LIBERTY

two°degrees

Consolidated annual financial statements

for the year ended 31 December 2019

Contents

Preparation of consolidated annual financial statements

for the year ended 31 December 2019

The preparation of the consolidated annual financial statements of Liberty Two Degrees Limited for the year ended 31 December 2019 was supervised by José Snyders CA(SA) in his capacity as financial director.

These consolidated annual financial statements have been audited by PricewaterhouseCoopers Inc. in accordance with the requirements of the Companies Act of South Africa, 2008 and are available free of charge on the request of an investor as well as on the Liberty Two Degrees website.

Directors' responsibilities and approval

The directors are responsible for the preparation and fair presentation of the consolidated annual financial statements of Liberty Two Degrees Limited. These consolidated annual financial statements comprise the statements of financial position as at 31 December 2019, the statements of comprehensive income, changes in equity and cash flows for the year then ended, as well as the accounting policies and the notes to the consolidated annual financial statements. These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act 2008, as amended, and the JSE Listings Requirements. In addition, the directors are responsible for preparing the directors' report.

The directors are also responsible for such internal controls as the directors determine necessary to enable the preparation of the consolidated annual financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management, as well as the preparation of the supplementary schedules included in these consolidated annual financial statements.

The directors have made an assessment of the ability of Liberty Two Degrees Limited and its subsidiaries to continue as a going concern and have no reason to believe that the business will not be a going concern for the year ahead.

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

Approval of the consolidated annual financial statements

The consolidated annual financial statements of Liberty Two Degrees Limited and its subsidiaries, as identified in the first paragraph, were approved by the Board on 20 February 2020 and are signed by:

Angus Band
Chairman

Amelia Beattie
Chief executive

24 February 2020

Certificate by company secretary

In terms of section 88(2)(e) of the Companies Act 2008, as amended, I declare that to the best of my knowledge, for the year ended 31 December 2019, Liberty Two Degrees Limited has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Companies Act and that such returns are true, correct and up to date.

Ben Swanepoel
Company secretary

24 February 2020

Report of the audit and risk committee

for the year ended 31 December 2019

The audit and risk committee (ARC) is pleased to present its report for the financial year ended 31 December 2019, as required in terms of the Companies Act No.71 of 2008 of South Africa.

Composition and functions

The ARC is an independent statutory committee appointed by the shareholders and comprises three independent directors of the board of Liberty Two Degrees Limited (the company). The ARC operates under a board approved mandate covering its statutory responsibilities, as well as additional responsibilities delegated by the board.

Four scheduled ARC meetings were held during the year under review.

Discharge of responsibilities

The chief executive, financial director, finance executive and chief risk and compliance officer attend ARC meetings. The external and internal auditors attend ARC meetings by invitation. The external and internal auditors meet independently with the ARC when required. The ARC has operated in compliance with the terms of reference contained in its board approved mandate and has discharged its responsibilities accordingly. These terms of reference, including roles and responsibilities, are aligned with the requirements of King IV, the Companies Act and other regulatory requirements. In instances where King IV principles and requirements have not been applied, these are explained in the Governance section of the company's 2019 integrated report.

External audit

The ARC considered the performance of the external auditors for the 2019 year and concluded that the performance and extent of audit coverage was satisfactory. At the meeting held on 18 February 2020, the ARC recommended that PricewaterhouseCoopers Inc. (PwC) be reappointed as external auditors for the 2020 year at the 2020 annual general meeting, and that Ms Julanie Basson be the designated auditor responsible for performing the function of auditor for the 2020 year.

PwC has been the auditor of the company for 4 years. The designated auditor responsible is rotated on a five yearly basis. The 2019 year is the second year of Ms Julanie Basson's five-year term.

The ARC approved the external audit plan and fees for the 2019 year and satisfied itself that the auditors are independent of the company and are able to conduct their audit functions without any undue influence from the company. The ARC has approved a policy for the provision of non-audit services and reviewed compliance with this policy for the year under review.

Findings reported by the external auditors on the results of their independent audits were considered by the ARC in its overall assessment of the effectiveness of the company's internal financial controls.

Specifically, the key audit matters for the 2019 year, as reported in the independent auditor's report, were discussed by the ARC. After reviewing and considering input from management and the external auditors, the ARC was satisfied that these matters have been appropriately reflected in the consolidated annual financial statements for the year ended 31 December 2019.

Internal audit

The ARC is responsible for ensuring and was satisfied that the internal audit control function is objective and has the necessary resources, standing and authority within the organisation to enable it to fulfil its duties. The head of internal audit has a functional reporting line to the ARC chairman, and an operational reporting line to the group financial director.

The ARC chairperson provides input on the assessment of the performance of the internal audit function. The effectiveness of the internal audit control function was considered to be satisfactory by the ARC. Internal audit operates according to an ARC approved internal audit mandate. The ARC approved the internal audit plan and resourcing for the 2019 financial year.

Internal audit provides quarterly reports to the ARC. Reported findings and annual assurance statements provided by internal audit were considered by the ARC in its overall assessment of the effectiveness of the company's internal financial controls.

Report of the audit and risk committee continued

for the year ended 31 December 2019

Internal financial controls

The ARC has approved a framework for the internal financial controls implemented by the company and its subsidiaries. Nothing has come to the attention of the ARC to indicate that there has been any material breakdown in the functioning of these controls, resulting in material unrecorded loss to the company, during the year and up to the date of this report. Accordingly, the ARC is satisfied that the internal financial reporting controls provide a reliable basis for the preparation of the consolidated annual financial statements.

The above overall assessment of the effectiveness of internal financial controls is based on consideration of information and explanations provided by management, the findings reported by internal audit and their annual assurance statements, and discussions with the external auditors on the results of their independent audits.

The ARC received no material notifications of any concerns or complaints regarding:

- The accounting practices and internal audit of the company;
- The content or auditing of the company's consolidated annual financial statements;
- The internal financial controls of the company; or
- Any related matter.

Combined assurance

The combined assurance model is aligned to the roles and responsibilities as articulated in the three lines of defence risk governance model. There is regular communication between business unit management and independent assurance providers, including internal and external audit. Assurance on the management of key risks is provided monthly, quarterly and annually depending on the provider and as such, results in efficient and effective combined assurance.

Financial director

The ARC has satisfied itself that the financial director has the appropriate expertise and experience required for the role.

Finance function

The ARC has satisfied itself as to the appropriateness of the expertise, resources and experience of the finance function.

Consolidated annual financial statements

The ARC has reviewed and recommended approval of the group and company consolidated annual financial statements by the board.

Zaida Adams
Chairperson

Audit and risk committee

24 February 2020

Directors' report

for the year ended 31 December 2019

To the shareholders of Liberty Two Degrees Limited

Nature of the business

The group is engaged in property investments and operates principally in South Africa.

Financial results

The financial results for the year ended 31 December 2019 are set out in detail on pages 11 to 59 of these consolidated annual financial statements.

International financial reporting standards

The consolidated annual financial statements are prepared in terms of International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

Stated capital

The company was incorporated on 10 July 2018 with an authorised stated capital of 5 000 000 000 ordinary shares of no par value.

At 31 December 2019, there were 908 443 335 shares in issue, all of which rank for the dividend declared on 20 February 2020.

Dividend distributions

On 25 July 2019, the Board declared an interim dividend of 29.31 cents per share for the six months ended 30 June 2019.

Subsequent to year-end, on 20 February 2020, the Board declared a final dividend of 31.12 cents per share for the six months ended 31 December 2019, which will be paid on 23 March 2020.

This brings the full year distribution to 60.43 (2018: 60.00) cents per share.

Both dividends amounting to 60.43 cents per share in aggregate have been determined with reference to the financial results of the company for the year ended 31 December 2019.

Both dividends amounting to 60.43 cents per share in aggregate have been declared from distributable earnings and meet the requirement of a REIT 'qualifying distribution' for purposes of section 25BB of the Income Tax Act, No 58 of 1962, as amended.

The group uses distribution per share as a relevant measure of results for trading statement purposes.

Directorate

The directors of the company at the date of this report were:

Executive directors

- Amelia Beattie – Chief executive (Appointed: 10 July 2018); and
- José Snyders –Financial director (Appointed: 10 July 2018).

Non-executive directors

- Angus Band – Chairman (Appointed: 10 July 2018);
- Wolf Cesman* – Lead independent director (Appointed: 19 July 2018);
- Lynette Ntuli* (Appointed: 19 July 2018);
- Zaida Adams* (Appointed: 1 August 2018);
- David Munro (Appointed: 29 July 2019); and
- Brian Azizollahoff (Resigned as a director of the company with effect from 2 August 2019).

* Independent.

Directors' emoluments and interests

Refer to note 20 of the consolidated annual financial statements for disclosure regarding directors' emoluments and directors' interests.

Directors' report continued

for the year ended 31 December 2019

Service contracts

Executive directors retire from their positions and from the board (as executive directors) at the age of 65. Though normal retirement age is 65 years for executive directors, the company's retirement policy makes provision to extend the working relationship beyond the normal retirement age. The executive directors are subject to three calendar months' written notice under their existing employment contracts.

Shareholders' analysis

Refer to pages 66 to 68 of the consolidated annual financial statements for disclosure regarding shareholders' analysis.

Subsequent events

In line with IAS 10 Events after the Reporting period, the declaration of the final dividend of 31.12 cents per share for the six months ended 31 December 2019 occurred after the end of the reporting period, resulting in a non-adjusting event which is not recognised in these consolidated annual financial statements.

Independent auditor's report

for the year ended 31 December 2019

To the Shareholders of Liberty Two Degrees Limited

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Liberty Two Degrees Limited (the Company) and its subsidiaries (together the Group) as at 31 December 2019, and its consolidated and separate financial performance and its 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.

What we have audited

Liberty Two Degrees Limited's consolidated and separate financial statements set out on pages 11 to 59 comprise:

- the consolidated and separate statements of financial position as at 31 December 2019;
- the consolidated and separate statements of comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the consolidated and separate 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 and separate financial statements* section of our report.

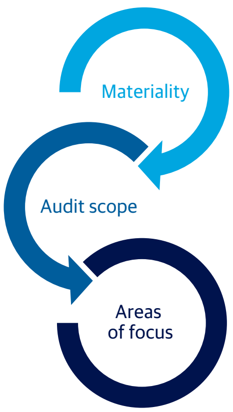
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the *International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively.

Our audit approach

Overview



Overall group materiality

- *R26.7 million, which represents 5% of the Group's consolidated profit before taxation.*

Group audit scope

- *The Group consists of seven components. Full scope audits were performed on all components within the Group.*

Key audit matters

- *Valuation of investment property at year-end; and*
- *Accounting for the hotel lease agreements.*

Independent auditor's report continued

for the year ended 31 December 2019

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate 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	*R26.7 million*
How we determined it	*5% of the Group's consolidated profit before taxation.*
Rationale for the materiality benchmark applied	*We chose consolidated profit before taxation as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for widely held public companies.*

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's financial statements is a consolidation of the Company, its three subsidiaries, and a restricted employee share plan trust. The Group through its wholly owned subsidiary, 2 Degrees Properties Proprietary Limited, holds an 8.3% and 25% undivided share in Melrose Arch Precinct and Liberty Hotels respectively. Full scope audits were performed on all the components.

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

Independent auditor's report continued

for the year ended 31 December 2019

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.

Consolidated financial statements

Key audit matter	***How our audit addressed the key audit matter***
Valuation of investment properties at year-end ***Refer to notes 1.4, 2.2, 5 and 10 to the Consolidated Financial Statements.*** *The majority of the Group's investment properties comprises retail investment properties. At 31 December 2019, the carrying value of the Group's total investment properties portfolio was R10.3 billion representing a R0.2 billion increase compared to the prior year.* *The Group's accounting policy is to measure investment properties at fair value using the discounted cash flow model. The fair value is dependent on the inputs and assumptions into valuation techniques applied and the inputs into the valuation model.* *The inputs made by management in determining the fair value of the investment properties are set out in note 2.2 to the consolidated financial statements and include amongst others the key assumptions relating to exit capitalisation rates and discount rates.* *The accounting policy requires all properties to be valued annually. Management engage an external independent valuer (the external valuers) on a bi-annual basis to carry out a valuation of all investment properties.* *We considered the year-end valuation of investment properties as a matter of most significance to our current year audit due to:* – *the significant judgements required in determining the exit capitalisation rates and discount rates; and* – *the magnitude of the investment properties balances at year-end.*	*We obtained the latest independent property market reports to understand the prevailing market conditions in which the Group invests.* *We updated our understanding of and tested the relevant controls related to:* – *Entering and amending of leases in support of contractual rental income;* – *Setting and approval of budgets by the Group;* – *Detailed analysis of forecasts and trends against actual results that inform management of the business;* – *Consideration of external valuation reports by an internally appointed appraiser; and* – *Board approval of the valuations obtained.* *In respect of the external valuers we:* – *Considered their objectivity, independence and expertise by inspecting the external valuers' valuation reports for a statement of independence and compliance with generally accepted valuation standards; and* – *Confirmed the external valuers' affiliation with the relevant professional body.* *On a risk-based sample basis, we assessed the calculation of the fair values in the external valuers' valuation reports by performing the following procedures:* – *Utilised our internal valuation expertise to assess the appropriateness of the valuation methodology;* – *Considered the applicability of minority discounts to fractional ownership;* – *Assessed the reasonableness of the cash flows, growth, exit capitalisation and discount rates against market related data for similar investment properties and based on our work performed, we accepted management's assumptions;* – *Recalculated acceptable ranges for the valuations of a sample of properties based on industry benchmarks noting that the valuations fell within these ranges; and* – *Inspected the final valuation reports and agreed the fair value to the Group's accounting records noting no material exceptions.*

Independent auditor's report continued

for the year ended 31 December 2019

Key audit matter	*How our audit addressed the key audit matter*
Accounting for hotel lease agreements ***Refer to note 2.4 to the consolidated financial statements for the critical judgements applied by management.*** *The Group, through 2 Degrees Properties Proprietary Limited owns undivided shares in three hotels. Effective 1 November 2019, the Group entered into new agreements with Tsogo Sun Hotels Limited regarding the day-to-day operations of the hotel activities.* *Significant judgement was applied on the classification of the agreement as a lease agreement versus a management agreement and management concluded that it met the definition of a lease. This impacted the classification of revenue as rental income in terms of International Financial Reporting Standards (IFRS) 16 — Leases and the property classification as investment property in terms of International Accounting Standards (IAS) 40 — Investment Property.* *These significant judgements are set out in the key judgements note 2.4 of the consolidated financial statements.* *We considered the accounting for hotel lease agreements to be a matter of most significance to our current year audit due to the significant judgement applied and the material impact of the agreement on the Group's results.*	*We obtained and read the signed lease agreements to understand the key terms.* *Making use of our accounting expertise, we obtained an understanding of the significant judgements made by management in interpreting the application of IFRS 16 and IAS 40 to the lease agreements. Based on the results of our work performed, we accepted management's judgements.* *We assessed the appropriateness of management's conclusions reached with regards to the Group's right to obtain a substantial portion of the economic benefits emanating from the hotels and it's right to direct the relevant activities or use of the hotel operations as follows:* — *We assessed the appropriateness of management's application of paragraph B23 of IFRS 16 in concluding that the right to obtain a substantial portion of the economic benefits from the hotel operations rests with the hotels operator. Based on our work performed, we accepted management's assessment that substantially all of the economic benefits from the use of the hotels rests with the hotels operator;* — *Making use of our accounting expertise, we considered management's interpretation of the relevant activities of the hotel operations as stated in the lease agreement and their conclusion that such relevant activities are directed by the hotels operator. Based on our reading of the lease agreements, we accepted management's interpretations; and* — *Through inspection of the hotel operation budgets we accepted management's assessment that the significance of ancillary services provided and exposure to cash flows were of such a nature to support the passive investor consideration and justify classification of the hotels as investment properties.*
Separate financial statements *We have determined that there are no key audit matters in respect of the separate financial statements to communicate in our report.*	

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled '*Liberty Two Degrees Consolidated Annual Financial Statements for the year ended 31 December 2019*', which includes the Directors' Report, the Report of the audit and risk committee and the Certificate by company secretary as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report, and the other sections of the document titled '*Liberty Two Degrees Limited Integrated Annual Report and Annual Financial Statements for the year ended 31 December 2019*', which is expected to be made available to us after that date. The other information does not include the consolidated or the 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 and will 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 identified above 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 on the other information that we obtained prior to the date of this auditor's report, 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 IFRS 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 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 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 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 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. 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 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 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 PricewaterhouseCoopers Inc. has been the auditor of Liberty Two Degrees Limited for 4 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.

