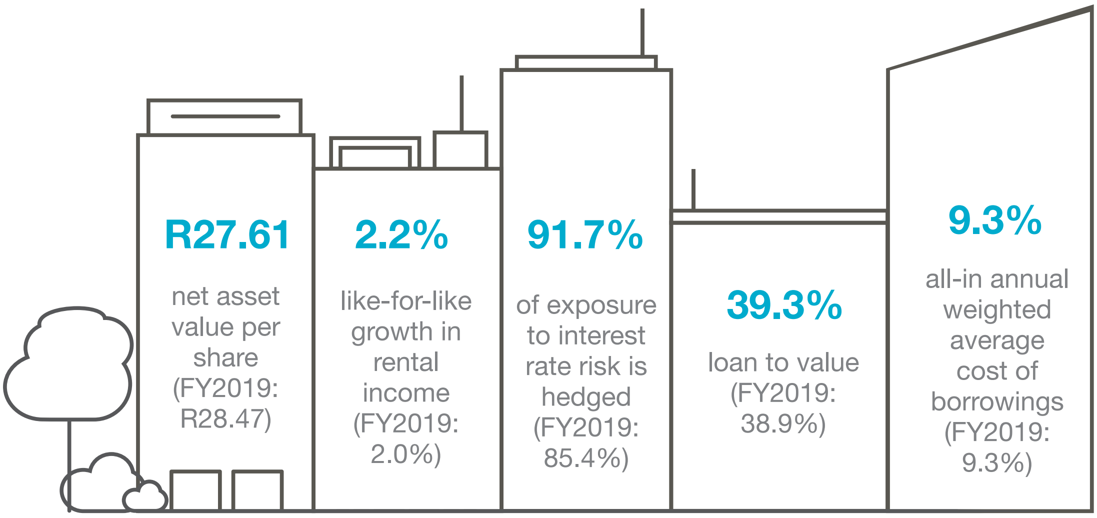
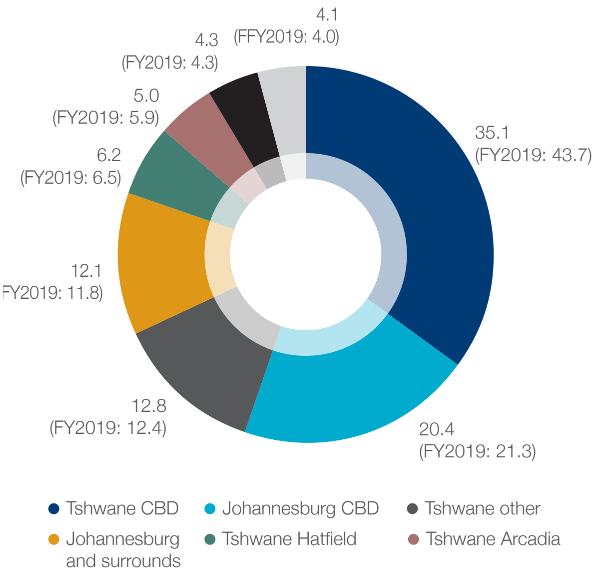
Octodec INVESTMENTS LIMITED

Unaudited interim results for the six months ended 29 February 2020

2020 PERFORMANCE HIGHLIGHTS



Geographical analysis of the rental income (% of total portfolio)



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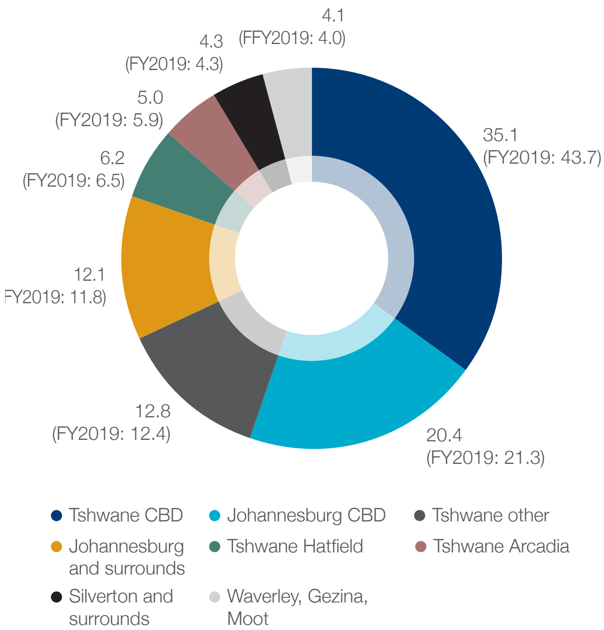

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COMMENTARY

Octodec Investments Limited (Octodec, the company), its subsidiaries and associated company (the group) is a real estate investment trust (REIT), listed on the JSE Ltd, with a portfolio of 280 properties valued at R12.6 billion. The group is one of the major owners of property in the Tshwane and Johannesburg central business districts (CBDs), with 67.6% of the portfolio's rental income derived from its Tshwane-based properties and 32.4% from Johannesburg.

The group's primary strategic objectives are to create sustainable value for stakeholders, optimise the portfolio as well as the balance sheet and funding structure.

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

REVIEW OF **RESULTS**

The prevailing poor economic and trading environment together with high levels of unemployment have continued to weigh heavily on consumer confidence and spending power, which in turn has impacted Octodec's ability to grow rental income. This together with an increase in operating costs has led to a decrease in distributable income of 5.5% compared to the same period last year.

