Premium Properties Limited

(Registration number 1994/003601/06)
Annual Financial Statements
for the year ended 31 August 2017

General Information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Property investment deriving income from rentals
Directors	JP Wapnick AK Stein P Kruger
Registered office	101 Du Toit Street Tshwane 0001
Business address	101 Du Toit Street Tshwane 0001
Postal address	PO Box 15 Tshwane 0001
Holding company	Octodec Investments Limited incorporated in South Africa
Auditors	Deloitte & Touche Chartered Accountants (SA) Registered Auditors
Secretary	City Property Administration Proprietary Limited
Level of assurance	These audited consolidated and separate annual financial statements (annual financial statements) have been audited in compliance with the applicable requirements of the Companies Act of South Africa, 71 of 2008.
Preparer	The annual financial statements were prepared under the supervision of: Anabel Vieira Senior Financial Manager CA(SA)
Issued	07 December 2017

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Directors' Responsibilities and Approval

The directors are required in terms of the Companies Act, 71 of 2008 (the Companies Act) to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the group and company (hereinafter referred to as the group) 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 International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates. The annual financial statements 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. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the group and all employees are required to maintain the highest ethical standards in ensuring the group’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the group is on identifying, assessing, managing and monitoring all known forms of risk across the group. While operating risk cannot be fully eliminated, the group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual 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’s cash flow forecast for the year to 31 August 2018 and, in 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.

The external auditors are responsible for independently auditing and reporting on the group's annual financial statements. The annual financial statements have been examined by the group's external auditors and their report is presented on pages 9 to 13.

The annual financial statements set out on pages 14 to 50, which have been prepared on the going concern basis, were approved by the directors on 07 December 2017 and were signed on their behalf by:

AK Stein	**P Kruger**

Audit Committee Report

The company does not have its own audit committee and the audit committee of the holding company, Octodec Investments Limited ("Octodec") oversees Premium Properties Limited and its subsidiaries as the 100% ultimate holding company.

The Octodec audit committee ("the Octodec committee") has discharged its responsibilities as mandated by the board of Octodec, which also allows it to execute its statutory duties in compliance with the Companies Act. The Octodec committee's terms of reference, which are available from the company secretary, are aligned with the requirements of the Companies Act.

The Octodec committee refers the user to the Octodec integrated report, specifically pages 78 to 86 that deals with the corporate governance practices utilised by the Octodec group. The above contains details as to how the Octodec group ensured application of the King IV™ principles.

The Octodec 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 Act for the Octodec group.

Composition, meetings and assessment

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

Pieter Strydom - MCom CA(SA) (Chairman)
Derek Cohen - AEP
Gerard Kemp - MSc (Mining Engineering) DPLR. MDP
Myron Pollack - CA(SA)

A brief profile of each of the members can be viewed on pages 28 and 29 of Octodec's integrated report.

The Octodec committee met on five occasions during the year under review and all members were present at these scheduled meetings. The group managing director, group financial director, Deloitte & Touche (external auditors), group 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 Octodec committee is to:
• perform its statutory duties as prescribed by the Companies Act;
• review and report back to the directors on all financial matters relating to the group;
• further assist the directors 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 directors; and
• oversee the activities of the external auditors

The Octodec committee has evaluated the consolidated and separate annual financial statements for the year ended 31 August 2017 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 annual financial statements.

The Octodec 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.

Audit Committee Report

Octodec Committee activities

In line with its terms of reference, the Octodec committee:
• 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;
• reviewed and pre-approved the provision of non-audit services rendered by the external auditors during the year;
• reviewed the effectiveness of the internal financial controls;
• reviewed the quarterly compliance and significant legal matters report;
• reviewed the accounting practices and internal financial controls of the group; and
• reviewed the documented assessments, as prepared by management, of the going concern status of the group.

Annual confirmations

• Annual financial statements

The Octodec committee recommended the annual financial statements to the directors for approval.

The external auditors, have provided shareholders with an independent opinion on page 6 to 10 on whether the financial statements for the year ended 31 August 2017 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 2017.

• Independence and reappointment of the external auditor is reaffirmed

The Octodec committee assessed the suitability of both Deloitte & Touche and Patrick Kleb for appointment as auditor firm and designated audit partner. The Octodec committee is satisfied that the external audit firm and designated lead auditor are independent as defined by the Act. The Octodec committee reviewed the performance of the external auditors and recommended the appointment of Deloitte & Touche as external auditor for the 2018 financial year and Patrick Kleb as the designated lead auditor. This will be the fourth year of the firm and the lead auditor as auditors of the company and group.

• Evaluation of the expertise and experience of the group financial director and the finance function

The committee is satisfied with the experience, expertise and adequacy of resources within the finance function and of the financial director. The Octodec committee is satisfied that the company has established appropriate financial reporting procedures and that these procedures are operating.

• Effectiveness of internal controls

Using the assurance obtained from the various assurance providers the Octodec committee recommended to the directors that it issues a statement as to the adequacy of the company's internal control measures

The members of the audit committee are all independent non-executive directors of the group and include:

The committee is satisfied that the members thereof have the required knowledge and experience as set out in Section 94(5) of the Companies Act, 71 of 2008 (the Companies Act) and Regulation 42 of the Companies Regulation, 2011.

On behalf of the Octodec audit committee

Pieter Strydom
Chairman of the Octodec Audit Committee

07 December 2017

Certification by company secretary

Declaration by the company secretary in respect of Section 88(2)(e) of the Companies Act

In terms of Section 88(2)(e) of the Companies Act, 71 of 2008 (the Companies Act), as amended, I certify that the group has lodged with the Commissioner all such returns as are required of a public company in terms of the Companies Act and that all such returns are true, correct and up to date.

Elize Greeff
Company Secretary
07 December 2017

Directors' Report

The directors have pleasure in submitting their report on the annual financial statements of Premium Properties Limited for the year ended 31 August 2017.

1. Nature of business

Premium Properties Limited was incorporated in South Africa in 1994 with investments in retail, commercial, industrial and residential properties and deriving income from the rental of its properties and its investments and is listed on the debt market of the JSE Limited (JSE). The company is a wholly owned subsidiary of Octodec, a real estate investment trust (REIT), listed under the "Financials - Real Estate Holdings" sector on the JSE. Details of their compliance with King Report on corporate governance for South Africa (King IV™) can be found in the Integrated Report of Octodec. The company which is wholly owned by a REIT, is therefore also a REIT.

The group and company operates in South Africa.

There have been no material changes to the nature of the group and company's business from the prior year.

2. Review of financial results and activities

The annual financial statements have been prepared in accordance with International Financial Reporting Standards, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act. The accounting policies have been applied consistently compared to the prior year.

Full details of the financial position, results of operations and cash flows of the group and company are set out in these annual financial statements.

3. Share capital

There have been no changes to the authorised or issued share capital during the year under review.

4. Dividends

The group and company's dividend policy is to consider a final dividend in respect of each financial year. The dividends already declared and paid to the shareholder during the year are as reflected in the attached statement of changes in equity, once the appropriate approval was granted by the directors.

5. Directorate

The directors in office at the date of this report and who were in office throughout the year, are as follows:

Directors
JP Wapnick
AK Stein
P Kruger

6. Interests in subsidiaries and associates

Details of material interests in subsidiaries and associates are presented in the annual financial statements in notes 4 and 5. The interest of the group and company in the profits and losses of its subsidiaries and associates for the year ended 31 August 2017 are as follows:

	2017 R '000	2016 R '000
Subsidiaries		
Centpret Properties Proprietary Limited	375 801	313 825
Centuria 369 Proprietary Limited	7 762	1 275
Landjack Properties Proprietary Limited	592	3 977
Savyon Building Proprietary Limited	175 341	213 911
Associates		
IPS Investments Proprietary Limited	102 687	92 246
	662 183	**625 234**

Directors' Report

7. Events after the reporting period

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

8. Going concern

The directors are aware that the current liabilities exceed the current assets by R1,127 million (2016: R842 million), mainly due to the fact that the majority of unsecured notes and some secured loans will be maturing in the 2018 financial year.

The process to refinance these loans has already started and Nedbank Limited has approved new loans to replace the loans maturing in the 2018 financial year. The unsecured loans have also been refinanced as follows:

PMM 29, PMM 30 and PMM 33 matured on 4, 7 & 1 September 2017 respectively, and have since been refinanced by PMM 39 for R171 million and PMM 40 for R55 million maturing on 4 September 2018.
PMM 35 matured on 6 November 2017 and has since been refinanced by PMM 41 for R158.5 million maturing 6 May 2018.
PMM 37 matured on 27 November 2017 and has been refinanced by PMM 42 for R180 million maturing on 28 May 2018.

