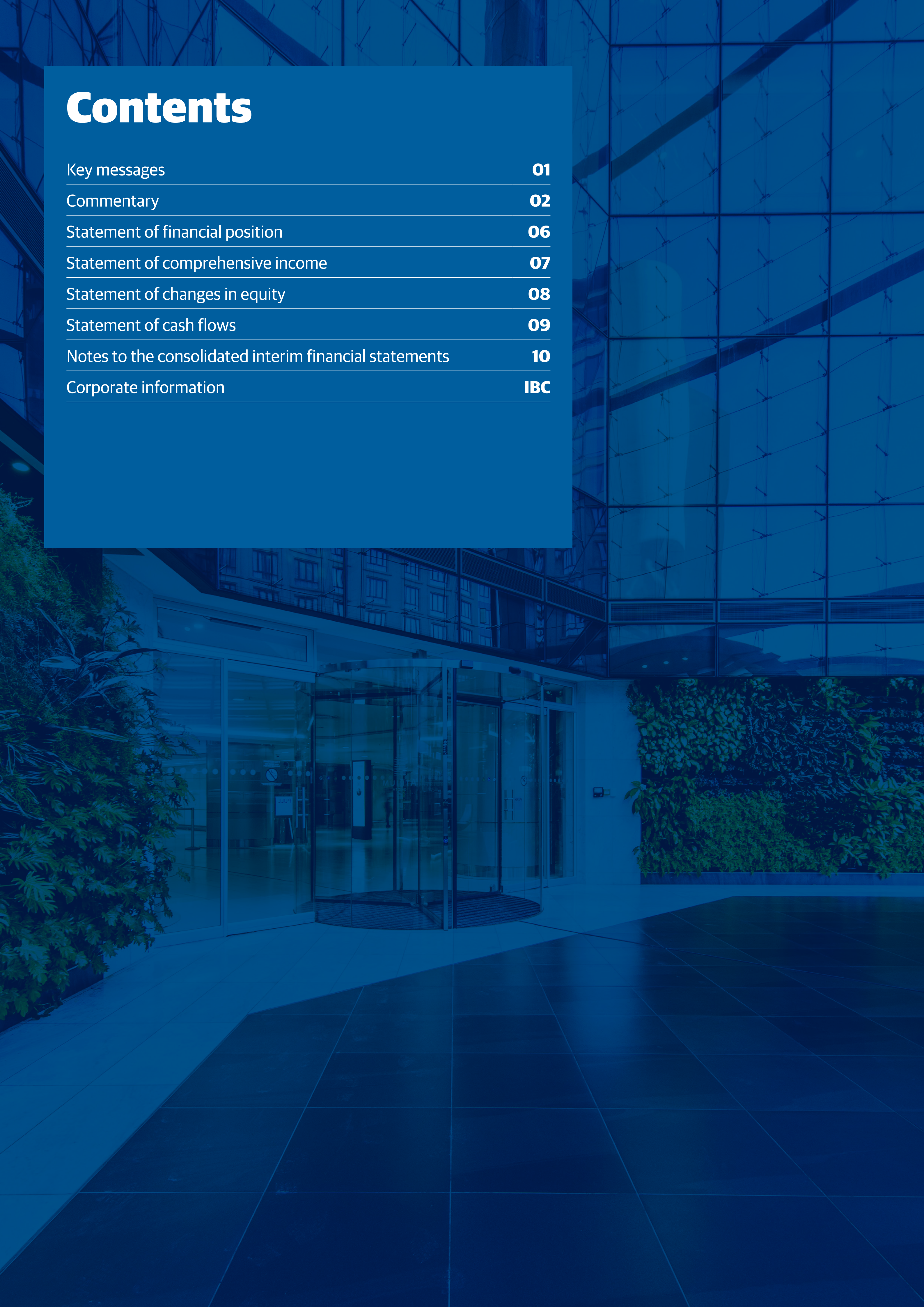
LIBERTY

two degrees

Unaudited summarised group results

for the six months ended 30 June 2020

Contents



Key messages

- 55.0% of comparative footcount returned at 30 June 2020
- Strong balance sheet and liquidity
- Rental relief and ongoing tenant support
- Providing Safe Spaces remains a priority
- People wellbeing and new ways of working prioritised
- Interim distribution deferred due to uncertain outlook

Commentary

Profile

Liberty Two Degrees Limited (L2D) is listed on the Johannesburg Stock Exchange (JSE) with a market capitalisation of R4.8 billion at 30 June 2020 (30 June 2019: R6.3 billion). The L2D group includes 2 Degrees Properties Proprietary Limited (the operating subsidiary), STANLIB REIT Fund Managers (RF) Proprietary Limited (the previous management company) and Liberty Two Degrees Restricted Share Plan Trust (trust).

Group performance

L2D's reported revenue and net property income (NPI) decreased by 15.9% and 40.4% respectively in comparison to the prior period. The NPI of R201.8 million for the six months ended 30 June 2020 (30 June 2019: R338.8 million) was significantly impacted by decreases in footfall as shopper behaviour changed with the advent of Covid-19 and subsequently the national lockdown and restricted trading periods. In line with our philosophy to respond with humanity and empathy in dealing with tenant requests for relief whilst balancing the need to protect the sustainability of our business in the interests of all stakeholders, rental relief and support has been provided on a pragmatic basis. Relief offered was structured with weightings in favour of the level of anticipated impact on tenants during the lockdown period and the anticipated further impact of restrictions on trade as lockdown has been eased. Rental relief negotiations are ongoing but difficult as many of the Covid-19 implications for tenants are evolving. As at 30 June 25.2% of negotiations have been concluded. Among these are the listed clothing retailers, major national and international retailers. L2D is working with our restaurant tenants as a severely impacted sector that requires additional support in stepping forward together. Currently 85.4% of retail GLA* is trading and only gyms and certain restaurants remain closed. The closure of hotels in the Sandton City precinct, in line with the level 5 lockdown restrictions, has resulted in a net loss from hotel operations of R0.8 million compared to a net profit of R6.4 million for the six months ended 30 June 2019. The Sandton Sun hotel has recently re-opened, and is currently experiencing low occupancies and we expect the remaining hotels to start trading once conditions have improved.

