CASTLEVIEW PROPERTY FUND

# PROVISIONAL SUMMARISED REVIEWED CONSOLIDATED FINANCIAL STATEMENTS

for the twelve months ended 28 February 2019

# DIRECTORS' COMMENTARY

## NATURE OF BUSINESS

Castleview is a property holding and investment company that is invested in a well-located small regional shopping centre in the Eastern Cape ("Castleview" or the "Company").

## PROPERTY PORTFOLIO

Castleview's property portfolio consists of one property, namely Pier 14 Shopping Centre in Govan Mbeki Road, Port Elizabeth, which is defined as a small regional shopping centre with 30 381m2 of rentable space and is anchored by large national tenants such as Shoprite, Jet, Pep, Ackermans and Mr Price.

## STRATEGY

Castleview intends to invest further in retail properties which are anchored by high quality national tenants on long term, escalating leases, where opportunities to increase value to shareholders through sound asset management strategies are available and providing investors with exposure to consumers from a cross-section of income categories. Castleview may also invest in listed property shares in the future.

## COMMENTARY ON RESULTS, DISTRIBUTABLE EARNINGS AND NET ASSET VALUE

A dividend of 19.43 cents per share has been declared for the six months ended 28 February 2019, bringing the total distribution for the twelve months to 37.23 (2018: 16.72) cents per share. This is in line with expectations announced at the publication of the interim results ended 31 August 2018 of between 37.0 cents and 37.5 cents per share.

Castleview shareholders will therefore have received a total distribution per share for the period from listing to 28 February 2019 of 53.95 cents, which is in line with expectations at the time of listing of 54.0 cents. Castleview's net asset value per share equated to R5.08 (2018: R5.12) at financial year-end.

Given the pressures on consumer spending in South Africa, conditions in the retail environment in South Africa are demanding.

The portfolio vacancies have risen from 5.4% of gross lettable area (GLA) at 31 August 2018 to 8.7% of GLA at 28 February 2019. This is as a result of the closure and consolidation of certain retail stores in Pier 14, primarily the reduction in the premises occupied by Jet, which decreased from 1,876m$^2$ to 1,118m$^2$ following Edcon's decision to reduce the rentable area at certain stores.

Notwithstanding this, total tenant turnover at Pier 14 rose by 1.6% in the financial year as a result of new leases concluded during the period, as well as growth in turnover from the centre's diversified tenant base. Adjusting for the pro-rata drop in turnover from Jet as result of their downsizing, tenant turnover at the centre increased by 4.0%.

In April 2019 the Castleview board of directors approved the cancellation of the head lease over the office tower at Pier 14 with Gritprop Investment Holdings (Pty) Ltd with effect from 30 April 2019. In return for the cancellation of the head lease, the company has negotiated the extension of the duration and extent of the lease with the same tenant over storage premises in the retail component of the property, which included a take up of the premises vacated by Jet.

The vacancy created in the office tower will enable Castleview to convert the premises to 111 residential apartments. This project was approved by the Board in April 2019 and is estimated for completion by early 2020. The new residential tower is expected to increase the cash flow from Pier 14, diversify the income stream, as well as bring increased foot traffic to the retail tenants, with the associated benefit to tenant turnover at the centre.

## SUMMARY OF FINANCIAL INDICATORS

| | 28 February 2019 | 28 February 2018 |
|---|---|---|
| Shares in issue | **33 000 000** | 33 000 000 |
| Distributable earnings per share | **35.92 cents** | 11.60 cents |
| Dividend per share | **37.23 cents** | 16.72 cents |
| Net asset value per share | **R5.08** | R5.12 |
| Loan-to-value ratio* | **44.4%** | 43.8% |
| Property cost-to-income ratio | **35.9%** | 26.2% |

* *The loan-to-value ratio is calculated by dividing interest bearing borrowings net of cash on hand by the total of investment property.*