The group also has access to undrawn loan facilities of R626 million as well as an overdraft facility of R41,9 million (at Octodec group level) to fund current operations.

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

9. Auditors

Deloitte & Touche continued as auditors for the group and company in 2017.

At the annual general meeting, the resolutions will be presented to reappoint Deloitte & Touche as the independent external auditors of the group and to confirm Mr Patrick Kleb as the designated lead audit partner for the 2018 financial year.

10. Secretary

The company secretary is City Property Administration Proprietary Limited.

Postal address	PO Box 15 Tshwane 0001
Business address	101 Du Toit Street Tshwane 0001

11. Management contract and administration

The group and company's investment properties continue to be managed, in terms of an agreement, by City Property Administration Proprietary Limited, the entire share capital of which is effectively owned by the Wapnick family.

Deloitte.

Deloitte & Touche
Registered Auditors
Audit & Assurance -
Gauteng

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Premium Properties Limited

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Premium Properties Limited (the Group) set out on pages 14 to 50, which comprise the statements of financial position as at 31 August 2017, 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.

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 2017, 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 financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter. We have determined that there are no key audit matters to communicate in our report with regard to the audit of the separate financial statements of the Company for the current period.

Key Audit Matter	How the matter was addressed in the audit
Valuations of investment property	
As disclosed in Note 2 of the consolidated financial statements, the investment property's carrying value amounted to R5.6 billion (2016: R5.5 billion) with a fair value adjustment of R153.6 million (2016: R140 million) that was taken to net profit during the current financial year. The property portfolio of the Group include properties in different sectors being Commercial, Residential, Industrial and Retail. The Group has a third of its properties valued by independent, external valuers on an annual basis. The company uses a valuation technique using the net income capitalisation method. The assumptions with the most significant impact on the valuations that are performed are: • Rental income; • Property specific expense ratios; • Long term vacancy rates; and • Capitalisation rates. The valuation of investment property was identified as a key audit matter due to the significance of the balance and due to the significant judgement that was required in determining the fair value of the investment property.	In evaluating the valuations that were performed by management of City Property Administration (CPA) 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. The rental income and property operating costs have significant impact on the valuations and were also detail tested, however, these areas do not require 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 as well as the operating effectiveness tested. Additionally, the approval of the acquisitions and 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 independent valuers, and verified 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 held meetings with each of the independent valuers to confirm that the valuation method used is based on the income approach which is a valuation technique within the scope of IFRS 13: Fair value measurement and industry norms. We performed a comparison of the valuations that were performed by the Directors and those performed by the independent valuers and followed up on major discrepancies with both the Directors and the independent valuers.

Key Audit Matter	How the matter was addressed in the audit
Valuations of investment property	
	Using a sampling method, we selected a sample of properties to be tested. 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 and 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 for the completed developments and developments under construction 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, and the Certification by Company Secretary as required by the Companies Act of South Africa, which we obtained prior to the date of this report. The 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.

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 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 Premium Properties (Pty) Ltd for 3 years.

Deloitte & Touche
Registered Auditor
Per: Patrick Kleb
Partner
07 December 2017

Statements of Financial Position as at 31 August 2017

		Consolidated		Company	
	Note(s)	2017 R '000	2016 R '000	2017 R '000	2016 R '000
Assets					
Non-Current Assets					
Investment property	2	5 647 907	5 505 626	367 885	371 491
Straight-line rental income accrual	2	54 063	60 787	2 371	2 749
Tenant installations and lease costs	3	15 796	21 344	486	826
Plant and equipment		3 100	3 969	262	334
Investment in subsidiaries	4	-	-	4	5
Loans to group companies	4	-	-	2 909 810	2 866 770
Investment in associate	5	483 981	447 312	1	1
Derivative financial instruments	14	-	4 307	-	4 307
		6 204 847	**6 043 345**	**3 280 819**	**3 246 483**
Current Assets					
Trade and other receivables	8	74 935	58 035	7 672	7 672
Cash and cash equivalents	9	64 008	3 065	63 969	3 060
Derivative financial instruments	14	868	-	868	-
		139 811	**61 100**	**72 509**	**10 732**
Non-current assets held for sale	10	147 400	72 800	42 800	30 400
Total Assets		**6 492 058**	**6 177 245**	**3 396 128**	**3 287 615**
Equity and Liabilities					
Equity					
Stated capital	11	690 947	690 947	690 947	690 947
Non- distributable reserve	12	3 306 439	3 117 519	561 224	560 138
Distributable reserve		82 088	64 711	37 917	31 008
		4 079 474	**3 873 177**	**1 290 088**	**1 282 093**
Liabilities					
Non-Current Liabilities					
Loan from holding company	6	972 798	338 945	972 798	338 945
Deferred tax	7	14 484	14 483	-	-
Borrowings	13	157 866	1 047 651	157 866	887 651
Derivative financial instruments	14	-	123	-	123
		1 145 148	**1 401 202**	**1 130 664**	**1 226 719**
Current Liabilities					
Borrowings	13	1 118 200	755 116	958 200	755 116
Derivative financial instruments	14	618	-	618	-
Trade and other payables	15	148 618	147 750	16 558	23 687
		1 267 436	**902 866**	**975 376**	**778 803**
Total Liabilities		**2 412 584**	**2 304 068**	**2 106 040**	**2 005 522**
Total Equity and Liabilities		**6 492 058**	**6 177 245**	**3 396 128**	**3 287 615**

Statements of Profit or Loss and Other Comprehensive Income

		Consolidated		Company	
	Note(s)	2017 R '000	2016 R '000	2017 R '000	2016 R '000
Revenue	16	870 322	829 456	71 120	97 158
Other operating income	17	3 288	4 093	179	112
Other operating expenses	18	(420 236)	(365 945)	(30 333)	(45 691)
Operating profit	18	**453 374**	**467 604**	**40 966**	**51 579**
Investment income	19	4 941	3 748	397 794	391 819
Finance costs	20	(150 041)	(161 215)	(137 869)	(149 894)
Income from equity accounted investments	24	102 687	92 246	66 018	67 675
Other non-operating gains	21	155 337	156 225	1 086	21 157
Profit before taxation		**566 298**	**558 608**	**367 995**	**382 336**
Taxation	22	(1)	(1 981)	-	-
Profit for the year		**566 297**	**556 627**	**367 995**	**382 336**
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		**566 297**	**556 627**	**367 995**	**382 336**

Premium Properties Limited
(Registration number 1994/003601/06)
Annual Financial Statements for the year ended 31 August 2017

Statements of Changes in Equity

	Stated capital R '000	Non - distributable reserve R '000	Distributable reserve R '000	Total equity R '000
Consolidated				
Balance at 01 September 2015	**690 947**	**2 936 250**	**50 428**	**3 677 625**
Profit for the year	-	-	556 627	556 627
Transfer between reserves				
- Fair value changes to investment properties	-	144 664	(144 664)	-
- Fair value changes to interest rate derivatives	-	10 437	(10 437)	-
- Capital profit on disposal of investment property	-	1 124	(1 124)	-
- Reserves of associate	-	25 044	(25 044)	-
Dividends paid	-	-	(361 075)	(361 075)
Balance at 01 September 2016	**690 947**	**3 117 519**	**64 711**	**3 873 177**
Profit for the year	-	-	566 297	566 297
Transfer between reserves				
- Fair value changes to investment properties	-	158 500	(158 500)	-
- Fair value changes to interest rate derivatives	-	(3 934)	3 934	-
- Capital profit on disposal of investment property	-	771	(771)	-
- Reserves of associate	-	35 564	(35 564)	-
- Deferred tax	-	(1 981)	1 981	-
Dividends paid	-	-	(360 000)	(360 000)
Balance at 31 August 2017	**690 947**	**3 306 439**	**82 088**	**4 079 474**
Note(s)	11	12		
Company				
Balance at 01 September 2015	**690 947**	**538 981**	**30 904**	**1 260 832**
Profit for the year	-	-	382 336	382 336
Transfer between reserves				
- Fair value changes to investment properties	-	10 720	(10 720)	-
- Fair value changes to interest rate derivatives	-	10 437	(10 437)	-
Dividends paid	-	-	(361 075)	(361 075)
Balance at 01 September 2016	**690 947**	**560 138**	**31 008**	**1 282 093**
Profit for the year	-	-	367 995	367 995
Transfer between reserves				
- Fair value changes to investment properties	-	5 020	(5 020)	-
- Fair value changes to interest rate derivatives	-	(3 934)	3 934	-
Dividends paid	-	-	(360 000)	(360 000)
Balance at 31 August 2017	**690 947**	**561 224**	**37 917**	**1 290 088**
Note(s)	11	12		