Interest expense has increased by 11.1% from 30 June 2019 as a result of additional term debt that was drawn down in November 2019 and March 2020. Including negative fair value adjustments of R1.5 billion, a loss before tax of R1.4 billion was recorded compared to a profit of R244.2 million for the six months ended 30 June 2019. The fair value adjustment comprises the devaluation of the property portfolio of R1.5 billion.

L2D's 100% South African property portfolio was devalued, primarily as a result of the impact of Covid-19 on trading, which resulted in a decrease of 14.7% to R8.7 billion (30 June 2019: R10.2 billion). The net asset value has decreased by 19.5% predominantly due to the decrease in investment property valuations. This excludes Century City offices which were pending transfer as at 30 June 2020 and has been subsequently transferred in July 2020.

In June 2020 we introduced touch-less parking at Sandton City, Eastgate and Midlands Mall. 50% of parking income generated (R1.3 million) will be donated to OnePeople Fund. The Fund buys maize in bulk and distributes it in partnership with local Non-Profit organisations distributing more than 370 000 meals each week to many of South Africa's most vulnerable.

* Excludes Melrose Arch.

Significant judgements applied with additional uncertainty and risk disclosure as a result of Covid-19

Valuations and changes in fair value

Our independent property valuers have decreased the portfolio value by 14.7% compared to 30 June 2019 (14.3% compared to December 2019). Valuations have been negatively impacted by inter alia, the negative effect of Covid-19 on current year rentals and growth assumptions for the forecasted period, higher vacancies, the potential for negative reversions and the time required to re-let vacant space. Our valuers have also applied more conservative valuation metrics including adjustment to exit capitalisation rates, discount rates and an increase in the periods allowed to re-let space. Refer to the fair value hierarchy for financial instruments and investment property note for the sensitivity analysis on the exit capitalisation rates and discount rates.

Jones Lang LaSalle who value the majority of our portfolio have emphasized the valuations disclosed are reported on "material valuation uncertainty" as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty should be attached to the valuation.

Edcon Limited commenced with business rescue proceedings during April 2020. The business rescue plan has been adopted and interest has been shown from external parties to acquire certain parts of the business. The Board has elected to write down the fair value of the investment to zero as at 30 June 2020.

Expected credit loss

The expected credit loss (ECL) model methodology has remained unchanged from 2019. In addition to increases in default percentages the assumptions used have been amended to incorporate rental relief offered as well as the cash flow strain that tenants are experiencing and as a result the ECL has increased to R45.7 million at 30 June 2020 (30 June 2019: R12.1 million).

In terms of IFRS 9, an expected credit loss provision is calculated by applying a pre-determined default percentage to the standard tenant arrear ageing buckets of current, 30 days, 60 days, 90 days and 120 plus days at a reporting period. The base default percentage is determined by utilising the historical trends of 24 months of losses and tenant arrears . The loss as a percentage of the tenant arrears will determine the base default percentage. This calculation is performed for each industry category and for each bucket. The base default percentage was adjusted by a factor modification product of current economic data forecasts of GDP growth, inflation and interest rate growth and retail sales growth. The current economic forecasts were considered in the calculation of the June 2020 default percentage. The GDP was forecasted at a negative growth for 2020 with a marginal upward growth in 2021 while retail sales growth for 2021 is expected at 2%. Inflation and interest rate forecasts were considered in our modeling. The product of these factors have resulted in an increase in the default rate which has resulted in a higher ECL than applied in December 2019.

Declaration of cash distribution

Due to the distributable earnings decline and the prevailing uncertainty resulting from the Covid-19 impact, the Board has decided not to pay an interim distribution but will consider the payment of a final distribution for the 2020 financial year that meets the regulatory requirements.

Interest-bearing borrowings

The group's interest-bearing borrowings (net of cash and cash equivalents and including the fair value of cash settled hedges) represented 21.7% (30 June 2019: 15.8%) of the value of its property portfolio. The average cost of funding (all Rand-denominated) is 8.1% (30 June 2019: 9.4%), interest rates are hedged through fixed rate contracts on 66.4% (30 June 2019: 68.3%) of borrowings for an average period of 2.3 years (30 June 2019: 3.0).

	30 June 2020	30 June 2019	Covenant
Loan to value (%)	**21.7**	15.8	40
Interest cover ratio	**3.15x**	4.63x	1.9x

We currently have R400 million in revolving credit facilities available of which R61 million is utilised. Our internal stress testing of our cash flows for the remainder of the year indicate that the current unutilised facility is sufficient for our liquidity needs for the next 12 months and management are comfortable that we are able to meet our commitments as they fall due. None of our existing debt facilities have been modified specific to Covid-19.

Debt maturity profile

Term debt exposure

Loan amount	Expiry
500 000 000	31 October 2021
850 000 000	31 October 2022
500 000 000	31 October2023
1 850 000 000	Total

Commitments

Capital commitments outstanding amount to R127.8 million (30 June 2019: R325.2 million). These include: Eastgate solar installation R8.2 million, Melomed Cath lab R5.8 million, Sandton Checkers reconfiguration R5.4 million and various tenant installations and letting commissions for new letting and renewals planned at Sandton City and Eastgate. Capital commitments will be funded from debt facilities.

