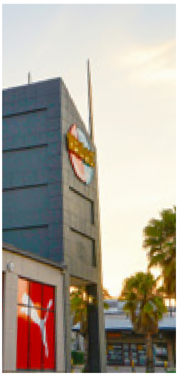


dipula
INCOME FUND

Sustainable Property Returns

REVIEWED PROVISIONAL CONDENSED CONSOLIDATED FINANCIAL RESULTS

FOR THE YEAR ENDED 31 AUGUST 2020

SALIENT FEATURES

Property portfolio growth of **3%** to **R9.1 billion**

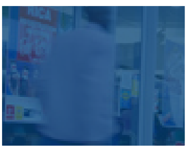
Diversification strategy progressing with **428** new residential rental units added to portfolio

Gearing reduced to **38.9%**

NAV stable at **R10** per DIA and DIB share

Distributable earnings down **12.4%**

R773 million of debt renewed and **R100 million** new facilities raised



COMMENTARY

Profile

Dipula is an internally managed, South African focused Real Estate Investment Trust ("REIT") with a sectorally and geographically diversified portfolio of primarily retail, office and industrial assets in all nine provinces of South Africa. The majority of assets are located in Gauteng. The fund further selectively invests in the residential rental sector.

Dipula is listed on the Johannesburg Stock Exchange ("JSE") and has A and B shares in issue, trading under the codes DIA and DIB. DIAs are entitled to a preferred dividend growth of the lower of 5% or the consumer price inflation ("CPI"), while DIBs receive the remaining distributable income. DIAs and DIBs rank equally in all other respects.

The company's strategy is to own a quality, defensive, diversified portfolio with a retail bias.

Introduction

Dipula's diversified portfolio, combined with management's ongoing efforts of optimising the portfolio through strategic interventions and superior asset management, played an integral part in Dipula maintaining contractual rental income at R1.004 billion (2019: R1.010 billion) despite an exceptionally difficult trading environment. The group's portfolio valuation remained stable year-on-year. Notwithstanding this reasonable top-line performance, the extended Covid-19 lockdown and other challenging economic headwinds resulted in distributable earnings declining by 12.4% year-on-year.

Financial results

Revenue for the year was flat at R1.30 billion (2019: R1.34 billion). Property-related expenses were up 2.8% in line with CPI. Additional bad debt provisions of R11 million (2019: R3.4 million) contributed towards the 7.5% reduction in net property income to R858 million (2019: R927 million).

Distributable earnings decreased by 12.4% to R447 million (2019: R511 million). During the year, the group provided rental relief of R48.6 million (2019: nil) in response to Covid-19. The rental relief consisted of rental discounts of R43.6 million and rent deferrals amounting to R5 million. In addition to this, provisions for bad debts were increased by R11 million (2019: R3.4 million) which is substantially above historical norms.

The group's administration and corporate costs increased by 23.8% to R40.9 million (2019: R33 million) mainly due to additional legal fees, consulting fees and share based expenses raised in terms of IFRS 2.

The group's net property cost to income ratio of 19.7% (2019: 17.1%) was higher than the prior year, due to lower revenue, Covid-19 rental relief and the additional bad debt provisions.

Cost to income ratios

	31 August 2020 %	31 August 2019 %
Property cost to income (gross)	**34.7**	32.6
Property cost to income (net)	**19.7**	17.1
Total cost to income (gross)	**38.0**	35.2
Total cost to income (net)	**23.7**	20.3

Net asset value

The group's net asset value per A and B share was impacted by slightly lower valuations and equalled R10.00 per share (2019: R10.25) while net tangible asset value per share was R9.93 per share (2019: R10.11).

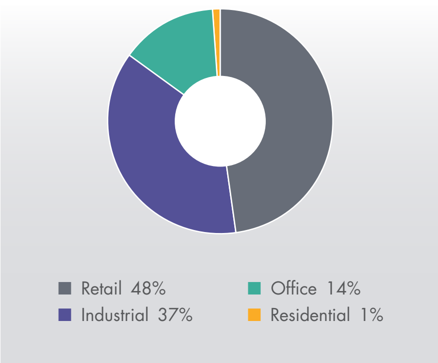
Property portfolio

On 31 August 2020, Dipula's portfolio consisted of 190 properties (2019: 194 properties) valued at R9.1 billion (2019: R8.8 billion) with a gross lettable area ("GLA") of 923 964 m^2 (2019: 923 679 m^2).

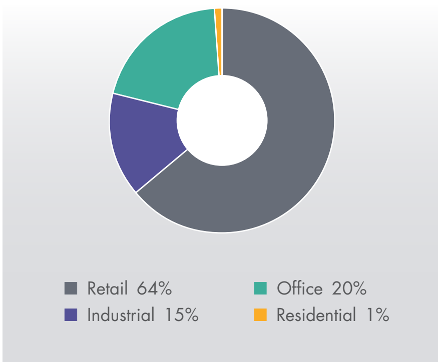
The growth in portfolio value of 2.9% resulted from the transfer of Palm Springs in Cosmo City ("Palm Springs"), a turn key residential rental development which transferred on 1 July 2020.

