITED
(Registration number: 1956/002868/06)
(Incorporated in the Republic of South Africa)
ISIN: ZAE000192258
JSE share code: OCT
(Approved as a REIT by the JSE)
(Octodec or the company)

If shareholders have dematerialised their shares with a CSDP or broker, other than with own-name registration, they must instruct the CSDP or broker concerned to provide them with the necessary letter of representation to attend the AGM or the shareholder concerned must instruct them as to how they wish to vote in this regard. This must be done in terms of the custody agreement entered into between the shareholder and the CSDP or broker concerned.

For use by certificated Octodec shareholders and own-name dematerialised Octodec shareholders only, at the AGM of Octodec shareholders of the company to be held at CPA House, 101 Du Toit Street, Tshwane on Friday, 25 January 2019, commencing at 11:30, or at any adjournment thereof.

Any Octodec shareholders entitled to vote at the AGM may appoint a proxy or proxies to attend, speak and vote in his/her stead. A proxy need not be a shareholder of the company.

This form of proxy is for the use by Octodec shareholders who hold certificated Octodec shares or who are registered as own-name in dematerialised form only.

156 The definitions on page 156 of the integrated report to which this form of proxy is attached apply, *mutatis mutandis*, to this form of proxy.

I/We

(name/s in block letters) of (address) being the registered holder/s of shares in Octodec, appoint (see note 1)

1. or failing him/her,

2. or failing him/her,

3. the chairman of the AGM

as my/our proxy to act for me/us and on my/our behalf at the AGM which will be held for the purpose of considering and, if deemed fit, passing, with or without modification, the resolutions to be proposed thereat and at any adjournment thereof, and to vote for and/or against the resolutions and/or abstain from voting in respect of the shares registered in my/our name/s, in accordance with the following instructions

Form of proxy continued

		Number of votes (1 vote per share)		
		In favour of	Against	Abstain
1	**Special resolution 1:** To approve financial assistance to related and inter-related companies			
2	**Special resolution 2:** To authorise the company and/or its subsidiaries to acquire its shares			
3	**Special resolution 3:** Approval of directors' remuneration for the period 1 September 2019 to 31 August 2020			
4	**Special resolution 4:** Authority to issue shares to directors who elect the share reinvestment alternatives			
5	**Ordinary resolutions 1.1 – 1.3:** To re-elect the directors required to retire in terms of the MOI:			
	1.1 Derek Cohen			
	1.2 Pieter Strydom			
	1.3 Sharon Wapnick			
6	**Ordinary resolution 2:** To place the unissued shares under the directors' control			
7	**Ordinary resolution 3:** To approve the issue of shares for cash			
8	**Ordinary resolutions 4.1 – 4.4:** To approve the reappointment of members of the audit committee:			
	4.1 Pieter Strydom (chairman)			
	4.2 Derek Cohen			
	4.3 Gerard Kemp			
	4.4 Myron Pollack			
9	**Ordinary resolution 5:** To approve the reappointment of auditors			
10	**Ordinary resolution 6:** Specific authority to issue shares to afford shareholders distribution reinvestment alternatives			
11	**Ordinary resolution 7:** To provide signing authority			
12	**Non-binding advisory vote 1:** To endorse the remuneration policy			
13	**Non-binding advisory vote 2:** To endorse the remuneration implementation report			

* Note: Please indicate with an "x" or the number of Octodec shares in the spaces above how you wish your votes to be cast. If no indication is given, the proxy will vote or abstain in his/her discretion.

Signed at ______________________________ on ____________________ 2018/2019

Signature/s ______________________________ ______________________________

Name in BLOCK LETTERS | (full name if signing in a representative capacity) | Assisted by (where applicable)

A proxy need not be a shareholder. A proxy may not delegate his/her authority to act on his/her behalf to another person. This proxy form will lapse and cease to be of force and effect immediately after the AGM of the company and any adjournments thereof, unless it is revoked earlier.

