

Khula Sizwe Property Holdings (RF) Limited
(Registration Number: 2018/546305/06)

AUDITED FINANCIAL STATEMENTS

30 September 2021

Khula Sizwe Property Holdings (RF) Limited
(Registration Number: 2018/546305/06)
FINANCIAL STATEMENTS
for the year ended 30 September 2021

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Khula Sizwe Property Holdings (RF) Limited
(Registration Number: 2018/546305/06)
FINANCIAL STATEMENTS
for the year ended 30 September 2021

General Information

Country of incorporation and domicile	Republic of South Africa
Directors	T Fubu (Appointed 25 October 2018) (Resigned 11 November 2020) GS Sepamla (Appointed 25 October 2018) (Resigned 11 November 2020) RL Pole (Appointed 25 October 2018) (Resigned 30 October 2020) B Kodisang (Appointed 11 November 2020) B Azizollahoff (Appointed 11 November 2020) J February (Appointed 11 November 2020) K Legoabe-Kgomari (Appointed 11 November 2020) A Mabizela (Appointed 11 November 2020) P Ralebitso (Appointed 11 November 2020) Z Mabuza (Appointed 11 November 2020)
Registered Office	Upper Grayston Block E 150 Linden Road Sandton 2196
Postal Address	PO BOX 782248 Sandton 2146
Auditors	SNG Grant Thornton Inc
Company registration number	2018/546305/06
Company secretary	Lerato Manaka
Preparer of annual financial statements	Lehumo Podile
Supervisor of annual financial statements	Bathethi Mathibe CA (SA)

Khula Sizwe Property Holdings (RF) Limited
(Registration Number: 2018/546305/06)
DIRECTORS' REPORT
for the year ended 30 September 2021

Directors' responsibilities and approval

The directors are required by the South African Companies Act to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the financial statements.

The financial statements are prepared in accordance with International Financial Reporting Standards and based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach.

The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavors to minimize it by ensuring that appropriate infrastructure, controls, systems and ethical behavior are applied and managed within predetermined procedures and constraints.


The directors are of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the company's cash flow forecast for the year to 30 September 2021 and, in light of this review and the current financial position, they are satisfied that the company has or has access to adequate resources to continue in operational existence for the foreseeable future.

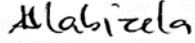
The external auditors are responsible for independently reviewing and reporting on the company's annual financial statements. The annual financial statements have been examined by the company's external auditors and their report is presented on page 3 to 5.

DIRECTORS' APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The annual financial statements set out on pages 6 to 27, which have been prepared on the going concern basis, were approved by the board on 2 December 2021 and were signed on its behalf by:



Managing Director



Chairman

Independent Auditor's Report

To the Shareholders of Khula Sizwe Property Holdings (RF) Limited.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Khula Sizwe Property Holdings (RF) Limited (the company) set out on pages 7 to 27, which comprise the statement of financial position as at 30 September 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Khula Sizwe Property Holdings (RF) Limited as at 30 September 2021, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the company in accordance with the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Khula Sizwe Property Holdings (RF) Limited Annual Financial Statements for the year ended 30 September 2021", which includes the Directors' Report as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 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 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 company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 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.

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 SizweNtsalubaGobodo Grant Thornton Inc. has been the auditor of Khula Sizwe Property Holdings (RF) for three (3) years.



SizweNtsalubaGobodo Grant Thornton Inc.

Mthunzi Dwanya

Director

Registered Auditor

5 January 2022

20 Morris Street East

Johannesburg

Khula Sizwe Property Holdings (RF) Limited
(Registration Number: 2018/546305/06)
DIRECTORS' REPORT
for the year ended 30 September 2021

The directors have pleasure in presenting their report for the period ended 30 September 2021.

Nature of business

Khula Sizwe Property Holdings (RF) Limited (“Khula Sizwe” or “the Company”) is a registered property company that was formed as part of the Barloworld BBBEE transaction.

Khula Sizwe 's primary business is long term investment in rental income generating properties. The company owns a diversified property portfolio of retail, office, industrial and land. The company is currently leasing immovable fixed properties with the ultimate purpose of acquiring, own and hold the Barloworld Limited shares through utilizing the excess cash available and to manage such for the benefit of black people.

Financial results

The financial position of the Company and the results of its operations and cash flows are clearly reflected in the attached financial statements. The profit after taxation for the period is R201 439 294.82 (2020 : R302 873 787.08)

Stated capital

Details of the authorized and issued stated capital, together with details of shares issued during the period, appear in note 10 on page 19 of the financial statements.

Directors

The names of directors are set out on page 1.

Going concern

The directors have considered the inherent uncertainty in its going concern assessment which has been heightened by Covid-19 pandemic. Therefore, significant judgement was exercised in reaching the conclusion and the company has adequate resources to continue operating for the foreseeable future. The directors have satisfied themselves that the company is in a sound financial position and that it has access to sufficient borrowing facilities to meet its foreseeable cash requirements.

The assessment includes solvency and liquidity tests which inter alia a forecast of the company 's interest cover ratio as well as debt covenants relating to loan to value. The liquidity test considers expected cashflows in the next 12 months, cashflow relating to funding. As at 30 September 2021 the company had a positive net asset value and stable liquidity position. The below were considered as part of the going concern assessment:

Funding Plan

Khula Sizwe has renegotiated the funding facility for flexibility in response to delay in acquiring the last remaining property. The existing bank facility availability period which was to end by May 2021. The funding extension was sought in order to complete the 64 properties Khula Sizwe planned to purchase from Barloworld Limited. The company successfully negotiated a drawdown on the facility to cover the last property that was still outstanding as at end of September 2021.

Debt Covenants

The maximum loan to value covenants the company is exposed to is 71%, which is well below the required level of 80%

Provision for credit losses

Provision for credit losses is reasonably low, with 99% of outstanding debtors being current. The collection rate has been positive and we are positive that will remain in that trajectory.