# DIRECTORS' COMMENTARY

## SECTORAL SPLIT, LEASE EXPIRY PROFILE AND VACANCIES

| | February 2019 | | February 2018 | |
|---|---|---|---|---|
| | GLA | Gross rentals | GLA | Gross rentals |
| **Sectoral split** | | | | |
| Based on: | | | | |
| Retail | 77.1% | 81.0% | 74.7% | 81.0% |
| Office | 22.9% | 19.0% | 25.3% | 19.0% |
| | 100.0% | 100.0% | 100.0% | 100.0% |
| **Lease expiry profile (unreviewed)** | | | | |
| Based on: | | | | |
| Vacant | 8.7% | 9.1% | 4.9% | 4.1% |
| Monthly | | | | |
| Feb 2019 | 8.8% | 9.2% | 23.8% | 28.3% |
| Feb 2020 | 12.7% | 15.1% | 12.1% | 15.7% |
| Feb 2021 | 29.4% | 24.8% | 29.8% | 25.8% |
| Feb 2022 | 15.8% | 15.0% | 9.2% | 6.0% |
| > Feb 2022 | 24.6% | 26.8% | 20.2% | 20.1% |
| | 100.0% | 100.0% | 100.0% | 100.0% |

# DIRECTORS' COMMENTARY

## LOAN FUNDING

| Facility | Approved Loan R'm | Amount drawn down at February 2019 R'm | Interest rate |
|---|---|---|---|
| ABSA Bank | 165.0 | 110.3 | Floating prime less 1% (9.25%) |
| | (Feb 2018: 165.0) | (Feb 2018: 164.1) | (Feb 2018: 9%) |
| Urban Retail Property Investments 1 (URP1) | 28.4 | 33.2* | Floating prime less 0.25% (10.0%) |
| | (Feb 2018: 28.4) | (Feb 2018: 30.1) | (Feb 2018: 9.75%) |

* *Interest on this facility is capitalised to the loan for the duration of the loan and is repayable annually in arrears on 31 December each year. The capitalised interest due and payable on 31 December 2018 was mutually agreed by both parties to be deferred and repaid at the end of the loan term.*

The ABSA facility is secured by a first mortgage bond and security cessions over the fixed property comprising Pier 14 Shopping Centre.

## OUTLOOK

Castleview will continue to focus on a disciplined approach to the management of its existing asset and the growth of the portfolio in order to return growth in capital and income to shareholders.

The cancellation of the existing office tower head lease at Pier 14 and conversion of this space to residential apartments will result in the loss of income from the office tower as construction of the apartments takes place. This is expected to result in net income from the portfolio and distributions per share declining in the coming financial year.

This will be compensated for by longer term sustainability and diversity of rental income from Pier 14. On completion of this project and assuming a market related occupancy level on completion, net income from the portfolio and dividends per share are expected to recover and grow thereafter.

Any forecast made in this announcement has not been audited or reviewed by Castleview's auditors.

# CASTLEVIEW PROPERTY FUND LTD SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## AS AT 28 FEBRUARY 2019

| | Notes | Reviewed 28 February 2019 R | Audited 28 February 2018 R |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **1 218 296** | 784 573 |
| Investment property | 3 | **309 400 474** | 308 690 842 |
| Operating lease asset | | **4 381 230** | 6 152 965 |
| Deferred tax | | **–** | 429 433 |
| | | **315 000 000** | 316 057 813 |
| **Current assets** | | | |
| Trade and other receivables | | **3 529 488** | 1 320 458 |
| Cash and cash equivalents | 4 | **3 675 738** | 56 281 732 |
| **Total current assets** | | **7 205 226** | 57 602 190 |
| **Total assets** | | **322 205 226** | 373 660 003 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | | **165 000 000** | 165 000 000 |
| Accumulated profit | | **2 611 664** | 3 845 546 |
| Non-controlling interest | | **182 658** | 186 660 |
| | | **167 794 322** | 169 032 206 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Other financial liabilities | 5 | **110 302 437** | 164 055 652 |
| Loan from parent company | | **32 679 312** | 28 419 384 |
| | | **142 981 749** | 192 475 036 |
| **Current liabilities** | | | |
| Trade and other payables | | **9 211 787** | 8 129 782 |
| Loan from parent company | | **530 370** | 1 692 314 |
| Current tax payable | | **1 686 998** | 2 330 665 |
| | | **11 429 155** | 12 152 761 |
| **Total liabilities** | | **154 410 904** | 204 627 797 |
| **Total equity and liabilities** | | **322 205 226** | 373 660 003 |