Statements of Cash Flows

		Consolidated		Company	
	Note(s)	2017 R '000	2016 R '000	2017 R '000	2016 R '000
Cash flows from operating activities					
Cash generated from operations	23	453 301	452 687	26 365	55 125
Interest income		4 941	3 748	8 449	9 069
Dividend income		-	-	389 345	382 750
Finance costs		(157 316)	(161 215)	(137 869)	(149 894)
Dividends paid		(360 000)	(361 075)	(360 000)	(361 075)
Net cash utilised in operating activities		**(59 074)**	**(65 855)**	**(73 710)**	**(64 025)**
Cash flows from investing activities					
Purchase of plant and equipment		(129)	(1)	-	-
Acquisition/redevelopment of investment property	2	(63 855)	(146 004)	(3 598)	(7 866)
Proceeds on disposal of investment property	2	13 571	12 627	-	-
Loans advanced to subsidiaries		-	-	(34 518)	(471 050)
Tenant installation and lease cost capitalised		(2 550)	(3 670)	(247)	-
Proceeds on disposal of tenant installations and lease costs		-	-	-	1 395
Proceeds on disposal of assets to fellow subsidiary		-	-	-	172 550
Additions to non-current assets held for sale		(190)	-	(188)	-
Dividend income from equity accounted investments	24	66 018	67 675	66 018	67 675
Net cash from/(utilised in) investing activities		**12 865**	**(69 373)**	**27 467**	**(237 296)**
Cash flows from financing activities					
Proceeds from long-term borrowings		157 866	74 049	157 866	74 049
Repayment of long-term borrowings		(887 651)	(348 967)	(887 651)	(348 967)
Proceeds from short-term borrowings		958 200	755 116	958 200	755 116
Repayment of short-term borrowings		(755 116)	(848 597)	(755 116)	(682 503)
Proceeds from loan from holding company		633 853	516 038	633 853	516 038
Net cash from/(utilised in) financing activities		**107 152**	**147 639**	**107 152**	**313 733**
Total cash movement for the year		**60 943**	**12 411**	**60 909**	**12 412**
Cash/(overdraft) at the beginning of the year		3 065	(9 346)	3 060	(9 352)
Total cash at end of the year	9	**64 008**	**3 065**	**63 969**	**3 060**

Accounting Policies

1. Significant accounting policies

Basis of preparation

The consolidated and company financial statements have been prepared in accordance with International Financial Reporting Standards, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council and the 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.

1.1 Basis of consolidation

1.1.1 Investment in subsidiaries

Subsidiaries are those 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.

1.1.2 Investment in associate

An associate is an entity over which the group has significant influence and which is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

An investment in associate is accounted for using the equity method. Investments in associates are carried in the consolidated statement of financial position at cost adjusted for post-acquisition changes in the group's share of net assets of the associate, less any impairment losses.

Losses in an associate in excess of the group's interest in that associate are recognised only to the extent that the group has incurred a legal or constructive obligation to make payments on behalf of the associate.

Profits or losses on transactions between the group and an associate are eliminated to the extent of the group's interest therein.

In the company's financial statements, investments in associate are carried at cost less any accumulated impairment losses.

1.2 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.

Accounting Policies

1.3 Investment property

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

Investment properties are recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the entity, and the cost of the investment property 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 and transferred to a non-distributable reserve in the statement of changes in equity in the period in which it arises. Subsequent refurbishing expenditure relating to investment properties that have been recognised are added to the carrying amount of the investment properties when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing investment properties, will flow to the enterprise. All other subsequent expenditure is expensed 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 for the period and transferred to the non-distributable reserve 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.

1.3.1 Fair value

At the reporting date all investment properties are measured at fair value as determined by management. The Octodec 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 directors and the Octodec audit committee as well as the board of Octodec 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, independent valuations are obtained on a rotational basis to determine the reasonableness of the directors' portfolio valuation, ensuring that every property is valued every three years.

1.4 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 directors to dispose of the asset.

On initial classification as held-for-sale, generally, non-current assets are measured at the lower of the carrying amount and fair value less costs to sell, with any adjustments taken to profit or loss. The same applies to gains and losses on subsequent re-measurement. However, investment property within the scope of IAS 40, continues to be measured in accordance with that standard. (Refer to 1.3.1 above).

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.

1.5 Financial instruments

Financial instruments

Financial assets and liabilities are recognised initially 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 (other than financial assets and financial liabilities at fair value through profit and loss) are added to or deducted from the cost of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial instruments at fair value through profit or loss are expensed immediately in profit and loss.

Accounting Policies

1.5 Financial instruments (continued)

1.5.1 Financial assets

Financial assets are classified into the following specified categories: 'financial assets at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets 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.

1.5.2 Financial liabilities

Financial liabilities are classified as either financial liabilities at 'FVTPL' or 'other financial liabilities.' Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method, except for short-term payments where the effect of discounting is immaterial.

1.5.3 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. 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. Interest earned on loans, trade receivables and cash and cash equivalents is recognised on an accrual basis using the effective interest method.

1.5.4 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.

The fair value of interest rate swaps is the estimated amount that the entity 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.

1.5.5 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.

1.5.6 Impairment of financial assets

Financial assets, other than those at fair value through profit and loss, 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 investment 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 or loss.

Accounting Policies

1.5 Financial instruments (continued)

1.5.7 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. That reduction is an impairment loss. 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.

1.6 Taxation

Current tax assets and liabilities

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.

1.6.1 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 consolidated 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.

1.6.2 Deferred tax

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated 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 that at the time of the transaction, affects neither accounting nor taxable profit or loss.

Deferred tax assets are not recognised as the group 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.

Accounting Policies

1.7 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.

1.7.1 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.

Income from leases is disclosed under revenue in the statement of profit and loss and other comprehensive income.

Initial direct 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. These include tenant installation costs and commission paid in respect of the securing of leases.

1.7.2 The group as lessee

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, in the year in which it is incurred.

1.8 Share capital and equity

Ordinary shares are classified as "share capital" in equity.

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

1.9 Revenue

1.9.1 Rental income and recoveries

Revenue is measured at the fair value of the consideration received or receivable. Revenue comprises revenue from 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.

1.9.2 Income from investments

Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset.

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

1.10 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 as an expense in the period in which they are incurred.

Accounting Policies

1.11 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.

1.11.1 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 are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3: Input for the asset or liability that is not based on observable market data (unobservable input)

1.12 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:

1.12.1 Investment property

In the application of the accounting policies which are described in note 2, 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 are 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.

1.12.2 Derivatives

The fair values of interest rate swaps are calculated based on the present value of future estimated cash flows and using the market interest rate indicated on the SA swap curve.

1.13 Segmental reporting

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

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 six major operating segments:
- Industrial;
- Office;
- Retail;
- Parking; and
- Residential.

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

Accounting Policies

1.14 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 directors have considered the impact on the financial assets and liabilities and believe 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. 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”. Management will undertake an exercise to analyse existing and new contracts to identify those with performance obligations. The impact on the financial statements has not yet been fully determined.

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 R5,1 million. Management have considered the impact of the new standard on the treatment of leases as a lessee and do 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 Annual Financial Statements

	Consolidated		Company	
	2017 R '000	2016 R '000	2017 R '000	2016 R '000

2. Investment property

Reconciliation of investment property - Consolidated - 2017

	Opening carrying value	Additions	Transferred to non-current assets held for sale	Fair value changes	Total
Investment property	5 505 626	71 130	(82 480)	153 631	5 647 907

Reconciliation of investment property - Consolidated - 2016

	Opening carrying value	Additions	Disposals	Transferred to non-current assets held for sale	Fair value changes	Total
Investment property	5 298 749	146 004	(11 503)	(67 728)	140 104	5 505 626

Reconciliation of investment property - Company - 2017

	Opening carrying value	Additions	Transferred to non-current assets held for sale	Fair value changes	Total
Investment property	371 491	3 598	(11 681)	4 477	367 885

Reconciliation of investment property - Company - 2016

	Opening carrying value	Additions	Transferred to non-current assets held for sale	Disposal of assets to subsidiary	Fair value changes	Total
Investment property	553 891	7 866	(29 583)	(170 684)	10 001	371 491

2. Investment property (continued)

Fair value information

The fair value of the group's investment property as at 31 August 2017 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 range of annual capitalisation rates applied to the property portfolio is between 8,0% (2016: 8,0%) and 11,75% (2016: 12,0%) and 11,25% (2016: 11%) with a weighted annual average of 9,3% (2016: 9,3%).