Director: J Basson
Registered auditor

Johannesburg

24 February 2020

Statements of financial position

as at 31 December 2019

R'000	Notes	Group 2019	Group 2018	Company 2019	Company 2018
Assets					
Non-current assets		**10 163 254**	10 145 122	**9 199 236**	9 199 236
Investment properties	5.2	**10 112 155**	10 111 609	**–**	–
Investment properties under development	5.3	**32 768**	32 768	**–**	–
Property, plant and equipment	28	**836**	745	**–**	–
Investment in subsidiaries	34	**–**	–	**9 199 236**	9 199 236
Financial assets – unlisted equity	7	**17 495**	–	**–**	–
Current assets		**386 907**	333 264	**177 283**	1
Trade and other receivables	6	**253 241**	277 963	**–**	–
IFRS 16 – lease asset	29	**1 688**	–	**–**	–
Amount due from Group companies	27	**66 119**	42 645	**177 047**	–
Financial assets	7	**660**	600	**–**	–
Current tax receivable	32	**–**	686	**–**	–
Cash and cash equivalents	8	**65 199**	11 370	**236**	1
Non-current asset held for sale	35	**123 213**	–	**–**	–
Total assets		**10 673 374**	10 478 386	**9 376 519**	9 199 237
Equity					
Stated capital	11	**8 780 921**	8 780 489	**8 780 921**	8 780 489
Treasury shares	11	**(39 205)**	–	**–**	–
Retained surplus/(loss)		**290 081**	122 646	**265 573**	(6 645)
Share-based payment reserve	26	**18 240**	–	**17 258**	–
Mergers/capital reserve		**(426 104)**	(426 104)	**–**	–
Non-distributable reserve	12	**93 073**	106 865	**–**	–
Total equity		**8 717 006**	8 583 896	**9 063 752**	8 773 844
Liabilities					
Non-current liabilities					
Financial liabilities	31	**1 695 000**	1 000 000	**307 946**	150 000
Current liabilities		**261 368**	894 490	**4 821**	275 393
Trade and other payables	9	**200 905**	236 212	**330**	601
IFRS 16 – lease liability	30	**1 995**	–	**–**	–
Employee benefits	25	**17 323**	23 372	**–**	–
Amount due to Group companies	27	**14**	10	**–**	112 332
Current tax payable	32	**74**	–	**–**	
Financial instruments	10	**16 891**	8 289	**–**	–
Financial liabilities	31	**24 166**	626 607	**4 491**	162 460
Total liabilities		**1 956 368**	1 894 490	**312 767**	425 393
Total equity and liabilities		**10 673 374**	10 478 386	**9 376 519**	9 199 237

Statements of comprehensive income

for the year ended 31 December 2019

R'000	Notes	Group 2019	Group 2018	Company 2019	Company 2018
Property portfolio revenue		**999 189**	913 810	**–**	–
Rental and related income	13	**1 023 891**	915 069	**–**	–
Adjustment for the straight-lining of operating lease income	5.2	**(24 702)**	(1 259)	**–**	–
Net revenue from hotel operations	16	**24 677**	–	**–**	–
Property operating expenses	14	**(325 585)**	(327 157)	**–**	–
Change in expected credit losses on rental debtors	6.1	**(4 729)**	2 469	**–**	–
Net property income		**693 552**	589 122	**–**	–
Asset management fee income	16	**61 490**	63 753	**–**	–
Development fee income	16	**6 747**	162	**–**	–
Total net property income and revenue		**761 789**	653 037	**–**	–
Other income	17	**181**	4 049	**166**	–
Operating costs	15	**(93 156)**	(76 126)	**(22 728)**	(610)
Profit/(loss) from operations excluding fair value adjustments		**668 814**	580 960	**(22 562)**	(610)
Interest expense		**(148 530)**	(25 282)	**(36 569)**	(6 035)
Interest received		**3 482**	12 462	**680**	–
Realised loss on sale of equity		**–**	(2 085)	**–**	–
Dividend income		**–**	–	**710 536**	–
Profit before fair value adjustments		**523 766**	566 055	**652 085**	(6 645)
Net fair value adjustments		**10 910**	80 762	**–**	–
Fair value adjustments on investment properties	5.2	**2 054**	89 860	**–**	–
Fair value adjustment on derivatives	12	**(8 602)**	(8 289)	**–**	–
Fair value adjustment on equity instrument	7	**(7 244)**	(2 068)	**–**	–
Adjustment for the straight-lining of operating lease income	5.2	**24 702**	1 259	**–**	–
Profit before taxation		**534 676**	646 817	**652 085**	(6 645)
Taxation	32	**(185)**	(6 082)	**–**	–
Total comprehensive income		**534 491**	640 735	**652 085**	(6 645)
Basic earnings per share (cents)	3	**58.96**	70.53	**0.07**	(0.73)
Fully diluted earnings per share (cents)	3	**58.96**	70.53	**0.07**	(0.73)

Statements of changes in equity

for the year ended 31 December 2019

	Group						
R'000	Capital	Treasury shares	Share-based payment reserve	Non-distributable reserve	Retained surplus	Mergers/ capital reserve	Total
Balance at 1 January 2018	8 782 290	–	–	29 448	274 186	(92 459)	8 993 465
Total comprehensive income	–		–	–	640 735	–	640 735
Capitalised transaction costs	(1 801)	–	–	–	–	–	(1 801)
Capital reorganisation impact	–	–	–	–	–	(333 645)	(333 645)
Fair value adjustment on investment properties transferred to non-distributable reserve	–	–	–	89 860	(89 860)	–	–
Realised loss on sale of listed equity investment transferred to non-distributable reserve	–	–	–	(2 086)	2 086	–	–
Fair value adjustment on derivatives	–	–	–	(8 289)	8 289	–	–
Fair value adjustment on equity instrument	–	–	–	(2 068)	2 068	–	–
Distribution to shareholders	–	–	–	–	(695 232)	–	(695 232)
Distribution to Liberty Holdings Limited	–	–	–	–	(19 626)	–	(19 626)
Balance at 1 January 2019	8 780 489	–	–	106 865	122 646	(426 104)	8 583 896
Total comprehensive income	–	–	–	–	534 491	–	534 491
Treasury shares acquired by the Trust (note 11)	–	(39 205)	–	–	–	–	(39 205)
Share-based payment transaction (note 26)	–	–	18 240	–	698	–	18 938
Capitalised costs	432	–	–	–	–	–	432
Fair value adjustment on investment properties transferred to non-distributable reserve	–	–	–	2 054	(2 054)	–	–
Fair value adjustment on derivatives	–	–	–	(8 602)	8 602	–	–
Fair value adjustment on equity instrument	–	–	–	(7 244)	7 244	–	–
Distribution to shareholders	–	–	–	–	(381 546)	–	(381 546)
Balance at 31 December 2019	**8 780 921**	**(39 205)**	**18 240**	**93 073**	**290 081**	**(426 104)**	**8 717 006**

Statements of changes in equity continued

for the year ended 31 December 2019

	Company						
R'000	Capital	Treasury shares	Share-based payment reserve	Non-distributable reserve	Retained surplus	Mergers/ capital reserve	Total
Balance at 1 January 2018	–	–	–	–	–	–	–
Total comprehensive income	–		–	–	(6 645)	–	(6 645)
Capitalised transaction costs	–	–	–	–	–	–	–
Capital reorganisation impact	8 780 489	–	–	–	–	–	8 780 489
Fair value adjustment on investment properties transferred to non-distributable reserve	–	–	–	–	–	–	–
Realised loss on sale of listed equity investment transferred to non-distributable reserve	–	–	–	–	–	–	–
Fair value adjustment on derivatives	–	–	–	–	–	–	–
Fair value adjustment on equity instrument	–	–	–	–	–	–	–
Distribution to shareholders	–	–	–	–	–	–	–
Distribution to Liberty Holdings Limited	–	–	–	–	–	–	–
Balance at 1 January 2019	8 780 489	–	–	–	(6 645)	–	8 773 844
Total comprehensive income	–	–	–	–	652 085	–	652 085
Share-based payment transaction (note 26)	–	–	17 258	–	1 679	–	18 937
Capitalised costs	432	–	–	–	–	–	432
Fair value adjustment on investment properties transferred to non-distributable reserve	–	–	–	–	–	–	–
Fair value adjustment on derivatives	–	–	–	–	–	–	–
Fair value adjustment on equity instrument	–	–	–	–	–	–	–
Distribution to shareholders	–	–	–	–	(381 546)	–	(381 546)
Balance at 31 December 2019	**8 780 921**	**–**	**17 258**	**–**	**265 573**	**–**	**9 063 752**

Statements of cash flows

for the year ended 31 December 2019

		Group		Company	
R'000	Notes	2019	2018	2019	2018
Cash flows from operating activities		**158 370**	(495 176)	**235**	1
Cash generated by operations	19	**682 775**	241 233	**408 490**	1
Interest received on financial assets	7.2	**60**	4 665	**–**	–
Interest received		**3 421**	7 797	**680**	–
Interest paid	31.2	**(146 915)**	(2 586)	**(27 389)**	–
Taxation (paid)/received	32.1	**575**	(5 356)	**–**	–
Distribution to shareholders	21	**(381 546)**	(695 232)	**(381 546)**	–
Distribution to Liberty Holdings Limited	21	**–**	(45 697)	**–**	–
Cash flows from investing activities		**(154 341)**	(1 119 826)	**–**	(307 946)
Expenditure on investment properties capitalised	5.2	**(104 336)**	(185 805)	**–**	–
Expenditure on investment properties under development	5.3	**–**	(108)	**–**	–
Acquisition of investment properties	5.2	**(24 643)**	(1 196 457)	**–**	–
Acquisition of investment properties under development	5.3	**–**	(3 543)	**–**	–
Acquisition of property, plant and equipment	28	**(563)**	(661)	**–**	–
Investment in financial instruments – mutual funds	7.2	**(60)**	(557 074)	**–**	–
Proceeds from disposal of financial instruments – mutual funds	7.2	**–**	672 196	**–**	–
Acquisition of subsidiary	34	**–**	–	**–**	(307 946)
Investment in financial instruments – unlisted equity	7.2	**(24 739)**	–	**–**	–
Proceeds from disposal of financial instruments – equity instrument	7.2	**–**	151 626	**–**	–
Cash flows from financing activities		**49 800**	1 603 739	**–**	307 946
Treasury shares acquired	11	**(39 205)**	–	**–**	–
Finance lease liability repayments	30.2	**(2 084)**	–	**–**	–
Loan paid	31.2	**(428 149)**	(105 913)	**–**	–
Loans received	31.2	**519 238**	1 709 652	**–**	307 946
Net increase/(decrease) in cash and cash equivalents		**53 829**	(11 263)	**235**	1
Cash balance at beginning of the year	8	**11 370**	22 633	**1**	–
Cash and cash equivalents at the end of the year		**65 199**	11 370	**236**	1

Notes to the consolidated and separate annual financial statements

for the year ended 31 December 2019

The principal accounting policies applied in the preparation of these consolidated annual financial statements are set out below.

1. Accounting policies

1.1 Statement of compliance

The consolidated and separate annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, and the requirements of the Companies Act of South Africa. The group's consolidated annual financial statements include the annual financial statements of Liberty Two Degrees Limited (referred to as L2D, L2D Ltd or the company) and its subsidiary companies (together referred to as the group or L2D Group).

1.2 Basis of consolidation

Consolidated annual financial statements are prepared by the parent company, L2D, using uniform accounting policies for like transactions and other events in similar circumstances. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities in the group are eliminated on consolidation. The consolidated annual financial statements have been prepared on the historical cost basis modified for the fair value adjustment of investment property measured in terms of IAS 40 and financial assets and financial liabilities measured in terms of IFRS 9. The consolidated annual financial statements are prepared on the going concern basis. These are presented in Rand which is L2D Group functional currency, and all values are rounded to the nearest thousand (R'000), except where otherwise indicated.

1.2.1 Subsidiaries

Subsidiaries are entities over which the company exercises control. The consolidated annual financial statements incorporate the assets, liabilities, income, expenses and cash flows of the subsidiaries. Consolidation of subsidiaries commences from the date the investor obtains control and ceases on the date on which the investor loses control.

An investor controls an investee if and only if the investor has all of the following elements:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the investor's returns.

1.2.1.1 Interest in subsidiary

Interests in subsidiary companies in the company's annual financial statements comprise shares (accounted for under IAS 27) and intergroup loans (accounted for under IFRS 9). Shares are measured at cost less any required impairment (there were no indicators of impairment in 2019). Acquisition costs are recorded as an expense in the period in which they are incurred, except for the costs to issue debt or equity securities, which are part of the consideration transferred. The carrying amounts of these investments are reviewed annually for impairment. Under the IFRS 9 business model assessment, for 2019, intergroup loan balances are measured at amortised cost.

1.2.2 Merger reserve

During the 2018 financial year and with effect from 1 November 2018, Liberty Two Degrees Limited (New L2D) converted to a corporate REIT in accordance with a transaction that involved the following inter-conditional steps as detailed in the circular that was issued to shareholders on 30 July 2018.

- the disposal by the Liberty Two Degrees Scheme (Old L2D) of all of its business assets and liabilities to 2 Degrees Properties Proprietary Limited (2DP), being a wholly-owned subsidiary of New L2D;
- the internalisation through New L2D purchasing the issued shares of the manager from Liberty Holdings Limited (LHL) following which the business of the Manager was transferred to 2DP; and
- the acquisition by 2DP of R1.2 billion of additional properties from Liberty Group Limited (LGL) and Liberty Propco Proprietary Limited (LibProp).

The conversion to a corporate REIT during 2018 was considered to be a common control transaction in that the ultimate parent company before and after the transaction was LHL. There is no guidance in IFRS on the accounting treatment for combinations among entities under common control and IAS 8 requires management to develop a policy that is relevant to the decision-making needs of users and that is reliable. Management are of the view that capital reorganisation accounting is considered to be the most appropriate treatment for this transaction. In this regard, a new entity was incorporated (New L2D) as the parent via the issue of shares and the businesses under common control that are combined in New L2D are considered to have single management and oversight and are treated as a capital reorganisation of the existing reporting entity.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

1. Accounting policies (continued)

New L2D's consolidated annual financial statements included the entity's full results (including restated comparatives) as though the transaction had been effected at the start of the earliest period presented, even though the reorganisation was effective from 1 November 2018. The assets and liabilities of the existing entity were incorporated at their pre-combination carrying amounts without fair value uplift. Any premium on the purchase price over the carrying amounts of the assets and liabilities was recorded in equity as a merger reserve.

Costs related to the acquisition, other than those associated with the issue of debt or equity instruments that the group incurs in a capital reorganisation, were expensed as incurred. Costs that are incremental and directly attributable to the issue of equity are recorded directly in equity.

1.3 Reconciliation between earnings and distributable income – Group

The group has established strict guidelines regarding its distribution policy to ensure that the distributable earnings is a fair reflection of sustainable earnings; this comprises property related income and development profits net of property related expenditure, finance costs not capitalised and administrative costs.

As distributable earnings is a measure of sustainable income, the group has applied the following specific exclusions in the determination of this metric:

- capital or non-recurring items;
- fair value on investment property, financial assets and derivatives;
- straight-lining adjustments determined in line with IFRS; and
- transactions with related parties which are not at arm's length.

These guidelines align with the best practice recommendations established by the SA REIT Association.

1.4 Investment property

Investment property is property held to earn rental income or for capital appreciation or both, and that is not occupied by L2D Group. Investment property also includes property that is being constructed or developed for future use as investment property.

1.4.1 Investment property

Investment property is measured initially at its cost. The cost of investment property comprises the purchase price and directly attributable expenditure. Subsequent expenditure relating to investment property is capitalised when it is probable that there will be future economic benefits from the use of the asset. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

After initial recognition, investment property is measured at fair value, which takes into account characteristics that market participants would consider at the statements of financial position date. Fair values are determined bi-annually by external independent registered valuers on the open market value basis. The valuers use the discounted cash flow method to determine fair value.

Gains or losses arising from changes in the fair values of investment property are included in profit or loss for the year in which they arise. The fair value gain or loss is transferred to or from non-distributable reserves.

When L2D Group begins to redevelop an existing investment property, consideration is given to whether or not the property needs to be reclassified as investment property under development or should remain as investment property, which is measured based at the fair value model.

1.4.2 Investment property under development

Investment property under development is measured at fair value if the fair value is considered to be reliably determinable.

Investment property under development for which the fair value cannot be determined reliably, but for which L2D Group expects that the fair value of the property will be reliably determinable when development is completed, is measured at cost less impairment until the fair value becomes reliably determinable or construction is completed, whichever is earlier. Development cost comprises the cost of the land and development cost.

All costs directly associated with the purchase and construction of a property, and all subsequent capital expenditure for the development qualifying as acquisition costs, are capitalised. On completion of development, these properties are classified as investment property.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

1. Accounting policies (continued)

1.5 Equity

Issued shares are classified as equity when there is no obligation to transfer cash or other assets.

Incremental costs directly attributable to the issue of shares are shown in equity as a deduction, net of tax, from the proceeds.

1.5.1 Treasury shares

Where a subsidiary company (or Trust) holds shares in the holding company, the consideration paid to acquire these shares is deducted from stated capital as treasury shares, but disclosed separately in the statements of changes in equity. When these shares are sold or re-issued, any consideration received is included in stated capital.

1.5.2 Distributions to shareholders

L2D Group has an obligation to distribute the net amount available for distribution, to its shareholders once the distributions are declared and authorised by the Board of L2D Group.

Distributions payable are recognised as a liability once the amount for distribution has been determined and declared by the Board.

1.5.3 Non-distributable reserves

All unrealised gains or losses arising from the movements in fair value of investment property, fair value adjustments on investment, derivatives, post-acquisition reserves from associates, gains and losses on the sale of investment property and investments, are transferred to or from non-distributable reserves and are not available for distribution.

Distributions exclude items arising as a result of:

- capital or non-recurring items;
- fair value on investment property and financial assets;
- straight-lining adjustments determined in line with IFRS; and
- transactions with related parties which are not at arms length.

1.6 Financial instruments

L2D Group's financial instruments consist mainly of financial assets, trade and other receivables, trade and other payables, cash and borrowings. Financial instruments are initially measured at fair value.

Financial instruments

Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial instruments are recognised in the statements of financial position when the group becomes party to the contractual provisions of the instrument. Any gains or losses on these instruments do not affect distributable earnings. Financial assets and liabilities are initially measured at fair value plus any transaction costs (other than financial instruments that are classified at fair value through profit or loss where the transaction costs incurred are immediately expensed in profit or loss).

Financial assets

Financial assets are classified into the following categories: financial assets at fair value through profit or loss; and financial assets at amortised cost. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Financial assets at fair value through profit or loss are measured at fair value with any gains or losses arising on remeasurement recognised in profit or loss.

The business model of L2D is to collect contractual cash flows on the financial assets in which it invests, which includes working capital balances such as cash and receivables.

The financial assets of the group are classified as follows:

- Other financial assets are classified at fair value through profit or loss;
- Trade and other receivables are classified at amortised cost, as they give rise to sole payments of principal and interest on the principal amount outstanding; and
- Derivative assets comprising interest rate swaps are classified at fair value through profit or loss.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

1. Accounting policies (continued)

The group derecognises a financial asset when the contractual rights to the cash flows from the assets expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. If the group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. Any interest in transferred financial assets that is created or retained by the group is recognised as a separate asset or liability. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the group commits itself to purchase or sell the asset.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities. The classification depends on the nature and purpose of the financial liabilities and is determined at the time of initial recognition. Financial liabilities at fair value through profit or loss include all instruments classified as held-for-trading and those instruments designated as held at fair value through profit or loss. These instruments are initially recorded at fair value with changes in fair value subsequently recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The financial liabilities of the group are classified as follows:

- Interest-bearing borrowings are classified at amortised cost;
- Derivatives, comprising interest rate swaps are held-for-trading financial instruments measured at fair value through profit or loss;
- Trade and other payables are classified at amortised cost; and
- Other financial liabilities are classified at amortised cost.

The group derecognises a financial liability when the group's obligations specified in the contract expire or are discharged or cancelled. If the group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

Impairment of financial instruments

The group applies the IFRS 9 expected credit loss (ECL) impairment model which allows for more timely recognition of credit losses.

This is applied to financial assets measured at amortised cost.

The measurement basis of the ECL of a financial asset includes assessing whether there has been significant increase in credit risk (SICR) at the reporting date which includes forward-looking information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. A significant change in credit risk (SICR) is when there is a material change in the probability of default, since origination. The measurement basis of the ECL, which is set out in the table that follows, is measured as the unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and forward -looking information.