# CASTLEVIEW PROPERTY FUND LTD SUMMARISED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 28 FEBRUARY 2019

| | Notes | Reviewed TWELVE months ended 28 February 2019 R | Audited EIGHT months ended 28 February 2018 R |
|---|---|---|---|
| Revenue | | 39 985 959 | 17 802 346 |
| Other operating expenses | | (15 796 994) | (10 089 950) |
| **Operating profit** | | 24 188 965 | 7 712 396 |
| Bargain purchase on acquisition of subsidiary | | – | 2 511 373 |
| Investment income | | 567 462 | 1 808 880 |
| Finance costs | | (14 857 214) | (7 925 635) |
| Gain on fair value adjustment | 3 | 709 632 | – |
| Profit before taxation | | 10 608 845 | 4 107 014 |
| Taxation | | (442 630) | (258 203) |
| **Profit and total comprehensive income for the year/period** | | 10 166 215 | 3 848 811 |
| **Profit and total comprehensive income attributable to:** | | | |
| Owners of the parent | | 10 157 461 | 3 845 546 |
| Non-controlling interest | | 8 754 | 3 265 |
| | | 10 166 215 | 3 848 811 |
| **Earnings per share information (cents per share)** | | | |
| Basic and diluted earnings per share | 6 | 30.78 | 12.97 |

# CASTLEVIEW PROPERTY FUND LTD SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 28 FEBRUARY 2019

| | Share capital R | Accumulated profit R | Total attributable to equity holders of the group R | Non-controlling interest R | Total equity R |
|---|---|---|---|---|---|
| **Reviewed** | | | | | |
| **Balance at 1 July 2017** | – | – | – | – | – |
| Issue of shares | 165 000 000 | – | 165 000 000 | – | 165 000 000 |
| Business combinations | – | – | – | 183 395 | 183 395 |
| Profit and total comprehensive income for the period | | 3 845 546 | 3 845 546 | 3 265 | 3 848 811 |
| **Balance at 1 March 2018** | 165 000 000 | 3 845 546 | 168 845 546 | 186 660 | 169 032 206 |
| Profit and total comprehensive income for the year | – | 10 157 461 | 10 157 461 | 8 754 | 10 166 215 |
| Dividends | | (11 391 343) | (11 391 343) | (12 756) | (11 404 099) |
| **Balance at 28 February 2019** | 165 000 000 | 2 611 664 | 167 611 664 | 182 658 | 167 794 322 |

# CASTLEVIEW PROPERTY FUND LTD CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 28 FEBRUARY 2019

| | Reviewed 12 months ended 28 February 2019 R | Audited 8 months ended 28 February 2018 R |
|---|---|---|
| **Cash flows from operating activities** | | |
| Cash generated from operations | 24 344 538 | 8 230 661 |
| Interest income | 567 462 | 1 808 880 |
| Finance costs | (10 734 061) | (5 479 615) |
| **Net cash from operating activities** | 14 177 939 | 4 559 926 |
| Purchase of property, plant and equipment | (626 963) | – |
| Business combinations | – | (23 623 773) |
| **Net cash from investing activities** | (626 963) | (23 623 773) |
| **Cash flows from financing activities** | | |
| Proceeds on share issue | – | 40 000 000 |
| Repayment of other financial liabilities | (54 765 627) | – |
| Other financial liabilities advanced | – | 35 345 579 |
| Dividends paid | (11 391 343) | – |
| **Net cash from financing activities** | (66 156 970) | 75 345 579 |
| **Total cash movement for the year/period** | (52 605 994) | 56 281 732 |
| **Total cash and cash equivalents at the beginning of the year/period** | 56 281 732 | – |
| **Total cash and cash equivalents at the end of the year/period** | 3 675 738 | 56 281 732 |

# SIGNIFICANT FINANCIAL STATEMENT NOTES

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The provisional summarised reviewed consolidated financial statements are prepared in accordance with the requirements of the JSE Listings Requirements for provisional reports and requirements of the Companies Act of South Africa. The Listings Requirements require provisional reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the provisional summarised reviewed financial statements are in accordance with International Financial Reporting Standards ("IFRS") and are consistent with those applied in the preparation of the previous year's consolidated annual financial statements, except as described in note 1.2.

These results have been prepared under the historical cost convention, except for investment properties, which are measured at fair value. These provisional summarised reviewed consolidated financial statements for the year ended 28 February 2019 have not been audited by the company's independent external auditors.

### 1.1 Measurement of fair value – investment property

The property is valued using the discounted cash flow method by the directors and external valuers.

The investment property is valued every three years by an external independent registered valuer.

As at 28 February 2019, the property was valued internally by directors.

### 1.2 Changes in significant accounting policies

The changes in the accounting policies reflected below are also expected to be reflected in the group's consolidated financial statements as at and for the year ending 28 February 2019.

The group adopted IFRS 15 Revenue from contracts with customers (see note 1.2.1) and IFRS 9 Financial Instruments (see note 1.2.2) from 1 March 2018.

