Notes to the consolidated financial statements

for the year ended 30 June

1. Accounting policies and presentation of consolidated financial statements

1.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act of South Africa, 2008.

1.2 Approval of the consolidated financial statements

The consolidated financial statements of Hyprop Investments Limited, were approved by the board of directors on 31 August 2018.

1.3 Basis of preparation

These consolidated 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 at fair value, and incorporate the principal accounting policies set out below. All values are presented in Rand thousands unless indicated otherwise.

Item	Measurement basis
Investment property	Fair value
Derivative financial instruments	Fair value
Investment property held-for-sale	Fair value
Financial asset – Hystead	Fair value

Fair value adjustments do not affect the determination of distributable earnings, but have an effect on net asset value per share to the extent that such adjustments are made to the carrying values of assets and liabilities. All accounting policies applied in the preparation of these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended 30 June 2017. Various new accounting standards, or revisions to current accounting standards, have been issued with effective dates applicable to future consolidated financial statements. Refer to *note 1.26 – Standards issued but not yet effective* for further information.

1.4 Going concern

The directors consider that the group and its subsidiaries have adequate resources to continue operating for the foreseeable future and that it is appropriate to adopt the going concern basis in preparing these consolidated financial statements.

The directors have satisfied themselves that the group and its subsidiaries are in a sound financial position and that they have access to sufficient borrowing facilities to meet their foreseeable cash requirements.

1.5 Basis of consolidation

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

- 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 company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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 interests and other components of equity, while any resultant gain or loss is recognised in profit or loss. All intragroup transactions, unrealised profits and balances between group entities are eliminated on consolidation.

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

Notes to the consolidated financial statements continued

for the year ended 30 June

1. Accounting policies and presentation of consolidated financial statements continued

1.6 Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement which exists when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a group entity transacts with its joint operation, profits and losses resulting from the transactions with the joint operation are recognised in the consolidated financial statements only to the extent of interests in the joint operation that are not related to the group.

When a group entity undertakes its activities under joint operations, the group as a joint operator recognises in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly
- Its liabilities, including its share of any liabilities incurred jointly
- Its revenue from the sale of its share of the output arising from the joint operation
- Its expenses, including its share of any expenses incurred jointly.

The group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRS applicable to the particular assets, liabilities, revenues and expenses.

1.7 Investments in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement derive benefits from the net assets of the joint arrangement.

The profits and losses, assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held-for-sale, in which case it is accounted for in accordance with IFRS 5: *Non-current assets held-for-sale and discontinued operations*.

Under the equity method, the investment is initially recorded at cost and thereafter the carrying value is adjusted to recognise the investor's share of the post-acquisition profits or losses of the investee, distributions received and any adjustments that are required. The profits or losses are recognised in the statement of profit or loss and other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

If the terms of interest that the company has in the joint venture provide that the investee is contractually obliged to distribute 100% of its net distributable earnings, the investment is accounted for as a financial asset and is not equity accounted. Refer to *note 1.11 – Financial instruments*.

When the reporting period of the investor is different to that of the joint venture, the joint venture prepares, for the use of the investor, financial statements as at the same date as the consolidated financial statements of the investor.

Where a group entity transacts with a joint venture of the group, unrealised profits and losses are eliminated to the extent of the group's interest in the joint venture. Unrealised losses are eliminated only to the extent that there is no evidence of impairment.

1.8 Building appurtenances and tenant installations

Building appurtenances and tenant installations are carried at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided on all building appurtenances and tenant installations to write down the cost, less residual value, by equal instalments over their useful lives as follows:

- Tenant installations – period of lease
- Building appurtenances – three to 15 years.

1. Accounting policies and presentation of consolidated financial statements continued

1.8 Building appurtenances and tenant installations continued

Subsequent expenditure is capitalised when it is probable that future economic benefits will flow to the group and its cost can be reliably measured. All other expenditure is recognised as an expense in the period in which it is incurred. Gains and losses on the disposal of building appurtenances and tenant installations are recognised in profit or loss and are calculated as the difference between the proceeds and the carrying value of the item sold.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

1.9 Investment property

Investment properties are properties held to earn rental income and/or for capital appreciation (including property under development for such purposes).