Conclusion

After due consideration, the directors have concluded that the company has adequate resources to continue operating for the foreseeable future and that it is appropriate to adopt the going concern basis in preparing the financial statement.

Events after the reporting period

In line with IAS 10 *Events after reporting* , no material events to the knowledge of the directors that have occurred between the statement of financial position and the date of approval of the financial statements that would affect the ability of the users of the financial statement to make proper evaluations and decisions.

Khula Sizwe Property Holdings (RF) Limited
(Registration Number: 2018/546305/06)
STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 September 2021

	Notes	2021 R '000	2020 R '000
Revenue	2	435,016	234,970
		<u>435,016</u>	<u>234,970</u>
Property related expense	3	(47 166)	(11 511)
Net property income		<u>387,850</u>	<u>223,459</u>
Expected Credit losses		(154)	(154)
Other operating expenses	4	(17 965)	(5 120)
Operating profit		<u>369,731</u>	<u>218,185</u>
Finance income		4,001	6,515
Finance costs	5	(158 028)	(111 487)
Other income		336	288
Profit before changes in fair value of investment property		<u>216,040</u>	<u>113,501</u>
Change in fair value of investment properties	6	59,137	284,984
Profit before taxation		<u>275,177</u>	<u>398,485</u>
Taxation	7	(73 727)	(95 611)
Net profit for the period		<u>201 450</u>	<u>302 874</u>
Total profit for the period attributable to:			
Shareholders of the company		<u>201 450</u>	<u>302,874</u>
Basic Earnings per share (cents)	8	<u>3.70</u>	<u>5.56</u>

Khula Sizwe Property Holdings (RF) Limited
(Registration Number: 2018/546305/06)
STATEMENT OF FINANCIAL POSITION
as at 30 September 2021

	Notes	2021 R'000	2020 R'000
Non- current assets			
Property Plant and equipment	9	1,135	1,755
Investment property	16	3,043,999	2,712,298
Non - current portion of lease Straight-line assets		<u>128,974</u>	<u>25,881</u>
		<u>3 174 108</u>	<u>2 739 935</u>
Current assets			
Current tax receivable		-	2 759
Current portion of lease straight-line asset		42 663	45 740
Share payments receivable		-	2 275
Prepaid expenses		1 054	1 706
Trade and other receivables	10	6 152	4 965
Cash and cash equivalents	11	<u>132 265</u>	<u>104 939</u>
Total current assets		<u>182 134</u>	<u>162 384</u>
TOTAL ASSETS		<u>3 356 242</u>	<u>2 902 319</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Stated capital and premium	12	544 690	544 690
Retained income		<u>505 999</u>	<u>304 549</u>
Interest of shareholder of Khula Sizwe		<u>1 050 689</u>	<u>849 239</u>
Non- current liabilities			
Interest-bearing borrowings	13	2 086 137	1 745 455
Deferred tax liability	14	<u>124 562</u>	<u>83 664</u>
		<u>2 210 698</u>	<u>1 829 119</u>
Current liabilities			
Current portion of the interest-bearing borrowings	13	80 016	219 074
Vat Payable		4 539	2 591
Trade and other payables	15	3 468	2 295
Current tax payable		<u>6 832</u>	<u></u>
Total current liabilities		<u>94 855</u>	<u>223 960</u>
TOTAL EQUITY AND LIABILITIES		<u>3 356 242</u>	<u>2 902 319</u>

Khula Sizwe Property Holdings (RF) Limited
(Registration Number: 2019/546305/06)
STATEMENT OF CHANGES IN EQUITY
for the year ended 30 September 2021

	Notes	Stated capital and premium	Retained Earnings	Total
		R'000	R'000	R'000
Balance at 01 October 2019		163,400	1,675	165,075
Net profit for the period		-	302,874	302,874
Retained income		-	302,874	302,874
	12	381,290	-	381,290
Balance at 30 September 2020		544,690	304,549	849,239
Net profit for the year			201,450	201,450
Balance at 30 September 2021		544,690	505,999	1,050,689

Khula Sizwe Property Holdings (RF) Limited
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STATEMENT OF CASHFLOWS
for the year ended 30 September 2021

CASH FLOWS FROM OPERATING ACTIVITIES	Notes	2021	2020
		R'000	R'000
Net cash receipts from customers		287,885	144,588
Cash generated from operations	A	<u>287,885</u>	<u>144,588</u>
Interest Income		4,001	6,516
Finance costs		(158 028)	(111 487)
Taxation Paid	B	<u>(23 239)</u>	<u>(14 706)</u>
Net cash inflow from operating activities		<u>110,619</u>	<u>24,910</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investment property		(272 564)	(2 427 314)
Acquisition of property plant and equipment		(260)	(954)
Net cash outflow from investing activities		<u>(272 824)</u>	<u>(2 428 268)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of lease liabilities		(466)	(108)
Proceeds from shares issued		2 276	379,015
Repayment of long term borrowings		(47 642)	
Proceeds from long-term borrowings		235 362	1,963,663
Net cash inflow from financing activities	C	<u>189,530</u>	<u>2,342,570</u>
NET MOVEMENT IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		27 325	(60 787)
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>104,939</u>	<u>165,726</u>
		<u>132,265</u>	<u>104,939</u>

A. RECONCILIATION OF PROFITS FOR THE YEAR TO CASH GENERATED FROM OPERATIONS

	2021	2020
	R'000	R'000
Profit before taxation	275 177	398,485
Adjustments for:		
Depreciation	880	174
Expected credit losses	1	154
Interest received	(4 001)	(6 515)
Finance costs	158 028	111,487
Fair value adjustment	(59 137)	(284 984)
Operating cash flows before movements in working capital	370 948	218,801
Increase in trade and other receivables	(100 552)	(78 446)
Increase in payables	17 488	4,234
Cash generated/(utilized) from operations	<u>287,885</u>	<u>144,588</u>