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 9,2% to 49,0% (2016: 8,0% to 46,0%) with a weighted average of 25,5% (2016: 24,9%).

The third key input used in the valuation calculation is the long-range vacancy factor. The expected long-range vacancy factor takes into account historic and future vacancy trends. The long-range vacancy factor indicates the expected vacancy to be applied over the long term that best approximates the actual experience. The long-range vacancy factor used ranged from 0,0% to 25,0% (2016: 0,0% to 40,0%) with a weighted average of 6,6% (2016: 5,5%).

Relationship of unobservable inputs to fair value

An increase of 1% in the capitalisation rate, while holding all other variables constant, would result in a decrease in the carrying amount of investment properties of R559 million (2016: R556 million). A decrease of 1% in the capitalisation rate, while holding all other variables constant, would result in an increase in the carrying amount of investment properties of R693 million (2016: R690 million).

An increase/(decrease) of 1% in the weighted average of the expense ratio used to calculate the long-term net operating income margin, while holding all other variables constant, would result in a (decrease)/increase in the carrying amount of the investment property of R78 million (2016: R76 million).

Fair value hierarchy

Investment property has been categorised as a Level 3 and there have been no transfers made between Level 1, 2 or 3 during the year under review.

In estimating the fair value of the properties, the highest and best use is their current use.

There have been no changes in judgements or estimates of amounts or valuation techniques from the previous reporting period.

The investment properties are valued bi-annually by the directors.

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, 47 of 2000 and have extensive experience in property valuations. The portfolio of properties representing 30,9% of the total portfolio was valued at 0,7% less (2016: 0,9% more) than the directors' valuation. The directors are confident, taking all factors into account, that the directors' valuations represent fair market value.

Investment property is leased out under operating leases.

Notes to the Annual Financial Statements

	Consolidated		Company	
	2017 R '000	2016 R '000	2017 R '000	2016 R '000

2. Investment property (continued)

Investment property held under operating leases

Intersite property is situated on leasehold land and classified as investment property. The lease commenced in September 1996 for a period of 50 years.

Investment property pledged as security

The group has encumbered certain of its investment properties to secure mortgage loan facilities as set out in note 13. There are no other restrictions on the realisability of investment property or distribution of its income.

Straight-line rental income accrual

Opening balance at the beginning of the year	60 787	59 222	2 749	4 380
Straight-line rental income accrual	(6 704)	2 026	(358)	(471)
Transferred to non-current assets held for sale	(20)	(461)	(20)	(98)
Disposal of assets to subsidiary	-	-	-	(1 062)
	54 063	**60 787**	**2 371**	**2 749**

3. Tenant installations and lease costs

Opening balance	21 344	25 693	826	3 570
Additions/ disposals	2 552	3 670	247	(1 395)
Amortisation	(8 100)	(7 969)	(587)	(902)
Transferred to non-current assets held for sale	-	(50)	-	-
Disposal of assets to subsidiary	-	-	-	(447)
	15 796	**21 344**	**486**	**826**

Notes to the Annual Financial Statements

	Consolidated		Company	
	2017 R '000	2016 R '000	2017 R '000	2016 R '000

4. Investment in subsidiaries

Company

Name of subsidiary	Shares at cost 2017 R *	Shares at cost 2016 R *	Amounts owing (to)/by subsidiaries 2017 R'000	Amounts owing (to)/by subsidiaries 2016 R'000
Bartlucia Investments Share Block Proprietary Limited	200	200	-	-
Brianley Properties Share Block Proprietary Limited	100	100	-	-
Centpret Properties Proprietary Limited	1	1	1 745 974	1 733 597
Centuria 369 Proprietary Limited	120	120	41 574	37 562
Du Proes Share Block Proprietary Limited	200	200	-	-
Filkem House Share Block Proprietary Limited	400	400	-	-
Hacklu Enterprises Share Block Proprietary Limited	200	200	-	-
Landjack Properties Proprietary Limited	1	1	(2 440)	(2 159)
L P A Beleggings Share Block Proprietary Limited	1 000	1 000	(1)	(1)
Notrevlis Share Block Proprietary Limited	100	100	-	-
Prinsman Share Block Proprietary Limited	1 000	1 000	(1)	(1)
Prinsproes Properties Share Block Proprietary Limited	150	150	-	-
Rezmep Investments Share Block Proprietary Limited	-	100	-	(1)
Roslev Properties Share Block Proprietary Limited	100	100	-	-
Savyon Building Proprietary Limited	1	1	1 128 957	1 110 548
Tomzeil Share Block Proprietary Limited	1 000	1 000	(1)	(1)
	4 573	4 673	2 914 062	2 879 544
Impairments	-	-	(4 252)	(12 774)
	4 573	**4 673**	**2 909 810**	**2 866 770**

The loans are unsecured and are repayable by mutual consent, with payments not due within twelve months. The loans are interest free.

The carrying amount of the subsidiaries are shown at cost net of impairment. The company holds 100% of all shares in the subsidiaries.

The aggregate net profits after tax of the subsidiaries amounts to R559 million (2016: R533 million).

* The amounts in these columns have not been rounded to R'000 in order to reflect the nominal amount of the share capital.

Loans to group companies impaired

The impairment of the loan advanced to Centuria 369 (Pty) Ltd (Centuria) has been reversed in the current year, since the profits of Centuria have improved marginally and the value of its investment property has increased and the expected cash flows from the loan have thus increased.

Loan advanced to Centuria	-	-	41 574	37 562
Less impairment	-	-	(4 252)	(12 774)
	-	**-**	**37 322**	**24 788**

Impairment of loan at beginning of year	-	-	12 774	13 289
Reversal of impairment	-	-	(8 522)	(515)
	-	**-**	**4 252**	**12 774**

5. Investment in associate

Consolidated

	Ownership interest 2017	**Ownership interest 2016**	**Carrying amount 2017 R'000**	**Carrying amount 2016 R'000**
Shares at cost	50.00 %	50.00 %	1	1
Reserves since acquisition			483 980	447 311
			483 981	447 312

Company

	Ownership interest 2017	**Ownership interest 2016**	**Carrying amount 2017 R'000**	**Carrying amount 2016 R'000**
Shares at cost	50.00 %	50.00 %	1	1

IPS Investments Proprietary Limited (IPS) is incorporated and the principal place of business is in the Republic of South Africa. The percentage voting rights is equal to the percentage ownership. IPS Investments Proprietary Limited has the same year end as the group.

IPS is a property investment company, deriving rental income from its properties as well as its subsidiaries and joint ventures.

The company has a 50% voting right in IPS. An assessment was made as to whether joint control exists. Joint control exists when there is a contractual arrangement in place that gives both parties unanimous consent. The company has assessed this and concluded that joint control does not exist since there is no contractual agreement in place that obliges both parties to unanimously consent. As the company has neither control nor joint control over IPS, it can be concluded that it has significant influence over IPS. IPS is therefore accounted for as an associate in the financial statements using the equity method.

Notes to the Annual Financial Statements

	Consolidated		Company	
	2017 R '000	2016 R '000	2017 R '000	2016 R '000

5. Investment in associate (continued)

Summarised financial information

Summarised Statement of Profit or Loss and Other Comprehensive Income	**2017 R'000**	**2016 R'000**
Revenue	323 850	318 208
Other income and expenses	(155 574)	(135 192)
Depreciation and amortisation	(2 672)	(2 611)
Equity accounted income	14 811	20 890
Fair value changes	68 389	43 216
Interest income	1 878	1 747
Interest expense	(45 329)	(55 189)
Profit before tax	205 353	191 069
Tax expense	20	(6 577)
	205 373	**184 492**

Summarised Statement of Financial Position

Assets		
Non-current	2 434 986	2 443 548
Current	97 953	25 839
Total assets	2 532 939	2 469 387
Liabilities		
Non-current	1 409 378	1 514 080
Current	155 598	60 682
Total liabilities	1 564 976	1 574 762
Total net assets	967 963	894 625

Reconciliation of net assets to equity accounted investments in associates		
Investment at beginning of year	447 312	422 741
Share of profit	102 687	92 246
Dividends received from associate	(66 018)	(67 675)
Investment at end of year	483 981	447 312

Commitments and contingencies

The group has commitments of R9,3 million in respect of capital expenditure relating to the upgrade of certain properties held by IPS and its subsidiaries.