The sectoral and geographic breakdown of Dipula's portfolio on 31 August 2020 is set out below:

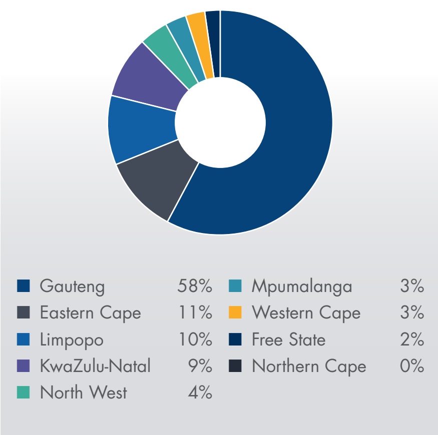
Sectoral split by GLA (%)



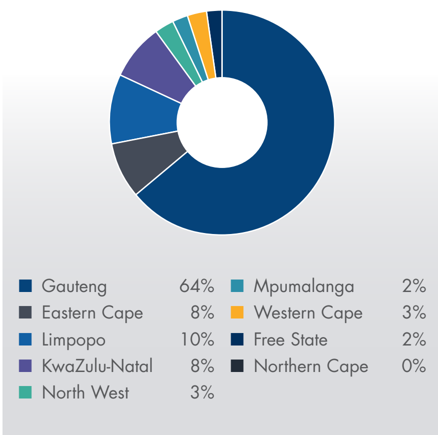
Sectoral split by gross income (%)



Geographic split by GLA (%)



Geographic split by gross income (%)



Leasing

New leases

During the year, Dipula concluded 136 new leases, equating to 39 710 m² of GLA, R157 million in lease value at a weighted average escalation of 7.5% and a weighted average lease expiry ("WALE") of 2.9 years.

Renewals

The group concluded renewals of 114 267 m² which equates to gross lease income of R484 million over the lease term and a WALE of 2.3 years. A total portfolio aggregate rental increase of 0.1% (2019: 1.1%) was achieved on renewal of leases. This resulted from a positive renewal rate for retail of 0.7% (2019: 2.2%) and negative reversions in the office and industrial sectors of 0.4% (2019: +3.5%) and 0.9% (2019: -8.2%) respectively.

Tenant retention

Dipula's portfolio tenant retention rate was 78% (2019: 85%). The sectoral retention rates are broken down as follows:

Tenant retention rate by sector

Sector	**31 August 2020 %**	31 August 2019 %
Retail	**72**	86
Offices	**93**	97
Industrial	**77**	94

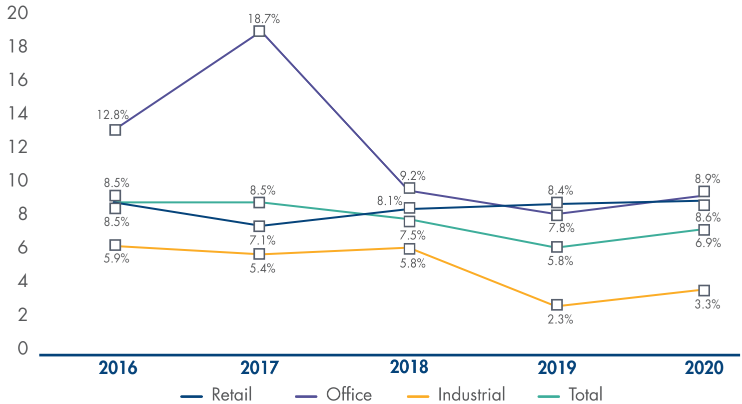
Vacancy

Portfolio vacancy increased to 6.9% (2019: 5.8%) due to Covid-19 and generally challenging economic conditions.

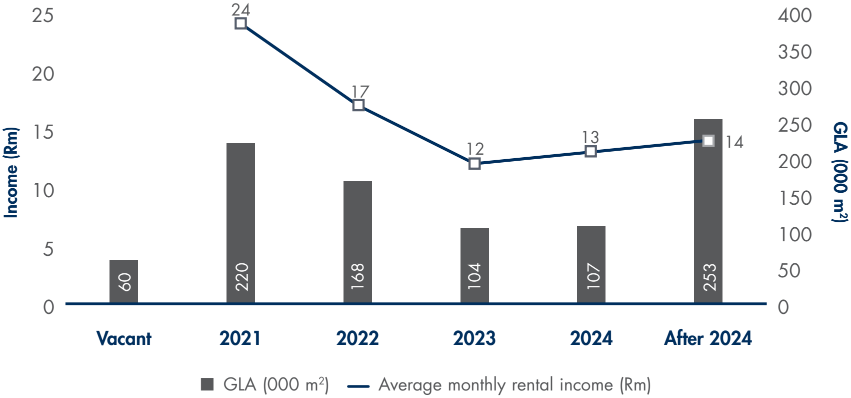
Vacancy by sector

Sector	**31 August 2020 %**	31 August 2019 %
Retail	**8.6**	8.4
Offices	**8.9**	7.8
Industrial	**3.3**	2.3
Total	**6.9**	5.8