B. TAXATION PAID

Amounts refunded at the beginning of the year	2 759	
Normal taxation charge per the income statement	(32 830)	(11 947)
Taxation payable/(refund)	6 832	(2 759)
Tax Paid	<u>(23 239)</u>	<u>(14 706)</u>

C. Reconciliation of amounts from financing activities

The changes from financing activities can be classified as follows:

	Share Capital	Lease Liabilities	Long term borrowings	Total
1-Oct-20	542,415	(108)	1,963,663	2,342,570
Cash-flows:				
Repayments		(466)	(47 642)	(48 109)
Proceeds	2,275		235,362	237 637
Non-Cashflows:				
Accrued interest			14 769	14 769
30-Sep-21	544 690	(574)	2,166,152	2,546,868
	Share Capital	Lease Liabilities	Long term borrowings	Total
1-Oct-19	163,400			
Cash-flows:				
Repayments		(108)		(108)
Proceeds	379,015		1 963 663	2,342,678
30-Sep-20	542,415	(108)	1,963,663	2,342,570

Khula Sizwe Property Holdings (RF) Limited
(Registration Number: 2018/546305/06)
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 September 2021

1 Accounting policy

The principal accounting policies adopted in the preparation of these financial statements are set out below:

1.1 Presentation of financial statements

These financial statements are presented in South African Rands which is the currency that the company's transactions are denominated.

Basis of preparation

The separate financial statements of the company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The separate financial statements are prepared on the historical cost basis except for investment properties which are measured at fair value. The separate financial statements are presented in rands values have been rounded off to the nearest thousands(R,000) except for when otherwise indicated.

The accounting policies of the company for the financial year comply with International Financial Reporting Standard (IFRS) as issued by the International Accounting Standards Board(IASB), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Pronouncements as issued by the Financial Reporting Standard Council and the Companies Act of South Africa.

Accounting policies which are not applicable from time to time, have been removed, but will be included if the type of transaction occurs in future. The basis of preparation is consistent with the prior year and the company has prepared the financial statements on the basis that it will continue to operate as a going concern.

Given the continued Covid 19 pandemic's unpredictable impact, the going concern basis was given a thorough assessments based on company assessment of business mode and risks related, liquidity including sufficient cash balances and cash investments that can be used to support the downturn that can be brought by the pandemic. The rental income guarantee from the parent company (Barloworld Limited) reduce the risk. However, it is notable that the long term covid 19 uncertainties will remain and the company have used controllable data and assumption to address the going concern basis. Refer to below note 1.4 and note 17 for controllable data and assumptions.

1.3 Underlying Concepts

The financial statements are prepared on the going concern basis. Assets and liabilities and income and expenses are not offset unless specifically permitted by an accounting standard. Financial assets and financial are offset and the net amount reported only when legally enforceable right to set off the amounts exists and the intension is either to settle on a net basis or to release the asset and settle the liability simultaneously.

1.4 Estimates and judgements

Critical accounting estimates, assumptions and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the accompanying disclosures.

The forecast used in assessing the going concern assumption involved significant judgements and estimates regarding the impact of the Covid 19 on the company regarding our working capital requirement, cost control measures and commitments to our suppliers. Our forecast assume that we will continue to trade with no restrictions.

In the process of applying the company's accounting policies, the directors have made the following estimates and judgements that have the most significant effects on the amounts recognized and disclosed in the financial statements.

Fair value accounting of investment property assets

The Covid-19 pandemic and recent political unrest in the country has caused increased uncertainty in the property markets in which the company operates as well as the South African 's economy. This has increased the criticality of estimates, assumptions and judgements in the assessment of investment property valuations.

Our approach in determining the market value of the property we applied the discounted cash flow methodology in terms of which estimated gross income is projected for a ten (10) year period, based on contractual arrangements and an estimated market rent upon the expiry of leases after the date of valuation. Forecast expenses are then deducted from the estimated gross annual income projections to arrive at the net annual income stream throughout the cash flow period. This net annual income stream is then discounted and aggregated to determine an estimated net present value of the cash flow.

Khula Sizwe Property Holdings (RF) Limited
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NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 September 2021

The following key metrics were applied in the valuation of our property assets:

Market rental growth

Taking into account the current economic environment, we foresee minimal market rental growth for the coming year, before reverting to the long term mean growth by year Sep 2028. The forecast rental growth applied ranges from 2% in 2021 to 4.5% in 2028 and 5% from 2029 onwards.

Expense Inflation

The company has taken the view that the property expenditure will increase at 6% annually for the period of the cashflow, which is generally in line with reported statistics showing that property expenses are currently increasing annually at between 6% - 8% across all sectors.

Unit vacancy period applied

When we build up the cashflow we assign a vacancy period in months to each of the units; that is how long do we think that unit would stand vacant for once the current lease has expired and this is generally set at between 4-8 months. To that we apply a percentage amount that corresponds to the likelihood that the current tenant will retain occupation of that unit, an amount which we generally set at 50% to then say there is a 50/50 chance that the tenant will remain in occupation.

Structural vacancy applied

Underlying to the vacancy rate of properties in a specific market is the relationship of supply and demand of rental space in that market which is to a large extent driven by the property cycle and ultimately the economic cycle. The structural vacancy of 1% dealerships and 1%/2.5% industrial is applied in the reversionary year market calculation of the cashflow only.

Capitalization rate

Cognizance is taken of the quality, location and demand in the market for this type of property class. There have been very few transactions since March 2020 to base any capitalization rates on.

Sales that have taken place are either distressed or have been sold before Covid-19 and transfer only registering at the deeds office recently.

There is no doubt that capital values have been affected. The value of a property is ultimately determined by the level of sustainable income it can produce and its ability to grow that income stream - both of which will be impacted as a result of covid-19, placing pressure on the property sector as a whole.