#### 1.2.1 Revenue from contracts with customers

IFRS 15 deals with revenue recognition and establishes principles for the reporting of useful information to users of financial statements about the nature, amount timing and uncertainty of revenue cash flows arising from an entity's contracts with customers.

Revenue is recognised when a customer obtains control of the good or service and thus has the ability to direct the use and obtain the benefits from the good or service. This standard replaces IAS 18: Revenue and IAS 11: Construction Contracts and Related interpretations.

The group has implemented IFRS 15 and it did not have a material impact on the provision of services that fall under the scope of IFRS 15. Rental revenue from investment property will continue to be recognised in profit or loss on a straight-line basis over the term of the lease in accordance with IAS17.

Revenue is derived from one income stream in one geographical location and therefore no disaggregation is disclosed.

#### 1.2.2 Financial instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments and impairment of financial assets.

The adoption of IFRS 9 had no impact on the opening balance of reserves and retained earnings at 1 March 2018.

# SIGNIFICANT FINANCIAL STATEMENT NOTES

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

### 1.2 Changes in significant accounting policies (continued)

#### 1.2.2 Financial instruments (continued)

The table and the accompanying notes that follow explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the group's financial assets, as at 1 March 2018.

| | | | Original carrying amount under IAS 39 | | New carrying amount under IFRS 9 | |
|---|---|---|---|---|---|---|
| Financial assets | Original classification under IAS 39 | New classification under IFRS 9 | 28 February 2019 R | 28 February 2018 R | 28 February 2019 R | 28 February 2018 R |
| Trade and other receivables | Loans and receivables at amortised cost | Financial assets at amortised cost | **3 529 488** | 1 320 458 | **3 529 488** | 1 320 458 |
| Cash and cash equivalents | Loans and receivables at amortised cost | Financial assets at amortised cost | **3 675 738** | 56 281 732 | **3 675 738** | 56 281 732 |

**New significant accounting policies and changes in significant accounting policies**

**Financial instruments**

The adoption of IFRS 9 resulted in the change of classification of certain financial assets. The only significant change to the group's policies is the measurement of impairment of financial assets, specifically trade receivables, which is now measured using an expected credit loss model instead of an incurred loss model.

The group uses a provision matrix to calculate expected credit losses, with amounts more than 60 days past due viewed as default events. This change did not result in an increase in the loss allowance compared to the previous impairment model.

**Financial assets**

Impairment of financial assets

The group recognises a loss allowance for expected credit losses on financial assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial asset.

The group recognises lifetime expected credit losses for accounts receivable and these are estimated using a provision matrix based on the group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current and forecast direction of conditions, including the time value of money where appropriate.

For all other financial assets, the group recognises lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition. If there has been no significant increase in credit risk, the loss allowance is measured at an amount equal to the 12-month expected credit losses.

The group determines increases in credit risk by considering any change in the risk of default occurring since the date of initial recognition. The group considers that default has occurred when a financial asset is more than 60 days past due.

# SIGNIFICANT FINANCIAL STATEMENT NOTES

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

### 1.2 Changes in significant accounting policies (continued)

#### 1.2.2 Financial instruments (continued)

**Critical accounting judgements and key sources of estimation uncertainty**

Financial instruments

Determining expected credit losses requires assessments of general economic conditions, both current and future, and their impacts on the credit risk of financial assets, as well as using periods that amounts are past due, to indicate levels of credit loss expected.

Credit losses may occur differently to these expectations, both in terms of timing and amount.

### 1.3 Comparative figures

As the company was incorporated on 6 July 2017, the comparative figures represent a period of eight months.

### 1.4 General

The summarised reviewed consolidated financial statements were compiled by Colin Dockrall CA(SA), the financial director.

A dividend of 19.43000 cents has been declared on 3 May 2019. Please see note 8 for further details.

The directors are not aware of any other matters or circumstances of a material nature arising subsequent to the year-end that require any additional disclosure or adjustment to the summarised reviewed consolidated financial statements.

These summarised reviewed consolidated financial statements for the year ended 28 February 2019 have been reviewed by Nolands Inc, who expressed an unmodified review conclusion. A copy of the auditor's review report is available for inspection at the company's registered office together with the financial statements identified in the auditor's report. The auditor's report does not necessarily report on all the information contained in these financial results. Shareholders are therefore advised that in order to obtain a full understanding of the auditor's engagement they should obtain a copy of the auditor's report together with the accompanying financial information from the company's registered office.