Five year vacancy trend



Lease expiry profile



Acquisitions

On 1 July 2020, Dipula took transfer of a 50.1% interest in Palm Springs for a total consideration of R121.6 million. The purchase price was settled with cash of R71.8 million and debt of R49.8 million. Palm Springs consists of 428 affordable residential rental units.

Due to prevailing market conditions, there were no other acquisitions concluded during the year.

Refurbishments and redevelopments

A total of R43.1 million was invested in refurbishments and redevelopments during the year. Key projects completed include upgrades at Belle Ombre, Kopanong Tembisa, Norwood Urban Village, Howick Mews, the extension of Range Road, the installation of water storage tanks at Corporate Park and the solar installation at Harding Corner.

Disposals

Dipula disposed of five non-core properties for a combined sales consideration of R63 million, at an average yield of 10.1%. These disposals are part of the company's capital recycling strategy and the proceeds were utilised for debt repayment and the funding of refurbishments and redevelopments.

Furthermore, properties worth R13.5 million were held for sale at year-end.

Funding

During the year, facilities worth R773 million were renewed at an average funding rate of 5.32%, for an average period of 2.6 years. The group additionally raised new facilities of R100 million at an average funding rate of 6.25% and a tenure of five years.

On 31 August 2020, Dipula's all-in blended rate of interest was 8.96% (2019: 9.29%). The company had total debt of R3.5 billion. The weighted average debt expiry profile was 2.2 years, and the aggregate hedge expiry period was 1.8 years.

All debt was Rand denominated and 68% (2018: 78%) of the group's interest rate exposure at year-end was hedged.

The group's gearing decreased to 38.9% (2019: 40.4%) with undrawn facilities of R226 million at year-end.

The group has R928 million worth of facilities expiring in the 2021 financial year and remains cautiously optimistic about the renewal of these.

The debt maturity and hedging profile is detailed below:

	Facility		Fixed/Swap		Floating	
Financial year-end	R'000	%	R'000	%	R'000	%
FY2021	927 642	24.8	800 000	21.4	127 642	3.4
FY2022	744 124	19.9	700 000	18.7	44 124	1.2
FY2023	917 601	24.6	300 000	8.1	617 601	16.5
FY2024	919 350	24.6	725 000	19.4	194 350	5.2
FY2025	100 000	2.7	–	0.0	100 000	2.7
>FY2025	126 425	3.4	–	0.0	126 425	3.4
	3 735 142	100.0	2 525 000	67.6	1 210 142	32.4

Covenants

Dipula's group covenants requirement with its various debt providers is a loan to value ("LTV") ratio of 45% and an interest cover ratio ("ICR") of 2 times.

Dipula's covenant levels were substantially within the approved limits at the reporting date, as follows:

	31 August 2020	31 August 2019
LTV	38.9%	40.4%
ICR	2.62 times	2.74 times

Loan to value ratio

The improvement in LTV from 40.4% to 38.9% is due to a decrease in outstanding debt from R3.66 billion in FY19 to R3.54 billion at year-end.

The company will continue to implement its disposal programme prudently, using proceeds for value enhancing refurbishments, acquisitions, and the repayment of debt for additional deleveraging.

Credit rating

On 1 April 2020, GCR Ratings downgraded Dipula's long and short-term credit ratings to BBB(ZA) (2019: BBB+(ZA)) and A3(ZA) (2019: A2(ZA)) with a stable outlook.

Capital commitments

There were no material capital commitments at year-end.

Covid-19 update

Rental relief and arrears

The national lockdown to curb the spread of Covid-19 impacted negatively on many tenants' ability to trade under regular conditions, which necessitated Dipula providing rental relief amounting to R48.6 million (consisting of rental discounts of R43.6 million and rental deferrals of R5 million).

In addition to the rental relief provided to tenants, the group had to increase its provisions for doubtful debts by R11 million which was significantly higher than the prior year increase of R3.4 million. These once-off amounts have reduced the company's distributable earnings by R54.6 million.

Covid-19 has resulted in a generally slower collection rate for the group. Our collections are averaging 95% since the implementation of Covid-19 lockdown restrictions between 1 April 2020 and 31 October 2020.