Reversionary cap rate

The reversionary yield should reflect the additional risk attaching to future income projections and also to the fact that the asset will have aged by 10 years and may require maintenance to restore the condition at that time as well as possibility of increased competition.

It is our practice to generally assume that a softening of the initial base yield by around 0.5% or 1% at the end of the 10 year cashflow period.

Discount rate

It is widely expected that a yield premium would be required to induce investors to hold property over the appropriate risk-free rate because of the characteristics of property as an investment class. The total target discount rate of 13.75% is arrived at using various methods. We have determined our discount rate by adding a risk premium to an estimated risk-free rate of return.

Khula Sizwe Property Holdings (RF) Limited
(Registration Number: 2018/546305/06)
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 September 2021

1.5 Revenue

The company is in the business of letting investment property for gross rental income, recoveries of municipal charges costs and management fee net of value added tax. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The company has generally concluded that it is the principal in its revenue arrangements as it typically controls the goods or services before transferring them to the customer. Rental income is recognized in profit or loss on a straight line basis over the term of the lease. Revenue from recoveries is recognized when the entity acts as a principal by making payment of the municipal accounts and then recover the costs from the tenants. The risk is within Khula Sizwe as the municipal accounts are on the company 's name therefore liable for the payments.

Revenue recognition

Revenue includes rental income, service charges and property management charges. Revenue includes rental income, service charges and property management charges. As per IFRS 16, rental income from operating leases is recognised on a straight-line basis over the lease term.

1.6 Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated company, is classified as investment property.

Investment property also includes property that is being constructed or developed for future use as investment property. Land held under operating leases is classified and accounted for by the company as investment property when the rest of the definition of investment property is met. Investment property is measured initially at its cost, including related transaction costs and where applicable borrowing costs.

After initial recognition, investment property is carried at fair value. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Subsequent expenditure is capitalized to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the company and the cost of the item can be measured reliably.

All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognized.

Changes in fair values are recognized in the statement of comprehensive income as profit or loss. Investment properties are derecognized when they have been disposed. Where the company disposes of a property at fair value in an arm's length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in the income statement within net gain from fair value adjustment on investment property.

Khula Sizwe Property Holdings (RF) Limited
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NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 September 2021

1.7 Property, plant and equipment and depreciation

The cost of an item of property, plant and equipment is recognized as an asset when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The depreciation charge for each period is recognized in profit or loss, unless it is included in the carrying amount of another asset.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

- Computer Equipment 3 years
- Office Equipment 3 years
- Office Furniture 6 years

The company reviews the estimated residual values and expected useful lives of assets at least annually. An item of property, plant and equipment and any significant part initially recognized is derecognized upon or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the statement of profit or loss when the asset is derecognized.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

1.8 Leases

The company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The company as the lessee

The company has one lease contract with the supplier and applies a single recognition and measurement approach and there are no short-term leases and leases of low-value assets. The company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Right of use asset (Building) over lease term

ii) Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments are fixed payments as per lease contract.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. The company's lease liabilities is included in Interest-bearing loans and After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

The company as a lessor

Leases in which the company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature.

The company has entered into operating leases on its investment property portfolio consisting of certain offices, industrial buildings and motor retail (see Note 12). The leases have the term of 10 years. All leases include a clause to enable upward revision of the rental charge on an annual basis. The risk that the company has on its investment property has been reduced by the guarantee it has from the parent company (Barloworld Limited).

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1.9 Deferred and current taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current taxation

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred taxation

Deferred taxation is accounted for using the statement of financial position liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. In principle, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

1.10 Financial instruments

Financial assets and financial liabilities are recognized on the company's statement of financial position when the company has become a party to contractual provisions of the instrument.

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Borrowing are recognized initially at fair value, net of transaction costs incurred. Borrowing are subsequently stated at amortized costs. any difference between the proceeds (net of transaction costs) and the redemption value is recognized as finance cost over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

The financial asset are held within a business model for which the objective is to hold financial assets to collect contractual cash flows, and the contractual terms of the financial assets give rise on a specified date to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The company recognizes a loss allowance for expected credit losses on financial assets measured at amortized cost. The recoverability of a financial asset is determined from the date it is recognized with a loss allowance recognized for expected losses determined at initial recognition. The company measures the loss allowance at an amount equal to the life-time expected losses if credit risk on the financial asset has increased significantly since initial recognition.

Subsequent to initial recognition financial assets at amortized cost are measured at cost using the effective interest rate method, less any impairments. Interest income based on the effective interest rate is recognized in profit or loss.

The company considers any expected credit losses on all amounts receivable at the end of each reporting period. The loss allowance is measured using what is referred to as the general approach, at amount equal to lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition. If the credit risk has not increased significant since initial recognition, then the loss allowance is measured at 12 month expected credit losses.

Lifetime ECL represent the expected credit losses that will result from all possible default events over the expected life of an instrument, while 12 month ELC represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. In determining expected default, the forward looking factors under expected credit loss model for receivable are applied.

Expected credit losses are measured individually for each tenant.

Financial instruments include cash and cash equivalents, trade and other receivables, loans to and from related parties, trade and other payables and interest bearing borrowings.

Cash and cash equivalents

Cash and cash equivalents are carried subsequently at amortized costs. ECL was considered and due to the amounts held at reputable banking institutions with high credit risk quality the expected credit losses will be minimal.

Cash and cash equivalents include cash balances and call deposits which are subject to an insignificant risk of changes in value.

Trade receivables

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Borrowings

Interest-bearing bank loans are recorded at the proceeds received. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the year in which they arise. Carried at amortized cost using the effective interest rate method.

Trade payables

Carried at amortized cost using the effective interest rate method.

Khula Sizwe Property Holdings (RF) Limited
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NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 September 2021

1.11 Interest Expense and Income

Interest expense and income are recognized within finance income and finance costs in profit and loss using the effective interest rate method.

