dipula
INCOME FUND
Sustainable Property Returns

UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS

FOR THE SIX MONTHS ENDED 28 FEBRUARY 2019

BUSINESS AND PERFORMANCE HIGHLIGHTS

Larger, improved quality, well diversified and soundly managed portfolio for resilience!

Business highlights

Total assets up **23%**

Revenue up **23%** (excluding straight-line rental)

Vacancies reduced by **23%**

Improved credit rating to **BBB+** (ZA) and **A2** (ZA)

Performance highlights

Distributable earnings up **19%** to **R257.6 million**

Combined share dividend **97.33751** cents per share (in line with guidance)

A-share dividend up **4.1%** to **54.83455** cents per share

B-share dividend **42.50296** cents per share

COMMENTARY

Introduction

The prevailing tough economic environment in SA continued to pose a challenge to the group. In line with market guidance for the six months ended 28 February 2019 ("the period"), Dipula recorded flat growth in dividends per share on a combined basis. This resulted in an increase in dividends per A-share in line with Dipula's distribution policy while the B-share dividend was marginally down on the prior period.

Acquisitions of R1.5 billion concluded during the latter part of the 2018 financial year resulted in a 23% increase in the value of the group's property portfolio and a significant enhancement in the quality of its assets. The period-on-period growth in revenue of 23% and distributable earnings of 19% was mainly due to these acquisitions.

The group maintained its strategy of maximising returns through, quality enhancing acquisitions, "sweating" its assets, strategic refurbishments and focused management.

Dipula's strategy to internalise the management of its portfolio is paying off as evidenced in its occupancies which are 23% higher than the prior period and the achievement of a 0.4% positive rental renewal rate under extremely challenging economic conditions.

Furthermore, the group was rewarded for its improved quality of assets and stability through a credit rating upgrade from BBB (ZA) long term and A3 (ZA) short term to BBB+ (ZA) long term and A2 (ZA) short term.

Profile

Dipula is a Johannesburg-based internally managed REIT that owns a diversified portfolio, comprising mainly retail, office and industrial properties located across all provinces in South Africa. The majority are located in Gauteng. Dipula also selectively invest in residential rental stock.

Dipula trades under the codes DIA and DIB. Dipula's A-shareholders are entitled to a dividend growth of the lower of 5% or the consumer price index ("CPI"), while B-shareholders receive the remaining net distributable earnings.

Distributable earnings

Distributable earnings increased 19% to R257.6 million (February 2018: R216.4 million) mainly due to the conclusion of prior year acquisitions and modest like-for-like growth. Taking into account relatively low like-for-like income growth and the increased number of issued shares to fund the acquisitions, this growth in distributable income resulted in flat dividends per combined share period-on-period (February 2018: 4.6%) growth.

The dividend attributable to A-shares increased 4.1% period-on-period to 54.83455 cents per share (February 2018: 52.67488 cents) and is in line with the distribution policy to A-shareholders. The dividend attributable to B-shares decreased by 3.6% to 42.50296 cents per share (February 2018: 44.07594 cents).

Property portfolio

At period-end, Dipula's property portfolio of 199 properties (February 2018: 174 properties) remained largely unchanged from the 2018 financial year-end. However, it is of a significantly better quality than at Dipula's listing and up 23% in value from the prior period at a total value at R8.6 billion (February 2018: R7.1 billion), with a total gross lettable area ("GLA") of 928 580 m^2 (February 2018: 748 978 m^2 GLA).

All the properties recently acquired were transferred in the prior year ended 31 August 2018 and are performing in line with expectations.

Dipula spent R80 million on strategic refurbishments, most of which have since been substantially let to good quality tenants. These initiatives continue to contribute substantially to the improvement of the quality of the portfolio. The group continues to streamline its management operations and drive efficiencies as seen in its 16% reduction in the property cost to income ratio, which reduced to 17.5% from 20.9% in the prior period.