Stage 1	A 12-month ECL is calculated for financial assets which are neither credit-impaired on origination nor for which there has been SICR.
Stage 2	A lifetime ECL allowance is calculated for financial assets that are assessed to have displayed a SICR since origination and are not considered low credit risk.
Stage 3 (credit impaired assets)	A lifetime ECL is calculated for financial assets that are assessed to be credit impaired. The following criteria are used in determining whether the financial asset is impaired: – default: A financial asset is considered to be in default when there is objective evidence of impairment. Exposures which are overdue for more than 90 days are also considered to be in default; – significant financial difficulty of borrower and/or modification; – probability of bankruptcy or financial reorganisation; and – disappearance of an active market due to financial difficulties.

ECL are recognised as a deduction from the gross carrying amount of the asset. Therefore financial assets that are subject to ECLs are disclosed on a net basis in the statements of financial position. The gross ECL disclosure are disclosed in the note.

Financial assets are written off when there is no reasonable expectation of recovery. Financial assets which are written off may still be subject to enforcement activities.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

1. Accounting policies (continued)

Derivative financial instruments

The group enters into derivative financial instruments to manage its exposure to interest rate and foreign exchange risks, including interest rate swaps and forward exchange options. Derivatives are recognised and measured as described above. Further detail on derivative financial instruments is disclosed in note 22, Financial risk management.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Cash equivalents are short-term with an initial term of three months or less, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

1.7 Leases

During 2018, properties leased to third parties under operating leases were accounted for per IAS 17 and included in investment property in the statements of financial position.

Effective 1 January 2019, the group has applied IFRS 16, and the accounting treatment has been disclosed below:

As a lessor

Lessor accounting remains substantially unchanged and the group as a lessor has operating leases only.

As a lessee

The group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

At inception of a contract the group assesses whether a contract is, or contains a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the group assesses whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right then the asset is not identified.

The group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use and the group has the right to direct the use of the asset. The group has this right when it has the decision-making rights that are relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the assets use is determined, the group has the right to direct the use of the asset either:

- The group has the right to operate the asset; or
- The group designed the asset in a way that predetermines how and for what purpose it will be used for.

This policy is applied to contracts entered into, or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the group allocates the consideration in the contract to each lease component on the basis of their relative stand alone prices.

The group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-lining method from commencement date to the earlier of the end of the useful life of the right-of-use asset or at the end of the lease term. The estimated useful lives of right-of-use asset are determined on the same basis as those of property and equipment. In addition the right-of-use asset is periodically reduced by impairment losses if any and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the groups incremental borrowing rate. The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments or if the group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right to use asset.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

1. Accounting policies (continued)

Short-term leases and leases of low value assets

The group has elected not to recognise right-of-use assets and lease liabilities for short term leases that have a lease term of 12 months or less and leases of low value assets, including IT equipment. The group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

1.8 Revenue

1.8.1 Revenue from contracts with customers

Revenue from contracts with customers arises from transactions not associated with financial instruments, or investment properties. Revenue is recognised either when the performance obligation has been satisfied (point in time) or as control of the goods or service is transferred to the customer (over time). This requires an assessment of the group's performance obligations and of when control is transferred to the customer. Where revenue is recognised over time, performance obligation over time, the group applies a revenue recognition method that faithfully depicts the group's performance in transferring control of the service to the customer. Due to the nature of the group's business, the majority of its revenue from customers is considered to be recognised over time. If performance obligations in a contract do not meet the over time criteria, the group recognises revenue at a point in time. Revenue from hotel operation sales for the period 1 January 2019 to 31 October 2019 is included in this category. This is in general due to the group performing and the customer simultaneously receiving and consuming the benefits over the life of the contract as services are rendered. For each, revenue is measured based on the consideration specified in contracts with customers. Such amounts are only included based on the expected value or most likely outcome method, and only to the extent that it is highly probable that no significant revenue reversal will occur. In assessing whether a significant reversal will occur, the group considers both the likelihood and the magnitude of the potential revenue reversal. Payment terms and conditions included in customer contracts are typically due in full within 30 days.

Details related to the nature and measurement of revenue are set out below:

Revenue type	Description	Nature, timing of satisfaction of performance obligations and measurement
Fee revenue	Management fees on assets under management and property development fees.	Management fees on assets under management are recognised over the period for which the services are rendered, in accordance with the substance of the relevant agreements.
		Development fees are recognised over the period of the contract based on percentage of completion as obtained from quantity surveyors.
Hotel operations revenue	Revenue from hotel operations for the period 1 January 2019 to 31 October 2019.	Revenue from hotel operations for the period 1 January 2019 to 31 October 2019 is recognised over the period of the contract.

Rental and related income from lease agreements is not within the scope of IFRS 15 and has thus not been included in the table above.

1.8.2 Rental and related income

Rental revenue from investment property is recognised on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income over the lease period. Turnover rentals are recognised on the accrual basis.

Municipal recoveries are recognised over the period for which the services are rendered. L2D Group acts as a principal on its own account when recovering operating costs, such as utilities, from tenants.

1.8.3 Other income

Dividend income is recognised when the right to receive payment is established.

Finance income comprises interest received and is recognised as it accrues, taking into account the effective yield on the asset.

1.9 Property operating expenses

Service costs for service contracts entered into and property operating expenses are expensed as incurred.

1.10 Letting commissions

The cost of letting commissions is recognised as an expense over the lease term, on a straight-line basis. Commission costs not yet expensed are capitalised as part of investment property.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

1. Accounting policies (continued)

1.11 Property, plant and equipment

The equipment purchased by the company provides it with the necessary infrastructure to operate effectively. The property, plant and equipment principally comprise computer equipment and fixtures, furniture and fittings. The assets are depreciated on a straight-line basis to the residual value. The estimated useful life applied are as follows:

- Computer equipment 3 – 5 years;
- Fixtures, furniture and fittings 5 – 10 years; and
- Leasehold improvements Over the lease term (2 years).

The depreciation method, useful lives and residual values are reviewed at each reporting date. Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

1.12 Segmental reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses; whose operating results are regularly reviewed by the entity's chief operating decision maker to be allocated to the segment and assess its performance; and for which discrete financial information is available.

The operating segments are determined based on L2D Group management and internal reporting structure, determined by L2D Group management committee.

L2D Group has the following operating segments:

- retail;
- office;
- specialised;
- hotels; and
- administration/other.

L2D Group will, from time to time, invest in or divest from certain operating segments, in which case segmental reporting will be adjusted to reflect only the relevant operating segments.

Segments results include revenue and expenses directly attributable to a segment and the relevant portion of L2D Group revenue and expenses that can be allocated on a reasonable basis to a segment. Segmental assets comprise those assets that are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

1.13 Earnings per share

L2D Group presents basic earnings per share and headline earnings per share.

Basic earnings per share is calculated by dividing the profit attributable to shareholders by the weighted average number of shares in issue during the year net of treasury shares.

Headline earnings per share is calculated by dividing the headline earnings attributable to shareholders by the weighted average number of shares in issue during the year, net of treasury shares.

There are no dilutionary instruments in issue.

1.14 Taxation

Income tax on the comprehensive income for the periods presented comprises current and deferred tax. Income tax expense is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

1. Accounting policies (continued)

1.14.1 Current tax

Current tax is the expected tax payable on taxable income, after deducting the qualifying distribution for the year of assessment, using tax rates that have been enacted or substantially enacted by the reporting date, and includes adjustments for tax payable in respect of previous years. In accordance with the REIT status, dividends declared are treated as a qualifying distribution in terms of Section 25BB of the Income Tax Act, No. 58 of 1962 (as amended).

1.14.2 Deferred tax

Deferred income tax is provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised.

Deferred tax is not recognised on the fair value of investment properties. These items will be realised through sale and, in accordance with the income tax requirements relating to the REIT status, capital gains tax is no longer applicable. Deferred tax is not recognised for temporary differences that will form part of future qualifying distributions.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability settled.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities and they relate to income tax levied by the same authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

1.15 Employee benefits

Leave pay – provision

The group recognises a liability for the amount of accumulated leave if the group has a present or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Incentive scheme

Incentive scheme bonuses are short-term bonuses which are recognised as an expense as incurred when the group has a present or constructive obligation and the amount can be reliably measured.

1.16 Share-based payments

Long-term incentive plan (LTIP)

In terms of the Liberty Two Degrees Restricted Share Plan, a conditional right to shares is awarded to employees subject to performance and vesting conditions. The scheme is accounted for as an equity-settled share-based payment. The fair value of services received in return for the restricted shares has been determined as follows: the number of shares expected to vest multiplied by the share price at the date of award.

The grant-date fair value of the scheme is recognised as an expense, with a corresponding increase in equity, over the vesting period. The amount recognised as an expense is adjusted for changes in management's estimate of the number of shares expected to vest, such that the amount ultimately recognised is based on the number of awards that vest.

1.17 Non-current assets held for sale

A non-current asset or a disposal group comprising assets and liabilities is classified as held-for-sale if it is expected that its carrying amount will be recovered principally through sale rather than through continuing use. It is available for immediate sale and the sale is highly probable to occur within one year. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset or disposal group.

Where the group is committed to a sale plan, it classifies the asset as held-for-sale when the criteria set out above and detailed in IFRS 5 Non-current Assets Held-for-Sale are met.

Non-current assets held-for-sale are measured at the lower of their carrying amount, and fair value less costs of disposal, with any impairment losses recognised in profit or loss. However, investment property which is measured in accordance with the fair value model, continue to be measured in accordance with the group's accounting policies.

Non-current assets held-for-sale are presented separately from other assets and liabilities on the statements of financial position. Prior periods are not reclassified.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

1. Accounting policies (continued)

1.18 New IFRS standards and amendments

1.18.1 New standards not yet effective that may significantly impact on the results or disclosures

The following new standards have been issued by the IASB, however, are not yet effective for the current financial year. L2D Group will comply with the new standards from the effective date and has elected not to early adopt any at this stage.

Standard	Scope	Potential impact to L2D Group
Definition of material amendments to IAS 1 and IAS 8	The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information. In particular, the amendments clarify: – that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole; and – the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need. The amendments are effective for annual periods beginning on or after 1 January 2020.	The group is currently assessing the impact of these amendments.
Revised conceptual framework for financial reporting	The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include: – increasing the prominence of stewardship in the objective of financial reporting; – reinstating prudence as a component of neutrality; – defining a reporting entity, which may be a legal entity or a portion of an entity; – revising the definitions of an asset and a liability; – removing the probability threshold for recognition and adding guidance on derecognition; – adding guidance on different measurement basis; and – stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2020.	The group is currently assessing the impact of these amendments.

1.18.2 Amendments and improvements to standards

Annual improvements effective 1 January 2020 and not early adopted in the year ended 31 December 2019, and amendments and annual improvements to standards that are effective annual periods beginning on or after 1 January 2020, not early adopted in the current financial year, are not expected to have a significant impact on L2D Group reported assets and liabilities and disclosures.

IFRIC 23 Uncertainty over income tax treatments

The interpretation gives clarity to the accounting for income tax treatments that have yet to be accepted by tax authorities.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

1. Accounting policies (continued)

The amendments are effective retrospectively for annual periods beginning on or after 1 January 2019, with early adoption permitted.

The group has determined that its accounting for tax treatment is in line with the relevant tax authorities.

This includes the amendment issued by the IASB on IFRIC 23 Uncertainty over income tax treatments, the impact of which is not significant on the group's financial results, disclosures or comparative information.

2. Key judgements

Key areas of judgement and sources of uncertainty

The preparation of consolidated annual financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. They are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under applicable circumstances. These are therefore continually evaluated.

Information regarding judgements that have the most significant effect on the amounts recognised in the consolidated annual financial statements, as well as the key sources of estimation uncertainty, is set out below.

2.1 Accounting for undivided shares in investment properties and related letting activities

L2D Group owns various undivided shares in investment properties. L2D Group has joint decision-making rights regarding all capital decisions relating to L2D Group undivided shares for the benefit of the shareholders in L2D Group. L2D Group is responsible for letting activities on behalf of and for the benefit of co-owners in these investment properties.

Neither the undivided share ownership nor the letting activities meet the definition of joint arrangements as key decisions such as disposal or security for lending over the respective undivided shares do not require consent of the other co-owner and practically there is only one decision authority regarding letting activities.

L2D Group recognises its contractual rights linked to its undivided share ownership in investment properties being its share of relevant assets and liabilities and related income and expenses, which are presented on a gross basis. Management have therefore concluded that L2D Group has an ownership interest in shared assets.

2.2 Investment properties fair value measurement

The group invests in various properties which are predominantly owned for investment return. These properties are let to various tenants under lease agreements as defined under IFRS 16. These properties are classified as investment properties under IAS 40. Investment properties are measured at fair value by external valuation appraisers, taking into account characteristics of the properties that market participants would consider when pricing the properties at measurement date.

The key assumptions in determination of the fair value are the exit capitalisation rates and discount rates. Other inputs considered relate to existing tenant terms, location, rental growth, vacancy levels and restriction, if any, on the sale or use of the asset. The group makes judgement regarding the unit of account, i.e. whether it should be valued as a stand-alone property or as a group of properties. Two groups of properties (Sandton City Complex and Nelson Mandela Square, and the Melrose Arch precinct) are valued as one unit account under IFRS 13 Fair Value Measurement. Determination of the fair value also considers the current use of the property in terms of its highest and best use, taking into account the use of the asset that is physically possible, legally permissible and financially feasible.

Management derived risk adjusted discount rates factor in liquidity and asset class risk. Refer to note 5 of the group consolidated annual financial statements for specific details and note 10 for the valuation techniques and assumptions and a sensitivity analysis on the fair value of these properties to a change in the exit capitalisation and discount rate assumptions. Given the number of management judgement applied in the valuation, these assets are considered to be level 3 in the fair value hierarchy.

2.3 Capital reorganisation

IFRS does not have specific guidelines relating to the accounting treatment for combinations among entities under common control. Management has thus applied judgement in developing a policy that is relevant to the decision-making needs of users and that is reliable. Management are of the view that capital reorganisation accounting is considered to be the most appropriate treatment for this transaction. In this regard, a new entity was incorporated (New L2D) as the parent via the issue of shares and the businesses under common control that are combined in New L2D are considered to have single management and oversight and are treated as a capital reorganisation of the existing reporting entity. The reorganisation does not have any economic substance, therefore the comparative information is restated because the entity reports as if it had always existed in its current form. The impact of the restatement of the earliest comparative information has resulted in a merger reserve account, to account for the premium on the purchase price over the carrying value of the assets and liabilities.

2. Key judgements (continued)

2.3.1 Transfer of investment in subsidiary

As a result of the capital reorganisation in the prior year, SRFM's operations was transferred to 2DP. This included the transfer of the net asset value of SRFM to 2DP. The investment in subsidiaries at L2D company level was adjusted accordingly to transfer the effective cost of the investment in SRFM to the investment in 2DP as the economic benefit of the reorganisation now resides in 2DP. The transfer was done at a value that reflects the economic effect of the transaction, i.e. the value transferred based on the relative values of the transferred operations of SRFM. The remaining investment in SRFM approximates the net asset value of the company. Refer to note 34 for the revised values of investment in subsidiaries.

2.4 Classification of hotels as investment property and income earned from hotel operations

During the year under review L2D entered into a new arrangement effective 1 November 2019 with Tsogo Sun Hotels Ltd (Tsogo) regarding the day-to-day operations of the hotel activities relating to certain properties. There is significant judgement applied regarding the assessment of economic benefits between the different parties, and control over the relevant activities, being the day-to-day operations of the hotel.

Application of IFRS 16 paragraph B23 'If a contract requires a customer to pay the supplier or another party a portion of the cash flows derived from use of an asset as consideration, those cash flows paid as consideration shall be considered to be part of the economic benefits that the customer obtains from use of the asset. For example, if the customer is required to pay the supplier a percentage of sales from use of retail space as consideration for that use, that requirement does not prevent the customer from having the right to obtain substantially all of the economic benefits from use of the retail space. This is because the cash flows arising from those sales are considered to be economic benefits that the customer obtains from use of the retail space, a portion of which it then pays to the supplier as consideration for the right to use that space', which is interpreted to disregard proportional cash flows paid as compensation in the contract terms in the assessment of economic benefits between the contracted parties.

The decision to measure 'economic benefit' at the distribution line or turnover line is an area of significant judgement. On the face of it the agreements provide for 98% of EBITDAR to flow to the lessors, however where the lessee directs all cash flow generated from the asset and pays the lessor a percentage of such flows, B23 provides for such cash flows to be included in the benefit received by the lessee.

Given the above and our view that Tsogo has the ability to direct the relevant activities/day-to-day operations when applying paragraph B23 of IFRS 16 to this arrangement, one needs to look at the use of the asset, in this case the hotels. Tsogo has sole use of the hotels and brand. In its capacity as principal, Tsogo obtains substantially all of the economic benefits from the use of the hotels/hotel brand (being the turnover). Tsogo, as the customer pays the lessors a percentage of EBITDAR generated by the hotel operations. The fact that Tsogo pays a portion of the EBITDAR to the lessors does not preclude Tsogo from having the right to obtain substantially all of the economic benefits in its capacity as principal, being the turnover of the operations.

Tsogo manages the day-to-day operations and manages the hotel brand. This is considered to be a key point. The key differences between the previous agreement and the current agreement is that Tsogo now has the ability to direct the relevant activities.

Based on the above, the hotel lease agreement in our assessment does contain a lease as the lessee retains substantially all the economic benefit and controls the operations as determined above.

IAS40 paragraph 14 states that judgement is needed to determine whether a property qualifies as investment property. An entity develops criteria so that it can exercise that judgement consistently in accordance with the definition of investment property and with the related guidance in paragraphs 7 – 13. Paragraph 75(c) requires an entity to disclose these criteria when classification is difficult.

The criteria management has assessed has been the following:

- Although the owners have engaged Tsogo to run the day-to-day operations whilst retaining exposure to the variable returns, L2D retains an estimated 20% of their revenue for basic rental and turnover rental per annum which is not considered sufficiently significant. (Defined in the contract as 98% of EBITDAR);
- Tsogo directly controls how the operations are run as discussed above and therefore leases the hotels; and
- L2D is a passive investor.

The conclusion of the assessment is that Tsogo has majority economic benefits, they control the operations and therefore the arrangement contains a lease. As a result, the hotels will be classified as investment property.