1.12 Share Capital

The authorized share capital as at 30 September 2021: 54 469 000 ordinary par value shares of R10.00 each. Share are classified as equity when there is no obligation to transfer cash or other assets.

1.13 New accounting standards

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021 (unless otherwise stated). The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients: <ul style="list-style-type: none"> • A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest • Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued • Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component 	These amendments had no impact on the consolidated financial statements of the Company. The Company intends to use the practical expedients in future periods if they become applicable.
Amendments to IFRS 9, IAS 39 AND IFRS 7 - Annual reporting periods beginning on or after 1 January 2021	Reform clarify that entities would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform.	No material impact
IFRS 16: Lease Standard Covid-19 Related Rent Concessions - Annual reporting periods beginning on or after 1 June 2021	The amendment provides lessees with an exemption from assessing whether a COVID 19 related rent concession is a lease modification.	No material impact
IAS 16: Property, Plant and Equipment - Effective 1 January 2022	Proceeds before intended use. Prohibits the deduction of proceeds from selling items produced while bringing an asset into use from the cost of that asset. The entity must recognize the proceeds from sale, and the cost of producing those items, in profit or loss.	No material impact
IAS 37: Provisions, Contingent Liabilities and Contingent Assets: Effective 1 January 2022	Cost of fulfilling a contract.	No material impact
IFRS 17 Insurance Contracts - Effective 1 January 2023	The new Standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance contracts.	No material impact

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for the year ended 30 September 2021

	2021	2020
	R'000	R'000
2 Revenue		
Revenue from contracts with tenants		
Contracted operating costs recoveries	44,715	8,728
Property management income	<u>8 407</u>	<u>4,545</u>
	<u>53 122</u>	<u>13 273</u>
The revenue received from recoveries relates municipal accounts which the company pay and recover the costs from the tenant.		
Revenue from recoveries is recognized when the entity acts as a principal by making payment of the municipal accounts and then recover the costs from the tenants.		
The property management is a percentage charge on the rental amount, chargeable at 3%		
Rental revenue including straight line lease income adjustment	<u>381 894</u>	<u>221 697</u>
	<u>381 894</u>	<u>221 697</u>
Future minimum rentals receivable under non-cancellable operating leases as at 30 September are as follows:		
Contractual rental income - 2021		
Rental income - R'000	<u>1-2 years</u>	<u>3-5 years</u>
	673,004	1,225,190
		<u>5 years plus</u>
		1,661,318
Contractual rental income - 2020		
Rental income - R'000	<u>1-2 years</u>	<u>3-5 years</u>
	630,337	1,168,284
		<u>5 years plus</u>
		2,042,771
3 Property related expense		
Municipal expenses paid on behalf of tenants	<u>47 166</u>	<u>11 511</u>
	<u>47 166</u>	<u>11 511</u>
4 Operating Costs		
Depreciation (notes 9)	880	174
Salaries and employee related expenses	6 107	2 118
Administration costs	8 382	2 483
Directors emoluments	1 615	
Legal fees	315	
Auditor's remuneration	666	345
External Auditor - audit fees	<u>522</u>	<u>345</u>
External Auditor - prior year	<u>145</u>	
	<u>17 965</u>	<u>5 120</u>
5 Finance Costs		
Interest on liabilities at amortized costs		
Long term borrowings	112 745	88 115
Interest rate swap	45 231	23 353
Lease liability interest	<u>52</u>	<u>19</u>
	<u>158 028</u>	<u>111 487</u>
6 Fair value adjustment on investment properties		
Income included in operating profit as valuations	<u>59 137</u>	<u>284,984</u>
	<u>59 137</u>	<u>284,984</u>
7 Taxation		
Major components of tax expense (income)		
Current		
Local income tax - current period	32 830	11,947
Deferred taxation		
Originating and reversing temporary differences	<u>40 897</u>	<u>83 664</u>
	<u>73 727</u>	<u>95 611</u>
Reconciliation of the tax credit /(expense)		
Reconciliation between accounting profit and tax expense		
Accounting profit	<u>275,177</u>	<u>398,485</u>
Tax at the applicable rate of 28% (2020 : 28%)	<u>28%</u>	<u>28%</u>
Tax effect of adjustments on taxable income		
Other non-deductible expenses - Funds transfers	0.00%	0.00%
Fair value adjustment - Investment prop	<u>-1.2%</u>	<u>-4%</u>
Effective tax rate	<u>26.80%</u>	<u>23.99%</u>
8 Earnings per share		
Earnings per share is calculated on the weighted average number of shares of 54 469 000 and net earnings after tax of R201 million.		
Total profit for the year - R'000	201,439	302,874
Total number of shares issued	<u>54,469,000</u>	<u>54,469,000</u>
	<u>3.70</u>	<u>5.56</u>

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9 Property, plant and equipment

Details of the company's property, plant and equipment and their carrying amount are as follows: The entire carrying amount of the right of use relates to buildings.

	Right of use assets	IT Equipment	Furniture	Other Equipment	Total
Gross carrying amount at beginning of the year	0	0	0	0	0
Additions	975	111	268	575	1929
Depreciation	(122)	(17)	(18)	(17)	(174)
Cost of PPE	975	111	268	575	1929
Accumulated depreciation	(122)	(17)	(18)	(17)	(174)
Carrying Amount 30 September 2020	853	94	250	558	1755
Additions	0	50	180	30	260
Depreciation	(487)	(43)	(69)	(281)	(880)
Cost of PPE	975	161	447	606	2189
Accumulated depreciation	(609)	(60)	(87)	(298)	(1,054)
Carrying Amount 30 September 2021	365	101	360	308	1135

All depreciation and impairment charges are included within depreciation of non-financial assets

Impairment

The carrying amounts of the company non-financial assets other than investment property are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount and is recognized in profit or loss.

In the current financial year there were no impairments. The residual value and useful life of an asset are reviewed at each financial year.