	%	Unaudited six months 29 February 2020 R'000	Unaudited six months 28 February 2019 R'000	Audited 12 months 31 August 2020 R'000
Revenue earned on contractual basis	3.0	1 007 166	977 603	1 990 886
Property operating expenses	5.7	(475 782)	(450 300)	(929 594)
Net property income	0.8	531 384	527 303	1 061 292
Administrative and corporate expenses	17.1	(46 402)	(39 625)	(78 515)
Net operating profit	(0.6)	484 982	487 678	982 777
Rent reduction to Edcon Ltd (Edcon) inclusive of value added tax (VAT)*		(3 046)	–	(2 505)
Share of income from joint ventures		1 776	2 468	3 253
Distributable profit before finance costs		483 712	490 146	983 525
Net finance costs	4.0	(225 368)	(216 688)	(448 541)
Distributable earnings attributable to shareholders	(5.5)	258 344	273 458	534 984
Weighted average number of shares		266 197 535	266 197 535	266 197 535
Distributable earnings per share	(5.5)	97.0	102.7	201.0
Payout ratio (%)		–	99.0	100.0
Dividend per share		–	101.7	200.9

* *This relates to the 40.9% rent reduction granted to Edcon in terms of the rent reduction agreement between Edcon and its landlords.*

DIVIDENDS

COVID-19 as well as the downgrading of the country's sovereign credit rating to subinvestment grade is expected to have a major impact on South Africa's economy, which will in turn also impact Octodec's ability to fund the group's capital expenditure and maintain an acceptable loan to value (LTV) ratio. In these uncertain times, when the impact of the above factors cannot yet be assessed and quantified, Octodec's board of directors (the board), having regard to all the circumstances and adopting a prudent approach, has resolved not to declare a dividend for the six-month period to 29 February 2020.

Future payout ratios will largely depend on the extent of the impact of the abovementioned factors on Octodec as well as, *inter alia*, Octodec's capital requirements, proceeds from the sale of investment property, liquidity and the need to strengthen the balance sheet.

REVENUE

Revenue earned on a contractual basis grew by R29.6 million or 3.0%. Growth in rental revenue was subdued due to an increase in rental freezes and rent reversions in the commercial sector. A decrease in disposable income has also put pressure on the consumer and residential rental growth has been impacted by both increased vacancies and a nominal increase in rental rates.

The core portfolio, represented by those properties held for the previous comparable period with no major development activity, reflected like-for-like rental income growth of 2.2%. The weak growth in like-for-like rental income is mainly attributable to the poor economic environment.

On a like-for-like basis, parking income increased by 6.6% largely attributable to improved management of parking facilities and an increase in demand for parking. Rental from retail shops and the industrial sector increased by 6.6% and 5.5% respectively mainly due to improved occupancy levels in both sectors, as well as rental escalations from some of the smaller tenants in the industrial sector, which is pleasing to see. Rental income growth from the residential sector was flat and this is attributable to increased competition in the Johannesburg CBD as well as tenant affordability concerns. Rental income from the auto dealership sector was impacted by a large motor dealership vacating the premises during the prior year. The property was re-let effective from 1 November 2019, although at a lower rental.

Included in revenue is an amount of R2.6 million (28 February 2019: Rnil) which represents the shares received from Edcon in lieu of the 40.9% rent reduction granted to Edcon in terms of the rent reduction agreement between Edcon and its landlords. Due to the uncertainty regarding the financial position of Edcon, the board has assumed that the Edcon shares have no value as at 29 February 2020. For this reason the rental amount plus VAT, totaling R3.0 million (28 February 2019: Rnil) has been deducted from distributable income.

VACANCIES

Vacancies in the Octodec portfolio as at 29 February 2020, including properties held for re-development, amounted to 17.9% (FY2019: 17.7%) of the gross lettable area (GLA). The group's core vacancies, which exclude the GLA relating to properties held for re-development amounted to 11.7% (FY2019: 11.4%).

Vacancies by sector as at 29 February 2020

	GLA m^2	Total vacancies %	Properties held for redevelopment %	Core vacancies %
29 February 2020				
Retail – shops	**326 428**	**14.0**	**–**	**14.0**
Retail – shopping centres	**93 796**	**3.0**	**–**	**3.0**
Offices	**403 999**	**42.4**	**(24.8)**	**17.6**
Residential	**420 673**	**11.0**	**–**	**11.0**
Industrial	**241 298**	**8.8**	**(0.5)**	**8.3**
Specialised and other				
Educational facilities	**72 303**	**–**	**–**	**–**
Healthcare facilities	**36 744**	**15.9**	**(1.2)**	**14.7**
Places of worship	**17 618**	**–**	**–**	**–**
Auto dealerships	**15 722**	**–**	**–**	**–**
Hotels	**13 458**	**–**	**–**	**–**
Total	**1 642 039**	**17.9**	**(6.2)**	**11.7**
31 August 2019				
Retail – shops	336 435	14.4	–	14.4
Retail – shopping centres	94 012	4.7	–	4.7
Offices	412 627	43.0	(24.7)	18.3
Residential*	428 245	6.7		6.7
Industrial	246 363	10.2	(0.9)	9.3
Specialised and other				
Educational facilities	58 903	–	–	–
Healthcare facilities	36 612	15.6	(1.2)	14.4
Places of worship	18 054	–	–	–
Auto dealerships	15 722	23.5	–	23.5
Hotels	13 458	–	–	–
Total	1 660 431	17.7	(6.3)	11.4

* *The residential GLA increased due to the re-measurement of the residential units.*

There was a marginal increase in the overall portfolio core vacancies. Residential vacancies increased from 6.7% to 11.0% at 29 February 2020, which is mainly attributable to the supply of new residential accommodation by competitors in the Johannesburg CBD as well as the current economic climate and increased unemployment. The group has introduced various value-adding marketing campaigns in order to reduce the residential vacancies. The decrease in shopping centre vacancies was mainly due to the improved occupancy levels at The Park, following the completion of its refurbishment in October 2019.