The directors take full responsibility for the preparation of these results and confirm that the financial information has been correctly extracted from the underlying financial statements.

# SIGNIFICANT FINANCIAL STATEMENT NOTES

## 2. SEGMENT ANALYSIS

**Segment information**

At 28 February 2019, the group is organised into one main operating segment:

- Mixed use (includes retail and office)

| 28 February 2019 | Mixed use R | Admin and corporate costs R | Total R |
|---|---|---|---|
| Revenue | 39 985 959 | – | 39 985 959 |
| Property operating expenses | (14 358 134) | – | (14 358 134) |
| Administrative expenses | | (1 438 660) | (1 438 660) |
| Operating profit/(loss) | 25 627 825 | (1 438 660) | 24 188 965 |
| Investment income | 567 462 | – | 567462 |
| Gain on fair value adjustment | 709 632 | – | 709 632 |
| Finance costs | (11 748 706) | (3 108 508) | (14 857 214) |
| Profit/(loss) before taxation | 15 156 213 | (4 547 168) | 10 608 845 |
| Taxation | (442 630) | – | (442 630) |
| Profit/(loss) for the year | 17 081 145 | (4 547 168) | 10 166 215 |
| Non-controlling interest | (8 754) | – | (8 754) |
| Profit/(loss) attributable to owners of the parent | 17 072 391 | (6 914 930) | 10 157 461 |
| Reconciliation of profit for the year to distributable income: | | | |
| Gain on fair value adjustment | | | (709 632) |
| Total non-controlling interest effects of adjustments | | | 710 |
| Headline earnings | | | 9 448 539 |
| Lease straight-lining adjustment | | | 1 771 734 |
| Depreciation | | | 193 241 |
| Deferred tax movement | | | 442 629 |
| Total non-controlling interest effects of adjustments | | | (2 408) |
| Distributable income | | | 11 853 735 |

The amounts provided to management with respect to total assets are measured in a manner consistent with that in the statement of financial position. These assets are allocated on the operations of the segment.

| 28 February 2019 | Mixed use R | Admin and corporate costs R | Total R |
|---|---|---|---|
| Property, plant and equipment | 1 218 296 | – | 1 218 296 |
| Investment property | 309 400 474 | – | 309 400 474 |
| Operating lease asset | 4 381 230 | – | 4 381 230 |
| Trade and other receivables | 3 244 488 | 285 000 | 3 529 488 |
| Cash and cash equivalents | 3 417 168 | 258 570 | 3 675 738 |
| | 321 661 656 | 543 570 | 322 205 226 |

# SIGNIFICANT FINANCIAL STATEMENT NOTES

## 2. SEGMENT ANALYSIS (CONTINUED)

The amounts provided to management with respect to total liabilities are measured in a manner consistent with that in the statement of financial position. These liabilities are allocated based on the operations of the segment.

| 28 February 2019 | Mixed use R | Admin and corporate costs R | Total R |
|---|---|---|---|
| Other financial liabilities | **110 302 437** | **–** | **110 302 437** |
| Loan from parent company | **–** | **33 209 682** | **33 209 682** |
| Trade and other payables | **9 176 531** | **35 256** | **9 211 787** |
| Current tax payable | **1 686 998** | **–** | **1 686 998** |
| | **121 165 966** | **33 24 938** | **154 410 904** |

At 28 February 2018, the group was organised into one main operating segment:

- Mixed use (includes retail and office)

| 28 February 2018 | Mixed use R | Admin and corporate costs R | Total R |
|---|---|---|---|
| Revenue | 17 802 346 | – | 17 802 346 |
| Property operating expenses | (6 332 135) | – | (6 332 135) |
| Administrative expenses | – | (3 757 815) | (3 757 815) |
| Operating profit/(loss) | 11 470 211 | (3 757 815) | 7 712 396 |
| Gain on bargain purchase in a business combination | – | 2 511 373 | 2 511 373 |
| Investment income | 857 562 | 951 318 | 1 808 880 |
| Finance costs | (6 231 893) | (1 693 742) | (7 925 635) |
| Profit/(loss) before taxation | 6 095 880 | (1 988 866) | 4 107 014 |
| Taxation | (258 203) | – | (258 203) |
| Profit/(loss) for the period | 5 837 677 | (1 988 866) | 3 848 811 |
| Non-controlling interest | (3 265) | – | (3 265) |
| Profit/(loss) attributable to owners of the parent | 5 834 412 | (1 988 866) | 3 845 546 |
| Reconciliation of profit for the period to distributable income: | | | |
| Gain on bargain purchase in a business combination | | | (2 511 373) |
| Headline earnings | | | 1 334 173 |
| Lease straight-lining adjustment | | | (717 425) |
| Listing expenses | | | 3 354 726 |
| Depreciation | | | 63 765 |
| Deferred tax movement | | | (207 915) |
| Distributable income | | | 3 827 324 |