Notes to the Annual Financial Statements

	Consolidated		Company	
	2017 R '000	2016 R '000	2017 R '000	2016 R '000

6. Loan from holding company

Octodec Investments Limited	(972 798)	(338 945)	(972 798)	(338 945)

The loan is unsecured and is repayable by mutual consent, with payments not due within twelve months.

Included in the loan from Octodec is an amount of R17,2 million which relates to residential deposits held in a separate bank account in the name of Octodec.

7. Deferred tax

The deferred tax liability arises from the following temporary differences:

Deferred tax liability				
Wear and tear allowances	(10 818)	(10 818)	(708)	(708)
Tax losses available for set-off against future taxable income	40 679	41 782	2 420	3 522
Building allowances - pre conversion to a REIT	(44 275)	(44 275)	(1 642)	(1 642)
Fair value changes - derivative financial instruments	(70)	(1 172)	(70)	(1 172)
	(14 484)	**(14 483)**	**-**	**-**

Reconciliation of deferred tax liability

At beginning of year	(14 483)	(12 501)	-	-
Tax losses available for set-off against future taxable income	1 102	941	1 101	2 922
Fair value changes - derivative financial instruments	(1 101)	(2 923)	(1 101)	(2 922)
Wear and tear allowances	(2)	-	-	-
	(14 484)	**(14 483)**	**-**	**-**

A REIT cannot claim building allowances. Allowances claimed in previous years will be recouped on sale of investment properties, where applicable. The deferred tax liability was therefore retained.

8. Trade and other receivables

Trade receivables	41 969	25 487	4 103	2 320
Provision for impairment	(11 465)	(7 204)	(2 145)	(931)
Other receivables - Municipal costs	29 242	29 028	3 218	3 698
Other receivables - Utility refunds	4 392	3 325	1 885	1 929
Sundry receivables	5 196	3 389	283	323
Prepaid expenditure	3 432	2 713	302	312
Deposits	1 185	1 169	26	21
VAT	984	-	-	-
South African Revenue Services	-	128	-	-
	74 935	**58 035**	**7 672**	**7 672**

Notes to the Annual Financial Statements

	Consolidated		Company	
	2017 R '000	2016 R '000	2017 R '000	2016 R '000

8. Trade and other receivables (continued)

Reconciliation of provision for impairment of trade and other receivables

Opening balance	7 204	5 369	931	581
Additional provisions for the year	9 696	4 496	1 643	283
Amounts written off	(5 435)	(2 661)	(429)	(259)
Disposed to subsidiary	-	-	-	326
	11 465	**7 204**	**2 145**	**931**

All trade and other receivables are short term in nature. Interest is charged at prime plus 4% (2016: 4%) on arrear balances if appropriate.

9. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	39	5	-	-
Bank balances	63 969	3 060	63 969	3 060
	64 008	**3 065**	**63 969**	**3 060**

10. Non-current assets held for sale

The board of Octodec made a decision to dispose of 13 non-core or underperforming investment properties.

The non-current assets will be sold piecemeal and the properties are expected to be disposed of by August 2018.

The properties classified as held for sale are valued using the net income capitalisation method as detailed in note 2, except for those where a firm offer has been received in which case it is valued at the offer value.

Reconciliation of non-current assets held for sale				
Carrying value at beginning of the year	72 800	-	30 400	-
Properties disposed of	(12 800)	-	-	-
Transferred from investment property	82 480	67 728	11 681	29 583
Transferred from straight-line rental income accrual	20	462	20	98
Transferred from tenant installation and lease costs	-	50	-	-
Straight-line rental income accrual	(126)	-	(23)	-
Additions to tenant installations and investment property	190	-	188	-
Amortisation of tenant installation and lease costs	(32)	-	(9)	-
Fair value changes	4 868	4 560	543	719
Carrying value at end of the year	**147 400**	**72 800**	**42 800**	**30 400**

11. Stated capital

Authorised				
200 000 000 Ordinary shares of no par value	2 000	2 000	2 000	2 000

43 226 891 unissued ordinary shares are under the control of the directors in terms of a resolution of shareholders passed at the last annual general meeting and subject to the conditions contained in the Memorandum of Incorporation and the Act. This authority remains in force until the next annual general meeting. All shares are fully paid up.

Issued				
156 773 109 ordinary shares of no par value	690 947	690 947	690 947	690 947

Notes to the Annual Financial Statements

	Consolidated		Company	
	2017 R '000	2016 R '000	2017 R '000	2016 R '000
12. Non-distributable reserve				
Fair value changes to investment property	2 649 121	2 492 603	342 619	337 599
Surplus on disposal of investment properties	174 346	173 575	189 241	189 241
Fair value changes to interest rate derivatives	29 364	33 298	29 364	33 298
Associate reserves	453 608	418 043	-	-
	3 306 439	**3 117 519**	**561 224**	**560 138**
13. Borrowings				
Held at amortised cost				
Unsecured loans				
Domestic medium term note programme (DMTN) These notes are unsecured. The maturity dates are between September 2017 and June 2020 and bear interest at various JIBAR linked interest rates.	1 116 066	755 116	1 116 066	755 116
Secured loans				
(a) Nedbank Limited	-	334 282	-	334 282
(b) Nedbank Limited	-	174 634	-	174 634
(c) Nedbank Limited The loans have since been consolidated by Nedbank into a new loan in the name of the holding company, Octodec.	-	378 735	-	378 735
(d) Nedbank Limited The loan expiry date is May 2018. Interest is charged at a fixed rate of 12,15% per annum. The loan is secured by mortgage bonds over various properties and guarantees from various subsidiaries.	160 000	160 000	-	-
	1 276 066	**1 802 767**	**1 116 066**	**1 642 767**

Details of unsecured loans:

Domestic medium term note programme	**Issuance Months**	**Maturity date**	**Spread to three-month JIBAR**	**R'000**
PMM 29	12	04 September 2017	130 bps	119 000
PMM 30	12	07 September 2017	130 bps	50 000
PMM 33	6	01 September 2017	100 bps	65 000
PMM 34	12	07 March 2018	130 bps	260 000
PMM 35	6	06 November 2017	100 bps	158 500
PMM 36	12	04 May 2018	130 bps	134 000
PMM 37	6	27 November 2017	100 bps	160 000
PMM 38	36	12 June 2020	185 bps	155 000
Accrued interest				14 566
				1 116 066

PMM 29, PMM 30 and PMM 33 matured on 4, 7 & 1 September 2017 respectively, and have since been refinanced by PMM 39 for R171 million and PMM 40 for R55 million maturing on 4 September 2018.
PMM 35 matured on 6 November 2017 and has since been refinanced by PMM 41 for R158.5 million maturing 6 May 2018.
PMM 37 matured on 27 November 2017 and has been refinanced by PMM 42 for R180 million maturing on 28 May 2018.

Notes to the Annual Financial Statements

	Consolidated		Company	
	2017 R '000	2016 R '000	2017 R '000	2016 R '000

13. Borrowings (continued)

Non-current liabilities				
At amortised cost	157 866	1 047 651	157 866	887 651
Current liabilities				
At amortised cost	1 118 200	755 116	958 200	755 116
	1 276 066	**1 802 767**	**1 116 066**	**1 642 767**
Fair value of financial liabilities carried at amortised cost				
Nedbank loans at fixed rates	163 654	165 860	-	-

Fair value information
The valuation technique used to calculate the fair values of the fixed interest rate loans was the discounted cashflow method.

Key Inputs
The average annual discount rate used to discount the cash flows on the fixed interest loans was 9,0% (2016: 9,8%) based on the quoted swap rate at year-end for the loans with similar maturities. The average credit risk margin used was 1,21% (2016: 1,46%) based on the group and company's most recent fixed rate loan agreements with Nedbank Limited.

Fair value hierarchy
Long-term loans have been categorised as a Level 2 and there have been no significant transfers made between Level 1, 2 or 3 during the year under review.

14. Derivative financial instruments

At fair value through profit or loss - designated				
Interest rate derivatives				
Non-current assets	-	4 307	-	4 307
Current assets	868	-	868	-
Non-current liabilities	-	(123)	-	(123)
Current liabilities	(618)	-	(618)	-
	250	**4 184**	**250**	**4 184**

The notional principal amount of the outstanding swap contracts at year-end was R300 million (2016: R1,15 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 significant transfers made between Level 1, 2 or 3 during the year under review.