Octodec owns office properties with 100 166m^2 of mothballed space. These properties offer opportunities for residential conversion or office re-development. The group is actively considering the disposal of some of these properties.

LEASE EXPIRY PROFILE

The majority of the leases provide for a monthly agreement at expiry of the lease. On expiry an effort is made to conclude longer term leases. This is especially typical of the residential market and leases with small to medium-sized enterprises. The lease expiry profile remains in line with historical trends and expectations.

Octodec has recently concluded the renewal of eighteen government leases and three remaining leases are expected to be signed after the lockdown period is lifted. These government leases represent 31% of total office rental income. As a result, the lease expiry profile in the next reporting period will reflect the improved lease expiry profile in the offices sector.

	By rental income (%)					By GLA m² (%)					
	2021	2022	2023	2024	2025 and beyond	2021	2022	2023	2024	2025 and beyond	Vacant %
Sector											
Commercial											
Retail – shops	36.4	24.9	22.6	7.3	8.8	35.9	21.8	15.4	5.6	7.2	14.0
Retail – shopping centres	43.1	17.3	14.4	10.1	15.0	44.6	14.3	11.8	11.2	15.1	3.0
Offices	75.7	9.5	9.6	2.9	2.3	42.4	6.1	5.2	2.0	1.9	42.4
Industrial	61.7	17.1	7.4	5.8	8.0	55.6	17.1	7.2	5.6	5.7	8.8
Specialised and other											
Educational facilities	40.4	25.2	12.7	9.1	12.7	47.1	22.8	10.9	12.6	6.5	–
Healthcare facilities	24.8	13.7	10.9	1.9	48.7	17.5	8.7	6.5	1.5	49.9	15.9
Places of worship	76.5	14.0	7.9	–	1.6	74.9	16.6	6.2	–	2.3	–
Auto dealerships	43.8	14.7	–	41.6	–	43.6	23.5	–	32.9	–	–
Hotels	100.0	–	–	–	–	100.0	–	–	–	–	–
Subtotal	52.9	17.1	14.0	6.9	9.1	44.1	14.5	9.1	5.4	6.8	20.2
Residential	100.0	–	–	–	–	89.0	0.0	–	–	–	11.0
Total	67.5	11.8	9.7	4.7	6.3	55.6	10.8	6.8	4.0	5.0	17.9

COST-TO-INCOME RATIOS

	29 February 2020 %	28 February 2019 %	31 August 2019 %
Property costs			
Gross basis	**47.2**	46.1	46.7
Net basis (net of recoveries)	**31.7**	30.9	31.6
Total property and administration costs			
Gross basis	**51.8**	50.1	50.6
Net basis (net of recoveries)	**37.7**	36.1	36.7

Property costs, both on a gross and net basis, have increased compared to the prior year, mainly due to lower growth in rental income and increased operating costs. Repairs and maintenance was the main contributor to the increase in operating costs but this expenditure also ensures that our buildings are adequately maintained.

The current difficult economic conditions have impacted our tenants' ability to service their rental payments. Octodec has taken this into account in calculating the expected credit loss. Bad debt write offs and provisions as a percentage of rental income increased from 1.3% to 1.7% compared to the same period last year, mainly due to an increase in bad debt write offs as well as an increase in the expected credit loss provisioning. This increase was felt mostly in the residential sector.

Administration expenses increased by R5.5 million mainly due to a once-off provision for VAT of R4.3 million. Octodec previously calculated the VAT input deduction based on an apportionment method which was based on the anticipated successful outcome of a class ruling application by the SA REIT Association. The ruling recently issued by the South African Revenue Service (SARS) did not address all the negative consequences of the current apportionment method and the SA REIT Association is considering the way forward. Octodec has provided for the VAT liability in the current period while it considers its options, among which would be an objection to this ruling.

Net finance costs for the period amounted to R225.4 million, an increase of 4.0% on the prior period.

ARREARS

Total tenant arrears were at R79.0 million (FY2019: R74.7 million) with a loss allowance of R39.2 million (FY2019: R39.4 million). Despite sustained economic pressure, the group's arrears remained at acceptable levels at 29 February 2020 with tenant arrears remaining largely unchanged at 3.5% (FY2019: 3.4%) of rental income. This was aided by tight credit risk management. The group anticipates an increase in arrears in light of the COVID-19 epidemic currently facing the country and is looking at ways to adjust operations to meet the changing needs brought about by COVID-19 and is strengthening credit control procedures to mitigate this risk.

INVESTMENT PROPERTY

Developments

During the current year, Octodec did not undertake any significant new developments but rather focused on maintaining and carrying out smaller upgrades of older properties to ensure that they remain relevant and attractive to tenants. The upgrade of The Park (previously known as Elarduspark Shopping Centre), a community shopping centre in a south-eastern suburb of Pretoria, was completed in October 2019 at a cost of R42.7 million. Octodec is also carrying out a project to provide Wi-Fi to most of its residential buildings at an estimated cost of R11 million which is expected to be completed in 2021, thus ensuring that the buildings remain attractive to our tenants.

A curtailment on upgrades and projects has recently been implemented to make allowance for the anticipated costs and losses associated with the outcome of the spread of COVID-19 and to strengthen the balance sheet.

Commitments

At 29 February 2020, the group has commitments of R36.0 million (FY2019: R39.5 million) in respect of approved and committed capital expenditure relating to smaller refurbishment of properties, committed tenant installations and property contracts. These developments will be financed by way of existing unutilised banking facilities.