2.5 Restatement of segment reporting

The group is disclosing L2D's share of GLA excluding co owners in line with the financial segment earnings.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

3. Headline earnings, distributable income and earnings per share

R'000	Group 2019	2018
Reconciliation of total earnings to headline earnings and distributable income		
Total earnings (basic earnings)	**534 491**	640 735
Fair value adjustment to investment properties and financial assets	**(10 910)**	(80 762)
Loss on disposal of equity instruments	**–**	2 085
Capital reorganisation adjustment	**–**	(18 252)
Headline earnings	**523 581**	543 806
Trust distributions	**698**	
Straight-lining of operating lease income	**24 702**	1 259
Distributable income (unaudited)	**548 981**	545 065
	Cents	Cents
Earnings per share		
Basic and diluted	**58.96**	70.53
Headline	**57.76**	59.68
Distributable income	**60.43**	60.00
	Rand	Rand
Net asset value per share (unaudited)*	**9.65**	9.45
	000s	000s
Actual number of shares in issue (000)	**908 443**	908 443
Weighted average number of share in issue*	**906 471**	908 443
Diluted weighted average number of shares in issue*	**906 471**	908 443

* Excludes 5 558 881 treasury shares purchased in the current year.

Basic earnings per share is basic earnings attributable to shareholders divided by the weighted average number of shares excluding treasury shares in issue during the year.

Headline earnings per share is a disclosure requirement in terms of the JSE Listings Requirements for companies listed on the JSE. Circular 1/2019, issued by the South African Institute of Chartered Accountants at the request of the JSE, stipulates the requirements for the calculation of headline earnings.

Headline earnings per share is calculated by dividing the headline earnings by the weighted average number of shares in issue during the period, excluding treasury shares.

4. Segment information

The performance of net property income is assessed using the below metrics:

- Retail and offices: Vacancies, footfall, trading density, reversions and turnover growth; and
- Hotels: Occupancy levels and revenue per room (RevPar).

	December 2019					
R'000	Retail	Office	Other specialised	Hotels	Administration/ Other [1]	Total
Unaudited GLA						
Total property GLA (m^2)	523 135	331 326	113 405	–	–	967 866
L2D's share of total GLA (m^2) [2]	150 070	60 485	23 483	–	–	234 038
4.1 Segment earnings						
Property portfolio revenue	634 223	255 621	99 243	9 131	971	999 189
Rental and related income	650 062	262 005	101 722	9 131	971	1 023 891
Adjustment for the straight-lining of operating lease income	(15 839)	(6 384)	(2 479)	–	–	(24 702)
Net revenue from hotel operations	–	–	–	24 677	–	24 677
Property operating expenses	(205 568)	(82 853)	(32 167)	(2 750)	(2 247)	(325 585)
Change in expected credit loss on rental debtors	(3 032)	(1 222)	(475)	–	–	(4 729)
Net property income	425 623	171 546	66 601	31 058	(1 276)	693 552
Asset management fee income	–	–	–	–	61 490	61 490
Development fee income	–	–	–	–	6 747	6 747
Total net property income and revenue	425 623	171 546	66 601	31 058	66 961	761 789
Other income	–	–	–	–	181	181
Operating costs	–	–	–	–	(93 156)	(93 156)
Profit/(loss) from operations excluding fair value adjustments	425 623	171 546	66 601	31 058	(26 014)	668 814
Interest expense	–	–	–	–	(148 530)	(148 530)
Interest received	–	–	–	–	3 482	3 482
Income from investment	–	–	–	–	–	–
Profit before fair value adjustments	425 623	171 546	66 601	31 058	(171 062)	523 766
Net fair value adjustments on investment properties	10 794	4 350	1 689	9 923	–	26 756
Fair value adjustments	(5 045)	(2 034)	(790)	9 923	–	2 054
Adjustment for the straight-lining of operating lease income	15 839	6 384	2 479	–	–	24 702
Fair value adjustment on derivatives	–	–	–	–	(8 602)	(8 602)
Fair value adjustment on equity instrument	–	–	–	–	(7 244)	(7 244)
Profit before taxation	436 417	175 896	68 290	40 981	(186 908)	534 676
Taxation	–	–	–	–	(185)	(185)
Total comprehensive income	436 417	175 896	68 290	40 981	(187 093)	534 491

(1) Administration and other includes administration expenses and investment income that cannot be allocated specifically to the operating segments.
(2) Segment earnings have been segmented per category GLA as a percentage of total GLA. The hotels do not form part of the total GLA disclosed.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

4. Segment information (continued)

4.2 Segment assets and liabilities

	December 2019					
R'000	**Retail**	**Office**	**Other specialised**	**Hotels**	**Administration/ Other [1]**	**Total**
Investment property	**6 275 827**	**2 529 452**	**982 047**	**357 597**	**–**	**10 144 923**
Non-current asset held for sale	**–**	**123 213**	**–**	**–**	**–**	**123 213**
Property, plant and equipment	**–**	**–**	**–**	**–**	**836**	**836**
Amount due from Group companies	**–**	**–**	**–**	**–**	**66 119**	**66 119**
Trade and other receivables	**117 596**	**47 396**	**18 401**	**57 036**	**12 812**	**253 241**
Financial asset	**–**	**–**	**–**	**–**	**660**	**660**
Financial asset – unlisted equity	**–**	**–**	**–**	**–**	**17 495**	**17 495**
IFRS 16 – lease asset	**–**	**–**	**–**	**–**	**1 688**	**1 688**
Current tax receivable	**–**	**–**	**–**	**–**	**–**	**–**
Cash and cash equivalents	**–**	**–**	**–**	**–**	**65 199**	**65 199**
Total assets	**6 393 423**	**2 700 061**	**1 000 448**	**414 633**	**164 809**	**10 673 374**
Trade and other payables	**(90 146)**	**(36 333)**	**(14 106)**	**(31 778)**	**(28 542)**	**(200 905)**
Employee benefits	**–**	**–**	**–**	**–**	**(17 323)**	**(17 323)**
Amount due to Group companies	**–**	**–**	**–**	**–**	**(14)**	**(14)**
Current tax payable	**–**	**–**	**–**	**–**	**(74)**	**(74)**
Financial instruments	**–**	**–**	**–**	**–**	**(16 891)**	**(16 891)**
Financial liabilities	**–**	**–**	**–**	**–**	**(1 719 166)**	**(1 719 166)**
Lease liability	**–**	**–**	**–**	**–**	**(1 995)**	**(1 995)**
Net assets	**6 303 277**	**2 663 728**	**986 342**	**382 855**	**(1 619 196)**	**8 717 006**

[1] Administration assets and liabilities includes the current account with LGL, cash and cash equivalents, VAT payable and accruals.

L2D's share of total GLA for 2019 was correctly applied as per the new percentages. As a result, 2018 has been recalculated on this basis. This has been restated with the change effected below:

	December 2018 Published					
R'000	Retail	Office	Other specialised	Hotels	Administration/ Other [1]	Total
Unaudited GLA						
Total property GLA (m^2)	523 135	331 326	113 405	–	–	967 866
L2D's share of total GLA (m^2) [2]	174 208	110 334	37 987	–	–	322 529

	December 2018 Restated					
R'000	Retail	Office	Other specialised	Hotels	Administration/ Other [1]	Total
Unaudited GLA						
Total property GLA (m^2)	523 135	331 326	113 405	–	–	967 866
L2D's share of total GLA (m^2) [2]	147 998	60 485	23 483	–	–	231 966
Change in unaudited GLA						
Total property GLA (m^2)	–	–	–	–	–	–
L2D's share of total GLA (m^2) [2]	26 210	49 849	14 504	–	–	90 563

4. Segment information (continued)

4.1 Segment earnings

	December 2018 Restated					
R'000	Retail	Office	Other specialised	Hotels	Administration/ Other [1]	Total
Property portfolio revenue	564 533	230 719	89 575	28 641	342	913 810
Rental and related income	565 336	231 047	89 703	28 641	342	915 069
Adjustment for the straight-lining of operating lease income	(803)	(328)	(128)	–	–	(1 259)
Property operating expenses	(191 551)	(78 285)	(30 394)	(24 967)	(1 960)	(327 157)
Change in expected credit loss on rental debtors	1 575	644	250	–	–	2 469
Net property income	374 557	153 078	59 431	3 674	(1 618)	589 122
Asset management fee income	–	–	–	–	63 753	63 753
Development fee income	–	–	–	–	162	162
Total net property income and revenue	374 557	153 078	59 431	3 674	62 297	653 037
Other income	–	–	–	–	4 049	4 049
Operating costs	–	–	–	–	(76 126)	(76 126)
Profit/(loss) from operations excluding fair value adjustments	374 557	153 078	59 431	3 674	(9 780)	580 960
Interest expense	–	–	–	–	(25 282)	(25 282)
Interest received	–	–	–	–	12 462	12 462
Realised loss on sale of equity	–	–	–	–	(2 085)	(2 085)
Profit before fair value adjustments	374 557	153 078	59 431	3 674	(24 685)	566 055
Net fair value adjustments on investment properties	59 137	24 168	9 384	(1 570)	–	91 119
Fair value adjustments	58 334	23 840	9 256	(1 570)	–	89 860
Adjustment for the straight-lining of operating lease income	803	328	128	–	–	1 259
Fair value adjustment on derivatives	–	–	–	–	(8 289)	(8 289)
Fair value adjustment on equity instrument	–	–	–	–	(2 068)	(2 068)
Profit before taxation	433 694	177 246	68 815	2 104	(35 042)	646 817
Taxation	–				(6 082)	(6 082)
Total comprehensive income	433 694	177 246	68 815	2 104	(41 124)	640 735

(1) Administration and other includes administration expenses and investment income that cannot be allocated specifically to the operating segments.
(2) Segment earnings have been segmented per category GLA as a percentage of total GLA. The hotels do not form part of the total GLA disclosed.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

4. Segment information (continued)

4.2 Segment assets and liabilities

R'000	Retail	Office	Other specialised	Hotels	Administration/ Other [1]	Total
	December 2018 Restated					
Investment property	6 248 709	2 553 782	991 493	350 393	–	10 144 377
Property, plant and equipment	–	–	–	–	745	745
Amount due from Group companies	–	–	–	–	42 645	42 645
Trade and other receivables	124 048	50 697	19 683	55 672	27 863	277 963
Financial asset	–	–	–	–	600	600
Current tax receivable	–	–	–	–	686	686
Cash and cash equivalents	–	–	–	–	11 370	11 370
Total assets	6 372 757	2 604 479	1 011 176	406 065	83 909	10 478 386
Trade and other payables	(95 355)	(38 970)	(15 130)	(37 722)	(49 035)	(236 212)
Amount due from Group companies	–	–	–	–	(10)	(10)
Provisions	–	–	–	–	(23 372)	(23 372)
Financial instruments	–	–	–	–	(8 289)	(8 289)
Financial liabilities	–	–	–	–	(1 626 607)	(1 626 607)
Net assets	6 277 402	2 565 509	996 046	368 343	(1 623 404)	8 583 896

[1] Administration assets and liabilities includes the current account with LGL, cash and cash equivalents, VAT payable.

5. Investment properties

5.1 Summary

R'000	Notes	Group 2019	Group 2018	Company 2019	Company 2018
Investment properties	5.2	**10 112 155**	10 111 609	**–**	–
Fair value net of straight-lining at the beginning of the year		**10 111 609**	8 629 809	**–**	–
Additions – property acquired		**24 643**	1 196 457	**–**	–
Expenditure on investment properties capitalised during the period		**96 996**	145 697	**–**	–
Fair value adjustment		**975**	89 860	**–**	–
Transfer to assets held for sale		**(122 068)**	–	**–**	–
Reclassification from investment properties under development		**–**	49 786	**–**	–
Investment properties under development	5.3	**32 768**	32 768	**–**	–
Fair value at the beginning of the year		**32 768**	78 903	**–**	–
Additions – property acquired		**–**	3 543	**–**	–
Expenditure on investment properties under development during the year		**–**	108	**–**	–
Reclassification to investment properties		**–**	(49 785)	**–**	–
Total investment properties		**10 144 923**	10 144 377	**–**	–

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

5. Investment properties (continued)

5.2 Investment properties

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Fair value of investment properties at the beginning of the year	**9 839 002**	8 393 613	**–**	–
Additions – property acquired	**23 595**	1 158 787	**–**	–
Additions – property acquired for cash/in exchange for units issued	**24 643**	1 196 457	**–**	–
Impact of straight-lining of operating lease income on property acquired	**(1 048)** [3]	(37 670)	**–**	–
Net fair value adjustment for the period	**27 028**	91 119	**–**	–
Fair value adjustment	**975** [2]	89 860	**–**	–
Net movement on straight-lining operating lease income	**26 053** [3]	1 259	**–**	–
Expenditure on investment properties during the period	**96 996**	145 697	**–**	–
Additions – capitalised subsequent expenditure	**92 204** [4]	139 784	**–**	–
Capitalised tenant installations	**7 399** [4]	5 436	**–**	–
Amortisation of tenant installations	**(3 770)**	(4 397)	**–**	–
Capitalised letting commission	**7 674** [4]	10 009	**–**	–
Amortisation of letting commission	**(6 511)**	(5 135)	**–**	–
Transfer to assets held for sale	**(121 892)**	–	**–**	–
Transfer to assets held for sale	**(122 068)**	–	**–**	–
Impact of straight-lining of operating lease income on transfer of property	**176**	–	**–**	
Reclassification from investment properties under development	**–**	49 786	**–**	–
Investment properties at fair value	**9 864 729**	9 839 002	**–**	–
Operating leases accrued adjustment				
Straight-lining balance at the beginning of the year	**272 607**	236 196	**–**	–
Straight-lining of operating lease income balance acquired	**1 048**	37 670	**–**	–
Straight-lining of operating lease income of transfer of property to assets held for sale	**(176)**	–	**–**	–
Net movement on straight-lining of operating lease income	**(26 053)**	(1 259)	**–**	–
Straight-lining of operating lease income	**247 426**	272 607	**–**	–
Total investment properties	**10 112 155**	10 111 609	**–**	–

5.3 Investment properties under development

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Fair value of investment properties under development at the beginning of the year	**32 768**	78 903	**–**	–
Additions – property acquired for cash/in exchange for units issued	**–**	3 543	**–**	–
Expenditure on investment properties under development during the period	**–**	–	**–**	–
Additions – capitalised subsequent expenditure	**–**	108	**–**	–
Reclassification (to) investment properties	**–**	(49 786)	**–**	–
Total investment properties under development	**32 768** [1]	32 768	**–**	–
Total investment properties	**10 144 923**	10 144 377	**–**	–

(1) The John Ross Eco-Junction Estate site has had no additions or capitalisations during 2019.
(2) As at 31 December 2019, the fair value adjustment on Century City offices which has been reclassified as a non-current asset held for sale on 31 October 2019 is R1.1 million.
(3) The impact of straight-lining operating lease income on Century City offices for the period September 2019 to December 2019 is R303 000. The movement for the year is R24.7 million.
(4) Expenditure on investment property capitalised relating to Century City offices is R318 000. Of the total R108 million capitalised, R104 million was paid in the current year.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

5. Investment properties (continued)

5.4 Interest expense

Interest incurred during the 2019 financial year on loan obtained to acquire additional undivided share of properties on 1 November 2018 was R121 020 360.

5.5 Basis of valuation

The registered professional valuers, namely Broll Valuation and Advisory Services and Jones Lang LaSalle Proprietary Ltd are registered valuers in terms of the Property Valuers Professional Act, No. 47 of 2000 and are RICS Registered Valuers.

The basis of value is 'fair value' which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The full investment properties portfolio was independently valued as at 31 December 2019 in line with the group's valuation policy.

The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

The properties have been valued using the discounted cash flow methodology whereby the forecasted net cash flow and residual value of the asset at the end of the forecasted cash flow period is discounted back to the valuation date, resulting in a present value of the asset.

The residual value is calculated by capitalising the net income forecasted for the 12-month period immediately following the final year of the cash flow at the exit capitalisation rate.

Valuers may use any reasonable method for developing an appropriate discount rate with consideration being given to:

- the type of asset being valued;
- the rates implicit in comparable transactions in the market;
- the geographic location of the asset and/or the location of the markets in which the asset would trade;
- the life/term and/or maturity of the asset and the consistency of inputs; and
- the bases of value being applied.

The discount rate and exit capitalisation rate are then tested for reasonableness and benchmarked against recent comparable sales and surveys prepared by the MSCI and South African Property Owners Association (SAPOA).

Unobservable inputs:

	2019					2018				
%	**Exit cap rate**	**Discount rate**	**Vacancy rate**	**Rental growth**	**Expense growth**	Exit cap rate	Discount rate	Vacancy rate	Rental growth	Expense growth
Office	**8.3 – 9.5**	**12.5 – 13.8**	**0 – 2.5**	**4.0 – 5.0**	**6.5 – 7.0**	8.3 – 9.0	12.5 – 13.8	0 – 2.5	4.5 – 6.0	6.5
Retail	**6.50 – 8.0**	**12.0 – 12.8**	**0.5 – 2.5**	**5.0 – 5.5**	**6.5**	6.5 – 8.0	12.3 – 12.8	0.5 – 2.5	5.0 – 6.0	6.5
Specialised	**8.3 – 10.0**	**13.0 – 15.3**	**0 – 2.5**	**4.5 – 5.5**	**6.5**	8.3 – 10.0	13.3 – 15.0	0 – 2.5	4.5 – 6.0	6.5
Hotels	**8.8**	**14.0**				8.8	13.8			

Inter-relationship between key unobservable inputs and fair value measurements:

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

- exit capitalisation rate was lower/(higher);
- discount rate was lower/(higher);
- vacancy and rent free periods were shorter/(longer);
- expected market rental growth was higher/(lower); and
- expected expense growth was lower/(higher).

6. Trade and other receivables

	Group		Company	
R'000	**2019**	2018	**2019**	2018
Trade and other receivables include the following:				
Property debtors	**220 546**	223 795	**–**	–
Insurance claim outstanding	**289**	55	**–**	–
Municipal deposits	**3 840**	1 439	**–**	–
Loan with LGL	**80 579**	63 619	**–**	–
Trade debtors	**87 542**	111 609	**–**	–
Other receivables	**9 274**	10 143	**–**	–
Tenant arrears	**30 834**	30 863	**–**	–
Marketing fund loan account	**3 085**	–	**–**	–
Profit distributions for current month	**3 448**	3 795	**–**	–
Melrose Arch rates clearance payment	**–**	168	**–**	–
Loan with Melrose Arch Property Owners Association	**1 655**	2 105	**–**	–
Accrued income	**–**	2 307	**–**	–
Prepayments:				
– Insurance	**2 699**	2 596	**–**	–
– Other	**112**	–	**–**	–
Impairment of property debtors	**(9 843)**	(6 407)	**–**	–
Hotel debtors	**39 727**	55 672	**–**	–
Total trade and other receivables	**253 241**	277 963	**–**	–

6.1 Impairment losses on trade and lease receivables

The group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provisions for all trade receivables.

