

Notes to the consolidated and separate financial statements

for the year ended 30 June 2019

A. ACCOUNTING POLICIES

A1 SIGNIFICANT ACCOUNTING POLICIES AND ELECTIONS

A1.1 Statement of compliance

These consolidated and separate financial statements have been prepared in accordance with IFRS, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the requirements of the Companies Act of South Africa and the JSE Listings Requirements.

A1.2 Basis of preparation

The consolidated and separate financial statements have been prepared on the historical cost basis, except for the measurement of investment properties, investment property classified as held-for-sale and certain financial instruments which are recorded at fair value, and incorporate the significant accounting policies set out below and in the individual notes to the financial statements.

All accounting policies applied in the preparation of these consolidated and separate financial statements are consistent with those applied in the consolidated and separate financial statements for the year ended 30 June 2018, save as disclosed below.

New accounting standards, IFRS 9: *Financial instruments* and IFRS 15: *Revenue from contracts with customers*, have been issued with effective dates applicable to the current year consolidated and separate financial statements. Refer to note A3 – *Changes in accounting policies and disclosures for further information*.

The financial information presented in the consolidated and separate financial statements comprises that of the parent company, Hyprop Investments Limited, together with its subsidiaries, including consolidated joint operations and joint ventures, presented as a single entity (the group).

All values are presented in South African Rand, the functional currency of Hyprop Investments Limited, and are rounded to the nearest thousand Rand, unless indicated otherwise.

A1.3 Basis of consolidation

The consolidated financial statements incorporate the consolidated financial statements of the company and entities controlled by the group. Control is achieved when the group:

- Has power over the investee
- Is exposed, or has rights, to variable returns from its involvement with the investee
- Has the ability to use its power to affect its returns.

The group reassesses whether or not it controls an investee if facts and circumstances indicate that one or more of the elements listed above have changed during the year.

The consolidated financial statements incorporate the assets, liabilities, income, expenses and cash flows of the group. The results of subsidiaries acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or up to the date of disposal, as applicable.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. All intergroup transactions, unrealised profits and balances between group entities are eliminated on consolidation.

A1.4 Non-controlling interests

Non-controlling interests are measured at the proportionate share of the non-controlling shareholders' interest in the identifiable net assets of the relevant entity at the acquisition date and adjusted in the same proportion for the profit or loss at each reporting date.

Notes to the consolidated and separate financial statements continued

for the year ended 30 June 2019

A. ACCOUNTING POLICIES continued

A1 SIGNIFICANT ACCOUNTING POLICIES AND ELECTIONS continued

A1.5 The following significant accounting policy elections have been made by the group (excluding elections applied as transitional arrangements on adoption of new or amended reporting standards):

Policy elections			
Item	Option	Election and impact	Note
Investment property	IAS 40: <i>Investment property</i> allows a choice between the fair value model and the cost model in recording investment property. The choice is made at a portfolio level.	The group continues to apply the fair value model for all investment properties.	E1
Financial instruments – equity investments	IFRS 9: <i>Financial instruments</i> requires all equity investments within its scope to be measured at FVTPL except where the entity has elected to present changes in fair value in OCI. There is no cost exception for unquoted equities.	The group has elected to recognise fair value changes in equity investments through profit or loss.	L1
Financial instruments	IAS 39: <i>Financial instruments: recognition and measurement</i> (and IFRS 9: <i>Financial instruments</i>) allow for the irrevocable designation of financial assets and liabilities on initial recognition as at FVTPL if the designation eliminates or significantly reduces an accounting mismatch.	The group had previously elected to designate certain fixed-rate financial assets at FVTPL prior to the adoption of IFRS 9. In terms of IFRS 9 those assets still qualify for designation as FVTPL.	L1
Investments in subsidiaries, joint operations and associates	In terms of IAS 27: <i>Consolidated and separate financial statements</i> , investments in subsidiaries, associates and joint arrangements can be accounted for in the separate financial statements either at: cost; or at fair value in accordance with IFRS 9; or using the equity method as described in IAS 28: <i>Investments in associates and joint ventures</i> .	The group has elected to recognise these investments at cost less impairments in the separate financial statements.	E3 and E4

A1.6 Remaining accounting policies

Accounting policies for specific items in the financial statements are included in the relevant note to the financial statements.

A2 KEY ASSUMPTIONS AND ESTIMATIONS

Assumptions and estimates are an integral part of financial reporting and as such have an impact on the amounts reported for the group's income, expenses, assets and liabilities. Judgement in these areas is based on historical experience and reasonable expectations relating to future events.

