dipula
INCOME FUND

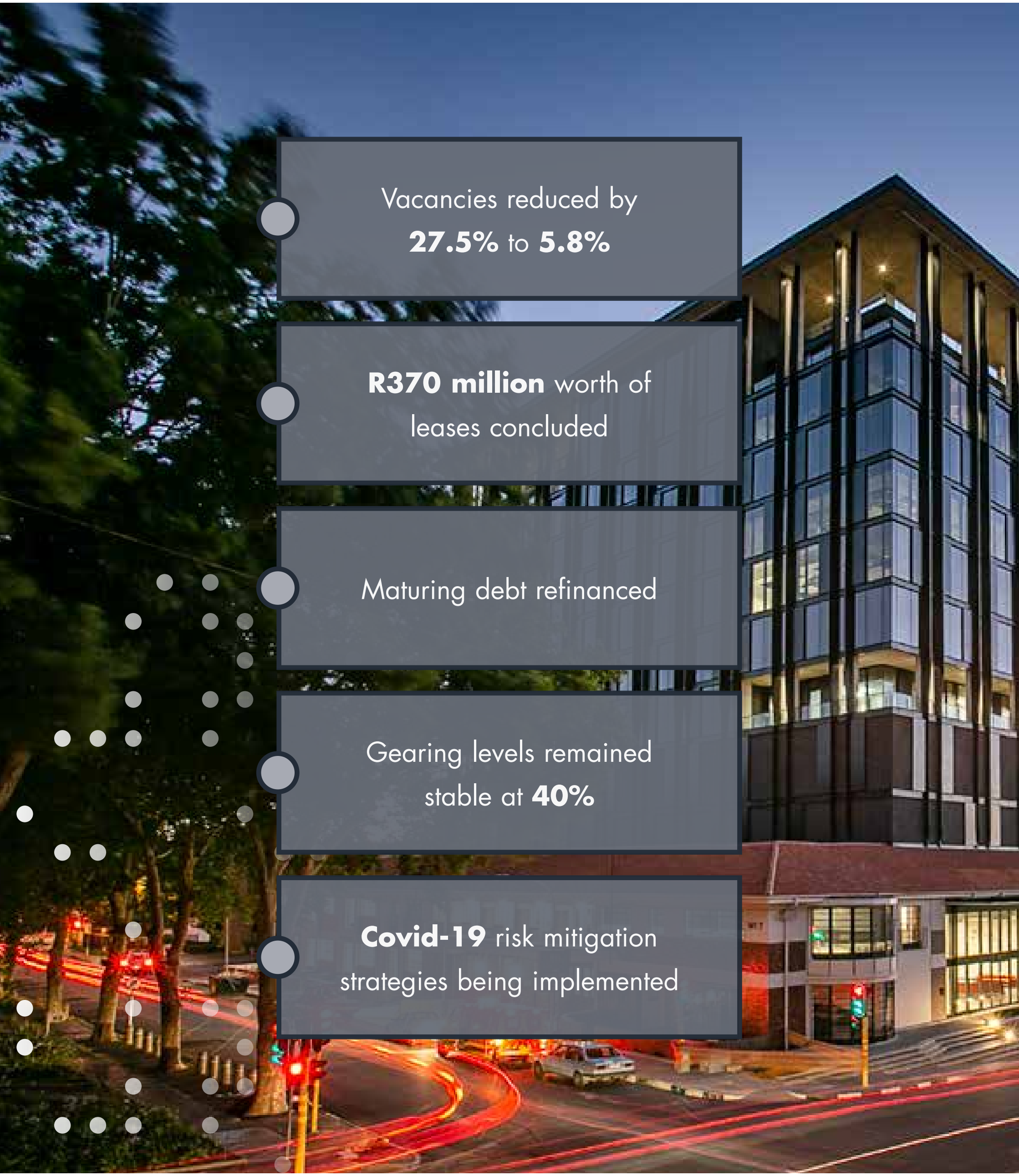
Sustainable Property Returns

UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS

FOR THE SIX MONTHS ENDED 29 FEBRUARY 2020

UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS

HIGHLIGHTS



Vacancies reduced by **27.5%** to **5.8%**

R370 million worth of leases concluded

Maturing debt refinanced

Gearing levels remained stable at **40%**

Covid-19 risk mitigation strategies being implemented

COMMENTARY

Profile

Dipula is an internally managed, South African focused Real Estate Investment Trust ("REIT") that owns an R8.9 billion (H1 2019: R8.6 billion) diversified portfolio of primarily retail, office and industrial assets located across all nine provinces of South Africa, the majority of which are located in Gauteng. Dipula also selectively invests in the residential rental sector.

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

Financial results

During the six months ended 29 February 2020 ("the period") distributable earnings were marginally lower than the prior period at R254 million (H1 2019: R258 million). Total revenue for the period amounted to R680 million (H1 2019: R688 million). Dipula's gross total cost to income ratio of 36.3% (H1 2019: 35.2%) increased slightly compared to the prior year.

