

Independent Auditor's Report

To the Shareholders of Nova PropGrow Group Holdings Limited

Report on the Audit of the Consolidated and Separate Financial Statements

Qualified Opinion

We have audited the consolidated and separate financial statements of Nova PropGrow Group Holdings Limited and its subsidiaries (the Group) set out on pages 15 to 56, which comprise the consolidated and separate statement of financial position as at 28 February 2019, and the consolidated and separate statement of profit or loss and other comprehensive income, consolidated and separate statement of changes in equity and consolidated and separate statement of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effect of the matters described in the Basis for Qualified Opinion section of our report, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group as at 28 February 2019, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for Qualified Opinion

Investment properties – Villa Retail Park & Zambezi Retail Park

The valuation of investment properties are dependent on key assumptions which include the valuation method, capitalisation rates, purchasers' resistance and completion rates. Having assessed the various key assumptions applied in the valuation process for these properties, we were unable to satisfy ourselves that, based on information at our disposal, the assumptions applied appropriately reflect the existing conditions of these investment properties.

Consequently, we are unable to determine the full extent that any changes in the abovementioned assumptions may have on the valuation of these investment properties of R1,328 million (2018: R948 million), its related debentures of R1,228 million (2018: R877 million) as disclosed in the statement of financial position, note 3 and note 17 respectively and other non-operating gains of R28 million (2018: R1.6 million) as disclosed in the statement of financial performance and note 28 to the consolidated financial statements.

Investment properties – Village Mall & Courtside Centre

The valuation of investment properties are dependent on key assumptions which include the long term vacancy rates, short term vacancy factors, capitalisation rates and open market rentals. Having assessed the various key assumptions applied in the valuation process for these properties, we were unable to satisfy ourselves that, based on information at our disposal, the assumptions applied appropriately reflect the existing conditions of these investment properties.

Consequently, we are unable to determine the full extent that any changes in the abovementioned assumptions may have on the valuation of these investment properties of R121 million (2018: R124 million) and its related deferred taxation liabilities of R16 million (2018: R17 million) as disclosed in the statement of financial position, note 3 and note 8 respectively and other non-operating (losses)/ gains of (R3 million) (2018: R15 million) as disclosed in the statement of financial performance and note 28 to the consolidated financial statements.

Investment properties – Del Judor Mall, Flora Centre & Waterglen Shopping Centre

The valuation of investment properties as performed by the board of directors are dependent on key assumptions which include long term vacancy rates, short term vacancy factors, capitalisation rates, open market rentals, land values and additional bulk values.

Having assessed the various key assumptions applied by the board of directors in their valuation process for these properties, we were unable to satisfy ourselves that, based on information at our disposal, the assumptions applied appropriately reflect the existing conditions of these investment properties as it was not in line with the valuation performed by the management experts for these properties.

The value of these investment properties in the consolidated financial statements is currently carried at R583 million as disclosed in the statement of financial position and note 3. Consequently, had management accounted for these investment properties at the value indicated by management's expert, the investment properties would have been carried in the consolidated financial statements at R309 million. The effects on the consolidated financial statements are that had the investment property been accounted for at the above value of the management expert, the valuation of these investment properties would have decreased by R274 million, its related deferred taxation liabilities would have decreased by R61 million as disclosed in the statement of financial position, note 3 and note 8 respectively and the other non-operating losses would have increased by R274 million as disclosed in the statement of financial performance and note 28 to the consolidated financial statements.

Investment in subsidiaries

The carrying value of investments in subsidiaries in the company separate financial statements is R369 million as disclosed in the statement of financial position and note 6 of the financial statements. Due to the possible misstatements in the investment property values as disclosed above, the investment in subsidiaries balance in the company separate financial statements may also be further impacted. Consequently, we are unable to determine the full extent that any adjustments to the valuation of the investments in subsidiaries.

Going concern

We draw attention to note 37 to the financial statements, which indicates that the group incurred a net loss of R71 million (2018: R155 million) for the year ended 28 February 2019 and that the group utilised cash in operating activities in the amount of R39 million (2018: R23 million) financed through the disposal of various capital assets, and holds cash and cash equivalents in the amount of R5 million (2018: R 5 million), the majority of which has been pledged as collateral as stated in note 12. Management have not, at the date of this report, been able to conclude on the required amount of capital disposals, or secure additional cash resources as part of their plans as disclosed in note 37. These events or conditions, along with other matters as set forth in note 37, indicate the existence of a material uncertainty that may cast significant doubt on the group's ability to continue as a going concern. We were unable to obtain sufficient appropriate audit evidence to conclude on management's plans to secure additional cash resources to address the group's ability to continue as a going concern in the foreseeable future. Consequently, we were unable to determine whether the group will be able to continue as a going concern as the group might be unable to realise their assets and discharge their liabilities in the normal course of business.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of Matter – Resignation of Trustee

We draw attention to note 38 to the financial statements, which described the conditions associated with the resignation of the Trustee of the Debenture Trust.

Our Opinion is not modified in respect of this matter.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Nova PropGrow Group Holdings Limited and its subsidiaries Annual Financial Statement for the year ended 28 February 2019", which includes the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa. The other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

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

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

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

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

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

In accordance with our responsibilities in terms of section 44(2) and 44(3) of the Auditing Profession Act (APA), we report that we have identified a reportable irregularity in terms of the Auditing Profession Act. We have reported such matter to the Independent Regulatory Board for Auditors. The matters pertaining to the reportable irregularity refers to the board of directors not approving the consolidated and separate annual financial statements within six months after the end of its financial year in accordance with Section 30(1) of the Companies Act of South Africa.

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Nexia SAB&T has been the auditor of Nova PropGrow Group Holdings Limited and its subsidiaries for 2 years.

Nexia SAB&T

Nexia SAB&T

Director: J. Engelbrecht

Registered Auditor

06 March 2020

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