Going concern

In addition to considering factors specific to L2D, management has considered the expected impact of measures taken by government and the property industry in response to the Covid-19 pandemic in assessing the going concern status of the business. Though heavily impacted by the economic conditions that currently prevail it is management's view that the going concern status of the business remains intact. Management has assessed that Covid-19 will not have any material impact on L2D's going concern. The pandemic has forced L2D to re-imagine and re-prioritise its strategic building blocks which underpin the success and future proofing of its assets. It is anticipated that the economic situation is expected to gradually improve with the easing of lockdown restrictions.

Property portfolio

The portfolio vacancy rate increased during the period to 5.3% (30 June 2019: 4.6%).

Leases covering 43 081m^2 (30 June 2019: 133 970 m^2) were renewed during the six months ended 30 June 2020 at an overall reversion rate of -21.7% (30 June 2019: -13.4%).

A further 9 466m^2 (30 June 2019: 20 513m^2) in new tenant lease agreements were concluded across the portfolio during the period.

Gross arrears before rental relief discounts increased to 67.7% (30 June 2019: 4.2%) of the collectable book. Of the current arrears, 81% is within 90 days overdue and largely coincides with the start of the Covid-19 lockdown period and restricted trade periods thereafter. The rental relief package and income deterioration related to Covid-19 provided for in the mid-year results equates to R114.6 million . We expect the collection rate on arrears to improve as tenant negotiations are finalised.

	Gross lettable area (m²)	Gross lettable area (%)
Geographic profile		
Gauteng	736 496	76.10
KwaZulu-Natal	119 003	12.30
Western Cape	91 624	9.50
Free State	20 743	2.10
Total	967 866	100.00

	Gross lettable area (m²) [(1)]	Gross monthly rental (%)
Sector composition by GLA		
Retail	523 135	54.10
Office	331 326	34.20
Specialised	113 405	11.70
Total	967 866	100.00

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

%	**June 2020**	June 2019	December 2019
Vacancy profile			
Total retail	**3.5**	2.4	2.3
Total office	**10.1**	9.8	10.2
Total specialised	**–**	–	–
Total portfolio vacancy profile	**5.3**	4.6	4.7

%	Vacant	Monthly	2020	2021	2022	2023	2024+
Lease expiry profile – gross lettable area							
Total retail	3.5	8.3	5.3	15.4	14.0	14.1	39.4
Total office	10.1	5.2	3.9	8.5	24.4	4.3	43.6
Total specialised	0.0	2.3	0.2	49.7	5.2	3.6	39.0
Total portfolio lease expiry profile	**5.3**	**6.5**	**4.2**	**17.2**	**16.5**	**9.5**	**40.8**

Safe Spaces

In response to Covid-19 we have prioritised occupational health and safety (OHS) and security (Safe Spaces) to ensure the well-being of our shoppers, service providers and tenants within our mall environments. Some of the initiatives implemented across our malls include increasing the frequency of cleaning and fogging common areas, providing hand sanitisers at the entrances, conducting temperature checks, providing personal protective equipment for all staff and implementing a "no mask, no entry" policy. Our malls recently received Covid-19 compliance certifications from Safe Shopping Centres, an international company that carries out safety assessments. Our shopping centres all scored higher than 80% in the assessments which is the first of its kind in the South African retail environment.

Prospects

We expect the pandemic to negatively impact our performance for the remainder of the 2020 financial year as levels of uncertainty continue to influence economic conditions and consumer confidence. The crisis has, however, allowed us to reaffirm our precinct centred, retail focused strategy as well as accelerate the work that has already been done in merging online retail with our physical environments and using technology to improve our operations. Management's focus for the remainder of 2020 will be on the business's recovery and rebuilding it by working together with our tenants in creating environments that support the resumption of safe trading in the short term and positioning the business for sustainable growth thereafter.

L2D has a strong balance sheet and management is satisfied that there are sufficient cash reserves and unutilised debt facilities to cover our business commitments as they fall due.

Looking ahead, the Board of L2D will consider the payment of a final distribution for the 2020 financial year after the full year results and in accordance with regulatory requirements. Given current uncertainty the Board has resolved not to provide earnings and distribution guidance for the remainder of the 2020 year at this stage.

Commentary continued

Changes in Board and Board sub-committees

Peter Nelson was appointed as an independent non - executive director to the Board as well as a member of the Audit and Risk Committee, the Remuneration and Nominations Committee and the newly established Related Party Committee with effect from 26 May 2020.

Events after reporting date

In line with IAS 10 Events after the Reporting Period, the successful transfer of Century City offices occurred in July 2020 after the end of the reporting period, resulting in a non-adjusting event which is not recognised in these financial statements.

Basis of preparation

The unaudited summarised group interim financial statements are prepared in accordance with International Financial Reporting Standard, IAS 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa and the JSE Listings Requirements. The accounting policies applied in the preparation of these financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the previous financial statements. José Snyders CA(SA), the financial director, was responsible for supervising the preparation of these summarised interim financial statements.

These summarised interim financial statements have not been reviewed or audited by L2D's independent external auditors.