Cost to income ratios

	Feb-20	Feb-19	Aug-19
Property cost to income (gross basis)	**33.1%**	32.3%	32.6%
Property cost to income (net basis)	**17.1%**	17.5%	17.1%
Total cost to income (gross basis)	**36.3%**	35.2%	35.2%
Total cost to income (net basis)	**21.1%**	21.1%	20.3%

Net asset value

The net asset value per share at the end of the period was 3% higher than the prior period at R10.18 per share (H1 2019: R9.89).

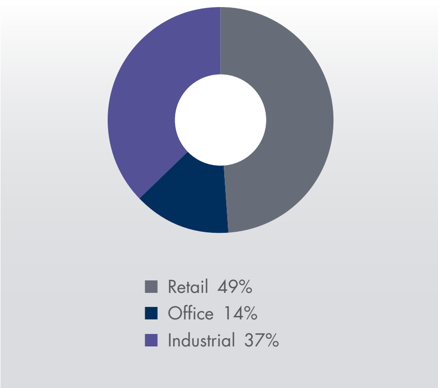
Property portfolio

At the end of the period, Dipula owned 190 properties (H1 2019: 199) valued at R8.9 billion (H1 2019: R8.6 billion) with a gross lettable area ("GLA") of 916 593m² (H1 2019: 928 580m²). The growth in portfolio of 3.6% resulted from an increase in property valuations.

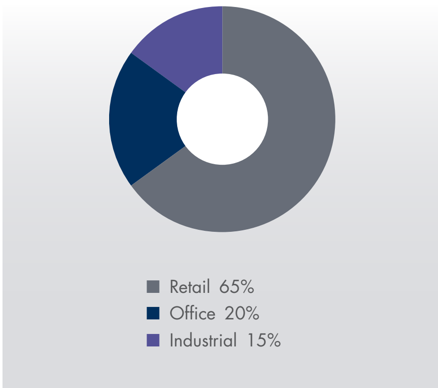
Sectoral profile

The sector and geographic breakdown of Dipula's portfolio as at 29 February 2020 is set out below:

Sectoral split by GLA (%)

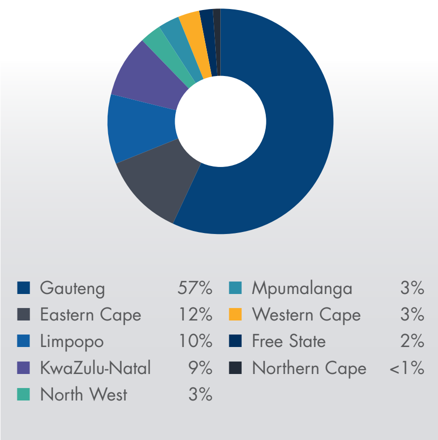


Sectoral split by gross income (%)