Collections

Month 2020	Total portfolio % collected of invoiced	Retail % collected of invoiced	Office % collected of invoiced	Industrial % collected of invoiced	Residential % collected of invoiced
April	72	68	92	62	–
May	89	87	102	79	–
June	108	111	89	119	–
July	88	95	95	90	45
August	113	117	144	119	76
September	83	85	89	76	77
October	95	99	92	98	78
Average	95	94	100	90	67

Corporate social investment ("CSI")

Dipula has redirected resources towards certain community-based CSI projects in response to Covid-19 with the focus on much needed feeding schemes. Resources were mainly directed towards food parcels for the destitute at some of Dipula's shopping centres.

Considering the ongoing impact of Covid-19 on the communities in which we operate, the company aims to continue assisting where possible.

SA REIT Association best practice recommendations ("BPR")

The SA REIT Association issued the second edition BPR which deals with best practice reporting for SA REITS. The new BPR is applicable for financial year-ends starting from 1 January 2020 and will accordingly be applicable to Dipula for the financial year ending 31 August 2021. The company will endeavour to comply with the recommendations contained therein.

Board changes

There were no changes to the board of directors of Dipula during the period.

Change of external auditors

To reduce operating costs, Dipula undertook a formal tender process for the appointment of an independent auditor of the group. Deloitte & Touche advised that for their own commercial reasons, they would not participate in the tender process. Following the conclusion of this process and by mutual agreement, Deloitte resigned as the independent auditor.

Subsequently, Mazars Gauteng was appointed as the new external auditor of Dipula with effect from 7 May 2020. Susan Truter is the designated audit partner.

Change of company secretary

Dipula undertook a formal tender process for the appointment of a company secretary. Following the conclusion of this process, Acorim Proprietary Limited ("Acorim") replaced Computershare Proprietary Limited as company secretary with effect from 1 September 2020. Acorim is an independent company secretarial and corporate governance advisory service provider.

Dividend declaration

The Financial Services Conduct Authority ("FSCA") issued a market notice on 26 June 2020 wherein the FSCA granted REITs that have financial year ends of 29 February 2020 to 30 September 2020 an extension of two months within which they are required to comply with the requirements of paragraph 13.47 of the JSE Listings Requirements to distribute at least 75% of the REIT's total distributable profits to shareholders. Dipula will be relying on this extension granted by the FSCA and accordingly, the board of directors of Dipula has deferred its decision regarding the declaration of a dividend in respect of FY2020 until no later than February 2021.

Prospects

It is the board's considered opinion that Dipula has withstood arguably one of the most challenging periods in South Africa's modern history and has achieved this admirably. This is mainly due to good management and a consistently improving, defensive property portfolio.

The board anticipates that the impact of Covid-19 will continue to affect the economy of South Africa, which will have a significant impact on the property sector. This will manifest in constrained consumer spending and uncertain tenant sustainability amongst other challenges. Considering the composition of Dipula's portfolio, the fund is relatively well positioned to withstand these expected headwinds.

In the short-term, the group's focus will remain on maximising free cash flows (liquidity), renewing expiring debt facilities and the preservation and strengthening of its balance sheet. The survival and thriving of Dipula's tenants are inextricably linked to that of the company. Accordingly, the company will continue to apply its strategic management principles and prudently manage the business through these difficult and indeed unprecedented times.

No dividend guidance for FY2021 is provided at this stage.

On behalf of the board

Zanele Matlala
Chairman

Izak Petersen
Chief Executive Officer

18 November 2020

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Reviewed year ended 31 August 2020 R'000	Audited year ended 31 August 2019 R'000
ASSETS		
Non-current assets	**9 357 414**	9 193 244
Investment property	**9 094 502**	8 837 313
Fair value of property portfolio	**8 809 490**	8 595 574
Straight-line rental income accrual	**285 012**	241 739
Intangible assets	**37 500**	75 000
Property and equipment	**3 353**	3 723
Derivative financial assets – options	**15 447**	76 037
Loans receivable	**206 612**	201 171
Current assets	**213 560**	279 420
Trade and other receivables	**164 203**	160 323
Derivative financial assets – swaps	**–**	9
Cash and cash equivalents	**49 357**	119 088
Non-current assets held-for-sale	**–**	–
Investment property held-for-sale	**13 488**	50 938
Total assets	**9 584 462**	9 523 602
EQUITY AND LIABILITIES		
Shareholders' interest	**5 295 022**	5 426 917
Stated capital	**4 243 513**	4 243 513
Fair value reserve	**978 359**	1 208 086
Retained income/(loss)	**70 995**	(24 732)
Share-based payment reserve	**2 155**	50
Non-controlling interests	**250 499**	182 184
Non-current liabilities	**2 907 517**	2 920 218
Interest-bearing liabilities	**2 607 349**	2 824 912
Non-interest-bearing liabilities	**51 462**	51 689
Option premium	**11 500**	11 500
Lease liabilities	**103 055**	–
Derivative financial liabilities – swaps	**134 151**	32 117
Current liabilities	**1 131 424**	994 283
Interest-bearing liabilities	**931 875**	831 549
Trade and other payables	**171 052**	157 645
Lease liabilities	**7 467**	–
Derivative financial liabilities – swaps	**21 030**	5 089
Total equity and liabilities	**9 584 462**	9 523 602