	R'000	R'000
	2021	2020
10 Trade and other receivables		
Rental debtors	6,459	5,118
Expected credit losses	(307)	(154)
	<u>6,152</u>	<u>4,965</u>
11 Cash and cash equivalents		
Carrying value and fair value of financial instruments by category:		
Financial assets:		
Unrestricted cash balances	132,265	104,939
	<u>132,265</u>	<u>104,939</u>
The bank balances are with Nedbank Limited, who have a Fitch 's credit rating of BB-		
12 Stated Capital - Authorized		
1 000 000 000 ordinary no par shares	1,000,000	1,000,000
	<u>1,000,000</u>	<u>1,000,000</u>
Issued		
Issued at the beginning of the year (54 469 000 ordinary shares of R10 each)	544,690	163,400
38 129 000 ordinary shares of R10 each	0	381,290
Issued at the end of the period	<u>544,690</u>	<u>544,690</u>
13 Long term Borrowing		
Non-current		
Interest-bearing liabilities	2,086,137	1 745 055
Lease Liability	-	400
Current		
Interest-bearing liabilities	79,616	218,608
Lease Liability	400	466

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14 Deferred Tax

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using the tax rates enacted or subsequently enacted at the reporting date.

	2021	2020
Deferred tax liability	(125 296)	(84 174)
Fair value adjustment on investment property	(77 083)	(63 836)
Lease smoothing	(48 058)	(20 054)
Property Plant and Equipment	(53)	(45)
IFRS 16-Right of use asset	(102)	(239)
Deferred tax asset	734	510
Credit loss	51	43
Credit loss adj	17	194
Provision	523	
IFRS 16-lease liability	112	273
Prior year lease payment adjust	30	
Deferred tax liability	(125 296)	(84 174)
Deferred tax asset	734	510
Total net deferred tax liability	<u>(124 562)</u>	<u>(83 664)</u>
Reconciliation of deferred tax liability		
Balance at the beginning of the year	(83 664)	-
Fair value adjustment on investment property	(13 247)	(63 836)
Lease smoothing	(28 004)	(20 054)
IFRS 16-Right of use asset	136	(239)
IFRS 16-lease liability	(131)	273
Credit loss	25	43
Provision	329	194
Property Plant and Equipment	(7)	(45)
Closing balance	<u>(124 562)</u>	<u>(83 664)</u>
15 Trade and other payable		
Accrued expense	2,689	694
Share issue Oversubscription	779	1,601
The carrying amount of trade and other payable approximate their fair value because of	<u>3,468</u>	<u>2,295</u>

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for the year ended 30 September 2021

	R'000	R'000
	2021	2020
16 Investment property		
Balance at the beginning of the year	2,712,298	-
Acquisitions	272 564	2 414 508
Acquisition costs		12 806
Fair value adjustment recognized in profit or loss	59 137	284 984
	3 043 999	2 712 298

Investment properties stated at fair value constitute land and buildings which are owned by the company to earn rentals and for capital appreciation.

Khula Sizwe managed to transfer 6 properties in the current year bringing the total to 63 properties. The company has committed to purchasing one remaining property out of the 64 properties from Barloworld Limited in line with the sale agreement, there are no other commitments or contractual obligation to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

Valuation Methodology

The fair value for the above freehold land and buildings amounted to R3.044 bn as per the latest valuation performed in September 2021. Fair value of properties is performed yearly based on the income approach.

The valuation of the investment properties was performed by Broll Valuation & Advisory Services (Proprietary) Limited ("BVA") at 30 September 2021. Broll is the independent valuator consisting of professional valuers and graduates registered with the South African Council for the Property Valuers Profession.

Details of the valuation methodologies used in valuing investment property, as well as the significant unobservable inputs used, are set out in the table below:

Valuation Assumptions

The key assumptions used by the valuers in determining the fair values of the investment properties are as follows:

At the reporting date the key assumptions and unobservable inputs used by the Company in determining fair value were in the following ranges for the company 's portfolio of properties:

Fair value hierarchy

The level of fair value hierarchy within which the investment property is as per below:

R'000	Level 1	Level 2	Level 3	Total
Properties			3,043,999	3,043,999

Investment Properties Valuation technique

Significant unobservable inputs and range of estimates used

Description	Exit			
	Discount rate (%)	Capitalization rate (%)	Capitalization rate (%)	Rental growth rate (%)
Industrial Sector	14.25 - 14.50	9.75 - 11.25	9.25 - 10.75	2.0 - 5.0
Retail Sector	14.0 - 14.75	9.5 - 11.25	9.0 - 10.75	2.0 - 5.0
Office Sector	14.25	10	9.5	2.0 - 5.0
Land	14.25	9.75 - 10.0	9.25 - 9.50	2.0 - 5.0

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2021 R'000	Change in exit		
	Total	0.25% increase	0.25% decrease
Properties below 10% capitalization rate	1,473,300	1,483,680	1,562,239
Properties between 10% - 11% capitalization rate	1,527,300	1,249,260	1,488,913
Properties between 11% - 11.75% capitalization rate	43,399	44,230	23,803
Total	3,043,999	2,777,170	3,074,955

2020 R'000	Change in exit capitalization		
	Total	0.25% increase	0.25% decrease
Properties below 10% capitalization rate	1,355,998	1,297,656	1,392,367
Properties between 10% - 11% capitalization rate	1,320,400	1,277,004	1,367,156
Properties between 11% - 11.75% capitalization rate	35,900	34,769	37,184
Total	2,712,298	2,609,429	2,796,707

The table below indicates the sensitivity of the aggregate market values for a 0.25% change in the discount rate

2021 R'000	Changes in discount rate		
	Total	0.25% increase	0.25% decrease
Total Properties	3,043,999	2,777,170	3,074,955

2020 R'000	Changes in		
	Total	0.25% increase	0.25% decrease
Total Properties	2,712,298	2,664,041	2,735,928

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17 Financial Instruments

17.1 Financial instruments

The company's financial instruments consist of cash carried at amortized cost.