	Group			Company		
	2019			**2019**		
R'000	**Hotel debtors**	**Accrued income**	**Property debtors**	**Hotel debtors**	**Accrued income**	**Property debtors**
Opening impairment loss allowance under IFRS 9	**–**	**–**	**(6 407)** [1]	**–**	**–**	**–**
Increase/(decrease) in loss allowance recognised in profit or loss during the period	**–**	**–**	**(3 436)**	**–**	**–**	**–**
Closing loss allowance	**–**	**–**	**(9 843)**	**–**	**–**	**–**

[1] The 2019 opening impairment loss allowance includes Raphael apartments in Nelson Mandela Square for dispute assessment rates currently in arbitration of R1 293 096. The debtor has been removed and therefore, the impairment loss relating to it has been adjusted for under 'change in expected credit losses on rental debtors' in the statement of comprehensive income.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

6. Trade and other receivables (continued)

	Group			Company		
	2018			2018		
R'000	Hotel debtors	Accrued income	Property debtors	Hotel debtors	Accrued income	Property debtors
Opening impairment loss allowance under IFRS 9	–	–	(8 876)	–	–	–
Increase/(decrease) in loss allowance recognised in profit or loss during the period	–	–	2 469	–	–	–
Closing loss allowance	–	–	(6 407)	–	–	–

The group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provisions for all trade receivables.

6.2 Property debtors net of impairment loss

Rm	ECL rate %	Gross carrying amount	Impairment allowance	Net carrying amount
Current [(1)]	–	**186 790**	–	**186 790**
Current (ECL)	**1.79**	**3 089**	**(55)**	**3 034**
1 – 30 days past due	**9.79**	**3 492**	**(342)**	**3 150**
31 – 60 days past due	**27.27**	**1 617**	**(441)**	**1 176**
61 – 90 days past due	**19.00**	**2 400**	**(456)**	**1 944**
More than 90 days past due	**36.91**	**23 158**	**(8 549)**	**14 609**
		220 546	**(9 843)**	**210 703**

(1) Current debtors includes fee income receivable, accrued income, hotel debtors and inter-company debtors. The ECL calculation performed considered forward-looking information and determined that the ECL adjustment is immaterial.

6.3 Write-off policy for fee income receivable, accrued income, hotel and inter-company debtors

Fee income receivable,accrued income, hotel and inter-company debtors is written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 120 days past due.

Hotel debtors are considered current debtors. The ECL calculation performed considered forward looking information and determined that the ECL adjustment is immaterial.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

7. Financial assets held at fair value through profit and loss

7.1 Financial assets comprise

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Financial assets at fair value through profit or loss (default)				
Equity instruments	**17 495**	–	**–**	–
Listed	**–**	–	**–**	–
Unlisted	**17 495** [(1)]	–	**–**	–
Mutual funds	**660**	600	**–**	–
Listed	**–**	–	**–**	–
Unlisted	**660**	600	**–**	–
Total financial assets at fair value through profit and loss	**18 155**	600	**–**	–
Total financial assets	**18 155**	600	**–**	–
Current	**660**	600	**–**	–
Non-current	**17 495**	–	**–**	–

(1) L2D elected to become an investor in Edcon as part of Edcon's restructuring. The investment is carried at fair value. Please refer to note 10 for valuation basis.

7.2 Movement analysis of financial assets

	2019			2018		
	Fair value through profit or loss			Fair value through profit or loss		
R'000	Mutual funds	Equity instruments	Total	Mutual funds	Equity instruments	Total
Balance at the beginning of the year	**600**	**–**	**600**	115 349	153 694	269 043
Additions	**–**	**24 739**	**24 739**	550 277	–	550 277
Disposals	**–**	**–**	**–**	(675 901)	(149 541)	(825 442)
Interest earned on investment	**60**	**–**	**60**	10 875	–	10 875
Realised loss on sale of equity	**–**	**–**	**–**	–	(2 085)	(2 085)
Fair value adjustments – through profit or loss	**–**	**(7 244)**	**(7 244)**	–	(2 068)	(2 068)
Balance at the end of the year	**660**	**17 495**	**18 155**	600	–	600

8. Cash and cash equivalents

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Cash at bank and on hand	**65 199**	11 370	**236**	1

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

9. Trade and other payables

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Trade and other payables include the following:				
Trade creditors	**3 954**	15 977	**–**	–
Tenant deposits	**27 961**	27 744	**–**	–
Municipal charges	**19 395**	42 928	**–**	–
Unredeemed gift cards	**19 802**	27 279	**–**	–
Accruals:	**23 411**	46 197	**330**	601
– Audit fees	**1 046**	1 104	**–**	–
– Printing and publishing costs	**97**	223	**–**	–
– Valuation costs	**284**	850	**–**	–
– Listing costs	**328**	1 000	**–**	–
– Capital calls	**–**	10 442	**–**	–
– Property sundry accruals	**20 351**	13 473	**–**	–
– Outsourced services	**326**	332	**–**	–
– Other	**979**	18 773	**330**	601
Sundry payables	**106 382**	76 087	**–**	–
– Income received in advance	**18 959**	24 838	**–**	–
– Value added tax payable	**21 008**	8 695	**–**	–
– Hotel sundry creditors	**10 895**	24 889	**–**	–
– Property sundry creditors	**55 517**	17 615	**–**	–
– Other	**3**	50	**–**	–
Total trade and other payables	**200 905**	236 212	**330**	601
Current	**200 905**	236 212	**330**	601
Non-current	**–**	–	**–**	–

10. Fair value hierarchy for financial instruments and investment property

IFRS 13 requires that an entity discloses for each class of assets and liabilities measured at fair value, the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety. The fair value hierarchy reflects the significance of the inputs used in making fair value measurements.

The fair value hierarchy has the following levels:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

10. Fair value hierarchy for financial instruments and investment property (continued)

Fair value hierarchy for financial instruments and investment properties

	Year ended 31 December 2019			
R'000	Fair value	Level 1	Level 2	Level 3
Assets				
Investment properties	**10 112 155**	**–**	**–**	**10 112 155**
Investment property under development	**32 768**	**–**	**–**	**32 768**
Non-current assets held for sale	**123 213**	**–**	**–**	**123 213**
Financial assets	**18 155**	**–**	**18 155**	**–**
	10 286 291	**–**	**18 155**	**10 268 136**
Liabilities				**–**
Interest rate swap	**16 891**	**–**	**16 891**	**–**
	16 891	**–**	**16 891**	**–**

	Year ended 31 December 2018			
R'000	Fair value	Level 1	Level 2	Level 3
Assets				
Investment properties	10 111 609	–	–	10 111 609
Investment property under development	32 768	–	–	32 768
Financial assets	600	–	600	
	10 144 977	–	600	10 144 377
Liabilities				
Interest rate swap	8 289	–	8 289	–
	8 289	–	8 289	–

The fair value of trade and other receivables, cash and cash equivalents, trade and other payables approximate their carrying value and are not included in the hierarchy analysis as their settlement terms are short-term and therefore from a materiality perspective fair values are not required to be modelled.

Details of changes in valuation techniques

There have been no significant changes in valuation techniques in the period under review.

Significant transfers between level 1, level 2 and level 3

There have been no transfers between level 1, level 2 and level 3 financial assets, derivatives and investment property for the period under review.

Valuation techniques

Valuation techniques used in determining the fair values of assets in level 2 and 3.

Level	Instrument	Valuation basis	Main assumptions
2	Mutual funds	Quoted put (exit) price provided by the fund manager	Price – not applicable
2	Derivative liabilities	Quoted swap rates and inter-bank borrowing rates	Price – not applicable
3	Unlisted equity	Discounted cash flow	Discount rate
3	Investment properties	Discounted cash flow	Refer note 5 for detail regarding assumptions
3	Investment properties under development	Fair value	Not applicable

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

10. Fair value hierarchy for financial instruments and investment property (continued)

Reconciliation of level 3 assets and liabilities

The table below analyses the movement of level 3 assets for the period under review.

R'000	2019	2018
Investment property and investment property under development		
Fair value at the beginning of the year	**10 144 377**	8 708 712
Additions – property acquired	**24 643**	1 200 000
Transferred to non-current assets held for sale	**(122 068)**	–
Capitalised cost	**96 996**	145 805
Fair value adjustments (unrealised)	**975**	89 860
Closing balance at the end of the year	**10 144 923**	10 144 377
Non-current assets held for sale		
Fair value at the beginning of the year	**–**	–
Transferred from investment property	**122 068**	–
Capitalised cost	**318**	–
Amortisation	**(251)**	–
Fair value adjustments (unrealised)	**1 078**	–
Closing balance at the end of the year	**123 213**	–
Unlisted equity		
Fair value at the beginning of the year	**–**	–
Additions – unlisted equity acquired	**24 739**	–
Fair value adjustments (unrealised)	**(7 244)**	–
Closing balance at the end of the year	**17 495**	–

The fair value gains and losses are included in the fair value adjustments line in profit or loss.

Sensitivity analysis of level 3 assets

Investment property

Investment properties' fair values were determined using the discounted cash flow methodology. The exit capitalisation rates applied at 31 December 2019 range between 6.5% and 10.0%.

The table below indicates the sensitivity of the aggregate market values for a 100bps (2018: 100 bps) change in the exit capitalisation rate.

		Change in exit capitalisation rate	
	Rm	**100bps increase**	**100bps decrease**
2019			
Properties below 6.8% exit capitalisation rate	**4 113**	**3 710**	**4 635**
Properties between 6.8% – 8.5% exit capitalisation rate	**5 428**	**4 935**	**5 992**
Properties between 8.6% – 10.0% exit capitalisation rate	**727**	**671**	**798**
Total	**10 268**	**9 316**	**11 425**
2018			
Properties below 6.8% exit capitalisation rate	4 136	3 721	4 677
Properties between 6.8% – 8.5% exit capitalisation rate	5 264	4 797	5 886
Properties between 8.6% – 10.5% exit capitalisation rate	744	684	819
Total	10 144	9 202	11 382

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

10. Fair value hierarchy for financial instruments and investment property (continued)

The table below indicates the sensitivity of the aggregate market values for a 50 bps (2018: 50 bps) change in the discount rate (excludes hotel buildings).

		Change in discount rate	
	Rm	50bps increase	50bps decrease
2019			
Total property portfolio	**9 911**	**9 680**	**10 052**
2018			
Total property portfolio	9 794	9 601	9 969

Unlisted equity

We have used the discounted cash flow methodology to value our investment in Edcon.

The table below indicates the sensitivity of the aggregate market values for a 100bps (2018: N/A) change in the discount rate.

		Change in discount rate	
2019	Rm	100bps increase	100bps decrease
Unlisted equity	**17 495**	**14 107**	**21 394**
Total	**17 495**	**14 107**	**21 394**

11. Stated capital and treasury shares

	Group		Company	
R'000	**2019**	2018	**2019**	2018
Authorised capital				
5 000 000 000 ordinary shares of no par value (2018: 5 000 000 000)				
Issued capital				
908 443 335 ordinary shares of no par value (2018: 908 443 335)				
Ordinary shares	**8 780 921**	8 780 489	**8 780 921**	8 780 489
Balance at the beginning of the year	**8 780 489**	8 782 290	**8 780 489**	8 782 290
Issued during the year	**–**	–	**–**	–
Transaction costs reversal for issue of new shares	**432**	(1 801)	**432**	(1 801)
Treasury shares	**(39 205)**	–	**–**	–
Balance at the beginning of the year	**–**	–	**–**	–
Purchased during the year [1]	**(39 903)**	–	**–**	–
Vested during the year	**698**	–	**–**	–
Balance at 31 December 2019	**8 741 716**	8 780 489	**8 780 921**	8 780 489

[1] Purchased (at an average price of R7.05 per share) during the year by the Liberty Two Degrees Restricted Share Plan Trust and held as treasury shares to fulfil the obligation to deliver shares to employees who participate in the LTIP.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

11. Stated capital and treasury shares (continued)

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Ordinary shares of no par value	**908 443**	908 443	**908 443**	908 443
Balance at the beginning of the year	**908 443**	908 443	**908 443**	908 443
Issued during the year	**–**	–	**–**	–
Treasury shares	**(5 558)**	–	**–**	–
Balance at the beginning of the year	**–**	–	**–**	–
Purchase during the year [1]	**(5 634)**	–	**–**	–
Vested during the year	**76**	–	**–**	–
Balance at 31 December 2019	**902 885**	908 443	**908 443**	908 443

[1] Purchased (at an average price of R7.05 per share) during the year by the Liberty Two Degrees Restricted Share Plan Trust and held as treasury shares to fulfil the obligation to deliver shares to employees who participate in the LTIP.

12. Non-distributable reserve

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Components of the non-distributable reserve				
Balance at the beginning of the year	**106 865**	29 448	**–**	–
Fair value adjustment on investment property	**2 054**	89 860	**–**	–
Fair value adjustment on derivatives	**(8 602)**	(8 289)	**–**	–
Fair value adjustment on equity instrument	**(7 244)**	(2 068)	**–**	–
Realised loss on disposal of equity instrument	**–**	(2 086)	**–**	–
Total non-distributable reserve	**93 073**	106 865	**–**	–

13. Rental and related income

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Property rental	**714 117**	634 705	**–**	–
Recoveries	**241 033**	223 729	**–**	–
Parking income	**40 538**	36 893	**–**	–
Interest income	**8 042**	3 210	**–**	–
Fund level income	**971**	341	**–**	–
Marketing income — tenant and alternative income	**19 190**	16 191	**–**	–
Total rental and related income	**1 023 891**	915 069	**–**	–

14. Property operating expenses

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Advertising and promotions	**(4 579)**	(5 449)	**–**	–
Cleaning	**(14 544)**	(13 263)	**–**	–
Amortisation on tenant installation and letting commission	**(10 532)**	(9 532)	**–**	–
Insurance	**(4 182)**	(3 680)	**–**	–
Legal fees	**(776)**	(368)	**–**	–
Municipal charges	**(196 789)**	(190 884)	**–**	–
Property management fees	**(28 837)**	(24 909)	**–**	–
Repairs and maintenance	**(17 337)**	(18 122)	**–**	–
Salaries	**(20 840)**	(30 083)	**–**	–
Security	**(19 944)**	(19 473)	**–**	–
Other	**(7 225)**	(11 394)	**–**	–
Total property operating expenses	**(325 585)**	(327 157)	**–**	–

15. Operating costs

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Audit fee	**(2 518)**	(1 173)	**(190)**	–
Property valuation fees	**(103)**	(843)	**–**	–
Trustee fee	**(36)**	(472)	**–**	–
Printing and publishing costs	**(988)**	(1 026)	**–**	–
Legal costs	**(1 520)**	(484)	**–**	–
Annual listing cost	**(344)**	(423)	**(344)**	–
Employee costs	**(69 949)**	(43 657)	**(19 050)**	–
Office costs	**(15 332)**	(22 584)	**(3 144)**	–
Asset management fee	**–**	(198)	**–**	–
Other	**(2 366)**	(5 266)	**–**	(610)
Total operating expenses	**(93 156)**	(76 126)	**(22 728)**	(610)

16. Revenue from contracts with customers

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Fee revenue	**68 237**	63 915	**–**	–
Management fees on assets under management	**61 490**	63 753	**–**	–
Other fee revenue	**6 747**	162	**–**	–
Net revenue from hotel operations [2]	**24 677**	–	**–**	–
Total revenue from contracts with customers [1]	**92 914**	63 915	**–**	–

[1] There are no performance obligations that aren't satisfied (or partially unsatisfied) as at the end of the reporting period.
[2] Net revenue from hotel operations as accounted for prior to new lease agreements.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

17. Other income

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Other income	**181**	4 049	**166**	–
Recovery of Standard Bank success fee from LHL	**–**	3 750	**–**	–
Recovery of office costs from STANLIB Property Development Proprietary Ltd	**–**	299	**–**	–
Sundry income	**181**	–	**166**	–
Total other income	**181**	4 049	**166**	–

18. Capital commitments

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Equipment				
Under contracts	**3 279**	393	**–**	–
Authorised by the directors but not contracted	**–**	3 231	**–**	–
Investment properties				
Under contracts	**34 828**	23 116	**–**	–
Authorised by the directors but not contracted	**106 956**	193 365	**–**	–
Capital improvements on existing properties				
Under contracts	**156 641**	204 117	**–**	–
Authorised by the directors but not contracted	**28 895**	8 906	**–**	–
Closing balance	**330 599**	433 128	**–**	–
The capital commitments have been classified into the following categories				
– within 12 months	**330 599**	433 128	**–**	–
– longer than 12 months	**–**	–	**–**	–

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

19. Cash generated from operations

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Total earnings	**534 676**	646 818	**652 085**	(6 645)
Adjusted for:				
– Interest received	**(3 482)**	(12 462)	**(680)**	–
– Interest expense	**148 530**	25 282	**27 365**	6 035
– Amortisation of tenant installation and letting commission	**10 532**	9 532	**–**	–
– Transaction costs	**–**	173	**–**	–
– Depreciation and IFRS 16 amortisation	**2 722**	1 219	**–**	–
– Dividend income	**–**	–	**–**	–
– Other non-cash items	**15 677**	–	**18 939**	–
– Fair value adjustment on investment properties	**(2 054)**	(89 860)	**–**	–
– Fair value adjustment on financial instrument	**8 602**	8 289	**–**	–
– Fair value adjustment on equity instrument	**7 244**	2 068	**–**	–
Working capital changes	**(39 672)**	(349 826)	**(289 220)**	611
(Increase)/decrease in trade and other receivables	**24 722**	(124 404)	**–**	–
(Increase)/decrease in amounts due from Group companies	**(23 038)**	(157 927)	**(288 948)**	10
Increase/(decrease) in employee benefits	**(6 049)**	7 504	**–**	–
Increase/(decrease) in trade and other payables	**(35 307)**	(74 999)	**(271)**	601
Total cash generated from operations	**682 775**	241 233	**408 490**	1

20. Related party disclosure

List of related parties as defined

Ultimate parent

Standard Bank Group Ltd (SBG).

Parent

Liberty Group Limited (LGL).

Fellow subsidiaries

All subsidiaries of LGL are fellow subsidiaries of L2D Group – a full list can be obtained from the company secretary and details are contained in the published consolidated annual financial statements of LGL. Notably, 2 Degrees Properties (2DP), and the Manager, the previous management company (SRFM), are all wholly-owned subsidiaries of L2D Ltd.