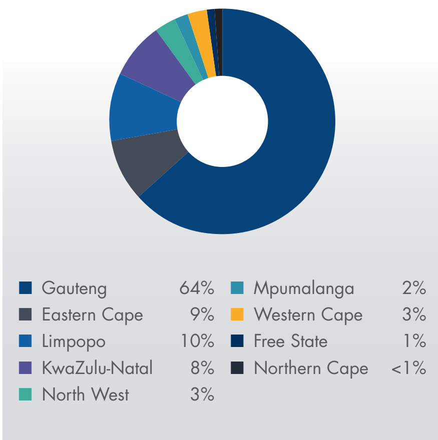


Geographic profile

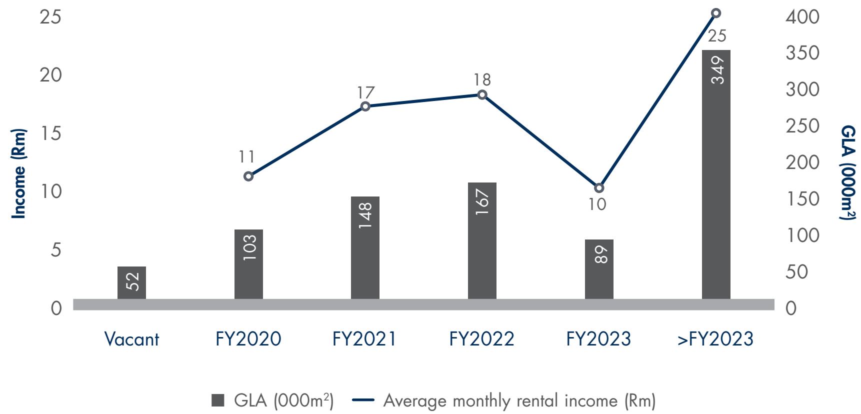
Geographic split by GLA (%)



Geographic split by gross income (%)



Lease expiry profile



Leasing

Between September 2019 and February 2020, Dipula had entered into 78 new leases equating to 20 822m² of GLA, R94 million in lease value at a weighted average escalation of 7.4% and a weighted average lease expiry ("WALE") in excess of three years.

On a comparative basis, vacancies reduced by 27.5% to 5.8% (H1 2019: 8.0%) as a direct result of intense asset management interventions.

The sectoral vacancy breakdown is: retail 7.6% (H1 2019: 8.0%), offices 7.2% (H1 2019: 7.9%) and industrial 2.8% (H1 2019: 8.0%). The industrial and office vacancy rates are below SAPOA's latest published vacancy rates of 5% for industrial and 11.6% for offices.

During the period under review, Dipula concluded renewals of 58 529m² which equates to gross lease income of R276 million over the lease term, and a WALE of three years.

Dipula's portfolio tenant retention rate was 79.6% which represents retention rates of 74.1% for retail, 92.3% for office and 82.4% for industrial.

The Company has recorded a total net negative reversion rate of 0.9%, with the retail portfolio and the industrial portfolio recording 2.2% and 0.3% positive renewal rates respectively and the office portfolio a negative reversion rate of 5%.

Acquisitions

Due to the prevailing market conditions there were no acquisitions concluded during the period.

Refurbishments and developments

A total of R28 million was invested in refurbishments during the period under review. Key projects completed during the period include the Norwood Urban Village upgrade, the Church Street West conversion, the installation of water storage tanks at Corporate Park, the Harding Corner solar installation and the Howick Mews upgrade.

Disposals

During the period, four properties were sold for an aggregate R49.4 million at an average yield of 10.5%.

Funding

As at 29 February 2020, Dipula's all-in blended rate of interest was 9.24% (H1 2019: 9.24%). The Company has total debt of R3.6 billion. The weighted average debt expiry is 2.3 years and the hedge expiry is 2.2 years.

Of the total debt, 79% of the interest has been hedged at the end of the period (H1 2019: 80%). All debt is South African rand based. A total of R663 million of debt facilities were refinanced during the period.

The Group's gearing was stable at 40.0% (H1 2019: 41.6%).