Form of proxy continued

Please read the notes below:
Summary of shareholders' rights in respect of proxy appointments as set out in sections 56 and 58 of the Companies Act and notes to the form of proxy

1. An Octodec shareholder, entitled to attend and vote at the abovementioned meeting, is entitled to appoint one or more proxies to attend, speak and, on a poll, vote in his/her stead or abstain from voting. The proxy need not be a member of Octodec. An Octodec shareholder may appoint two or more persons concurrently as proxies, and may appoint more than one proxy to exercise voting rights attached to different Octodec shares held by the Octodec shareholder.
2. A proxy may delegate the proxy's authority to act on behalf of the Octodec shareholder to another person.
3. The completion and lodging of this form of proxy will not preclude the relevant Octodec shareholder from attending the AGM of Octodec shareholders and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such Octodec shareholder wish to do so. Accordingly, the appointment of a proxy in terms hereof is suspended at any time and to the extent that the Octodec shareholder chooses to act directly and in person in the exercise of any rights as an Octodec shareholder.
4. A proxy is entitled to exercise, or abstain from exercising, any voting right of the Octodec shareholder without direction, except to the extent that the voting instructions are set out in the relevant section of the proxy forms.
5. The appointment of a proxy shall remain valid until the end of the meeting contemplated in this appointment (including in respect of any adjournment or postponement of the AGM of Octodec shareholders), unless revoked in the manner contemplated in note 6 below.
6. An Octodec shareholder may revoke the proxy appointment by:
   i. cancelling it in writing, or making a later inconsistent appointment of a proxy, and
   ii. delivering a copy of the revocation instrument to the proxy and to Octodec. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the Octodec shareholder as of the later of:
      a. the date stated in the revocation instrument, if any, or
      b. the date on which the revocation instrument was delivered to Octodec.
7. Please insert the number of Octodec shares, as the case may be, in the relevant spaces according to how you wish your votes to be cast. If you wish to cast your votes in respect of a lesser number of Octodec shares, as the case may be, exercisable by you, insert the number of Octodec shares, as the case may be, held in respect of which you wish to vote. Failure to comply with the above will be deemed to authorise and compel the chairman, if the chairman is an authorised proxy, to vote in favour of the resolutions, or to authorise any other proxy to vote for or against the resolutions or abstain from voting as he/she deems fit, in respect of all the Octodec shareholders' votes exercisable thereat. An Octodec shareholder or its/his/her proxy is not obliged to use all the votes exercisable by the Octodec shareholder or its/his/her proxy, but the total of the votes cast and in respect whereof abstention is recorded may not exceed the total of the votes exercisable by the Octodec shareholder or its/his/her proxy.

   For administrative purposes, forms of proxy should be completed and returned to the transfer secretaries:
   - *Hand deliveries of forms of proxy to:*
     Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196
   - *Postal deliveries of forms to:*
     Computershare Investor Services Proprietary Limited, PO Box 61051, Johannesburg 2001, Marshalltown 2107 or by email to proxy@computershare.co.za
   - Alternatively, forms of proxy may be handed to the chairman of the AGM or to the transfer secretaries present at the AGM or at any time prior to the commencement of the AGM or prior to voting on any resolution proposed at the AGM
8. Any alteration or correction made to this form of proxy must be initialled by the signatory(ies).
9. In the case of a joint holding, the first-named only is required to sign.
10. The authority of a person signing a proxy in a representative capacity must be attached to the form of proxy unless that authority has already been recorded by Octodec.
11. A minor or any other person under legal incapacity must be assisted by his/her parent or guardian as applicable, unless the relevant documents establishing capacity are produced or have been registered with the transfer secretaries.
12. If the instrument appointing a proxy or proxies has been delivered to Octodec, as long as that appointment remains in effect, any notice that is required by the Companies Act or Octodec's MOI to be delivered by Octodec to the Octodec shareholder must be delivered by Octodec to:
    i. the Octodec shareholder; or
    ii. the proxy or proxies, if the Octodec shareholder has directed Octodec in writing to do so and paid any reasonable fee charged by Octodec for doing so.

