



SPEAR
REIT LIMITED



Integrated Report **2019**

Highlights

2019 Financial Year Portfolio Snapshot

Assets

R9 465/m²
Average property valuation

R127 m
Average property value

21.62%
Asset value growth

R3.8 bn
Asset value

30
Number of properties

Letting

30 months
WALE

R85/m²/pm
Average rental incl. rates

402 652 m²
GLA

98%
Occupancy

8.07%
Average in-force escalations

Capital

188 m
Shares in issue

R82.5 m
Acquisition issues

R152.8 m
Capital raised

25.07%
Market cap growth

R1.98 bn
Market cap

2019 Financial Year Financial Performance

86.42 cents

Distribution per share

Distribution

10.09%

FY2019 Distribution growth

41.73 cents

FY2019 Interim distribution

44.69 cents

FY2019 Final distribution

21.59%

Net cost to income

R12.12
TNAV

Tangible net asset value (TNAV)

4.7%
TNAV growth

R11.67
TNAV net distribution

4.6%
TNAV net distribution growth

Debt

39.58%

Loan to Value (LTV)

64.5%

Fixed debt ratio

25 months

Average debt expiry

9.01%

Average cost of debt

9.05%

Average fixed cost of debt



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About this Report

Spear REIT Limited is proud to present its integrated report for the year ended 28 February 2019. This report aims at providing an understanding of Spear's operations, growth and performance, how the group is managed from a corporate governance perspective, its social and environmental impact, and its financial performance for the year under review.

Materiality

Spear identifies the concept of materiality to represent any item that could substantively affect the company's ability to create value for its stakeholders and influence the decisions of the stakeholders.

Approval of the integrated report and independent assurance

The integrity of the report is the responsibility of the board of directors. The board has approved the integrated report for the year ended 28 February 2019. The board believes that the report has been prepared in accordance with best practice and is a fair representation of the integrated performance of the group. Independent assurance has been provided of all financial information presented in this report. An unqualified audit opinion has been issued on the consolidated and separate financial statements by BDO Cape Incorporated.

Nature of Business

Spear REIT Limited ("Spear" or "the company") listed as a Real Estate Investment Trust ("REIT") on the main board of the Johannesburg Stock Exchange ("JSE") and is the only regionally-focused REIT listed on the JSE which predominantly invests in high-quality income-generating assets in the Western Cape.

Spear obtains its diversification through asset type rather than geographical investment.

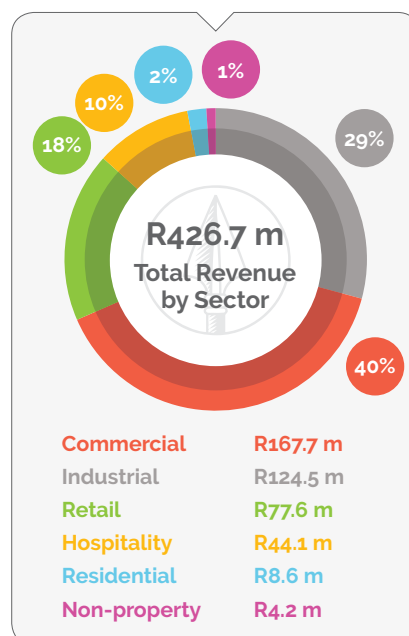
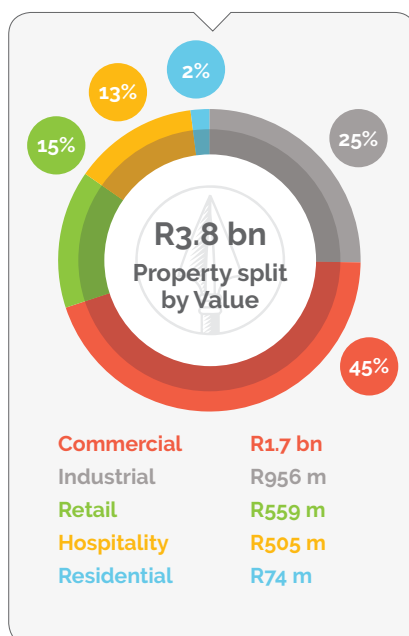
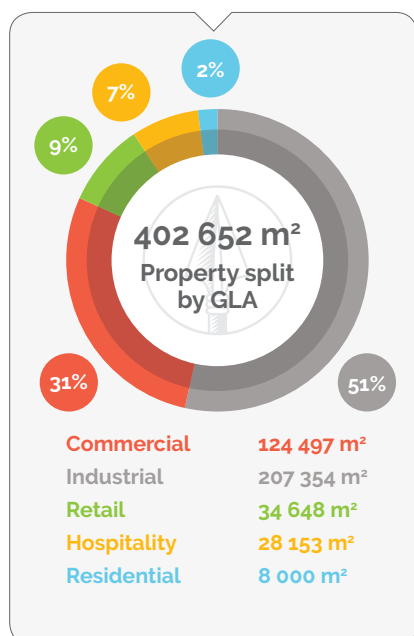
The company conducts its business directly and through a number of subsidiaries, collectively referred to as the "group".

The company's property and asset management functions are internally and directly managed by the Spear executive management team.

Spear REIT at a glance

Sectoral split by GLA, Value & Revenue

for the period ended 28 February 2019

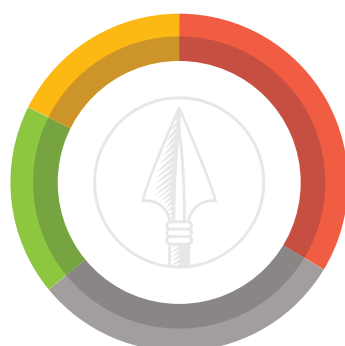


Tenant & Vacancy Profile

Analysis of the property portfolio as at 28 February 2019

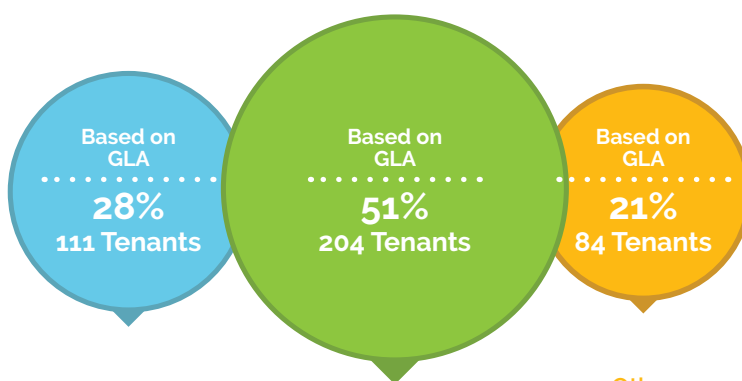


(Due to aggressive letting and successful tenant retention programmes)



Offices	2 689 m ²
Industrial	2 432 m ²
Retail	1 462 m ²
Hospitality	1 410 m ²

Analysis of the property portfolio in respect of tenant profiles



Large national and international tenants, large listed tenants, government and major franchisees

National tenants, smaller listed tenants, franchisees, medium to large professional firms

Other

Non-executive Chairman's Report

“ We grew our net asset value per share by 4.7% and our distributions per share by 10.09% over the year – both above inflation, while maintaining our vacancy and escalation rates at favourable levels. ”

Abu Varachhia – Non-executive Chairman

It's been a difficult year for South Africa

The renewed optimism following President Ramaphosa's appointment in early 2018 quickly gave way to pessimism as we were forced to face some harsh realities.

We've had an almost daily barrage of news headlines revealing the depths of corruption over the past decade. Land expropriation has created a cloud of uncertainty for investors. And if that wasn't enough, we were reminded of the problems our power utility, Eskom, faces as we've been plunged into darkness in the last few months.

Our country's financial position is precarious. Over the past decade, we've spent well beyond our means. As a result, our borrowings have more than doubled and now stand at almost two and a half times our revenue. If we somehow managed to pay back 5% of our borrowings each year and our economy continues to stagnate, it would take us 30 years to get back to the levels we were at a decade ago; we're writing cheques our children will have to honour.

In the more immediate future, the cost of servicing this added debt burden is rising. Each year, the amount we spend on interest is almost as much as we spend on education, similar to what we spend on healthcare and double what we spend on social grants.

At a time when 40% of our population is under the age of 20, this is worrying. Will we have enough to spend to create jobs for them?

The way out of our hole lies in good governance

We must create a culture of discipline and rules. This is what separates successful countries from unsuccessful ones.

We must be disciplined with our spending, reducing waste and cutting corruption. We must reduce the barriers to starting new businesses. And we must finalise laws and acts which are in limbo.

This discipline will not only help control our debt, but also attract much-needed foreign direct investment. Short of an economic miracle, it's the only solution we have.

At Spear, we value good governance just as highly

We realise that as a founder-led company which has grown quickly, we are more susceptible to hubris. It's why we've been deliberate in choosing our independent board. Since listing, we've tried to add successful and strong personalities from both within and outside the industry who can question management and raise our level of discussion. Our latest addition, Dr. Rozett Phillips, is an excellent example of this. With a wealth of experience in a number of fields, she brings an independent outsider's view to our decision-making. I'd like to formally welcome her to our board.

In a tough environment, our management team has once again performed well

We grew our net asset value per share by 4.7% and our distributions per share by 10.1% over the year – both above inflation, while maintaining our vacancy and escalation rates at favourable levels.

Since our first full year of results as a listed company two years ago, we've grown our net asset value per share by 9.8% per annum.

Our approach is for all seasons

Our approach is to buy undervalued properties with promising long-term prospects, to be hands-on in improving and managing them while being relentless in controlling our costs.

We judge the prospects of our properties based on their location. It's telling that our portfolio is heavily weighted towards growing nodes of the city such as Tyger Valley, Bellville South, Epping, Blackheath, Paarden Island, Foreshore, Century City and Woodstock.



Non-executive Chairman's Report

(continued)

By raising the quality of our buildings, we attract a better quality tenant – with a strong balance sheet who can afford higher escalation rates and is willing to sign longer leases than the average tenant. In this way we build the sustainability of our earnings and reduce our vacancy rates.

Our advantages are our relatively small size which keeps us nimble with deals and ensures we don't overlook any properties in our portfolio, our entrepreneurial mindset which allows us to find good deals, and our experience and knowledge of property which are crucial in enabling us to improve them and unlock shareholder value.

Raising capital goes hand in hand with being a REIT, but our approach is only to raise capital when it's absolutely required and it's important that we do so at pricing levels that do not create dilution of shareholder value. The latter is a great example of management and shareholder alignment.

While we are dependent on the economy for growth, we know that tough times give rise to more opportunities. We're confident that if we stick to our approach, we will continue to build wealth for our shareholders and have a positive impact on all our stakeholders.

And we're optimistic that as a country, just as we've done in the past, we will overcome the challenges we face.

A word of thanks

As a board, we'd like to thank Mike, Quintin, Christiaan and the rest of the Spear team for their dedication and hard work. We also say thanks to our shareholders, tenants and lenders for their continued support and understanding.

As Chairman, I would like to thank our board for their guidance, support and insight.



Abubaker Varachhia
Non-executive Chairman

20 June 2019





78 on Edward

Chief Executive Officer's Report

“ As Spear moves through its growth journey as the only regionally- specialised REIT listed on the JSE, I am beyond proud to announce that Spear has grown its distribution per share by 10.09% from the prior financial year. The final distribution for the 2019 financial year will be 86.42 cents per share. The latter could not have been achieved had it not been for our active asset management, early tenant engagement and value investment approach adopted across our business. ”

Quintin Rossi – Chief Executive Officer

“Asset growth within Spear’s portfolio has increased by 21.62% to R3.8 billion since the start of the 2019 financial year. Amid tough trading conditions the core portfolio has delivered in line with management’s expectations. Management’s tenant-centric approach and hands-on asset management focus have yielded well for Spear.” – Quintin Rossi

It is hard to believe that a year has passed since I took over as Group CEO of Spear. It has been an honour and a privilege to lead this stellar organisation with men and woman that exhibit such a strong spirit of excellence in their day-to-day conduct. South Africa has traversed some challenging territories over the 2019 year as economic, political and socio-economic factors weigh heavily on our young democracy. We still face many significant challenges in South Africa, but we shall overcome every single one of them! South Africans by their very nature push through and push on!

As a significant investor in SA Inc during times of tailwinds and headwinds I draw inspiration from wise men and women who have gone before me to help me keep my eyes focused on our goals. For me, Phil Knight (Nike founder) in his book *Shoe Dogs* sums it up succinctly: “Don’t stop. Don’t even think about stopping until you get there, and don’t give much thought to where ‘there’ is. Whatever comes, just don’t stop.” The latter is somewhat of a motto within our organisation as we believe our future in South Africa will be better than our past and as a nation we will rise above every challenge.

Spear remains the only regionally-specialised REIT on the JSE with exposure to high-quality Western Cape only assets. Spear obtains its diversification through asset-type investment, being commercial, industrial, retail, residential and hotels. The Spear portfolio at year-end consisted of 30 properties with a gross lettable area (“GLA”) of 402 652 m² (up by 24.18% compared to FY2018).

It is my pleasure to report on our results for the 2019 financial year. Spear listed on the JSE in November 2016

and to date has successfully delivered on its foundational strategy, which has been to focus on growing its distributions per share annually ahead of inflation and to acquire high-quality Western Cape only assets across its sectoral investment universe.

Financial performance

Management provided distribution guidance for the 2019 financial year in May 2018 advising that distributions would be between 9% – 11% year-on-year compared to the 2018 financial year. I am incredibly pleased to report that the full year dividend of 86.42 cents per share represents a year-on-year distribution growth of 10.09%. The distribution per share achievement could not have been achieved without every single team member’s input and support. There is, however, no doubt that the effects of undesirable visa regulations, listeriosis and a major water crisis have had an impact on the overall earnings of Spear during the 2019 financial year. I am, however, gratified that our sectoral investment strategy overperformance in other areas of the portfolio muted the underperformance within our hospitality investments.

The average property value has increased to R127 million (R9 465/m²) compared to the previous reporting period of R94 million (R9 665/m²). Management has endeavoured to actively grow Spear’s market capitalisation and asset value over the year with a market capitalisation year-on-year increase of 25.07% to R1.98 billion and asset value with a year-on-year increase of 21.62% to R3.8 billion. During the year there was a 14.35% increase in issued shares closing off the financial year with 188 888 709 (FY2018: 165 190 689) shares in issue.



Chief Executive Officer's Report (continued)

The like-for-like income growth delivered by the underlying portfolio for the reporting period was 26%. The significant increase is due to R1 billion worth of assets being owned for 12 months during the 2019 financial year versus an average of 7 months in the 2018 financial year. This is a clear testament to the significant portfolio asset growth since listing in 2016. The portfolio performed robustly during the reporting period amid tough trading

conditions resulting in stable core portfolio income and recoveries.

Management remains heavily invested in Spear at 35.5% and remains focused on its primary objective, being growth in annual distributions ahead of inflation. The latter is a strong display of alignment with shareholders' interests.

Growth in net asset value

	Tangible net asset value		Net of distribution	
	Rands	Growth (%)	Rands	Growth (%)
31 August 2017	10.49		10.12	
28 February 2018	11.57	10.31	11.16	10.23
31 August 2018	11.63	0.49	11.21	0.50
28 February 2019	12.12	4.20	11.67	4.09

The tangible net asset value ("TNAV") per share increased from R11.57 in FY2018 to R12.12 in FY2019, showing a 4.7% increase in TNAV over the reporting period driven by new acquisitions and fair value adjustment revaluations to the Spear portfolio. The key TNAV take-aways are:

- Increased value of core portfolio by R677 million net year-on-year
- Given the headwinds experienced in the hospitality sector management has devalued both of its hospitality assets by R40 million rand (8%).

Valuations

The portfolio remains conservatively valued at R9 465/m², which remains well below replacement costs being closer to an average value of R20 000/m² when applied across the sectoral portfolio. Fair value adjustments for the reporting period were R111 702 000. The FY2019 valuations reflect a capitalisation rate of 8.8%. Given the downturn in the hospitality sector as noted above, devaluations were passed by management due to the drop in the forecast income of these assets.

Please refer to the financial commentary for a detailed breakdown of the portfolio valuations.

Strategic objectives

Management remains resolved to maintain its excellent proximity to assets as well as its acute understanding of the Western Cape real estate market. Asset additions to the underlying portfolio have been strategically executed as management has maintained its accretion only approach to investing and its continuous hunt for deep value assets that can be redeveloped, repurposed or re-let at levels that would add to the quality of the core portfolio and the overall income base of Spear.

Spear remains well placed to successfully navigate the current economic climate due to its early engagement strategy and tenant-centric approach taken in its day-to-day management of the business. Spear's strategic objectives together with growing its income base are to become the landlord of choice in the Western Cape and core to these strategic objectives are:

- Focusing on long-term growth in distributions from the core portfolio
- Trading with a strong market rating
- Employing conservative gearing policies
- Attracting and retaining a best-of-breed management and operational team in the Western Cape.

"As a group we have adopted a 'Yes we can' culture. Yes we can make a meaningful impact in the real estate market, yes we can manage our assets and overheads in ways that unlock value and release the business to keep on growing, and yes we can make a positive impact in the Western Cape and South Africa through being socially minded and looking after the world we live in." – Quintin Rossi

Portfolio performance

Portfolio overview

	Total	Industrial	Commercial	Retail	Hospitality	Residential
Number of properties	30	8	15	4	2	1
Asset value excl. lease asset (R'000)	3 789 871	955 832	1 694 420	559 065	504 897	75 657
GLA (m ²)	402 652	207 354	124 497	34 648	28 153	8 000
Revenue (R'000)	422 685	124 589	167 704	77 646	44 089	8 658
Net cost-to-income (%)	21.59	10.49	20.31	13.00	17.57	9.80
Vacancy (m ²)	7 992	2 432	2 689	1 462	1 410	–
WALE (months)	30	24	29	32	93	25
In-force escalations (%)	8.07	8.61	7.77	7.95	Note 1	8.00

Note 1: Rental is variable in nature and does not contain a fixed escalation percentage

Spear's core portfolio continues to deliver in line with management's expectations with renewal negotiations being concluded successfully. Management's early engagement strategy and achievement of market-related renewal rentals are testament to its tenant-centric approach to the business. Overall portfolio revenue for the year in review exceeded management's forecasts as a result of higher than budgeted income, tenant recoveries and prudent expense and finance cost management.

Spear's net cost-to-income ratio is 21.59%, which is higher than management's targeted percentage. The higher cost-to-income ratio is partly as a result of punitive utility

charges passed by the City of Cape Town during the water crisis, which had to be absorbed into the overall portfolio costs and recovered from tenants. Generally, municipal charges are recovered two months in arrears and therefore a lag in the actual recovery is created which negatively impacts the overall cost-to-income ratio. Management endeavours to achieve a cost-to-income ratio of 18% and below.

Administrative cost-to-income for the period was 5.92%, increasing from 5.85% as at 28 February 2018. The increase is directly related to the employment of additional staff with the increase in the property portfolio.

Top five properties by value

Property	Value incl. lease asset R'000	Sector	Gross lettable area m ²	% of total value	Valuation R/m ²
Mega Park, Bellville	441 022	Industrial	86 095	11.58	5 123
2 Long Street, Cape Town	426 034	Commercial	25 115	11.18	16 963
Sable Square Shopping Centre	416 400	Retail	31 100	10.93	13 389
UES DoubleTree by Hilton, Woodstock	322 139	Hospitality	18 761	8.46	17 171
Northgate Park, Brooklyn	314 302	Commercial	17 002	8.25	18 486
	1 919 897		178 073	50.39	10 782

Chief Executive Officer's Report (continued)

Vacancy profile

Sectoral split and vacancy profile	Number of properties	Value excl. lease asset R'000	Value	Revenue	Revenue	Gross	Gross	Vacant area m ²	Vacancy %
			%	R'000	%	lettable area m ²	lettable area %		
Industrial	8	955 832	25	124 589	30	207 354	51	2 432	1.17
Commercial	13	1 481 039	39	167 704	40	109 667	27	2 689	2.45
Retail	4	559 065	15	77 646	18	34 648	9	1 462	4.22
Hospitality	2	504 897	13	44 089	10	28 153	7	1 410	5.01
Residential	1	75 657	2	8 658	2	8 000	2	-	-
Under development	2	213 381	6	-	-	14 830	4	-	-
	30	3 789 871	100	422 685	100	402 652	100	7 992	1.98

Sectoral performance

Industrial

Performance remains healthy and strong with continuous demand for our rental opportunities by prospective tenants across the industrial portfolio. The industrial portfolio offers a diversified industrial offering situated in well-established industrial nodes consisting of mini, mid-size and large industrial units. The industrial portfolio has continued to operate with high occupancy rates and in line with management's expectations during the reporting period with no major tenant movements or lease expiries.

The industrial portfolio (207 354 m²) occupancy rate was at 99% at year-end.

Commercial

The commercial sector performance has exceeded management's expectations with robust vacancy reductions as a result of a front-footed and aggressive letting strategy across the commercial portfolio. Commercial vacancies at year-end were at 2%, translating to 2 689 m² of unlet GLA. Office sector lease renewals continue to be concluded with positive rental reversions achieved in the vast majority of renewals concluded during the reporting period.

It remains our view that the general commercial office sector within the Western Cape and nationally may experience headwinds in the form of increased vacancies as a result of low economic growth, aggressive cost cutting and companies looking to significantly reduce operating overheads through space optimisation. Although the latter has not been experienced within the Spear commercial portfolio yet, management believes

that a strong focus must continuously be placed on early tenant engagement and hands-on asset management to mitigate such effects without delay.

The commercial portfolio (109 667 m²) occupancy rate was at 98% at year-end.

Retail

The retail portfolio consists of two convenience retail centres that offer an ultra-convenience retail experience with ample parking. Spear's retail assets are located in high-growth nodes servicing the Century City and Northern Suburbs markets. During the reporting period 48% (16 772 m²) of retail GLA (34 648 m²) was occupied by national retail tenants. Management has been gratified at the positive performance of its retail assets in addition to key retail tenants showing positive growth in store revenue and footfall.

Spear's retail assets will remain attractive locations for retailers to trade from given their high-quality tenant mix geared towards a convenience retail offering, ample shopper parking, ease of access and egress along with plum geographical locations offering easy access to all significant arterial transportation routes.

The retail portfolio (34 648 m²) occupancy rate was at 96% at year-end.

Residential

Spear's residential portfolio for the reporting period continued to perform to the satisfaction of management with 100% occupancy rates. Currently only 2% of GLA is exposed to the residential sector. Management has stated its intention to increase Spear's residential holdings closer to 15% of GLA and 12% of portfolio



15 on Orange

Chief Executive Officer's Report (continued)

value in the medium term with the development of approximately 200 residential units at Sable Square and 200 residential units in Paarden Island as part of its mixed-use development plans.

Hospitality

The current performance of the domestic economy and environmental impact continues to present challenges to the hospitality sector as both transient and group business have been severely impacted by the drought experienced in the Western Cape. The hospitality sector over the reporting period has continued to operate under extremely tough trading conditions. The drought in the Western Cape has been broken and a strong focus now is to rebuild on hospitality occupancies and room rates as a key recovery metric to the overall hospitality sector. The pace at which the recovery of the hospitality sector will take place at this stage remains uncertain due to the shift in interest by dominant markets to other destinations during this time. At best management is of the opinion that some green shoots on the recovery path have already started to show, however, meaningful recoveries will most likely only start to emerge towards the start of 2020.

Weakened local currency and volatile emerging and competing markets to our destination might aid our recovery in building buyer confidence in our overall offering. We have seen positive movement with the removal of prohibitive travel regulations to South Africa and further change to ease access to our shores has been tabled for consideration.

Although occupancies have shown better recovery signs, the biggest challenge will remain in recovering lost rate strength experienced during the downturn. As with most industries the hospitality sector is largely reliant on a positive election result, which will encourage economic growth and will contribute to the resurgence in Cape Town's image as one of the top destinations in the world for Leisure and Meetings, Incentives, Conventions and Exhibitions ("MICE").

The hospitality portfolio (28 153 m²) occupancy rate was at 95% at year-end.

Capital allocation

Management acknowledges the vital role capital allocation plays in the formation of a high-quality real estate portfolio and will continue to use its capital to invest in high-quality assets within the Western Cape.

In the year under review Spear acquired R713 million of new assets at an average yield of 9.93%. A total of

seven buildings were sold for R335 million at an average yield of 7.71%. The net disposal proceeds have been redeployed into the acquisition of four new assets for a gross consideration of R578 million (including debt and vendor placements) at a blended yield of 9.97% and the reduction of bank debt of R74 million.

Management will furthermore deploy capital into yield-enhancing assets through acquisition or development with a primary focus on convenience retail, logistics-focused industrial and mixed-use assets. An amount of R50 million of committed capital expenditure has been spent for the refurbishment of two properties, being 15 on Orange and 1 Waterhouse Place.

Management will in addition to capital allocation continuously evaluate the disposal of portfolio assets where management believes maximum shareholder value can be achieved or where management believes the assets have reached the end of their life cycle within the portfolio. Disposal proceeds will be redeployed into larger, higher quality assets or debt reduction. It is commendable how management has shown its ability to prudently recycle capital into higher-yielding and higher quality assets to unlock deep shareholder value. Management remains of the view that it will only seek investor funding when absolutely necessary and will only raise capital for its needs if acceptable placement pricing is achieved in the market.

Balance sheet management

Active and prudent focus on our balance sheet will provide Spear with the ability to take advantage of opportunities that are presented in the market. Management maintains strong and unblemished relationships with its key funding partners, which result in advantageous funding arrangements. Management aims to maintain gearing levels within a range of 38% and 42% loan to value ("LTV") on group debt together with an acceptable hedging policy to provide income certainty in challenging economic times.

Spear's debt portfolio remains actively managed with an all-in cost of debt at the end of the reporting period of 9.01%. Currently 64.5% of Spear's interest-bearing debt is hedged at an effective all-in rate of 9.05%. Spear's cost of debt has decreased by 24 basis points since the start of the financial year.

The group's gearing levels at the end of the reporting period was at 39.58% translating to a 2.85% increase from FY2018.



1 Waterhouse Place

Chief Executive Officer's Report (continued)

During the year R235.3 million worth of equity placement took place:

- 1 May 2018 – 3.15 million shares placed at R9.52 = R30 million* (acquisition issue)
- 11 June 2018 – 11.85 million shares placed at R10.00 = R118.5 million (vendor consideration/private placement)
- 24 July 2018 – 5.2 million shares placed at R10.10 = R52.5 million* (acquisition issue)
- 16 November 2018 – 3.5 million shares placed at R9.80 = R34.3 million (vendor consideration/private placement)

*Vendors elected to accept Spear's script in lieu of cash.

Spears' debt maturation profile average is 25 months with no refinance risk to note at the end of the reporting period and current liabilities already in the process of renewal.

Financial review

Best-practise guidelines within the listed real estate sector have provided that we include a simplified reconciliation of income set for distribution. A simplified state of financial position is provided to make the financial statements more understandable to the cash-based basis of reporting operating results, which is relevant in the context of paying distributions to our shareholders. These simplified statements do not comply with IFRS.

Financial overview

	Group	
	Audited Year ended 28 February 2019 R'000	Audited Year ended 28 February 2018 R'000
Total revenue	434 729	316 595
Net property operating profit	272 861	211 643
Fair value adjustment – Investment properties	111 702	252 535
Profit for the year	274 547	386 229
Profit attributable to:		
Equity owners of parent	270 389	383 186
Non-controlling interest	4 158	3 043
	274 547	386 229
SA REIT distributable income	161 774	128 686
Total distributions for the period	86.42	78.50

	Group	
	Audited 28 February 2019 R'000	Audited 28 February 2018 R'000
Assets		
Non-current assets	3 808 427	2 975 850
Current assets	108 291	251 488
Total assets	3 916 718	3 227 338
Equity and liabilities		
Capital and reserves	2 295 532	1 917 318
Non-controlling interest	54 155	54 155
Non-current liabilities	1 335 853	1 053 434
Current liabilities	231 178	202 431
Total equity and liabilities	3 916 718	3 227 338
Tangible net asset value	(Rands) 12.12	11.57
Shares in issue at period end net of treasury	('000) 188 864	163 767

Outlook

The core portfolio of Spear remains defensive in nature underpinned by strong lease covenants and high-quality tenants. Management is confident given the diversified mix of assets, tenant profile and its own hands-on asset management approach that Spear will deliver on its guidance for the 2020 financial year. The macro-economic environment in South Africa together with sluggish economic growth remains a general concern for management. It is our firm belief that a positive election outcome will position South Africa on the right growth trajectory presenting further growth and investment opportunities for both local and international investors. Spear is committed to do its part in job creation and skills development in the Western Cape to reduce the burden that unemployment places on South Africa and its people.