Transactions with related entities

Transactions with SBG

As at 31 December 2019, R1 billion is owed to SBG for the purchase of properties as well as the purchase of the SRFM business in 2018. (2018: R860 million).

Standard Bank Centre

The Standard Bank Centre is fully let to SBG on a seven-year lease. Rental income received by L2D Group for the year ended 31 December 2019 was R15.2 million (2018: R18.1 million).

Transactions with L2D CSIP

As at 31 December 2019, R144 242 is receivable from L2D CSIP (2018: Rnil).

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

20. Related party disclosure (continued)

Transactions with LGL

Liberty Centre Head Office Cape Town

83.1% of the property is let to LGL, the parent of L2D Group. Rental income received by L2D Group for the year ended 31 December 2019 was R14.5 million (2018: R11.7 million).

Liberty Centre Head Office Umhlanga Ridge

Approximately 71.1% of the property is let to LGL on a five-year lease.

Rental income received by L2D Group for the year ended 31 December 2019 was R8.8 million (2018: R9.3 million).

Eastgate Office Tower

LGL occupies 2 790m² of office space in the Eastgate Office Tower.

Rental income received by L2D Group for the year ended 31 December 2019 was R2.4 million (2018: R1.4 million).

Development fee income

Development fees amounting to R6.7 million was earned during 2019 (2018: R162 000).

Asset management fee income

Management fees on assets under management amounting to R61.5 million was earned during 2019 (2018: R63.7 million).

Loan with LGL

As at 31 December 2019, R66.1 million is owed by LGL for working capital. (2018: R38.3 million).

R80.6 million is owed by LGL for the proportional share of monies held to meet obligations created by outstanding shopping centre gift cards and tenant deposits (2018: R63.6 million). A money market interest rate is earned on the amount outstanding and a portion of the interest earned is allocated to shopping centre merchants' associations for centre marketing.

Transactions with other related entities

Operating lease payments

STANLIB Wealth Management Ltd, as a lessee, paid an amount of R5.3 million (2018: R4.3 million) as an operating lease expense for rental of its premises in the Melrose Arch precinct in Johannesburg.

JHI Retail Property Proprietary Ltd (JHI)

The property management function in respect of L2D Group is undertaken predominantly by JHI. JHI manages the Sandton City Complex, the Eastgate Complex, Liberty Promenade Shopping Centre, Liberty Midlands Mall, Nelson Mandela Square, Botshabelo Mall, Liberty Centre Head Office (Umhlanga), John Ross Eco-Junction and the Standard Bank Centre.

Amdec continues to manage the Melrose Arch precinct. Amdec is not a related party of L2D Group.

JHI Retail is 51% owned by JHI Properties Proprietary Ltd and 49% by Liberty Holdings Limited (LHL). It is accounted for as a joint venture of the group.

Property management service net fees paid by L2D Group to JHI Retail for the year ended 31 December 2019 amounted to R28.8 million (2018: R24.9 million).

Loan with STANLIB Asset Management Limited

As at 31 December 2019, R14 432 is owed to STANLIB Asset Management Limited (2018: R10 158).

Intercompany transactions

As at 31 December 2019, The Liberty Two Degrees Restricted Share Plan Trust (Trust) obtained a loan from 2DP of R39.1 million to acquire shares for the LTIP (2018: Rnil).

As at 31 December 2019, 2DP has a loan with SRFM of R6.3 million (2018: R15.1 million).

As at 31 December 2019, L2D Ltd has a loan with 2DP of R177.0 million. This includes a dividend receivable of R302.3 million and the remainder is a working capital loan (2018: (R112.3 million)).

As at 31 December 2019, L2D Ltd has a loan receivable from the Trust of R53 660 relating to surplus profits distributed to L2D Ltd (2018: Rnil).

20. Related party disclosure (continued)

Consolidated unit trusts

The following STANLIB unit trusts, which are consolidated at LHL, have shares in L2D Group as follows:

	Liberty economic holding in fund (%)	Number of L2D Group shares (000)	Market value of L2D Group shares (R'000)
Fund name — 2019			
STANLIB Multi-Manager Property	**67**	**161**	**1 081**
STANLIB Multi-Manager Flexible Property	**46**	**507**	**3 396**
STANLIB Multi-Manager Defensive Balanced Fund	**97**	**100**	**669**
STANLIB Multi-Manager Equity Fund	**80**	**834**	**5 588**
STANLIB Capped Property Index Tracker Fund	**61**	**623**	**4 175**
STANLIB Property Income Fund	**38**	**–**	**–**
STANLIB Multi-Manager Real Return Fund	**61**	**26**	**174**
STANLIB Multi-Manager Balanced Fund	**92**	**145**	**970**
1NVEST SA Property ETF	**56**	**239**	**1 600**
Total	**–**	**2 635**	**17 653**
Fund name — 2018			
STANLIB Multi-Manager Property	66	1 414	9 772
STANLIB Multi-Manager Flexible Property	48	550	3 801
STANLIB Multi-Manager Defensive Balanced Fund	95	100	690
STANLIB Multi-Manager Equity Fund	82	62	428
STANLIB Quants Fund	60	4	31
STANLIB Capped Property Index Tracker Fund	94	234	1 614
STANLIB Property Income Fund	35	12 662	87 494
Total	–	15 026	103 830

Key management personnel

Directors' remuneration

Non-executive directors' remuneration — 2019

	Directors of L2D	Other Liberty Group [(1)]	Total remuneration
Director			
Angus Band [(3)]	**903 325**	**1 565 325**	**2 468 650**
Wolf Cesman [(2)]	**1 128 129**	**–**	**1 128 129**
Lynette Ntuli	**411 250**	**–**	**411 250**
Brian Azizollahoff	**305 900**	**–**	**305 900**
Zaida Adams	**358 750**	**–**	**358 750**
David Munro [(4)]	**–**	**18 834 000**	**18 834 000**
Total	**3 107 354**	**20 399 325**	**23 506 679**

[(1)] Other Liberty Group is defined as LHL and its subsidiaries excluding L2D Group.
[(2)] Wolf Cesman received a composite fee of £59 535 for the 2019 year (2018: £46 350).
[(3)] Angus Band is the lead independent director at LHL.
[(4)] David Munro is the Chief executive of LHL.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

20. Related party disclosure (continued)

Non-executive directors' remuneration – 2018

	Directors of L2D	Other Liberty Group [1]	Total remuneration
Director			
Angus Band [3]	787 500	1 669 325	2 456 825
Wolf Cesman [2]	821 936	–	821 936
Lynette Ntuli	493 500	–	493 500
Brian Azizollahoff	175 000	–	175 000
Zaida Adams	131 250	–	131 250
Total	2 409 186	1 669 325	4 078 511

[1] Other Liberty Group is defined as LHL and its subsidiaries excluding L2D Group.
[2] Wolf Cesman received a composite fee of £59 535 for the 2019 year (2018: £46 350).
[3] Angus Band is the lead independent director at LHL.

Executive directors' remuneration

R'000	2019	2018	% change
Amelia Beattie (Chief executive)			
Fixed remuneration	**3 372**	3 227	4.5
Cash portion of package	**2 773**	2 705	–
Other benefits	**137**	122	–
Retirement contributions	**462**	400	–
Annual variable awards	**3 950**	4 357	(9.3)
Cash	**3 065**	3 350	–
Restricted share plan (deferred plan)	**885**	1 007	–
Long-term awards	**1 835**	2 170	(15.4)
Restricted share plan (long-term plan)	**1 053**	1 204	–
Distribution	**782**	966	–
Total remuneration	**9 157**	9 754	(6.1)
José Snyders (Financial director)			
Fixed remuneration	**2 761**	2 576	7.2
Cash portion of package	**2 300**	2 199	–
Other benefits	**173**	102	–
Retirement contributions	**288**	275	–
Annual variable awards	**2 500**	3 000	(16.7)
Cash	**2 050**	2 400	–
Restricted share plan (deferred plan)	**450**	600	–
Long-term awards	**539**	592	(9.0)
Restricted share plan (long-term plan)	**–**	–	–
Sign-on bonus	**–**	–	–
Distribution	**539**	592	–
Total remuneration	**5 800**	6 168	(6.0)

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

20. Related party disclosure (continued)

Long-term incentive plan

L2D has adopted a bonus and incentive scheme for its employees.

The L2D Group Restricted Share Plan Trust (L2D Group Trust) has been formalised and approved by the Board of Directors.

During 2019, the L2D Group Trust acquired L2D treasury shares and this resulted in a change in accounting treatment from cash-settled to equity-settled in line with IFRS 2.

21. Distribution to shareholders

	Group		Company	
R'000	**2019**	2018	**2019**	2018
Amounts unpaid at the beginning of the year	**–**	–	**–**	–
Distribution declared to shareholders during the year	**(381 546)**	(695 232)	**(381 546)**	–
Distribution declared to LHL during the year	**–**	(19 628)	**–**	–
Effects of capital reorganisation (SRFM distribution)	**–**	(26 069)	**–**	–
Amounts unpaid at the end of the year	**–**	–	**–**	–
Total distribution to shareholders	**(381 546)**	(740 929)	**(381 546)**	–

22. Financial risk management

L2D Group is exposed to market risk, liquidity risk and credit risk. While risk management is the responsibility of the Board of Directors, the Board has delegated the responsibility for overseeing implementation of the Board risk management policy to the audit and risk committee, which in addition hereto will also assist the Board in developing the policy.

22.1 Property market risk

Market risk is the risk of adverse financial impacts due to changes in fair values of future cash flows, in particular for L2D Group, from fluctuations in property values and/or rental income. L2D Group is exposed to tenant default, depressed market rentals and unlet space affecting property values and rental income. The managed diversity of the property portfolio and the existence of multi-tenanted buildings specifically reduces the risk the exposure to this risk. Refer to note 4 Segment information and note 5 Investment properties, for detail on concentration risk.

22.2 Liquidity risk

Liquidity risk is the risk that L2D Group is not able to meet its payment obligations as they fall due. Over 96% of L2D Group's assets are invested in illiquid assets. Illiquid assets are those that are considered to be realisable in excess of six months. Liquidity is subject to a sale of investment property and related time frame.

The L2D Group made use of R1.7 billion of term facilities to date.

The table below summarises the maturity profile of the financial instrument liabilities based on the remaining undiscounted liabilities. Liquidity requirements are managed by monitoring forecasted cash flows and the maturity profile of financial liabilities.

	Year ended 31 December 2019			
R'000	**Less than one year**	**One to five years**	**More than five years**	**Total**
Financial liabilities				
Interest – bearing borrowings	**–**	**1 695 000**	**–**	**1 695 000**
Interest payable on interest borrowings	**147 858**	**299 023**	**–**	**446 881**
Interest rate swap	**16 891**	**–**	**–**	**16 891**
Other financial liabilities	**5 145**	**5 155**	**–**	**10 300**
Trade and other payables	**160 938**	**–**	**–**	**160 938**
	330 832	**1 999 178**	**–**	**2 330 010**

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

22. Financial risk management (continued)

R'000	Year ended 31 December 2018 Less than one year	One to five years	More than five years	Total
Financial liabilities				
Interest – bearing borrowings	603 911	1 000 000	–	1 603 911
Interest payable on interest borrowings	139 737	565 525	–	705 262
Interest rate swap	8 289	–	–	8 289
Other financial liabilities	1 294	7 627	–	8 921
Trade and other payables	236 212	–	–	236 212
	989 443	1 573 152	–	2 562 595

22.3 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

L2D Group is exposed to credit risk on its financial instruments such as financial assets, trade and other receivables and cash and cash equivalents.

The risk arises due to a change in credit rating of the counter party subsequent to L2D Group obtaining the financial assets. Refer to note 6 and note 10 for details of credit risk exposure. L2D has formal policies and procedures in place to ensure management of credit risk. A formal credit assessment is performed for all new tenants and lease contracts are entered into with tenants with an appropriate credit history. Credit risk is managed by requiring tenants to pay rentals in advance, plus the provision of a deposit of at least one month's rental. Outstanding tenants' receivables are regularly monitored.

Sundry debtors are included in trade and other receivables and relate to normal tenant debtors. These are included as part of ECL assessment and normal credit terms of debtors.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial asset. There is no significant concentration of credit risk as exposure is spread over a large number of counterparties.

The credit risk exposure to mutual funds and equity instruments is assessed on an ongoing basis with reference to the counterparties. L2D Group's only deposits cash with financial institutions that have high quality credit standings.

22.4 Market risk

Interest rate risk

The group is exposed to interest rate risk through its variable rate cash balances and interest-bearing borrowings.

The group reduces its exposure to changes in interest rates by fixing interest rates in respect of its borrowings.

This is achieved by entering into swap agreements to receive variable and pay fixed interest rates. 74% of borrowings have been hedged through fixed rate contracts.

Cash flow sensitivity analysis for variable rate instruments:

A change of 50 basis points in the interest rates for the year would have increased/(decreased) equity by:

	Group		Company	
R'000	**2019**	2018	**2019**	2018
Effect on equity and profit or loss				
50 basis points increase	**(5 412)**	(1 340)	**(1 012)**	(255)
50 basis points decrease	**5 412**	1 340	**1 012**	255

23. Capital management

In terms of the Memorandum of Incorporation, L2D Group has limited borrowings to 60% of the consolidated asset value, determined on the last published valuation for L2D Group in the most recent audited consolidated annual financial statements of the group adjusted for any subsequent changes in the value of L2D Group in accordance with IFRS and taking into account the value of any property to be acquired using a loan. L2D Group's Loan to Value (LTV) target is 35%.

The group's property assets are made up of investment property.

R'000	2019	2018
Property assets including non-current assets held for sale	**10 268 136**	10 144 377
Interest-bearing borrowings (net of cash on hand)	**1 653 967**	1 615 237
Loan to value (%)	**16**	16

The Board's policy is to maintain a strong capital base, comprising its shareholders' interest, so as to maintain investor, creditor and market confidence and to sustain future development of the business. It is the group's stated purpose to deliver long-term sustainable growth in dividends per share. The Board of Directors monitors the level of dividends to shareholders and ensures compliance with the Income Tax Act and the JSE Listings Requirements. There were no changes in the group's approach to capital management during the year.

SRFM is required to maintain a Capital Adequate Reserve of R600 000 which has not been breached.

24. Minimum lease payments receivable

R'000	2019	2018
Minimum lease payments comprise contractual rental income and operating expense recoveries from investment property.		
The minimum lease payments receivable from tenants have been classified into the following categories:		
– Short-term (up to one year)	**636 317**	606 576
– Medium-term (greater than one year and up to five years)	**1 381 981**	1 307 479
– Long-term (greater than five years)	**719 260**	667 065

25. Employee benefits liabilities

	Group		Company	
R'000	2019	2018	2019	2018
Liabilities				
Leave pay	**668**	752	**–**	–
Short-term incentive	**16 655**	15 599	**–**	–
Long-term incentive [(1)]	**–**	7 021	**–**	–
Total liability	**17 323**	23 372	**–**	–

[(1)] Long-term incentives have been converted into equity settled from a cash settled scheme and is disclosed under share-based payments note 26.

Analysis of employee benefits

	Leave pay				Short-term incentive				Long-term incentive			
	Group		Company		Group		Company		Group		Company	
R'000	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Balance at the beginning of the year	**752**	267	**–**	–	**15 599**	11 000	**–**	–	**–**	4 600	**–**	–
Additional provision raised	**893**	1 513	**–**	–	**16 655**	28 599	**–**	–	**–**	2 421	**–**	–
Utilised during the year	**(977)**	(1 028)	**–**	–	**(15 599)**	(24 000)	**–**	–	**–**	–	**–**	–
Balance at the end of the year	**668**	752	**–**	–	**16 655**	15 599	**–**	–	**–**	7 021	**–**	–

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

25. Employee benefits liabilities (continued)

Leave pay

In terms of the company policy, employees are entitled to accumulate a maximum of 20 days compulsory leave and 20 days discretionary leave. The compulsory leave has to be taken within 18 months of earning it, failing which it is forfeited. Only discretionary leave can be sold back to the company.

Short-term incentive scheme (cash settled)

In terms of the company remuneration policy, all permanent employees are eligible to receive incentives in terms of various board approved incentive schemes. These schemes recognise both individual and financial performance of the company.

26. Share-based payments

	Group		Company	
R'000	**2019**	2018	**2019**	2018
Reconciliation of reserve				
Long-term incentive plan	**18 240**	–	**17 258**	–
Total share-based payments reserves	**18 240**	–	**17 258**	–
Movement for the year	**18 240**	–	**17 258**	–
Transfer from long-term incentive scheme from previous year	**7 021**	–	**–**	–
Per profit or loss cash settled schemes	**6 916**	–	**–**	–
Per profit or loss equity settled schemes	**5 001**	–	**18 937**	–
Transfer of vested rights to retained surplus	**(698)**	–	**(698)**	–
Transfer of vested rights to retained surplus (dividends)	**–**	–	**9**	–
Payment of L2D Ltd dividend to restricted share plan participants	**–**	–	**(990)**	–

26.1 Long-term incentive plan

L2D has adopted a share-based incentive plan for employees, which is known as The Liberty Two Degrees Restricted Share Plan (Plan or LTIP). The Plan was originally established by the Manager, SRFM, but all of the Manager's rights and obligations in connection with the Plan were assigned to L2D with effect from 30 June 2018.

The purpose of the LTIP is to drive a longer-term focus on the group's results, and to retain key employees in leadership and critical skill roles. It also provides alignment with shareholders in that long-term value creation is incentivised through settlement of these awards in shares/cash.

The key features and salient terms of the Plan are set out below.

The Liberty Two Degrees Restricted Share Plan Trust (Trust)

The Plan is administered through a Trust. The current trustees are the directors, Angus Band, Zaida Adams and Lynette Ntuli. Trustees may not participate in the Plan and executive directors of the company may not be trustees.

The Trust will purchase shares in order to satisfy the requirements of the Plan and no shares shall be issued for such purposes. Accordingly, the Plan is not dilutive and is not governed by Schedule 14 of the JSE Listings Requirements. The Trust shall hold one share for each share (restricted share) that has been awarded to participants in terms of the Plan.

The LTIP method of participation

Awards under the LTIP are made when Remco determines it to be appropriate but will normally be made in February or March.

Pending vesting, restricted shares are registered in the name of the Trust. As such, participants will not exercise the voting rights attached to restricted shares until after vesting. However, any distributions on restricted shares held by the Trust and allocated to a participant will vest in and be paid to that participant.