	R'000	R'000
	2021	2020
Carrying value and fair value of financial instruments by category:		
Financial assets:		
Cash	132 265	104,939
To the carrying amount of cash and cash equivalent approximate their fair value because of their short-term nature	<u>132,265</u>	<u>104,939</u>

The maturity profile of the financial instruments are summarized as follows:

	1 Year	1 Year
Trade and other receivables		
Rental debtors	6,459	5,118
Expected credit losses	(307)	(154)
	<u>6,152</u>	<u>4,965</u>

Trade and other receivable are short term, therefore we applied the IFRS7.29 exemption - stating that the disclosure is not required *When the carrying amount is a reasonable approximation of fair value.* This has been applied for trade and other receivables

17.2 Financial instruments risk management

Credit risk analysis

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge its obligation. The company has no significant concentration of credit risk as exposure is spread over different property portfolios.

Company trade receivables are subject to the expected credit loss model. The expected loss rated are based on the payment profiles of tenant and the historical credit losses experienced within the period. In determining expected default, the forward looking factors such as inflation, interest rate, tenants reputation and estimated financial position. A default was considered to the at the point where tenant passes 90 days.

The lease receivable amount relates to lease payments due from Barloworld. In determining the ECL, the maximum exposure to credit risk of the lease receivable was considered to be significantly low due to the good credit rating and a strong financial capacity of the counterparty.

As such, the assessment of ECL resulted in an immaterial outcome. The ability to recover the rental payments from Barloworld is further explained in the going concern note.

No ECL raised for the receivable relating to rental as the full amount is due from Barloworld Limited and these are guaranteed refer to going concern note.

On that basis, the impairment provision at 30 September 2021 was determined as follows:

	Gross carrying amount/ Maximum risk exposure R'000	Weighted average loss rate %	Expected Credit Losses Allowance	Credit Impaired
Current	6,434	5%	(306)	No
30 days past due	25	1.4%	(0)	No
2021	6,459		(307)	
Current	5,118	3%	(154)	No
30 days past due	-	5%	-	
2020	5,118		(154)	

Expected credit losses

The closing balance of the trade receiving loss allowances as at 30 September 2021 reconciles with the trade receivables loss allowance opening balance as follows:

	2021	2020
Opening loss allowance as at 1 October 2021.	(154)	-
Reversal of the prior year expected credit losses	154	
Loss allowance recognized during the year	(307)	(154)
Loss allowance as at year end	<u>(307)</u>	<u>(154)</u>

The economic and financial uncertainty of COVID 19 has been incorporated in the expected credit losses of tenant receivable.

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18 Capital Management

The company considers its shareholder equity as the permanent capital for the company

The managements' intention is to maintain a strong capital base so as maintain investor, creditors and market confidence and to sustain future development of the business.

The company manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants, including the assessment of the company's' capital requirements in order to maintain an efficient overall financing structure while avoiding excessive leverage.

The amounts managed as capital by the company for the reporting periods under review are summarized as follows:

	<u>R'000</u>	<u>R'000</u>
	2021	2020
Total equity	544,690	544,690
Cash and cash equivalents	(132,265)	(104,939)
Capital	<u>412,425</u>	<u>439,751</u>
Total Equity	544,690	544,690
Leasing liabilities	400	381
Borrowings	<u>2,151,384</u>	<u>1,964,529</u>
Overall financing	<u>2,696,474</u>	<u>2,509,600</u>
Capital to overall financing	<u>0.15</u>	<u>0.18</u>

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Covenants

In terms of the agreement, the parties agreed specifically that, while Barloworld Limited is not a party to this agreement, the Financial Covenants contained in the agreement will be based on and linked to Barloworld Limited. The agreed covenants have been met by Barloworld at their financial year end.

Khula Sizwe covenants requirement with its debt provider is to maintain a loan to value ratio of not more than 80%

Khula Sizwe covenant levels were within the approved limits at reporting date as follows:

	<u>2021</u>	<u>2020</u>
Value of the property portfolio	3,043,999	2,712,298
Borrowings	<u>2,151,384</u>	<u>1,964,529</u>
LTV	<u>71%</u>	<u>72%</u>

Other guarantees on Khula Sizwe's long term liability

The loan agreement confirmed that there is collateral attached to the facility granted to Khula Sizwe Registration by the Khula Sizwe of the mortgage bonds in an aggregate amount of R2 858 557 400.00 (two billion eight hundred and fifty-eight million five hundred and fifty-seven thousand four hundred rand) over the Properties plus an additional sum of R571 711 480 (five hundred and seventy-one million seven hundred and eleven thousand four hundred and eighty rand) for securing certain costs and disbursements which the Lender may pay, incur or make, in favour of the Lender over the Properties.

A cession in security by Khula Sizwe in favour of the Lender of all rentals to be derived by the Khula Sizwe from leasing the Properties.

A cession in security by Khula Sizwe in favour of the Lender of the rental guarantee furnished by Barloworld Limited in respect of the Properties; and A cession by Khula Sizwe of all rights in and to the proceeds of any short-term insurance policy over the Properties.

Liquidity risk:

Liquidity risk is the risk that the company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

The major sources of funding for the company is its long-term borrowings. The company monitors the level of expected cash inflows (including but not limited to cash inflows from rental debtors and finance income together with expected cash outflows on financial liabilities. The table below set out the maturity analysis of the company's financial liabilities based on the undiscounted contractual cash flows. The company is able to meet short term financial payments.

Currency risk

The company does not have exposure to fluctuations in exchange rates.

Interest rate risk:

The company manages the exposure to interest rate risk by maintaining a balance between fixed and floating rate borrowings. The company is exposed to market risk through its use of financial instruments, specifically to interest rate risk. To minimize the interest rate cash flow risk exposures on long term interest-bearing debt the company has a interest rate swaps.