Disposals

In line with Octodec's strategy to sell non-core and/or underperforming properties, the group disposed of nine properties during the period at an average exit yield of 12.4% and at a profit compared to a carrying value amounting to R1.6 million. At the date of this report, five of these properties have been transferred for a total consideration of R78.2 million. The remaining four properties were sold for a total consideration of R66.3 million and transfer is expected to take place during the second half of the 2020 financial year. Octodec remains committed to disposing of the remaining properties that were approved for sale by the board and is actively marketing the sale of the properties.

Valuation of property portfolio

The property portfolio was valued at R12.6 billion (FY2019: R12.8 billion) based on the capitalisation of income method. The decrease in value is largely attributable to a write down in the value of the portfolio of R213.9 million during the period. The valuation was impacted by lower rentals, increased vacancies, as well as an increase in capitalisation rates.

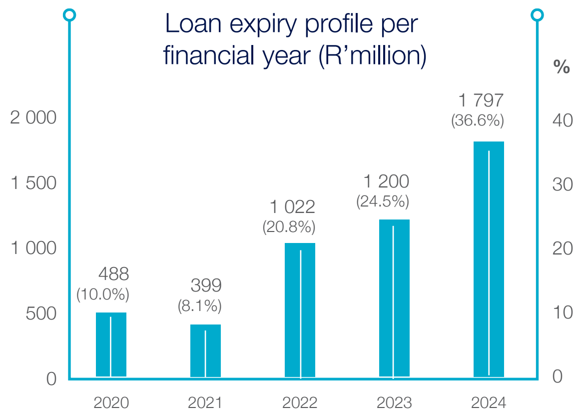
BORROWINGS

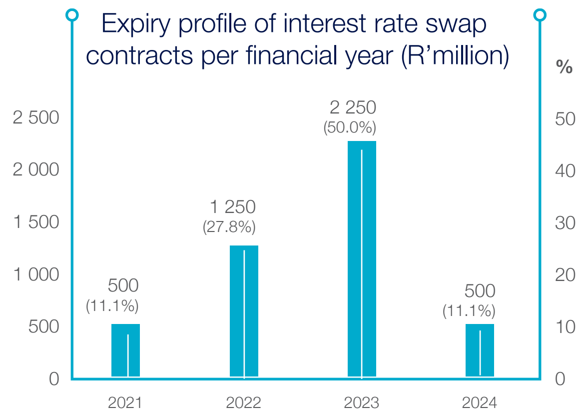
Borrowings as at 29 February 2020

	Amount R'million	Weighted average interest rate per annum %
Bank loans	**4 001.6**	**8.6**
Domestic Medium Term Note (DMTN) Programme		
Unsecured	**538.8**	**8.2**
Secured (unlisted high-quality liquid assets)	**365.5**	**8.5**
Total borrowings	**4 905.9**	**8.5**
Cost of swaps	**–**	**0.8**
Total borrowings	**4 905.9**	**9.3**

Octodec has continued to strengthen its balance sheet by applying the proceeds on disposal of properties to the re-payment of borrowings, ensuring prudent financial management in this challenging South African economic environment. The weighted average term to expiry of the loans is 2.6 years (FY2019: 2.9 years) and the group's LTV as at 29 February 2020 was 39.3% (FY2019: 38.9%), applying the look-through method to its interest in a joint venture.

Octodec reduced its exposure to interest rate risk by entering into a further interest rate swap contract of R250.0 million for a period of three years at 6.275%. As at 29 February 2020, 91.7% of its borrowings were hedged (FY2019: 85.4%) with a weighted average term of 2.6 years (FY2019: 3.0 years). The all-in average weighted interest rate of all borrowings is 9.3% per annum (FY2019: 9.3%).





Octodec participates in a DMTN Programme through its subsidiary, Premium Properties Ltd. As at 29 February 2020 the total unsecured issuance was at R538.8 million, or 11.0% (FY2019: R578.8million or 11.6%) of the group's borrowings. Global Credit Rating's long and short-term national scale ratings have remained unchanged from the prior year at A-(ZA) and A2(ZA) respectively, with the outlook accorded as stable.

Octodec had unutilised available banking facilities amounting to R245.3 million at 29 February 2020 (FY2019: R585.5 million). Subsequent to 29 February 2020, a three and four-year term loan facility was secured with Absa, each amounting to R225 million. Included in the R488.0 million short-term borrowings is an amount of R327.0 million which was recently refinanced.

SA REIT ASSOCIATION BEST PRACTICE RECOMMENDATIONS

The SA REIT Association issued a second edition BPR, which deals with best practice reporting for South African REITs. The second edition BPR is effective for financial years starting 1 January 2020. Octodec is currently assessing the BPR and will endeavour to comply with the recommendations contained in the BPR.

EVENTS AFTER THE REPORTING DATE

South Africa's economy and its ability to grow will be further impacted by the sovereign credit rating downgrade to subinvestment grade on 27 March 2020, and the unprecedented uncertainty and fallout triggered by the COVID-19 pandemic. The lack of clarity as to how the lockdown will be lifted on 30 April 2020 and the subsequent socioeconomic impact of the continuing COVID-19 outbreak will have a material impact on our financial performance for at least the remainder of the financial year.

The business continuity and safety measures put in place in collaboration with City Property are delivering as planned. Essential services to tenants have been maintained across the portfolio while non-essential functions continue to be carried out, albeit remotely. In accordance with the lockdown regulations, all commercial premises where tenants are classified as trading in non-essential goods and services have closed. Tenants classified as trading in essential goods or services, in line with the gazetted exemption, remain open and strict hygiene and safety protocols are being followed.