Notes to the Annual Financial Statements

	Consolidated		Company	
	2017 R '000	2016 R '000	2017 R '000	2016 R '000

15. Trade and other payables

Trade payables	49 787	56 311	8 190	4 043
VAT	2 066	701	141	106
Accrued expenses - repairs and maintenance	5 513	5 060	285	469
Accrued expenses - Other	16 215	16 878	1 657	11 042
Tenant deposits received	42 656	43 250	2 542	3 894
Accrued expenses - utilities	31 651	24 810	3 013	3 393
Unclaimed dividends	730	740	730	740
	148 618	**147 750**	**16 558**	**23 687**

The group has financial 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.

16. Revenue

Rental Income	691 368	650 344	52 179	73 370
Straight - line rental income accrual	(6 830)	2 027	(381)	(470)
Other recoveries	5 670	3 880	579	284
Utility recoveries	180 114	173 205	18 743	23 974
	870 322	**829 456**	**71 120**	**97 158**

17. Other operating income

Bad debts recovered	217	236	53	112
Sundry income	2 350	3 376	4	(65)
Recoveries - Sundry expenditure	721	481	122	65
	3 288	**4 093**	**179**	**112**

18. Operating profit

Operating profit for the year is stated after charging (crediting) the following, amongst others:

Leases

Contractual rentals on operating leases				
Premises	176	176	-	-
Contingent rentals on operating leases				
Premises	366	255	-	-
Equipment	53	6	-	-
	419	**261**	**-**	**-**
Total operating lease charges	**595**	**437**	**-**	**-**
Depreciation and amortisation				
Depreciation of plant and equipment	997	986	72	118
Amortisation of tenant installation and lease costs	8 132	7 970	596	903
Total depreciation and amortisation	**9 129**	**8 956**	**668**	**1 021**

Notes to the Annual Financial Statements

	Consolidated		Company	
	2017 R '000	2016 R '000	2017 R '000	2016 R '000

18. Operating profit (continued)

Impairment losses reversed				
Loans to group companies	-	-	(8 521)	(515)

Expenses by nature

The total property and administration expenses are analysed by nature as follows:

Employee costs	15 846	14 735	1 309	1 527
Operating lease charges	595	437	-	-
Depreciation, amortisation and impairment/(reversal of impairment)	9 129	8 956	(7 853)	506
Other expenses	147 257	110 601	11 431	13 607
Repairs and maintenance	38 838	37 309	4 085	3 897
Assessment rates	43 942	39 009	4 573	4 807
Security costs	30 915	29 645	2 824	3 879
Municipal expenditure	133 714	125 253	13 964	17 468
	420 236	**365 945**	**30 333**	**45 691**

19. Investment income

Income from subsidiaries				
Dividends received	-	-	389 345	382 750
Interest income				
Bank and other cash	608	315	608	315
Trade and other receivables	4 153	3 345	519	424
Other	180	88	47	11
Subsidiaries	-	-	7 275	8 319
Total interest income	**4 941**	**3 748**	**8 449**	**9 069**
Total investment income	**4 941**	**3 748**	**397 794**	**391 819**

20. Finance costs

Holding company	7 275	8 319	7 275	8 319
Borrowings	150 025	163 311	130 585	141 508
Bank	9	54	9	54
Late payment of taxation	-	10	-	-
Other interest paid	7	150	-	13
Less: Interest capitalised	(7 275)	(10 629)	-	-
	150 041	**161 215**	**137 869**	**149 894**

Notes to the Annual Financial Statements

	Consolidated		Company	
	2017 R '000	2016 R '000	2017 R '000	2016 R '000
21. Other non-operating gains				
Gains on disposal of investment property				
Non-current assets held for sale	771	1 124	-	-
Fair value changes				
Investment property	153 632	140 104	4 477	10 001
Interest rate derivatives	(3 934)	10 437	(3 934)	10 437
Non-current assets held for sale	4 868	4 560	543	719
	154 566	**155 101**	**1 086**	**21 157**
Total other non-operating gains	**155 337**	**156 225**	**1 086**	**-**

22. Taxation

Major components of the tax expense

	2017	2016	2017	2016
Deferred				
Deferred tax	1	1 981	-	-

Reconciliation of the tax expense

Reconciliation between accounting profit and tax expense.

	2017	2016	2017	2016
Accounting profit	566 298	558 608	367 995	382 336
Tax at the applicable tax rate of 28% (2016: 28%)	158 563	156 410	103 039	107 054
Tax effect of adjustments to taxable income				
Fair value changes and other non-taxable income	(53 460)	(43 428)	(4 346)	(5 924)
Reversal of amounts taxed in prior years	-	(7 339)	-	(1 209)
Non-deductible expenses	6 518	2 778	1 828	935
Amounts not credited to the statement of profit or loss and other comprehensive income	10 481	4 677	694	293
Non-taxable equity income	(10 267)	(6 880)	-	-
Wear and tear allowance	(5 796)	(4 613)	(407)	(466)
Provision for doubtful debt allowances	(803)	(504)	(150)	(65)
Prepaid expenditure	(961)	(760)	(85)	(87)
Finance costs	(6 738)	(374)	-	-
Reversal of allowances/deductions granted in previous years	1 264	1 509	153	584
Capital gain	(216)	(315)	-	-
REIT distributions to holding company	(100 800)	(101 101)	(100 800)	(101 101)
Assessed losses limited/(utilised)	2 142	(25)	-	(14)
Prior period adjustment	-	1 946	-	-
Limitation of REIT distribution	74	-	74	-
	1	**1 981**	**-**	**-**

No provision has been made for 2017 current income tax as the group and company have no taxable income. The estimated tax losses available for set off against future taxable income of the group and company are R202,3 million (2016: R203,0 million) (Company R 15,3 million (2016: R 15,3 million)).

Notes to the Annual Financial Statements

	Consolidated		Company	
	2017 R '000	2016 R '000	2017 R '000	2016 R '000

23. Cash generated from operations

	2017 R '000	2016 R '000	2017 R '000	2016 R '000
Profit before taxation	566 298	558 608	367 995	382 336
Adjustments for:				
Depreciation and amortisation	9 129	8 956	668	1 021
Profit on disposal of investment property	(771)	(1 124)	-	-
Income from equity accounted investments	(102 687)	(92 246)	(66 018)	(67 675)
Dividend income	-	-	(389 345)	(382 750)
Interest income	(4 941)	(3 748)	(8 449)	(9 069)
Finance costs	150 041	161 215	137 869	149 894
Fair value changes	(154 566)	(155 101)	(1 086)	(21 157)
Reversal of impairment of loans to group companies	-	-	(8 521)	(515)
Movements in straight-line rental income accrual	6 830	(2 027)	381	470
Changes in working capital:				
Trade and other receivables	(16 900)	(28 205)	-	(1 864)
Trade and other payables	868	6 359	(7 129)	4 434
	453 301	**452 687**	**26 365**	**55 125**

24. Income from equity accounted investments

	2017 R '000	2016 R '000	2017 R '000	2016 R '000
Share of equity accounted earnings - profit/(loss)	1 104	(473)	-	-
Share of equity accounted earnings - fair value reserves/revaluations	35 565	25 044	-	-
Dividends	66 018	67 675	66 018	67 675
	102 687	**92 246**	**66 018**	**67 675**

25. Commitments

Authorised capital expenditure

An amount of R79,5 million (2016: R46,3 million) has been committed by the group and company in respect of capital expenditure relating to the improvement of certain properties. These developments will be financed by way of existing facilities as well as additional funding from the group and company’s bankers.

Operating leases – as lessee (expense)

	2017 R '000	2016 R '000	2017 R '000	2016 R '000
Minimum lease payments due				
- within one year	176	176	-	-
- in second to fifth year inclusive	703	703	-	-
- later than five years	4 216	4 391	-	-
	5 095	**5 270**	**-**	**-**

The land lease above relates to Intersite and will be funded from the proceeds of rental income. The lease contract provides for the greater of the minimum lease payment of R4 039 per month and 6% of gross monthly rental.

Notes to the Annual Financial Statements

	Consolidated		Company	
	2017 R '000	2016 R '000	2017 R '000	2016 R '000

25. Commitments (continued)

Operating leases – as lessor (income)

Minimum lease payments due				
- within one year	356 480	421 990	24 641	61 716
- in second to fifth year inclusive	477 162	475 872	26 536	28 317
- later than five years	45 015	23 314	1 149	1 659
	878 657	**921 176**	**52 326**	**91 692**

Rental receivable represents contractual rental income excluding other recoveries for leases in existence at year-end. Leases are entered into for an average period of between 1 and 10 years. Residential leases are short term in nature and provide for a monthly agreement at expiry.