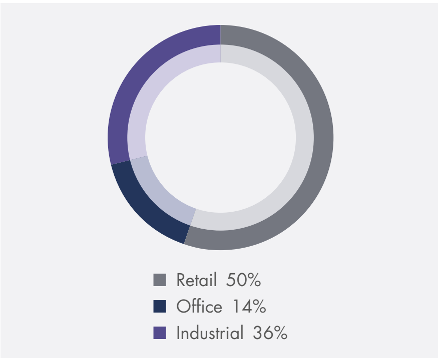
Cost-to-income ratios

	February 2019	February 2018
Property cost to income (gross basis)	**32.3%**	34.5%
Property cost to income (net basis)	**17.5%**	20.9%
Total cost to income (gross basis)	**35.2%**	36.7%
Total cost to income (net basis)	**21.1%**	23.5%

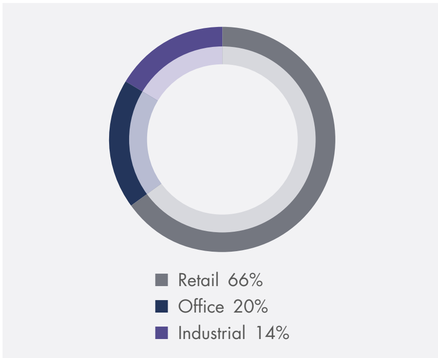
Sectoral and geographic profile

The sector and geographic breakdown of Dipula's portfolio at 28 February 2019 is set out below:

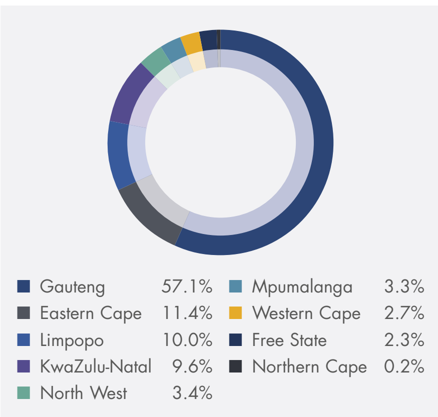
Sectoral profile by GLA (%)



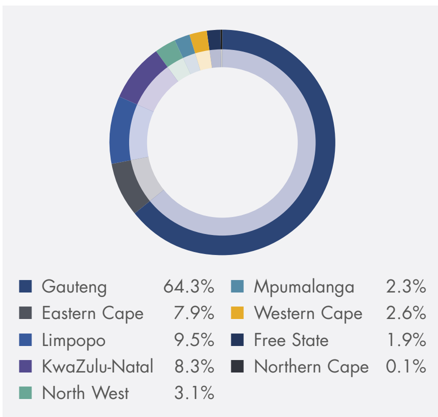
Sectoral split by gross rental income (%)



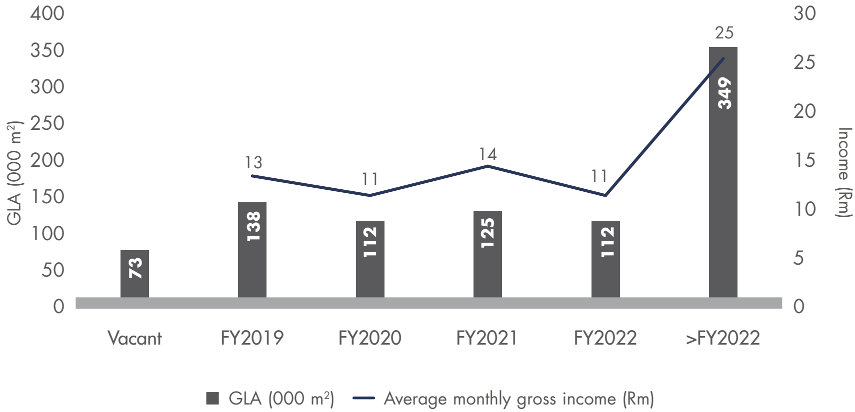
Geographic profile by GLA (%)



Geographic split by gross rental income (%)



Dipula lease expiry profile



At the August 2018 financial year-end, Dipula reported that leases representing 204 000 m² were up for renewal in 2019. During the reporting period Dipula renewed 38 000 m² of GLA at an average escalation of 7.3% (a positive renewal rate of 0.4%) and an average weighted lease expiry of 3.4 years. The renewal of the remaining expiries is progressing well and should be concluded in the second half of the year. The group furthermore achieved an impressive retention ratio of 82% during the period, as a direct result of focused in-house management that led to improved customer service.