While the full extent of this impact is uncertain, there is an immediate bearing on tenants trading in non-essential goods and services which will affect affordability and their ability to honour rent payments. Octodec is committed to assisting its tenants to navigate through this challenging period and is dealing with requests for rental relief on a case-by-case basis. Within reason, various options to provide short-term cash flow support are under consideration, particularly for small businesses and residential tenants who will be worse affected.

The above factors will certainly affect the estimates and judgements used in the valuation of assets and the investment property value could reduce substantially going forward. The impact of a change in the inputs used in the valuation of investment property is set out in the fair value information on page 12 of this report. The lifetime expected credit loss for lease receivables will also be impacted by the current developments. At 29 February 2020 it is not expected to be significant due to the carrying amount of lease receivables at period end having been received post-period end.

The board has considered the impact of the above factors on the sustainability of the business and the group and has concluded that it has adequate resources and banking facilities for the foreseeable future, barring further deterioration in market conditions. We remain committed and determined in our efforts to mitigate the reduction in earnings, optimise working capital and tightly manage cash flow and liquidity.

CHANGES TO THE **BOARD** AND **COMMITTEES**

Euniccah Maggie Setholol Mojapelo (Maggie) and Louis Pieter van Breda (Louis) were appointed as independent non-executive directors effective from 1 March 2020. In addition, Maggie has been appointed to the social, ethics, remuneration and transformation committee and Louis will serve on both the audit and risk committees. Their experience and extensive knowledge will prove invaluable to the board.

Following the appointment of Maggie and Louis, the board committees have been reconstituted with effect from 1 March 2020. Myron Zadwell Pollack (Myron) resigned from his position as a member of the audit committee. Petrus Jacobus Strydom (Pieter) resigned from his position as a member of the social, ethics, remuneration and transformation committee. The board thanks Myron and Pieter for their invaluable contributions as members of the audit and social, ethics, remuneration and transformation committees respectively over the years and welcomes Maggie and Louis to the board.

The audit committee now consists of four independent non-executive directors. Pieter continues to serve as chairman of the audit committee.

PROSPECTS

The revised negative gross domestic product (GDP) growth, increasing unemployment, reduced disposable income and the uncertain sociopolitical environment were already factors undoubtedly restraining local economic growth. The very fluid environment in which we find ourselves added to the unknown impact of COVID-19, and the recent downgrade of South Africa's sovereign credit rating to subinvestment grade will certainly make 2020 a very challenging year.

The main focus for the upcoming period is on improving cash flow and optimising the balance sheet. Key actions to support this will include cash preservation and close management of collections which will be balanced with tenant assistance and retention as the whole value chain around our industry navigates the difficult environment. The disposal of non-core properties will remain a key focus area for the foreseeable future, although it is anticipated that disposing of properties in this environment will be difficult.

In light of current market uncertainties, as announced on the Stock Exchange News Service (SENS) on 7 April 2020, the company has withdrawn its distribution per share guidance as previously communicated and will provide an update to the market when there is greater certainty. Future payout ratios will largely depend on the extent of the impact of the abovementioned factors, including COVID-19 on Octodec as well as, inter alia, Octodec's capital requirements, proceeds from the sale of investment property, liquidity and the need to strengthen the balance sheet.

Sharon Wapnick
Chairman

Jeffrey Wapnick
Managing director

20 April 2020

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Basis of preparation

The condensed consolidated interim financial statements are prepared in accordance with the JSE Ltd Listings Requirements (Listings Requirements) and the requirements of the Companies Act, No 71 of 2008 (Companies Act). The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*, the South African Institute of Chartered Accountants Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council. The accounting policies applied in the preparation of the condensed consolidated interim financial statements are in accordance with International Financial Reporting Standards (IFRS) and are consistent with those applied in the preparation of the previous consolidated audited financial statements for the year ended 31 August 2019, except for the adoption of IFRS 16, which became effective in the current period.

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

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

Adoption of IFRS 16 *Leases*

IFRS 16 *Leases* introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low-value assets. The requirements for lessor accounting have remained largely unchanged.

The group adopted IFRS 16 from 1 September 2019 using the modified retrospective approach and has therefore not restated the comparatives for the 2019 financial year as permitted under the specific transition provisions contained in the standard. The group elected to use the practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and International Financial Reporting Interpretations Committee (IFRIC) 4 at the date of initial application.

The lease liabilities were measured at the present value of the remaining lease payments, discounted using the average incremental borrowing rate to the group of 9.31% as at 1 September 2019. The lease liability representing the present value of the unpaid lease payments at 1 September 2019 has been recognised on the statement of financial position. The group has two properties held under long-term land leases which are currently recognised as investment property at fair value. The group will continue to account for the right-of-use asset for land leases at fair value in accordance with IAS 40.

Fair value measurement

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

Financial instruments

Financial instruments include interest rate swaps as well as unlisted equity investments. Both are measured at fair value through profit and loss.

The fair values of the interest rate swaps are determined on a mark-to-market valuation, by discounting the estimated future cash flows based on the terms and maturity of each contract and using the market interest rate indicated on the South African swap curve.

Unlisted equity shares consist of the shares and notes obtained in lieu of the rent reduction given to Edcon in terms of the rent reduction agreement between Edcon and its landlords. Due to the uncertainty around the manner of disposal of the unlisted equity shares and notes at the end of the rent reduction term, and the uncertainty regarding the financial standing of Edcon, the fair value of the shares and notes have been estimated at nil value and this will be re-assessed once more information is available.

Investment property

Investment properties are valued biannually by a dedicated valuation team at City Property and the portfolio valuation is reviewed and approved by the board. In terms of the Listings Requirements, all the properties are valued at least once over a rolling three-year period by external independent valuers. In the current period 52 properties representing 9.9% of the portfolio with a carrying amount of R1.2 billion were externally valued.