- Management will focus on improving the core portfolio through the acquisition of yield-enhancing assets within the Western Cape
- Management will continue to focus on prudent capital management
- Management remains heavily invested in Spear and has committed to the retention of respective investments within Spear to reinforce its alignment with shareholder interests
- Management is confident that Spear is trading on a stable management platform which will ensure that the company's growth objectives are achieved, both in the form of assets and human capital
- The company will continue its tenant-centric approach which has created strong customer loyalty and high tenant retention rates within the core portfolio.

Prospects and guidance

The Western Cape property sector has proven to be more resilient than most other provinces in South Africa as demand for its real estate has notably been higher than most other parts of South Africa. Western Cape infrastructure in our view is of a superior standard to the majority of South Africa in the form of roads, telecommunications and other key infrastructure facilities that makes doing business across the entire Western

Cape possible. Spear remains committed to its Western Cape only strategy with its regional specialisation management's single-minded focus – allowing for it to be first out the blocks to take advantage of portfolio and earnings-enhancing opportunities. Spear continues to have a healthy pipeline of greenfield and brownfield development opportunities within the portfolio, which will unlock further value for the group in time.

Management remains confident that demand for its high-quality rental properties across the various sectors within the Western Cape will continue given its tenant-centric approach and hands-on asset management skills.

The political and tough economic environment remains a concern as business sentiment continues to deteriorate and the increased cost of living places continued pressure on the general population. Within a low-growth economic environment increased pressure on general business may result in undue pressure on the commercial office market as companies move to cut overheads and optimise their trading space. The potential for an upward trend in commercial office vacancies in a low-growth economy may be a tough reality that lies ahead.

The trading conditions within the hospitality sector have started to improve but not at the rate management would have preferred with early green shoots becoming evident in hotel occupancies and bookings, but the recovery in room rates lagging behind the occupancy growth experienced since the end of the water crisis in the Western Cape.

Management has to the best of its ability forecast its earnings with the above in mind, having taken the necessary steps to best mitigate against any further downturn.

Management's guidance for the 2020 financial year is a distribution growth of 6% – 8% per share.

The guidance is based on the following assumptions:

- That a relatively stable macro-economic environment will prevail
- That lease renewals are concluded as per the company forecast
- That no major tenant failures will take place
- That tenants will successfully absorb rising costs associated with utility consumption charges and municipal rates

Chief Executive Officer's Report (continued)

- That trading conditions continue to improve in the overall tourism sector directly related to hotel occupancies and room rates
- That stage 3 and 4 load shedding do not become a regular occurrence in South Africa during the year.

Any changes in the above assumptions may affect management's forecast.

The information and opinions contained above are recorded and expressed in good faith and are based on reliable information provided to management. No representation, warranty, undertaking or guarantee of whatsoever nature is made or given with regard to the accuracy and/or completeness of such information and/or the correctness of such opinions.

Sustainability

Spears' approach, in line with the King IV Report on Corporate Governance™ for South Africa, 2016 ("King IV™") guidelines and management's own strategy, reflects a focused and balanced economic, social and environmental approach resulting in a multi-pronged sustainable investment that provides environmental benefit and financial growth in the medium to long term. Spear remains committed to creating a safe and healthy workplace continually seeking to reduce the carbon footprint of the group. Management acknowledges that real estate is a long-term investment which requires the availability of natural resources to service the needs of its tenants.

In the light of both electrical supply and water supply challenges experienced as a nation, management has committed in excess of R40 million to PV solar solutions and water continuity solutions across key areas of the portfolio. Management is determined to find innovative ways to reduce its overall carbon footprint across the portfolio to limit the amount of carbon emissions released into the environment.

A detailed Sustainability Report has been prepared and is located on page 30.

Governance

Spear is committed to the highest standard of corporate governance. The board regularly reviews the company's structures and systems to ensure all of the latter stay in line with the guiding principles of a strong corporate governance culture within Spear. Management has concluded its report on Corporate Governance, which sets out its commitment to ensuring its commitment to the values set out in King IV™.

Acknowledgements

Spear remains a pure property investment and a well-diversified, defensive and stable core property portfolio with high-quality tenants. I am extremely proud of the results achieved over the 2019 financial year. Management's focus will remain on its core business, which is to let space, manage expenses and grow its income base ahead of inflation.

I would like to acknowledge each and every one of our tenants, our investors, our suppliers and all our stakeholders without whom the company could not operate or succeed.

I would like to thank our Chairman Mr. Abu Varachhia for his unwavering support, our board of directors and the respective committees for their ongoing support and guidance. A special acknowledgement is due to the full team for their dedication, hard work, innovation and contribution to our achievements over the 2019 financial year.



Quintin Rossi
Chief Executive Officer

20 June 2019



Northgate Park



Board of Directors

From left to right: Mike Flax, Dr. Roze Phillips, Niclas Kjellström-Matseke, Abu Varachhia, Quintin Rossi, Christiaan Barnard, Sean McCarthy, Jalal Allie, Brian Goldberg

Abubaker Varachhia (“Abu”), 61 [◦]
 Non-executive Chairman
BSc (QS) (UCT)
 Appointed to the board on 19 April 2016

Abu has been involved in major property transactions and has initiated multi-million rand property development projects throughout South Africa. Abu served as a director on the board of the JSE-listed property fund Spearhead Property Holdings Limited and Ingenuity Property Investments Limited. Currently Abu serves on the board of directors of the JSE-listed company Mazor Steel & Aluminium Limited. Abu has extensive experience in property development and his skill in this regard, along with his ability to find value in potential portfolio redevelopments, will be invaluable to the future of the business.

Michael Naftali Flax (“Mike”), 54 [◦]
 Executive Deputy Chairman
BCom, GDA, CA(SA), FCMA
 Appointed to the board on 19 April 2016

Mike is an accomplished property professional operating within the commercial property sector. Mike, a chartered accountant by qualification, has more than 30 years’ experience in the property sector and has been key in some of the most exciting property transactions across the listed sector. Mike was the founder of Spearhead Property Group, which was later sold to Redefine Property Fund. Mike served on the board of directors of Madison Property Fund Managers until 2009 after a merger with Redefine Properties and Apex Hi to form the new Redefine Properties and served as an executive director of Redefine Properties Limited until February 2011. Mike has extensive experience in commercial property finance, development and a variety of key financial functions within the property sector. His entrepreneurial approach to property is admired by many within the property sector and his ability to create and unlock value has been proven time and time again.

Quintin Michael Rossi (“Quintin”), 38 [◦]
 Chief Executive Officer
Executive Director
BA (Law), PGDEM
 Appointed to the board on 18 November 2015

Christiaan Barnard, 30 [◦]
 Chief Financial Officer
Executive Director
CA(SA) (US)
 Appointed to the board on 20 July 2016

Jalaloodien Ebrahim Allie (“Jalal”), 62 ^{Δ ◦ * #}
Lead Independent Non-executive Director
BCompt (Hons) (Unisa)
 Appointed to the board on 20 July 2016



Brian Leon Goldberg (“Brian”), 56 ^Δ [◇] [•] ^{*} [#]

Non-executive Director

BA, LLB (UCT)

Appointed to the board on 20 July 2016

Brian has been active in the real estate sector for the past 25 years. During this period, he has been integrally involved in many significant property developments and investments. Brian has an astute understanding of the Western Cape real estate sector. He has vast and varied expertise, both in the commercial real estate arena and the legal technical environment relating thereto. Brian’s market knowledge, deal-making and technical skills will strengthen and add value to the business’ growth initiatives.

Niclas Kjellström-Matseke, 49 ^Δ [•] [•] ^{*} [#] [◇]

Non-executive Director

Master’s degree in Economics and Political Science (University of Uppsala, Sweden), MBA (Stockholm School of Economics)

Appointed to the board on 30 September 2016

Cormack Sean McCarthy (“Sean”), 53 [◇]

Non-executive Director

Appointed to the board on 28 June 2017

Dr. Rozett Phillips (“Roze”), 49 [◇] [#]

Non-executive Director

MBChB (UCT), MBA (UCT), Postgraduate Diploma in Future Studies (USB)

Appointed to the board on 16 July 2018

Roze holds the position of Group Executive: People and Culture for Absa Group Limited, a large Pan-African bank.

Prior to joining Absa, Roze held the position of Management Consulting lead and Geographic Council member for Accenture Africa and Board member of Accenture South Africa. She served this organisation for 18 years. During her time there, she also served as the Middle East, Africa, Russia and Turkey Innovation lead, creating the enablers for Accenture to lead Innovation in the region, working at the intersection of business and technology.

Roze is Executive Sponsor for BornToSucceedWomen, a public benefit organisation dedicated to helping young South African women with the necessary skills and mentorship to prepare for the workplace and find employment.

Roze holds both Bachelor of Medicine and Surgery (MBChB) (1995) and Master’s of Business Administration (MBA) (1999) degrees from the University of Cape Town and a postgraduate diploma in Future Studies (2016) from the University of Stellenbosch Business School.

Roze proudly mentors young black African men and women to unleash their full potential and is a frequent public speaker and blog writer on the topics of the Workforce of the Future, New Skills Now and Empowerment of women, young people, the poor and marginalised.

Executive Management

Quintin Michael Rossi
Christiaan Barnard
Cliff Toerien

Chief Executive Officer

Chief Financial Officer

Chief Operating Officer
(appointed 1 March 2018)

- ^Δ Audit and risk committee
- [•] Investment committee
- [◊] Remuneration committee
- ^{*} Nomination committee
- [◇] Social and ethics committee
- [#] Independent

Corporate Governance Report

The board of directors is committed to upholding good ethical standards and the application of corporate governance principles in accordance with the King IV Report on Corporate Governance™ for South Africa, 2016 ("King IV™").

Introduction

Spear ascribes to the recommended practices of King IV™ in which the board of directors is committed to ensuring that the governance structure in the group cultivates good governance outcomes in relation to its ethical culture, performance, effective control and legitimacy. A high-level King IV™ principles disclosure and a full governance report outlining Spear's governance framework is available on our website (www.spearprop.co.za).

Non-binding advisory vote on the remuneration policy and implementation report

A separate remuneration policy and implementation report has been tabled on pages 35 and 38 respectively, which will be subject to a non-binding advisory vote by the shareholders at the forthcoming annual general meeting ("AGM") being held on 8 August 2019. In the event that 25% or more of the shareholders vote against either, details regarding the manner and timing of such engagement will be specified in the voting results. We welcome shareholders to engage with us on the remuneration policy and implementation report.

Board of directors

The board provides leadership and determines the strategic objectives of the group and acts as the custodian of Spear's corporate governance framework. The board is supported by five committees and delegates the responsibility of running the business to its executives. The board monitors the implementation of its strategies, decisions and key policies and is satisfied that it has fulfilled its responsibilities required by its mandate this year.

Balance of power

In accordance with the Spear board charter, there is a clear division of responsibilities at board level to ensure a balance of power and authority, such that no one individual has unfettered powers of decision-making.

Composition of the board

The board comprises of nine directors of which six are non-executive and three are executive directors. Of the non-executive directors, four (67%) are independent. The board members have a diverse range of qualifications and experience which enables them to contribute meaningfully to the group. The board is satisfied with the depth of the collective experience of the non-executive directors and that there is sufficient independence of minds on the board.

Appointments to the board

In accordance with Spear's gender and racial diversification strategy and with the assistance of the nomination committee, all appointments to the board follow a formal and transparent procedure and are subject to shareholder approval.

During the year under review, Dr. R Phillips was appointed to the board on 16 July 2018, which was approved by shareholders at the last AGM held on 10 August 2018. The shareholders approved the re-appointment of Mr. JE Allie and Mr. N Kjellström-Matseke whom had retired and made themselves available for re-election at the AGM held on 10 August 2018.

Conflicts of interests

Directors are required to declare their personal financial interests and those of related persons in contracts with the group. A register in this regard is maintained and reviewed at each board meeting. Directors are further asked to recuse themselves from any discussions and decisions where they have a material financial interest.

Directors are not involved in decisions where they have a conflict of interest or a material personal interest. The Company Secretary further monitors potential conflicts that may arise and informs the board thereof.

Independent advice

The board, board committees and individual directors may seek external advice at the company's expense. If appropriate, the advice may be made available to other directors.

Board meetings

The board met four times during the year under review and will meet at least four times per year each financial year and more often if circumstances require. The following table sets out the board meetings held and attendance during the reporting period.

	A Varachhia	MN Flax**	QM Rossi**	C Barnard**	JE Allie*	BL Goldberg*	N Kjellström- Matseke*	CS McCarthy	Dr. R Phillips*
10 May 2018	●	●	●	●	●	●	●	●	N/A
21 Jun 2018	●	●	●	●	●	●	●	●	N/A
17 Oct 2018	●	●	●	●	●	●	●	●	●
24 Jan 2019	●	●	●	●	●	●	●	●	●

* Independent

● Attended

** Executive director

N/A Not a board member at time of meeting

Chairman and Chief Executive Officer

The roles of the Chairman of the board and the Chief Executive Officer are separated and clearly defined. As a result of the Chairman being a non-executive director who is not independent, a lead independent non-executive director has been appointed.

The Chief Executive Officer is responsible for the day-to-day management of the group and implementation of the strategy and objectives adopted by the board. He is assisted by the two other executive directors and members of senior staff.

With the assistance of the lead independent non-executive director, the Chairman of the board manages the relationship between the board, the Chief Executive Officer and the various board committees. He sets the agendas for the board meetings and ensures that adequate time is devoted to developing the group's strategy.

CEO and senior executive performance

The board with the assistance of the remuneration committee reviews the performance of the Chief Executive Officer, Chief Financial Officer and senior executives and approves their remuneration.

Changes that came into effect during period

The board of Spear announced on 21 June 2019 that Mr. MN Flax's role will be changed to that of a non-executive director and Deputy Chairman effective from 1 September 2019. The approval of Mr. Flax continuing to serve as a non-executive director will be tabled for consideration and approval by the shareholders at the forthcoming AGM being held on 8 August 2019. Spear would like to thank Mr. Flax for his valuable contributions during his tenure as an executive director.

Statement of compliance

In accordance with the JSE Listings Requirements, the group has applied the principles and recommendations of King IV™. Furthermore, there were no contraventions, material non-compliance, fines or penalties reported in relation to all applicable laws and regulations for the period under review.

Board committees

The board acknowledges that overall responsibility for managing the group rests with the board as a whole. To assist it in fulfilling its responsibilities, the board delegates some of its functional responsibilities to its committees by means of clearly defined mandates. The committees report to the board on their deliverables in accordance with their board-approved terms of references on a continual basis.

Corporate Governance Report (continued)

Composition of the committees

The members of the board committees are as set out in the table below.

Audit and risk committee	Investment committee	Remuneration committee	Social and ethics committee	Nomination committee
JE Allie (Chair)	BL Goldberg (Chair)	JE Allie (Chair)	N Kjellström-Matseke (Chair)	JE Allie (Chair)
BL Goldberg	A Varachhia	N Kjellström-Matseke	QM Rossi	BL Goldberg
N Kjellström-Matseke	MN Flax	A Varachhia	BL Goldberg	N Kjellström-Matseke
	QM Rossi		Dr. R Phillips	
	C Barnard			
	N Kjellström-Matseke			
	CS McCarthy			

Audit and risk committee

The audit and risk committee acts in compliance with section 94(7) of the Companies Act, No. 71 of 2008 ("the Companies Act"), as well as ensures that there is an effective risk management framework in place and ensures that emerging risks are identified and managed. The non-statutory duties include assisting the board with discharging its duties relating to the effectiveness of the control environment, review and preparation of adequate financial reporting, review and preparation of the integrated report, ensuring the financial integrity of the annual financial statements, monitoring of compliance with applicable laws and regulations and nominations for the appointment, removal and replacement of the external auditor, which includes the review of the independence of the external auditor.

The committee comprises of three independent non-executive directors. The chairman of the committee is Mr. JE Allie.

Investment committee

The investment committee assists the board in evaluating proposed transactions, which include material acquisitions, mergers and disposals and makes recommendations to the board in this regard. The committee also assists and advises the executive team on such transactions.

The committee comprises of three non-executive directors of which two are independent and three are executive directors. The chairman of the committee is Mr. BL Goldberg.

Remuneration committee

The remuneration committee ensures that the group adopts remuneration policies that are fair, transparent

and enables the attraction and retention of vital talent that contributes to the achievement of the group's short-, medium- and long-term objectives. The committee is also responsible for ensuring that the remuneration policies are fair and responsible and that succession planning for the executive management team is in place.

The committee comprises of three non-executive directors of which two members are independent. The chairman of the committee is Mr. JE Allie.

Social and ethics committee

The social and ethics committee acts in compliance with section 72 and regulation 43 of the Companies Act. The committee monitors the group's activities with regards to ethics, social and economic development, good corporate citizenship, customer relations, environment, health and public safety, broad-based black economic empowerment, labour and employee engagement and compliance with applicable laws and regulations.

The committee comprises of three independent non-executive directors and one executive director. The chairman of the committee is Mr. N Kjellström-Matseke.

Nomination committee

The nomination committee's responsibilities are to assist the board in reviewing its size and composition annually in the context of the group's strategy, evaluating the effectiveness of the board, board committees and Company Secretary, identifying and nominating board candidates and succession planning for board members. The board has adopted a gender and race diversification policy. The nomination committee will continue to discuss and annually agree on measurable targets for achieving racial and gender diversity on the board.

The committee comprises of three independent non-executive directors. The chairman of the committee is Mr. JE Allie.

Committee meetings

The table below sets out the committee meetings held and attendance during the reporting period.

	A Varachhia	MN Flax**	QM Rossi**	C Barnard**	JE Allie*	BL Goldberg*	N Kjellström- Matseke*	CS McCarthy	Dr. R Phillips*
Audit and risk committee									
9 May 2018	×	×	×	×	●	●	●	×	N/A
17 Oct 2018	×	×	×	×	●	●	●	×	×
24 Jan 2019	×	×	×	×	●	●	●	×	×
Investment committee									
10 May 2018	●	●	●	●	×	●	●	●	N/A
7 Jun 2018	●	●	●	●	×	●	●	●	N/A
17 Oct 2018	●	●	●	●	×	●	●	●	×
30 Oct 2018	●	●	●	●	×	●	○	●	×
Remuneration committee									
20 Jun 2018	●	×	×	×	●	×	●	×	N/A
23 Jan 2019	●	×	×	×	●	×	●	×	×
Social and ethics committee									
21 Jun 2018	×	×	●	×	×	●	●	×	N/A
23 Jan 2019	×	×	●	×	×	●	●	×	○
Nomination committee									
20 Jun 2018	×	×	×	×	●	●	●	×	N/A
23 Jan 2019	×	×	×	×	●	●	●	×	×

* Independent

** Executive director

● Attended

○ Absent and apologies

×

N/A Not a board member at time of meeting

Company Secretary

The Company Secretary is responsible for providing the board with guidance on discharging its responsibilities in terms of legislation and regulatory requirements and coordinating the functioning of the board and its committees.

The board has reviewed the qualifications, experience and competence of Ms. RC Stober and is of the opinion that the Company Secretary is suitably qualified and experienced to carry out her duties as stipulated under Section 84 of the Companies Act with unencumbered access to the board. The board is further satisfied that the Company Secretary has performed all formalities and substantive duties timeously and in an appropriate manner and that an arm's length relationship between the Company Secretary and the board exists.

Report of the Social and Ethics Committee

Composition and attendance of meetings

The composition of the committee and attendance of meetings are set out on pages 26 and 27.

Key role, functions and responsibilities

The role, functions and responsibilities of the committee are prescribed by the Companies Act, No. 71 of 2008, as detailed in the committee's terms of reference which is reviewed by the board annually.

In executing its duties, the committee is responsible for monitoring and overseeing:

- Ethics
- Social and economic development
- Good corporate citizenship
- Customer relations
- Environment, health and public safety
- Broad-based black economic empowerment
- Labour and employee engagement
- Compliance with applicable laws and regulations.

Highlights and activities of the 2019 financial year

Introduction

The Spear group has consistently sought to align its business with the principles and recommended practices of the King IV Report on Corporate Governance™ for South Africa, 2016 ("King IV™"). The group remains guided by the JSE's Socially Responsible Investment Index criteria as well as other applicable laws and regulations.

Organisational-wide ethics

In 2019, large emphasis was placed on embedding organisational-wide ethics in accordance with Spear's Board Charter, Spear's Employee Hand Guide and Code of Business Ethics and Conduct as well as ethics-related policies to foster a good ethical culture in the group. In this regard, continuous ethics awareness campaigns and the proactive monitoring of the anonymous tip-off line to identify and address areas of concern were utilised.

Spear continued to address conflicts of interest throughout the group, which included the adoption and implementation of an Entertainment Exchange and/or Gift Policy to ensure responsible and ethical business practices throughout the group.

Corporate citizenship

In 2019, key emphasis was placed on Spear's corporate compliance programme to monitor the company's activities whilst having regard to relevant legislation and prevailing codes of best practice. Spear ensured that relevant policies to combat bribery and corruption were implemented and monitored.

Bursary programme

In 2019, Spear continued its bursary programme with the sponsoring of two historically disadvantaged females' tertiary education. One beneficiary is currently an employee of the group and the other is a second-year student at the Cape Peninsula University of Technology. Both are furthering their studies in curriculums that will largely benefit the group going forward.

CSI programme

During the year, Spear donated funds to various non-profit organisations and a school, being, Atlantic Hope, SALT, The Bumble Bee Fund and Hope Empowerment NPO as well as the Molenbeek Special Needs School. All the abovementioned organisations are doing incredible work in their respective communities and it is management's intention to build a closer relationship with them through our CSI programme.

Environment, health and public safety

Our environmental strategy remains focused on facilitating the reduction of our environmental footprint while maintaining a positive effect on asset values.

Water continuity

Given the drought in the Cape Metropole, Spear introduced systems across the portfolio to ensure that water usage in our buildings is limited and not fully reliant on municipal supply for daily use, but more on alternative sustainable sources.

PV solar

In line with the group's strategic objectives, Spear group has implemented the use of solar technology and other energy-efficient saving methods to curtail electricity costs and become less reliant on municipal electricity supply and more on renewable energy technology.

Furthermore, no major health and safety impacts on communities, employees and/or customers in terms of the group's operations, activities and services were recorded during the year under review.

Broad-based black economic empowerment (B-BBEE):

During the year under review, the committee continued to monitor progress made with regards to the group's transformation activities. Spear remained committed to improving its B-BBEE contributor status with key focus on achieving its skills development, employment equity, management control and socio-economic development targets.

In relation to employment equity and skills development, the committee continued to monitor progress against its targets in relation to Spear's employment equity and skills development plans in accordance with the short-, medium- and long-term strategy of Spear. Spear is committed to ensuring that its employees are empowered through education and skills development.

Labour and employee engagement

During 2019, the committee reviewed the outcomes of the plans implemented to ensure compliance with recently amended labour legislation in furtherance of Spear's objectives of promoting equality, preventing discrimination and creating decent employment.

Conclusion

During the period under review, the committee has discharged its responsibilities appropriately. Management has confirmed that there has been no material non-compliance with legislation or regulations, which are within the remit of the committee's mandate. In addition, there were no infringements of the relevant governance codes that were reported.

The committee recognises that as the group grows its asset base and employee component, the monitoring of compliance with the relevant social, ethical and legal requirements and best practice codes will play an ever greater part in its long-term sustainability and setting its ethical culture.



Niclas Kjellström-Matseke
Chair: Social and Ethics Committee

20 June 2019



Sustainability Report

Sustainability reporting combines economic performance with social responsibility and environmental care. It aims to help businesses set goals. It also measures performance and manages change towards sustainability. In commerce, sustainability is often defined with reference to the "triple bottom line" concept. This concept encourages the measurement of sustainability with reference to financial, social and environmental aspects. Spear strongly believes that for a company to prosper over the long term, it must create value for society as well as for shareholders.

Guided by our focus of acquiring high-quality real estate in key Western Cape nodes, we seek to be a positive influence in all our core businesses and in each of the societies in which we operate. We do this by empowering communities through job creation, focusing on education in previously disadvantaged communities, building supplier and enterprise development partnerships and leveraging the value in our diverse employee and stakeholder base. We recognise the challenges that climate change presents to the South African economy and we will consider supporting any meaningful activity that reduces the negative impact on our planet.

Sustainability at Spear is focused on three key elements

Economy

- Building a sustainable business model to position the group's long-term growth and stability
- Strong focus on property fundamentals to ensure that we remain true to our core business
- Identifying potential macro-economic risks and effectively hedging negative exposures.

Society

- Focusing on attracting and developing a strong, capable and diverse workforce
- Creating a work environment and society free from discrimination

- Upliftment of employees through opportunities to access ongoing training and education
- Supporting local communities through promotion of education
- Promotion of entrepreneurship through focused supplier and enterprise development.

Environment

- Introducing systems to ensure water usage is limited and not fully reliant on municipal supply and providing our buildings with sufficient potable and non-potable water for daily use obtained from sustainable sources
- Implementing systems to make use of renewable energy to reduce the carbon footprint of the company
- Creating a safe and healthy workplace and reducing the environmental footprint of our business
- Incorporating environmental consciousness into all business activities.

The financial elements of our business have been dealt with extensively throughout this integrated report and this report therefore focuses primarily on the remaining two elements of sustainability.

Society

Human capital

There is no doubt that a large part of the group's success is due to the quality of its people. We have always maintained that in order to achieve the vision of the group, a highly skilled and diverse team is essential.

Spear boasts a unique team with the talent and ability to maintain high levels of productivity output on the continuous growth journey. During the year under review, Spear continued with its employee engagement process to identify areas of strengths, weaknesses and potential improvements across various areas of the business and the employees as well.

Our focus on employee empowerment has always been of paramount importance. During the prior financial year, a three-year bursary was granted to one of our employees to further her tertiary education via the bursary programme.

We currently employ 24 people (excluding executive directors), 15 of whom are from previously disadvantaged backgrounds. We subscribe to the principle that diversity is essential to create a strong, vibrant and successful enterprise. Our recruitment philosophy is therefore to

employ the best person for the job, giving preference to previously disadvantaged candidates. Eleven of our staff complement are female and we will remain mindful of the importance of gender representation as we grow our staff complement.

In order to attract and retain the right people, we have implemented a remuneration system for all employees consisting of a fixed salary, a short-term incentive and a long-term share-based incentive. Funds are also made available for staff training and bursaries are made available to staff members who want to further their tertiary education. Ultimately, the company is seeking an alignment of interests with its staff, with all staff benefiting appropriately as the group creates value for its shareholders.

Contribution to society

Our approach to corporate social spend focuses mainly on education and entrepreneurship. We believe that focusing on education and entrepreneurship is an effective way to create opportunities for employment, wealth creation and to stimulate socio-economic growth in our struggling economy.

As a company, we have committed ourselves to not only contribute to the community financially, but also through devoting time to those in need by taking part in community projects to help the less fortunate.

During the year, Spear donated funds to various non-profit organisations and a school, being Atlantic Hope, SALT, The Bumble Bee Fund and Hope Empowerment NPO as well as the Molenbeek Special Needs School.

Environmental impact and health and safety

Spear is committed to creating a safe and healthy workplace and reducing the environmental footprint of our business.

Spear's approach, in accordance with best practice principles and management's own strategy, reflects a focused and balanced economic, social and environmental approach resulting in a multi-pronged sustainable investment that provides environmental benefit and financial growth in the medium to long term. Spear remains committed to creating a safe and healthy workplace, continually seeking to reduce the carbon footprint of the group. Management acknowledges that real estate is a long-term investment that requires the

availability of natural resources to service the needs of its tenants. Management is determined to find innovative ways to reduce its overall carbon footprint across the portfolio to limit the amount of carbon emissions released into the environment.

Green projects

Spear has adopted the Green Lease Addendum ("GRLA") relating to buildings that have obtained a rating from the Green Building Council of South Africa. The GRLA is a non-binding contract between the landlord and tenant to mutually work towards adopting green principles both inside and outside a tenant's direct use areas. The latter is one of the initiatives introduced to co-labour with our tenants towards a more sustainable environment through the adoption of green principles. I am pleased to acknowledge the three-star post-construction green star rating awarded to Sable Square by the Green Building Council of South Africa on 22 January 2018.

Water sustainability

The Western Cape experienced its worst drought and water shortage in human history during 2018 and as prudent property owners a pro-active stance on establishing a water continuity plan was taken that will see the provision of water supply to all Spear assets should day zero ever become a reality in the Western Cape. The risk of the drought has not been averted and the below measures were taken to ensure that the overall water consumption has been limited and provided for in the future.