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Reviewed year ended 31 August 2020 R'000	Audited year ended 31 August 2019 R'000
Revenue	**1 291 472**	1 338 418
Contractual rental income	**1 004 418**	1 009 866
Municipal and property recoveries	**243 781**	251 103
Other income	**–**	16 320
Straight-line rental income accrual	**43 273**	61 129
Property-related expenses	**(422 649)**	(411 249)
Impairment loss on trade receivables	**(11 049)**	–
Net property income	**857 774**	927 169
Administration and corporate costs	**(40 893)**	(33 023)
Net operating profit	**816 881**	894 146
Net finance cost	**(302 629)**	(308 232)
Finance income	**31 308**	26 000
Finance cost	**(333 937)**	(334 232)
Net profit after finance cost	**514 252**	585 914
Amortisation of intangible assets	**(37 500)**	(37 500)
Fair value adjustments	**(333 590)**	185 191
Investment properties and properties held-for-sale	**(111 743)**	228 196
Straight-line rental income accrual	**(43 273)**	(61 129)
Options	**(60 590)**	76 037
Interest rate swaps	**(117 984)**	(57 913)
Profit before taxation	**143 162**	733 605
Taxation	**–**	–
Profit for the year after taxation	**143 162**	733 605
Other comprehensive income	**–**	–
Total comprehensive income for the year	**143 162**	733 605
Total profit and comprehensive income for the year attributable to:		
Shareholders of the company	**119 071**	681 574
Non-controlling interests	**24 091**	52 031
	143 162	733 605
Basic earnings per A-share (cents)	**22.50**	128.77
Diluted earnings per A-share (cents)	**22.36**	128.77
Basic earnings per B-share (cents)	**22.50**	128.77
Diluted earnings per B-share (cents)	**22.36**	128.77

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Stated capital R'000	Fair value reserve R'000	Share-based payment reserve R'000	Retained income/ (loss) R'000	Non-controlling interest R'000	Total equity R'000
Balance at 31 August 2018 (audited)	4 243 513	1 037 803	–	27 500	155 796	5 464 612
IFRS 9: ***Transition adjustments***	–	–	–	(18 123)	–	(18 123)
	4 243 513	1 037 803	–	9 377	155 796	5 446 489
Total comprehensive income for the year	–	–	–	681 574	52 031	733 605
Dividends declared	–	–	–	(545 400)	(25 643)	(571 043)
Recognition of share-based payments	–	–	50	–	–	50
Transfer to fair value reserve – investment properties	–	228 196	–	(228 196)	–	–
Transfer from fair value reserve – interest rate swaps	–	(57 913)	–	57 913	–	–
Balance at 31 August 2019 (audited)	**4 243 513**	**1 208 086**	**50**	**(24 732)**	**182 184**	**5 609 101**
Total comprehensive income for the year	**–**	**–**	**–**	**119 071**	**24 091**	**143 162**
Dividends declared	**–**	**–**	**–**	**(253 071)**	**(26 663)**	**(279 734)**
Equity contributed by non-controlling interest	**–**	**–**	**–**	**–**	**70 887**	**70 887**
Recognition of share-based payments	**–**	**–**	**2 105**	**–**	**–**	**2 105**
Transfer from fair value reserve – investment properties	**–**	**(111 743)**	**–**	**111 743**	**–**	**–**
Transfer from fair value reserve – interest rate swaps	**–**	**(117 984)**	**–**	**117 984**	**–**	**–**
Balance at 31 August 2020 (reviewed)	**4 243 513**	**978 359**	**2 155**	**70 995**	**250 499**	**5 545 521**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	Reviewed year ended 31 August 2020 R'000	Audited year ended 31 August 2019 R'000
Cash flows from operating activities		
Cash generated from operations	**798 590**	822 448
Finance income	**31 308**	26 000
Finance cost	**(312 916)**	(338 432)
Dividends paid	**(279 734)**	(571 043)
Net cash generated from/(utilised in) operating activities	**237 248**	(61 027)
Cash flows from investing activities		
Acquisition of business combination	**(71 832)**	–
Capital expenditure	**(56 147)**	(86 522)
Acquisition of property and equipment	**(323)**	(784)
Proceeds on disposal of investment properties	**61 950**	57 922
Net movement in loans receivable	**(5 441)**	(6 892)
Option premium	**–**	11 500
Net cash utilised in investing activities	**(71 793)**	(24 776)
Cash flows from financing activities		
Repayment of lease liabilities	**(7 224)**	–
Non-interest-bearing liabilities (repaid)/raised	**(227)**	565
Net movement in interest-bearing liabilities	**(227 735)**	135 310
Interest-bearing liabilities (repaid)/raised	**(184 666)**	161 395
Permanent repayment of borrowings	**(43 069)**	(26 085)
Net cash (utilised in)/generated from financing activities	**(235 186)**	135 875
Net (decrease)/increase in cash and cash equivalents	**(69 731)**	50 072
Cash and cash equivalents at the beginning of the year	**119 088**	69 016
Cash and cash equivalents at the end of the year	**49 357**	119 088