26. Contingencies

The company has issued guarantees for the provision of certain services to its subsidiaries:

– R100 000 in favour of City Power Johannesburg.
– R4 922 666 in favour of the City of Tshwane Metropolitan Municipality.

The group and company have provided sureties to Nedbank Limited and to Standard Bank Limited amounting to R1,6 billion and R724 million respectively, for facilities granted to the group and to the holding company.

27. Related parties

A related party is a person or entity that is related to Premium Properties Limited and its subsidiaries.

A person or a close member of that person's family is related to the entity if:
- they have control or joint control of the reporting entity;
- they have significant influence over the reporting entity; or
- they are a member of the key management personnel of the reporting entity.

Related parties where control existed during the year are as follows:

Subsidiaries (Refer to note 4)

Related parties over which significant influence is exercised:

IPS Investments Proprietary Limited (Refer to note 5)

Other related parties:

Directors: JP Wapnick, AK Stein and P Kruger
Holding company: Octodec Investments Limited
Management company: City Property Administration Proprietary Limited

Related parties with whom the entity transacted during the year:
City Property Administration Proprietary Limited

Relationship	A company which manages the group and company's property portfolio and over which significant influence is exercised by JP Wapnick.
Pricing policy	- Fixed percentage of collections made. - Commissions based on a percentage of the cost of property acquisitions and property sales.

2017 R '000
2016 R '000

27. Related parties (continued)

	- Fixed percentage of the aggregate of the group's average market capitalisation and total indebtedness to banks and other financial institutions in respect of mortgage bond loans and other unsecured loans.
Management fee	0,5% of the average market capitalisation (based on daily closing price) plus secured and unsecured loans of Octodec.
Collection fees	
- Commercial	5% plus VAT of gross receipts
- Residential	7,5% plus VAT of gross receipts
- Offices	7,5% plus VAT of gross receipts for lettable units smaller than 500 square meters and the remainder at 5% plus VAT of gross receipts.
Major repairs and renovations	5% plus VAT of cost of repairs between R30 000 and R10 million and 3% of cost above R10 million.
Acquisition of properties	3% plus VAT of cost and if in excess of R10 million by agreement between parties
New construction and development	By agreement between parties, but not less than 3% plus vat of the cost
Properties disposed of	2% to 3% plus vat of the proceeds and in excess of R6,0 million, by agreement between parties
Letting fees	
- Commercial	A percentage of gross receipts plus VAT as follows: 2,5% – first two years 1,25% – next three years 0,75% – next three years 0,5% – balance of the lease term, in respect of new commercial leases and for the renewal of existing leases, R2 000 plus VAT or 50% plus VAT of the first month’s rental, whichever is the lesser
- Residential	R1 000 plus VAT in respect of new residential leases.

Subsidiaries
Relationship — 100% shareholding of all subsidiaries

IPS Investments Proprietary Limited
Relationship — 50% shareholding in associate

Bubbles and Stitches Close Corporation
Relationship — Close family member of key management

Top 2 Toe Safety And Industrial Suppliers Close Corporation
Relationship — Close family member of key management

Notes to the Annual Financial Statements

	Consolidated		Company	
	2017 R '000	2016 R '000	2017 R '000	2016 R '000
27. Related parties (continued)				
Related party balances				
Loan accounts - Owing by related parties				
Centpret Properties Proprietary Limited	-	-	1 745 974	1 733 597
Centuria 369 Properties (Proprietary) Limited	-	-	41 574	37 562
Landjack Properties (Proprietary) Limited	-	-	(2 440)	(2 159)
Savyon Building (Proprietary) Limited	-	-	1 128 957	1 110 548
Amounts included in Trade receivables (Trade Payables) regarding related parties				
City Property Administration Proprietary Limited	(149)	(1 019)	-	(10)
Related party transactions				
City Property Administration Proprietary Limited				
Collection fees paid	58 717	55 840	4 677	6 249
Commission paid	3 233	5 796	185	964
Capitalised commission - major repairs	1 468	-	433	-
Rental income received	(1 382)	(731)	-	-
Bubbles and Stitches Close Corporation				
Rental income received	(168)	(165)	-	-
Top 2 Toe Safety And Industrial Suppliers Close Corporation				
Rental income received	(14)	(19)	-	-
Interest received (paid)				
Subsidiaries	-	-	7 275	8 319
Holding company	(7 275)	(8 319)	(7 275)	(8 319)
Dividends received				
Subsidiaries	-	-	389 345	382 750
Asset management fee				
Octodec Investments Limited	25 029	-	1 793	-

Directors' emoluments
Refer to note 28 for the remuneration paid to the directors.

28. Directors' remuneration

The directors' remuneration as set out below has been paid by the holding company, Octodec Investments Limited for the services as directors of the Octodec Group. The group made no direct payments to the directors during the current or comparative year under review.

	Consolidated		Company	
	2017 R '000	2016 R '000	2017 R '000	2016 R '000
Directors' remuneration for services as directors				
JP Wapnick			656	649
AK Stein			675	649
			1 331	**1 298**

There are no service contracts in place with the executive directors of Premium Properties Limited. The proportionate salaries paid by City Property Proprietary Limited for JP Wapnick, AK Stein and P Kruger, the executive directors of Premium Properties Limited, who are employed by City Property Proprietary Limited are set out below. These amounts are based on an approximation of the time spent on the group, Octodec Investments Limited, in relation to their employment at City Property Proprietary Limited for the year ended 31 August 2017.

Directors' remuneration for executive services

2017

	Salary R'000	Pension fund contributions R'000	Total R'000
JP Wapnick	2 707	-	2 707
AK Stein	2 597	47	2 644
P Kruger	2 814	67	2 881
	8 118	**114**	**8 232**

2016

	Salary R'000	Pension fund contributions R'000	Total R'000
JP Wapnick	2 658	-	2 658
AK Stein	2 154	43	2 197
P Kruger	2 154	43	2 197
	6 966	**86**	**7 052**

Notes to the Annual Financial Statements

		Consolidated		Company	
		2017 R '000	2016 R '000	2017 R '000	2016 R '000

29. Risk management

29.1. Capital risk management

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

The directors reviews the capital structure on a quarterly basis. As part of the review, the directors consider the cost of capital and the risks associated therewith over a period of time. The loan to value ratio as set out below is within the guidance given by the board of Octodec, of a loan to value ratio not exceeding 40%.

The loan to value ratio at 2017 and 2016 respectively was as follows:

Total borrowings	Note 13	1 276 066	1 802 767	1 116 066	1 642 767
Less: Cash and cash equivalents	Note 9	(64 008)	(3 065)	(63 969)	(3 060)
Net debt		1 212 058	1 799 702	1 052 097	1 639 707
Total investments		**6 352 247**	**6 039 037**	**3 323 619**	**3 242 175**
Loan to value ratio (excluding loan from the holding company)		19,1%	29.8%	31,7%	50.6%

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
- The 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 60%

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

Notes to the Annual Financial Statements

	Consolidated		Company	
	2017 R '000	2016 R '000	2017 R '000	2016 R '000

29. Risk management (continued)

29.2. Financial risk management

The group's financial instruments consist mainly of deposits with banks, bank overdrafts, 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

29.2.1. Liquidity risk

The group's liquidity risk is reduced as a result of undrawn banking facilities of Octodec group 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 and company's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date.

Consolidated

At 31 August 2017	R'000 Less than 1 year	R'000 Between 2 and 5 years	More than 5 years
Borrowings	1 118 200	157 866	-
Derivative financial instruments	618	-	-
Trade and other payables	148 855	-	-
Loan from holding company	-	-	972 798

At 31 August 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Borrowings	755 116	160 000	887 652	-
Derivative financial instruments	-	123	-	-
Trade and other payables	147 750	-	-	-
Loan from holding company	-	-	-	338 945

Company

At 31 August 2017	Less than 1 year	Between 2 and 5 years	More than 5 years
Borrowings	958 200	157 866	-
Derivative financial instruments	618	-	-
Trade and other payables	16 558	-	-
Loan from holding company	-	-	972 798

At 31 August 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Borrowings	755 116	-	887 652	-
Derivative financial instruments	-	123	-	-
Trade and other payables	23 687	-	-	-
Loan from holding company	-	-	-	338 945

29. Risk management (continued)

29.2.2. Interest rate risk

At 31 August 2017, the group had borrowings of R1,3 billion (2016: R1,8 billion) (company R1,1 billion (2016: R1,6 billion)) at various interest rates. The all-in weighted average cost of borrowings, including the cost of interest rate swaps, was 8,9% (2016: 9,0%) (company 8,3% (2016: 8,7%)) per annum. At the reporting date, 36,0% (2016: 33,8%) (company 26,9% (2016: 27,4%)) of borrowings were fixed or hedged by way of interest rate swap contracts.