By order of the Board of Directors

Angus Band
Chairman

Amelia Beattie
Chief Executive

José Snyders
Financial Director

27 July 2020

Statement of financial position

as at 30 June 2020

R'000	Unaudited June 2020	Unaudited June 2019	Audited December 2019
Assets			
Non-current assets	**8 689 614**	10 223 391	10 163 254
Investment properties	**8 656 283**	10 169 138	10 112 155
Investment properties under development	**32 768**	32 768	32 768
Property, plant and equipment	**563**	783	836
Financial assets — unlisted equity	**–**	17 495	17 495
IFRS 16 — lease asset	**–**	3 207	–
Current assets	**441 591**	337 190	386 907
Trade and other receivables	**363 048** [1]	260 075	253 241
IFRS 16 — lease asset	**563**	–	1 688
Amount due from group companies	**67 244**	71 418	66 119
Financial assets	**825**	636	660
Current tax receivable	**–**	69	–
Cash and cash equivalents	**9 911**	4 992	65 199
Non-current asset held for sale	**123 213**	–	123 213
Total assets	**9 254 418**	10 560 581	10 673 374
Equity			
Stated capital	**8 780 921**	8 780 921	8 780 921
Treasury shares	**(62 386)**	–	(39 205)
Retained surplus	**140 497**	273 636	290 081
Share-based payment reserve	**23 147**	–	18 240
Mergers/capital reserve	**(426 104)**	(426 104)	(426 104)
Non-distributable reserve	**(1 445 862)**	84 748	93 073
Total equity	**7 010 213**	8 713 201	8 717 006
Liabilities			
Non-current liabilities	**1 910 964**	1 000 950	1 695 000
Financial liabilities	**1 910 964** [2]	1 000 000	1 695 000
IFRS 16 — lease liability	**–**	950	–
Current liabilities	**333 241**	846 430	261 368
Trade and other payables	**233 444**	210 162	200 905
IFRS 16 — lease liability	**824**	2 850	1 995
Employee benefits	**10 425**	21 447	17 323
Amount due to group companies	**178**	11	14
Current tax payable	**–**	–	74
Financial instruments	**61 495** [3]	14 024	16 891
Financial liabilities	**26 875**	597 936	24 166
Total liabilities	**2 244 205**	1 847 380	1 956 368
Total equity and liabilities	**9 254 418**	10 560 581	10 673 374

(1) Trade and other receivables includes tenant arrears amounting to R216.0 million.

(2) L2D refinanced term debt amounting to R850.0 million.

(3) Negative fair value adjustments on the interest rate swap amounted to R44.6 million.

Statement of comprehensive income

for the six months ended 30 June 2020

R'000	**Unaudited June 2020**	Unaudited June 2019	Audited December 2019
Property portfolio revenue	**400 263**	475 626	999 189
Rental and related income	**429 697**	483 215	1 023 891
Adjustment for the straight-lining of operating lease income	**(29 434)**	(7 589)	(24 702)
Net (loss)/revenue from hotel operations	**(810)**	6 379	24 677
Property operating expenses	**(161 823)**	(137 623)	(325 585)
Change in expected credit losses on rental debtors	**(35 833)**	(5 610)	(4 729)
Net property income	**201 797**	338 772	693 552
Asset management fee income	**31 001**	30 647	61 490
Development fee income	**1 605**	4 100	6 747
Total net property income and revenue	**234 403**	373 519	761 789
Other income	**770**	–	181
Operating costs	**(53 053)**	(44 183)	(93 156)
Profit from operations excluding fair value adjustments	**182 120**	329 336	668 814
Interest expense	**(80 122)**	(72 015)	(148 530)
Interest received	**1 692**	1 417	3 482
Profit before fair value adjustments	**103 690**	258 738	523 766
Net fair value adjustments	**(1 509 501)**	(14 527)	10 910
Fair value adjustments on investment properties	**(1 476 836)**	(9 138)	2 054
Fair value adjustment on derivatives	**(44 604)**	(5 734)	(8 602)
Fair value adjustment on equity instrument	**(17 495)**	(7 244)	(7 244)
Adjustment for the straight-lining of operating lease income	**29 434**	7 589	24 702
(Loss)/profit before taxation	**(1 405 811)**	244 211	534 676
Taxation	**–**	(57)	(185)
Total comprehensive (loss)/income	**(1 405 811)**	244 154	534 491
Basic earnings per share (cents)	**(155.27)**	26.88	58.96
Fully diluted earnings per share (cents)	**(155.27)**	26.88	58.96

Statement of changes in equity

for the six months ended 30 June 2020

R'000	Capital	Treasury shares	Share-based payment reserve	Non-distributable reserve	Retained surplus	Mergers/ capital reserve	Total
Balance at 1 January 2019	8 780 489	–	–	106 865	122 646	(426 104)	8 583 896
Total comprehensive income	–	–	–	–	244 154	–	244 154
Capitalised transaction costs	432	–	–	–	–	–	432
Fair value adjustment on investment properties transferred to non-distributable reserve	–	–	–	(9 139)	9 139	–	–
Fair value adjustment on derivatives	–	–	–	(5 734)	5 734	–	–
Fair value adjustment on equity instrument	–	–	–	(7 244)	7 244	–	–
Distribution to shareholders	–	–	–	–	(115 281)	–	(115 281)
Balance at 30 June 2019	8 780 921	–	–	84 748	273 636	(426 104)	8 713 201
Total comprehensive income	–	–	–	–	290 337	–	290 337
Share-based payment transaction	–	(39 205)	18 240	–	698	–	(20 267)
Fair value adjustment on investment properties transferred to non-distributable reserve	–	–	–	11 193	(11 193)	–	–
Fair value adjustment on derivatives	–	–	–	(2 868)	2 868	–	–
Fair value adjustment on equity instrument	–	–	–	–	–	–	–
Distribution to shareholders	–	–	–	–	(266 265)	–	(266 265)
Balance at 31 December 2019	8 780 921	(39 205)	18 240	93 073	290 081	(426 104)	8 717 006
Total comprehensive loss	**–**	**–**	**–**	**–**	**(1 405 811)**	**–**	**(1 405 811)**
Share-based payment transaction	**–**	**(23 181)**	**4 907**	**–**	**–**	**–**	**(18 274)**
Fair value adjustment on investment properties transferred to non-distributable reserve	**–**	**–**	**–**	**(1 476 836)**	**1 476 836**	**–**	**–**
Fair value adjustment on derivatives	**–**	**–**	**–**	**(44 604)**	**44 604**	**–**	**–**
Fair value adjustment on equity instrument	**–**	**–**	**–**	**(17 495)**	**17 495**	**–**	**–**
Distribution to shareholders	**–**	**–**	**–**	**–**	**(282 708)**	**–**	**(282 708)**
Balance at 30 June 2020	**8 780 921**	**(62 386)**	**23 147**	**(1 445 862)**	**140 497**	**(426 104)**	**7 010 213**