The portfolio was valued by the following valuers who are all registered valuers in terms of section 19 of the Property Valuers Profession Act, No 47 of 2000 and have extensive experience in property valuations.

Entity	Valuator	Qualifications
Mills Fitchet Global	William Hewitt	NDPV, MIEA, FIVSA, RICS Registered Valuer
Realworx Property Valuations (Pty) Ltd	Stanton Alberts	Professional Associate Valuer
Gert van Zyl Valuation	Gerhardus Jacobus Van Zyl	Professional Associate Valuer

Mills Fitchet Global valued the properties using the discounted cash flow model and Realworx Property Valuations (Pty) Ltd and Gert van Zyl Valuation valued the properties using the capitalisation of income method. The entire property portfolio was also internally valued using the capitalisation of income method.

The key assumptions and unobservable inputs used by the group at 29 February 2020 in determining fair value were as follows:

	29 February 2020		31 August 2019	
	Range	**Weighted average**	Range	Weighted average
Capitalisation rate (%)	**8.5 – 14.5**	**9.5**	8.5 – 14.5	9.5
Expense ratio (%)	**5.4 – 43.5**	**26.9**	5.1 – 44.1	26.2
Long-range vacancy factor (%)	**0.0 – 35.0**	**6.6**	0.0 – 35.0	5.7

Relationship of unobservable inputs to fair value

The impact of COVID-19 as well as the downgrade of the country's sovereign credit rating to subinvestment grade will impact the valuation of investment property. The significant unobservable inputs used in the fair value measurement of the group's investment properties are the capitalisation rates, the expense to income ratios and the long-range vacancy factor. Significant increases in any of these inputs in isolation will result in a significantly lower fair value measurement. The effect of changes in these inputs is set out below:

		29 February 2020 R'000
Increase in capitalisation rates, while all other inputs remain constant	**1%**	**(1 182 630)**
Increase in capitalisation rates, while all other inputs remain constant	**2%**	**(2 159 952)**
Increase in long-range vacancy factor, while all other inputs remain constant	**1%**	**(133 204)**
Increase in long-range vacancy factor, while all other inputs remain constant	**5%**	**(666 021)**
Increase in expense ratio, while all other inputs remain constant	**1%**	**(170 195)**
Increase in expense ratio, while all other inputs remain constant	**5%**	**(850 976)**

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)

The following table reflects the levels within the fair value hierarchy of financial and non-financial assets measured at fair value at 29 February 2020 and 31 August 2019:

	29 February 2020		31 August 2019	
	Level 2 R'000	**Level 3 R'000**	Level 2 R'000	Level 3 R'000
Derivative financial instruments				
Assets	**850**	**–**	–	–
Liabilities	**(111 217)**	**–**	(99 694)	–
Non-financial instruments				
Investment property	**–**	**12 467 500**	–	12 637 240
Investment property held for sale	**–**	**133 250**	–	209 300

There have been no significant transfers made between Levels 1, 2 and 3 during the period. There have been no material changes in judgements or estimates of amounts as reported in previous reporting periods.

Carrying value and movement in investment property

	Investment property, plant and equipment 29 February 2020 R'000	Investment property, plant and equipment 31 August 2019 R'000
Balance as at 31 August 2019	**12 846 540**	12 743 362
Total fair value changes for the year included in profit and loss	**(213 926)**	(138 873)
Straight-line rental income accrual	**(2 605)**	(8 191)
Depreciation and amortisation	**(7 932)**	(15 989)
Acquisitions, disposals and other movements:		
Developments and subsequent expenditure (including impact of adoption of IFRS 16)	**55 473**	79 952
Acquired through business combination	**–**	310 200
Disposals (carrying value)	**(76 800)**	(123 921)
Balance as at 29 February 2020	**12 600 750**	12 846 540
Included in profit and loss for the year:		
Changes in fair value of investment property	**(213 926)**	(138 873)

Related-party transactions

Octodec and City Property are related parties in that Jeffrey Wapnick and Sharon Wapnick are directors of Octodec and City Property and members of the Wapnick family are shareholders of both companies.

Total payments made to City Property amounted to R97.8 million (28 February 2019: R97.3 million)*. This included fees for collections, leasing, property and asset management, commission on acquisitions and disposals, upgrades and developments as well as repairs. Octodec received R4.6 million (FY2019: R8.4 million) from City Property in respect of rent and operating costs recovered.

As at 29 February 2020, the following amounts were owing from/(to) City Property:

	29 February 2020 R'000	31 August 2019 R'000
Due to City Property	**(3 396)**	(2 220)
Due by City Property	**–**	1 068

* *The amounts paid to City Property include VAT to the extent that VAT has not been claimed as input so as to agree to the amounts disclosed in the statement of profit and loss and statement of financial position.*