Vacancies

Vacancies reduced by 23% to 8.0% (2018: 10.4%) due mainly to a reduction in office and industrial vacancies. The breakdown of vacancies by sector is as follows: Retail 8.0% (2018: 8.1%), Offices 7.9% (2018: 15.3%) and Industrial 8.0% (2018: 12.9%).

Some of the group's letting that was anticipated earlier only becomes effective in the second half of the year and will have a negative impact on the full year performance. The highly competitive market has also resulted in increased leasing costs and incentives.

Sectorial performance

Retail

Dipula's retail portfolio has been affected by the current slow economic growth with tenants adopting a more cautious approach and changing their business models.

Retail vacancies remained steady at 8% with 84% of the tenants whose leases expired having been retained with a positive renewal rate of 1.2%. Most of the group's retail vacancy is related to non-core, specialised, high street and strip centres while our shopping centres (with a few exceptions) have high occupancy levels.

Offices

Notwithstanding oversupply and tough trading conditions for the office sector, Dipula's office portfolio performed well with vacancies dropping by 48% to 7.9% well ahead of the SAPOA average of 11.1%. This resulted from superior management and a substantial improvement in the quality of this portfolio due to strategic acquisitions and refurbishments.

Dipula is at an advanced stage with renewing its Department of Public Works ("DPW") leases and expects these to be concluded imminently.

During the period the office portfolio achieved an impressive 89% tenant retention and has a WALE of 2 years on aggregate, which should improve as short dated DPW leases are renewed in the second half.

The WALE achieved in respect of new leases concluded to date was 5.8 years and renewals were concluded at an impressive 9.1% positive renewal rate.

Industrial

Dipula's industrial portfolio's performance was affected by the withdrawal from South Africa of a large multinational but most of this space has now been relet.

Shorter leases were concluded in various mini units, with an overall WALE of 1.8 years for new leases and a 2.6 year WALE for renewals. The aggregate portfolio WALE remains good at 4 years.

Dipula's industrial portfolio recorded a negative reversion of 12.2% on renewals since an aggressive strategy was required in order to retain tenants.

Industrial vacancies dropped 38% from the prior period and even more post period and are now sitting at 5.8%.

Disposals

During the period, Dipula disposed of four properties for R8.3 million at an average yield of 11%. In line with Dipula's portfolio optimisation strategy, additional properties are earmarked for disposal in the medium term.

Refurbishments and developments

A total of R80 million was spent on various projects during the period.

The Range Road extension was completed in April 2019 at a cost of R25 million, effectively adding 1 925 m^2 GLA and increasing the total GLA of the facility to 12 905 m^2. A new 10-year lease has been successfully signed.

Refurbishments amounting to R27 million are currently in progress at New Brighton, Norwood, Belle Ombre and Orange Farm Town Square. These are mainly motivated by new leases at improved rental terms.

Funding

At 28 February 2019, Dipula's all-in blended rate of interest was 9.24% (2018: 9.19%). The company has total debt facilities of R3.6 billion. The weighted average debt expiry is 2.9 years and the hedge expiry is 2.2 years.

80% of the interest has been fixed at the end of the period (2018: 91%).

Debt maturity and hedging profile

	Facility		Fixed/swap		Floating	
Financial year-end	R'000	%	R'000	%	R'000	%
FY2019	448 303	12.4	325 000	9.0	123 303	3.4
FY2020	750 391	20.7	756 250	20.9	(5 859)	(0.2)
FY2021	845 067	23.4	800 000	22.1	45 067	1.3
FY2022	750 127	20.7	700 000	19.3	50 127	1.4
FY2023	624 603	17.3	300 000	8.3	324 603	9.0
FY2024	200 400	5.5	–	–	200 400	5.5
	3 618 891	100	2 881 250	79.6	737 641	20.4

Changes to the board

No changes to the board of directors ("the board") were effected during the period.

