

# Independent auditor's report

to the Shareholders of Deneb Investments Limited

## REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

### Our opinion

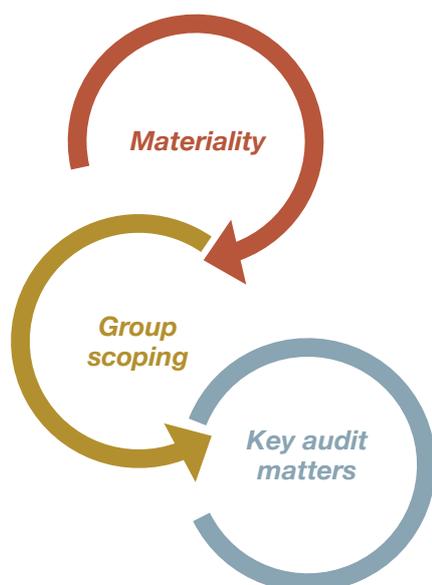
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Deneb Investments Limited (the Company) and its subsidiaries (together the Group) as at 31 March 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

### What we have audited

Deneb Investments Limited's consolidated financial statements set out on pages 44 to 119 comprise:

- the consolidated statement of financial position as at 31 March 2021;
- 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.

### Our audit approach



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

### 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 corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*.

### Overview

#### Overall Group materiality

- R20 820 000, which represents 0.80% of consolidated revenue.

#### Group audit scope

- Seven of the components were subject to a full scope audit and four components were subject to the audit of specific balances and transactions. A combination of review and analytical procedures were performed over the remaining components.

#### Key audit matters

- Valuation of investment properties and owner-occupied properties.

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.

# Independent auditor's report (continued)

## 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.

<b>Overall Group materiality</b>	R20 820 000.
<b>How we determined it</b>	0.80% of consolidated revenue.
<b>Rationale for the materiality benchmark applied</b>	We chose 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. We chose 0,80% 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 the Company and its 20 operational subsidiaries (referred to as "components"), excluding dormant companies. Our scoping assessment included consideration of the financial significance of the Group's components as well as the sufficiency of work planned over material line items in the consolidated financial statements. Seven of the components were subject to a full scope audit and four components were subject to an audit of specified balances and transactions. The remainder of the components were considered to be insignificant to the Group individually and in aggregate.

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, and 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 judgement, 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.

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**Key audit matter****How our audit addressed the key audit matter**

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**Valuation of investment properties and owner-occupied properties**

The Group's property portfolio comprises industrial, office and retail investment properties with these being accounted for and disclosed as either owner-occupied or investment properties in the consolidated financial statements.

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 or loss, respectively.

As at 31 March 2021, the fair values attributed to owner-occupied properties and investment properties were R210 million and R1,18 billion, respectively. Included in consolidated other comprehensive income is a pre-tax amount of R7,5 million relating to the revaluation gain on land and buildings and included in consolidated profit or loss a pre-tax gain amount of R49,8 million.

Key determinants of the value of these properties are dependent on the valuation methodology adopted and the unobservable inputs into the valuation model. The valuation technique used by the Group's external independent property valuers is the Capitalisation of Income method. Factors such as prevailing market conditions, the individual nature, condition and location of each property and the expected future income and anticipated expenses for the next twelve months for each property directly impact fair values.

The following unobservable inputs are key in establishing fair value:

- capitalisation rate;
- occupancy rate; and
- projected income.

The on-going effect of the Covid-19 pandemic represents a significant area of judgement and subjectivity. Deneb's property portfolio has proven resilient in the face of the pandemic, and attributed to the strength of its majority industrial portfolio. This has resulted in an upward adjustment reflected in a decrease in the weighted average capitalisation rate to 10% from 10,5%.

We evaluated the competence, capabilities and objectivity of the external experts engaged by the Group to perform the property valuations by assessing their professional qualifications, experience and the objectivity of these experts with reference to the profiles of the valuation company and individual experts. No aspects requiring further consideration were noted.

We obtained an understanding of the prevailing market conditions in which the Group invests by inspecting the latest Rode's and South African Property Owners Association ("SAPOA") Cap and Discount Rate reports.

Making use of our valuation expertise, 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.

We assessed the reasonableness of the unobservable inputs used in the valuation by performing the following procedures:

- For a sample of leases, we compared the projected income used in the valuation to the tenancy schedule which was vouched to actual lease contracts. We found that the data used in the samples tested were accurate and consistent with tenant leases.
- We compared market capitalisation rates by location and asset grade to an independent range determined based on benchmark market data for these assumptions. Where capitalisation rates fell outside of our anticipated ranges, we challenged the rationale supporting the rates applied in the valuation by discussing with management their reasons for supporting the adopted metric. Typically, the variances related to the relative age, or size/location of the property. In the context of the specific properties identified, the reasons provided by management for the variances were accepted.
- For a sample of properties, we compared the occupancy rates used in the external valuation to the SAPOA Cap and Discount Rate Report, based on the location of each property. We found that the occupancy rates fell within an acceptable range.
- We performed analytical procedures over the input information used in the valuation models per property in the form of trend analysis year-on-year and against all properties in the portfolio to assess whether these inputs were reasonable. We found that these inputs fell within our expected ranges.

# Independent auditor's report (continued)

## Key audit matter

We considered the valuation of investment properties and owner-occupied properties 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 and fair value adjustments that directly impact the consolidated statement of profit or loss and other comprehensive income; and
- Key judgements involved in respect of the unobservable inputs utilised in the valuation.

Disclosure is provided in the consolidated financial statements in notes 5, 13 and 14, respectively.

## How our audit addressed the key audit matter

For a sample of external valuations we:

- Inspected the valuer's terms of engagement for any clauses that may have affected their objectivity or imposed limitations on their work. No such clauses were identified; and
- Inspected the final valuation reports and agreed the fair value to the Group's accounting calculation, noting no exceptions.

Using our valuation expertise, we assessed the impact of the Covid-19 pandemic on the forward rentals and capitalisation rates, adjusted for risk factors present, such as the occupancy rates and associated reletting prospects in the property portfolio. We evaluated comparable market evidence in assessing the fair value of the properties.

## Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Deneb Investments Limited Integrated annual report 2021" and document titled "Deneb Investments Limited Separate Annual Financial Statements for the year ended 31 March 2021", which includes the Directors' report, the Audit Committee report and the Declaration by the Company Secretary as required by the Companies Act of South Africa. The other information does not include the consolidated or the separate financial statements and our auditor's reports 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.
- 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, actions taken to eliminate threats or safeguards applied.

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 four years.



**PricewaterhouseCoopers Inc.**

**Director: JA Hugo**

Registered Auditor

Cape Town  
26 July 2021