Pro-active measures that have been taken are in the form of:

- Urinals in office buildings converted to waterless urinals
- All bathroom taps retro-fitted with aerators (estimates to generate a saving of 9lt per minute water flow)
- Water harvesting where possible of run-off grey water for re-use in parking areas
- Commitment from building cleaning service providers to utilise pre-diluted chemicals to clean the properties
- Procurement of a water tanker truck that will operate as a mobile water supply tool to transport 16 000lt of water where needed across the portfolio
- Planned construction of two reverse osmosis plants to service the portfolio after receipts of local council approval.

Sustainability Report (continued)

We are invested in a long-term asset class and are fully aware of the fact that the reckless use of our natural resources today will negatively impact on our ability to create value in the future.

Energy sustainability

Spear has implemented the use of solar technology and other energy-efficient saving methods to curtail electricity costs and become less reliant on municipal electricity supply and more on renewable energy technology.

Through Spear's implementation of its energy-efficiency strategy the overall cost of occupancy for its tenants will be reduced in the long term due to less reliance being placed on the municipal supply of energy and more on its renewable energy equipment implemented across key parts of Spear's portfolio. Eskom seeks to increase supply tariffs annually above inflation, which if approved by the National Energy Regulator of South Africa, would place a continual burden on Spear and its tenants of increased costs. Spear remains resolved to reduce its carbon footprint in the area of energy use and a diligent rollout of PV rooftop solar systems will be key to the latter being achieved.

Spear will in addition to the above install smart meters across its portfolio through a planned capital expenditure programme to allow for management to closely monitor consumption trends and ensure usage and tariff charges are all aligned.

LED lighting has been installed across the portfolio that has common areas under the landlord's control to ensure that low voltage lighting is provided to reduce non-tenant consumption charges. Spear has, when the opportunity presented itself, encouraged and advised its tenants to utilise energy-saving and energy-efficient lighting, which to a large degree has been adopted.

Spear's initial investment into energy sustainability across key parts of its portfolio was R12 million, predominantly into PV rooftop solar systems installed at Sable Square and 15 on Orange Hotel. An additional 10 solar projects with a total value of R40 million at various buildings within the portfolio are in the planning and design phase. Spear remains committed to reducing its overall energy needs and requirements through harnessing modern technology and renewable energy solutions to achieve this.





Sable Square

Remuneration Report

This report outlines Spear's remuneration policy which encapsulates short-, medium- and long-term incentive programmes and how the policy will be implemented.

Background statement

It is with great pleasure that we present the remuneration report for the year ended 28 February 2019. Accordingly, this report consists of three sections, namely, the background statement (Chairman's letter), the remuneration policy and the implementation report.

Context

Despite it being another turbulent year for the South African economy and the impact of the drought crisis as well as load shedding enacted by Eskom which affected local businesses in the Cape metropole, Spear performed strongly and continued to deliver against its strategic short-, medium- and long-term targets whilst maximising shareholder returns.

Given Spear's general alignment with the King IV Report on Corporate Governance™ for South Africa, 2016 ("King IV™"), Spear REIT Limited continued to improve the remuneration policy by reviewing its short- and long-term incentives and the guaranteed packages of employees aimed at attracting and retaining motivated, high-calibre and appropriately skilled real-estate-focused executives whilst ensuring that the remuneration was fair, responsible and transparent.

Focus areas during the year

The focus areas of the remuneration committee in the 2019 financial year included the following:

- Review and implementation of Spear's remuneration policy
- Aggregate pay mix for executive directors, including long-term incentives ("LTI") and short-term incentives ("STI") were considered and approved
- Increases in the guaranteed packages for executive directors were considered and approved
- Increases in the guaranteed packages for senior management and employees were considered and approved
- Implementation of the Conditional Share Plan ("CSP") as approved by the shareholders on 26 January 2018 with the first awards being made in March 2018 and July 2018 respectively

- The STI and related award criteria were considered and approved
- Non-executive directors' fees for the 2019/20 financial year were considered and approved and is to be tabled at the 2019 AGM
- Succession plans for the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer were reviewed
- The outcomes of the 2018/19 remuneration policy were reviewed to ensure that the set objectives had been achieved.

Independent external advice

During the year, independent external advice was sought from PricewaterhouseCoopers Inc. on remuneration trends and market benchmarks to review Spear's CSP. The committee was satisfied that these advisors were independent and objective.

Future areas of focus

Future areas of focus are to ensure that appropriate external benchmarking exercises are performed every three years to ensure that Spear has an effective and appropriate remuneration policy and pay composition. In accordance with Spear's remuneration strategy, it has been agreed that the remuneration committee will apply inflationary adjustments to all categories of pay in the first three full financial years since its listing.

Non-binding advisory vote

At the AGM held on 10 August 2018, shareholders considered the 2019 remuneration policy and 2018 implementation report as a non-binding advisory vote in which positive results of 96.50% and 98.32% were achieved respectively.

As chairman of the remuneration committee, my fellow committee members and I consider the Spear remuneration policy to be aligned with and supportive of the long-term business strategy of Spear. We look forward to receiving your support for both the remuneration policy and the implementation report on the remuneration policy at the forthcoming annual general meeting.



Jalaloodien Ebrahim Allie

Chair: Remuneration Committee

20 June 2019

Remuneration Policy

Remuneration philosophy

Spear continues to adopt a high-performance culture aimed at ensuring that the total rewards packages for its employees are appropriate at all levels and aligned to the short-, medium- and long-term strategic objectives of Spear.

Spear is committed to being compliant with best practice in the areas of remuneration in which remuneration packages and incentives are regularly evaluated against market surveys to ensure the attraction and retention of vital talent.

Remuneration approach and wage gap

Spear is mindful of the pay gap ratio in comparison to highly skilled executives and therefore it is the ethos of Spear to take into regard a fair and reasonable approach to executive remuneration with collective regard given to Spear's performance, the individual's performance as well as the relevant benchmarks used to arrive at any decision.

Spear is committed to ensuring that the remuneration strategy is fair and responsible at all levels and achieves a sustainable balance between the total guaranteed packages ("TGP"), STI and LTI whilst further ensuring good governance principles and any prescribed minimum pay rates are applied in this regard.

As a measure of pay gap, the committee monitors the ratio between the Chief Executive Officer's TGP and the average employee's TGP. The ratio for the 2019 financial year increased to 5.46% from 4.05%. The increase in the ratio was due to the executive TGP being benchmarked in the 2019 financial year, subsequent to a review being conducted by the remuneration committee in January 2018.

Benchmarking and pay composition

Spear has taken the policy decision to perform external benchmarking exercises every three years to ensure that Spear has an effective and appropriate remuneration policy and pay composition. In accordance with Spear's remuneration strategy, it has been agreed that the remuneration committee will apply inflationary adjustments to all categories of pay in years two and three since its first full financial year post listing. The committee has the ongoing delegated authority to review and adjust executives' remuneration in the event of the committee concluding that any executive's remuneration did not benchmark to market.

Spear remuneration framework

Spear's remuneration framework is designed to attract and retain high-quality talent whilst at the same time motivating performance that drives value creation. The Spear remuneration framework in respect of employees is as follows:

Remuneration framework		
Guaranteed pay		Variable pay
Basic pay	Benefits	Incentives
Cash salary including a discretionary thirteenth cheque and bonus	Benefits that include a travel benefit, cellphone benefit and retirement scheme	STI and LTI scheme based on individual and company performance

Spear has approved an 8% aggregate increase in total guaranteed pay for general staff for the 2020 financial year.

Remuneration Report (continued)

Components of remuneration for executive directors

The table below sets out an overview of the components of remuneration that apply to executives.

Element	Purpose	Performance period and measures	Option and delivery
Total guaranteed pay <i>Includes fixed salary and benefits (e.g. travel benefit, cellphone benefit and retirement scheme)</i>	To compensate executives for time and competence at a market-related rate, taking into consideration individual performance and contribution	Reviewed annually and based on individual performance	Delivered to the executive as a cash salary and a mix of compulsory and/or discretionary benefits such as retirement scheme, petrol benefit and cellphone benefit
STI	To create a high-performance culture through a cash bonus linked to performance against contracted deliverables	Performance is evaluated annually against distribution per share as measured against the annual budget	Payable in cash in February based on guidelines each year in respect of the previous financial year
LTI	To attract, retain and reward executives who perform well and to reinforce key alignment between the executives' interests and shareholder interests	Performance conditions are inherent in the award which is based on distribution per share growth (70%) and net asset value per share growth (30%) being achieved	Annual award of rights is made entitling an individual to shares. Vesting occurs every four years except for the first tranche, which will vest over three years and four months

There are currently no obligations in the executives' employment contracts which give rise to payments on termination of employment or office. Furthermore, it is policy that Spear's executives have employment contracts which may be terminated with a notice period of three months.

Short-term incentives

Introduction

The STI programme provides for a clear alignment of executive strategies which is designed to ensure that Spear is the benefactor of the highest possible distribution per share in any given period. The STI programme further aims to reward overperformance achieved by the executives of Spear, which is a material informant when determining bonuses.

Short-term incentive allocation methodology

The remuneration committee sets the economic targets for the STI on an annual basis. The measurement metric for the STI is distribution per share as measured against the annual budget set by management. The STI

scheme is effectively an overperformance remuneration model based on rewarding executives once budgeted distribution per share has been exceeded by the metrics on a linear basis, which is further based on the level of overperformance on distribution per share in comparison to the budgeted forecast as approved by the board. The STI scheme is self-funding, meaning that the on-target distribution per share is the forecast distribution per share plus the equivalent cents per share that equate to the rand value of the on-target STI pool.

The maximum value of the STI payable to an executive is equal to the executive's annual TGP and is payable in cash. The STI awards are independently verified by the group's auditors and are subject to the participants remaining in the employ of Spear.

Long-term incentives

Introduction

The LTI programme is part of a maximum performance and comprehensive skills retention strategy to ensure that targets are achieved, and human capital preservation is maintained within Spear.

Conditional Share Plan ("CSP")

As part of the LTI programme and together with the independent and external guidance of PricewaterhouseCoopers Inc., a CSP was introduced and approved at a special general meeting of shareholders held on 26 January 2018. The CSP was designed to:

- Attract, retain and reward members of the executive and senior management team
- Provide an opportunity for executives and senior management to share in the success of Spear
- Continuously incentivise executives and senior management to deliver on the key strategic objectives set by Spear over the long term
- Reinforce key alignment between the executives, senior management and Spear shareholders.

Long-term incentive allocation methodology

A tranche-based award system was adopted whereby on an annual basis, participants are awarded a number of conditional shares in the LTI programme, which vests over a four-year period except for the first tranche, which will vest over three years and four months. The first tranche

was awarded to executives and senior management on 1 March 2018 and a second tranche on 1 July 2018. A third tranche will be presented to the remuneration committee for consideration in June 2019 whereafter an award is to be made on 1 July 2019.

Conditional shares are divided into performance shares (70%, based on individual and company performance) and restricted shares (30%, based on vesting period employed). Performance shares are further subject to company (70%) and personal (30%) performance criteria. The company's performance criteria are based on distribution per share growth (70%) and net asset value per share growth (30%) being achieved for each of the four financial periods during the performance period.

After the four-year performance period, the remuneration committee assesses the performance and the number of shares awarded to each participant, which is then adjusted in line with the performance conditions. The LTI awards are independently verified by the group auditors.

Cessation of employment

In the case of a cessation of employment, the treatment of the unvested conditional shares will depend on the reason for cessation as set out below.

Reason for cessation

Just cause dismissal or resignation

Death, illness, permanent disability, retirement, early retirement and retrenchment

Treatment of unvested options

Remuneration committee has the authority to amend the terms of the award

Remuneration committee has the authority to accelerate the vesting period

Non-executive directors' fees

Non-executive directors do not have employment contracts, they do not receive any benefits associated with permanent employment and do not qualify for any STI or LTI. Their fees as directors consist of a fixed fee for services as a director and an additional attendance fee for duties on committees. The Chairman of the board is paid a higher fee to reflect the complexity and amount of preparation required by him. Furthermore, of all Spear's board members except one reside in Cape Town, with the travel and accommodation expenses of this director for attendance at board and board committee meetings being borne by Spear.

The proposed fees for 2019/20 are detailed below and will be submitted for approval by the shareholders at Spear's AGM to be held on 8 August 2019.

	Annual base fee	Attendance fee
2019/20	R	R
Chairman of the board	580 000	
Deputy Chairman	570 000	
Board member	250 000	
Chairman of audit and risk committee		7 000
Member of audit and risk committee		5 000
Chairman of other sub-committee		7 000
Member of other sub-committee		5 000

Remuneration Report (continued)

Based on the meetings set for the period, the total fees payable in the coming period will amount to R2 894 000 excluding VAT. The significant increase in comparison to the prior financial period is due to the fees being paid for a full financial period, the appointment of an additional board member and the increase in the number of meetings to be held in the coming year.

Implementation report

Spear's remuneration committee is satisfied that Spear complied with its remuneration policy during the 2019 financial year.

Total guaranteed package ("TGP")

In January 2019, Spear's remuneration committee undertook an exercise to review, benchmark and adjust the executive remuneration to closer reflect executive management's remuneration levels within the real estate sector with effect from 1 March 2019.

The table below sets out the TGP increases for the executive directors:

	2020 CTC R'000
Executive directors	
QM Rossi	2 554
C Barnard	1 669

Annual salary increases for all staff levels excluding executives were based on various factors ranging from Spear's profits, average CPI and market-related salary indicators. The salary increase percentage for all staff levels excluding executives was 8.2%. This was largely as a result of the implementation of retirement benefits for employees whereby an additional contribution of 3.5% would be made by Spear towards the retirement benefits of each employee.

Single figure remuneration

The following table sets out the remuneration paid to executive directors during the 2018 and 2019 financial years:

	Basic salary R'000	Other benefits R'000	STI R'000	Total R'000	Value of LTI granted R'000
2019					
Executive directors					
MN Flax	1 851	80	132	2 063	–
QM Rossi	2 064	140	198	2 402	5 185
C Barnard	1 463	89	165	1 716	5 185

	Basic salary R'000	STI R'000	Total R'000	Value of LTI granted R'000
2018				
Executive directors				
MN Flax	1 448	251	1 699	–
QM Rossi	1 475	251	1 726	–
C Barnard	903	215	1 118	–

Non-executive directors' fees

The following table sets out the remuneration paid to non-executive directors during the 2018 and 2019 financial years:

	Appointed to the board	2019 Directors' fees R'000	2018 Directors' fees R'000
Non-executive directors			
A Varachhia	19 Apr 2016	400	400
N Kjellström-Matseke	30 Sept 2016	244	227
BL Goldberg	20 Jul 2016	230	232
JE Allie	20 Jul 2016	242	228
CS McCarthy	28 Jun 2017	200	138
R Phillips (Dr.)	16 Jul 2018	133	N/A

STI performance outcomes

The table below sets out the STI as approved by the remuneration committee for the period ended 28 February 2019 and is based on performance for the year ended 28 February 2019:

Level of performance	Measure	Share of % over forecast DPS	Rand value of STI pool	Total STI as % sharing of total DPS	Actual performance	Actual pool available for distribution
Forecast	Forecast DPS	0	–	0		
On target	Forecast DPS + 10%	15	2 386 798	1.36	Forecast + 2.34%	162 433 457
Stretch	Forecast DPS + 15%	30	7 160 393	3.91		

STIs awarded in the 2019 financial year

The following table sets out the STI paid to executive directors during the 2019 financial year:

	2019 R'000	2018 R'000
Executive directors		
MN Flax	132	251
QM Rossi	198	251
C Barnard	165	215

LTIs awarded in the 2019 financial year

A long-term incentive programme in the form of a Conditional Share Plan was introduced and approved at a general meeting of the shareholders held on 26 January 2018. The first tranche was awarded to executives and senior management on 1 March 2018 and a second tranche on 1 July 2018. No shares vested in the 2019 financial year.

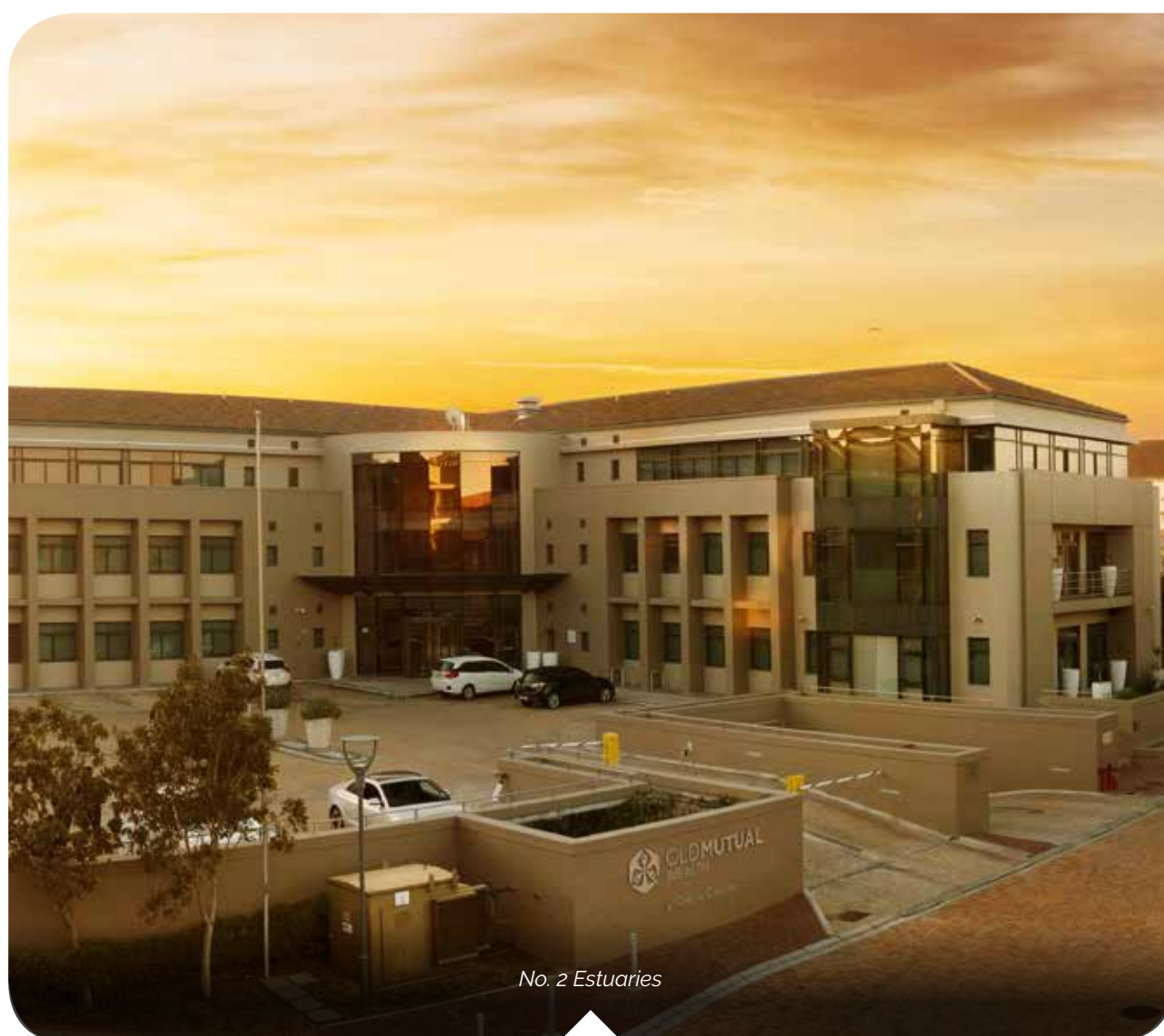
The performance condition attached to the awards made in the 2019 financial year are set out below.

Performance condition	Weighting	Threshold (30% vesting)	Target (100% vesting)	Stretch (150% vesting)	
Distribution per share growth	(%)	70	8	10	12
Net asset value growth	(%)	30	3	5	7

Remuneration Report (continued)

The following table sets out the LTI awards made to the executive directors during the 2019 financial year.

Director	Date of award	Vesting date	On-target grant	Estimated award at vesting date	Issue price R'000	Closing number of unvested instruments	Indicative value R'000
QM Rossi	03/01/2018	06/30/2021	400 000	338 440	8.04	338 440	2 721 058
	07/01/2018	06/30/2022	400 000	338 440	7.28	338 440	2 463 843
							5 184 901
C Barnard	03/01/2018	06/30/2021	400 000	338 440	8.04	338 440	2 721 058
	07/01/2018	06/30/2022	400 000	338 440	7.28	338 440	2 463 843
							5 184 901



Risk Management Report

The board is responsible for the governance of risk and mandates the governance thereof to the audit and risk committee to oversee and monitor the risk management framework and risk management processes.

Risk management is an integral part of the group's strategic management and is essential to ensure quality growth in the net asset value of the group, which translates into sustainable distribution growth.

The group employs a risk management framework to:

- Identify risk factors which may have a material impact on the group's operations

- Formulate a mitigating response for each area of impact
- Monitor progress against mitigation targets
- Review and revise identified risks on an ongoing basis.

The board adopted a risk management policy which is implemented by the executive team and staff in the daily operations of the group. The policy is based on mitigating identified risks to the group to acceptable levels in line with industry practices whilst taking our strategic objectives into account.

The table below summarises the key risk factors identified and how these have been mitigated:

Risk factor	Areas of impact	Company response	Status
Tourism downturn	<ul style="list-style-type: none"> • Decrease in hospitality rental 	<ul style="list-style-type: none"> • Assist with strategic marketing and sales advice • Adjust earnings forecast in line with market conditions 	<ul style="list-style-type: none"> • Trading conditions remain tough and hotel occupancies remain below historical levels on a year-on-year basis. • Green shoots have been noted with occupancies and rates increasing and foreign visitors increasing
Tenant default	<ul style="list-style-type: none"> • Sustainability of revenue and distribution • Portfolio vacancies 	<ul style="list-style-type: none"> • Credit vetting process and preference for tenants offering strong lease covenant • Active client engagement and daily review of arrears 	<ul style="list-style-type: none"> • No significant post-listing bad debts • Total vacancies only 1.98% of GLA
Rapid increase in utility costs, especially property taxes and electricity	<ul style="list-style-type: none"> • Pressure on tenants for recovered utilities • Pressure on profitability for non-recovered costs • Additional financial impact on tenants 	<ul style="list-style-type: none"> • Investigate use of renewable energy sources • Investigate use of non-municipal water supply 	<ul style="list-style-type: none"> • Boreholes and well points at high-water-use buildings operational • 18% of lettable space comprises tenants fully recovering leases
Cape Town water shortage	<ul style="list-style-type: none"> • Tenant business closure • Sustainability of revenue 	<ul style="list-style-type: none"> • Water storage tanks installed to provide 7 to 10 days of water per property • Water distribution truck acquired • Reverse osmosis plants being investigated 	<ul style="list-style-type: none"> • Water tanks deployed at properties • Water distribution truck operational • Reverse osmosis plants investigation ongoing

Risk Management

Report (continued)

Risk factor	Areas of impact	Company response	Status
Macro-economic environment	<ul style="list-style-type: none"> • Access to capital • Interest rate risk • Tenant defaults and reduction in rental income 	<ul style="list-style-type: none"> • LTV target range of 40% – 45% and maintenance of adequate banking facilities • Hedging target of 60% • Focus on high-quality real estate in the Western Cape 	<ul style="list-style-type: none"> • Current LTV 40%, below target range • 65% debt fixed • 63% of GLA to large listed national or international tenants
Going concern risk	<ul style="list-style-type: none"> • Inability to settle creditors and funding obligations as they become due 	<ul style="list-style-type: none"> • Strong balance sheet with long-dated leases in place to generate sustainable cash flows • Continuous management of overheads and improve project performance 	<ul style="list-style-type: none"> • Current LTV 40%, well below the 55% guideline
Deterioration in property values or specific areas	<ul style="list-style-type: none"> • Fair value of investment property • Ability to attract new tenants 	<ul style="list-style-type: none"> • Focus on A-grade property in prime nodes • Preference for tenants offering strong lease covenant 	<ul style="list-style-type: none"> • 63% of GLA to A-grade tenants • 28% of leases expire > 3 years
Retention of key staff	<ul style="list-style-type: none"> • Loss of key staff will impact on the ability to achieve the group's objectives 	<ul style="list-style-type: none"> • Implementation of long-term and short-term incentive schemes 	<ul style="list-style-type: none"> • Share scheme and bonus plan rolled out to all key staff • Shareholder approval received for implementation of CSP programme
Gradual or sudden destruction of properties	<ul style="list-style-type: none"> • Buildings destroyed by acts of God • Properties not properly maintained and deteriorating over time 	<ul style="list-style-type: none"> • Ensure adequate insurance cover is maintained • Ensure properties are continuously maintained 	<ul style="list-style-type: none"> • Comprehensive commercial insurance in place. Full insurance replacement valuation performed in the year under review to ensure adequacy of cover • Property operational team employed and detailed maintenance schedule drafted

Risk factor	Areas of impact	Company response	Status
Property obsolescence	<ul style="list-style-type: none"> Change in tenant needs or buildings becoming dated could result in impairment of key assets or significant costs to improve facilities 	<ul style="list-style-type: none"> Increased focus on acquiring new properties with excellent quality and maintenance record Prudently earmark dated properties for disposal Effective recycling of capital 	<ul style="list-style-type: none"> Our portfolio currently consists only of properties with excellent maintenance records
Compliance with laws and regulations	<ul style="list-style-type: none"> Penalties, operational risk from non-compliance with legislation Sanctions and risks associated with non-compliance with JSE regulations 	<ul style="list-style-type: none"> Employment of suitably skilled and experienced staff and executive Engage external specialists with appropriate skills Adequate internal and external training 	<ul style="list-style-type: none"> Executives and staff considered to be adequately qualified and experienced Corporate advisors and auditors experienced in listed property companies Employees regularly attend conferences and receive relevant training
Stakeholder risk (other than addressed above)	<ul style="list-style-type: none"> Access to capital Share price and liquidity Market credibility 	<ul style="list-style-type: none"> Regular meetings with major shareholders Close interaction with corporate advisors (PSG Capital, auditors, CDH) 	<ul style="list-style-type: none"> Company continues to receive strong support from current shareholders Oversubscribed in capital raise undertaken

The board, via the audit and risk committee, has considered the effectiveness of the risk assessment and management process, policies and procedures and is satisfied with the effectiveness thereof.



Jalaloodien Ebrahim Allie

Chair: Audit and Risk Committee

20 June 2019



Consolidated Financial Statements

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Audit and Risk Committee Report

The audit and risk committee has pleasure in submitting this report, as required by section 94 of the Companies Act, No. 71 of 2008 ("the Companies Act").

Functions of the audit and risk committee

The audit and risk committee has adopted formal terms of reference, delegated to it by the board of directors. The audit and risk committee has discharged its functions in terms of its terms of reference and ascribed to it in terms of the Companies Act as follows:

- Reviewed and monitored key policies and processes
- Made recommendations to the board regarding the appointment of the auditor and lead audit partner
- Verified the independence of the external auditor, BDO Cape Incorporated, for 2019 and noted the appointment of Mr. Bradley Jackson as lead audit partner
- Approved the audit fees and engagement terms of the external auditor
- Oversaw and reviewed the quality of the effectiveness of the external audit
- Determined the nature and extent of allowable non-audit services and pre-approved the contract terms for the provision of non-audit services by the external auditor
- Reviewed the effectiveness of the Chief Financial Officer and finance function
- Reviewed financial results and made recommendations to the board
- Reviewed financial statements and reports from the external auditor and made recommendations to the board
- Took appropriate steps to ensure that the financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and in the manner required by the Companies Act of South Africa
- Reviewed the external audit reports on the annual financial statements
- Reviewed significant financial reporting issues and assessed the appropriateness of accounting policies
- Reviewed the ongoing effectiveness of the internal financial controls

- Evaluated the effectiveness of the risk management framework, controls and governance processes
- Reviewed material risk exposures
- Monitored the existence, nature, extent, implementation and effectiveness of the internal control processes and, when appropriate, made recommendations on internal financial controls.

Members of the audit committee and attendance at meetings

The audit and risk committee consists of three independent non-executive directors listed hereunder and meets at least three times per annum in accordance with the audit and risk committee terms of reference. All members act independently as described in section 269A of the Act. Meetings and meeting attendance are detailed in the corporate governance report.

- JE Allie (Chairman)
- BL Goldberg
- N Kjellström-Matseke.

Internal audit

The audit and risk committee has oversight of the Spear group's financial statements and reporting process, including the system of internal financial control. The audit committee has satisfied itself that the size and complexity of the company does not warrant an internal audit function at this stage.

Based on the review of the Spear group's system of internal controls and risk management, and considering the information and explanations given by management and discussions with the external auditor on the results of the audit, nothing has come to the attention of the committee that caused it to believe that the Spear group's system of internal controls and risk management was not effective, and that the internal financial controls do not form a sound basis for the preparation of reliable financial statements.