The debt maturity and hedging profile is detailed below:

	Facility		Fixed/Swap		Floating	
Financial year end	R'000	%	R'000	%	R'000	%
FY2020	**109 000**	**3.0%**	**360 000**	**9.9%**	**(251 000)**	**(6.9%)**
FY2021	945 067	26.0%	800 000	22.0%	145 067	4.0%
FY2022	744 127	20.5%	700 000	19.3%	44 127	1.2%
FY2023	917 603	25.2%	300 000	8.3%	617 603	17.0%
FY2024	919 351	25.3%	725 000	19.9%	194 351	5.3%
	3 635 148	**100%**	**2 885 000**	**79.4%**	**750 148**	**20.6%**

Credit rating

Subsequent to period-end, GCR Ratings revised Dipula's long-term and short-term credit rating to BBB(ZA) and A3(ZA) respectively, from BBB+(ZA) and A2(ZA) previously. The outlook indication by GCR Ratings was Stable.

Covenants

At Group level, Dipula's current covenants requirement with its various debt providers is an aggregate Loan to Value ("LTV") ratio of 45% and an Interest Cover Ratio ("ICR") of two times.

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

	29 February 2020	31 August 2019
LTV	**40.0%**	40.4%
ICR	**2.74**	2.74

Capital commitments

Dipula has committed to acquire a 50.1% interest in the Palm Springs residential property in Cosmo City, on completion of the development. The development consists of 428 units. The effective date for the transaction is 1 July 2020 and Dipula's cost will be R121 million with R47 million being funded by debt and the remaining R74 million in cash.

Board changes

There were no changes to the board of directors of Dipula ("the Board") during the period.

Dividend declaration

The Board has decided to defer its decision regarding the declaration of an interim dividend for the period, pending further evaluation of the impact on the Company of the Covid-19 pandemic and resultant national lockdown. A decision on whether or not to declare an interim dividend and, in the event that a declaration is declared, the quantum of the interim dividend will be made by no later than the publication of the financial results for the year ending 31 August 2020. The Company anticipates that, over the ensuing months, the impact of the pandemic and the associated lockdown will become more determinable, which in turn will inform the decision relating to the consideration in respect of dividends.

Events subsequent to the reporting period

Covid-19

The Covid-19 pandemic has had a major impact on and is causing irreparable damage to the global economy. The effects of the pandemic on human lives and its consequences for human suffering are likely to be felt for a long time to come as the world battles to find solutions. Now more than ever, humanity needs to stand united and provide support to the most vulnerable in our society.

A national state of disaster was declared by the President of South Africa on 15 March 2020 in response to the Covid-19 pandemic, followed by a national lockdown period from 27 March 2020 to 30 April 2020 which was then further extended. During this time only essential service retailers could operate on a limited basis.

Subsequently, with a view to gradually relaxing social isolation measures based on the stabilisation of viral infection rates, several lockdown measures were announced. Each of the lockdown levels increasingly allow for businesses to resume trade.

Rental revenue

Dipula expects downward pressure on its rental revenue in the short term due to this global pandemic and its economic impact. The impact and timing of the Covid-19 lockdown cannot accurately be determined at this stage due to the ongoing fluidity of the situation.

Dipula is working closely with various stakeholders to ensure an equitable and sustainable outcome for all. Crucial to our approach is to ensure that jobs are protected, the survival of our tenants (especially SMMEs) and assisting our vulnerable communities to the greatest extent possible.

Collections

The impact of the pandemic on our collections and the associated losses will become clearer as the Covid-19 impact crystallises.

Funding

The Company is engaging with its bankers on a proactive basis regarding the possible impact of Covid-19 on its covenant levels, if any, and the availability of additional short-term liquidity facilities should these be required.

Corporate Social Investment ("CSI")

Dipula has redirected resources towards certain community-based CSI projects in response to the pandemic with the focus mainly on much needed feeding schemes.