Estimates, assumptions and judgements are applied in the following areas:

Item	Nature of judgement or estimation	Note
Investment property valuations	The valuation of investment properties requires judgement in the determination of, inter alia, future cash flows, appropriate discount rates and capitalisation rates.	E1.7
Interests in co-owned assets/joint operations	Judgement is required to identify the relevant activities of the co-owned assets. Interests in co-owned assets are categorised as interests in joint operations as there is a contractually agreed sharing of control of the co-owned assets. In terms of the co-ownership agreements for Canal Walk and The Glen, material capital expenditure requires mutual consent of the co-owners. In view of the significant increases in development costs, most capital expenditure that is undertaken is material, and accordingly, these centres are not considered to be solely controlled by Hyprop. The interests in these centres are treated as joint operations.	E4

Item	Nature of judgement or estimation	Note
Recovery of loans receivable	<p>The underlying investment properties in the group's sub-Saharan African (excluding South Africa) portfolio have been negatively affected by the economic conditions of recent years and are producing lower investment returns than what was previously anticipated. In addition, during the year the group reviewed its strategy resulting in a revised three-year strategic plan. This led to a decision to exit the group's sub-Saharan African investments within the next 12 to 18 months.</p> <p>The shareholder loans to AttAfrica and Manda Hill, which reflect Hyprop's share of the value of the underlying property investments at group level, have therefore been impaired.</p> <p>Key estimates and judgements made in determining the impairments were as follows:</p> <ul style="list-style-type: none"> • The decision to sell the underlying investments • The anticipated market values at which the companies/properties may be sold • The costs likely to be incurred in order to sell the companies/properties • The remaining period of the loans • The expected performance of the underlying investments • The probability of the loans being restructured/refinanced beyond the current maturity dates <p>In calculating the recoverability/impairment no probability-weighted outcomes are used as the directors have assumed a 100% loss given default on the calculated shortfall.</p>	F1
Control over an investee	<p>Management assessed whether it has control over Hystead based on the suite of agreements which govern the relationship between the shareholders of Hystead.</p> <p>Due to the strategic nature of the reserve matters, requiring approval by shareholders holding shares representing at least 75% of the total issued share capital of Hystead, Hyprop concluded that the company does not have control over Hystead.</p>	E5
Classification as an equity-accounted investment or financial instrument	<p>In prior years, management considered whether the investment in Hystead should be classified as a joint venture and be equity accounted, or based on the contractual right to receive dividends as a result of the provisions of the Hystead shareholders' agreement, should be classified as a financial asset.</p> <p>Based on the provisions of the suite of agreements which govern the relationship between the shareholders of Hystead, Hystead has a financial obligation to pay all of its distributable income as a dividend to its shareholders each year. Accordingly, Hyprop accounts for the investment in Hystead as a financial asset.</p> <p>Management reassessed the classification and accounting treatment of the investment in Hystead and concluded that the classification as a financial asset remains appropriate.</p>	E5
Valuation of financial asset and deferral of day-one gain	<p>The fair value of the right to receive dividends from Hystead has been valued based on the present value of anticipated future cash flows.</p> <p>The valuation method includes assumptions derived from unobservable inputs. Management has therefore determined that the day-one gain should be deferred. However, the fair value movement subsequent to that date should be taken through profit or loss.</p>	E5
Financial guarantees	<p>The financial guarantees are valued at the higher of the IFRS 9 expected credit loss (ECL) allowance or the amortised initial fair value on day one.</p> <p>The valuation of the guarantees includes assumptions on credit default rates, credit risks, credit ratings and expected credit losses. The ECL model includes estimates relating to the probability of a default by the borrower and the resultant loss to the guarantor for each underlying borrower.</p> <p>All guaranteed loans are term loans with only interest being serviced quarterly. The capital is repayable at the end of the loan term. Management has assessed whether the day-one fair value of the guarantees should be amortised and concluded that amortisation is not appropriate.</p>	H3

Notes to the consolidated and separate financial statements continued

for the year ended 30 June 2019

A. ACCOUNTING POLICIES continued

A2 KEY ASSUMPTIONS AND ESTIMATIONS continued

Item	Nature of judgement or estimation	Note
Taxation	<p>The group is subject to income tax in numerous jurisdictions. Significant judgement is required in determining the provision for tax as there are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.</p> <p>A deferred taxation asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred taxation assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related taxation benefit will be realised.</p> <p>The group recognises liabilities for anticipated tax obligations based on estimates of the taxes that are likely to become due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions.</p> <p>The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the group has not rebutted this presumption.</p>	11

A3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The group has adopted IFRS 15: *Revenue from contracts with customers* and IFRS 9: *Financial instruments* with effect from 1 July 2018.