At 31 August 2017, the group was exposed to changes to interest rates through borrowings. These borrowings were 64,0% (2016: 66,2%) (company 73,1% (2016: 72,6%)) of total borrowings. A breakdown of the borrowings is detailed in note 13.

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 fixed interest rate contracts as well as swap rate contracts.

The group analyses its interest rate exposure on a dynamic 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 R2,9 million (2016: R4,3 million) (company: R2,9 million (2016: 4,3 million)) in post-tax profits per annum. The calculations are done monthly to verify that the maximum loss potential is within limits.

Notes to the Annual Financial Statements

29. Risk management (continued)

Fixed-rate borrowings expiry - 2017	**Consolidated Nominal amount R'000**	**Consolidated All-in weighted average interest rate per annum %**	**Company Nominal amount R'000**	**Company All-in weighted average interest rate per annum %**
May 2018	160 000	12.15	-	-
Variable rate borrowings before interest rate derivatives	1 116 066	8.40	1 116 066	8.40
	1 276 066	**8.90**	**1 116 066**	**8.40**

Fixed-rate borrowings expiry - 2016				
May 2018	160 000	12.15	-	-
Variable rate borrowings before interest rate derivatives	1 642 768	8.70	1 642 768	8.70
	1 802 768	**9.00**	**1 642 768**	**8.70**

Interest rate derivative maturity - 2017	**Consolidated Nominal amount R'000**	**Consolidated Average all-in margin over/(below) variable rate per annum %**	**Company Nominal amount R'000**	**Company Average all-in margin over/(below) variable rate per annum %**
September 2017	50 000	0.56	50 000	0.56
January 2018	50 000	0.68	50 000	0.68
April 2018	100 000	(1.40)	100 000	(1.40)
August 2018	100 000	0.25	100 000	0.25
	300 000	(0.17)	300 000	(0.17)
Fixed rate borrowings	160 000		-	-
	460 000	**(0.17)**	**300 000**	**(0.17)**

Interest rate derivative maturity - 2016				
February 2017	100 000	0.31	100 000	0.31
August 2017	50 000	0.34	50 000	0.34
September 2017	50 000	0.31	50 000	0.31
January 2018	50 000	0.43	50 000	0.43
April 2018	100 000	(1.68)	100 000	(1.68)
August 2018	100 000	-	100 000	-
	450 000	(0.18)	450 000	(0.18)
Fixed rate borrowings	160 000	-	-	-
	610 000	**(0.18)**	**450 000**	**(0.18)**

Notes to the Annual Financial Statements

29. Risk management (continued)

29.2.3. Cash flow interest rate risk

Interest payable on borrowings	Floating interest rate per annum R'000	Fixed interest rate per annum R'000	Total R'000
Consolidated 2017			
Current interest rate	8,0% to 9,2%	12,15%	-
Due in less than a year	37 355	12 996	50 356
Due in one to two years	14 484	-	14 484
Due in two to three years	11 310	-	11 310
Consolidated 2016			
Current interest rate	8,3% to 8,9%	12,15%	-
Due in less than a year	110 632	19 440	130 072
Due in one to two years	80 834	12 960	93 794
Due in two to three years	53 889	-	53 889
Company 2017			
Current interest rate	8,0% to 9,2%	-	-
Due in less than a year	37 355	-	37 355
Due in one to two years	14 484	-	14 484
Due in two to three years	11 310	-	11 310
Company 2016			
Current interest rate	8,3% to 8,9%		-
Due in less than a year	110 632	-	110 632
Due in one to two years	80 834	-	80 834
Due in two to three years	53 889	-	53 889

Notes to the Annual Financial Statements

29. Risk management (continued)

29.2.4. 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 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.

Included in the group's trade receivables balance are tenant balances with a carrying amount of R30 504 936 (2016: R18 281 337) (company: R1 958 442 (2016: R1 388 738)), 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.

The ageing of trade receivables outstanding and not provided for is as follows:

	Consolidated 2017 R'000	Consolidated 2016 R'000	Company 2017 R'000	Company 2016 R'000
30 days or less	26 387	15 528	1 389	1 472
More than 30 days and less than 60 days	1 245	1 999	174	163
More than 60 days and less than 90 days	574	1 535	137	190
More than 90 days	2 299	6 425	258	495
	30 505	**25 487**	**1 958**	**2 320**

30. Going concern

The directors are aware that the current liabilities exceed the current assets by R1,127 million (2016: R842 million), mainly due to the fact that the majority of unsecured notes and some secured loans will be maturing in the 2018 financial year.

The process to refinance these loans has already started and Nedbank Limited has approved new loans to replace the loans maturing in the 2018 financial year. The unsecured loans have also been refinanced as follows:

PMM 29, PMM 30 and PMM 33 matured on 4, 7 & 1 September 2017 respectively, and have since been refinanced by PMM 39 for R171 million and PMM 40 for R55 million maturing on 4 September 2018.
PMM 35 matured on 6 November 2017 and has since been refinanced by PMM 41 for R158.5 million maturing 6 May 2018.
PMM 37 matured on 27 November 2017 and has been refinanced by PMM 42 for R180 million maturing on 28 May 2018.

The group also has access to undrawn loan facilities of R626 million as well as an overdraft facility of R41,9 million (at Octodec group level) to fund current operations.

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

31. Events after the reporting period

The directors are not aware of any events subsequent to 31 August 2017, not arising in the normal course of business, which are likely to have a material effect on the financial information contained in this report.

Notes to the Annual Financial Statements

32. Categories of financial instruments

Consolidated 2017	Loans and receivable R'000	At amortised cost R'000	At fair value R'000	Level 2 R'000
Financial assets				
Cash and cash equivalents	-	64 008	-	-
Derivative financial instruments	-	-	868	868
Trade and other receivables	69 571	-	-	-
Financial liabilities				
Derivative financial instruments	-	-	618	618
Trade and other payables	-	146 789	-	-
Long-term borrowings	-	157 866	-	-
Short-term borrowings	-	1 118 200	-	-
Loan from holding company	-	972 798	-	-
Consolidated 2016				
Financial assets				
Cash and cash equivalents	-	3 065	-	-
Derivative financial instruments	-	-	4 307	4 307
Trade and other receivables	55 319	-	-	-
Financial liabilities				
Derivative financial instruments	-	-	123	123
Trade and other payables	-	147 049	-	-
Long-term borrowings	-	1 047 652	-	-
Short-term borrowings	-	755 116	-	-
Loan to holding company	-	338 945	-	-
Company 2017				
Financial assets				
Cash and cash equivalents	-	63 969	-	-
Derivative financial instruments	-	-	868	868
Trade and other receivables	7 344	-	-	-
Loans to group companies	2 909 810	-	-	-
Financial liabilities				
Derivative financial instruments	-	-	618	618
Trade and other payables	-	16 496	-	-
Long-term borrowings	-	157 866	-	-
Short-term borrowings	-	958 200	-	-
Loan from holding company	-	972 798	-	-
Company 2016				
Financial assets				
Cash and cash equivalents	-	3 060	-	-
Loans to group companies	2 866 770	-	-	-
Derivative financial instruments	-	-	4 307	4 307
Trade and other receivables	7 360	-	-	-
Financial liabilities				
Derivative financial instruments	-	-	123	123
Trade and other payables	-	23 582	-	-
Long-term borrowings	-	867 652	-	-
Short-term borrowings	-	755 116	-	-
Loan to holding company	-	338 945	-	-

Notes to the Annual Financial Statements

33. Segmental reporting

The group earns revenue in the form of property rentals. On a primary basis the group is organised into five major operating segments:
– Office
– Retail shops
– Industrial
– Residential
– Parking

Rental income by sector - Consolidated	2017 R'000	2017 %	2016 R'000	2016 %
Offices	201 774	29.2 %	168 551	25.8 %
Retail shops	223 808	32.4 %	219 830	34.0 %
Industrial	30 241	4.4 %	31 608	4.8 %
Residential	200 268	29.0 %	198 532	30.5 %
Parking	35 277	5.0 %	31 911	4.9 %
	691 368	100.0 %	650 432	100.0 %
Recoveries and other income	178 954		179 023	
	870 322	**100.0 %**	**829 455**	**100.0 %**

Further segmental results cannot be allocated on a reasonable basis due to the “mixed use” of certain of the properties. It is the group and company’s policy to invest predominantly in properties situated in the Gauteng area, therefore the company has not reported on a geographical basis.