Prospects

It is the opinion of the board that prevailing difficult trading conditions will continue in the six months ahead to year-end. Furthermore, difficult headwinds and an embattled property market will continue to pose challenges but there is room for some optimism in the medium to long term. Over the next 18 months, R449 million worth of value enhancing developments, upgrades and revamps are planned. Further headway will be made in respect of leasing and with efficient management of cost, growth should be achievable in the medium to long term.

The board has revised its dividend per share forecast on the combined share for the year ending 31 August 2019 from flat to 5% down compared to the previous year. Assuming CPI remains at 4.1% this will translate to the A-share receiving a dividend of 110.14363 cents per share and the B-share receiving 85.06647cents per share.

The reduction in dividend growth compared to previous guidance is due to less than expected lease renewal rates, higher costs of leasing, longer lead times for new leases, tenants vacating space due to changing business models and the impact of the economic slowdown on tenants.

The group remains focused on improving the quality of its portfolio through strategic interventions. The board is optimistic about growth prospects in the medium term as the country stabilises on the political front and a clearer policy directive unfolds, which should result in improved business confidence. Any positive growth in the economy will translate into expansion of the property sector leading to improved rentals and take-up of vacant space.

This forecast assumes that macroeconomic conditions do not deteriorate further, no major corporate failures occur and that tenants will be able to absorb rising utility and assessment rates costs. Forecast rental income is based on contractual escalations and market-related renewals. This forecast has not been reviewed or reported on by the group's independent external auditors.

Payment of interim dividend

The board has approved and notice is hereby given of the interim dividend (dividend number 16) for the period 1 September 2018 to 28 February 2019 of 54.83455 cents per A-share and 42.50296 cents per B-share.

The dividend is payable to Dipula shareholders in accordance with the timetable set out below:

Last day to trade *cum* dividend	Tuesday, 11 June 2019
Shares trade *ex* dividend	Wednesday, 12 June 2019
Record date	Friday, 14 June 2019
Payment date	Tuesday, 18 June 2019

Share certificates may not be dematerialised or rematerialised between Wednesday, 12 June 2019 and Friday, 14 June 2019, both days inclusive.

The dividend will be transferred to dematerialised shareholders' CSDP accounts/broker accounts on Tuesday, 18 June 2019. Certificated shareholders' dividend payments will be paid to certificated shareholders' bank accounts on or about Tuesday, 18 June 2019.

An announcement relating to the tax treatment will be released separately on SENS.

On behalf of the board

Zanele Matlala
Chairperson

Izak Petersen
CEO

22 May 2019

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited six months ended 28 February 2019 R'000	Unaudited six months ended 28 February 2018 R'000	Audited year ended 31 August 2018 R'000
ASSETS			
Non-current assets	**8 937 356**	7 149 994	8 944 839
Investment property	**8 640 400**	6 911 103	8 607 859
Fair value of property portfolio	**8 424 435**	6 748 850	8 427 249
Straight-line rental income accrual	**215 965**	162 253	180 610
Intangible assets	**93 750**	144 577	112 500
Property, plant and equipment	**3 906**	1 574	3 886
Derivative financial assets	**4 010**	271	26 315
Loan receivable	**195 290**	92 469	194 279
Current assets	**252 288**	205 775	298 532
Trade and other receivables	**202 164**	173 114	208 266
Derivative financial assets	**493**	–	1 202
Cash and cash equivalents	**49 631**	32 661	89 064
Non-current assets held-for-sale			
Investment property held-for-sale	**25 021**	164 446	30 013
Total assets	**9 214 665**	7 520 215	9 273 384
EQUITY AND LIABILITIES			
Shareholders' interest	**5 232 126**	4 537 595	5 308 816
Stated capital	**4 243 513**	3 460 604	4 243 513
Fair value reserve	**1 010 048**	1 033 359	1 037 803
Retained income	**(21 435)**	43 632	27 500
Non-controlling interests	**155 796**	–	155 796
Non-current liabilities	**2 739 784**	1 830 204	2 602 100
Interest-bearing liabilities	**2 680 140**	1 758 918	2 546 926
Non-interest-bearing liabilities	**51 007**	50 154	51 124
Derivative financial liabilities	**8 637**	21 132	4 050
Current liabilities	**1 086 959**	1 152 416	1 206 672
Interest-bearing liabilities	**905 364**	1 032 079	974 225
Bank overdraft	**20 000**	–	20 048
Trade and other payables	**159 829**	120 337	209 648
Derivative financial liabilities	**1 766**	–	2 751
Total equity and liabilities	**9 214 665**	7 520 215	9 273 384