Statement of cash flows

for the six months ended 30 June 2020

R'000	**Unaudited June 2020**	Unaudited June 2019	Audited December 2019
Cash flows from operating activities	**(220 124)**	118 987	158 370
Cash generated by operations	**138 348**	303 901	682 775
Interest received on financial assets	**373**	594	60
Interest received	**1 319**	823	3 421
Interest paid	**(77 382)**	(71 610)	(146 915)
Taxation (paid)/received	**(74)**	560	575
Distribution to shareholders	**(282 708)**	(115 281)	(381 546)
Cash flows from investing activities	**(26 746)**	(95 888)	(154 341)
Expenditure on investment properties capitalised	**(26 582)**	(46 248)	(104 336)
Acquisition of investment properties	**–**	(24 643)	(24 643)
Acquisition of property plant and equipment	**–**	(222)	(563)
Investment in financial instruments – mutual funds	**(36 868)**	(36)	(60)
Proceeds from disposal of financial instruments – mutual funds	**36 704**	–	–
Investment in financial instruments – equity instruments	**–**	(24 739)	(24 739)
Cash flows from financing activities	**191 582**	(29 477)	49 800
Treasury shares acquired	**(23 181)**	–	(39 205)
Finance lease liability repayments	**(1 201)**	(561)	(2 084)
Loan paid	**(49 036)**	(138 064)	(428 149)
Loans received	**265 000**	109 148	519 238
Net decrease in cash and cash equivalents	**(55 288)**	(6 378)	53 829
Cash balance at beginning of the year	**65 199**	11 370	11 370
Cash and cash equivalents at the end of the period	**9 911**	4 992	65 199

Notes to the consolidated interim financial statements

for the six months ended 30 June 2020

Key areas of judgement and sources of uncertainty

The preparation of the consolidated interim 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 interim financial statements, as well as the key sources of estimation uncertainty, is set out below.

1.1 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.

Valuer derived risk adjusted discount rates factor in liquidity and asset class risk. Refer to the fair value hierarchy for financial instruments and investment property note for specific details, 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 extent of judgement applied in the valuation, these assets are considered to be level 3 in the fair value hierarchy.

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

In 2019, 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 are classified as investment property.

Notes to the consolidated interim financial statements continued

for the six months ended 30 June 2020

Segment information

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

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

	30 June 2020					
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**
Segment earnings						
Property portfolio revenue	**254 383**	**102 529**	**39 807**	**3 213**	**331**	**400 263**
Rental and related income	**273 257**	**110 136**	**42 760**	**3 213**	**331**	**429 697**
Adjustment for the straight-lining of operating lease income	**(18 874)**	**(7 607)**	**(2 953)**	**–**	**–**	**(29 434)**
Net (loss)/revenue from hotel operations	**–**	**–**	**–**	**(810)**	**–**	**(810)**
Property operating expenses	**(104 213)**	**(42 002)**	**(16 307)**	**1 044**	**(345)**	**(161 823)**
Change in expected credit loss on rental debtors	**(22 977)**	**(9 261)**	**(3 595)**	**–**	**–**	**(35 833)**
Net property income	**127 193**	**51 266**	**19 905**	**3 447**	**(14)**	**201 797**
Asset management fee income	**–**	**–**	**–**	**–**	**31 001**	**31 001**
Development fee income	**–**	**–**	**–**	**–**	**1 605**	**1 605**
Total net property income and revenue	**127 193**	**51 266**	**19 905**	**3 447**	**32 592**	**234 403**
Other income	**–**	**–**	**–**	**–**	**770**	**770**
Operating costs	**–**	**–**	**–**	**–**	**(53 053)**	**(53 053)**
(Loss)/profit from operations excluding fair value adjustments	**127 193**	**51 266**	**19 905**	**3 447**	**(19 691)**	**182 120**
Interest expense	**–**	**–**	**–**	**–**	**(80 122)**	**(80 122)**
Interest received	**–**	**–**	**–**	**–**	**1 692**	**1 692**
(Loss)/profit before fair value adjustments	**127 193**	**51 266**	**19 905**	**3 447**	**(98 121)**	**103 690**
Net fair value adjustments on investment properties	**(893 877)**	**(360 275)**	**(139 875)**	**(53 375)**	**–**	**(1 447 402)**
Fair value adjustments	**(912 751)**	**(367 882)**	**(142 828)**	**(53 375)**	**–**	**(1 476 836)**
Adjustment for the straight-lining of operating lease income	**18 874**	**7 607**	**2 953**	**–**	**–**	**29 434**
Fair value adjustment on derivatives	**–**	**–**	**–**	**–**	**(44 604)**	**(44 604)**
Fair value adjustment on equity instrument	**–**	**–**	**–**	**–**	**(17 495)**	**(17 495)**
(Loss)/profit before taxation	**(766 684)**	**(309 009)**	**(119 970)**	**(49 928)**	**160 220**	**(1 405 811)**
Taxation	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive (loss)/income	**(766 684)**	**(309 009)**	**(119 970)**	**(49 928)**	**160 220**	**(1 405 811)**

[1] Administration and other includes administration expenses and investment income that cannot be allocated specifically to the operating segments. Administration assets and liabilities includes the current account with Liberty Group Limited, cash and cash equivalents, VAT payable and accruals for audit and printing fees and asset management fees.