Attendance

The external auditor, in their capacity as auditor to the Spear group, attended two of the meetings of the audit and risk committee. Executive directors attended meetings by invitation.

Confidential meetings

Audit and risk committee agendas provide for confidential meetings between the committee members and the external auditor.

External auditor

In assessing the auditor's independence, the committee considered guidance contained in the King IV Report on Corporate Governance™ for South Africa, 2016 ("King IV™") as well as Independent Regulatory Board for Auditors ("IRBA") publications and related commentary thereon. The board sets a policy that governs the level and nature of non-audit services, which requires approval by the audit and risk committee for all non-audit services. In determining the independence of the external auditor, the committee considered the level and types of non-audit services provided as well as other enquiries and representations. The committee is satisfied that the auditor does not, except as external auditor or in rendering permitted non-audit services, receive any remuneration or other benefits from Spear. In addition, the committee has satisfied itself that the auditor's independence was not prejudiced by any consultancy, advisory or other work undertaken or as a result of any previous appointment as auditor.

The prospect of mandatory audit firm rotation was also considered by the committee during the current financial year. As required by the Companies Act, the committee has satisfied itself that Spear REIT Limited's external auditor, BDO Cape Incorporated, was independent of the company, as set out in sections 90(2)(c) and 94(8) of the Companies Act, and is thereby able to conduct its audit functions without any undue influence from the company.

The committee has considered the relevant audit quality indicators, including the audit firm's system of quality control. It noted that BDO Cape Incorporated was subject to a review of its quality control practices in terms of the International Standard on Quality Control by the IRBA. No legal or disciplinary proceedings have been concluded against the firm in the past seven years. The committee was satisfied with the quality of the audit concluded and has nominated, for re-appointment at the annual general meeting, BDO Cape Incorporated as the external auditor of Spear REIT Limited for the financial year ending 29 February 2020 and Mr. Bradley Jackson as the designated individual registered auditor who will undertake the audit on behalf of BDO Cape Incorporated.

BDO Cape Incorporated, being the audit firm, as well as Mr. Bradley Jackson, being the Spear group's individual auditor for the 2019 financial year, have been accredited on the JSE list of auditors in terms of the criteria in the JSE Listings Requirements. As required by paragraph 3.84(g)(iii) of the JSE Listings Requirements, the committee has satisfied itself that BDO Cape Incorporated and Mr. Bradley Jackson are suitable for reappointment as audit firm and individual auditor, respectively, by considering, *inter alia*, the information stated in paragraph 22.15(h) of the JSE Listings Requirements.

During the year under review the audit and risk committee reviewed a representation by the external auditor and, after conducting its own review, confirmed the independence of the auditors.

The committee is satisfied that in discharging its duties in terms of its mandate, together with the robust internal BDO Cape Incorporated independence processes, that BDO Cape Incorporated's independence is maintained and has not been impacted by tenure. The internal BDO Cape Incorporated independence processes include periodic internal quality reviews as well as those conducted by the IRBA; the rotation of the group audit partner and key component audit partners at least every five years; independence training; and monitoring of non-audit services.

Significant areas of judgement

Many areas within the financial statements that require judgement form an integral part of the financial statements. The committee has assessed the significance of the assets and liabilities on the statements of financial position and related items that require significant judgement.

Expertise and experience of the Chief Financial Officer and the finance function

In terms of the JSE Listings Requirements, the audit and risk committee performs an annual evaluation of the financial reporting function in Spear. The committee was satisfied that the financial reporting function had appropriate resources, skills, expertise and experience and is satisfied that the internal financial controls of the company are working effectively. The committee also confirmed that it is and was satisfied that Mr. Christiaan Barnard, Spear's Chief Financial Officer, possesses the appropriate skills, expertise and experience to meet the responsibilities required for that position during his service as such.

Audit and Risk Committee Report

(continued)

Internal financial controls

The audit committee oversaw the implementation of a combined assurance model and the external auditor and management reported to the audit and risk committee as to the efficiency of Spear group's internal financial controls. The audit committee reviewed these and other available reports regarding the group's risk management framework and confirms that no material breakdown of internal financial controls were identified during the current financial period.

Discharge of responsibilities

The audit and risk committee determined that during the financial year under review it had discharged its legal and other responsibilities as governed in the board-approved terms of reference.

Integrated report

- Annual financial statements

After review of the annual financial statements for the year ended 28 February 2019, the committee is of the opinion that, in all material respects, they comply with the relevant provisions of the Companies Act and IFRS as issued by the IASB, and fairly present the results of operations, cash flow and the financial position. On this basis, the committee recommended that the board of directors approve the annual financial statements for the year ended 28 February 2019.

- Integrated report

The committee reviewed this report, taking cognisance of material factors and risk that may impact the integrity thereof and recommended that the board of directors approve the integrated report for the year ended 28 February 2019.



Jalaloodien Ebrahim Allie

Chair: Audit and Risk Committee

9 May 2019

Directors' Responsibility Statement

Spear REIT Limited and its subsidiaries for the year ended 28 February 2019

The company's directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements comprising the statement of financial position at 28 February 2019, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report.

The consolidated and separate financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), the Financial Reporting Guides as issued by the South African Institute of Chartered Accountants ("SAICA") Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the Companies Act, No. 71 of 2008, as amended. The consolidated and separate financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors' responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the group and the company's ability to continue as a going concern and have no reason to believe the business will not be a going concern in the year ahead.

The external auditor is responsible for reporting on whether the consolidated and separate financial statements are fairly presented in accordance with the applicable financial reporting framework.

The consolidated and separate financial statements

of Spear REIT Limited were approved by the board of directors on 9 May 2019 and are signed on its behalf by:



Quintin Michael Rossi
Chief Executive Officer



Christiaan Barnard
Chief Financial Officer



Michael Naftali Flax
Deputy Executive Chairman

Declaration by the Company Secretary

Spear REIT Limited and its subsidiaries for the year ended 28 February 2019

In terms of section 88(e) and in my capacity as Company Secretary, I hereby confirm, in terms of the Companies Act of South Africa that, for the year ended 28 February 2019, the company has lodged with the Companies and Intellectual Property Commission all such returns as are required of a public company in terms of this Act and that all such returns are true, correct and up to date.



René Cheryl Stober
Company Secretary

9 May 2019

Directors' Report

Spear REIT Limited and its subsidiaries for the year ended 28 February 2019

Nature of business

Spear REIT Limited ("Spear" or "the company") listed as a Real Estate Investment Trust ("REIT") on the main board of the Johannesburg Stock Exchange ("JSE") and is the only regionally-focused REIT listed on the JSE which predominantly invests in high-quality income-generating assets in the Western Cape. Spear obtains its diversification through asset type rather than geographical investment.

The company conducts its business directly and through a number of subsidiaries, collectively referred to as the "group".

The company's property and asset management functions are internally and directly managed by the Spear executive management team.

Subsidiaries

The company has the following subsidiaries, all of which are property investment companies:

• Spear Holdco Proprietary Limited	(100%)
• Upper Eastside Hotel Proprietary Limited	(100%)
• Fundamental Holdings Proprietary Limited	(100%)
• Pacivista Proprietary Limited	(100%)
• Spear One Proprietary Limited	(70%)
• Blend Property 15 Proprietary Limited	(100%)
• Webram Four Proprietary Limited	(100%)

Financial results

The detailed financial results are fully set out in the consolidated and separate financial statements.

Date	Shares (million)	Rand per share	Reason
01/05/2018	3.15	9.52	Acquisition issue
11/06/2018	11.85	10.00	Vendor consideration/private placement
24/07/2018	5.20	10.10	Acquisition issue
16/11/2018	3.50	9.80	Vendor consideration/private placement

At the end of the current period 188 864 159 shares of no par value were in issue after deducting 24 550 treasury shares.

Going concern

The consolidated and separate financial statements were prepared on a going-concern basis. The board of directors is satisfied that the group has adequate resources to continue trading for the foreseeable future, based on a formal review of the results, cash flow forecasts and assessing available resources to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Borrowings

Spear REIT Limited has unlimited borrowing powers in terms of the memorandum of incorporation ("MOI"), but the group has maintained its debt levels below 60% of its gross asset value in accordance with JSE Listings Requirements for REITs. The group is also subject to a 55% loan-to-value covenant on its bank borrowings.

The group's overall debt was R1 522 316 at the reporting date as detailed in note 7 to the consolidated financial statements.

Share capital

The authorised shares of the company consist of 1 000 000 000 (one billion) ordinary shares of the same class and no par value.

The issued shares increased from 165.1 million shares of no par value in the prior year to 188.9 million shares of no par value as at year-end.

Reconciliation of share movements is as follows:

All movements in issued shares are detailed in note 14 to the financial statements.

Distribution to shareholders

The board of directors declared distribution number 5 of 44.69 cents per share on 15 May 2019.

Distribution numbers 4 and 5 for the year ending 28 February 2019 represent a 10.09% increase over the distribution for the year ended 28 February 2018.

Salient dates for the distribution are as follows:

	2019
Declaration date	Wednesday, 15 May
Last day to trade cum-dividend distribution	Tuesday, 4 June
Shares trade ex-dividend distribution	Wednesday, 5 June
Record date	Friday, 7 June
Payment date	Monday, 10 June

The board confirms the use of distribution per listed securities as the relevant measure of financial results for the purposes of trading statements.

Directors

The directors of the company are detailed in the Corporate Governance Report on page 24.

Dr. R Phillips was appointed to the board during the current financial year as a non-executive director.

In terms of the memorandum of incorporation the following directors retire at the forthcoming annual general meeting and are eligible for re-election:

- BL Goldberg
- A Varachhia.

Company Secretary

Ms. RC Stober was appointed as the Company Secretary on 1 September 2016.

Directors' interest in ordinary shares

Directors' interest as at 28 February 2019

Directors	Directly	Indirectly	Total	%
A Varachhia	–	20 984 992	20 984 992	11.11
MN Flax	–	20 807 264	20 807 264	11.02
CS McCarthy	–	15 222 222	15 222 222	8.06
QM Rossi	–	7 890 172	7 890 172	4.18
BL Goldberg	–	1 300 000	1 300 000	0.69
N Kjellström-Matseke	625 000	–	625 000	0.33
C Barnard	123 600	–	123 600	0.07
JE Allie	–	100 000	100 000	0.05
R Phillips (Dr.)	–	–	–	0.00
Total	748 600	66 304 650	67 053 250	35.50

There has been no change to the directors' interests between the reporting date and the date of approval of the consolidated and separate financial statements.

Directors' Report (continued)

Spear REIT Limited and its subsidiaries for the year ended 28 February 2019

Directors' interest as at 28 February 2018

Directors	Directly	Indirectly	Total	%
A Varachhia	–	20 984 992	20 984 992	12.70
MN Flax	–	20 807 264	20 807 264	12.60
CS McCarthy		15 222 222	15 222 222	9.21
QM Rossi	–	7 642 664	7 642 664	4.63
BL Goldberg	–	1 300 000	1 300 000	0.79
N Kjellström-Matseke	625 000	–	625 000	0.38
C Barnard	123 600	–	123 600	0.07
JE Allie	–	100 000	100 000	0.06
Total	748 600	66 057 142	66 805 742	40.44

Auditors

BDO Cape Incorporated will be recommended to shareholders at the annual general meeting to continue in office in accordance with Section 90(1) of the Companies Act.

Litigation

The directors are not aware of any legal or arbitration proceedings which have commenced, are pending, have been threatened, or may have a material impact on the results of the group.

Holding company

Spear REIT Limited has no holding company and the main shareholders are detailed in the table above and in note 32 to the separate financial statements.

Independent Auditor's Report

to the shareholders of Spear REIT Limited

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of Spear REIT Limited ("the group") set out on pages 58 to 109, which comprise the statements of financial position as at 28 February 2019, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Spear REIT Limited as at 28 February 2019, and its consolidated and separate financial performance and consolidated and separate cash flows for the year are then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's*

Responsibilities for the audit of the consolidated and separate financial statements section of our report. We are independent of the group and company in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors* ("IRBA Code") and other independence requirements applicable to performing audits of consolidated and separate financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The following key audit matters relate to the consolidated and separate financial statements.

Key Audit Matter

Audit response

Valuation of investment properties (Note 6)

Investment properties

The group and company's investment property portfolio relates largely to Cape Town-based properties, with a total value in the consolidated and separate statement of financial position of R3 737 million and R824 million. The fair value gain recorded in the consolidated and separate statement of financial performance amounts to R117.8 million and R40.4 million.

It is group policy that investment property is stated at their fair values with one third of the portfolio being valued by an independent external valuation expert, whilst the remaining two thirds are valued by management.

The audit procedures we performed included, amongst others, the following:

Investment properties

- We assessed the independent valuation expert competence, experience, qualifications and independence.
- We read the valuation reports for the properties valued by the independent valuation expert in the current year and confirmed the valuation approach was in accordance with International Financial Reporting Standards and suitable for use in determining the fair value for the purpose of the consolidated and separate financial statements.

Independent Auditor's Report (continued)

to the shareholders of Spear REIT Limited

Key Audit Matter	Audit response
<p>The valuation of the group and company's investment property portfolio is inherently subjective due to the estimates used in determining the property fair values, such as the capitalisation rates, discount rates and forecast rentals and property expenses. Among other factors, the individual nature of the properties, their location and expected future rentals, taking cognisance of the tenant occupying the properties, also affects the valuation of the investment property. They also apply assumptions for yields and estimated market rent to arrive at the final valuation.</p> <p>The valuation of investment properties was considered to be a key audit matter due to the significance of the estimates and the level of judgement involved.</p>	<ul style="list-style-type: none"> • Similarly, we confirmed that the valuation approach used by management was appropriate for the determination of fair values in the consolidated and separate financial statements. In addition, we have satisfied ourselves that the techniques used by the external valuation expert and management have been applied consistently. • We agreed all investment property fair values, valued by the independent valuation expert, to the underlying independent valuation expert reports. • We tested the key assumptions used in the determination of fair values in respect of both the external valuation expert valuation as well as the valuation performed by management as follows: <ul style="list-style-type: none"> - The forecast revenue applied in the first year of both the discounted cash flow ("DCF") model and capitalisation rate model was assessed for reasonability. This was performed by agreeing the forecast revenue per the property management system to the amounts used in the DCF and capitalisation rate models. The inputs within the property management system used to generate the revenue forecast was agreed to underlying contracts and compared to the current year revenue for reasonability. - The projected property expenses applied in the first year of both the DCF model and capitalisation rate model was assessed for reasonability. The expenses that were projected were assessed for reasonability by using the historical "cost-to-income" ratio. - We assessed the reasonability of revenue and expense growth rates in the DCF model subsequent to the initial forecast year to available industry data for similar investment properties. - We assessed the reasonability of the discount and capitalisation rates applied to prior years and available industry data for similar investment properties. - We assessed the reasonability of the DCF calculations (DCF model) prepared by the independent valuation expert and net operating income calculations (capitalisation rate model) prepared by management by re-performing the calculations. - We evaluated whether disclosures in the consolidated and separate financial statements relating to the valuation of investment properties were in accordance with International Financial Reporting Standards.

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa, which we obtained prior to the date of this report, and the Integrated Report, which is expected to be made available to us after that date. Other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going-concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going-concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the

Independent Auditor's Report (continued)

to the shareholders of Spear REIT Limited

date of our auditor's report. However, future events or conditions may cause the group and/or company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the Key Audit Matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that BDO Cape Incorporated, has been the auditor of Spear REIT Limited for four years.

BDO Cape Inc.

BDO Cape Incorporated
Chartered Accountants (SA)
Registered Auditors

Per: Bradley Jackson
Partner
Chartered Accountant (SA)
Registered Auditor

6th Floor, BDO House
119-123 Hertzog Boulevard
Foreshore
Cape Town
8001

9 May 2019



1 Waterhouse Place

Consolidated and Separate Statement of Financial Position

Spear REIT Limited and its subsidiaries for the year ended 28 February 2019

	Notes	Group		Company	
		2019 R'000	2018 R'000	2019 R'000	2018 R'000
ASSETS					
Non-current assets					
Investment property (including straight-line accrual)	6	3 737 352	2 912 417	824 132	152 976
Investment in subsidiaries	9	–	–	1 369 733	1 397 987
Property, plant and equipment	8	3 352	1 785	–	–
Financial assets	10	60 943	55 810	–	–
Deferred taxation	17	6 780	5 838	–	–
		3 808 427	2 975 850	2 193 865	1 550 963
Current assets					
Investment properties held for sale	6.3	74 000	221 492	–	72 970
Financial assets	10	9 863	6 466	–	–
Loans to related parties	11	109	–	1 856	4 834
Trade and other receivables	12	10 527	13 132	1 673	5
Cash and cash equivalents	13	13 792	10 220	3 382	176
Insurance claim receivable		–	178	–	–
		108 291	251 488	6 911	77 985
TOTAL ASSETS		3 916 718	3 227 338	2 200 776	1 628 948
EQUITY AND LIABILITIES					
Shareholders' interest					
Share capital	14	1 794 067	1 547 407	1 746 550	1 511 250
Share-based payment reserve	29	10 850	4 394	10 850	4 394
Accumulated income		490 615	365 517	57 228	15 739
Total attributable to owners		2 295 532	1 917 318	1 814 628	1 531 383
Non-controlling interest		54 155	54 155	–	–
		2 349 687	1 971 473	1 814 628	1 531 383
Liabilities					
Non-current liabilities					
Financial liabilities	7	1 335 853	1 053 434	376 257	91 822
		1 335 853	1 053 434	376 257	91 822
Current liabilities					
Financial liabilities	7	186 463	152 536	–	–
Loans from related parties	11	–	8 411	–	–
Trade and other payables	15	44 715	40 840	9 891	5 743
Deferred revenue		–	644	–	–
		231 178	202 431	9 891	5 743
TOTAL LIABILITIES		1 567 031	1 255 865	386 148	97 565
TOTAL EQUITY AND LIABILITIES		3 916 718	3 227 338	2 200 776	1 628 948
Number of ordinary shares in issue		188 888 709	165 190 689		
Treasury shares		(24 550)	(1 424 139)		
Net ordinary shares in issue		188 864 159	163 766 550		
Gearing ratio	(%)	39.58	38.48		
Tangible net asset value per share	(Rands)	12.12	11.57		

Consolidated and Separate Statement of Comprehensive Income

Spear REIT Limited and its subsidiaries for the year ended 28 February 2019

	Notes	Group		Company	
		2019 R'000	2018 R'000	2019 R'000	2018 R'000
Property revenue					
– Contractual rental income		319 509	232 896	43 434	4 439
– Tenant recoveries		98 801	54 179	10 372	762
– Distribution income		–	–	126 779	87 558
– Straight-line rental income accrual		7 812	16 980	(309)	2 064
	18	426 122	304 055	180 276	94 823
Other income	19	8 607	12 540	2 033	448
Total revenue		434 729	316 595	182 309	95 271
Property operating and management expenses	20	(139 200)	(87 422)	(16 424)	(1 528)
Net property-related income		295 529	229 173	165 885	93 743
Administrative expenses	20	(22 668)	(17 530)	(592)	(160)
Net property operating profit		272 861	211 643	165 293	93 583
Fair value adjustment – Investment properties		111 702	252 535	40 438	10 962
Depreciation	8	(2 943)	(441)	(29)	–
Annual listing fees		(261)	(314)	–	–
Share-based payment expense	29	(6 456)	(455)	(6 456)	(455)
Profit from operations		374 903	462 968	199 246	104 090
Net finance cost		(100 111)	(76 044)	(12 465)	(1 411)
– Finance costs	22.1	(109 202)	(82 297)	(12 563)	(1 415)
– Finance income	22.2	9 091	6 253	98	4
Profit before taxation		274 792	386 924	186 781	102 679
Taxation		(245)	(695)	–	–
Profit for the year		274 547	386 229	186 781	102 679
Other comprehensive income		–	–	–	–
Total comprehensive income for the year		274 547	386 229	186 781	102 679
Attributable to:					
Equity owners of the parent		270 389	383 186	186 781	102 679
Non-controlling interest		4 158	3 043	–	–
Total comprehensive income for the year		274 547	386 229	186 781	102 679
Basic earnings per share	(cents)	149.86	271.60		
Diluted earnings per share	(cents)	149.86	271.60		
Distribution per share	(cents)	86.42	78.50		
Interest cover ratio	(times)	2.65	2.56		

Consolidated and Separate Statement of Changes in Equity

Spear REIT Limited and its subsidiaries for the year ended 28 February 2019

Group	Notes	Share capital R'000	Accumulated profit R'000	Equity reserve R'000	Total attributable to parent R'000	Non-controlling interest R'000	Total equity R'000
Balance as at 28 February 2017		917 538	65 331	3 939	986 808	–	986 808
<i>Changes in equity:</i>							
Sale of investment in subsidiary		–	–	–	–	54 155	54 155
Profit for the period		–	383 186	–	383 186	3 043	386 229
Distribution to minority shareholder		–	–	–	–	(3 043)	(3 043)
Issue of shares		638 926	–	–	638 926	–	638 926
Acquisition of treasury shares		(9 057)	–	–	(9 057)	–	(9 057)
Distributions to shareholders		–	(83 000)	–	(83 000)	–	(83 000)
Share-based payment expense		–	–	455	455	–	455
Balance as at 28 February 2018		1 547 407	365 517	4 394	1 917 318	54 155	1 971 473
<i>Changes in equity:</i>							
Investment in subsidiary	9	52 500	–	–	52 500	–	52 500
Profit for the period		–	270 389	–	270 389	4 158	274 547
Distribution to minority shareholder		–	–	–	–	(4 158)	(4 158)
Issue of shares	14	180 058	–	–	180 058	–	180 058
Disposal of treasury shares		14 102	–	–	14 102	–	14 102
Distributions to shareholders		–	(145 292)	–	(145 292)	–	(145 292)
Share-based payment expense	29	–	–	6 456	6 456	–	6 456
Balance as at 28 February 2019		1 794 067	490 614	10 850	2 295 531	54 155	2 349 686

Company	Notes	Share capital R'000	Accumulated profit/(loss) R'000	Equity reserve R'000	Total equity R'000
Balance as at 28 February 2017		926 872	(3 940)	3 939	926 871
<i>Changes in equity:</i>					
Profit for the period		–	102 679	–	102 679
Issue of shares		584 378	–	–	584 378
Distributions to shareholders		–	(83 000)	–	(83 000)
Share-based payment expense		–	–	455	455
Balance as at 28 February 2018		1 511 250	15 739	4 394	1 531 383
<i>Changes in equity:</i>					
Profit for the period		–	186 781	–	186 781
Investment in subsidiary	9	52 500	–	–	52 500
Issue of shares	14	182 800	–	–	182 800
Distributions to shareholders		–	(145 292)	–	(145 292)
Share-based payment expense	29	–	–	6 456	6 456
Balance as at 28 February 2019		1 746 550	57 228	10 850	1 814 628

Consolidated and Separate Statement of Cash Flows

Spear REIT Limited and its subsidiaries for the year ended 28 February 2019

	Notes	Group		Company	
		2019 R'000	2018 R'000	2019 R'000	2018 R'000
Cash flow from operating activities					
Cash generated from operating activities	22	267 227	201 785	168 083	97 256
Finance cost	22.1	(108 261)	(82 297)	(11 621)	(1 415)
Finance income	22.2	4 825	1 602	98	4
Distribution paid		(145 292)	(83 000)	(145 292)	(83 000)
Taxation paid		(245)	-	-	-
Taxation received		-	11	-	-
Net cash generated from operations		18 254	38 101	11 268	12 845
Cash flows from investing activities					
Acquisition of investment property	6	(651 815)	(1 278 255)	(607 686)	(212 919)
Cost incurred on developments	6	(99 913)	-	-	-
Proceeds on sale of investment property	6	332 867	15 968	79 600	-
Acquisition of property, plant and equipment	8	(1 984)	(1 734)	-	-
Acquisition of subsidiary	9	(60 420)	-	-	(314 358)
Proceeds from insurance receivable		178	18 508	-	-
Net cash used in investing activities		(481 087)	(1 245 513)	(528 086)	(527 277)
Cash flow from financing activities					
Proceeds from share issue	14	150 442	482 168	152 800	427 621
Proceeds from financial liabilities	7.2	390 211	761 214	310 300	91 822
Repayment of financial liabilities	7.2	(74 806)	(33 696)	(26 808)	-
Contribution from subsidiary		-	-	80 754	-
Loan advanced to minority shareholder		(72)	(48)	-	-
Proceeds from related party loan		-	4 530	2 978	-
Repayment of related party loan	11	(8 520)	-	-	(4 842)
Repayment of finance lease		-	(112)	-	-
Proceeds from tenant loan		915	-	-	-
Loan advanced to tenant	10	(5 869)	-	-	-
Purchase of treasury shares		(4 859)	(16 669)	-	-
Proceeds from sale of treasury shares		18 963	7 613	-	-
Net cash generated from/(used in) financing activities		466 405	1 205 000	520 024	514 601
Total cash movement for the period		3 572	(2 412)	3 206	169
Cash at beginning of the period		10 220	12 632	176	7
Cash at end of the period	13	13 792	10 220	3 382	176

Notes to the Financial Statements

Accounting Policies

1. Basis of presentation of financial statements

1.1 Basis of preparation

The consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), the Financial Reporting Guides as issued by the South African Institute of Chartered Accountants ("SAICA") Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the Companies Act of 2008, as amended.

The financial statements have been prepared on the historical cost basis, except where otherwise noted, and incorporate the principal accounting policies set out below. They are presented in South African Rands.

It is company policy to report net asset value per share in the annual financial statements.

1.2 Use of judgements and estimates

The preparation of the financial statements in accordance with IFRS requires management to exercise its judgement in the process of applying the group's accounting policies and make estimates and assumptions concerning the future. The most significant judgements, estimates and assumptions that may have a material impact on the financial statements are as follows:

1.2.1 Areas of estimation uncertainty

Valuation of investment property

The board has used the best available evidence to determine the fair value of investment properties as set out in note 28 to the financial statements. This includes current market prices for properties with similar characteristics and leases and cash flow projections. As the available information is not directly comparable to the properties within the group, the amounts are determined within a reasonable range of fair value.

The principal assumptions underlying the board's estimation of fair value are disclosed in note 28 and include the receipt of contracted rentals, lease

renewals, maintenance requirements, operational costs and appropriate discount and capitalisation rates.

1.2.2 Areas of significant judgement

Acquisition of subsidiaries that hold properties

Where the group obtains control of entities that own investment properties, or when the group acquires properties or a group of properties collectively, an evaluation is performed as to whether such acquisitions should be accounted for as business combinations or acquisitions in terms of IAS 40 Investment Properties. An acquisition is not considered to be a business combination if the definition of a business combination is not met.

Management concluded that all acquisitions of properties in the current financial year were not business combinations. Therefore these were accounted for in terms of IAS 40 Investment Properties.

Other areas of significant judgement and estimations

- Computation of equity-settled share-based payment (refer to note 29).

1.3 Consolidation

Subsidiaries

Subsidiaries are entities (including structured entities) over which the group has control. Control exists when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to govern the financial and operating policies thereof. Subsidiaries are consolidated from the date on which control passes to the group and are deconsolidated from the date that control ceases.

The acquisition method is used to account for business combinations.

Company financial statements

The company's investments in subsidiary companies are carried at cost (including transaction costs) less impairment losses.

1.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the executive directors on the board, which comprises the three executive directors. The executive committee allocates resources and assesses the performance of the operating segments of the group.

Financial instruments include the following:

	Note
• Loans to related parties	11
• Trade and other receivables	12
• Cash and cash equivalents	13
• Trade and other payables	15
• Financial assets	10
• Financial liabilities	7

The classification of financial instruments depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

At initial recognition, the company measures its financial instruments at its fair value.

Subsequent measurement of the financial instruments depends on the company's business model for managing the asset and the cash flow characteristics of the asset or liability. The company classifies its financial instruments as carried at amortised cost.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Interest expense from these financial liabilities is included in finance expense using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses). Impairment losses are presented as a separate line item in the statement of profit or loss.

Impairment of financial assets

A forward-looking allowance for expected credit losses is recognised for all debt instruments not held at fair value through profit or loss. Expected credit losses are based on the difference between contractual cash flows due in accordance with the contract and all the cash flows that the company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The impairment methodology applied depends on whether there has been a significant increase in credit risk:

- For credit exposures with no significant increase in credit risk since initial recognition, expected credit losses are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month expected credit loss)
- For credit exposures with a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime expected credit loss)
- Default event occurred, lifetime expected credit losses are recognised and interest income is only earned on net balances.