CONDENSED CONSOLIDATED STATEMENT OF **FINANCIAL POSITION**

	Unaudited 29 February 2020 R'000	Unaudited 28 February 2019 R'000	Audited 31 August 2019 R'000
ASSETS			
Non-current assets	**12 565 863**	12 765 459	12 733 048
Investment property	**12 337 631**	12 521 319	12 500 173
Plant and equipment	**742**	2 731	1 841
Straight-line rental income accrual	**101 052**	110 838	104 099
Tenant installations and lease costs	**28 076**	32 123	31 127
Interest in and loans to joint ventures	**22 761**	22 358	21 044
Loan granted	**74 751**	75 000	74 764
Derivative financial instruments	**850**	1 090	–
Current assets	**184 232**	171 175	201 633
Accounts receivable and pre-payments	**115 011**	118 490	119 274
Loan granted	**–**	2 802	–
Taxation receivable	**–**	675	675
Cash and bank balances	**69 221**	49 208	81 684
Non-current assets held for sale	**133 250**	290 700	209 300
	12 883 345	13 227 334	13 143 981
EQUITY AND LIABILITIES			
Equity	**7 350 209**	7 763 260	7 578 599
Stated capital	**4 210 134**	4 210 134	4 210 134
Non-distributable reserve	**2 805 952**	3 200 260	3 029 059
Retained income	**334 123**	352 866	339 406
Non-current liabilities	**4 633 603**	3 990 746	4 220 988
Long-term borrowings	**4 417 722**	3 851 395	4 027 644
Derivative financial instruments	**111 217**	46 593	99 694
Lease liabilities	**11 014**	–	–
Deferred taxation	**93 650**	92 758	93 650
Current liabilities	**899 533**	1 473 328	1 344 394
Short-term borrowings	**488 213**	1 115 232	950 435
Trade and other payables	**411 320**	358 096	393 959
	12 883 345	13 227 334	13 143 981

CONDENSED CONSOLIDATED STATEMENT OF **PROFIT** OR **LOSS** AND **OTHER COMPREHENSIVE INCOME**

	% change	Unaudited six months 29 February 2020 R'000	Unaudited six months 29 February 2019 R'000	Audited 12 months 31 August 2019 R'000
Revenue	2.9	1 004 561	976 180	1 982 695
earned on contractual basis	3.0	1 007 166	977 603	1 990 886
straight-line rental income accrual		(2 605)	(1 423)	(8 191)
Property operating expenses	4.9	(457 940)	(436 606)	(901 290)
Impairment provision – accounts receivable	30.3	(17 842)	(13 694)	(28 304)
Net property income	0.6	528 779	525 880	1 053 101
Administrative and corporate expenses	17.1	(46 402)	(39 625)	(78 515)
Net operating profit	(0.8)	482 377	486 255	974 586
Fair value changes		(227 645)	(60 051)	(232 599)
investment property		(213 926)	(23 021)	(138 873)
unlisted equity shares		(3 046)	–	(2 505)
interest rate derivatives		(10 673)	(37 030)	(91 221)
Profit from operations		254 732	426 204	741 987
Profit on sale of investment property		1 758	719	2 629
Gain on derecognition of share in joint venture		–	3 029	3 029
Share of income from joint ventures		3 379	2 482	3 595
share of after tax profit		1 776	1 106	517
share of fair value gains		1 603	14	342
interest received		–	1 362	2 736
Profit from ordinary activities before finance costs	(39.9)	259 869	432 434	751 240
Net finance costs	4.0	(225 368)	(216 688)	(448 541)
finance income		7 728	8 987	18 844
finance costs	3.3	(233 096)	(225 675)	(467 385)
Profit before taxation		34 501	215 746	302 699
Tax – deferred		–	(6 161)	(7 052)
Profit for the year	(83.5)	34 501	209 585	295 647
Other comprehensive income		–	–	–
Total comprehensive income for the year attributable to shareholders	(83.5)	34 501	209 585	295 647
Basic and diluted earnings per share (cents)	(83.5)	13.0	78.7	111.1

CONDENSED CONSOLIDATED STATEMENT OF **CHANGES IN EQUITY**

	Stated capital R'000	Non-distributable reserve R'000	Retained earnings R'000	Total R'000
Balance at 31 August 2018 (audited)	4 210 134	3 262 710	351 554	7 824 398
Total comprehensive income for the period	–	–	209 585	209 585
Dividends paid	–	–	(270 723)	(270 723)
Transfer to non-distributable reserve				
Profit on sale of investment property	–	719	(719)	–
Deferred tax	–	(6 161)	6 161	–
Profit on derecognition of investment in joint venture	–	3 029	(3 029)	–
Fair value changes				
investment property	–	(23 021)	23 021	–
investment property – joint ventures	–	14	(14)	–
interest rate derivatives (net of deferred tax)	–	(37 030)	37 030	–
Balance at 28 February 2019 (unaudited)	4 210 134	3 200 260	352 866	7 763 260
Total comprehensive income for the period	–	–	86 062	86 062
Dividends paid	–	–	(270 723)	(270 723)
Transfer to non-distributable reserve				
Profit on sale of investment property	–	1 910	(1 910)	–
Deferred tax	–	(891)	891	–
Fair value changes				
investment property	–	(115 852)	115 852	–
investment property – joint ventures	–	328	(328)	–
unlisted equity shares	–	(2 505)	2 505	–
interest rate derivatives (net of deferred tax)	–	(54 191)	54 191	–
Balance at 31 August 2019 (audited)	4 210 134	3 029 059	339 406	7 578 599
Effect of change in accounting policy for initial application of IFRS 16	–	1 177	–	1 177
Adjusted balance at 1 September 2019	**4 210 134**	**3 030 236**	**339 406**	**7 579 776**
Total comprehensive income for the period	**–**	**–**	**34 501**	**34 501**
Dividends paid	**–**	**–**	**(264 068)**	**(264 068)**
Transfer to non-distributable reserve				
Profit on sale of investment property	**–**	**1 758**	**(1 758)**	**–**
Fair value changes				
investment property	**–**	**(213 926)**	**213 926**	**–**
investment property – joint ventures	**–**	**1 603**	**(1 603)**	**–**
unlisted equity shares	**–**	**(3 046)**	**3 046**	**–**
interest rate derivatives (net of deferred tax)	**–**	**(10 673)**	**10 673**	**–**
Balance at 28 February 2020 (unaudited)	**4 210 134**	**2 805 952**	**334 123**	**7 350 209**