[2] Segment earnings, asset and liabilities have been segmented per category GLA as a percentage of total GLA.

Notes to the consolidated interim financial statements continued

for the six months ended 30 June 2020

Segment information (continued)

	30 June 2020					
R'000	Retail	Office	Other specialised	Hotels	Administration/ Other [1]	Total
Segment assets and liabilities						
Investment property	5 376 018	2 166 788	841 245	305 000	–	8 689 051
Non-current asset held for sale	–	123 213	–	–	–	123 213
Property, plant and equipment	–	–	–	–	563	563
Amount due from group companies	–	–	–	–	67 244	67 244
Trade receivables	176 736	71 233	27 656	58 173	29 250	363 048
Financial assets	–	–	–	–	825	825
IFRS 16 – lease asset	–	–	–	–	563	563
Cash and cash equivalents	–	–	–	–	9 911	9 911
Total assets	5 552 754	2 361 234	868 901	363 173	108 356	9 254 418
Trade and other payables	(119 666)	(48 232)	(18 726)	(27 198)	(19 622)	(233 444)
Employee benefits	–	–	–	–	(10 425)	(10 425)
Amount due to group companies	–	–	–	–	(178)	(178)
Current tax payable	–	–	–	–	–	–
Financial instruments	–	–	–	–	(61 495)	(61 495)
Financial liabilities	–	–	–	–	(1 937 839)	(1 937 839)
Lease liability	–	–	–	–	(824)	(824)
Net assets	5 433 088	2 313 002	850 175	335 975	(1 922 027)	7 010 213

[1] Administration and other includes administration expenses and investment income that cannot be allocated specifically to the operating segments. Administration assets and liabilities includes the current account with Liberty Group Limited, cash and cash equivalents, VAT payable and accruals for audit and printing fees and asset management fees.

Notes to the consolidated interim financial statements continued

for the six months ended 30 June 2020

Segment information (continued)

R'000	Retail	Office	Other specialised	Hotels	Administration/ Other [1]	Total
	30 June 2019					
Unaudited GLA						
Total property GLA m²	523 135	331 326	113 405	–	–	967 866
L2D's share of total GLA m² [2]	150 070	60 485	23 483	–	–	234 038
Segment earnings						
Property portfolio revenue	304 962	122 527	47 570	–	567	475 626
Rental and related income	309 828	124 488	48 332	–	567	483 215
Adjustment for the straight-lining of operating lease income	(4 866)	(1 961)	(762)	–	–	(7 589)
Net revenue from hotel operations	–	–	–	6 379	–	6 379
Property operating expenses	(87 574)	(35 296)	(13 704)	–	(1 049)	(137 623)
Change in expected credit loss on rental debtors	(3 573)	(1 468)	(569)	–	–	(5 610)
Net property income	213 815	85 763	33 297	6 379	(482)	338 772
Asset management fee income	–	–	–	–	30 647	30 647
Development fee income	–	–	–	–	4 100	4 100
Total net property income and revenue	213 815	85 763	33 297	6 379	34 265	373 519
Other income	–	–	–	–	–	–
Operating costs	–	–	–	–	(44 183)	(44 183)
(Loss)/profit from operations excluding fair value adjustments	213 815	85 763	33 297	6 379	(9 918)	329 336
Interest expense	–	–	–	–	(72 015)	(72 015)
Interest received	–	–	–	–	1 417	1 417
(Loss)/profit before fair value adjustments	213 815	85 763	33 297	6 379	(80 516)	258 738
Net fair value adjustments on investment properties	(937)	(378)	(146)	(88)	–	(1 549)
Fair value adjustments	(5 803)	(2 339)	(908)	(88)	–	(9 138)
Adjustment for the straight-lining of operating lease income	4 866	1 961	762	–	–	7 589
Fair value adjustment on derivatives	–	–	–	–	(5 734)	(5 734)
Fair value adjustment on equity instrument	–	–	–	–	(7 244)	(7 244)
(Loss)/profit before taxation	212 878	85 385	33 151	6 291	(93 494)	244 211
Taxation	–	–	–	–	(57)	(57)
Total comprehensive (loss)/income	212 878	85 385	33 151	6 291	(93 551)	244 154

(1) Administration and other includes administration expenses and investment income that cannot be allocated specifically to the operating segments. Administration assets and liabilities includes the current account with Liberty Group Limited, cash and cash equivalents, VAT payable and accruals for audit and printing fees and asset management fees.

(2) Segment earnings, asset and liabilities have been segmented per category GLA as a percentage of total GLA.

Notes to the consolidated interim financial statements continued

for the six months ended 30 June 2020

Segment information (continued)

R'000	Retail	Office	Other specialised	Hotels	Administration/ Other [1]	Total
	30 June 2019					
Investment property	6 317 040	2 546 064	988 497	350 305	–	10 201 906
Non-current assets held for sale	–	–	–	–	–	–
Property, plant and equipment	–	–	–	–	783	783
Amount due from group companies	–	–	–	–	71 418	71 418
Trade and other receivables	131 645	53 059	20 600	39 983	14 788	260 075
Financial assets	–	–	–	–	636	636
Financial assets – unlisted equity	–	–	–	–	17 495	17 495
IFRS 16 – leased asset	–	–	–	–	3 207	3 207
Current tax receivable	–	–	–	–	69	69
Cash and cash equivalents	–	–	–	–	4 992	4 992
Total assets	6 448 685	2 599 123	1 009 097	390 288	113 388	10 560 581
Trade and other payables	(88 451)	(35 650)	(13 841)	(30 342)	(41 878)	(210 162)
Employee benefits	–	–	–	–	(21 447)	(21 447)
Amount due from group companies	–	–	–	–	(11)	(11)
Current tax payable	–	–	–	–	–	–
Financial instruments	–	–	–	–	(14 024)	(14 024)
Financial liabilities	–	–	–	–	(1 597 936)	(1 597 936)
Lease liability	–	–	–	–	(3 800)	(3 800)
Net assets	6 360 234	2 563 473	995 256	359 946	(1 565 708)	8 713 201

[1] Administration and other includes administration expenses and investment income that cannot be allocated specifically to the operating segments. Administration assets and liabilities includes the current account with Liberty Group Limited, cash and cash equivalents, VAT payable and accruals for audit and printing fees and asset management fees.