Change in credit risk is defined in note 5 Risk management.

For trade receivables, a simplified approach is applied in calculating expected credit losses. Instead of tracking changes in credit risk, a loss allowance is recognised based on lifetime expected credit losses at each reporting date. A provision matrix was established that is based on the company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

All other financial assets' expected credit losses are determined using the general approach.

12-month expected credit losses are recognised as the financial instruments have not deteriorated significantly in credit quality since initial recognition.

Notes to the Financial Statements

(continued)

1. Basis of presentation of financial statements (continued)

1.5 Financial instruments (continued)

12-month expected credit losses are a portion of the lifetime expected credit losses. They are calculated by multiplying the probability of a default occurring on the instrument in the next 12 months by the total (lifetime) expected credit losses that would result from that default. They are not the expected shortfalls over the next 12 months.

The company considers a financial asset in default when contractual payments are 120 days past due. However, in certain cases, the company may also consider a financial asset to be in default when internal or external information indicates that the company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Refer to Risk management in note 5 for details of the default event of each financial instrument class.

Derivative financial instruments

Derivatives at fair value through profit or loss comprise of an interest rate swap and are either assets or liabilities and are classified as non-current due to the maturity of the carrying amount. Purchases and settlements of derivative financial instruments are initially recognised on the trade date at fair value and are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of derivative financial instruments are included in fair value adjustments in profit and loss.

The group does not apply hedge accounting and does not enter into derivative contracts for trading or speculative purposes.

1.6 Impairment of non-financial assets

The carrying amounts of the group's non-financial assets are reviewed for indicators of impairment at each reporting date. Where such indicators exist, the asset's recoverable amount is estimated.

Where the carrying value of an asset exceeds its estimated recoverable amount, the carrying value is impaired and the asset is written down to its recoverable amount.

1.7 Investment property

Investment property consists of property held by the group to earn rental income and capital appreciation and which is not occupied by the group.

Investment property includes property under construction/development. Investment property under construction is measured at fair value. Where the fair value of the property under construction is not reliably measurable, the property is measured at cost until the earlier of the date of construction is completed or the date the fair value becomes reliably measurable.

Investment property is initially measured at cost, which includes any directly attributable transaction costs. Certain costs relating to the asset are capitalised after the investment property has been recognised. Investment property is subsequently measured at fair value and all movements in fair value are recognised in profit or loss. The directors determine the fair value of investment property at each reporting period. In addition, external valuations are obtained as deemed appropriate and each property is externally valued at least once every three years.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the group and the cost of the item can be measured reliably. All other costs, including repairs and maintenance, are expensed as incurred.

1.8 Investment property held for sale

The following conditions must be met for an asset or disposal group to be classified as held for sale:

- Management is committed to a plan to sell
- The asset is available for immediate sale
- An active programme to locate a buyer is initiated
- The sale is highly probable, within 12 months of classification as held for sale (subject to limited exceptions)
- The asset is being actively marketed for sale at a sales price reasonable in relation to its fair value
- Actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn.

Once a plan to dispose is initiated, the property is classified as held for sale in term of IFRS 5.

A property can be available for immediate sale even though it still has a tenant occupying it.

The lease will then be transferred to the new owners. Sales are initiated either directly with us or through a broker.

Immediately before the initial classification of the asset as held for sale, the carrying amount of the asset will be measured in accordance with applicable IFRSs. Resulting adjustments are also recognised in accordance with applicable IFRSs. Investment property will continue to be measured in accordance with IAS 40 measurement principle.

1.9 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases.

Where a company in the group is the lessor

Rental income is the group's primary source of revenue (refer note 1.12).

Where a company in the group is the lessee

Lease payments, including prepayments, are charged to profit or loss on a straight-line basis over the period of the lease.

1.10 Property, plant and equipment

Property, plant and equipment is initially recognised at cost, which includes all expenditure that is directly attributable to the acquisition of the asset.

Subsequently, all property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment. The depreciable amount of assets is depreciated on a straight-line basis, from the date they are ready for use in the manner that management intended. The depreciation rates take into account the estimated useful life and residual values of the individual items, as follows:

• Computer equipment	3 years
• Furniture and fixtures	6 years
• Motor vehicles	5 years

The estimated useful lives, residual values and depreciation methods are reviewed at each reporting date. If appropriate, adjustments are made and accounted for prospectively as a change in estimate.

1.11 Share capital

Ordinary shares are classified as equity. Incremental

costs directly attributable to the issue of ordinary shares are recognised as a reduction in the share capital.

Treasury shares are acquired in the open market and the cost of such shares are recognised within equity.

1.12 Revenue

Revenue from lease agreements – IAS 17

Revenue comprises contractual rental income and tenant recoveries. It excludes value-added tax ("VAT"). Contractual rental income is recognised on a straight-line basis over the term of the lease taking into account fixed escalation clauses. The recognition of straight-lining impact does not affect distributable earnings. Tenant recoveries are recognised as they are earned in line with the contractual rights in the leases.

Rental income received in advance is recognised as a current liability as part of trade and other payables in the statement of financial position.

Other income comprises of development fee income, rental loss insurance claims and distribution refunds and is exclusive of VAT. Development fee income is recognised as services are delivered on a monthly basis. Rental loss insurance claims are recognised as revenue to match the discount provided to each affected tenant. Distribution refund consists of distributions received by a seller of a property for which they received part equity as settlement consideration and they shared in distributions relating to the period before the date of transfer of the property to the group and it was contractually agreed that the distribution will be refunded for that period before transfer.

1.13 Employee benefits

Short-term employee benefits

Wages, salaries, paid leave and other costs of short-term employee benefits are recognised as employee benefit expense in profit or loss in the period in which the services are rendered.

Short-term incentives

An expense is recognised in profit and loss and an accrual is raised in the statement of financial position relating to short-term bonuses where such payments can be contractually determined or an obligation has arisen from past events.

Notes to the Financial Statements

(continued)

1. Basis of presentation of financial statements (continued)

1.13 Employee benefits

Employee share scheme

Executive trust provided shares

At the date of listing the founding shareholders of the REIT sold shares in the REIT to certain employees.

This was effected via the property trust that sold the core properties to the group in exchange for REIT shares.

The shares were not issued by the group to the employees.

The trust then sold shares on loan account to these employees. These transactions have been accounted for as equity-settled share-based payments in terms of IFRS 2 Share-based Payment.

The property trust has not been consolidated because the group does not control it.

Conditional Share Plan

The group implemented and had a Conditional Share Plan approved by shareholders. The plan is classified as a equity-settled share-based payment plan, under which it receives services from employees as consideration for equity instruments of the company.

Beneficiaries of the plan will be executives and management and employees recommended by the remuneration committee. The fair value of the employee services received in exchange for the grant of the shares is recognised as an expense on a straight-line basis over the vesting period, with a corresponding recognition in the share-based payment reserve.

The total amount expensed to profit or loss is determined by reference to the fair value rights to equity instruments granted, including any market performance conditions and excluding the impact of any non-market performance vesting conditions. Non-market performance vesting conditions are included in assumptions regarding the number of shares granted that are expected to vest. At the end of each reporting period, the group revises its estimates of the number of shares granted that are expected to vest and recognises the impact of

any changes in profit or loss with a corresponding adjustment to equity.

The effect of all conditional shares granted is taken into account when calculating diluted earnings and diluted headline earnings per share.

Refer to note 29 for a description of the terms, the estimates used in the valuation and the accounting measurement and disclosure requirements.

1.14 Income tax

The income tax expense for the period comprises current and deferred income tax and is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it will also be recognised in other comprehensive income or directly in equity as applicable. The company is a Real Estate Investment Trust ("REIT") and all subsidiaries in the group are "controlled companies" (as defined in the Income Tax Act). After deducting "qualifying distributions" from taxable income, no income tax is payable in the current year.

Deferred income tax is recognised, using the liability method, based on the temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is not recognised if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit nor loss.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilised.

1.15 Finance income and finance costs

Finance income

Finance income comprises interest earned on positive bank balances and short-term investments in an annex bond facility (notes 13 and 7).

Interest is recognised in profit or loss using the effective interest rate method.

Finance costs

Finance costs comprise interest accrued on financial liabilities and finance leases.

1.16 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or development of qualifying assets, are capitalised as part of the cost of these assets, until they are substantially ready for their intended use. Qualifying assets are those which necessarily take a substantial period of time to get ready for their intended use.

Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. The capitalisation rate is arrived at with reference to the actual rate for borrowings incurred for the specific asset or the weighted average cost of borrowings where the development is financed out of general funds.

All finance costs which are not capitalised are recognised in profit or loss.

1.17 Dividend distribution

Distributable earnings are a measure of sustainable income and is determined in line with best practice guidelines as issued by the SA REIT Association. Dividend distributions are recognised as a liability in the statement of financial position in the period in which the dividends are declared. This is not in the reporting period to which the dividend relates.

2. New standards and interpretations

At the date of approval of these consolidated and separate financial statements, certain new accounting standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the entity.

Management anticipates that all of the pronouncements will be adopted in the entity's accounting policies for the first period beginning after the effective date of the pronouncement. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the entity's consolidated and separate financial statements.

2.1 Standards and interpretations effective and adopted in the current period

In the current period, the company has adopted standards and interpretations that are effective for the current financial period and that are relevant to its operations. They did not have a material effect on the company's consolidated and separate financial statements and therefore have not been detailed further, except for IFRS 9 and IFRS 15.

	Date effective
IFRS 2 Share-based Payment (Amendments)	1 January 2018
IAS 40 Investment Property: Transfers of Investment Property (Amendments)	1 January 2018

None of the standards, amendments and interpretations that became effective during the period have had a material impact on the group.

IFRS 9 Financial Instruments

The main areas impacted relate to the recognition and measurement of financial instruments for the group and company in relation to the classification of financial assets and the measurement of expected credit losses with regards to financial assets. The group does not apply hedge accounting and therefore the change to hedge accounting under IFRS 9 will have no impact on the group and company financial statements.

Notes to the Financial Statements

(continued)

2. New standards and interpretations (continued)

2.1 Standards and interpretations effective and adopted in the current period (continued)

Area impacted	Response and treatment
Classification of financial assets	The business carried on by the group and the company lends itself to non-complex financial instruments that arise directly or indirectly through the normal operations. An assessment of all the categories of financial assets led to the conclusion that there were no material changes to the classification of the group's or the company's existing financial assets.
The measurement of expected credit losses	<p>The group does not have any significant financial assets classified as derivative financial instruments which are measured at fair value through profit or loss and are therefore not within the scope of the expected credit loss impairment model.</p> <p>The lease receivables that exist at each reporting date are short term in nature and the balance is clearly immaterial as a result of the group's focus on tenant credit vetting procedures and A-grade tenants. Of this balance, R2.9 million is 30 days or more past due. Using the simplified model and considering available forward-looking information, we therefore consider the impact of the expected credit losses model to be immaterial to the group.</p> <p>The loans granted to subsidiaries are repayable on demand and are interest free. Accordingly, expected credit losses are based on the assumption that repayment of the loan is demanded at the reporting date. If repayment of the loans were to be demanded at the reporting date, the company would be able to fully recover the outstanding balance of the loan within a timeframe that results in the effects of any discounting being immaterial.</p> <p>The loan receivable from 2 Long Street Investments Proprietary Limited is secured against its equity stake in the underlying subsidiary. Should the borrower fail to make repayments as required, the company would take ownership of the equity. In this event, there would be no material loss given default and therefore any expected loss is considered to be immaterial.</p> <p>The loan receivable from tenants is expected to have an immaterial expected credit loss due to available forward-looking information and the history of the loans and repayments being made when due and as expected.</p>

The group and company do not consider the adoption of IFRS 9 to have a material impact on the classification of the current financial instruments.

As a result of the impact of the new standard, further disclosure will invariably be required for the year ending 28 February 2019.

Comparative information will not be restated.

IFRS 15 Revenue from Contracts with Customers

The impact of IFRS 15 on the current accounting of revenue and the main areas are discussed below:

Area impacted	Response and treatment
Revenue streams	<p>Property revenue – Rental income is earned based on the contractual lease terms and therefore falls within the scope of IAS 17/IFRS 16.</p> <p>Tenant utility recoveries – It can be argued that tenant recoveries fall under IAS 17/IFRS 16 as provision for these recoveries is made in lease agreements. The frequency of these recoveries is monthly and is stipulated as such in the lease agreement, but the value differs based on the actual consumption per tenant. The utility consumption is a critical part of the lease agreement as no tenant can operate its business without them. The tenant would not enter a lease agreement for premises that is not equipped to deliver the required utilities, neither will a landlord agree that the consumption charges are not recoverable from the tenant. Thus the argument is made that utility recoveries are a critical lease component. The landlord is the principal in this relationship (see below). As the landlord is not the service provider but merely the principal the utility recoveries fall within the scope of IAS 17/IFRS 16.</p> <p>Tenant services recoveries – It can be argued that tenant recoveries fall under IAS 17/IFRS 16 as provision for these recoveries is made in lease agreements. However, the frequency of these recoveries as well as the value of the recoveries are not detailed in the lease agreements as they are based on actual expenses incurred by the landlord. Therefore, tenant recoveries fall within the scope of IAS 18 and will be accounted for under IFRS 15 going forward. The income stream is immaterial for the group.</p> <p>Dividends received from subsidiaries – This is excluded from the scope of IFRS 15.</p>
Principal versus agent	<p>An assessment has been performed in determining whether the group and company act as agent or principal in carrying out the services resulting in the tenant recoveries.</p> <p>A principal is an entity which obtains control over the goods or services prior to being transferred to the tenant. Control can be in the form of:</p> <ul style="list-style-type: none">• The entity being primarily responsible for fulfilling the promise to provide the good or service• The entity having inventory risk before the good or service has been transferred to the tenant• The entity having discretion in establishing the prices for the good or service. <p>The group negotiates the terms of the service, manages the relationship with the suppliers, is liable for payment (even if the property is vacant or the expense is not recovered from the tenant), and maintains primary responsibility for the service. It is concluded that the group does have control over the service prior to transferring to the tenant.</p> <p>Therefore, the group and the company act as a principal and not as an agent and can therefore continue to recognise the revenue on a gross basis.</p>

Based on the above assessment, there was no material change in the way that revenue is accounted for.

Comparative information will not be restated.

Notes to the Financial Statements

(continued)

2. New standards and interpretations (continued)

2.2 Standards and interpretations issued but not yet effective at 28 February 2019

The company has chosen not to early adopt standards and interpretations which have been published, but are not yet effective in the current financial year.

The new standards are not expected to have a material impact.

New and amended IFRS standards	Summary of the new amended standard	Annual period beginning on or after	Impact on the group
IFRS 9 Financial Instruments	Prepayment Features with Negative Compensation. The narrow-scope amendment allows companies to measure particular pre-payable financial assets with negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met.	1 January 2019	Assessed to have little impact/change to the current treatment.
IFRS 16 Leases	IFRS 16 sets out the principles for recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (lessee/tenant) and the owner (lessor). IFRS 16 replaces the previous leases standard IAS 17 Leases, and related Interpretations.	1 January 2019	Assessed to have little impact/change to the current revenue recognition treatment.
Annual improvement 2015 – 2017		1 January 2019	Assessed to have little impact/change to the current treatment.

3. Earnings per share

This note provides the obligatory information in terms of IAS 33 Earnings Per Share and SAICA Circular 4/2018 for the group and should be read in conjunction with note 4, where earnings are reconciled to distributable earnings. Distributable earnings determine the dividend declared to shareholders, which is a meaningful metric for a stakeholder in a REIT.

3.1 Basic earnings per share

		2019 Number of shares	2018 Number of shares
Shares in issue			
Number of shares in issue at the end of the period net of treasury shares		188 864 159	163 766 550
Weighted average number of shares in issue		180 427 720	141 084 847
Diluted weighted average number of shares in issues		180 427 720	141 084 847
Basic earnings per share			
Earnings (profit attributable to owners of the parent)	(R'000)	270 389	383 186
Basic earnings per share	(cents)	149.86	271.60
Diluted earnings per share	(cents)	149.86	271.60

3.2 Headline earnings per share

	2019 R'000	2018 R'000
Reconciliation between basic earnings and headline earnings		
Earnings (profit attributable to owners of the parent)	270 389	383 186
Adjusted for:	Gross R'000	Gross R'000
Fair value adjustments to investment properties	(111 702)	(252 535)
Taxation	–	–
	(111 702)	(252 535)
Headline earnings	158 687	130 651
Headline earnings per share	Cents	Cents
Headline earnings per share	87.95	92.60
Diluted headline earnings per share	87.95	92.60

4. Segment information

4.1 Reconciliation between earnings and distributable earnings

	Year ended 28 February 2019 R'000	Year ended 28 February 2018 R'000
Earnings (profit attributable to owners of the parent)	270 389	383 186
<i>Adjusted for:</i>		
Fair value adjustments to investment properties	(111 702)	(252 535)
Straight-lining of leases adjustment	(7 812)	(16 980)
Equity-settled share-based payment reserve	6 456	455
Deferred tax realisation	–	695
Less: Profit not distributed	–	(2 483)
Antecedent dividend*	4 443	16 348
Distributable profit	161 774	128 686
<i>* In the determination of distributable earnings, the group elects to make an adjustment for the antecedent distribution arising as a result of the capital raises on 11 June 2018 and 16 November 2018 respectively as well as the acquisition issue of shares for the acquisition of Webram Four Proprietary Limited during the period for which the company did not have full access to the cash flow from such issues.</i>		
Number of shares issued at year-end	188 888 709	165 190 689
Less: Treasury shares	(24 550)	(1 424 139)
Number of shares in issue net of treasury shares	188 864 159	163 766 550

Distribution per share is calculated using the total number of shares issued at year-end and at interim period respectively.

Notes to the Financial Statements

(continued)

4. Segment information (continued)

4.2 Distribution declared and distribution per share

	Cents per share	R'000
Total distributions for the period – 2019		
Interim distribution declared on 18 October 2018 (Distribution number 4)	41.73	77 276
Final distribution declared on 15 May 2019 (Distribution number 5)	44.69	84 416
Total distributions for the period ended 28 February 2019	86.42	161 692

	Cents per share	R'000
Total distributions for the period – 2018		
Interim distribution declared on 18 October 2017 (Distribution number 2)	36.95	59 954
Final distribution declared on 17 May 2018 (Distribution number 3)	41.55	68 637
Total distributions for the period ended 28 February 2018	78.50	128 591

4.3 Property segment information

Segments are reported in a manner that is consistent with the internal reporting provided to the executive committee, which comprises the three executive directors. The executive committee regularly reviews the operating results of the group's six operating segments:

- Industrial
- Commercial
- Retail
- Hospitality
- Residential
- Non-property.

The segments derive their revenue primarily from rental income from leases.

All treasury functions, corporate costs and other expenses that are not specifically attributable to individual properties are included in the Non-property segment.

The measurement of results reviewed by the executive committee is consistent with those presented in the consolidated and separate financial statements and the only reconciling item with the results and total assets and liabilities of the group is the effect of the straight-lining of leases.

The segment information for the group for the year ended 28 February 2019 is set out below:

	Industrial R'000	Commercial R'000	Retail R'000	Hospitality R'000	Residential R'000	Non- property R'000	Straight- lining of leases R'000	Total R'000
Segment revenue	124 589	167 704	77 646	44 089	8 658	4 233	7 812	434 730
Profit from operations	128 495	179 825	92 177	(11 627)	484	(22 262)	7 812	374 903
Fair value adjustments	49 391	68 125	43 028	(42 666)	(6 177)	-	-	111 702
Net property operating profit	79 411	112 651	50 252	31 203	6 661	(15 128)	7 812	272 862
Finance income	411	212	258	754	44	7 412	-	9 091
Finance costs	(24 492)	(27 650)	(14 594)	(8 908)	(2)	(33 556)	-	(109 202)
Investment property	955 832	1 481 039	559 065	504 897	-	42	23 097	3 523 971
Investment property held for sale	-	-	-	-	75 657	-	(1 657)	74 000
Investment property under construction	-	213 381	-	-	-	-	-	213 381
Total assets	1 023 315	1 669 899	626 056	532 042	77 833	(33 866)	21 439	3 916 718
Total liabilities	(333 309)	(657 511)	(168 335)	(101 909)	(272)	(305 695)	-	(1 567 031)

No tenants contributed 10% or more of revenue and recoveries.

5. Financial risk management and fair value measurement

5.1 Capital risk management

The group's objectives when managing capital is to safeguard the group's ability to continue as a going concern in order to provide returns for the shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the group consists of debt, which includes the borrowings disclosed in note 7, cash and cash equivalents disclosed in note 13, and share capital as disclosed in note 14.

In order to maintain or adjust the capital structure, the group may adjust the amount of distributions paid to the shareholders, return capital to the shareholders, issue new shares or sell assets to reduce debt.

As a Real Estate Investment Trust ("REIT"), the company is required to declare 75% of its distributable profit as a distribution. The board has elected (subject to the availability of cash resources and legislative requirements) to declare 100% of the distributable profit of the group as a distribution on a bi-annual basis.

As a result of the group's distribution policy, capital expansion is funded through a combination of bank debt and equity funding.

The group is subject to a loan covenant which limits the loan to value ("LTV") to 55% and targets an LTV of not more than 45% over time. The group's interest rate cover must remain above 1.75 for each financial period.

Notes to the Financial Statements

(continued)

5. Financial risk management and fair value measurement (continued)

5.1 Capital risk management (continued)

The gearing ratio is calculated as total net debt divided by total assets. Total net debt is the sum of all interest-bearing debt of the group excluding tenant deposits, tax payable and trade creditors reduced by cash and cash equivalents.

Total assets equate to the group's direct investment in property holdings.

Financial risk arises from the group's exposure to financial instruments and comprises market risk (interest rate risk), liquidity risk and credit risk. The board of directors has overall responsibility for the establishment and oversight of the group's risk management framework. The board has delegated this responsibility to the audit committee, which considers the adequacy of the group's risk management framework and monitors management's implementation of risk management policies and procedures.

The group's policies are designed to ensure that appropriate risk limits have been set for financial risks and that adherence to these limits are monitored continuously.

The gearing ratio as at 28 February 2019 was as follows:

	Note	2019 R'000	2018 R'000
Total borrowings			
Total net debt	7	1 508 524	1 195 750
Total investment property	6	3 811 352	3 133 909
Gearing ratio	(%)	39.58	38.16

5.2 Risk management

Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the group's profitability or the value of its holdings of financial instruments. The group is exposed to interest rate risk, credit risk and liquidity risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

The company's interest rate risk arises from financial liabilities, cash and cash equivalents and other financial assets. Borrowings at variable rates expose the company to cash flow interest rate risk, which is partially offset by cash held at variable rates. During 2019, the company's borrowings were denominated in South African Rand.

The interest rate exposure of the group to interest-bearing financial instruments is as follows:

	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
<i>Fair value interest rate risk</i>				
- Fixed-rate borrowing				
Standard Bank	547 957	216 866	325 957	-
Nedbank	435 000	325 000	-	-
Investec	-	152 537	-	-
Total	982 957	694 403	325 957	-
<i>Cash flow interest rate risk</i>				
- Variable-rate instrument				
Standard Bank	-	91 822	-	91 822
Nedbank	539 359	419 745	50 300	-
Total	539 359	511 567	50 300	91 822
<i>No interest rate risk</i>				
Cash and cash equivalents	13 792	10 220	3 382	176
Trade and other receivables	10 527	13 132	1 673	5
Loan to related parties	109	-	1 856	4 834
Loan from related party	-	(8 411)	-	-
Total	24 428	14 941	6 911	5 015

Fair value interest rate risk

At period end there was no change in the fair value of interest rate risk due to the unchanged interest rates.

Therefore the carrying amount of financial instruments approximates fair value.

The group's sensitivity to interest rate fluctuations as at 28 February 2019 is illustrated below:

	Group	Company
	R'000	R'000
<i>Sensitivity analysis to interest rates – 2019</i>		
Increase in earnings if interest rates had been 0.5% lower during the year	2 697	252
Decrease in earnings if interest rates had been 0.5% higher during the year	(2 697)	(252)
	-	-

The sensitivity analysis assumes all other items remain unchanged and is based on the borrowings at the end of the reporting period.

The only significant interest rate risk arises on financial liabilities. The company manages its cash flow interest rate risk by securing fixed interest rate bonds on a targeted 60% of borrowings from banks. Fixed interest rate loans have the economic effect of protecting the company from interest rate increases due to the weak economic environment and political uncertainty.

Generally, the company raises long-term borrowings at floating rates below the prime lending rate, but at the time of each new borrowing the fixed rate available is reviewed together with the risk of an interest rate increase and current fixed-to-floating-rate borrowing ratio to ensure the ratio remains in the target as set by management.

Notes to the Financial Statements

(continued)

5. Financial risk management and fair value measurement (continued)

5.2 Risk management (continued)

	R'000
Variable borrowings	539 359
Fixed borrowings	982 957
Total gross debt	1 522 316
Percentage fixed	(%) 64.57

Refer to note 7 for details of the facilities the group has with Nedbank and Standard Bank.

Management seeks to minimise its exposure to liquidity risk by reducing its exposure to interest rate risk through its fixing of long-term loans.

Management also reduced refinancing risk through regularly reviewing the maturity profile of its financial liabilities and utilising facilities with differing maturities to reduce maturity concentration.

Credit risk

Change in accounting policy

The company has elected to apply the limited exemption in IFRS 9 paragraph 7.2.15 relating to transition for classification and measurement and impairment, and accordingly has not restated comparative periods in the year of initial application. As a consequence provisions for impairment have not been restated in the comparative period.

Management assessed which business models apply to the financial assets and liabilities held by the company and has classified its financial instruments into the appropriate IFRS 9 categories. There was no effect with the implementation of IFRS 9 as management is still of the opinion that the financial instruments of the company should be carried at amortised cost.

The company has the following financial assets that are subject to IFRS 9's new expected credit loss model:

	Note
• Loans to related parties	11
• Trade and other receivables	12
• Cash and cash equivalents	13
• Trade and other payables	15
• Financial assets	10

The company was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the company's retained earnings and equity is disclosed below and in the notes as listed above.

Credit risk analysis

The group is principally exposed to credit risk as a result of its receivable balance from tenants, loans to related parties, financial assets and cash balances with financial institutions. The carrying values as at 28 February 2019 in the statement of financial position represent the maximum exposure to credit risk.

Trade receivables

At initial recognition the credit risk trade receivables are evaluated with reference to available historical and forward-looking financial information.

The group has credit vetting procedures in place before entering into lease agreements with new tenants whereby a credit rating is determined for each new applicant.

If customers are independently rated, such as blue-chip companies, these ratings are used. However, if there is no independent rating, credit control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors from the resources available to Spear.

Individual risk limits are set based on internal or external ratings. The utilisation of credit limits is regularly monitored.

Based on credit rating achieved, the tenant will be approved and required to provide guarantees in terms of deposits, bank guarantees or suretyships.

At each month-end the credit risk is reviewed to determine if the credit risk has increased from initial recognition. This is done through determination of the outstanding balance, the reason provided for non-payment, the history of the tenant, forward-looking financial strength and the form of guarantee the group has to reduce the credit risk exposure.

Per lease agreements, default occurs the day after the rental is due, being the first of each month. Default in this regard is not considered to be an expected credit loss per IFRS 9 and will then rather follow the normal group collection process per management's risk policy. The process also drives the increasing credit risk view from initial recognition.

During the financial year provision is made for expected credit losses if trade receivables are 120 days past due and if management has been advised to take judgement and no repayment agreement has been reached. 150 days past due accounts are written off if no agreement is reached.

The company applies the IFRS 9 simplified approach to measuring expected credit loss which uses a lifetime expected loss allowance for all trade receivables within the developed provision matrix at period end.

		Current	31-60 days past due	61-90 days past due	91-120 days past due	More than 120 days past due
Lifetime expected credit losses	(%)	1	2	5	8	12

Refer to note 12 for detail of the expected future credit losses.

Financial assets

At initial recognition the credit risk of financial assets are evaluated with reference to available historical and forward-looking financial information of each transaction on its own merit.

Change in credit risk from initial recognition on financial assets is determined at each period end that cash flows are expected from the counter party as per the agreements reached.

The main factor that would increase the credit risk of a financial asset would be if there is any evidence that non-payment of expected cash flows would occur.

Default for financial assets is considered to be non-performance on the cash payments when they become due and is a classified impairment event.

Notes to the Financial Statements

(continued)

5. Financial risk management and fair value measurement (continued)

5.2 Risk management (continued)

Refer to note 10 for detail of the expected future credit losses.

Cash and cash equivalents

All short-term funds are invested with reputable financial institutions. Cash balances are only retained for working capital requirements. Refer to note 13 for detail of cash balances as at 28 February 2019.