Prospects

Notwithstanding the growth of and improvement in the quality of Dipula's portfolio in the last number of years, which has resulted in relatively good performance under the current economic climate, the impact of the Covid-19 pandemic remains unknown. The Company is in constant communication with all of its relevant stakeholders and is proactively managing the effects of the pandemic.

The Board remains confident of Dipula's robust operating platform and that its defensive and diversified portfolio is well positioned to weather current market conditions. The Company will adapt to an increasingly unpredictable property market and ensure the creation of long-term value for its stakeholders.

For the immediate future, a major priority for Dipula is capital preservation and liquidity. The Company is consequently unable to provide distribution guidance at this time. The Company anticipates that over the next number of months, the impact of the pandemic and its associated lockdown will become more apparent and stakeholders will be updated accordingly.

On behalf of the board

Zanele Matlala
Chairman

Izak Petersen
Chief Executive Officer

18 May 2020

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited six months ended 29 February 2020 R'000	Unaudited six months ended 28 February 2019 R'000	Audited year ended 31 August 2019 R'000
ASSETS			
Non-current assets	**9 282 385**	8 937 356	9 193 244
Investment property	**8 951 647**	8 640 400	8 837 313
Fair value of property portfolio	**8 691 161**	8 424 435	8 595 574
Straight-line rental income accrual	**260 486**	215 965	241 739
Intangible assets	**56 250**	93 750	75 000
Property and equipment	**3 409**	3 906	3 723
Derivative financial assets – swaps	**–**	4 010	–
Derivative financial assets – PUT option	**66 723**	–	76 037
Loan receivable	**204 356**	195 290	201 171
Current assets	**239 158**	252 288	279 420
Trade and other receivables	**169 578**	202 164	160 323
Derivative financial assets – swaps	**–**	493	9
Cash and cash equivalents	**69 580**	49 631	119 088
Non-current assets held-for-sale			
Investment property held-for-sale	**1 488**	25 021	50 938
Total assets	**9 523 031**	9 214 665	9 523 602
EQUITY AND LIABILITIES			
Shareholders' interest	**5 388 986**	5 232 126	5 426 917
Stated capital	**4 243 513**	4 243 513	4 243 513
Fair value reserve	**1 196 911**	1 010 048	1 208 086
Retained loss	**(51 887)**	(21 435)	(24 732)
Share-based payment reserve	**449**	–	50
Non-controlling interests	**182 407**	155 796	182 184
Non-current liabilities	**2 985 519**	2 739 784	2 920 218
Interest-bearing liabilities	**2 802 579**	2 680 140	2 824 912
Non-interest-bearing liabilities	**51 650**	51 007	51 689
Put option premium	**11 500**	–	11 500
Lease liability	**78 884**	–	–
Derivative liabilities	**40 906**	8 637	32 117
Current liabilities	**966 119**	1 086 959	994 283
Interest-bearing liabilities	**797 023**	905 364	831 549
Bank overdraft	**–**	20 000	–
Trade and other payables	**154 136**	159 829	157 645
Derivative financial liabilities	**7 278**	1 766	5 089
Lease liability	**7 682**	–	–
Total equity and liabilities	**9 523 031**	9 214 665	9 523 602