# SIGNIFICANT FINANCIAL STATEMENT NOTES

## 2. SEGMENT ANALYSIS (CONTINUED)

The amounts provided to management with respect to total assets are measured in a manner consistent with that in the statement of financial position. These assets are allocated based on the operations of the segment.

| 28 February 2018 | Mixed use R | Admin and corporate costs R | Total R |
|---|---|---|---|
| Property, plant and equipment | 784 573 | – | 784 573 |
| Investment property | 308 690 842 | – | 308 690 842 |
| Operating lease asset | 6 152 965 | – | 6 152 965 |
| Deferred tax | 429 433 | – | 429 433 |
| Trade and other receivables | 1 035 458 | 285 000 | 1 320 458 |
| Cash and cash equivalents | 45 689 379 | 10 592 353 | 56 281 732 |
| | 362 782 650 | 10 877 353 | 373 660 003 |

The amounts provided to management with respect to total liabilities are measured in a manner consistent with that in the statement of financial position. These liabilities are allocated based on the operations of the segment.

| 28 February 2018 | Mixed use R | Admin and corporate costs R | Total R |
|---|---|---|---|
| Other financial liabilities | 164 055 652 | – | 164 055 652 |
| Loan from parent company | – | 30 111 698 | 30 111 698 |
| Trade and other payables | 8 012 782 | 117 000 | 8 129 782 |
| Current tax payable | 2 330 665 | – | 2 330 665 |
| | 174 399 099 | 30 228 698 | 204 627 797 |

# SIGNIFICANT FINANCIAL STATEMENT NOTES

## 3. INVESTMENT PROPERTY

| | Reviewed 28 February 2019 Carrying value R | Audited 28 February 2018 Carrying value R |
|---|---|---|
| Group | | |
| Investment property at fair value | **309 400 474** | 308 690 842 |

| | Reviewed 28 February 2019 R | Audited 28 February 2018 R |
|---|---|---|
| **Group** | | |
| **Reconciliation of investment property** | | |
| Opening carrying value | **308 690 842** | – |
| Additions through business combination | **–** | 308 690 842 |
| Fair value adjustment | **709 632** | – |
| Investment property valuation at year end | **309 400 474** | 308 690 842 |
| Recognised in property, plant and equipment | **1 218 296** | 156 193 |
| Operating lease asset | **4 381 230** | 6 152 965 |
| **Directors' valuation** | **315 000 000** | 315 000 000 |

**Pledged as security**

Mortgage bonds have been registered over the entire investment property as security for the ABSA bond (see note 5).

**Details of property**

**Pier 14 shopping centre**

A retail shopping centre located in Port Elizabeth

**Details of valuation**

The property was revalued by the directors using the discounted cash flow of future income streams method. The key assumptions used by the directors in determining fair value were as follows:

| | 2019 | 2018 |
|---|---|---|
| • Discount rate | 15.00% | 15.00% |
| • Market cap rate | 9.52% | 10.00% |
| • Expense growth rate | 7.00% | 7.00% |
| • Income growth rate | 6.00% | 6.00% |
| • Initial yield | 9.66% | 9.70% |
| • Exit capitalisation rate | 10.37% | 10.85% |
| • Discounted cash flow term | 10 years | 10 years |

# SIGNIFICANT FINANCIAL STATEMENT NOTES

## 3. INVESTMENT PROPERTY (CONTINUED)

**Inter-relationship between key unobservable inputs and fair value measurements**
The estimated fair value would increase/(decrease) if:

- Discount rate was lower/(higher);
- Capitalisation rate was lower/(higher);
- Expected expense growth rate was lower/(higher);
- Expected market rental growth rate was higher/(lower);
- Initial yield was (lower)/higher;
- Exit capitalisation rate was lower/(higher).

| | Reviewed 28 February 2019 R | Audited 28 February 2018 R |
|---|---|---|
| **Amounts recognised in profit and loss for the period** | | |
| Rental income from investment property | 39 985 959 | 17 802 346 |
| Direct operating expenses from rental generating property | (14 358 134) | (6 332 135) |
| | 25 627 825 | 11 470 211 |