Location of the Annual General Meeting

CPA House
101 Du Toit Street
Tshwane
0002

GPS Co-ordinates:
DD (decimal degrees)
Latitude -25.743596
Longitude 28.197347000000036

Directions to CPA House

From the N1 (Johannesburg)

- Take the N1 North towards Tshwane
- At the Brakfontein interchange continue on the N1 as it becomes the N14 towards Tshwane
- The N14 becomes Kgosi Mampuru Street (formerly Potgieter Street)
- From Kgosi Mampuru Street turn right into Nana Sita Street (formerly Skinner Street)
- CPA House is situated on the corner of Madiba Street and Du Toit Street

Notes

Notes

Notes

glossary

B-BBEE	Broad-based black economic empowerment
CBD	Central business district
City Property	City Property Administration Proprietary Limited
Companies Act	Companies Act, No 71 of 2008
CSDP	A central securities depository participant, appointed by individual Octodec shareholder(s) for the purpose of and in regard to dematerialisation in terms of the Securities Services Act, No 36 of 2004
DMTN Programme	Domestic Medium Term Note Programme
ERM	Enterprise risk management
FVTPL	Fair value through profit or loss
GLA	Gross lettable area
Group	Octodec and its subsidiaries
HQLA	High quality liquid asset
IFRS	International Financial Reporting Standards
IRBA	Independent Regulatory Board of Auditors
JSE	JSE Limited
King IV™	King IV Report on Corporate Governance for South Africa, 2016
KPIs	Key performance indicators
LTV	Loan to value
MOI	Memorandum of Incorporation
NAV	Net asset value
NAVPS	Net asset value per share
New management agreement	The new management agreement concluded between Octodec and City Property which came into effect on 1 July 2018
Octodec	Octodec Investments Limited
Premium	Premium Properties Limited
Prime	Prime interest rate offered by Nedbank Limited and Standard Bank of SA Limited
PwC	PricewaterhouseCoopers Inc.
REIT	Real estate investment trust as defined in section 1 of the Income Tax Act, No... of 19 ...
SAICA	South African Institute of Chartered Accountants
SERT committee	Social, ethics, remuneration and transformation committee
SAPOA	South African Property Owners Association
SENS	Stock exchange news service
VAT	Value-Added Tax

Octodec Investments Limited
Incorporated in the Republic of South Africa
Registration number: 1956/002868/06
Share code: OCT
ISIN: ZAE000192258
(Approved as a REIT by the JSE)

Registered address
CPA House, 101 Du Toit Street, Tshwane 0002
Tel: 012 319 8781, Fax: 012 319 8812, E-mail: info@octodec.co.za

Directors
S Wapnick (Chairman)[1], JP Wapnick (Managing director)[2],
AK Stein (Financial director)[2], DP Cohen[3], GH Kemp[4], MZ Pollack[1],
PJ Strydom[4]
[1] Non-executive director [2] Executive director
[3] Lead independent director [4] Independent non-executive director

Group company secretary
Elize Greeff
CPA House, 101 Du Toit Street Tshwane 0002
Tel: 012 357 1564, Email: elizeg@octodec.co.za

Sponsor
Java Capital
Contact person: Tanya de Mendonca
6A Sandown Valley Crescent, Sandown, Sandton 2196
PO Box 522606, Saxonwold, 2132
Tel: 011 722 3059, Email: sponsor@javacapital.co.za

Transfer secretaries
Computershare Investor Services Proprietary Limited
Contact person: Leon Naidoo
Rosebank Towers, 15 Biermann Avenue, Rosebank 2196
Box 61051, Marshalltown 2107
Tel: 011 370 5000, Email: leon.naidoo@computershare.co.za

Investor relations
Instinctif Partners
Contact person: Frederic Cornet
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Tel: 011 447 3030, E-mail: investorrelations@octodec.co.za

www.octodec.co.za

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