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited 29 February 2020 R'000	Unaudited 28 February 2019 R'000	Audited 31 August 2019 R'000
Revenue	**680 151**	687 734	1 338 418
Contractual rental income	**528 535**	529 239	1 009 866
Municipal and property recoveries	**132 869**	123 140	251 103
Other income	**–**	–	16 320
Straight-line rental income accrual	**18 747**	35 355	61 129
Property-related expenses	**(219 096)**	(210 988)	(411 249)
Net property income	**461 055**	476 746	927 169
Administration and corporate costs	**(21 322)**	(18 805)	(33 023)
Net operating profit	**439 733**	457 941	894 146
Net finance cost	**(153 456)**	(152 619)	(308 232)
Finance income	**16 382**	10 556	26 000
Finance cost	**(169 838)**	(163 175)	(334 232)
Net profit after finance cost	**286 277**	305 322	585 914
Amortisation of intangible assets	**(18 750)**	(18 750)	(37 500)
Fair value adjustments	**(39 235)**	(63 110)	185 191
Investment properties and properties held-for-sale	**(189)**	(1 139)	228 196
Straight-line rental income accrual	**(18 747)**	(35 355)	(61 129)
Put options	**(9 313)**	–	76 037
Interest rate swaps	**(10 986)**	(26 616)	(57 913)
Profit before taxation	**228 292**	223 462	733 605
Taxation	**–**	–	–
Profit for the period after taxation	**228 292**	223 462	733 605
Other comprehensive income	**–**	–	–
Total comprehensive income for the period/year	**228 292**	223 462	733 605
Total profit and comprehensive income for the period/year attributable to:			
Shareholders of the Company	**214 741**	211 090	681 574
Non-controlling interests	**13 551**	12 372	52 031
	228 292	223 462	733 605
Basic earnings per A-share (cents)	**40.57**	39.88	128.77
Diluted earnings per A-share (cents)	**40.46**	39.88	128.77
Basic earnings per B-share (cents)	**40.57**	39.88	128.77
Diluted earnings per B-share (cents)	**40.46**	39.88	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 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
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
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 period	**–**	**–**	**–**	**214 741**	**13 551**	**228 292**
Dividends declared	**–**	**–**	**–**	**(253 071)**	**(13 328)**	**(266 399)**
Recognition of staff share-based payments	**–**	**–**	**399**	**–**	**–**	**399**
Transfer from fair value reserve – investment properties	**–**	**(189)**	**–**	**189**	**–**	**–**
Transfer from fair value reserve – interest rate swaps	**–**	**(10 986)**	**–**	**10 986**	**–**	**–**
Balance at 29 February 2020 (unaudited)	**4 243 513**	**1 196 911**	**449**	**(51 887)**	**182 407**	**5 571 393**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	Unaudited 29 February 2020 R'000	Unaudited 28 February 2019 R'000	Audited 31 August 2019 R'000
Cash flows from operating activities			
Cash generated from operations	**418 783**	423 579	822 448
Finance income	**16 382**	10 556	26 000
Finance cost	**(169 838)**	(163 653)	(338 432)
Dividends paid	**(266 399)**	(300 152)	(571 043)
Net cash utilised in operating activities	**(1 072)**	(29 670)	(61 027)
Cash flows from investing activities			
Capital expenditure	**(34 258)**	(79 294)	(86 522)
Acquisition of property and equipment	**(151)**	(310)	(784)
Proceeds on disposal of investment properties	**49 450**	8 334	57 922
Put option premium	**–**	–	11 500
Advance on loans	**(3 185)**	(1 011)	(6 892)
Net cash generated/(utilised) in investing activities	**11 856**	(72 281)	(24 776)
Cash flows from financing activities			
Non-interest-bearing liabilities	**(39)**	(117)	565
Repayment of lease liability	**(3 394)**	–	–
Net movement in interest-bearing liabilities	**(56 859)**	62 683	135 310
Interest-bearing liabilities raised	**–**	115 183	161 395
Repayment of borrowings	**(56 859)**	(52 500)	(26 085)
Net cash (utilised)/generated from financing activities	**(60 292)**	62 566	135 875
Net (decrease)/increase in cash and cash equivalents	**(49 508)**	(39 385)	50 072
Cash and cash equivalents at the beginning of the period/year	**119 088**	69 016	69 016
Cash and cash equivalents at the end of the period/year	**69 580**	29 631	119 088