The table below shows the balances with banking counterparties and their external ratings at the statement of financial position date.

	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Financial institution				
Nedbank (rating – Baa3)	6 518	8 591	3 382	176
Investec (rating – Baa3)	5 146	606	–	–
Cash in trading account	2 128	1 023	–	–
	13 792	10 220	3 382	176

The ratings were obtained from Moody's. The ratings are based on long-term investment horizons. The ratings indicate that expectations of default risk have increased from the prior period where ratings were Baa2 to a negative outlook. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity.

Management does not expect any credit losses from non-performance by this counterparty.

A credit downgrade was experienced by all financial institutions during the 2018 financial period. No such downgrade was experienced in the 2019 financial period.

The group will continue to transact with these entities given the fact that the rating downgrade was experienced industry-wide and due to the current rating not placing the current institutions utilised in any disadvantaged position against other institutions in South Africa.

Loans to related parties

The loans granted to subsidiaries are repayable on demand and are interest free. Accordingly, the increase in credit risk and expected credit losses are based on the assumption that repayment of the loan is demanded at the reporting date. If repayment of the loans were to be demanded at the reporting date, the company would be able to fully recover the outstanding balance of the loan within a timeframe that results in the effects of any discounting being immaterial.

Financial assets exposed to credit risk at the end of the period were as follows:

	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Financial instrument				
Cash and cash equivalents	13 792	10 220	3 382	176
Trade and other receivables	10 527	13 132	1 673	5
Financial asset	70 806	62 276	–	–
Loans to related parties	109	–	1 856	4 834
	95 234	85 628	6 911	5 015

Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables and loans to related parties approximates their fair value.

Liquidity risk

Liquidity risk is defined as the risk that the group would not be able to settle or meet its obligations when due.

Management monitors the group's net liquidity position on a continuous basis on the basis of expected cash flows.

The group is exposed to liquidity risk in respect of financial liabilities, loans from related parties and trade and other payables and as a result the funds not being available to cover future commitments. The group manages liquidity risk through an ongoing review of future commitments and credit facilities.

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities.

The table below analyses the company's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date.

	Group				Company	
	Less than 1 year R'000	Between 2 and 3 years R'000	Between 3 and 4 years R'000	More than 4 years R'000	Less than 1 year R'000	Between 2 and 5 years R'000
At 28 February 2019						
Financial liabilities (bank borrowings)	186 463	1 179 959	155 894	–	–	376 257
Trade and other payables	44 715	–	–	–	9 891	–
	231 178	1 179 959	155 894	–	9 891	376 257

The above represents the face value of the loan repayable and does not include the interest payable up to date of expiry, due to the fact that interest is settled on a monthly basis.

At maturity date of various debt with financial institutions the debt will either be settled with available resources or refinancing will commence, usually three to six months prior to maturity of the debt.

6. Investment properties (including straight-line accrual)

	Note	Group		Company	
		2019 R'000	2018 R'000	2019 R'000	2018 R'000
Investment property					
Investment property	6.1	3 502 532	2 898 047	824 132	152 976
Investment properties under development	6.2	213 381	–	–	–
Investment properties held for sale	6.3	74 000	221 492	–	72 970
Straight-line lease asset		21 439	14 370	–	–
		3 811 352	3 133 909	824 132	225 946

Notes to the Financial Statements

(continued)

6. Investment properties (including straight-line accrual) (continued)

Reconciliation of investment property categories

Note	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
6.1 Investment property				
Opening balance	2 912 417	1 445 715	152 976	–
Acquisitions	637 269	1 333 150	625 807	209 309
Cost capitalised	42 982	85 492	6 654	314
Fair value adjustments	111 702	252 535	40 438	13 739
Transfer to held for sale	(74 000)	(221 492)	–	(72 970)
Transfer to development	(113 469)	–	–	–
Straight-line adjustment	7 069	17 017	(1 743)	2 584
Closing balance	3 523 971	2 912 417	824 132	152 976
6.2 Investment properties under development				
Opening balance	–	–	–	–
Acquisitions	–	–	–	–
Transfer from investment property	113 469	–	–	–
Cost capitalised	96 185	–	–	–
Borrowing cost capitalised	3 727	–	–	–
Closing balance	213 381	–	–	–
6.3 Investment properties held for sale				
Fair value	74 000	221 492	–	72 970
Carrying value	74 000	221 492	–	72 970
<i>Movement in investment properties held for sale:</i>				
Carrying value at beginning of period	221 492	–	72 970	–
Transfer from investment property	6 74 000	221 492	–	72 970
Disposals	(221 492)	–	(72 970)	–
Carrying value at end of the period	74 000	221 492	–	72 970

Investment property held for sale at period end consisted of one building being Pembury Retirement Village, which was disposed of in April 2019.

The fair value of the property was determined as the market value arrived at between a willing buyer and a willing seller and not based on valuation techniques as disclosed in note 28.

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011, is kept by the company.

Borrowing cost to the value of R3 726 681 was capitalised to investment property under development during the financial year at a capitalisation rate of prime less 1%.

Securities

Investment properties to the value of R3 687 568 are encumbered as security against the group's loan facilities (note 7).

Details of valuation

Refer to note 28 for details on the fair values of investment properties.

All revenue and operating expenditure are derived from investment properties.

7. Financial liabilities

7.1 Analysis of net debt

	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Secured debt held at amortised cost				
Non-current				
Nedbank	787 896	744 745	50 300	–
Standard Bank	547 957	308 688	325 957	91 822
Investec Bank	–	–	–	–
	1 335 853	1 053 433	376 257	91 822
Current				
Nedbank	186 463	152 537	–	–
	186 463	152 537	–	–
Total gross debt	1 522 316	1 205 970	376 257	91 822
Cash and cash equivalents	(13 792)	(10 220)	(3 382)	(176)
Total net debt	1 508 524	1 195 750	372 875	91 646

7.2 Reconciliation of movement in net debt for the year ended 28 February 2019

	2018 R'000	Statement of comprehensive income R'000	Cash flows R'000	2019 R'000
Group				
Gross debt	1 205 970	109 202	207 144	1 522 316
Cash and cash equivalents	(10 220)	–	(3 572)	(13 792)
	1 195 750	109 202	203 572	1 508 524

The cash flows have been analysed below:

	Proceeds from bank R'000	Repayment of bank loans R'000	Net income (expense) inflow/ outflow R'000	Total cash flows R'000
Group				
Gross debt	390 211	(74 806)	(108 261)	207 144

	2018 R'000	Statement of comprehensive income R'000	Cash flows R'000	2019 R'000
Company				
Gross debt	91 822	12 563	271 872	376 257
Cash and cash equivalents	(176)	–	(3 206)	(3 382)
Net debt	91 646	12 563	268 666	372 875

Notes to the Financial Statements

(continued)

7. Financial liabilities (continued)

7.2 Reconciliation of movement in net debt for the year ended 28 February 2019 (continued)

The cash flows have been analysed below:

Company	Proceeds from bank R'000	Repayment of bank loans R'000	Net income (expense) inflow/ outflow R'000	Total cash flows R'000
Gross debt	310 300	(26 806)	(11 621)	271 872

Terms and conditions of loans

The group has a mixture of prime-linked loans and fixed-rate loans.

Interest is calculated daily and payable monthly. Prime-linked loans bear interest at an average rate of prime less 1.13% and the average fixed rate is 9.05%.

The weighted average expiry of the group debt is 25 months from 28 February 2019.

The full outstanding capital is repayable on the maturity analysis disclosed under liquidity risk in note 5.

All loans are subject to a loan-to-value covenant of 55%.

The interest cover ratio must remain above 1.75 for each financial period.

8. Property, plant and equipment

	Useful lives	2019			2018		
		Cost R'000	Accumulated value R'000	Carrying depreciation R'000	Cost R'000	Accumulated value R'000	Carrying depreciation R'000
Computer equipment	3	284	(129)	156	202	(52)	150
Furniture and fixtures	6	2 954	(359)	2 595	1 460	(25)	1 435
Motor vehicles	5	601	–	601	200	–	200
Total		3 839	(487)	3 352	1 862	(77)	1 785

Reconciliation of property, plant and equipment: Group – 2019

	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Closing balance R'000
Computer equipment	150	134	–	(129)	156
Furniture and fixtures	1 435	1 519	–	(359)	2 595
Motor vehicles	200	401	–	–	601
	1 785	2 054	–	(487)	3 352

Reconciliation of property, plant and equipment: Group – 2018

	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Closing balance R'000
Computer equipment	32	170	–	(52)	150
Furniture and fixtures	96	1 364	–	(25)	1 435
Motor vehicles	–	200	–	–	200
	128	1 734	–	(77)	1 785

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011, is kept by the company.

9. Investment in subsidiaries

	Acquisition date	Holding	Group		Company	
			2019 %	2018 %	2019 Carrying amount R'000	2018 Carrying amount R'000
Spear Holdco Proprietary Limited	01/11/2016	Direct	100	100	1 244 702	1 397 987
Webram Four Proprietary Limited	01/07/2018	Direct	100	0	125 031	–
Upper Eastside Proprietary Limited	01/11/2016	Indirect	100	100	–	–
Fundamental Holdings Proprietary Limited	01/11/2016	Indirect	100	100	–	–
Pacivista Proprietary Limited	01/11/2016	Indirect	100	100	–	–
Spear One Proprietary Limited	02/02/2017	Indirect	70	70	–	–
Blend Property 15 Proprietary Limited	12/06/2017	Indirect	100	100	–	–
Arrow Investments 1 Proprietary Limited	01/11/2016	Indirect	0	100	–	–
					1 369 733	1 397 987

All subsidiaries are incorporated in South Africa and are held directly or indirectly by the company through ordinary shares.

- Webram Four Proprietary Limited was acquired on 1 July 2018 for R113.5 million, being the fair value of the property at acquisition date by way of an acquisition issue of R52 million of shares and the remaining balance paid in cash. Additional investment is being made through the redevelopment of the building with total costs expected to be R85 million with completion expected July 2019. At period end a total of R11.5 million has been spent on the redevelopment of the property.
- Blend Property 15 Proprietary Limited was acquired for R298 million cash, being the fair value of the property at the acquisition date.
- Spear Holdco Proprietary Limited sold 30% of Spear One Proprietary Limited on 22 June 2017 to 2 Long Street Investments Proprietary Limited on loan. The sale value was equal to the 30% of the net asset value at the acquisition date.
- Arrow Investments 1 Proprietary Limited was dormant for 12 month and the company was placed in deregistration effective 1 September 2018.

Refer to note 11 for details of amounts owing by subsidiaries and related parties.

Notes to the Financial Statements

(continued)

10. Financial assets

	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Tenant loan – Multi Rooms Management Proprietary Limited	9 863	6 466	–	–
2 Long Street Investments Proprietary Limited	55 560	55 810	–	–
Tenant loan – 12 Pickwick Road, Woodstock	5 383	–	–	–
	70 806	62 276	–	–
Current assets	9 863	6 466	–	–
Non-current assets	60 943	55 810	–	–
	70 806	62 276	–	–

The group advanced funds to the hotel operator, Multi Rooms Management Proprietary Limited, for use in operations and general refurbishment of the UES DoubleTree by Hilton Hotel, Woodstock.

The balance earns interest at prime less 1.25% and is repayable on demand.

The 2 Long Street Investments Proprietary Limited loan accrues interest at prime plus 2%. The capital balance is repayable four years from date of sale and interest accrues monthly and is repayable six-monthly. The shares are held as security for the outstanding capital balance.

The group advanced a loan of R6 million in June 2018 to a tenant to use in the internal refurbishment of their rented space at 12 Pickwick Road. The loan carries interest at prime plus 1% and is repayable in 60 equal instalments of R130 703. The tenant's parent company provided a guarantee for the full amount in the event of default.

Credit risk

Management reviewed the credit risk at period end and determined the credit risk has not significantly increased from initial recognition with a low risk of default in the next 12 months. Expected credit losses are limited to the 12-month expected credit losses only (Stage 1). Expected credit losses for the 12-month period have been determined as below:

2 Long Street Investments

Expected credit losses are limited to the 12-month expected credit losses on the net interest due to Spear only.

Credit losses on the outstanding capital of the loan are not expected as Spear holds the shares sold as security. The net asset value of the company has increased from initial recognition due to the fair value adjustment of the property. Thus the expected credit loss is immaterial.

Net interest is determined after the 30% of subsidiary profits is deducted from total interest payable on the capital balance due.

Net interest six-monthly is expected to be R1 million until loan expiry. 12-month expected credit losses are expected to be R2 million in the event of a full default. The counterparty has performed at each payment date and based on forward-looking financial information available, management's assessment is that the net interest due will be collectable at each payment date. Spear collected the interest due in June 2019 already in March 2019, further reducing expected credit loss risk to R1 million. The expected credit losses are considered to be immaterial.

Tenant loans

Management's assessment is that the credit risk has not significantly increased from initial recognition and is based on the following:

10. Expected credit losses for the 12 months from the 12 Pickwick Road tenant loan is immaterial due to the guarantee from the tenant's parent company for the full outstanding balance. The guarantee provided is sufficient collateral to support management's assessment that the expected credit losses are immaterial for both interest and capital due in the next 12 months.

Expected credit losses for the 12 months are limited to the interest due from Multi Rooms Management, being R864 000. Forward-looking financial information is reviewed on a monthly basis to determine the financial health of the company and its hospitality operations. Management's assessment is that sufficient future cash flows will be available to settle interest as it become due.

Between balance sheet date and the date on which the financial statements were signed all payments due were settled. Expected credit losses are thus expected to be immaterial.

11. Loans to/(from) related parties

Subsidiary	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Spear Holdco Proprietary Limited	-	-	4 709	4 834
Webram Four Proprietary Limited	-	-	(2 853)	-
	-	-	1 856	4 834
Common controlled entity				
VAXR Trust (controlled by directors)	109	(8 411)	-	-
All related party loans are unsecured, interest free and repayable on demand.				
Current assets	109	-	1 856	4 834
Current liabilities	-	(8 411)	-	-
	109	(8 411)	1 856	4 834

12. Trade and other receivables

	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Trade receivables (tenants)	6 927	9 409	1 444	5
Allowance for doubtful trade receivables	(213)	-	-	-
Rental guarantees receivable [^]	2 454	879	-	-
Property utility deposits	1 234	26	229	-
Staff loans	32	20	-	-
Performance rental receivable ^{**}	93	2 798	-	-
Total at amortised cost	10 527	13 132	1 673	5

All trade and other receivables are denominated in South African Rands and the carrying amounts approximate their fair value.

* Mega Park Investments provided the group with a 24-month gross rental income guarantee from date of transfer, calculated monthly and payable six-monthly.

Performance exceeding the gross rental guarantee is payable to Mega Park Investments. The balance as at year-end represents the difference between the gross income guarantee and the actual rental billed and received. No interest is charged as the balance due or owing is settled six-monthly.

[^] High Mast Properties 30 Proprietary Limited provided the group with a 24-month gross rental guarantee for the acquisition of 1 Waterhouse Place effective 1 July 2018.

The guarantee for the first 12 months from effective date equates to R14 million and R16 million for 12 months thereafter and lapses at such a point within the two-year guarantee period when the building is fully tenanted. The guarantee is accrued monthly and payable bi-annually.

^{**} Performance rental relates to rental receivable annually on 15 August for 15 on Orange's performance which exceeds the base gross hurdle revenue as stipulated in the lease and calculated based on the hotel's performance for the period running from 1 July to 30 June each year.

Notes to the Financial Statements

(continued)

12. Trade and other receivables (continued)

Credit quality of trade receivables

The credit quality of trade receivables is high due to them being evaluated with reference to available financial information and history with the company as per note 5 and can be categorised into the following groups:

	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Large nationals, large listed and government tenants	3 169	9	585	–
Smaller international and national tenants	2 582	114	805	–
Other local tenants and sole proprietors	1 176	7189	54	5
	6 927	7 312	1 444	5

The maximum exposure to credit risk for trade and other receivables are the carrying values.

Ageing of trade receivables

The ageing of trade receivables at year-end was as follows:

	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Current – up to 30 days	4 005	6 418	282	5
Past due – between 31 and 90 days	1 592	1 156	340	–
Past due – 91 days and longer	1 330	1 835	822	–
	6 927	9 409	1 444	5

Expected credit losses

The group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and aging.

The expected loss rates are based on the group's historical credit losses experienced over the three-year period prior to the period end. The historical loss rates are then adjusted for current and forward-looking information on macro-economic factors affecting the group's customers. The group has identified the gross domestic product ("GDP") growth, inflation rate and rising utility costs as the key macro-economic factors in South Africa. The average historical loss rate experienced by the group amounted to 0.2% of total revenue per financial year.

At 28 February 2019 the lifetime expected loss provision for trade receivables and contract assets is as follows:

		Ageing					Total
		Current	31-60 days past due	61-90 days past due	91-120 days past due	More than 120 days past due	
Expected loss rate	(%)	1	2	5	8	12	
Gross carrying amount	(R'000)	4 005	1 011	581	670	660	6 927
Loss provision	(R'000)	40	19	28	48	77	213

	2019 R'000
At 28 February 2019 – calculated under IAS 39	–
Amounts restated through opening retained earnings	–
Loss allowance recognised at period end – calculated under IFRS 9	213
Opening loss allowance as at 1 March 2020 – calculated under IFRS 9	213

Expected credit losses restated through retained earnings were assessed to be immaterial and no provision for this balance was recognised.

None of the other receivables have been subject to a significant increase in credit risk since initial recognition and, consequently, 12-month expected credit losses have been assessed as being immaterial and limited to the value as recognised above, and there are no non-current receivable balance lifetime expected credit losses.

13. Cash and cash equivalents

	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Composition of cash and cash equivalents				
Current accounts	6 535	4 116	3 382	176
Cash in investment account	2 127	1 023	–	–
Cash on call	5 129	5 079	–	–
Petty cash	1	2	–	–
	13 792	10 220	3 382	176

Credit exposure of cash and cash equivalents

Amounts in current and call accounts are invested with reputable institutions.

14. Share capital

	Group	
	2019	Value of shares R'000
	Number of shares	
Authorised		
1 000 000 000 ordinary shares of the same class and no par value		
Issued		
188 864 159 ordinary shares of the same class and no par value	188 864 159	1 794 067

Notes to the Financial Statements

(continued)

14. Share capital (continued)

	Company 2019	
	Number of shares	Value of shares R'000
Authorised		
1 000 000 000 ordinary shares of the same class and no par value		
Issued		
188 888 709 ordinary shares of the same class and no par value	188 888 709	1 746 550

The unissued shares are under the control of the directors (subject to limitations set by shareholder resolutions) until the next annual general meeting.

	Group 2019	
	Number of shares	Value of shares R'000
Reconciliation of number of shares issued		
Opening balance	163 766 550	1 547 407
Add back: Treasury shares prior period	1 424 139	13 407
34 Marine Drive acquisition issue	3 150 000	30 000
Capital raise – 11 June 2018	11 850 000	118 500
Subsidiary acquisition – Webram Four Proprietary Limited	5 198 020	52 500
Capital raise – 16 November 2018	3 500 000	34 300
Share issue costs	–	(2 745)
Treasury shares at cost	(24 550)	698
Closing balance	188 864 159	1 794 067

	Group 2018	
	Number of shares	Value of shares R'000
Reconciliation of number of shares issued		
Opening balance	97 762 361	917 538
Add back: Treasury shares prior period	464 591	4 350
Capital raise – 12 June 2017	29 392 976	279 233
Capital raise – 7 July 2017	19 220 191	182 592
Mega Park Investments acquisition issue	15 675 740	156 757
MWEB Head Office acquisition issue	2 674 830	27 551
Share issue costs	–	(7 207)
Treasury shares at cost	(1 424 139)	(13 407)
Closing balance	163 766 550	1 547 407

	Company 2019	
	Number of shares	Value of shares R'000
Reconciliation of number of shares issued		
Opening balance	165 190 689	1 511 250
34 Marine Drive acquisition issue	3 150 000	30 000
Capital raise – 11 June 2018	11 850 000	118 500
Subsidiary acquisition – Webram Four Proprietary Limited	5 198 020	52 500
Capital raise – 16 November 2018	3 500 000	34 300
Share issue costs	–	–
Closing balance	188 888 709	1 746 550

A total of 0.49 million ordinary shares were repurchased at an average price of R10.00 and held as treasury shares in a subsidiary company.

A total of 1.89 million ordinary shares were sold at an average price of R10.06 from treasury shares held.

	Company 2018	
	Number of shares	Value of shares R'000
Reconciliation of number of shares issued		
Opening balance	98 226 952	926 872
Capital raise – 12 June 2017	29 392 976	279 233
Capital raise – 7 July 2017	19 220 191	182 592
Mega Park Investments acquisition issue	15 675 740	156 757
MWEB Head Office acquisition issue	2 674 830	27 551
Contribution to equity reduction	–	(61 544)
Share issue costs	–	(211)
Closing balance	165 190 689	1 511 250

Notes to the Financial Statements

(continued)

15. Trade and other payables

	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Tenant deposits	21 803	17 738	3 276	612
Trade payables	10 400	6 456	658	399
Other accruals	728	4 440	–	2 030
Trade receivables with credit balances	8 532	6 370	4 990	1 645
Accrual for audit fees	506	175	–	–
Municipal deposit payable	–	–	–	1 028
Payroll accruals	11	–	–	–
Performance rental*	–	3 427	–	–
Adjustment account liability – Properties sold	1 142	40	868	–
Total at amortised cost	43 122	38 646	9 792	5 714
VAT payable	1 594	2 194	99	29
Total trade and other payables	44 716	40 840	9 891	5 743

* Performance rental payable relates to performance rental for the period 1 July 2016 to 30 June 2017 paid to Blend Property 15 Proprietary Limited. Performance rental received up to date of acquisition of Blend Property 15, 12 June 2017, is repayable to Blend Property Management upon conclusion of the first 12 months of ownership and calculation and settlement of the net operating income ("NOI") guarantee was completed in August 2018. NOI guarantee was provided over the first 12 months of ownership. At acquisition of the company it was agreed that the new owner would keep the performance rental received to cover distributions payable and the NOI guarantee provided by the previous shareholders of Blend Property 15 Proprietary Limited.

16. Future lease payments due

	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Contractual future lease receivables are as follows:				
Within 1 year	338 423	242 395	85 661	23 909
Within 1 and 5 years	657 307	522 214	195 569	44 700
More than 5 years	227 449	253 924	41 434	34 627
	1 223 179	1 018 533	322 664	103 236

17. Deferred taxation

With effect from 1 November 2016, the company and controlled property subsidiaries converted to REITs. As a result, section 25BB of the Income Tax Act will apply to qualifying REIT income and expenses. The legislation provides that capital gains on sale of investment properties are disregarded and previous building allowances claimed will be recouped at 28%. All rental income and dividends from property subsidiaries will be taxed at 28% and any dividends paid from these taxable profits will be deductible at 28%. Any amount in respect of a financial instrument will be taxed at 28%. As the group has not currently decided to pay out capital profits as dividends, income tax could arise on recoupment when investment properties are sold. This income tax is shielded by an accumulated loss.

17. Deferred taxation (continued)

	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Opening balance	5 838	6 533	–	–
Acquisition of subsidiary	942	(695)	–	–
– Assessed losses	–	–	–	–
Net deferred tax asset	6 780	5 838	–	–

A deferred tax asset has been recognised for all assessed losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The total assessed losses for the group amount to R23 million and will be utilised through profits not distributed.

	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Movement in deferred tax balances				
Acquisition of subsidiary	942	–	–	–
Temporary differences				
– Assessed tax losses	–	(695)	–	–
	942	(695)	–	–

18. Revenue

Revenue comprises gross contractual rentals as well as contractual recoveries of utility costs, property taxes and operating costs as applicable, adjusted for the accounting straight-lining of lease income.

For the company, revenue also includes dividends received from subsidiary companies.

	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
<i>IAS 17 revenue from leases</i>				
Contractual rental income	319 509	232 896	43 434	4 439
Straight-line rental accrual	7 812	16 979	(309)	2 064
Dividends received from subsidiaries	–	–	126 779	87 558
Utility recoveries	98 801	54 180	10 372	762
	426 122	304 055	180 276	94 823

Notes to the Financial Statements

(continued)

19. Other income

	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Fee recoveries	3 735	4 299	5	–
Lease fees	118	78	116	4
Bad debts recovered	23	48	–	–
Rental loss credits	756	2 332	–	–
Other income ^{#^*}	2 906	4 554	1 299	–
Operating expenditure income	1 069	1 229	613	444
	8 607	12 540	2 033	448

[#] 2.7 million shares were placed at transfer as acquisition issue of shares to acquire MWEB Head Office from the seller and earned R860 000 in distributions for the period before transfer of the property as part of the final distribution for the year ended 28 February 2018. It was contractually agreed at acquisition that any distribution relating to the period before transfer would have to be repaid to the company.

[^] 3.12 million and 5.2 million shares respectively were placed at transfer as acquisition issue of shares to acquire 34 Marine Drive and 1 Waterhouse Place from the sellers and the shares earned a total of R1.8 million in distributions for the period before transfer of the property as part of the interim distribution for the period ended 31 August 2018. It was contractually agreed at acquisition that any distribution relating to the period before transfer would have to be repaid to the company.

^{*} 15.6 million shares were placed as vendor consideration to acquire Mega Park from Mega Park Investments Proprietary Limited in July 2017 and earned R4.4 million in distributions for the period before transfer of the property as part of the interim distribution for the period ended 31 August 2017. It was contractually agreed at acquisition that any distribution relating to the period before transfer would have to be repaid to the company.

Revenue was recognised as the performance obligation was satisfied by transferring the promised service per the lease agreement to the tenants.

20. Expenses by nature

Property operating and management expenditure

	Notes	Group		Company	
		2019 R'000	2018 R'000	2019 R'000	2018 R'000
Employee benefits	20.1	15 269	10 673	–	–
Head office expenditure	20.4	7 399	6 857	592	161
Property operating expenditure	20.4	139 200	87 422	16 424	1 528
Total		161 868	104 952	17 016	1 689

All properties of the company are income-generating and generated income for the full period ended 28 February 2019.

20.1 Employee benefits

Salaries and wages		7 597	4 905	–	–
Non-executive directors' fees	20.2	1 449	1 225	–	–
Executive director emoluments	20.3	6 223	4 543	–	–
		15 269	10 673	–	–

20.2 Non-executive directors' fees

The following fees were paid to non-executive directors for their services as directors:

	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Director				
A Varachhia (Non-executive Chairman)	400	400	-	-
JE Allie (Lead independent non-executive)	242	228	-	-
BL Goldberg (Independent non-executive)	230	232	-	-
CS McCarthy (Non-executive)	200	138	-	-
N Kjellström-Matseke (Independent non-executive)	244	227	-	-
R Phillips (Dr.) (Independent non-executive)	133	-	-	-
	1 449	1 225	-	-

20.3 Executive director emoluments

Remuneration paid to executive directors comprised of:

	Group 2019				
	Salary R'000	Other benefits R'000	Performance bonus (STI) R'000	Total R'000	Total IFRS 2 charge R'000
Director					
MN Flax (Executive Deputy Chairman)	1 851	79	132	2 063	-
QM Rossi (Chief Executive Officer)	2 083	140	198	2 421	1 222
C Barnard (Chief Financial Officer)	1 486	89	165	1 739	1 222
	5 420	308	495	6 223	2 444

	Group 2018				
	Salary R'000	Performance bonus (STI) R'000	Total R'000	Total IFRS 2 charge R'000	
Director					
MN Flax (Chief Executive Officer)	1 448	251	1 699	-	
QM Rossi (Managing Director)	1 475	251	1 726	-	
C Barnard (Financial Director)	903	215	1 118	-	
	3 826	717	4 543	-	

Notes to the Financial Statements

(continued)

20. Expenses by nature (continued)

20.4 Operating and head office expenditure

	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Property taxes and utility expenses	98 881	58 387	12 831	1 024
Property operational costs	40 319	29 035	3 593	504
Depreciation and amortisation	2 943	441	29	–
Auditor's remuneration	957	510	–	–
Accounting and taxation fees	46	68	7	4
Bad debts written off	523	695	28	–
Employee benefits	15 269	10 673	–	–
Other operation expenditure	2 930	5 143	528	157
	161 868	104 952	17 016	1 689

21. Taxation

	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Current tax				
Capital gains taxation	(244)	–	–	–
Deferred tax				
Originating and reversing temporary differences	–	(695)	–	–
	(244)	(695)	–	–

The company has no liability for normal taxation as all cash profits, excluding capital, are paid out as a distribution (qualifying distribution)/debenture interest and shareholders/linked unitholders are consequently subject to tax according to the individual linked unitholder's tax status.