CONDENSED CONSOLIDATED SEGMENTAL INFORMATION

	Retail R'000	Offices R'000	Industrial R'000	Residential R'000	Land R'000	Corporate R'000	Total R'000
Year to 31 August 2020 (reviewed)							
Extracts from the statement of comprehensive income							
Contractual rental income and recoveries (excluding straight-line)	**812 335**	**251 469**	**181 208**	**3 187**	**–**	**–**	**1 248 199**
Property-related expenses	**(296 404)**	**(83 292)**	**(33 905)**	**(1 345)**	**(20)**	**(18 732)**	**(433 698)**
Net property income	**515 931**	**168 177**	**147 303**	**1 842**	**(20)**	**(18 732)**	**814 501**
Extracts from the statement of financial position							
Investment property at fair value	**5 558 562**	**1 830 529**	**1 442 825**	**242 626**	**19 960**	**–**	**9 094 502**
Investment property held-for-sale	**–**	**–**	**12 000**	**–**	**1 488**	**–**	**13 488**
Total	**5 558 562**	**1 830 529**	**1 454 825**	**242 626**	**21 448**	**–**	**9 107 990**
Year to 31 August 2019 (audited)							
Extracts from the statement of comprehensive income							
Contractual rental income and recoveries (excluding straight-line)	837 951	242 404	180 614	–	–	–	1 260 969
Other income	–	–	–	–	–	16 320	16 320
Property-related expenses	(274 260)	(71 794)	(39 487)	–	(18)	(25 690)	(411 249)
Net property income	563 691	170 610	141 127	–	(18)	(9 370)	866 040
Extracts from the statement of financial position							
Investment property at fair value	5 504 593	1 845 154	1 466 766	–	20 800	–	8 837 313
Investment property held-for-sale	50 938	–	–	–	–	–	50 938
Total	5 555 531	1 845 154	1 466 766	–	20 800	–	8 888 251

The entity has five 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)

	Reviewed year ended 31 August 2020 R'000	Audited year ended 31 August 2019 R'000
Reconciliation of reportable segment revenue and profit		
Revenue		
Total revenue for reportable segments	**1 248 199**	1 260 969
Other income for reportable segments	**–**	16 320
Straight-line rental income accrual	**43 273**	61 129
Consolidated revenue	**1 291 472**	1 338 418
Profit		
Total profit for reportable segments	**814 501**	866 040
Straight-line rental income accrual	**43 273**	61 129
Administration and corporate costs	**(40 893)**	(33 023)
Net finance cost	**(302 629)**	(308 232)
Fair value adjustments	**(333 590)**	185 191
Amortisation of intangible assets	**(37 500)**	(37 500)
Profit before taxation	**143 162**	733 605

RECONCILIATION BETWEEN PROFIT, EARNINGS AND HEADLINE EARNINGS

	Reviewed year ended 31 August 2020 R'000	Audited year ended 31 August 2019 R'000
Total profit and comprehensive income for the year (earnings)	**119 071**	681 574
Adjustments:	**152 322**	(140 679)
Fair value – investment properties and held-for-sale (net of non-controlling interest)	**109 049**	(201 808)
Fair value – straight-line rental income	**43 273**	61 129
Headline earnings	**271 393**	540 895
Total number of shares in issue*	**529 282 638**	529 282 638
A-shares	**264 641 319**	264 641 319
B-shares	**264 641 319**	264 641 319
Total weighted average number shares in issue*	**529 282 638**	529 282 638
A-shares	**264 641 319**	264 641 319
B-shares	**264 641 319**	264 641 319
Total diluted weighted average number shares in issue*	**532 422 828**	529 282 638
A-shares	**264 641 319**	264 641 319
B-shares	**267 781 509**	264 641 319
Headline earnings per A-share (cents)	**51.28**	102.19
Diluted headline earnings per A-share (cents)	**50.97**	102.19
Headline earnings per B-share (cents)	**51.28**	102.19
Diluted headline earnings per B-share (cents)	**50.97**	102.19

* *Net of treasury shares.*

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

BASIS OF PREPARATION AND ACCOUNTING POLICIES

These results were prepared by the Financial Director, Mr R Asmal and the Group Financial Manager, Mrs A Viljoen.