**Fair value hierarchy**
The table below analyses assets and liabilities carried at fair value.

The levels are defined as follows:

Level 3: Unobservable inputs for the assets and liabilities.

| | | Reviewed 28 February 2019 R | Audited 28 February 2018 R |
|---|---|---|---|
| **Level 3** | | | |
| **Recurring fair value adjustments** | | | |
| **Assets** | | | |
| **Investment property** | | | |
| Pier 14 Shopping Centre | * | 313 781 704 | 314 843 807 |

* *Includes investment property and operating lease asset.*

## 4. CASH AND CASH EQUIVALENTS

Material movements in cash and cash equivalents include repayment of the ABSA mortgage bond of R53.7 million.

# SIGNIFICANT FINANCIAL STATEMENT NOTES

## 5. OTHER FINANCIAL LIABILITIES

| | Reviewed 28 February 2019 R | Audited 28 February 2018 R |
|---|---|---|
| **Held at amortised cost** | | |
| Mortgage bond | 110 302 437 | 164 055 652 |

This loan is on an interest only repayment profile for 36 months (commenced: 1 October 2017), following which the loan will be repayable in full.

The loan bears interest at the South African Prime lending rate less 1%.

The fair value of the other financial liability held at amortised cost is estimated to approximate its carrying value due to the interest rates being market-related for similar entities.

During the year under review, excess cash was utilized to repay a portion of the loan in order to save on interest expenses.

## 6. PER SHARE INFORMATION

| | Reviewed 28 February 2019 R | Audited 28 February 2018 R |
|---|---|---|
| Profit attributable to shareholders | 10 157 461 | 3 845 546 |
| Gain on fair value adjustment | (709 632) | – |
| Gain on bargain purchase in a business combination | – | (2 511 373) |
| Total non-controlling interest effects of adjustments | 710 | – |
| Headline earnings | 9 448 539 | 1 334 173 |
| Lease straight-lining adjustment | 1 771 734 | (717 425) |
| Listing expenses | – | 3 354 726 |
| Depreciation | 193 241 | 63 765 |
| Deferred tax movement | 442 629 | (207 915) |
| Total non-controlling interest effects of adjustments | (2 408) | – |
| Distributable income | 11 853 735 | 3 827 324 |
| Number of shares in issue | 33 000 000 | 33 000 000 |
| Weighted average number of ordinary shares in issue | 33 000 000 | 29 658 228 |
| **Earnings per share (c)** | 30.78 | 12.97 |
| **Headline earnings per share (c)** | 28.63 | 4.50 |
| **Distributable earnings per share (c) *** | 35.92 | 11.60 |
| **Net asset value per share (c) **** | 507.91 | 511.65 |
| **Distribution per share (c)** | 37.23 | 16.72 |

The company does not have any potential dilutionary instruments in issue.

* *Distributable earnings per share is calculated by dividing the distributable earnings calculated by the total number of shares in issue at period / year end. Distributable earnings is calculated in compliance with the recommendations of best practice from the SA REIT Association, and exclude all those items that are traditionally not distributed, such as capital profits / losses from the disposal of investment property and fair value adjustments.*

** *Net asset value per share is calculated by dividing the net assets by the total number of shares in issue at period / year end. Net assets comprise total assets less total liabilities, less equity attributable to non-controlling interest.*

# SIGNIFICANT FINANCIAL STATEMENT NOTES

## 7. RELATED PARTIES

| | Reviewed 28 February 2019 R | Audited 28 February 2018 R |
|---|---|---|
| Relationship | | |
| Parent company: Urban Retail Property Investments 1 (Pty) Ltd | | |
| Companies under common directorships: Castleview Asset Managers (Pty) Ltd | | |
| **Loan account owing to parent company** | | |
| Urban Retail Property Investments 1 (Pty) Ltd | **(33 209 682)** | (30 111 698) |
| **Other receivables owing by companies under common directorships** | | |
| Castleview Asset Managers (Pty) Ltd | **419 563** | 285 000 |
| **Interest capitalised on loan owing to parent company** | | |
| Urban Retail Property Investments 1 (Pty) Ltd | **3 097 985** | 1 692 314 |
| **Asset management fees paid to companies under common directorships** | | |
| Castleview Asset Managers (Pty) Ltd | **1 718 321** | 449 131 |
| **Compensation to directors and other key management** | | |
| Short-term employee benefits | **480 000** | 215 400 |

## 8. PAYMENT OF DIVIDEND

The board has approved and notice is hereby given of the final gross dividend of 19.43000 cents per share for the six months ended 28 February 2019.