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited 28 February 2019 R'000	Unaudited 28 February 2018 R'000	Audited 31 August 2018 R'000
Revenue	**687 734**	537 160	1 141 348
Contractual rental income	**529 239**	419 018	860 027
Municipal and property recoveries	**123 140**	111 484	217 557
Other income	**–**	–	38 750
Straight-line rental income accrual	**35 355**	6 658	25 014
Property-related expenses	**(210 988)**	(183 082)	(362 824)
Net property income	**476 746**	354 078	778 524
Administration and corporate costs	**(18 805)**	(11 519)	(24 470)
Net operating profit	**457 941**	342 559	754 054
Net finance cost	**(152 619)**	(120 723)	(231 605)
Finance income	**10 556**	13 229	42 103
Finance cost	**(163 175)**	(133 952)	(273 708)
Net profit after finance cost	**305 322**	221 836	522 449
Transaction costs on business combination	**–**	(2 543)	(2 543)
Loss on sale of property, plant and equipment	**–**	–	(153)
Amortisation of intangible assets	**(18 750)**	(18 750)	(37 500)
Goodwill impaired	**–**	–	(13 327)
Fair value adjustments	**(63 110)**	27 908	13 996
Investment properties and properties held-for-sale	**(1 139)**	20 626	(16 507)
Straight-line rental income accrual	**(35 355)**	(6 658)	(25 014)
Interest rate swaps	**(26 616)**	13 940	55 517
Profit before taxation	**223 462**	228 451	482 922
Taxation	**–**	–	–
Profit for the period after taxation	**223 462**	228 451	482 922
Other comprehensive income	**–**	–	–
Total comprehensive income for the period	**223 462**	228 451	482 922
Total profit and comprehensive income for the period attributable to:			
Shareholders of the company	**211 090**	227 163	471 540
Non-controlling interests	**12 372**	1 288	11 382
	223 462	228 451	482 922
Basic and diluted earnings per A-share (cents)	**39.88**	51.33	99.09
Basic and diluted earnings per B-share (cents)	**39.88**	51.33	99.09

EARNINGS, HEADLINE EARNINGS AND DIVIDENDS

	Unaudited 28 February 2019 R'000	Unaudited 28 February 2018 R'000	Audited 31 August 2018 R'000
Reconciliation between profit, earnings and headline earnings			
Earnings	**211 090**	227 163	471 540
Adjustments:	**36 494**	(13 968)	59 095
Goodwill impaired	**–**	–	13 327
Fair value – investment properties and held-for-sale	**1 139**	(20 626)	20 754
Fair value – straight-line rental income	**35 355**	6 658	25 014
Headline earnings	**247 584**	213 195	530 635
Total number of shares in issue*	**529 282 638**	448 276 813	529 282 638
Number of A-shares in issue	**264 641 319**	219 172 546	264 641 319
Number of B-shares in issue	**264 641 319**	229 104 267	264 641 319
Total weighted average number of shares in issue*	**529 282 638**	442 573 468	475 853 506
Weighted average number of A-shares in issue*	**264 641 319**	218 817 494	236 062 841
Weighted average number of B-shares in issue*	**264 641 319**	223 755 974	239 790 665
Headline earnings per A-share (cents)	**46.78**	48.17	111.51
Headline earnings per B-share (cents)	**46.78**	48.17	111.51
Dividend per A-share	**54.83455**	52.67488	105.80560
Interim	**54.83455**	52.67488	52.67488
Final	**–**	–	53.13072
Dividend per B-share	**42.50296**	44.07594	99.67872
Interim	**42.50296**	44.07594	44.07594
Final	**–**	–	55.60278
Combined share	**97.33751**	96.75082	205.48432
Interim	**97.33751**	96.75082	96.75082
Final	**–**	–	108.73350
Net asset value per A-share (cents)	**988.53**	1 012.23	1 003.02
Net asset value per B-share (cents)	**988.53**	1 012.23	1 003.02
Loan to Value ("LTV")	**41.6%**	39.7%	40.6%