The company's debt carries floating interest rates with corresponding swaps to hedge the risk.

The interest rate swaps are not designated as cashflow hedges for accounting purpose and thus any changes to the interest rate at the reporting date of reporting would affect profit and loss.

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Maturity profile of financial liabilities

The maturity profile of the financial instruments is summarized as follows (based on contractual undiscounted cash flows):

	R'000		
	2022	1-2 years	3-5 years and years plus
Interest-bearing liabilities	183,925	415,751	2,322,534
Trade and other payables	3,468	-	-
Lease Liability	400	-	-
Total	187,793	415,751	2,322,534

	Interest Rate	Latest Repayment date	Significant Terms and Conditions
Secured variable rate borrowings	JIBAR + 1.95%	Dec-29	The full loan is utilized to purchase properties

<i>Interest rate sensitivity analysis</i>	R'000 Profit and Equity		R'000 Profit and Equity	
	2021		2020	
Impact of a 1% increase in South African interest rates - Charge to profit or loss	(2,289)	(2,289)	(2,090)	(2,090)
Impact of a 1% decrease in South African interest rates - Charge to profit or loss	2,246	2,246	2,051	2,051

Trade and other payable	R'000	R'000
	2021	2020
Accrued expense	2,689	694
Share issue Oversubscription	779	1,601
The carrying amount of trade and other payable approximate their fair value because of their short-term nature	3,468	2,295

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19 Related party transactions

The following is a summary of transactions with related parties during the year and balances due at year end: These are transactions are operational transactions with group subsidiaries of the Barloworld Limited as parent company.

19.1 With related parties of the company	2021	2020
	R'000	R'000
Rental revenue	330,426	221,697
Barloworld South Africa (Pty) Ltd - Fellow group subsidiary	235 825	148,745
Barloworld Logistics - Fellow group subsidiary	7 511	1,330
Straight line lease income adjustment	87,090	71,622
Management Fees	8,563	4,545
Barloworld South Africa (Pty) Ltd - Fellow group subsidiary	8,299	4 505
Barloworld Logistics - Fellow group subsidiary	264	40
Recoveries	38,836	8,728
Barloworld South Africa (Pty) Ltd - Fellow group subsidiary	37,637	8 574
Barloworld Logistics - Fellow group subsidiary	1,199	154
Share purchase	-	381,290
Barloworld Employee Trusts - Fellow group subsidiary	-	174 304
Barloworld Management Trusts - Fellow group subsidiary	-	206 986
Donations received	-	182
Barloworld South Africa (Pty) Ltd - Fellow group subsidiary	-	182
Trade Receivables	3,218	5,118
Barloworld South Africa (Pty) Ltd - Fellow group subsidiary	3,161	5,073
Barloworld Logistics - Fellow group subsidiary	57	45
Excepted Credit Losses	142	154
Barloworld South Africa (Pty) Ltd - Fellow group subsidiary	141	153
Barloworld Logistics - Fellow group subsidiary	1	1

19.2 Key management personnel

The company's key management personnel and persons connected with them are also considered to be related parties for disclosure purposes.

Key management are defined as those persons having authority and responsibility for planning, directing and controlling the activities of Khula Sizwe. Key management includes the Board of Directors. Khula Sizwe board of directors were appointed after the 2020 financial year, prior to that Khula Sizwe was under the directorship of interim board.

Key management personnel

Key management personnel remuneration

2021

	Short -term	Long term	Total
	Basic salary	Retirement Benefits	
Director's remuneration			
Executive Director			
Z Mabuza	2,000,000	200 902	2,200,902

2020

Director's remuneration			
Executive Director			
Z Mabuza	*1,500,000		1,500,000

* Represent the 9 months

	Directors emoluments
Non-Executive Directors	
Mr B Azizollahoff	315,000
Ms J February	220,000
Mr B Kodisang	290,000
Ms K Legoabe-Kgomari	305,000
Mr A Mabizela	255,000
Ms N Moshimane	230,000

Various transactions are entered into by the company during the year with related parties. Unless specifically disclosed these transactions occurred under terms that are no less favorable than those entered into with third parties.

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20 Events after the reporting period

In line with IAS 10 Events after reporting, no material events to the knowledge of the directors that have occurred between the statement of financial position and the date of approval of the financial statements that would affect the ability of the users of the financial statement to make proper evaluations and decisions.

21 Going concern

The directors have considered the inherent uncertainty in its going concern assessment which has been heightened by Covid-19 pandemic. Therefore, significant judgement was exercised in reaching the conclusion and the company has adequate resources to continue operating for the foreseeable future. The directors have satisfied themselves that the company is in a sound financial position and that it has access to sufficient borrowing facilities to meet its foreseeable cash requirements.

The assessment includes solvency and liquidity tests which inter alia a forecast of the company's interest cover ratio as well as debt covenants relating to loan to value. The liquidity test considers expected cashflows in the next 12 months, cashflow relating to funding. As at 30 September 2021 the company had a positive net asset value and stable liquidity position. The below were considered as part of the going concern assessment:

Funding Plan

Khula Sizwe has renegotiated the funding facility for flexibility in response to delay in acquiring the last remaining property. The existing bank facility availability period which was to end by May 2021. The funding extension was sought in order to complete the 64 properties Khula Sizwe planned to purchase from Barloworld Limited. The company successfully negotiated a drawdown on the facility to cover the last property that was still outstanding as at end of September 2021.

Covenants

The maximum loan to value covenant the company is exposed to is 71%, which we well below the required level of 80%

Provision for credit losses

Provision of credit losses is reasonably low, with 99% of outstanding debtors being current. The collection rate has been positive and we are positive that will remain in that trajectory.

Conclusion

After due consideration, the directors have concluded that the company has adequate resources to continue operating for the foreseeable future and that it is appropriate to adopt the going concern basis in preparing the financial statement.