The reviewed provisional condensed consolidated financial results for the year ended 31 August 2020 have been prepared in accordance with the requirements of the JSE Limited Listings Requirements and the requirements of the Companies Act of South Africa. The JSE Listings Requirements require provisional consolidated financial reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS") and the Financial Pronouncements as issued by the Financial Reporting Standards Council and to contain the information required by IAS 34: *Interim Financial Reporting*. The accounting policies and methods of computations applied are consistent with those applied in the previous year's consolidated annual financial statements except for the adoption of IFRS 16: *Leases*.

IFRS 16: *Leases*

IFRS 16: *Lease*s sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

The group initially adopted IFRS 16: *Leases* from 1 September 2019 and has adopted the modified retrospective method of application. The group has elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The impact of IFRS 16 on the group relates primarily to land leases concluded. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

The group has applied the following expedients in relation to the adoption of IFRS 16, in terms of the transitional provisions of the standard:

- The right-of-use assets were measured at an amount equal to the lease liability at adoption;
- A single discount rate was applied to a portfolio of leases with reasonably similar characteristics, such as leases for a similar class of underlying asset in similar economic environment; and
- Leases of low-value assets and less than 12 months lease term were excluded and accounted for as short-term leases from 1 September 2019.

Measurement of right-of-use assets

On transition date, the right-of-use assets were measured at the amount equal to the lease liability.

The group's right-of-use assets are classified as investment property which was internally valued in the current financial year. Subsequently the right-of-use assets are remeasured at fair value in terms of IAS 40: *Investment Property* at the end of each reporting period.

Measurement of lease liabilities

Lease liabilities are initially measured at the present value of the lease payments and subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. Lease liabilities are presented as a separate line item on the statement of financial position.

The liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 September 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 September 2019 was 9.12%.

The table below indicates the impact in the current year of IFRS 16: *Leases*.

	31 August 2020 R'000
Impact on the statement of profit or loss and other comprehensive income	
Property expenses	
Rental paid	**(7 224)**
Finance costs	
Interest expense on lease liabilities	**10 140**
Fair value adjustments	
Fair value adjustment on right-of-use asset	**25 360**
Impact on the earnings per share and dilutive earnings per share	
Earnings per share	**(5.34)**
Dilutive earnings per share	**(5.31)**
Impact on the statement of financial position	
Non-current assets	
Investment property	**82 244**
Non-current liabilities	
Lease liabilities	**103 055**
Current liabilities	
Lease liabilities	**7 467**
Impact on the statement of cash flows	
Cash flow from financing activities	
Repayment of lease liabilities	**(7 224)**

Auditor's report

The condensed consolidated financial statements for the year ended 31 August 2020 have been reviewed by Mazars, and their unmodified review conclusion report may be requested via e-mail from Dipula (taryn@dipula.co.za).

The auditor's review conclusion report does not necessarily report on all of the information contained in these provisional condensed financial statements.

Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of the auditor's review conclusion report together with the accompanying financial information. The directors take full responsibility for the preparation of these provisional condensed consolidated financial statements and for ensuring that this financial information has been correctly extracted from the underlying financial statements.

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 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 internal 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 8.0% and 15.0%. 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.

The fair value of the options is determined utilising open market sales for similar properties in the identified notes.

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; and
- Level 3: Inputs for assets or liabilities that are not based on observable market data.

Investment properties and the options have been categorised as Level 3. Interest rate swaps have been categorised as Level 2. There has been no material change between levels during the year and there were no transfers between levels.

	Reviewed year ended 31 August 2020 R'000	Audited year ended 31 August 2019 R'000
Fair value measurements for investment properties categorised as Level 3:		
Balance at the beginning of the year	8 837 313	8 607 859
Acquisitions/additions	288 560	70 115
Right-of-use asset	82 244	–
Transferred to non-current assets held-for-sale/disposals	(26 190)	(82 029)
Tenant installation/lease commission	(2 851)	7 202
Change in fair value	(84 574)	234 166
Balance at the end of the year	9 094 502	8 837 313
Fair value measurements for options categorised as Level 3:		
Balance at the beginning of the year	76 037	–
Change in fair value	(60 590)	76 037
	15 447	76 037

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 -1% and 10% per annum; and ▸ Risk-adjusted discount rates varies between 10.0% (2019: 10.75%) and 16.5% (2019: 16.5%)	The estimated fair value would increase/(decrease) if: ▸ expected rentals were increased/decreased by 1% ▸ R85 million (2019: R86 million); and ▸ 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 8% and 15% (2019: 8% and 15%)	▸ A 1% increase in the capitalisation rate results in a R789 million (2019: R802 million) decrease in valuation and a 1% decrease in the capitalisation rate a R970 million (2019: R987 million) increase in value

Options

Valuation technique	Significant unobservable inputs
Valued by utilising comparative sales of similar properties in the respective nodes	▸ Comparative sales of similar properties

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 are approximate their carrying values.