Notes to the consolidated interim financial statements continued

for the six months ended 30 June 2020

Headline earnings, distributable income and earnings per share

R'000	**Unaudited June 2020**	Unaudited June 2019	Audited December 2019
Reconciliation of total earnings to headline earnings and distributable income			
Total (loss)/earnings (basic earnings)	**(1 405 811)**	244 154	534 491
Fair value adjustment to investment properties and financial investments	**1 509 501**	14 527	(10 910)
Headline earnings	**103 690**	258 681	523 581
Trust distributions	**–**	–	698
Straight-lining of operating lease income	**29 434**	7 589	24 702
Distributable income (unaudited)	**133 124**	266 270	548 981
	Cents	Cents	Cents
Earnings per share			
Basic and diluted	**(155.27)**	26.88	58.96
Headline	**11.45**	28.48	57.76
Distributable income	**14.65**	29.31	60.43
	Rand	Rand	Rand
Net asset value per share (unaudited)	**7.72**	9.59	9.65
	000s	000s	000s
Actual number of shares in issue ('000)	**908 443**	908 443	908 443
Weighted average number of share in issue*	**905 404**	908 443	906 471
Diluted weighted average number of shares in issue*	**905 404**	908 443	906 471

* Excludes 9 274 813 treasury shares.

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 period.

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.

Notes to the consolidated interim financial statements continued

for the six months ended 30 June 2020

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).

Fair value hierarchy for financial instruments and investment properties

	Six months ended 30 June 2020			
R'000	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Assets				
Investment properties	**8 656 283**	**–**	**–**	**8 656 283**
Investment property under development	**32 768**	**–**	**–**	**32 768**
Financial investments — unlisted mutual funds	**825**	**–**	**825**	**–**
	8 689 876	**–**	**825**	**8 689 051**
Liabilities				
Interest rate swap	**61 495**	**–**	**61 495**	**–**
	61 495	**–**	**61 495**	**–**

	Six months ended 30 June 2019			
R'000	Fair value	Level 1	Level 2	Level 3
Assets				
Investment properties	10 169 138	–	–	10 169 138
Investment property under development	32 768	–	–	32 768
Financial investments — unlisted mutual funds	636	–	636	–
Financial investments — unlisted equity instruments	17 495	–	–	17 495
	10 220 037	–	636	10 219 401
Liabilities				
Interest rate swap	14 024	–	14 024	–
	14 024	–	14 024	–

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 modeled.

Details of changes in valuation techniques

There has been no change in the valuation methodology but as described in the commentary on page 2 our valuers have expressed that greater caution should be applied to the valuations given the current uncertainty of the impact of Covid-19 on the real estate market.

Significant transfers between level 1, level 2 and level 3

There have been no transfers between level 1, level 2 and level 3 financial investments 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.

Notes to the consolidated interim financial statements continued

for the six months ended 30 June 2020

Fair value hierarchy for financial instruments and investment properties (continued)

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 below for detail regarding assumptions
3	Investment properties under development	Fair value	Not applicable

Reconciliation of level 3 assets and liabilities

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

R'000	June 2020	June 2019
Investment property and investment property under development		
Fair value at the beginning of the year	**10 144 923**	10 144 377
Additions – property acquired	**–**	28 339
Transferred to non-current assets held for sale	**–**	–
Capitalised cost	**20 964**	35 071
Fair value adjustments (unrealised)	**(1 476 836)**	(5 881)
Closing balance at the end of the year	**8 689 051**	10 201 906
Non-current assets held for sale		
Fair value at the beginning of the year	**–**	–
Transferred from investment property	**123 213**	–
Capitalised cost	**–**	–
Amortisation	**–**	–
Fair value adjustments (unrealised)	**–**	–
Closing balance at the end of the year	**123 213**	–
Unlisted equity		
Fair value at the beginning of the year	**17 495**	–
Additions – unlisted equity acquired	**–**	24 739
Fair value adjustments (unrealised)	**(17 495)**	(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 30 June 2020 range between 6.5% and 10.0% (2019: 6.3% – 9.5%).

The table below indicates the sensitivity of the aggregate market values for a 100bps (2019: 100bps) change in the exit capitalisation rate:

		Change in exit capitalisation rate	
	Rm	100bps increase	100bps decrease
2020			
Properties below 6.8% exit capitalisation rate	**2 996 966**	**2 706 940**	**3 366 434**
Properties between 6.8% – 8.5% exit capitalisation rate	**5 151 071**	**4 707 831**	**5 647 051**
Properties between 8.6% – 10.0% exit capitalisation rate	**664 227**	**629 068**	**707 340**
Total	**8 812 264**	**8 043 839**	**9 720 825**

Sensitivity analysis of level 3 assets (continued)

	Rm	Change in exit capitalisation rate 100bps increase	100bps decrease
2019			
Properties below 6.8% exit capitalisation rate	8 990 485	7 781 547	10 644 732
Properties between 6.8% – 8.5% exit capitalisation rate	535 968	476 552	612 325
Properties between 8.6% – 9.5% exit capitalisation rate	675 453	609 049	758 118
Total	10 201 906	8 867 148	12 015 175

The table below indicates the sensitivity of the aggregate market values for a 100bps (2019: 100bps) change in the discount rate[1]:

	Rm	**Change in discount rate 100bps increase**	**100bps decrease**
2020			
Total property portfolio	**8 812 264**	**8 353 224**	**9 025 964**
2019			
Total property portfolio	10 201 906	9 786 182	10 532 465

[1] The 2019 sensitivities excluded the hotel buildings as this was not available.