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 29 February 2020						
Extracts from the statement of comprehensive income						
Contractual rental income and recoveries (excluding straight-line)	**433 867**	**127 677**	**99 860**	**–**	**–**	**661 404**
Property-related expenses	**(157 647)**	**(42 142)**	**(19 296)**	**(11)**	**–**	**(219 096)**
Net property income	**276 220**	**85 535**	**80 564**	**(11)**	**–**	**442 308**
Extracts from the statement of financial position						
Investment property at fair value	**5 608 255**	**1 847 065**	**1 475 467**	**20 860**	**–**	**8 951 647**
Investment property held-for-sale	**1 488**	**–**	**–**	**–**	**–**	**1 488**
Total	**5 609 743**	**1 847 065**	**1 475 467**	**20 860**	**–**	**8 953 135**
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
Year-end 31 August 2019						
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 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 29 February 2020 R'000	Unaudited 28 February 2019 R'000	Audited 31 August 2019 R'000
Reconciliation of reportable segment revenue and profit			
Revenue			
Total revenue for reportable segments	**661 404**	652 379	1 260 969
Other income for reportable segments	**–**	–	16 320
Straight-line rental income accrual	**18 747**	35 355	61 129
Consolidated revenue	**680 151**	687 734	1 338 418
Profit			
Total profit for reportable segments	**442 308**	441 391	866 040
Straight-line rental income accrual	**18 747**	35 355	61 129
Administration and corporate costs	**(21 322)**	(18 805)	(33 023)
Net finance cost	**(153 456)**	(152 619)	(308 232)
Fair value adjustments	**(39 235)**	(63 110)	185 191
Amortisation of intangible assets	**(18 750)**	(18 750)	(37 500)
Profit before taxation	**228 292**	223 462	733 605

RECONCILIATION BETWEEN PROFIT, EARNINGS AND HEADLINE EARNINGS

	Unaudited six months ended 29 February 2020 R'000	Unaudited six months ended 28 February 2019 R'000	Audited year ended 31 August 2019 R'000
Total profit and comprehensive income for the period (earnings)	**214 741**	211 090	681 574
Adjustments:	**18 936**	36 494	(140 679)
Fair value – investment properties and held-for-sale (net of non-controlling interest)	**189**	1 139	(201 808)
Fair value – straight-line rental income	**18 747**	35 355	61 129
Headline earnings	**233 677**	247 584	540 895
Total number of shares in issue*	**529 282 638**	529 282 638	529 282 638
A-shares	**264 641 319**	264 641 319	264 641 319
B-shares	**264 641 319**	264 641 319	264 641 319
Weighted average number of shares in issue*	**529 282 638**	529 282 638	529 282 638
A-shares	**264 641 319**	264 641 319	264 641 319
B-shares	**264 641 319**	264 641 319	264 641 319
Diluted weighted average number shares in issue*	**530 700 035**	529 282 638	529 282 638
A-shares	**264 641 319**	264 641 319	264 641 319
B-shares	**266 058 716**	264 641 319	264 641 319
Earnings per A-share (cents)	**40.57**	39.88	128.77
Diluted earnings per A-share (cents)	**40.46**	39.88	128.77
Earnings per B-share (cents)	**40.57**	39.88	128.77
Diluted earnings per B-share (cents)	**40.46**	39.88	128.77
Headline earnings per A-share (cents)	**44.15**	46.78	102.19
Diluted headline earnings per A-share (cents)	**44.03**	46.78	102.19
Headline earnings per B-share (cents)	**44.15**	46.78	102.19
Diluted headline earnings per B-share (cents)	**44.03**	46.78	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 period.

BASIS OF PREPARATION AND ACCOUNTING POLICIES

These interim results were prepared by the Financial Director, Mr R Asmal, and the Group financial manager Mrs A Viljoen. These results have not been reviewed or reported on by the Company's independent external auditor.

The unaudited condensed consolidated interim financial results for the period ended 29 February 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 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 SAICA Financial Reporting Guides as issued by the Accounting Practices Committee 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*.

Adoption of IFRS 16: *Leases*

IFRS 16: *Leases* supersedes IAS 17: *Leases*, IFRIC 4: *Determining whether an Arrangement contains a Lease*, SIC-15: *Operating Leases – Incentives* and SIC-27: *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard 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 has 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.

On adoption the Group has recognised right-of-use assets and lease liabilities in relation to land leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the average borrowing rate of the Group. Subsequently each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit and loss over the lease period.