* *Net of treasury shares.*

Basic and headline earnings per share are based on the weighted average number of shares in issue during the period.

The company does not have any dilutionary instruments in issue.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Stated capital R'000	Fair value reserve R'000	Retained income R'000	Non-controlling interest R'000	Total equity R'000
Balance at 31 August 2017 (audited)	3 346 742	998 793	78 938	–	4 424 473
Total comprehensive income for the period	–	–	227 163	1 288	228 451
Dividends declared	–	–	(227 903)	(1 288)	(229 191)
Shares issued net of share issue expenses	113 862	–	–	–	113 862
Transfer to fair value reserve – investment properties	–	20 626	(20 626)	–	–
Transfer to fair value reserve – interest rate swaps	–	13 940	(13 940)	–	–
Balance at 28 February 2018 (unaudited)	3 460 604	1 033 359	43 632	–	4 537 595
Balance at 31 August 2018 (audited)	**4 243 513**	**1 037 803**	**27 500**	**155 796**	**5 464 612**
Total comprehensive income for the period	**–**	**–**	**211 090**	**12 372**	**223 462**
Dividends declared	**–**	**–**	**(287 780)**	**(12 372)**	**(300 152)**
Transfer from fair value reserve – investment properties	**–**	**(1 139)**	**1 139**	**–**	**–**
Transfer from fair value reserve – interest rate swaps	**–**	**(26 616)**	**26 616**	**–**	**–**
Balance at 28 February 2019 (unaudited)	**4 243 513**	**1 010 048**	**(21 435)**	**155 796**	**5 387 922**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited 28 February 2019 R'000	Unaudited 28 February 2018 R'000	Audited 31 August 2018 R'000
Cash flows from operating activities			
Cash generated from operations	**423 579**	309 284	713 649
Net finance cost	**(153 097)**	(121 105)	(237 337)
Dividends paid	**(300 152)**	(227 903)	(491 103)
Net cash utilised in operating activities	**(29 670)**	(39 724)	(14 791)
Cash flows from investing activities			
Acquisition of investment properties and capital expenditure	**(79 294)**	(136 247)	(1 982 997)
Acquisition of business combination	**–**	(44 839)	(47 382)
Net acquisition of property, plant and equipment	**(310)**	(233)	(3 344)
Proceeds on disposal of investment properties	**8 334**	52 194	201 416
Loans (repaid)/advanced	**(1 011)**	–	89 936
Net cash utilised in investing activities	**(72 281)**	(129 125)	(1 742 371)
Cash flows from financing activities			
Issue of shares net of share issue expenses	**–**	13 562	796 471
Shares issued to non-controlling interests	**–**	–	151 549
Non-interest-bearing liabilities (repaid)/raised	**(117)**	89 936	51 124
Interest-bearing liabilities raised/(repaid)	**62 683**	(32 214)	696 808
Net cash generated from financing activities	**62 566**	71 284	1 695 952
Net decrease in cash and cash equivalents	**(39 385)**	(97 565)	(61 210)
Cash and cash equivalents at the beginning of the period	**69 016**	130 226	130 226
Cash and cash equivalents at the end of the period	**29 631**	32 661	69 016

