Independent auditor's report

To the Shareholders of Deneb Investments Limited

Report on the audit of the consolidated financial statements

OUR OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Deneb Investments Limited (the Company) and its subsidiaries (together the Group) as at 31 March 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

What we have audited

Deneb Investment Limited's consolidated financial statements set out on pages 44 to 117 comprise:

- The consolidated statement of financial position as at 31 March 2018;
- The consolidated statement of profit or loss and other comprehensive income for the year then ended;
- The consolidated statement of changes in equity for the year then ended;
- The consolidated statement of cash flows for the year then ended; and
- The notes to the financial statements, which include a summary of significant accounting policies.

BASIS FOR OPINION

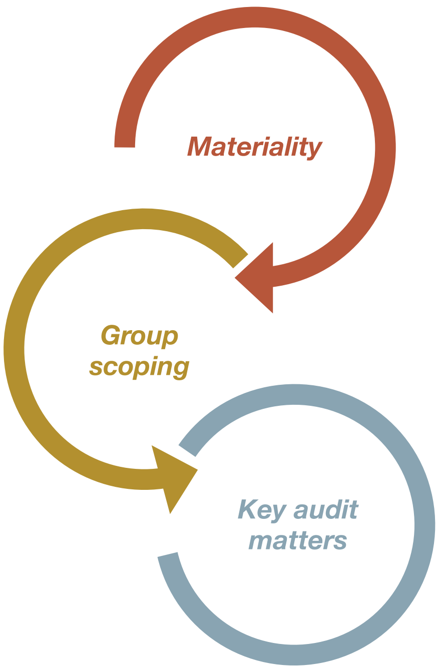
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements section* of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group 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 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).*

OUR AUDIT APPROACH



Overview

Overall group materiality

- R22 580 000, which represents 0,75% of consolidated revenue

Group audit scope

Fourteen of the components were subject to a full scope audit and one international component was subject to the audit of specified balances and transactions. A combination of review and analytical procedures were performed over the remaining components.

Key audit matters

- Valuation of properties
- Accounting for government grants

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	R22 580 000
How we determined it	0,75% of consolidated revenue
Rationale for the materiality benchmark applied	We have selected consolidated revenue as our materiality benchmark because, in our view, it reflects the activity levels of the Group, and it is a benchmark against which the performance of the Group is most commonly measured by users. The Group has generated volatile year-on-year earnings attributable to the restructuring and impairment charges. We chose 0,75% based on our professional judgement, after consideration of the range of qualitative materiality thresholds that we would typically apply when using revenue to compute materiality, and taking into account the level of debt in relation to the ratio of funding through equity.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group consists of 24 operational subsidiaries, excluding dormant companies (referred to as "components"). Our scoping assessment included consideration of the financial significance of the Group's components as well as taking into consideration the sufficiency of work planned to be performed over material line items in the consolidated financial statements. We identified only one financially significant component in the Group, namely Prima Toy and Leisure Trading Proprietary Limited as well as three significant components by risk, namely Sargas Proprietary Limited, Winelands Textiles Proprietary Limited and Seartec Trading Proprietary Limited. We included a number of other components in the scope of our Group audit, based on indicators such as the contribution to consolidated revenue and consolidated profit before tax. The remainder of the components were considered to be insignificant to the Group individually and in aggregate.

Fourteen of the components were subject to a full scope audit and one international component was subject to the audit of specified balances and transactions. This, together with additional procedures performed at the Group level, including review and analytical procedures in respect of other components and testing of consolidation journals and intercompany eliminations, gave us the audit evidence we needed for our opinion on the consolidated financial statements as a whole.

In establishing the overall approach to the group audit, we determined the extent of the work that needed to be performed by us, as the group engagement team, or by component auditors from other PwC network firms operating under our instruction, in order to issue our audit opinion on the consolidated financial statements of the Group. Where the work was performed by component auditors, we determined the level of involvement necessary in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the consolidated financial statements as a whole.

We had various interactions with our component teams in which we discussed audit risks, materiality and audit approaches. We discussed the reports of the component teams, the findings of their procedures and other matters which could be of relevance for the consolidated financial statements.