On transition date, the right-of-use assets were measured at the amount equal to the lease liability. The right-of-use assets relating to land leases are subsequently remeasured at fair value in terms of IAS 40: *Investment Property*.

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% (February 2019: 7.8% and 13.25%). Investment properties held-for-sale were valued at the net sale price, which is considered to be the fair value.

Financial instruments

Certain 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 put 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;
- 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 29 February 2020 R'000	Unaudited 28 February 2019 R'000	Audited 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	8 607 859
Acquisitions/additions	**27 866**	33 809	70 115
Transferred to non-current assets held-for-sale/disposals	**–**	(4 373)	(82 029)
Right-of-use asset	**86 649**	–	–
Tenant installation/lease commission	**(181)**	3 105	7 202
Change in fair value	**–**	–	234 166
Balance at the end of the year	**8 951 647**	8 640 400	8 837 313

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 10.8% and 16.5%.	The estimated fair value would increase/(decrease) if: ■ expected rentals were increased/decreased by 1% – R86 million; ■ 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 8.0% and 15.0%.	■ A 1% increase in the capitalisation rate results in a R802 million decrease in valuation and a 1% decrease in the cap rate a R987 million increase in value.

Derivative financial instruments – Level 2

Put options

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

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.

DISTRIBUTION STATEMENT

	Unaudited 29 February 2020 R'000	Unaudited 28 February 2019 R'000	Audited 31 August 2019 R'000
Reconciliation of profit for the year to distributable earnings			
Profit attributable to shareholders of the Company	**214 741**	211 090	681 574
Fair value – investment properties revaluation	**189**	1 139	(228 196)
Fair value – straight-line rental income	**18 747**	35 355	61 129
Fair value – interest rate swaps	**10 986**	26 616	57 913
Fair value – put options	**9 313**	–	(76 037)
Put option premium	**–**	–	11 500
NCI portion of fair value adjustment	**–**	–	26 388
Amortisation of intangible assets	**18 750**	18 750	37 500
Straight-line rental income accrual	**(18 747)**	(35 355)	(61 129)
Distributable earnings	**253 979**	257 595	510 642
Distribution statement			
Revenue	**661 404**	652 379	1 288 789
Contractual rental income	**528 535**	529 239	1 009 866
Recoveries and other income	**132 869**	123 140	251 103
Put option premium	**–**	–	11 500
Other income	**–**	–	16 320
Property-related expenses	**(219 096)**	(210 988)	(411 249)
Net property income	**442 308**	441 391	877 540
Administration and corporate costs	**(21 322)**	(18 805)	(33 023)
Net operating profit	**420 986**	422 586	844 517
Net finance cost	**(153 456)**	(152 619)	(308 232)
Antecedent dividend	**–**	–	–
Non-controlling interests	**(13 551)**	(12 372)	(25 643)
Distributable earnings	**253 979**	257 595	510 642

DISTRIBUTION STATEMENT (CONTINUED)

	Unaudited 29 February 2020 R'000	Unaudited 28 February 2019 R'000	Audited 31 August 2019 R'000
Distribution per A-share	**57.35694**	54.83455	110.24989
Interim*	**57.35694**	54.83455	54.83455
Final	**–**	–	55.41534
Distribution per B-share	**38.61409**	42.50296	82.70673
Interim*	**38.61409**	42.50296	42.50296
Final	**–**	–	40.20377
Combined distribution per share	**95.97103**	97.33751	192.95662
Interim*	**95.97103**	97.33751	97.33751
Final	**–**	–	95.61911

* *Due to the current unprecedented and evolving market conditions as a result of the Covid-19 pandemic, the Company has deferred its decision regarding whether or not to declare a dividend in respect of the interim six-month period ended 29 February 2020 ("interim dividend"). A decision on whether or not to declare an interim dividend and, if one is declared, the quantum of the interim dividend, will be made no later than the time of publication of the financial results for the year ending 31 August 2020.*

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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