Capital gains tax arose from the sales of treasury shares on the open market and has been paid in full to SARS.

The company is a Real Estate Investment Trust ("REIT") and all subsidiaries in the group are "controlled companies" as defined in the Income Tax Act. After deducting the "qualifying distribution" from taxable income, no income tax is payable in the current period.

	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Reconciliation of tax expense				
Reconciliation between accounting profit and tax expense				
Profit/(Loss) before taxation	274 792	386 924	186 781	102 679
Deductible temporary differences	(117 461)	(273 308)	(160 453)	(100 130)
Taxable earnings	157 331	113 616	26 329	2 549
Less: Qualifying distribution	(161 774)	(128 686)	(30 772)	(18 897)
Add: Antecedent dividend	4 443	16 348	4 443	16 348
Add: Reserves distributed pre acquisition of subsidiary	-	1 205	-	-
Taxable profit	-	2 483	-	-
Utilisation of assessed loss	-	(2 483)	-	-
Tax at applicable rate (28%)	-	-	-	-
Normal taxation	-	-	-	-

No provision has been made for tax in the 2019 financial period as the company has no taxable income. The estimated tax loss available for set-off against future taxable income is R23 million after the prior period utilisation of the assessed loss.

22. Cash generated from/(used in) operations

	Notes	Group		Company	
		2019 R'000	2018 R'000	2019 R'000	2018 R'000
Cash generated from operations					
Profit before tax:		274 792	386 924	186 781	102 679
Adjusted for:					
Straight-line rental income accrual	16	(7 812)	(16 980)	309	(2 064)
Depreciation and amortisation	6 and 8	2 943	441	-	-
Fair value adjustment – Investment property	6	(111 702)	(252 535)	(40 438)	(10 962)
Finance income	22.2	(9 091)	(6 253)	(98)	(4)
Finance cost	22.1	109 202	82 297	12 563	1 415
Rental loss credits	19	(644)	(2 059)	-	-
Share-based payment reserve	29	6 456	454	6 456	454
Reclassification of trade receivable		(3 397)	(4 752)	-	-
Working capital movements					
Trade and other receivables	12	2 605	(5 040)	(1 668)	(5)
Trade and other payables	15	3 875	19 288	4 148	(5 743)
		267 227	201 785	168 053	97 256

Notes to the Financial Statements

(continued)

22. Cash generated from/(used in) operations (continued)

Notes to the cash flow statement

	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
22.1 Finance costs				
Interest paid on bank loans	109 159	82 293	12 540	1 415
Interest paid on deposits	40	–	23	–
Interest paid on bank accounts	3	4	–	–
	109 202	82 297	12 563	1 415
22.2 Finance income				
Interest earned on cash savings	(264)	(107)	(12)	(4)
Interest earned on loan accounts	(6 692)	(4 651)	–	–
Interest earned on call accounts	(2 135)	(1 495)	(86)	–
	(9 091)	(6 253)	(98)	(4)
22.3 Tax paid				
Balance payable/receivable beginning of the period	–	–	–	–
Taxation per the income statement	(244)	–	–	–
Taxation overpayment	–	–	–	–
Balance (payable)/receivable end of the period	(244)	–	–	–
22.4 Distribution paid				
Dividend of prior period paid	(67 157)	(20 483)	(67 157)	(20 483)
Interim dividend paid	(73 330)	(44 465)	(73 330)	(44 465)
Antecedent dividend paid	(4 805)	(18 052)	(4 805)	(18 052)
	(145 292)	(83 000)	(145 292)	(83 000)

23. Capital commitments

	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Contracted for acquisition of new land and buildings	24 000	60 775	24 000	–
Authorised tenant installations	–	8 400	–	–
Contracted maintenance to existing properties	5 820	1 600	–	–
Contracted for expansion to existing property	88 230	–	–	–
	118 050	70 775	24 000	–

24. Related parties

Related party relationships exist between the company, its subsidiaries, directors as well as their close family members, and key management of the company:

- Key management of the company is the executive and non-executive directors as disclosed in note 20 as well as in the Directors' Report
- Investments in and amounts owing by related parties are detailed in notes 9 and 10
- Remuneration paid to directors, executive and non-executive, are set out in note 20
- Details of directors' interest in the ordinary shares of the company are provided in the Directors' Report
- Details relating to share-based payments of key management are disclosed in note 29.

	2019 R'000	2018 R'000
In the ordinary course of business, the company entered into the following other transactions with related parties:		
• Investment property cost capitalised – Kitchen Emporium (close family member of executive director)	2 239	2 386
• Rental received – Kitchen Emporium (close family member of executive director)	246	171

25. Subsequent events

The directors are not aware of any events, other than those listed below, that have occurred since the end of the financial period and which have a material impact on the results and disclosures in these financial statements.

The group took transfer of the following properties after period end:

	Transfer date	Acquisition value R'000	Debt funding R'000	Equity funding R'000
26 Marine Drive, Paarden Island	07/03/2019	39 300	15 300	24 000

The group disposed of the following subsidiary after period end:

	Disposal date	Disposal value R'000
Pacivista Proprietary Limited	01/04/2019	74 000
		74 000

The group entered into an agreement to acquire Radnor Road, Tygerberg Business Park, for R112 million at a 9.12% yield. Transfer is expected to be in June 2019.

Notes to the Financial Statements

(continued)

26. Financial asset by category

The accounting policies for financial instruments have been applied to the line items below:

		Group 2019	
	Notes	Amortised cost R'000	Total R'000
Trade and other receivables	12	10 527	10 527
Cash and cash equivalents	13	13 792	13 792
Loan to related party	11	109	109
Financial assets	10	70 806	70 806
		95 234	95 234

		Group 2018	
	Notes	Loans and receivables R'000	Total R'000
Trade and other receivables	12	13 132	13 132
Cash and cash equivalents	13	10 220	10 220
Financial assets	10	62 276	62 276
		85 628	85 628

		Company 2019	
	Notes	Amortised cost R'000	Total R'000
Trade and other receivables	12	1 673	1 673
Cash and cash equivalents	13	3 382	3 382
Loan to related party	11	1 856	1 856
		6 911	6 911

		Company 2018	
	Notes	Loans and receivables R'000	Total R'000
Trade and other receivables	13	5	5
Cash and cash equivalents	10	176	176
Loan to related party	11	4 834	4 834
		5 015	5 015

27. Financial liability by category

The accounting policies for financial instruments have been applied to the line items below:

		Group 2019			
	Notes	Financial liabilities at amortised cost R'000	Fair value through profit and loss R'000	Non-financial instruments R'000	Total R'000
Financial liabilities	7	1 522 316	–	–	1 522 316
Trade and other payables	15	43 121	–	1 594	44 715
		1 565 437	–	1 594	1 567 031

		Group 2018			
	Notes	Financial liabilities at amortised cost R'000	Fair value through profit and loss R'000	Non-financial instruments R'000	Total R'000
Financial liabilities	7	1 205 970	–	–	1 205 970
Loans from related party	11	8 411	–	–	8 411
Deferred revenue		–	–	644	644
Trade and other payables	15	38 646	–	2 194	40 840
		1 253 027	–	2 838	1 255 865

		Company 2019			
	Notes	Financial liabilities at amortised cost R'000	Fair value through profit and loss R'000	Non-financial instruments R'000	Total R'000
Trade and other payables	15	9 792	–	99	9 891
		9 792	–	99	9 891

		Company 2018			
	Notes	Financial liabilities at amortised cost R'000	Fair value through profit and loss R'000	Non-financial instruments R'000	Total R'000
Trade and other payables	15	5 714	–	29	5 743
		5 714	–	29	5 743

Notes to the Financial Statements

(continued)

28. Fair value disclosures

All assets and liabilities measured or disclosed at fair value are classified using a three-tiered fair value hierarchy that reflects the significance of the inputs used in determining the measurement as follows:

Level 1 Measurements in whole or in part are done by reference to unadjusted, quoted prices in an active market for identical assets and liabilities. Quoted prices are readily available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis.

Level 2 Measurements are done by reference to inputs other than quoted prices that are included in Level 1. These inputs are observable for the financial instrument, either directly (i.e. as prices) or indirectly (i.e. from derived prices).

Level 3 Measurements are done by reference to inputs that are not based on observable market data.

The fair value of financial assets and liabilities that are not traded in an active market is determined by using valuation techniques.

Valuation models are used to value investment properties (measurement and disclosure) and financial liabilities that have fixed interest rates (disclosure only).

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty and valuation techniques employed may not fully reflect all factors relevant to the positions the company holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors.

	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Levels of fair value measurements				
Assets				
Loan to related party (Level 3)	109	–	1 856	4 834
Non-current assets held for sale (Level 3)	74 000	221 492	–	72 970
Investment properties (Level 3)	3 737 351	2 912 417	824 132	152 976
Total assets at fair value	3 811 460	3 133 909	825 988	230 780

Refer to note 6 for the reconciliation of investment properties from opening to closing balance.

The key input to the valuation of investment property is the capitalisation rate.

Capitalisation rates used to determine the fair value of investment properties were risk-adjusted for all factors that influence the sustainability of cash flows from each property such as location, condition of property, market conditions and lease covenants. Capitalisation rates varied between 8% and 9.75%.

The table below illustrates the sensitivity of the fair value to changes in the capitalisation rate:

	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Sensitivity analysis to capitalisation rates				
Increase in fair value if capitalisation rates are decreased by 0.5%	192 324	164 634	29 368	12 082
Decrease in fair value if capitalisation rates are increased by 0.5%	(174 879)	(172 493)	(26 320)	(9 273)

The sensitivity analysis assumes all other items remain unchanged and is based on the investment property value at the end of the reporting period.

The fair value of investment properties is updated at each reporting period either by way of external valuations or directors' valuations.

Investment property is required to be fair valued with sufficient regularity that the value is representative of the fair value. Per JSE requirements a third of investment properties are required to be valued by an independent valuer on an annual basis and the remaining two thirds are valued by management. Independent valuations were performed on a third of properties with effective date 28 February 2019 and the remaining properties were valued by management. There were no material changes in the information used and assumptions applied by the registered valuer from the prior year.

At period end management performed internal valuations on all the investment properties and where it was noted that the internal valuations differed materially from the previous valuations performed by the independent valuer the necessary fair value adjustments were made.

Valuation techniques

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 expense growth rates, vacant periods, lease incentive costs such as rent-free periods and other costs not recovered from tenants. The expected net cash flows are discounted using a discount rate. The discount rate applied is derived using an appropriate capitalisation rate and adding a growth rate based on market-related rentals. This is tested for reasonableness by comparing the resultant Rand rate per square metre against comparative sales of similar properties in similar locations. Management's valuation is based on the income capitalisation method.

Amongst other factors, the capitalisation rate estimation considers the quality of the building, its location, the tenants' credit quality and their lease terms.

As at 28 February 2019, the key assumptions and unobservable inputs used by the company in determining fair value were as follows:

Inter-relationship between key unobservable inputs and fair value measurements

The estimated fair value would increase/(decrease) if:

- Expected market rental growth was higher/(lower)
- Expected expense growth was lower/(higher)
- Vacant periods were shorter/(longer)
- The occupancy rate was higher/(lower)
- Rent-free periods were shorter/(longer)
- Discount rate was lower/(higher)
- Reversionary capitalisation rate was lower/(higher).

Notes to the Financial Statements

(continued)

28. Fair value disclosures (continued)

List of properties		Discount rate %	Capitalisation rate %	Fair value of property 28 February 2019 R'ooo
1	1 Paarden Island Road, Paarden Island	14.75	8.75	26 200
2	28 Marine Drive, Paarden Island	15.50	9.00	44 480
3	30 Marine Drive, Paarden Island	14.75	8.75	21 500
4	Bloemhof Building, Tyger Valley	13.75	8.75	62 833
5	Manhattan Plaza, Tyger Valley	13.75	8.75	84 466
6	Nampak Liquids, Epping	15.00	9.00	77 500
7	Omnipark, Tyger Valley	15.00	9.00	23 000
8	Viking Business Park, Epping	15.00	9.00	81 714
9	Sterling Place, Tyger Valley	15.00	9.00	56 452
10	12 Pickwick Road, Woodstock	14.50	8.50	27 700
11	1 Beacon Way, Bellville	14.75	8.75	90 462
12	10 Mill Street, Newlands (Care Cross)	14.50	8.50	57 558
13	Blackheath Warehouse, Blackheath	14.25	8.50	90 752
14	Sable Square Shopping Centre, Milnerton	14.50	8.50	416 400
15	UES Commercial, Retail and Residential, Woodstock	14.50	8.50	119 500
16	Pembury Lodge, Melrose	Note (i)	–	74 000
17	UES DoubleTree by Hilton, Woodstock	14.00	9.00	202 639
18	142 Edward Street, Tyger Valley	14.00	9.00	40 817
19	78 on Edward, Tyger Valley	Note (ii)	–	86 663
20	2 Long Street, Cape Town	14.67	8.67	426 034
21	15 on Orange, Cape Town	14.00	8.00	310 191
22	Mega Park, Bellville	15.50	9.25	441 022
23	MWEB Head Office, Bellville	15.00	9.00	154 000
24	Island Business Park, Paarden Island	13.75	8.75	23 694
25	Blackheath Park, Blackheath	15.75	9.75	134 000
26	No. 2 Estuaries, Century City	13.75	8.75	102 833
27	34 Marine Drive, Paarden Island	15.50	9.00	30 074
28	1 Waterhouse Place, Century City	Note (ii)	–	125 295
29	Talana Close, Bellville	15.25	9.25	63 500
30	Northgate Park, Brooklyn	Note (iii)	–	314 302
31	Marine Place – Future development	Note (iv)	–	1 770
			8.83	3 811 352

Note (i) The fair value of the properties was determined as the market value arrived at between a willing buyer and a willing seller and not based on valuation techniques.

Note (ii) The property was in the process of development and no valuations were performed. Cost relates to cost capitalised as at 28 February 2019.

Note (iii) Property was acquired on 25 February 2019 and the acquisition value represents the fair market value at acquisition date.

Note (iv) Cost relates to the Marine Place development that has been capitalised for professional fees incurred to date.

29. Share-based payment reserve

	Notes	Group		Company	
		2019 R'000	2018 R'000	2019 R'000	2018 R'000
Conditional Share Plan ("CSP")	29.1	5 985	–	5 985	–
Executive-provided share plan	29.2	4 865	4 394	4 865	4 394
		10 850	4 394	10 850	4 394
Reconciliation of share-based payment reserve					
Opening balance		4 394	3 939	4 394	3 939
Expense recognised in profit and loss					
– Conditional Share Plan		5 985	–	5 985	–
– Executive-provided share plan		471	455	471	455
Shares issued during the period		–	–	–	–
		10 850	4 394	10 850	4 394

29.1 Conditional Share Plan

In terms of its CSP, the group has granted conditional shares to executive directors and staff. The full details of the scheme are included in the remuneration report.

The CSP awards have been recognised as equity-settled share-based payments as a separate category within equity. The fair value of the CSP charge has been measured using the Black-Scholes formula. The following assumptions were incorporated in the valuation:

		Award 1	Award 2
Number of shares		800 000	800 000
Grant date		03/01/2018	07/01/2018
Vesting date		30/06/2021	30/06/2022
Issue price at award date (30-day VWAP)	(Rands)	9.63	10.05
Issue price at award date	(Rands)	8.04	7.28
Volatility	(%)	28	28
Forfeiture rate	(%)	10	10
Dividend yield	(%)	9.1	9.1
Performance factor	(%)	90	90

Expected volatility has been based on an evaluation of the historical volatility of the company's peer share price since listing as the company itself has a listing history of less than three years. The expected forfeiture rate has been based on historical experience and general employee behaviour. On an annual basis, assumptions are adjusted with the availability of objective evidence.

Where these result in changes in the non-market conditions of the scheme, the cumulative impact is charged to profit and loss in the year the adjustment is made.

During the current and prior period no awards were forfeited, exercised or expired for either plan.

Notes to the Financial Statements

(continued)

29. Share-based payment reserve (continued)

29.2 Description of executive share plan

The group operates an Executive Share Plan, which is classified as an equity-settled share-based payment plan under which it receives services from employees as consideration for equity instruments of the company. The beneficiaries under the scheme are executive directors as well as the key employees employed at date of listing. Shares awarded to non-executive directors have no conditions other than the loan owing to the founders for the subscription to the shares to the Trust.

At the date of listing the founding shareholders of the REIT sold shares in the REIT to certain employees. This was executed via the Property Trust that sold the core properties to the REIT in exchange for REIT shares. The shares were not issued by the REIT to the participants. The Trust then sold shares on loan account to these employees with the shares retained as security for the loans. The exercise price and interest on the loan is payable to the founders of the company and therefore no amounts will flow to and from the group.

The loans bear interest at 9% per annum and are repayable from distributions at each distribution declaration date. Any distribution that the participants are entitled to will be utilised to settle interest outstanding and capital, if in excess. If the distribution does not fully settle the interest outstanding at payment date, the excess interest will be capitalised.

As the loan account granted to employees is secured by the shares issued, in substance the shares are regarded as not having been issued.

The employees therefore have a European call option against the Trust, whereby they will call on the Trust to sell them the shares should the market value of the shares exceed the share strike price. The shares have been valued using the Black-Scholes method.

The effect of all conditional shares granted is not taken into account when calculating diluted earnings and diluted headline earnings per share as in substance the shares are options, rather than the form.

The total amount expensed to profit or loss is determined by reference to the fair value of the equity instruments granted to the employees (i.e. the fair value of the options). There are no market performance conditions. At the end of each reporting period, the group revises its estimates of the number of shares granted that are expected to vest and recognises the impact of any changes in profit or loss with a corresponding adjustment to equity. The full expense relating to non-executive directors was recognised at grant date.

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense on a straight-line basis over the vesting period, with a corresponding adjustment to the share-based payment reserve with the following assumptions:

Assumptions

		Group 1	Group 2	Group 3	Group 4
Number of shares		460 000	100 000	100 000	300 000
Grant date		11/11/2016	11/11/2016	11/11/2016	11/11/2016
Vesting date		10/11/2019	10/11/2019	11/11/2016	11/11/2016
Vesting period		3 years	3 years		
Exercise date		11/10/2021	11/10/2021	11/10/2021	11/10/2021
Strike price	(Rands)	5.00	5.00	5.00	5.00
Market price	(Rands)	9.60	9.60	9.60	9.60
Interest rate	(%)	10	10	10	10
Volatility	(%)	28	28	28	28
Performance factor (Employment)	(%)	95	95	95	95

During the current and prior period no award was forfeited, exercised or had expired.

Details of grants

The details of conditional shares awarded are set out below:

Name	Grant date	Issue price (Rands)	Number of conditional shares
Group 1 – Consists of staff employed at listing date			
Staff employed at listing date	11/11/2016	5.00	460 000
Group 2 – Executive directors			
C Barnard	11/11/2016	5.00	100 000
Group 3 – Non-executive directors			
JE Allie	11/11/2016	5.00	100 000
Group 4 – Non-executive directors			
BL Goldberg	11/11/2016	1.67	300 000
Total conditional shares awarded and balance at 28 February 2019			960 000

30. Contingent liability

Spear Holdco Proprietary Limited, a wholly owned subsidiary of the group, provided a guarantee to a shareholder, Ikamva Labantu Empowerment Trust ("ILET"), in favour of Nedbank Property Finance to settle any outstanding liabilities (interest and capital) relating to ILET's loan they obtained from Nedbank to subscribe for 3 611 111 Spear REIT Limited shares on listing date. ILET subscribed for shares as part of the public placement at the market placement price of R9.00. ILET obtained a loan of R23,5 million and settled the remaining purchase price in cash. The group holds no right over the shares, nor are there any vesting conditions relating to the shares. Nedbank holds a pledge over the shares as security for the loan. Spear Holdco Proprietary Limited will only be liable if ILET is unable to settle any liability due relating to the share subscription loan if so called upon by Nedbank. Any interest settled in favour of ILET to Nedbank is refundable to the group by ILET and accrues interest compounded monthly at prime less 1.25%. ILET is an ordinary shareholder of the company.

Notes to the Financial Statements

(continued)

31. Property analysis

Property name	Sector	Gross lettable area m ²	Vacant area m ²	Average rental per m ² Rands	Value at 28 February 2019 R'000	Date of last external valuation
1 Paarden Island Rd, Paarden Island	Retail	5 538	–	40.02	26 200	28/02/2019
28 Marine Drive, Paarden Island	Retail	7 321	320.00	48.79	44 480	28/02/2018
30 Marine Drive, Paarden Island	Commercial	2 764	–	60.22	21 500	28/02/2019
Bloemhof Building, Tyger Valley	Commercial	4 307	2.29	123.37	62 833	28/02/2018
Manhattan Plaza, Tyger Valley	Commercial	4 931	102.00	126.52	84 466	28/02/2018
Nampak Liquids, Epping	Industrial	15 450	–	Note (i)	77 500	28/02/2019
Omnipark, Tyger Valley	Commercial	2 203	355.90	86.88	23 000	28/02/2019
Viking Business Park, Epping	Retail	9 320	561.67	88.67	81 714	28/02/2018
Sterling Place, Tyger Valley	Commercial	4 108	32.00	124.62	56 452	28/02/2018
12 Pickwick Road, Woodstock	Industrial	2 516	–	Note (i)	27 700	28/02/2019
1 Beacon Way, Bellville	Industrial	16 170	–	Note (i)	90 462	28/02/2018
10 Mill Street, Newlands (Care Cross)	Commercial	2 865	–	165.30	57 558	28/02/2018
Blackheath Warehouse, Blackheath	Industrial	22 201	–	30.96	90 752	28/02/2018
Sable Square Shopping Centre, Milnerton	Retail	31 100	580.00	102.79	416 400	28/02/2019
UES Commercial, Retail and Residential, Woodstock	Commercial	7 334	623.00	105.29	119 500	28/02/2019
Pembury Lodge, Melrose	Residential	8 000	–	Note (i)	74 000	01/10/2016
UES DoubleTree by Hilton, Woodstock	Hospitality	11 427	–	89.98	202 639	01/10/2016
142 Edward Street, Tyger Valley	Commercial	2 609	26.00	132.79	40 817	Note (ii)
2 Long Street, Cape Town	Commercial	25 115	1 547.55	119.07	426 034	28/02/2018
15 on Orange, Cape Town	Hospitality	16 726	1 409.60	103.90	310 191	Note (ii)
Mega Park, Bellville	Industrial	86 095	–	43.97	441 022	28/02/2018
MWEB Head Office, Bellville	Commercial	11 195	–	Note (i)	154 000	28/02/2019
Island Business Park, Paarden Island	Commercial	2 405	–	129.88	23 694	Note (ii)
Blackheath Park, Blackheath	Industrial	37 334	2 432.00	34.01	134 000	28/02/2019
No. 2 Estuaries, Century City	Commercial	4 199	–	Note (i)	102 833	Note (ii)
34 Marine Drive, Paarden Island	Industrial	3 838	–	Note (i)	30 074	Note (ii)
Talana Close, Bellville	Industrial	23 750	–	20.00	63 500	28/02/2019
Northgate Park, Brooklyn	Commercial	17 002	–	–	314 302	Note (ii)
		387 822	7 992	86	3 597 625	

Properties under development	Sector	Gross lettable area m ²	Vacant area m ²	Average rental per m ² Rands	Value at 28 February 2019 R'000	Date of last external valuation
78 on Edward, Tyger Valley	Commercial	3 800	N/A	–	86 662	N/A
1 Waterhouse Place, Century City	Commercial	11 030	N/A	–	125 295	N/A
Marine Place – Future development	Note (iii)	–	–	–	1 770	–
		14 830	–	–	213 727	–
Grand Total		402 652	7 992	86	38 095 822	–

Note (i) The rental per square metre for single-tenanted buildings has not been disclosed. The average rental per square metre for single-tenanted buildings is R85,02.

Note (ii) Properties acquired within the last two financial years and do not fall within the three-year valuation cycle as at 28 February 2019.

Note (iii) Cost relates to the Marine Place development that has been capitalised for professional fees incurred to date.

Tenant profile	Gross lettable area m ²	Gross lettable area %	Number of tenants	Number of tenants %
A – Large nationals, large listed and government tenants	252 269	62.65	111	28
B – Smaller international and national tenants	101 804	25.28	204	51
C – Other local tenants and sole proprietors	25 757	6.40	84	21
Development	14 830	3.68	–	–
Vacant	7 992	1.98	–	–
	402 652	100	399	100

Geographical split	Revenue R'000	Revenue %	Gross lettable area m ²	Gross lettable area %
Gauteng	8 658	2.05	8 000	1.99
Western Cape	414 027	97.95	394 652	98.01
	422 685	100	402 652	100

Sectoral split and vacancy profile	Number of properties	Value excl. lease asset R'000	Value %	Revenue R'000	Revenue %	Gross lettable area m ²	Gross lettable area %	Vacant area m ²	Vacancy %
Industrial	8	955 832	25.22	124 589	29.48	207 354	51.50	2 432	1.17
Commercial	13	1 481 039	39.08	167 704	39.68	109 667	27.24	2 689	2.45
Retail	4	559 065	14.75	77 646	18.37	34 648	8.61	1 462	4.22
Hospitality	2	504 897	13.32	44 089	10.43	28 153	6.99	1 410	5.01
Residential	1	75 657	2.00	8 658	2.05	8 000	1.99	–	0.00
Under development	2	213 381	5.63	–	0.00	14 830	3.68	–	0.00
	30	3 789 871	100	422 685	100	402 652	100	7 992	1.98

Notes to the Financial Statements

(continued)

31. Property analysis (continued)

Lease expiry profile based on GLA	Industrial %	Commercial %	Retail %	Hospitality %	Residential %	Total %
Vacant	2	3	3	2	0	2
Monthly	0	0	0	0	0	0
Expiries for 03/2019 – 02/2020	12	24	6	0	0	13
Expiries for 03/2020 – 02/2021	40	31	17	1	0	31
Expiries for 03/2021 – 02/2022	17	15	25	1	100	18
Expiries for 03/2022 – 02/2023	8	10	11	0	0	8
Expiries for 03/2023 and onwards	21	17	38	96	0	28
	100	100	100	100	100	100

Lease expiry profile based on revenue	Industrial %	Commercial %	Retail %	Hospitality %	Residential %	Total %
Monthly	1	1	0	0	0	1
Expiries for 03/2019 – 02/2020	13	26	6	0	0	17
Expiries for 03/2020 – 02/2021	40	32	18	8	0	30
Expiries for 03/2021 – 02/2022	20	16	22	2	100	19
Expiries for 03/2022 – 02/2023	9	9	11	0	0	9
Expiries for 03/2023 and onwards	17	16	43	90	0	24
	100	100	100	100	100	100

Weighted average rental escalations and yields	Escalation %	Yields FY2019 %
Industrial	8.61	8.6
Commercial	7.77	8.6
Retail	7.95	8.6
Residential	8.00	9.0
Hospitality	Note (i)	6.1
Average	8.07	8.3

Note (i):

- DoubleTree by Hilton Hotel is operated by a third-party operator and the lease is based on a fixed (60% of Budgeted EBITDA) and variable (95% of actual EBITDA less fixed rental) rate, which is agreed annually.
- 15 on Orange Hotel is operated by a third-party operator and the rental is based on a blended rate of 18% on all revenue generated by the hotel.

32. Shareholder analysis

Shareholder spread	Number of shareholders	% of total shareholding	Shares held	% held
1 – 1 000 shares	187	9.89	87 597	0.05
1 001 – 10 000 shares	1 084	57.32	4 829 244	2.56
10 001 – 100 000 shares	454	24.01	13 989 177	7.41
100 001 – 1 000 000 shares	136	7.19	41 544 015	21.99
1 000 001 shares and over	30	1.59	128 438 676	68.00
	1 891	100.00	188 888 709	100.00

Shareholder type

Non-public shareholders	Number of shareholders	% of total shareholding	Shares held	% held
Directors and associates of the company (direct holdings)	3	0.16	798 600	0.42
Directors and associates of the company (indirect holdings)	10	0.53	57 311 978	30.34
Spear Holdco Proprietary Limited	1	0.05	24 550	0.01
	14	0.74	58 135 128	30.78
Public shareholders	1 877	99.26	130 753 581	69.22
	1 891	100.00	188 888 709	100.00

Shareholding greater than 5%

Holding name	Beneficiary	Shares held	% held of total
Mtshobela Capital Holdings Proprietary Limited	Chairman	20 984 992	11.11
BPSS Jer/Huntress CI Nominees Limited	Executive Deputy Chairman	20 807 264	11.02
Mega Park Investments Proprietary Limited	Non-executive	15 222 222	8.06
SBSA ITF NGI INV Property Fd		9 444 430	5.00
		66 458 908	35.18

Total number of shareholders 1 891

Total number of shares in issue 188 888 709

Share price performance

List price on 11 November 2016	(Rands)	9.00
Closing price 28 February 2019	(Rands)	10.50
Closing high for the period	(Rands)	11.50
Closing low for the period	(Rands)	9.10
Number of shares issued		188 888 709
Volume traded during period		22 445 229
Ratio of volume traded to shares issued	(%)	11.88
Rand value traded during the period		220 751 066



Notice of Annual General Meeting

Notice is hereby given of the annual general meeting ("AGM") of shareholders of Spear REIT Limited ("Spear" or "the company") to be held at 15 On Orange, Autograph Collection, cnr Grey's Pass and Orange Street, Cape Town, on Thursday, 8 August 2019 at 11:00 ("the AGM").