26. Share-based payments (continued)

Performance conditions	— Awards granted are subject to vesting and/or performance conditions. The performance condition is for distribution growth in excess of the inflation rate over the life of a tranche. — A vesting scale for performance below target levels allows for proportionate vesting of long-term incentives. — Performance conditions will be tested at the date of vesting. To the extent that the conditions are not met at this point, the relevant awards will reduce or lapse in line with the vesting scale. — Unvested shares are forfeited on termination of employment. — No re-testing of performance conditions is permitted.
Vesting period	— 3, 4, 5-year anniversary performance condition on all vestings for LTIP.
Other	— Applicable distributions are paid to participants. No voting rights are attached to the shares held in trust. — Shares need to be acquired in the market. — Share awards are based on the L2D share price 7 days prior to the last day to trade *cum* dividend on the JSE.

Linear vesting is applied i.e. shares will be awarded based on percentage of the target achieved.

General provisions applicable to the Plan

Remco and the trustees may amend any provision of the Plan, provided that an amendment affecting the vested rights of a participant requires the consent of that participant.

Summary of movements under restricted share plans

Liberty Two Degrees restricted share plan (long-term incentive plan)

	2019		2018	
	Price range	**Number**	Price range	Number
Movement summary				
Shares outstanding at the beginning of the year	**–**	**–**	–	–
Granted	**R7.05 – R10.21**	**5 634**	–	–
Exercised	**R8.00 – R10.21**	**(76)**	–	–
Cancellations	**–**	**–**	–	–
Shares outstanding at the end of the year	**–**	**5 558**	–	–
Share-based payment expense	**–**	**–**	–	–

Linear vesting is applied.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

27. Amounts due (to)/from Group companies

27.1. Amounts due (to) Group companies

	Group		Company	
R'000	2019	2018	2019	2018
STANLIB Asset Management Limited	**(14)**	(10)	**–**	–
The current account with a fellow subsidiary is unsecured and there are no fixed terms of repayment. The loan is interest free and repayable on demand when the company is solvent.				
2 Degrees Properties Proprietary Limited	**–**	–	**–**	(112 332)
The current account with a subsidiary is unsecured and there are no fixed terms of repayment. The loan is interest free and repayable on demand when the company is solvent.				
Total asset/(liability)	**(14)**	(10)	**–**	(112 332)

27.2 Amounts due from Group companies

	Group		Company	
R'000	2019	2018	2019	2018
Liberty Holdings Limited	**–**	4 313	**–**	–
The current account with the parent company is unsecured and there are no fixed terms of repayment. The loan is interest free and repayable on demand when the company is solvent.				
Liberty Two Degrees Limited Share Incentive Scheme	**–**	–	**54**	–
The current account with a subsidiary is unsecured and there are no fixed terms of repayment. The loan is interest free and repayable on demand when the company is solvent.				
2 Degrees Properties Proprietary Limited	**–**	–	**176 993**	–
The current account with a subsidiary is unsecured and there are no fixed terms of repayment. The loan is interest free and repayable on demand when the company is solvent.				
Liberty Group Limited	**66 119**	38 332	**–**	–
The current account with the parent company is unsecured and there are no fixed terms of repayment. The loan is interest free and repayable on demand when the company is solvent.				
Total asset/(liability)	**66 119**	42 645	**177 047**	–

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

28. Property, plant and equipment

	Group		Company	
R'000	**2019**	2018	**2019**	2018
Computer equipment				
Cost at the beginning of the year	**28**	76	**–**	–
Additions	**–**	3	**–**	–
Depreciation	**(24)**	(52)	**–**	–
Net carrying value at the end of the year	**4**	28	**–**	–
Furniture and fittings				
Cost at the beginning of the year	**654**	1 110	**–**	–
Additions	**493**	657	**–**	–
Depreciation	**(426)**	(1 114)	**–**	–
Net carrying value at the end of the year	**721**	654	**–**	–
Computer software				
Cost at the beginning of the year	**–**	17	**–**	–
Additions	**–**	–	**–**	–
Depreciation	**–**	(17)	**–**	–
Net carrying value at the end of the year	**–**	–	**–**	–
Office equipment				
Cost at the beginning of the year	**63**	99	**–**	–
Additions	**70**	–	**–**	–
Depreciation	**(22)**	(36)	**–**	–
Net carrying value at the end of the year	**111**	63	**–**	–
Total property, plant and equipment	**836**	745	**–**	–

29. Right-of-use assets

29.1 Summary

		Group	Company
R'000	Notes	**2019**	**2019**
Right-of-use asset		**1 688**	**–**
Cost	29.2	**3 938**	**–**
Accumulated depreciation	29.3	**(2 250)**	**–**

29.2 Right-of-use asset — cost

	2019			
R'000	Balance at the beginning of the year	Additions	Disposals	Balance at the end of the year
Cost — movement	**–**	**–**	**–**	**–**
Right-of-use asset	**–**	**3 938**	**–**	**3 938**
Total cost	**–**	**3 938**	**–**	**3 938**

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

29. Right-of-use assets (continued)

29.3 Right-of-use asset — accumulated depreciation

	2019		
R'000	Balance at the beginning of the year	Depreciation	Balance at the end of the year
Accumulated depreciation — movement			
Right-of-use asset	–	(2 250)	(2 250)
Total accumulated depreciation	**–**	**(2 250)**	**(2 250)**

L2D Group leases its head office premises from STANLIB Wealth Management.

A Right-of-use asset and corresponding lease liability has been recognised in accordance with IFRS 16, effective for years commencing 1 January 2019.

L2D recognised a right-of-use asset representing its right to use the underlying leased asset and depreciated this over the lease term. A lease liability representing its obligation to make lease payments has simultaneously been recognised.

Refer to note 30 for disclosure on the lease liability.

30. Lease liability

30.1 Summary

		Group	Company
R'000	Note	2019	2019
Total lease liabilities		1 995	–
Finance lease liabilities — measured at amortised cost	30.2	1 995	–

30.2 Finance lease liabilities — measured at amortised cost

	2019	
R'000	Finance lease liabilities — measured at amortised cost	Total
Lease liability		
Balance at the beginning of the year	–	–
Additions	3 938	3 938
Finance costs	141	141
Repayments	(2 084)	(2 084)
Total cost	**1 995**	**1 995**

30. Lease liability (continued)

	R'000
Maturity analysis — contractual undiscounted cash flows	
Up to 1 year	2 001
Between 1 and 5 years	–
Over 5 years	–
Total undiscounted lease liabilities at the end of the year	2 001

31. Financial liabilities

31.1 Financial liabilities measured at amortised cost

						Group		Company	
						Carrying value		Carrying value	
R'000	Issue date	Maturity date	Interest payable	Amount	Fair value	2019	2018	2019	2018
ABSA loan facility	2018/11/01	2022/10/31	6-month JIBAR + margin	150 000	155 325	**150 000**	255 000	**57 946**	57 946
		2021/11/01	6-month JIBAR + margin	250 000	258 875	**250 000**	250 000	**50 000**	50 000
		2023/11/01	6-month JIBAR + margin	250 000	258 875	**250 000**	250 000	**50 000**	50 000
Standard Bank facility	2018/11/01	2022/10/01	6-month JIBAR + margin	500 000	490 115	**500 000**	250 000	**50 000**	50 000
		2021/11/01	6-month JIBAR + margin	250 000	245 058	**250 000**	250 000	**50 000**	50 000
		2023/11/01	6-month JIBAR + margin	250 000	245 058	**250 000**	250 000	**50 000**	50 000
			Prime less margin	–	–	**–**	98 911	**–**	–
Nedbank facility		2023/12/13	6-month JIBAR + margin	45 000	30 352	**45 000**	–	**–**	–
Total financial liabilities at amortised cost				1 695 000	1 683 658	**1 695 000**	1 603 911	**307 946**	307 946
Current				–	–	**–** (1)	603 911	**–** (2)	157 946
Non-current				–	–	**1 695 000**	1 000 000	**307 946**	150 000

(1) Excludes interest of R24 million reflected as a current liability.
(2) Excludes interest of R4.5 million reflected as a current liability.

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

31. Financial liabilities (continued)

31.2 Reconciliation of movement in financing activities disclosed in the statements of cash flows

	Group		Company	
	Financial liabilities measured at amortised cost		Financial liabilities measured at amortised cost	
R'000	**2019**	2018	**2019**	2018
Balance at the beginning of the year	**1 626 607**	–	**312 460**	–
Finance costs	**124 219**	25 282	**22 875**	–
Interest accrual	**24 166**	22 696	**4 491**	4 514
Repayments interest	**(146 915)**	(1 555)	**(27 389)**	–
Repayments – capital	**(428 149)**	–	**–**	–
Arising through new loans offered	**519 238**	1 580 184	**–**	307 946
Balance at the end of the year	**1 719 166**	1 626 607	**312 437**	312 460
Current	**24 166**	626 607	**4 491**	162 460
Non-current	**1 695 000**	1 000 000	**307 946**	150 000

32. Taxation

	Group		Company	
R'000	**2019**	2018	**2019**	2018
South African normal tax	**185**	6 082	**–**	–
Current year tax	**185**	6 082	**–**	–
Current deferred tax	**–**	–	**–**	–
Reconciliation between applicable tax rate and effective tax rate	**–**	–	**–**	–
Profit before tax	**534 676**	640 735	**–**	–
Deduct actual employee costs paid	**–**	(7 075)	**–**	–
Add back provision	**–**	26 095	**–**	–
Accounting adjustment relating to employee costs	**–**	(24 656)	**–**	–
Prior year prepayment added back	**–**	1	**–**	–
Current year prepayments	**–**	(4)	**–**	–
Add: Non-deductible expenses not incurred in the production of income	**–**	–	**–**	–
S18A donations	**–**	104	**–**	–
S25BB qualifying distribution	**(534 676)**	(616 406)	**–**	–
SA normal tax rate applied to profit before taxation (28% corporate tax rate)	**–**	5 262	**–**	–
Securities tax	**–**	770	**–**	–
Under provision of tax in respect of prior years	**185**	50	**–**	–
Deferred tax	**–**	–	**–**	–
Tax charge as per statements of comprehensive income	**185**	6 082	**–**	–

The group's reconciliation of the effective tax rate is based on the South Africa tax rate (28% corporate tax rate).

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

32. Taxation (continued)

32.1 Taxation (paid)/received

R'000	Group 2019	Group 2018	Company 2019	Company 2018
Taxation at the beginning of the period	**686**	1 412	**–**	–
Charged to statements of comprehensive income during the year	**(185)**	(6 082)	**–**	–
Income tax (receivable)/payable at the end of the period	**74**	(686)	**–**	–
Tax (paid)/received	**575**	(5 356)	**–**	–

33. Changes in accounting policies

The group has adopted all the new, revised or amended accounting pronouncements as issued by the International Accounting Standards Board (IASB) which were effective for the group from 1 January 2019. In particular, the following standards had an impact on the group's consolidated annual financial statements:

33.1 IFRS 16 Leases

Impact on the consolidated annual financial statements

Lessee accounting

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. L2D elected to adopt IFRS 16 retrospectively from 1 January 2019 using the modified retrospective approach without restating comparative figures. There was no impact to opening retained earnings on adoption of IFRS 16. IFRS 16 replaces the existing lease standard and the related interpretations. In applying IFRS 16 for the first time, L2D used certain practical expedients permitted by the standard, namely a single discount rate for leases with reasonably similar characteristics. All leases that met the definition of a lease under IAS 17 were carried forward as a lease under IFRS 16. The liability was measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The incremental borrowing rate applied to the lease liability on 1 January 2019 was 7.56%. This rate was obtained from STANLIB Wealth Management Limited who is the primary lessee of the leased asset. The group will recognise a right-of-use asset and lease liability for its operating lease of property. The nature of expenses related to this lease will now change from an operating lease charge to a depreciation charge for the right-of-use asset and interest expense for the lease liability.

Lessor accounting

Lessor accounting remains substantially unchanged and the group, as a lessor, has operating leases only.

34. Interest in subsidiaries

R'000	2019 Amount of issued share capital (units)	2019 Effective interest (%)	2019 Investment	2019 Intergroup balances
Subsidiaries				
2 Degrees Properties Proprietary Limited	**908 443**	**100**	**9 191 928**	**176 993**
STANLIB REIT Fund Managers (RF) (Pty) Ltd	**0.2**	**100**	**7 308**	**–**
Closing balance			**9 199 236**	**176 993**

R'000	2018 Restated Amount of issued share capital (units)	2018 Restated Effective interest (%)	2018 Restated Investment	2018 Restated Intergroup balances
Subsidiaries				
2 Degrees Properties Proprietary Limited	908 443	100	9 191 928	112 331
STANLIB REIT Fund Managers (RF) (Pty) Ltd	0.2	100	7 308	–
Closing balance			9 199 236	112 331

Notes to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

35. Non-current assets held for sale

R'000	2019	2018
Century City offices	**123 213**	–
Balance at the beginning of the year	**–**	–
Transfer from investment property	**122 068**	–
Additions	**318**	–
Amortisation	**(251)**	
Change in fair value	**1 078**	–
Balance at the end of the year	**123 213**	–

The investment properties reclassified as held-for-sale are properties that the directors have decided will be recovered through sale rather than through continuing use.

Liberty Centre Head Office Cape Town (Century City offices) was reclassified from investment properties to a non-current asset held for sale effective 31 October 2019, when the sale agreement was signed with Spear REIT Ltd.

The effect of operating lease straight-lining up to 31 December 2019 is R478 103.

36. Subsequent events

In line with IAS 10 events after reporting period, the declaration of the final dividend of 31.12 cents per share for the six months ended 31 December 2019 occurred after the end of the reporting period, resulting in a non-adjusting event which is not recognised in these consolidated annual financial statements.

Annexures to the consolidated and separate annual financial statements

for the year ended 31 December 2019

Supplemental information

A. Distributable earnings

R'000	2019 As per income statement	2019 Distributable	2018 Distributable
Rental and related income	**1 023 891**	**1 023 891**	915 069
Net revenue from hotel operations	**24 677**	**24 677**	–
Property operating expenses	**(325 585)**	**(325 585)**	(327 157)
Change in expected credit losses on rental debtors	**(4 729)**	**(4 729)**	2 469
Asset management fee	**61 490**	**61 490**	63 753
Development fee	**6 747**	**6 747**	162
Other income	**181**	**181**	4 049
Operating costs	**(93 156)**	**(93 156)**	(76 126)
Net interest paid	**(145 048)**	**(145 048)**	(12 820)
Interest paid	**(148 530)**	**(148 530)**	(25 282)
Interest received	**3 482**	**3 482**	12 462
Taxation	**(185)**	**(185)**	(6 082)
Dividend income	**–**	**–**	–
Trust distributions	**–**	**698**	–
Preacquisition adjustment	**–**	**–**	(18 252)
Total distribution	**548 283**	**548 981**	545 065
Less: Distribution to shareholder (payment 1)	**–**	**266 265**	266 265
Less: Distribution to shareholder (payment 2)	**–**	**–**	163 520
Available for distribution (payment 3)	**–**	**282 716**	115 280
Shares in issue	**–**	**908 443**	908 443
Dividend per share subsequent to year-end (cents)	**–**	**31.12**	12.69
Distribution for the year in cents	**–**	**–**	–
Dividend per share interim	**–**	**29.31**	29.31
Dividend per share clean out	**–**	**–**	18.00
Dividend per share – final (declared subsequent to year-end)	**–**	**31.12**	12.69
Total distribution	**–**	**60.43**	60.00

Distribution is taxable income in the hands of local residents and withholding tax will apply to non-residents and will be dependent on the double tax agreement with the applicable country.

R'000	2019 Distributable	2018 Distributable
Distribution accounted for during the year		
Dividend per share – prior year final	**12.69**	29.22
Dividend per share – interim	**29.31**	29.31
Dividend per share – clean out	**–**	18.00
	42.00	76.53
Distribution to shareholders	**(381 546)**	(695 232)
Distribution to LHL	**–**	(19 626)
Effects of capital reorganisation (SRFM distribution)	**–**	(26 071)
Distribution on statements of changes in equity	**(381 546)**	(740 929)

Annexures to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

B. Investment properties

Schedule of properties as at 31 December 2019

No.	Property name and % interest in the undivided shares by L2D	Physical address and province	Main sector	December 2019 valuation L2D share (R'000)	Average rental per m²	L2D's gross lettable area (m²)	Total gross lettable area (m²)
1	Sandton City Complex (25.0%)	5th Street, Alice Lane and Sandton Drive, Sandton, Gauteng	Retail	**3 519 051**	**527**	**49 736**	**199 140**
			– Retail			**36 949**	**147 940**
			– Office			**12 787**	**51 200**
2	Eastgate Complex (33.3%)	43 Bradford Road, Bedfordview, Johannesburg, Gauteng	Retail (Retail, Office)	**2 940 485**	**442**	**48 366**	**145 240**
			– Retail			**45 219**	**135 790**
			– Office			**3 147**	**9 450**
3	Melrose Arch Complex (8.3%)	60 Atholl Oaklands Road and Melrose Blvd, Melrose North, Johannesburg, Gauteng	Office	**567 048**	**260**	**16 584**	**199 216**
			– Retail			**3 940**	**47 332**
			– Office			**10 045**	**120 664**
			– Specialised			**2 599**	**31 220**
4	Liberty Midlands Mall (33.3%)	Sanctuary Road, Pietermaritzburg, KwaZulu-Natal	Retail	**855 162**	**273**	**25 902**	**77 782**
			– Retail (Phase 1)				
			– Retail (Lifestyle centre)				
5	Nelson Mandela Square Complex (33.3%)	5th Street, Sandton, Gauteng	Retail	**594 184**	**398**	**12 919**	**38 795**
			– Retail			**6 709**	**20 148**
			– Office			**6 210**	**18 647**
6	Liberty Promenade Shopping Centre (33.3%)	Cnr AZ Berman Drive, Morgenster Road and 11th Avenue, Mitchells Plain, Western Cape	Retail	**600 944**	**200**	**24 443**	**73 400**
7	Botshabelo Mall (23.3%)	Portions 2 and 3 of Erf 1 Botshabelo-H, Free State	Retail	**100 968**	**165**	**6 908**	**20 743**
8	Standard Bank Centre (16.7%)	5 Simmonds Street, Johannesburg, Gauteng	Office	**171 565**	**84**	**15 450**	**92 789**
9	Liberty Centre Head Office (Cape Town) (33.3%)	Montague Gardens, Century Boulevard, Century City, Western Cape	Office	**123 213**	**192**	**6 069**	**18 224**
10	Liberty Centre Head Office (Umhlanga Ridge) (33.3%)	21 Aurora Drive and 2 Park Lane, Umhlanga Ridge, KwaZulu-Natal	Office	**113 122**	**144**	**6 777**	**20 352**
11	John Ross Eco-Junction Estate – Tangawizi (33.3%)	Eco Junction Business Park, John Ross Highway, Richards, KwaZulu-Natal	Specialised	**23 181**	**72**	**2 351**	**7 060**
12	John Ross Eco-Junction Estate – Melomed (23.3%)	John Ross Eco-Junction, Cnr N2 and MR496, John Ross Highway, KwaZulu-Natal	Specialised	**113 349**	**225**	**3 219**	**13 809**
13	John Ross Eco-Junction Estate (33.3%)	Portion 16 and 17, Erf 11415, Richards Bay, KwaZulu-Natal	Specialised	**32 468**	**–**	**–**	**–**
14	Sandton Convention Centre (25.0%)	161 Maude Street, Sandton, Gauteng	Specialised	**142 460**	**173**	**14 463**	**57 910**
15	Virgin Active Sandton and Parkade (25.0%)	149 West Street, Sandton, Gauteng	Specialised	**13 337**	**487**	**851**	**3 406**

Annexures to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

B. Investment properties (continued)

No.	Property name and % interest in the undivided shares by L2D	Physical address and province	Main sector	December 2019 valuation L2D share (R'000)	Average rental per m²	L2D's gross lettable area (m²)	Total gross lettable area (m²)
16	Garden Court Sandton (25.0%)	Cnr West and Maude Street, Sandton, Gauteng	Specialised	**169 535**	**246**	**4 435**	**17 757**
17	Sandton Sun and Intercontinental (25.0%)	Cnr 5th and Maude Street, Sandton, Gauteng	Specialised	**188 062**	**92**	**8 662**	**34 682**
Total				**10 268 136**	**3 980**	**234 038**	**967 866**

Hotels not included in GLA as numbers provided are beds available and therefore excluded from average rental.