CONDENSED CONSOLIDATED SEGMENTAL INFORMATION

	Retail R'000	Offices R'000	Industrial R'000	Land R'000	Corporate R'000	Total R'000
Six months ended 28 February 2019						
Extracts from the statement of comprehensive income						
Contractual rental income and recoveries (excluding straight-line)	438 480	125 662	88 237	–	–	652 379
Property-related expenses	(141 786)	(36 452)	(17 450)	(9)	(15 291)	(210 988)
Net property income	296 694	89 210	70 787	(9)	(15 291)	441 391
Extracts from the statement of financial position						
Investment property at fair value	5 424 310	1 766 836	1 419 048	30 206	–	8 640 400
Investment property held-for-sale	18 546	6 475	–	–	–	25 021
Total	5 442 856	1 773 311	1 419 048	30 206	–	8 665 421
Six months ended 28 February 2018						
Extracts from the statement of comprehensive income						
Contractual rental income and recoveries (excluding straight-line)	379 029	86 520	64 953	–	–	530 502
Property-related expenses	(131 752)	(31 839)	(19 483)	(8)	–	(183 082)
Net property income	247 277	54 681	45 470	(8)	–	347 420
Extracts from the statement of financial position						
Investment property at fair value	4 612 492	1 267 394	1 003 994	27 223	–	6 911 103
Investment property held-for-sale	161 900	–	–	2 546	–	164 446
Total	4 774 392	1 267 394	1 003 994	29 769	–	7 075 549

The entity has four reportable segments and corporate based on the sectorial nature – these are the entity's strategic business segments. For each strategic business segment, the entity's executive directors review internal management reports on a monthly basis.

CONDENSED CONSOLIDATED SEGMENTAL INFORMATION (CONTINUED)

	Unaudited 28 February 2019 R'000	Unaudited 28 February 2018 R'000	Audited 31 August 2018 R'000
Reconciliation of reportable segment revenue and profit			
Revenue			
Total revenue for reportable segments	**652 379**	530 502	1 116 334
Straight-line rental income accrual	**35 355**	6 658	25 014
Consolidated revenue	**687 734**	537 160	1 141 348
Profit			
Total profit for reportable segments	**441 391**	347 420	753 510
Straight-line rental income accrual	**35 355**	6 658	25 014
Administration and corporate costs	**(18 805)**	(11 519)	(24 470)
Net finance cost	**(152 619)**	(120 723)	(231 605)
Transaction costs on business combination	**–**	(2 543)	(2 543)
Fair value adjustments	**(63 110)**	27 908	13 996
Loss on sale of property, plant and equipment	**–**	–	(153)
Amortisation of intangible assets/goodwill impaired	**(18 750)**	(18 750)	(50 827)
Profit before taxation	**223 462**	228 451	482 922
Distributable earnings			
Reconciliation of profit for the year to distributable earnings			
Profit attributable to shareholders of the company	**211 090**	227 163	471 540
Fair value – investment properties revaluation	**1 139**	(20 626)	16 507
Fair value – straight-line rental income	**35 355**	6 658	25 014
Fair value – interest rate swaps	**26 616**	(13 940)	(55 517)
NCI portion of fair value adjustment	**–**	–	4 247
Antecedent interest	**–**	2 538	13 881
Transaction costs on business combination	**–**	2 543	2 543
Loss on sale of property, plant and equipment	**–**	–	153
Amortisation of intangible assets/goodwill impaired	**18 750**	18 750	50 827
Straight-line rental income accrual	**(35 355)**	(6 658)	(25 014)
Distributable earnings and dividends declared	**257 595**	216 428	504 181
Distribution statement			
Revenue	**652 379**	530 502	1 116 334
Contractual rental income	**529 239**	419 018	860 027
Recoveries and other income	**123 140**	111 484	256 307
Property-related expenses	**(210 988)**	(183 082)	(362 824)
Net property income	**441 391**	347 420	753 510
Administration and corporate costs	**(18 805)**	(11 519)	(24 470)
Net operating profit	**422 586**	335 901	729 040
Net finance cost	**(152 619)**	(120 723)	(231 605)
Antecedent dividend	**–**	2 538	13 881
Non-controlling interests	**(12 372)**	(1 288)	(7 135)
Distribution	**257 595**	216 428	504 181

BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements ("interim report") are prepared in accordance with the JSE Listings Requirements and the requirements of the Companies Act, 71 of 2008 of South Africa. The interim report has been prepared in accordance with IAS 34: *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council. The accounting policies applied in the preparation of the condensed consolidated interim financial statements are in accordance with International Financial Reporting Standards ("IFRS") and, with the exception of the adoption of IFRS 9: *Financial Instruments* and IFRS 15: *Revenue from Contracts*, are consistent with those applied in the preparation of the previous consolidated audited financial statements for the year ended 31 August 2018.