The dividend is payable to Castleview's shareholders in accordance with the timetable set out below:

Last date 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.

In accordance with Castleview's status as a REIT, shareholders are advised that the dividend meets the requirements of a "qualifying distribution" for the purposes of section 25BB of the Income Tax Act, No. 58 of 1962 ("**Income Tax Act**"). The dividend will be deemed to be a dividend for South African tax purposes, in terms of section 25BB of the Income Tax Act.

The dividend received by or accrued to South African tax residents must be included in the gross income of such shareholders and will not be exempt from income tax (in terms of the exclusion to the general dividend exemption, contained in paragraph (aa) of section 10(1)(k)(i) of the Income Tax Act) because it is a dividend distributed by a REIT. This dividend is, however, exempt from dividend withholding tax in the hands of South African tax resident shareholders, provided that the South African resident shareholders submitted the following forms to their Central Securities Depository Participant ("**CSDP**") or broker, as the case may be, in respect of uncertificated shares, or the company, in respectof certificated shares:

a) a declaration that the dividend is exempt from dividends tax; and

b) a written undertaking to inform the CSDP, broker or the company, as the case may be, should the circumstances affecting the exemption change or the beneficial owner cease to be the beneficial owner,

## 8. PAYMENT OF DIVIDEND (CONTINUED)

both in the form prescribed by the Commissioner for the South African Revenue Service (SARS). Shareholders are advised to contact their CSDP, broker or the company, as the case may be, to arrange for the above-mentioned documents to be submitted prior to payment of the dividend, if such documents have not already been submitted.

Dividends received by non-resident shareholders will not be taxable as income and instead will be treated as an ordinary dividend, which is exempt from income tax in terms of the general dividend exemption in section 10(1)(k)(i) of the Income Tax Act. On 22 February 2017, the dividends withholding tax was increased from 15% to 20% and, accordingly, any dividends received by non-residents from a REIT will be subject to dividend withholding tax at 20%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation ("**DTA**") between South Africa and the country of residence of the shareholders. Assuming dividend withholding tax will be withheld at a rate of 20%, the net dividend amount due to non-resident shareholders is 15.54400 cents per share. A reduced dividend withholding rate, in terms of the applicable DTA, may only be relied upon if the non-resident shareholder has submitted the following forms to their CSDP or broker, as the case may be, in respect of uncertificated shares, or the company, in respect of certificated shares:

a) a declaration that the dividend is subject to a reduced rate as a result of the application of a DTA; and

b) a written undertaking to inform their CSDP, broker or the company, as the case may be should the circumstances affecting the reduced rate change or the beneficial owner cease to be the beneficial owner,

both in the form prescribed by the Commissioner for the SARS. Non-resident shareholders are advised to contact their CSDP, broker or the company, as the case may be, to arrange for the above-mentioned documents to be submitted prior to payment of the dividend, if such documents have not already been submitted, if applicable.

The dividend will be transferred to dematerialised shareholders' CSDP/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.

Shares in issue at the date of declaration of dividend: 33 000 000.

Castleview's income tax reference number: 9366916188.

## 9. CHANGE TO THE BOARD OF DIRECTORS

Elana Kruger resigned as financial director on 28 February 2019.
Colin Dockrall was appointed as the new financial director on 1 March 2019.

By order of the board

**James Templeton**
Chief executive officer

**Colin Dockrall**
Financial director

**Cape Town**
24 May 2019

# CORPORATE INFORMATION

## CASTLEVIEW PROPERTY FUND LIMITED

(Incorporated in the Republic of South Africa)
(Registration number 2017/290413/06)
JSE share code: CVW
ISIN: ZAE000251633
(Approved as a REIT by JSE)

## DIRECTORS

JWA Templeton, C Dockrall, RG Volks, GC Bayly,
DJ Green, A Padayachee

## REGISTERED OFFICE

411 The Hills, Buchanan Square, 160 Sir Lowry Road,
Woodstock, 7925
PO Box 55240, Sunset Beach, 7435

## WEBSITE

www.castleview.co.za

## COMPANY SECRETARY

Statucor

## TRANSFER SECRETARY

Link Market Services

## DESIGNATED ADVISER

Java Capital