IFRS 15 transition	<p>The group has chosen the simplified transition method electing to apply IFRS 15: <i>Revenue from contracts with customers</i> retrospectively only to contracts that are not completed at the date of initial application. As the group provides ancillary services to the tenants of its investment properties, it was necessary to separate the lease considerations between lease and non-lease components on the adoption of IFRS 15 and apply the standard only to the non-lease income. Additionally, the group has applied this separation of non-lease income to the comparative period presented. There are no changes in the transaction price at which those revenues were recorded in prior years.</p>
IFRS 9 transition	<p>The group has elected to apply the limited retrospective exemption in IFRS 9 paragraph 7.2.15 relating to transition for classification and measurement and impairment, and accordingly, has not restated comparative periods at 1 July 2018. As a result,</p> <ul style="list-style-type: none"> • any adjustments to carrying amounts of financial assets or liabilities are recognised at the beginning of the current reporting period, with any difference recognised in opening retained earnings; • financial assets are not reclassified in the statement of financial position for the comparative period; and • provisions for impairment have not been restated in the comparative period. <p>The group has adopted the simplified expected credit loss model for its trade receivables, as required by IFRS 9, paragraph 5.5.15, and the general expected credit loss model for loans receivable carried at amortised cost. The credit risk of certain of the loans deteriorated during the year, resulting in their being classified as stage 3 – credit impaired at 30 June 2019.</p>

A3.1 IFRS 9: *Financial instruments*

(i) *Classification and measurement of financial assets and financial liabilities*

IFRS 9 eliminates the previous IAS 39: *Financial instruments: recognition and measurement* categories for financial assets of held-to-maturity, loans and receivables and available for sale. The following table and the accompanying notes set out the categories of financial assets under IAS 39: *Financial instruments: recognition and measurement* and the new measurement categories under IFRS 9 for each class of the group's financial assets as at 1 July 2018.

			GROUP		COMPANY	
	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 30 June 2018 R000	New carrying amount under IFRS 9 1 July 2018 R000	Original carrying amount under IAS 39 30 June 2018 R000	New carrying amount under IFRS 9 1 July 2018 R000
Financial assets						
Financial asset – Hystead	Designated as at FVTPL	FVTPL	152 556	152 556	152 556	152 556
Derivatives – non-current	FVTPL	FVTPL	6 846	6 846	224	224
Derivatives – current	FVTPL	FVTPL	815	815	–	–
Loans receivable – non-current	Amortised cost	FVTPL	543 712	543 712	–	–
Loans receivable – non-current	Amortised cost	Amortised cost	2 393 733	2 393 733	18 723	18 723
Loans receivable – current	Amortised cost	Amortised cost	40 716	40 716	84 160	84 160
Trade and other receivables	Amortised cost	Amortised cost	258 071	258 071	187 490	187 490
Cash and cash equivalents	Amortised cost	Amortised cost	715 493	715 493	655 789	655 789
Total financial assets			4 111 942	4 111 942	1 098 942	1 098 942

Certain loans receivable, previously classified at amortised cost, are now classified as FVTPL. The group intends to hold the assets to maturity to collect contractual cash flows, however, these cash flows do not consist solely of payments of principal and interest on the principal amount outstanding. Therefore they do not qualify for classification at amortised cost in terms of IFRS 9.

The group assessed the credit risk of the counterparties for the non-current loans receivables at the adoption date and determined that the carrying amount at 1 July 2018 approximated the fair value.

IFRS 9 largely retains the requirements in IAS 39 for the classification and measurement of financial liabilities. The following table and the accompanying notes set out the categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the group's financial liabilities as at 1 July 2018.

			GROUP		COMPANY	
	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 30 June 2018 R000	New carrying amount under IFRS 9 1 July 2018 R000	Original carrying amount under IAS 39 30 June 2018 R000	New carrying amount under IFRS 9 1 July 2018 R000
Financial liabilities						
Derivatives – non-current	FVTPL	FVTPL	24 060	24 060	24 060	24 060
Derivatives – current	FVTPL	FVTPL	1 999	1 999	1 999	1 999
Borrowings – non-current	Amortised cost	Amortised cost	7 815 651	7 815 651	2 949 278	2 949 278
Borrowings – current	Amortised cost	Amortised cost	69 343	69 343	761 125	761 125
Financial guarantees – non-current	FVTPL	FVTPL	185 686	185 686	388 508	388 508
Trade and other payables	Amortised cost	Amortised cost	486 090	486 090	435 122	435 122
Total financial liabilities			8 582 829	8 582 829	4 560 092	4 560 092

The adoption of IFRS 9 has not had a significant effect on the group's accounting policies related to financial liabilities and derivative financial instruments as the group does not apply hedge accounting to its derivative financial instruments.