Schedule of properties as at 31 December 2018

No.	Property name and % interest in the undivided shares by L2D	Physical address and province	Main sector	December 2018 valuation L2D share (R'000)	Average rental per m²	L2D's gross lettable area (m²)	Total gross lettable area (m²)
1	Sandton City Complex (25.0%)	5th Street, Alice Lane and Sandton Drive, Sandton, Gauteng	Retail	3 498 222	462	49 736	199 140
			– Retail			36 949	147 940
			– Office			12 787	51 200
2	Eastgate Complex (33.3%)	43 Bradford Road, Bedfordview, Johannesburg, Gauteng	Retail (Retail, Office)	2 816 740	444	48 366	145 240
			– Retail			45 219	135 790
			– Office			3 147	9 450
3	Melrose Arch Complex (8.3%)	60 Atholl Oaklands Road and Melrose Blvd, Melrose North, Johannesburg, Gauteng	Office	619 167	244	16 585	199 216
			– Retail			3 940	47 332
			– Office			10 045	120 664
			– Specialised			2 599	31 220
4	Liberty Midlands Mall (33.3%)	Sanctuary Road, Pietermaritzburg, KwaZulu-Natal	Retail	815 867	238	25 902	77 782
5	Nelson Mandela Square Complex (33.3%)	5th Street, Sandton, Gauteng	Retail	638 041	366	12 919	38 795
			– Retail			6 709	20 148
			– Office			6 210	18 647
6	Liberty Promenade Shopping Centre (33.3%)	Cnr AZ Berman Drive, Morgenster Road and 11th Avenue, Mitchells Plain, Western Cape	Retail	568 576	177	24 443	73 400
7	Botshabelo Mall (23.3%)	Portions 2 and 3 of Erf 1 Botshabelo-H, Free State	Retail	68 200	149	4 835	20 743
8	Standard Bank Centre (16.7%)	5 Simmonds Street, Johannesburg, Gauteng	Office	186 118	98	15 450	92 789
9	Liberty Centre Head Office (Cape Town) (33.3%)	Montague Gardens, Century Boulevard, Century City, Western Cape	Office	131 371	162	6 069	18 224
10	Liberty Centre Head Office (Umhlanga Ridge) (33.3%)	21 Aurora Drive and 2 Park Lane, Umhlanga Ridge, KwaZulu-Natal	Office	122 613	185	6 777	20 352

Annexures to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

B. Investment properties (continued)

No.	Property name and % interest in the undivided shares by L2D	Physical address and province	Main sector	December 2018 valuation L2D share (R'000)	Average rental per m²	L2D's gross lettable area (m²)	Total gross lettable area (m²)
11	John Ross Eco-Junction Estate – Tangawizi (33.3%)	Eco Junction Business Park, John Ross Highway, Richards, KwaZulu-Natal	Specialised	22 851	63	2 351	7 060
12	John Ross Eco-Junction Estate – Melomed (23.3%)	John Ross Eco-Junction, Cnr N2 and MR496, John Ross Highway, KwaZulu-Natal	Specialised	102 043	179	3 219	13 809
13	John Ross Eco-Junction Estate (33.3%)	Portion 16 and 17, Erf 11415, Richards Bay, KwaZulu-Natal	Specialised	32 768	–	–	–
14	Sandton Convention Centre (25.0%)	161 Maude Street, Sandton, Gauteng	Specialised	151 926	28	14 463	57 910
15	Virgin Active Sandton and Parkade (25.0%)	149 West Street, Sandton, Gauteng	Specialised	19 481	77	851	3 406
16	Garden Court Sandton (25.0%)	Cnr West and Maude Street, Sandton, Gauteng	Specialised	203 046	50	4 435	17 757
17	Sandton Sun and Intercontinental (25.0%)	Cnr 5th and Maude Street, Sandton, Gauteng	Specialised	147 347	20	8 662	34 682
Total				10 144 377	299	231 966	967 866

Hotels not included in GLA as numbers provided are beds available.

Portfolio information

	Gross lettable area (m²)	**Gross lettable area (%)**	**Gross monthly rental (R'000)**
Geographic profile			
Gauteng	736 496	76.1	50 839
KwaZulu-Natal	119 003	12.3	7 555
Western Cape	91 624	9.5	5 477
Free State	20 743	2.1	890
Total	**967 866**	**100.0**	**64 761**

Note:

1 Gross monthly rent is at L2D's ownership share.

2. Gross lettable area is at 100%.

	Gross lettable area (m²) (1)	**Gross monthly rental (R'000) (2)**	**Gross monthly rental (%)**
Sector composition by GLA			
Retail	523 135	54 423	84.1
Office	331 326	6 809	10.5
Specialised	113 405	3 517	5.4
Total	**967 866**	**64 749**	**100.0**

Note:

1. Gross lettable area is at 100% of the measured size of the built asset, a portion of which is owned by L2D.

2. Gross monthly rental consists of basic rental plus property expense recoveries.

Annexures to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

B. Investment properties (continued)

	A (%)	B (%)	C (%)
Tenant profile (m²)			
Retail	45.0	12.0	8.0
Office	17.0	3.0	4.0
Specialised	8.0	–	3.0
Total	**70.0**	**15.0**	**15.0**

Note: Tenant category based on existing tenants at L2D ownership share 100%.

	2019	2018
Vacancy profile (%)		
Total retail	**2.3**	1.2
Total office	**10.2**	8.0
Total specialised	**–**	–
Total	**4.7**	3.4

	Vacant	Monthly	2020	2021	2022	2023	2024+
Lease expiry profile – gross lettable area (%)							
Total retail	2.3	10.2	11.9	15.1	13.5	11.8	35.2
Total office	10.2	2.7	17.3	7.5	23.5	3.4	35.4
Total specialised	–	–	51.5	0.2	9.9	3.6	34.8
Total	**4.7**	**6.3**	**18.7**	**10.6**	**16.5**	**7.9**	**35.3**
Lease expiry profile – revenue (%)							
Total retail	–	10.3	16.4	19.4	19.5	10.4	24.0
Total office	–	3.5	26.9	11.4	36.7	5.3	16.2
Total specialised	–	–	66.1	0.2	3.8	4.7	25.2
Total	**–**	**8.5**	**21.3**	**16.9**	**21.4**	**9.2**	**22.7**

	Office	Retail	Specialised	Portfolio
Geographic profile by				
Weighted average rental per m² by rentable area	136	395	183	331
Weighted average rental escalation (%)	7.8	7.6	7.8	7.6

Annexures to the consolidated and separate annual financial statements continued

for the year ended 31 December 2019

B. Investment properties (continued)

Hotels

Statistics

	12 months		Change
	2019	2018	%
Garden Court Sandton			
Number of rooms	**444**	444	–
Occupancy (%)	**73**	69	(12.9)
Average room rate (R)	**1 014**	1 034	7.3
RevPar (R)	**737**	711	(6.1)
Intercontinental Towers Sandton			
Number of rooms	**231**	231	–
Occupancy (%)	**67**	68	(3.3)
Average room rate (R)	**1 889**	1 930	(14.1)
RevPar (R)	**1 261**	1 303	(16.4)
Sandton Sun			
Number of rooms	**326**	326	–
Occupancy (%)	**63**	67	(20.8)
Average room rate (R)	**1 677**	1 662	(3.8)
RevPar (R)	**1 060**	1 110	(24.5)

Note:
Figures applied above based on a 12 month average.

%	Average annualised property yield
Portfolio	7.0

Annexures to the consolidated and separate financial statements continued

for the year ended 31 December 2019

C. Analysis of ordinary shareholders as at 31 December 2019

	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Shareholder spread				
1 – 1 000	338	26.6	132 553	0.0
1 001 – 10 000	505	39.8	2 295 391	0.3
10 001 – 100 000	253	19.9	9 302 634	1.0
100 001 – 1 000 000	133	10.5	46 150 444	5.1
Over 1 000 000	41	3.2	850 562 312	93.6
Total	**1 270**	**100.0**	**908 443 334**	**100.0**
Distribution of shareholders				
Assurance companies	22	1.7	527 457 678	58.1
Close corporations	12	0.9	281 794	0.0
Collective investment schemes	138	10.9	175 525 804	19.2
Control accounts	1	0.1	1	0.0
Custodians	2	0.2	13 404	0.0
Foundations and charitable funds	19	1.5	4 341 873	0.5
Insurance companies	3	0.2	1 048 127	0.1
Investment partnerships	5	0.4	122 374	0.0
Managed funds	14	1.1	3 772 027	0.4
Medical aid funds	8	0.6	989 314	0.1
Organs of state	5	0.4	121 390 696	13.4
Private companies	39	3.1	702 910	0.1
Public companies	3	0.2	7 721 530	0.9
Public entities	2	0.2	284 006	0.0
Retail shareholders	780	61.4	6 871 143	0.8
Retirement benefit funds	124	9.8	47 956 175	5.3
Scrip lending	3	0.2	1 388 218	0.2
Share schemes	1	0.1	5 558 881	0.6
Stockbrokers and nominees	13	1.0	904 616	0.1
Trusts	76	6.0	2 112 763	0.2
Total	**1 270**	**100.0**	**908 443 334**	**100.0**
Non-public shareholders	5	0.5	645 663 993	71.1
Directors and associates	2	0.2	54 875	0.0
Beneficial holders > 10% – Liberty Group	1	0.1	525 104 883	57.8
Beneficial holders > 10% – GEPF	1	0.1	114 945 354	12.7
Share schemes	1	0.1	5 558 881	0.6
Public shareholders	1 265	99.5	262 779 341	28.9
Total	**1 270**	**100.0**	**908 443 334**	**100.0**

Annexures to the consolidated and separate financial statements continued

for the year ended 31 December 2019

C. Analysis of ordinary shareholders as at 31 December 2019 (continued)

	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Fund managers with a holding greater than 3% of the issued shares				
STANLIB Asset Management	–	–	527 439 298	58.1
Coronation Fund Managers	–	–	183 048 838	20.2
Public Investment Corporation	–	–	120 574 554	13.2
Total	**–**	**–**	**831 062 690**	**91.5**
Beneficial shareholders with a holding greater than 3% of the issued shares				
Liberty Group	–	–	531 601 126	58.5
Coronation Fund Managers	–	–	125 473 044	13.8
Government Employees Pension Fund	–	–	115 761 496	12.7
Total	**–**	**–**	**772 835 666**	**85.0**
Total number of shareholdings	1 270	–	–	–
Total number of shares in issue	908 443 334	–	–	–

Share price performance

Opening price 2 January 2019	R6.9
Closing price 31 December 2019	R6.7
Closing high for period	R7.7
Closing low for period	R6.4
Number of shares in issue	908 443 334
Volume traded during period	117 546 685
Ratio of volume traded to shares issued (%)	12.9
Rand value traded during the period	R820 384 991
Price/earnings ratio as at 31 December 2019	11.3
Earnings yield as at 31 December 2019	8.9
Dividend yield as at 31 December 2019	9.0
Market capitalisation at 31 December 2019	R6 086 570 338

Annexures to the consolidated and separate financial statements continued

for the year ended 31 December 2019

C. Analysis of ordinary shareholders as at 31 December 2019 (continued)

			Number of shareholdings
Non-public breakdown		31 December 2019	908 443 334
— Directors of the company or any of its subsidiaries			

Beneficial holders > 10%	**Count**	**Holding**	**%**
Liberty Group	1	525 104 883	57.8
	2	**525 104 883**	**57.8**
Government Employees Pension Fund			
Government Employees Pension Fund	1	114 945 354	12.7
	1	**114 945 354**	**12.7**
Share schemes			
L2D Restricted Share Plan Trust	1	5 558 881	0.6
	1	**5 558 881**	**0.6**
Directors			
Amelia Beattie — direct	1	44 460	–
José Snyders	1	10 415	–
	2	**54 875**	**–**
Total		**645 663 993**	

Corporate information

Date of registration: 10 July 2018

Liberty Two Degrees Limited

JSE code: L2D
ISIN: ZAE000260576
(Approved as a REIT by the JSE)
(Liberty Two Degrees or L2D)

A public company (Registration number 2018/388906/06) duly incorporated in accordance with the laws of South Africa and listed on the JSE.

Company secretary

Ben Swanepoel
Liberty Two Degrees
17 Melrose Arch
Johannesburg
Gauteng
2196

Registered office

17 Melrose Boulevard
Melrose Arch
Johannesburg
Gauteng
2196

(PO Box 202, Melrose Arch, Johannesburg, 2076)

Contact information

Telephone: +27 11 448 5500
Email: info@liberty2degrees.co.za
www.liberty2degrees.co.za

(PO Box 202, Melrose Arch, Johannesburg, 2076)

Auditors

PricewaterhouseCoopers Inc.
Waterfall City
4 Lisbon Lane
Jukskei View
Midrand
2090

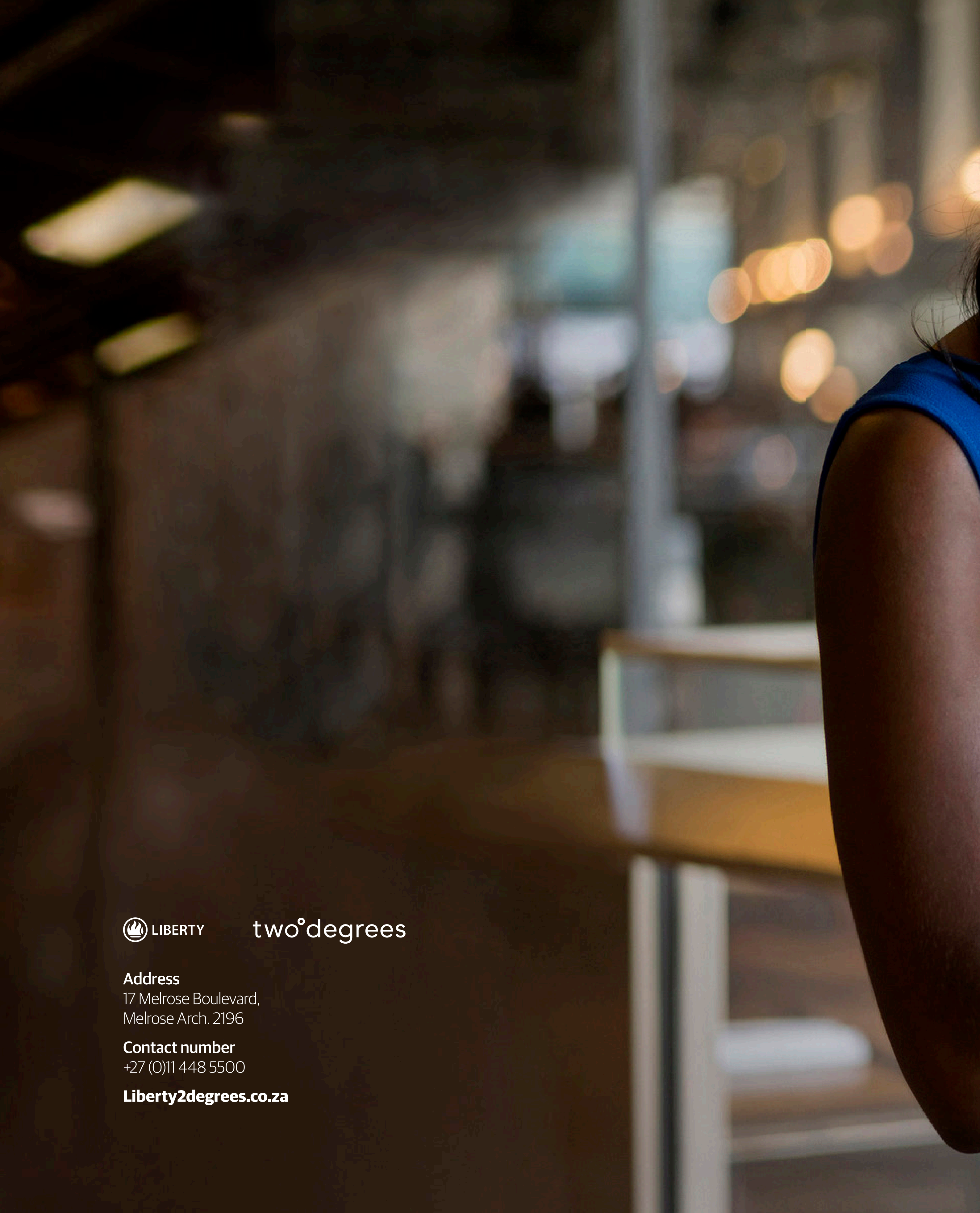
(Private Bag X36, Sunninghill, 2157)

Sponsor

The Standard Bank of South Africa Ltd
(Registration number 1962/000738/06)
30 Baker Street
Rosebank, 2196

(PO Box 61344, Marshalltown, 2017)

Tel: 011 721 6125



LIBERTY two°degrees

Address
17 Melrose Boulevard,
Melrose Arch. 2196

Contact number
+27 (0)11 448 5500

Liberty2degrees.co.za