The group has adopted IFRS 9: *Financial Instruments* and IFRS 15: *Revenue* from contracts with customers and the adoption thereof did not have any material impact on the results for the period. These results have been prepared under the historical cost convention, except for investment properties, which are measured at fair value, and certain financial instruments, which are measured at either fair value or amortised cost.

This interim report was prepared under the supervision of Mr R Asmal, in his capacity as group financial director and has not been reviewed or reported on by the company's auditors.

Measurement of fair value

Investment property

On an annual basis, properties above R12 million (at the last valuation date) and one-third of properties below R12 million are valued by independent external registered valuers.

The remaining two-thirds are valued internally by directors.

The properties are valued using either the discounted cash flow or capitalisation methods by the directors and external valuers. The valuations are done on an open market basis with consideration given to the future earnings potential and applying an appropriate capitalisation rate to a property. The capitalisation rates used range between 7.8% and 13.3%. Investment properties held-for-sale were valued at the net sale price, which is considered to be the fair value.

Financial instruments

Financial instruments are measured at fair value. The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the reporting date.

Hierarchy levels

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 shall be 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: Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: Inputs for assets or liabilities that are not based on observable market data.

Investment properties and derivative financial instruments have been categorised as Level 3 and 2, respectively. There has been no material change between levels during the year and there were no transfers between levels.

	Unaudited 28 February 2019 R'000	Unaudited 28 February 2018 R'000
Fair value measurements for investment properties categorised as Level 3:		
Balance at the beginning of the year	**8 607 859**	6 882 691
Acquisitions/additions	**33 809**	179 171
Transferred to non-current assets held-for-sale/disposals	**(4 373)**	(152 968)
Tenant installation/lease commission	**3 105**	2 209
Balance at the end of the period	**8 640 400**	6 911 103

Valuation technique and significant unobservable inputs

Investment properties

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Discounted cash flows: The valuation model considers the present value of net cash flows to be generated from the property taking into account expected rental and capitalisation rates. The expected net cash flows are discounted using risk-adjusted discount rates. Among other factors, the discount rate estimation considers the quality of the property, its location and lease terms.	▪ Expected rental growth varies between 6% and 8% per annum; ▪ Risk-adjusted discount rates vary between 14% and 16.5%.	The estimated fair value would increase/(decrease) if: ▪ expected rentals were higher/(lower); ▪ risk-adjusted discount rates and capitalisation rates were lower/(higher).
Capitalisation model: Establishes the market-related rental income for the property and applies an appropriate capitalisation rate.	▪ Capitalisation rates vary between 7.8% and 13.25%.	The estimated fair value would increase/(decrease) if: ▪ Capitalisation rates were lower/(higher).

Derivative financial instruments – Level 2:

Interest rate swaps

Valuation technique	Significant unobservable inputs
Valued by discounting the future cash flows using the South African swap curve at the dates when the cash flows take place.	▪ Interest rate swap curve

The fair value of other financial instruments approximate their carrying values.

Subsequent events

Declaration of dividend after reporting date

The declaration of dividend occurred after the end of the reporting period, resulting in a non-adjusting event that is not recognised in the financial statements.

CORPORATE INFORMATION

DIPULA INCOME FUND LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 2005/013963/06)
JSE share code: DIA ISIN: ZAE000203378
JSE share code: DIB ISIN: ZAE000203394
(Approved as a REIT by the JSE)
("Dipula" or "the company" or "the Fund", and together with its subsidiaries, "the group")

Directors
ZJ Matlala* (Chairperson)
IS Petersen (CEO)
BH Azizollahoff*#
R Asmal (FD)
E Links*
Y Waja*
SA Halliday*
* *Independent non-executive*
# *British*

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