Business combinations

Dipula acquired 50.1% of the shares in Unlocked 18 Proprietary Limited ("Unlocked") to obtain control on 1 July 2020 for a total cash consideration of R71.8 million.

The fair value of the assets and liabilities acquired is as follows:

	31 August 2020 R'000
Investment property	**242 626**
Property and equipment	**352**
Interest-bearing liabilities	**(99 600)**
Non-controlling interest	**(70 887)**
Trade and other payables	**(659)**
Total cash consideration	**71 832**

The acquisition of the shares in Unlocked provides the company with expansion into the residential property sector. Unlocked owns 428 residential units in Palm Springs, Cosmo City.

The revenue of the group would have been R1.33 billion and net profit before tax would have been R161 million had the business combination been effected on 1 September 2019. The directors consider this to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Subsequent events

There are no subsequent events to report.

DISTRIBUTION STATEMENT**

	Unaudited year ended 31 August 2020 R'000	Unaudited year ended 31 August 2019 R'000
Reconciliation of profit for the year to distributable earnings		
Profit attributable to shareholders of the company	**119 071**	681 574
Fair value – investment properties revaluation	**111 743**	(228 196)
Fair value – straight-line rental income	**43 273**	61 129
Fair value – interest rate swaps	**117 984**	57 913
Fair value – options	**60 590**	(76 037)
Option premium	**–**	11 500
NCI portion of fair value adjustment	**(2 694)**	26 388
IFRS 16: *Rental paid adjustment*	**(7 224)**	–
IFRS 16: *Finance cost adjustments*	**10 140**	–
Amortisation of intangible assets	**37 500**	37 500
Straight-line rental income accrual	**(43 273)**	(61 129)
Distributable earnings	**447 110**	510 642
Distribution statement		
Revenue	**1 248 199**	1 288 789
Contractual rental income	**1 004 418**	1 009 866
Recoveries	**243 781**	251 103
Option premium	**–**	11 500
Other income	**–**	16 320
Property-related expenses	**(440 922)**	(411 249)
Net property income	**807 277**	877 540
Administration and corporate costs	**(40 893)**	(33 023)
Net operating profit	**766 384**	844 517
Net finance cost	**(292 489)**	(308 232)
Non-controlling interests	**(26 785)**	(25 643)
Distributable earnings	**447 110**	510 642

DISTRIBUTION STATEMENT (CONTINUED)

	Unaudited year ended 31 August 2020	Unaudited year ended 31 August 2019
Distributable earning per A-share (cents)	**114.49016**	110.24989
Interim	**57.35694**	54.83455
Final	**57.13322**	55.41534
Distributable earnings per B-share (cents)	**54.45985**	82.70673
Interim	**38.61409**	42.50296
Final	**15.84576**	40.20377
Combined distributable earnings per share (cents)	**168.95001**	192.95662
Interim	**95.97103**	97.33751
Final	**72.97898**	95.61911

*** The distribution statement has not been reviewed by Mazars.*

NOTES

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

Registered office and business address
12th Floor
Firestation Rosebank
16 Baker Street
Rosebank
2196

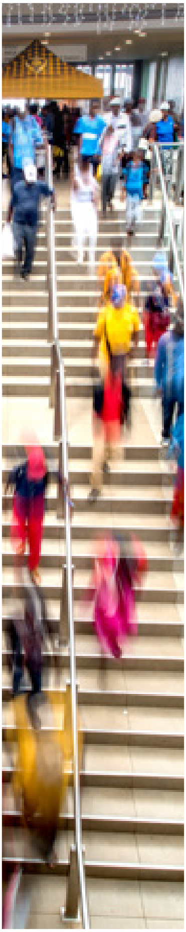
Independent auditors
Mazars Gauteng
Practice number 900222
Registered auditors
Mazars House
54 Glenhove Road
Melrose Estate
Johannesburg

Transfer secretaries
Link Market Services South Africa Proprietary Limited
(Registration number 2000/007239/07)
13th Floor
19 Ameshoff Street
Braamfontein
2001

Bankers
The Standard Bank of South Africa Limited
(Registration number 1962/000738/06)
3rd Floor
East Wing
30 Baker Street
Rosebank
2196

Corporate advisor and sponsor
Java Capital
6th Floor
1 Park Lane
Wierda Valley
Sandton
2196

Company secretary
Acorim Proprietary Limited
(Registration number 2013/087325/07)
13th Floor
Illovo Point
68 Melville Road
Illovo
Sandton



www.dipula.co.za