(ii) Calculation of impairment losses recognised on financial assets

IFRS 9 sets out new requirements for assessing the carrying amounts of financial assets at 1 July 2018 (the date of initial adoption) and impairment requirements, including consideration of expected credit losses (ECLs) and credit impaired financial assets.

The application of IFRS 9 did not have any material effect on the carrying amounts of financial assets at 1 July 2018 (as shown in the table above). Although the loans receivable from AttAfrica and Manda Hill were credit impaired at 30 June 2018, interest payments continued to be made on these loans at the beginning of the current year.

During the year, however, the credit quality of the loans deteriorated as a result of the deterioration of the economic environments in which the group's sub-Saharan African interests operate, losses incurred by AttAfrica, and decreases in the independent valuations of the investment properties. This resulted in the loans becoming stage 3 – credit impaired and interest income being accrued on the effective interest basis on the net balance (i.e. the outstanding balance less credit impairments). Refer to note FI – *Loans receivable*.

Notes to the consolidated and separate financial statements continued

for the year ended 30 June 2019

A. ACCOUNTING POLICIES continued

A3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES continued

A3.2 IFRS 15: *Revenue from contracts with customers*

Due to the exclusion of lease income from the scope of IFRS 15, the group only applies IFRS 15 to recovery income generated by providing ancillary services to the tenants of its investment properties. IFRS 15 provides a five step model that an entity applies when recognising revenue. The steps are:

- Step 1** Identify the contract(s) with a customer.
- Step 2** Identify the performance obligations in the contract.
- Step 3** Determine the transaction price.
- Step 4** Allocate the transaction price to the performance obligations in the contract.
- Step 5** Recognise revenue when (or as) the entity satisfies a performance obligation.

The group performed an assessment of IFRS 15 and concluded that the adoption of IFRS 15 had no material impact on either the timing or amount of the revenue of the group or company.

The adoption of IFRS 15 does have an effect on the presentation and disclosure of recovery income (income arising from the recovery of, inter alia, utility costs from tenants). Recovery income is separately presented on the statements of profit or loss and other comprehensive income prospectively from the adoption date for the current and prior year.

In addition, the recovery income is allocated between the group's operating segments in order to depict how the nature, timing, amount and uncertainty of revenue and cash flows are affected by economic factors.

Although lease income is scoped out of IFRS 15, recovery income falls within the scope of IFRS 15. This change in the governing standard for recovery income has not affected the amounts recorded in the statement of profit or loss and other comprehensive income. Lease income continues to be recognised in accordance with IAS 17: *Leases*.

A4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

At the date of approval of these consolidated and separate financial statements, certain new accounting standards, amendments and interpretations to existing standards have been published but are not yet effective. These have not been early adopted by the group.

Management anticipates that all of the pronouncements will be adopted in the group's accounting policies for the first period beginning after the effective date of the pronouncements.

Information on new standards, amendments and interpretations that are expected to be relevant to the consolidated and separate financial statements is provided below.

(i) *Standards expected to have a material impact, which are not yet effective (impact assessed)*

IFRS 16: *Leases* is effective for annual periods beginning on or after 1 January 2019 and will be adopted by the group from 1 July 2019. There is no impact on recognition of leases in situations where the group is the lessor. The group does not have any leases where it is the lessee.

The group as lessor

Due to the carry forward of the lessor accounting model from IAS 17, there is no impact for the group on the recognition of leases from the perspective of the lessor.

In addition, the expansion of rental income straight-lining to include inflation-linked leases is expected to result in an incremental change to the straight-line rental accrual balance as detailed below.

	GROUP R000
Original carrying amount under IAS 17: <i>Leases</i> (as at 30 June 2019)	448 917
New carrying amount under IFRS 16 (as at 1 July 2019)	480 929
Expected impact on straight-line rental accrual balance	32 012

The group anticipates providing enhanced disclosures as required by IFRS 16, mainly related to the components of lease income and risk management with respect to exposures to residual asset risk, in its 2020 financial statements.

(ii) *Standards expected to have a material impact, which are not yet effective (Impact not assessed)*

There are no standards in this category.

(iii) *Standards expected to have an immaterial impact, which are not yet effective*

IFRIC 23: *Uncertainty over income tax treatments* (effective periods beginning on/after 1 January 2019).

IFRIC 23 clarifies the accounting for uncertainties in income taxes. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12: *Income taxes*.

Long-term interests in associates and joint ventures (amendment to IAS 28: *Investments in associates and joint ventures*) (effective periods beginning on/after 1 January 2019).

IAS 28 has been amended to clarify that an entity should apply IFRS 9 as well as IAS 28 to long-term interests in associates and joint ventures that in substance form part of the net investment in the associate or joint venture.