Unlisted equity

We have used the discounted cash flow methodology to value our investment in Edcon. Edcon Limited commenced with business rescue proceedings during April 2020. The business rescue plan has been adopted and interest has been shown by external parties to acquire certain parts of the business. The Board has elected to write down the fair value of the investment to zero as at 30 June 2020.

	Rm	**Change in discount rate 100bps increase**	**100bps decrease**
2020			
Unlisted equity	–	–	–
2019			
Unlisted equity	17 495	14 107	21 394

Basis of valuation

The investment property portfolio was independently valued as at 30 June 2020 in line with the group's valuation policy.

The registered professional valuers, namely Broll Valuation and Advisory Services and Jones Lang LaSalle Proprietary Limited 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 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).

Notes to the consolidated interim financial statements continued

for the six months ended 30 June 2020

Sensitivity analysis of level 3 assets (continued)

Unobservable inputs

	2020					2019				
	Exit cap rate	**Discount rate**	**Vacancy rate**	**Rental growth**	**Expense growth**	Exit cap rate	Discount rate	Vacancy rate	Rental growth	Expense growth
Office (%)	**7.0 - 9.8**	**12.5 - 14.0**	**1.0 - 5.0**	**-1.0 - 4.8**	**5.5 - 6.5**	8.3 - 9.5	12.3 - 13.8	2.4 - 3.9	4.0 - 6.0	6.5
Retail (%)	**6.5 - 8.3**	**11.5 - 15.0**	**0.5 - 2.5**	**-1.0 - 4.5**	**5.5 - 6.5**	6.3 - 8.0	12.3 - 13.5	0.5 - 3.9	5.0 - 6.0	6.5
Specialised (%)	**8.3 - 10.0**	**13.0 - 15.3**	**0.5 - 1.0**	**-1.0 - 4.8**	**5.5 - 6.5**	8.3 - 10.0	13.3 - 15.3	1.0 - 4.0	4.5 - 6.0	6.5
Hotels (%)	**9.0**	**13.8 - 14.0**				8.8	14.0 - 14.8			

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);
- expected expense growth was lower/(higher).

Financial risk management

L2D is exposed to market risk, liquidity risk and credit risk. Market risk is the risk of adverse financial impacts due to changes in fair values of future cash flows that will negatively impact property values. Detailed disclosure is provided in these interim results on the basis for valuation as well as the sensitivity analysis which provides details on the valuation sensitivity to changes in significant areas of judgement. Liquidity risk is the risk that L2D is not able to meet its payment obligations as they fall due. As noted in the commentary section, a series of stress tests have been performed to assess the liquidity position under various recovery scenarios and management are satisfied that there are sufficient cash reserves and unutilised debt facilities to cover business commitments as they fall due. 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 has formal policies and procedures in place to manage credit risk and apply a ECL model methodology in accessing the recoverability of tenant debtors.

Related party disclosure

List of related parties as defined

Ultimate parent

Standard Bank Group Limited (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 interim 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 30 June 2020, R1.2 billion is owed to SBG for the purchase of properties as well as the purchase of the SRFM business in 2018. (30 June 2019: R831.1 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 six months ended 30 June 2020 was R8.0 million (30 June 2019: R7.9 million).

Transactions with Liberty Two Degrees Collective Investment Scheme in Property (L2D CISIP)

As at 30 June 2020, R240 050 is receivable from L2D CISIP (30 June 2019: R37 779).

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 six months ended 30 June 2020 was R6.9 million (30 June 2019: R7.7 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 six months ended 30 June 2020 was R5.0 million (30 June 2019: R4.2 million).

Related party disclosure (continued)

Eastgate Office Tower

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

Rental income received by L2D Group for the six months ended was R1.4 million (30 June 2019: R1.5 million).

Liberty Midlands Mall

LGL occupies 758m² in Liberty Midlands Mall Lifestyle Centre. Rental income received by L2D Group for the six months ended 30 June 2020 was R270 541 (30 June 2019: Rnil).

Development fee income

Development fees amounting to R1.6 million was earned for the six months ended 30 June 2020 (30 June 2019: R4.1 million).

Asset management fee income

Management fees on assets under management amounting to R31 million was earned for the six months ended 30 June 2020 (30 June 2019: R30.6 million).

Loan with LGL

As at 30 June 2020, R67.2 million is owed by LGL for working capital (30 June 2019: R71.4 million).

R83.2 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 (30 June 2019: R66.7 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 R2.4 million (30 June 2019: R2.2 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 six months ended 30 June 2020 amounted to R10.1 million (30 June 2019: R13.2 million).

Loan with STANLIB Asset Management Limited

As at 30 June 2020, R177 581 is owed to STANLIB Asset Management Limited (30 June 2019: R11 266).

Intercompany transactions

As at 30 June 2020, The trust obtained a loan from 2DP of R62.0 million to acquire shares for the long-term incentive plan (30 June 2019: Rnil).

As at 30 June 2020, 2DP has a loan with SRFM of R6.3 million (30 June 2019: R6.4 million).

As at 30 June 2020, L2D Ltd has a loan with 2DP of R125.2 million. This includes a dividend receivable of R39.5 million and the remainder is a working capital loan (30 June 2019: -R112.3 million).

As at 30 June 2020, L2D Ltd has a loan receivable from the trust of R615 405 relating to surplus profits distributed to L2D Ltd (30 June 2019: Rnil).

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
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