



# 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 and its subsidiaries ("the group and company") set out on pages 70 to 111, which comprise the consolidated and separate statements of financial position as at 28 February 2021, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of Spear REIT Limited and its subsidiaries as at 28 February 2021, and its consolidated and separate financial performance and consolidated and separate cash flows for the year 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 Consolidated and Separate Financial Statements section of our report. We are independent of the group and company in accordance with the Independent Regulatory Board of 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). 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.

#### Key audit matter

##### Valuation of Investment Properties

(Group and company – notes 6 and 28 in the notes to the financial statements, and the critical accounting estimates, assumptions and judgements and investment property accounting policy contained in the significant accounting policies section.)

The group's 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 R4 496 million and R1 523 million respectively. The fair value gain/(loss) recorded in the consolidated and separate statement of financial performance amounts to (R106.404) million and R24.69 million respectively in the current financial period.

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

#### How our audit addressed the key audit matter

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

- We assessed management's external valuer ("management's expert")'s competence, experience, qualifications and independence.
- We inspected the valuation reports for the properties valued by management's expert in the current year and confirmed that 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.
- Similarly, we confirmed that the valuation approach used internally 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 management's expert and management have been applied consistently.



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## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### Key audit matter

The valuation of the group's and company's investment property portfolio is inherently subjective due to the estimates and judgements used in determining the property fair values, such as the capitalisation rates, discount rates, forecast rental income and property expenses. Among other factors, the individual nature of a property and its location, taking cognisance of the tenant occupying the property, also affect the valuation of the investment property. Management also applies assumptions for yields and estimated market rent to arrive at the final valuation.

The valuation of investment properties was considered to be a key audit matter due to the significance of the balance, the significance of the estimates and the level of judgement involved.

### How our audit addressed the key audit matter

- We agreed all investment property fair values, valued by management's expert, to the underlying reports.
- We tested the key assumptions used in the determination of fair values in respect of both management's expert's valuation, as well as the valuation performed internally by management as follows:
  - The forecast revenue applied in the first year of the discounted cash flow ("DCF") was assessed for reasonability. This was performed by agreeing the forecast revenue per the property management system to the amounts used in the DCF model. 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 the DCF model was assessed for reasonability.
  - We assessed the reasonability of revenue and expense growth rates subsequent to the initial forecast year based on our knowledge of the property, the history of the property, and by comparing it to available industry data for similar investment properties.
  - We assessed the reasonability of the discount and capitalisation rates applied by comparing it to prior years and available industry data for similar investment properties.
  - We have tested the mathematical accuracy of the DCF models by reperforming the calculations.
- In addition to the above, we also selected key valuations, and requested an external, independent auditor's valuation expert to assess the reasonability of the:
  - Forecast revenue applied in the first year of the DCF models;
  - Projected property expenses applied in the first year of the DCF models;
  - Revenue and expense growth rates in the DCF models subsequent to the initial forecast year; and
  - Discount, exit and capitalisation rates applied by either management or management's external expert.
- We evaluated the completeness and adequacy of the disclosures in the consolidated and separate financial statements relating to the valuation of investment properties and it was in accordance with International Financial Reporting Standards.

### OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the document titled "Spear REIT Limited Annual Financial Statements for the year ended 28 February 2021", which includes 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. The other information does not include the consolidated and separate 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 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 group and/or 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 group's and the company's internal control.
- 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.
- 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 the 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 date of our auditor's report.



## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

However, future events or conditions may cause the group and/or the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 and separate 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 South Africa Incorporated has been the auditor of Spear REIT Limited for six years.

*BDO South Africa Inc*

### **BDO South Africa Incorporated**

Registered Auditors

### **Per: Bernard van der Walt**

Director

Registered Auditor

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21 May 2021



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