Purpose

The purpose of the AGM is to transact the business set out in the agenda below.

Agenda

- (i) Presentation of the audited financial statements of the company, including the remuneration report and the reports of the directors and the audit and risk committee for the year ended 28 February 2019. The integrated report ("Integrated Report"), of which this notice forms part, contains the consolidated financial statements and the aforementioned reports.

The annual financial statements, including the unmodified audit opinion, are available on Spear's website at www.spearprop.co.za, or may be requested and obtained in person, at no charge, at the registered office of Spear during office hours.

- (ii) To consider and, if deemed fit, approve, with or without modification, the following ordinary resolutions:

Note:

For any of the ordinary resolutions numbers 1 to 10 (inclusive) to be adopted, more than 50% of the voting rights exercised on each such ordinary resolution must be exercised in favour thereof. For ordinary resolution number 11 to be adopted, at least 75% of the voting rights exercised on such ordinary resolution must be exercised in favour thereof.

1. Retirement, re-election and confirmation of appointment of directors

1.1 Ordinary resolution number 1

"Resolved that Mr. BL Goldberg, who retires by rotation in terms of the memorandum of incorporation of the company and, being eligible, offers himself for re-election, be and is hereby re-elected as director."

1.2 Ordinary resolution number 2

"Resolved that Mr. A Varachhia, who retires by rotation in terms of the memorandum of incorporation of the company and, being eligible, offers himself for re-election, be and is hereby re-elected as director."

1.3 Ordinary resolution number 3

"Resolved that Dr. R Phillips' appointment as a director of the company, in terms of the memorandum of incorporation of the company, be and is hereby confirmed."

1.4 Ordinary resolution number 4

"Resolved that Mr. MN Flax's appointment as a non-executive director of the company, in terms of the memorandum of incorporation of the company, be and is hereby confirmed."

Brief curricula vitae in respect of these directors are presented on pages 22 and 23 of the Integrated Report to which this notice is attached.

The reason for ordinary resolutions numbers 1 and 2 (inclusive) is that the memorandum of incorporation of the company, the Listings Requirements of the JSE Limited ("JSE Listings Requirements") and, to the extent applicable, the South African Companies Act, No. 71 of 2008, as amended ("the Companies Act"), require that one-third of non-executive directors of the company must retire at each AGM by rotation and, being eligible, may offer themselves for re-election as directors.

The reason for ordinary resolutions numbers 3 and 4 is that the memorandum of incorporation of the company and the JSE Listings Requirements require that any director appointed by the board of the company be confirmed by the shareholders at the annual general meeting of the company.

The board of Spear announced on 21 June 2019 that Mr. Flax's role will be changed to that of a non-executive director on 1 September 2019.

2. Appointment of the members of the audit and risk committee of the company

Note:

For avoidance of doubt, all references to the audit and risk committee of the company is a reference to the audit committee as contemplated in the Companies Act.

2.1 Ordinary resolution number 5

"Resolved that Mr. JE Allie, being eligible, be and is hereby re-appointed as a member of the audit and risk committee of the company,

as recommended by the board of directors of the company, until the next annual general meeting of the company."

2.2 Ordinary resolution number 6

"Resolved that Mr. BL Goldberg, subject to the approval of ordinary resolution number 1, being eligible, be and is hereby re-appointed as a member of the audit and risk committee of the company, as recommended by the board of directors of the company, until the next annual general meeting of the company."

2.3 Ordinary resolution number 7

"Resolved that Mr. N Kjellström-Matseke, being eligible, be and is hereby re-appointed as a member of the audit and risk committee of the company, as recommended by the board of directors of the company, until the next annual general meeting of the company."

Brief curricula vitae in respect of these directors are presented on page 23 of the Integrated Report to which this notice is attached.

The reason for ordinary resolutions numbers 5 to 7 (inclusive) is that the company, being a public listed company, must appoint an audit committee and the Companies Act requires that the members of such audit committee be appointed, or re-appointed, as the case may be, at each annual general meeting of a company.

3. Re-appointment of auditor

Ordinary resolution number 8

"Resolved that BDO Cape Incorporated be and is hereby re-appointed as auditor of the company for the ensuing year with the designated auditor being Bradley Jackson, a registered auditor and partner in the firm, on the recommendation of the audit and risk committee of the company."

The reason for ordinary resolution number 8 is that the company, being a public listed company, must have its financial results audited and such auditor must be appointed or re-appointed each year at the annual general meeting of the company, as required by the Companies Act.

4. Non-binding advisory vote on Spear's remuneration policy

Ordinary resolution number 9

"Resolved that the company's remuneration policy, as set out on pages 35 to 38 of this Integrated Report, be and is hereby endorsed by way of a non-binding advisory vote."

The reason for ordinary resolution number 9 is that the King IV Report on Corporate Governance™ for South Africa, 2016 ("King IV™") recommends, and the JSE Listings Requirements require, that the remuneration policy of a company be tabled for a non-binding advisory vote by shareholders at each annual general meeting of the company. This enables shareholders to express their views on the remuneration policy adopted. The effect of ordinary resolution number 9, if passed, will be to endorse the company's remuneration policy. Ordinary resolution number 9 is of an advisory nature only and failure to pass this resolution will therefore not have any legal consequences relating to existing remuneration agreements. However, the board will take the outcome of the vote into consideration when considering amendments to the company's remuneration policy.

5. Non-binding advisory vote on Spear's implementation report on the remuneration policy

Ordinary resolution number 10

"Resolved that the company's implementation report with regards to its remuneration policy, as set out on pages 38 to 40 of this Integrated Report, be and is hereby endorsed by way of a non-binding vote."

The reason for ordinary resolution number 10 is that King IV™ recommends that the implementation report on a company's remuneration policy be tabled for a non-binding advisory vote by shareholders at each annual general meeting of the company. This enables shareholders to express their views on the implementation of a company's remuneration policy. The effect of ordinary resolution number 10, if passed, will be to endorse the company's implementation in relation to its remuneration policy. Ordinary resolution number 10 is of an advisory nature only and failure to pass this resolution will therefore not have any legal consequences relating to existing remuneration agreements. However, the board will

Notice of Annual General Meeting (continued)

take the outcome of the vote into consideration when considering amendments to the company's remuneration policy and its implementation.

6. General authority to issue ordinary shares for cash

Ordinary resolution number 11

"Resolved that the directors of the company be and are hereby authorised, by way of a general authority, to allot and issue any of the company's unissued shares for cash as they in their discretion may deem fit, without restriction, subject to the provisions of the company's memorandum of incorporation, the Companies Act and the JSE Listings Requirements provided that:

- the approval shall be valid until the date of the next annual general meeting of the company, provided it shall not extend beyond fifteen months from the date of this resolution;
- the general issues of shares for cash under this authority may not exceed, in the aggregate, 15% of the company's issued share capital (number of securities) of that class as at the date of this notice of AGM, it being recorded that ordinary shares issued pursuant to a rights offer to shareholders, shares issued to the Spear REIT Limited Conditional Share Plan ("CSP") shall not diminish the number of ordinary shares that comprise the 15% of the ordinary shares that can be issued in terms of this ordinary resolution. As at the date of this notice of AGM, 15% of the company's issued ordinary share capital (net of treasury shares) amounts to 28 322 806 ordinary shares;
- in determining the price at which an issue of shares will be made in terms of this authority, the maximum discount permitted will be 10% of the weighted average traded price of such shares, as determined over the 30 business days prior to the date that the price of the issue is agreed between the company and the party subscribing for the securities. The JSE will be consulted for a ruling if the securities have not traded in such 30-business-day period;
- any such issue will only be made to public shareholders as defined in paragraphs 4.25 to 4.27 of the JSE Listings Requirements and not to related parties;

- any such issue will only comprise securities of a class already in issue or, if this is not the case, will be limited to such securities or rights that are convertible into a class already in issue; and
- in the event that the securities issued represent, on a cumulative basis, 5% or more of the number of securities in issue prior to that issue, an announcement containing the full details of such issue shall be published on the Stock Exchange News Service of the JSE."

For listed entities wishing to issue shares for cash (other than issues by way of rights offers, in connection with duly approved share incentive schemes) it is necessary for the board of the company to obtain the prior authority of the shareholders in accordance with the JSE Listings Requirements and the memorandum of incorporation of the company. Accordingly, the reason for ordinary resolution number 11 is to obtain a general authority from shareholders to issue ordinary shares for cash in compliance with the JSE Listings Requirements and the memorandum of incorporation of the company.

For this resolution to be adopted, at least 75% of the shareholders present in person or by proxy and entitled to vote on this resolution at the annual general meeting must cast their vote in favour of this resolution.

Agenda

- (iii) To consider and, if deemed fit, pass, with or without modification, the following special resolutions:

Note:

For any of the special resolutions numbers 1 to 4 to be adopted, at least 75% of the voting rights exercised on each special resolution must be exercised in favour thereof.

7. Remuneration of non-executive directors

Special resolution number 1: Remuneration of non-executive directors

"Resolved, in terms of section 66(g) of the Companies Act, that the company be and is hereby authorised to remunerate its directors for their services as directors on the basis set out below, provided that this authority will only be valid until the next annual general meeting of the company:

Proposed remuneration

Chairman of the board (annual remuneration)	R580 000
Deputy Chairman of the board (annual remuneration)	R570 000
Chairman/committee member (per attendance)	R7 000/ R5 000
Board member (not serving on a committee) (annual remuneration)	R250 000"

The reason for special resolution number 1 is for the company to obtain the approval of shareholders by way of a special resolution for the payment of remuneration to its non-executive directors in accordance with the requirements of the Companies Act.

The effect of special resolution number 1 is that the company will be able to pay its non-executive directors for the services they render to the company as directors without requiring further shareholder approval until the next annual general meeting of the company.

8. Inter-company financial assistance

8.1 Special resolution number 2: Inter-company financial assistance

"Resolved, in terms of section 45(3)(a)(ii) of the Companies Act, as a general approval, that the board of the company be and is hereby authorised to approve that the company provides any direct or indirect financial assistance ("financial assistance" will herein have the meaning attributed to it in section 45(1) of the Companies Act) that the board of the company may deem fit to any company or corporation that is related or inter-related ("related" or "inter-related" will herein have the meaning attributed to it in section 2 of the Companies Act) to the company, on the terms and conditions and for amounts that the board of the company may determine, provided that the aforementioned approval shall be valid until the date of the next annual general meeting of the company."

The reason for and effect of special resolution number 2 is to grant the directors of the company the authority, until the next annual

general meeting of the company, to provide direct or indirect financial assistance to any company or corporation which is related or inter-related to the company. This means that the company is, *inter alia*, authorised to grant loans to its subsidiaries and to guarantee the debt of its subsidiaries.

8.2 Special resolution number 3: Financial assistance for the subscription and/or purchase of shares in the company or a related or inter-related company

"Resolved, in terms of section 44(3)(a)(ii) of the Companies Act, as a general approval, that the board of the company be and is hereby authorised to approve that the company provides any direct or indirect financial assistance ("financial assistance" will herein have the meaning attributed to it in sections 44(1) and 44(2) of the Companies Act) that the board of the company may deem fit to any person, including any company or corporation that is related or inter-related to the company ("related" or "inter-related" will herein have the meaning attributed to it in section 2 of the Companies Act) and/or to any financier on the terms and conditions and for amounts that the board of the company may determine, for the purpose of, or in connection with, the subscription of any option, or any shares or other securities, issued or to be issued by the company or a related or inter-related company, or for the purchase of any shares or securities of the company or a related or inter-related company, provided that the aforementioned approval shall be valid until the date of the next annual general meeting of the company."

The reason for and effect of special resolution number 3 is to grant the directors the authority, until the next annual general meeting of the company, to provide financial assistance to any person, including any company which is related or inter-related to the company and/or to any financier for the purpose of or in connection with the subscription or purchase of options, shares or other securities in the company or any related or inter-related company or corporation.

This means that the company is authorised, *inter alia*, to grant loans to any person or its subsidiaries and to guarantee and furnish security for the debt of any person or its

Notice of Annual General Meeting (continued)

subsidiaries where any such financial assistance is directly or indirectly related to a party subscribing for options, shares or securities in the company or its subsidiaries. A typical example of where the company may rely on this authority is where a person or a subsidiary raised funds by way of issuing preference shares and the third-party funder requires the company to furnish security, by way of a guarantee or otherwise, for the obligations of the person or its subsidiary to the third-party funder arising from the issue of the preference shares. The company has no immediate plans to use this authority and is simply obtaining same in the interests of prudence and good corporate governance should the unforeseen need arise to use the authority. In terms of and pursuant to the provisions of sections 44 and 45 of the Companies Act, the directors of the company confirm that the board will satisfy itself, after considering all reasonably foreseeable financial circumstances of the company, that immediately after providing any financial assistance as contemplated in special resolution numbers 2 and 3 above:

- the assets of the company (fairly valued) will equal or exceed the liabilities of the company (fairly valued) (taking into consideration the reasonably foreseeable contingent assets and liabilities of the company); and
- the company will be able to pay its debts as they become due in the ordinary course of business for a period of 12 months.

In addition, the board will only approve the provision of any financial assistance contemplated in special resolutions numbers 2 and 3 above, where:

- the board is satisfied that the terms under which any financial assistance is proposed to be provided, will be fair and reasonable to the company; and
- all relevant conditions and restrictions (if any) relating to the granting of financial assistance by the company as contained in the company's memorandum of incorporation have been met.

9. Share repurchases by the company and its subsidiaries

9.1 Special resolution number 4: Share buy-back by Spear and its subsidiaries

"Resolved, as a special resolution, that the company and the subsidiaries of the company be and are hereby authorised, as a general approval, to repurchase any of the shares issued by the company, upon such terms and conditions and in such amounts as the directors may from time to time determine, but subject to the provisions of sections 46 and 48 of the Companies Act, the memorandum of incorporation of the company and the Listings Requirements of the JSE, including, *inter alia*, that:

- the general repurchase of the shares may only be implemented through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counterparty;
- this general authority shall only be valid until the next annual general meeting of the company, provided that it shall not extend beyond fifteen months from the date of this resolution;
- an announcement must be published as soon as the company has acquired shares constituting, on a cumulative basis, 3% of the number of shares in issue on the date that this authority is granted, containing full details thereof, as well as for each 3% in aggregate of the initial number of shares acquired thereafter;
- the general authority to repurchase is limited to a maximum of 20% in the aggregate in any one financial year of the company's issued share capital at the time the authority is granted;
- a resolution has been passed by the board of directors approving the purchase, that the company has satisfied the solvency and liquidity test as defined in the Companies Act and that, since the solvency and liquidity test was applied, there have been no material changes to the financial position of the company and its subsidiaries ("the group");

- the general repurchase is authorised by the company's memorandum of incorporation; and
- repurchases must not be made at a price more than 10% above the weighted average of the market value of the shares for the five business days immediately preceding the date that the transaction is effected.

The JSE will be consulted for a ruling if the company's securities have not traded in such five-business-day period;

- the company may at any point in time only appoint one agent to effect any repurchase(s) on the company's behalf; and
- the company may not effect a repurchase during any prohibited period as defined in terms of the JSE Listings Requirements unless there is a repurchase programme in place, which programme has been submitted to the JSE in writing prior to the commencement of the prohibited period and executed by an independent third party, as contemplated in terms of paragraph 5.72(h) of the JSE Listings Requirements."

The reason for and effect of special resolution number 4 is to grant the directors a general authority in terms of its memorandum of incorporation and the JSE Listings Requirements for the acquisition by the company or by a subsidiary of the company of shares issued by the company on the basis reflected in special resolution number 4. The company has no immediate plans to use this authority and is simply obtaining same in the interests of prudence and good corporate governance should the unforeseen need arise to use the authority.

In terms of section 48(2)(b)(i) of the Companies Act, subsidiaries collectively may not hold more than 10%, in aggregate, of the number of the issued shares of a company. For the avoidance of doubt, a pro rata repurchase by the company from all its shareholders will not require shareholder approval, save to the extent as may be required by the Companies Act.

For any of the special resolutions numbers 1 to 4 to be adopted, at least 75% of the voting rights exercised on each special resolution must be exercised in favour thereof.

Information relating to the special resolutions

1. The directors of the company or its subsidiaries will only utilise the general authority to repurchase shares of the company as set out in special resolution number 4 to the extent that the directors, after considering the maximum number of shares to be purchased, are of the opinion that the position of the group would not be compromised as to the following:

- the group's ability in the ordinary course of business to pay its debts for a period of 12 months after the date of this AGM and for a period of 12 months thereafter the repurchase;
- the consolidated assets of the group will at the time of the AGM and at the time of making such determination and for a period of 12 months thereafter be in excess of the consolidated liabilities of the group. The assets and liabilities should be recognised and measured in accordance with the accounting policies used in the latest audited financial statements of the group;
- the ordinary capital and reserves of the group after the repurchase will remain adequate for the purpose of the business of the company for a period of 12 months after the AGM and after the date of the share repurchase; and
- the working capital available to the group after the repurchase will be sufficient for the group's requirements for a period of 12 months after the date of the notice of the AGM.

General information in respect of major shareholders, material changes and the share capital of the company is contained in the Integrated Report of which this notice forms part, as well as the full set of financial statements, being available on Spear's website at www.spearprop.co.za or which may be requested and obtained in person, at no charge, at the registered office of Spear during office hours.

Notice of Annual General Meeting (continued)

2. The directors, whose names appear on pages 22 and 23 of the Integrated Report of which this notice of AGM forms part, collectively and individually accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this notice of AGM contains all information required by law and by the JSE Listings Requirements.

Voting

1. The date on which shareholders must be recorded as such in the Share Register maintained by the transfer secretaries of the company ("the Share Register") for purposes of being entitled to receive this notice is Friday, 21 June 2019.
 2. The date on which shareholders must be recorded in the Share Register for purposes of being entitled to attend and vote at this AGM is Friday, 2 August 2019 with the last day to trade being Tuesday, 30 July 2019.
 3. Meeting participants will be required to provide proof of identification to the reasonable satisfaction of the chairman of the AGM and must accordingly bring a copy of their identity document, passport or driver's licence to the AGM. If in doubt as to whether any document will be regarded as satisfactory proof of identification, meeting participants should contact the transfer secretaries for guidance.
 4. Shareholders entitled to attend and vote at the AGM may appoint one or more proxies to attend, speak and vote thereat in their stead. A proxy need not be a shareholder of the company. A form of proxy, which sets out the relevant instructions for its completion, is enclosed for use by a certificated shareholder or own-name registered dematerialised shareholder who wishes to be represented at the AGM. Completion of a form of proxy will not preclude such shareholder from attending and voting (in preference to that shareholder's proxy) at the AGM.
 5. The instrument appointing a proxy and the authority (if any) under which it is signed must reach the transfer secretaries of the company at the address provided on the inside back cover of this Integrated Report by not later than 11:00 on Tuesday, 6 August 2019, provided that any form of proxy not delivered to the transfer secretaries by this time may be handed to the chairman of the AGM prior to the commencement of the AGM, at any time before the appointed proxy exercises any shareholder rights at the AGM.
6. Dematerialised shareholders, other than own-name registered dematerialised shareholders, who wish to attend the AGM in person, will need to request their Central Securities Depository Participant ("CSDP") or broker to provide them with the necessary authority in terms of the custody agreement entered into between such shareholders and the CSDP or broker.
 7. Dematerialised shareholders, other than own-name registered dematerialised shareholders, who are unable to attend the AGM and who wish to be represented thereat, must provide their CSDP or broker with their voting instructions in terms of the custody agreement entered into between themselves and the CSDP or broker in the manner and time stipulated therein.
 8. Shareholders present in person, by proxy or by authorised representative shall, on a show of hands, have one vote each and, on a poll, will have one vote in respect of each share held.

Electronic participation

1. Shareholders or their proxies may participate in the AGM by way of telephone conference call ("teleconference facility").
2. Please note that the teleconference facility will only allow shareholders to listen in and raise questions during the allocated time. Shareholders will not be able to vote using the teleconference facility. Should such shareholders wish to vote, they must either:
 - complete the proxy form and return it to the transfer secretary in accordance with paragraph 5 above; or
 - contact their CSDP or broker in accordance with paragraph 5 above.
3. Shareholders or their proxies who wish to participate in the AGM via the teleconference facility must notify the company by emailing the Company Secretary, René Cheryl Stober, by no later than 11:00 on Tuesday, 6 August 2019. The Company Secretary will first validate such requests and confirm the identity of the shareholder in terms of section 63(1) of the Companies Act and thereafter, if validated, provide further details on using the teleconference facility. Only a total of 20 telecommunication lines will be available for such participation, which will be allocated on a first-come-first-served basis.

4. The cost of the participant's phone call will be for his/her own expense and will be billed separately by his/her own telephone service provider.
5. The company cannot guarantee there will not be a break in communication which is beyond the control of the company.
6. The participant acknowledges that the telecommunication lines are provided by a third party and indemnifies the company against any loss, injury, damage, penalty or claim arising in any way from the use or possession of the telecommunication lines, whether or not the problem is caused by any act or omission on the part of the participant or anyone else. In particular, but not exclusively, the participant acknowledges that he/she will have no claim against the company, whether for consequential damages or otherwise, arising from the use of the telecommunication lines or any defect in it or from total or partial failure of the telecommunication lines and connections linking the telecommunication lines to the AGM.

By order of the board



Per René Cheryl Stober

Company Secretary

20 June 2019

Cape Town



Form of Proxy



SPEAR
REIT LIMITED

SPEAR REIT LIMITED

(Incorporated in the Republic of South Africa)

(Registration number: 2015/407237/06)

(JSE share code: SEA ISIN: ZAE000228995)

(Approved as a REIT by the JSE)

("Spear" or "the company")

FORM OF PROXY – FOR USE BY CERTIFICATED AND OWN-NAME DEMATERIALISED SHAREHOLDERS ONLY

For use at the annual general meeting of ordinary shareholders of the company to be held at 15 on Orange, Autograph Collection, Cnr Grey's Pass and Orange Street, Cape Town, on Thursday, 8 August 2019 at 11:00 ("the AGM").

I/We, the undersigned (full name in print) _____

of _____ (address)

being the registered holder of _____ ordinary shares hereby appoint:

1. _____ or failing him/her
2. _____ or failing him/her
3. the chairman of the AGM.

As my proxy to vote for me/us at the AGM for purposes considering and, if deemed fit, passing with or without modification, the ordinary resolutions and special resolutions to be proposed thereat and at each adjournment thereof and to vote for or against the resolutions and/or abstain from voting in respect of the shares registered in my/our name(s) in accordance with the following instructions (see Notes):

	In favour of	Against	Abstain from voting
Ordinary resolution number 1: Retirement and re-election of Mr. BL Goldberg as director			
Ordinary resolution number 2: Retirement and re-election of Mr. A Varachhia as director			
Ordinary resolution number 3: Confirmation of Dr. R Phillips' appointment as director			
Ordinary resolution number 4: Confirmation of Mr. MN Flax's appointment as director			
Ordinary resolution number 5: To re-appoint Mr. JE Allie as member of the audit and risk committee			
Ordinary resolution number 6: To re-appoint Mr. BL Goldberg as member of the audit and risk committee			
Ordinary resolution number 7: To re-appoint Mr. N Kjellström-Matseke as member of the audit and risk committee			
Ordinary resolution number 8: To re-appoint BDO Cape Incorporated as the auditor of the company			
Ordinary resolution number 9: Non-binding advisory vote on Spear's remuneration policy			
Ordinary resolution number 10: Non-binding advisory vote on Spear's implementation report on the remuneration policy			
Ordinary resolution number 11: General authority to issue ordinary shares for cash			
Special resolution number 1: Remuneration of non-executive directors			
Special resolution number 2: Inter-company financial assistance			
Special resolution number 3: Financial assistance for the subscription and/or purchase of shares in the company or a related or inter-related company			
Special resolution number 4: Share buy-back by Spear and its subsidiaries			

Please indicate your voting instruction by way of inserting the number of shares or by a cross in the space provided should you wish to vote all of your shares.

Signed at _____ on this _____ day of _____ 2019.

Signature(s) _____

Assisted by (where applicable) (state capacity and full name) _____

Each Spear shareholder is entitled to appoint one or more proxy(ies) (who need not be a shareholder(s) of the company) to attend, speak and vote in his/her stead at the AGM.

PLEASE READ THE NOTES ON THE REVERSE SIDE.

Form of Proxy (continued)

Notes

1. A Spear shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space(s) provided, with or without deleting "the chairman of the AGM". The person who is present at the AGM, whose name appears first on this form of proxy and who is present at the AGM will be entitled to act as proxy to the exclusion of those whose names follow.
2. A Spear shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of shares to be voted on behalf of that shareholder in the appropriate box provided or by the insertion of a cross if all shares should be voted on behalf of that shareholder. Failure to comply with the above will be deemed to authorise the chairman of the AGM, if he/she is the authorised proxy, or any other proxy, to vote or to abstain from voting at the AGM as he/she deems fit, in respect of all the shares concerned. A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholder or his/her proxy, but the total of the votes cast and in respect whereof abstentions are recorded may not exceed the total of the votes exercisable by the shareholder or his/her proxy.
3. When there are joint registered holders of any shares, any one of such persons may vote at the AGM in respect of such shares as if he/she was solely entitled thereto, but, if more than one of such joint holders be present or represented at any AGM, that one of the said persons whose name stands first in the register in respect of such shares or his/her proxy, as the case may be, shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased shareholder, in whose name any shares stand, shall be deemed joint holders thereof.
4. Forms of proxy must be completed and returned to be received by the transfer secretaries of the company, Computershare Investor Services Proprietary Limited (PO Box 61051, Marshalltown, 2107), by not later than 11:00 on Tuesday, 6 August 2019 provided that any form of proxy not delivered to the transfer secretary by this time may be handed to the chairman of the AGM prior to the commencement of the AGM, at any time before the appointed proxy exercises any shareholder rights at the AGM.
5. Any alteration or correction made to this form of proxy must be initialled by the signatory(ies).
6. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the company's transfer secretaries or waived by the chairman of the AGM.
7. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the AGM and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so.

Corporate Information

Spear REIT Limited

Incorporated in the Republic of South Africa
Registration number 2015/407237/06
JSE share code: SEA
ISIN: ZAE000228995
(Approved as a REIT by the JSE)
("Spear" or "the company")

Directors of Spear

Abubaker Varachhia* (Non-executive Chairman)
Michael Naftali Flax* (Executive Deputy Chairman)
Quintin Michael Rossi (Chief Executive Officer)
Christiaan Barnard (Chief Financial Officer)
Brian Leon Goldberg*#
Jalaloodien Ebrahim Allie*# (Lead Independent Director)
Niclas Kjellström-Matseke*#
Cormack Sean McCarthy*
Dr. Rozett Phillips*#

* Non-executive
Independent

Registered Office

16th Floor
2 Long street
Cape Town, 8001
(PO Box 50, Observatory, 7935)

Contact Details

info@spearprop.co.za
www.spearprop.co.za

Company Secretary

René Cheryl Stober

Transfer Secretaries

Computershare Investor Services Proprietary Limited
Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196
(PO Box 61051, Marshalltown, 2107)

Independent Reporting Accountants and Auditors

BDO Cape Incorporated
6th Floor, 123 Hertzog Boulevard
Foreshore, Cape Town, 8001
(PO Box 2275, Cape Town, 8000)

Sponsor

PSG Capital Proprietary Limited
1st Floor, Ou Kollege Building
35 Kerk Street, Stellenbosch, 7600
(PO Box 7403, Stellenbosch, 7599)

Legal Adviser

Cliffe Dekker Hofmeyr
11 Buitengracht Street, Cape Town, 8001
(PO Box 695, Cape Town, 8000)

Bankers

Nedbank Limited
Investec Limited
Standard Bank Limited

Shareholder Diary

Annual general meeting	8 August 2019
Interim reporting period	31 August 2019
Financial year-end	29 February 2020



16th Floor, 2 Long Street, Cape Town, 8001

info@spearprop.co.za

www.spearprop.co.za