KEY AUDIT MATTERS

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

Key audit matter	How our audit addressed the key audit matter
Valuation of properties	
The Group's property portfolio comprises of office and retail investment properties with these being disclosed as either owner-occupied or investment properties. The Group measures owner-occupied properties and investment properties at fair value with changes in the underlying fair values being reflected in other comprehensive income, and in profit and loss, respectively. As at 31 March 2018, the fair values attributed to owner-occupied properties and investment properties were R373 million (2017: R459 million) and R907 million (2017: R759 million) respectively. Consolidated other comprehensive income included a pre-tax amount of R29 million (2017: R25 million) relating to the revaluation gain on land and buildings and consolidated profit and loss included a pre-tax amount of R44 million (2017: R30 million). The value of these properties is dependent on the valuation methodology adopted and the inputs into the valuation model. Factors such as prevailing market conditions, the individual nature, condition and location of each property and the expected future income for each property directly impact fair values. The following assumptions are key in establishing fair value: • Capitalisation rate; • Occupancy rate; • Adopted discount rate; and • Projected income. At the end of each reporting period, the Group determines the fair value of its property portfolio. All properties were externally valued by an independent valuation expert, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.	We evaluated the competency of the external experts engaged by the Group to perform the property valuations by assessing the professional qualifications, experience and independence of these experts with reference to the profiles of the valuation company and individual experts. We inspected the latest independent property market reports to understand the prevailing market conditions in which the Group invests. With the assistance of our valuations team, we compared historical valuations against current-year valuations, and noted that the movements appear to be in line with overall shifts in the market as evidenced in the property market reports. We met with management and discussed the details of selected individual properties, any new leases entered into during the year, lease expiries, capital expenditure and vacancy rates. For a sample of leases, we compared the rental income used in both the external valuation and internal tolerance check models to the tenancy schedule. We found that the data used in the samples tested were accurate and consistent with tenant leases. We compared market capitalisation rates and discount rates by location and asset grade to a reasonable range determined based on benchmark market data for these assumptions. Where capitalisation rates and discount rates fell outside of our anticipated ranges, we challenged the rationale supporting the rates applied in the valuation by discussing with management the reasons to support the adopted metric. Typically the variances related to the relative age, or size/location. In the context of the specific properties identified, the reasons provided by management for the variances were accepted as appropriate.

Key audit matter	How our audit addressed the key audit matter
We considered this to be a matter of most significance to our current year audit due to the: • Magnitude of the investment property and owner-occupied property balances in the consolidated statement of financial position; • Quantum of revaluation gains that directly impact the consolidated statement of profit or loss and other comprehensive income; • Key judgements involved in respect of the variables utilised in the valuation; and Disclosure is provided in the consolidated financial statements of the Group in notes 2, 9 and 10, respectively.	For a sample of external valuations we: • Assessed the competency and capabilities of the external valuer as noted above; • Read the valuer's terms of engagement – we did not identify any clauses that might have affected their objectivity or imposed limitations on their work; and • Inspected the final valuation reports and agreed the fair value to the Group's accounting records, noting no exceptions.
Accounting for government grants	
The Group receives government grants as part of the Department of Trade and Industry's ("DTI") Production Incentive Programme ("PIP"). In applying the Group policy, government grants were deemed to be earned through compliance with their conditions and meeting the envisaged obligations. During the current financial year it was concluded that the accounting treatment for government grants had been incorrectly applied and that to the extent that grants received related to depreciable assets, such income was only recognisable in the periods and in the proportions in which the depreciation expense on those assets were recognised, with the balance being reflected as deferred income. This was accounted for as a prior period error, the financial impact of which is included in note 22 of the consolidated financial statements. We considered this to be a matter of most significance to our audit due to the: • Complexity around the interpretation of the appropriate accounting treatment as applied to the PIP agreements; • The impact of the prior-year misstatement on the restated consolidated financial statements of the Group; and • The quantum of the government grant income, the deferred income balance and the associated tax effects in the consolidated financial statements of the Group as disclosed in notes 2, 22 and 32, respectively.	With the assistance of our technical IFRS specialists, we evaluated the accounting treatment of the government grant agreements in terms of International Accounting Standard (IAS) 20 Government Grants. With respect to the detailed testing of the financial impact and related disclosures, we performed the following procedures – noting no exceptions: • Inspected the approved agreements authorised by the DTI and agreed the approved expenditure thresholds to the grant accounting; • On a sample basis reconciled amounts received in respect of the grant to the specific qualifying expenditures to which these were applied; • In respect of grants applied to depreciable assets, we inspected management's assessments of the useful lives of such assets; • Assessed the deferred tax treatment of the accounting for the government grants; and • Assessed the accuracy of the government grant accounting and related restatement by recalculating the grant income, the deferred income and the related deferred tax effects.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in Deneb Investments Limited's Consolidated Annual Financial Statements for the year ended 31 March 2018, the Deneb Investments Limited's Separate Annual Financial Statements for the year ended 31 March 2018 and the Integrated Annual Report, which includes the Directors' report, Audit committee report and the Declaration of company secretary as required by the Companies Act of South Africa. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated 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 financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of the consolidated 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group'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 Group or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated 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 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 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 Group'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 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 financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and

- 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 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 PricewaterhouseCoopers Inc. has been the auditor of Deneb Investments Limited for one year.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: J A Hugo
Registered Auditor

Cape Town
18 July 2018