CONDENSED CONSOLIDATED STATEMENT OF **CASH FLOWS**

	Unaudited six months 29 February 2020 R'000	Unaudited six months 28 February 2019 R'000	Audited 12 months 31 August 2019 R'000
Cash flows from operating activities			
Net rental income from properties	482 377	486 255	974 586
Adjusted for :			
straight-line rental income accrual	2 605	1 423	8 191
depreciation and amortisation	7 932	7 977	15 989
impairment provision – accounts receivable	17 842	13 694	28 304
tax received	675	–	–
working capital changes	7 885	(23 608)	(3 091)
Cash generated from operations	519 316	485 741	1 023 979
Interest income	7 728	8 987	18 844
Finance costs	(240 052)	(227 476)	(471 737)
Dividends paid	(264 068)	(270 723)	(541 446)
Net cash flows from operating activities	22 924	(3 471)	29 640
Cash flows from investing activities			
Refurbishment of investment property and tenant installation costs	(42 893)	(34 655)	(82 617)
Purchase of subsidiary	–	(35 585)	(35 585)
Re-payment of loan granted	13	226	3 264
Re-payments received from joint ventures	2 000	2 862	2 861
Payments made to joint ventures	(338)	(7 627)	(5 199)
Proceeds from disposal of investment property	78 177	98 769	129 179
Net cash flows from investing activities	36 959	23 990	11 903
Cash flows from financing activities			
Re-payment of lease liabilities	(9)	–	–
Proceeds from borrowings	607 799	1 167 115	2 781 576
Re-payment of borrowings	(680 136)	(1 201 338)	(2 804 347)
Net cash flows from financing activities	(72 346)	(34 223)	(22 771)
Net (decrease)/increase in cash and bank balances	(12 463)	(13 704)	18 772
Cash and bank balance at beginning of year	81 684	62 912	62 912
Cash and bank balance at end of year	69 221	49 208	81 684

RECONCILIATION OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME TO **HEADLINE EARNINGS**

	Unaudited six months 29 February 2020 R'000	Unaudited six months 28 February 2019 R'000	Audited 12 months 31 August 2019 R'000
Total comprehensive income attributable to shareholders	**34 501**	209 585	295 647
Headline earnings adjustments			
Profit on sale of investment properties	**(1 758)**	(719)	(2 629)
Gain on derecognition of interest in joint venture	**–**	(3 029)	(3 029)
Fair value changes			
investment property	**213 926**	23 021	138 873
investment property – joint ventures	**(1 603)**	(14)	(342)
Headline earnings attributable to shareholders	**245 066**	228 844	428 520
Headline and diluted headline earnings per share (cents)	**92.1**	86.0	161.0

CONDENSED CONSOLIDATED SEGMENTAL INFORMATION

	Unaudited six months 29 February 2020 R'000	%	Unaudited six months 28 February 2019 R'000	%
Rental income by sector				
Retail	255 348	32.8	257 029	33.7
Offices	126 899	16.3	120 807	15.8
Residential	244 188	31.4	241 788	31.7
Industrial	56 620	7.3	54 582	7.2
Specialised and other:				
Parking	36 150	4.6	34 029	4.4
Healthcare facilities	18 617	2.4	17 448	2.3
Auto dealerships	8 378	1.1	9 402	1.2
Hotels	9 916	1.3	8 145	1.1
Places of worship	3 717	0.5	3 660	0.5
Educational facilities	18 690	2.4	15 848	2.1
Total rental income	778 523	100.0	762 738	100.0
Straight-line rental income accrual	(2 605)		(1 423)	
Recoveries	228 643		214 865	
Revenue	1 004 561		976 180	

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

RECONCILIATION OF **EARNINGS** TO **DISTRIBUTABLE EARNINGS**

	%	Unaudited six months 29 February 2020 R'000	Unaudited six months 28 February 2019 R'000	Audited 12 months 31 August 2019 R'000
Total comprehensive income attributable to shareholders		34 501	209 585	295 647
Profit on sale of investment properties		(1 758)	(719)	(2 629)
Gain on derecognition of investment in joint venture		–	(3 029)	(3 029)
Fair value changes				
investment property		213 926	23 021	138 873
investment property – joint ventures		(1 603)	(14)	(342)
unlisted equity shares		3 046	–	2 505
interest rate derivatives		10 673	37 030	91 221
Straight-line rental income accrual		2 605	1 423	8 191
Tax – deferred		–	6 161	7 052
		261 390	273 458	537 489
Amount not distributed				
– Amount attributable to Edcon rent reduction		(3 046)	–	(2 505)
Distributable earnings attributable to shareholders		258 344	273 458	534 984
Represented by:				
Revenue				
earned on contractual basis	3.0	1 007 166	977 603	1 990 886
Property operating expenses and impairment provision	5.7	(475 782)	(450 300)	(929 594)
Net property income	0.8	531 384	527 303	1 061 292
Administrative and corporate expenses	17.1	(46 402)	(39 625)	(78 515)
Net operating profit	(0.6)	484 982	487 678	982 777
Share of income from joint ventures		1 776	2 468	3 253
Profit before finance costs		486 758	490 146	986 030
Net finance costs	4.0	(225 368)	(216 688)	(448 541)
Net income after finance costs	(4.4)	261 390	273 458	537 489
Amount not distributed		(3 046)	–	(2 505)
Distributable earnings attributable to shareholders	(5.5)	258 344	273 458	534 984

COMPANY INFORMATION

Octodec Investments Limited

Incorporated in the Republic of South Africa
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JSE share code: OCT
ISIN: ZAE000192258 (Approved as a REIT by the JSE)

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[1] *Non-executive director.*
[2] *Executive director.*
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