Investment property is initially recognised at cost including transaction costs. Cost includes initial costs, costs incurred subsequently to extend or refurbish investment property and the cost of any development rights.

Investment property is subsequently measured at fair value as determined on a semi-annual or annual basis by an independent registered valuer or fair value less cost to sell, based on market evidence. The valuations are done on an open-market basis and valuers use the discounted cash flow method. Gains or losses arising from changes in fair value, after deducting the straight-line rental income accrual, are included in profit or loss for the period in which they arise. These gains or losses are transferred to non-distributable reserves in the statement of changes in equity.

In instances where an investment property has been sold, but not yet transferred to the purchaser at year-end, the fair value is determined as the sale price.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the property. Any gain or loss arising on derecognition of the property is included in profit or loss in the period in which the property is derecognised. The gain or loss is calculated as the difference between the net disposal proceeds and the carrying amount of the asset.

Realised gains or losses arising on the disposal of investment properties are recognised in profit or loss for the year and transferred to non-distributable reserves in the statement of changes in equity.

1.10 Non-current assets held-for-sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held-for-sale. This condition is regarded as met only when the sale is highly probable and the non-current asset or disposal group is available for sale in its present condition subject only to terms that are usual and customary for sales of such assets. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset or disposal group.

Investment property classified as held-for-sale is measured in accordance with IAS 40: *Investment property* at fair value with gains and losses on subsequent measurement being recognised in profit or loss in the line "Profit/loss on disposal – Investment property". Disposal groups and non-current assets held-for-sale are presented separately from other assets and liabilities in the statement of financial position. Prior periods are not reclassified.

Once classified as held-for-sale, assets are no longer depreciated.

1.11 Financial instruments

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

Financial assets and financial liabilities are recognised in the statement of financial position when the group becomes party to the contractual provisions of the instrument. The group classifies financial instruments, or their component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. Financial assets and financial liabilities are initially measured at fair value. All transaction costs relating to financial instruments measured at fair value through profit or loss are immediately expensed.

Notes to the consolidated financial statements continued

for the year ended 30 June

1. Accounting policies and presentation of consolidated financial statements continued

1.11 Financial instruments continued

Derecognition of financial instruments

The group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the entity is recognised as a separate asset or liability. The group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Offset

Financial assets and financial liabilities are offset, and the net amount reported in the consolidated statement of financial position, when the group has an enforceable right to set off the recognised amounts, and intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

Subsequent measurement

Subsequent to initial recognition, these instruments are measured as follows:

Financial assets

1.11.1 Cash and cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents are measured at amortised cost. Interest earned on cash invested at financial institutions is recognised on an accrual basis using the effective interest method.

1.11.2 Trade and other receivables

Trade and other receivables are carried at amortised cost less any accumulated impairments. An estimate is made of credit losses based on a review of all outstanding amounts at year-end. Evidence of impairment is considered on a tenant-by-tenant basis. Doubtful debts are provided for in the year in which they are identified, with such movements taken to profit or loss for the period. Short-term receivables are measured at original invoice amount when the effect of discounting is immaterial.

1.11.3 Loans receivable

Loans receivable are carried at amortised cost using the effective interest method, less any accumulated impairments. Interest earned is recognised on an accrual basis using the effective interest method.

1.11.4 Financial assets – right to receive dividends

Where the group has a contractual right to receive its share of net distributable earnings, the financial asset is designated at fair value through profit or loss (FVTPL). Subsequent to initial recognition, it is measured at fair value and changes to the fair value are recognised in the consolidated statement of profit or loss and other comprehensive income.

Any gain or loss on initial recognition is deferred, as the valuation method includes assumptions which are derived from unobservable inputs, and is recognised in profit or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset.

Financial liabilities

1.11.5 Trade payables

Trade and other payables are measured at amortised cost. Short-term payables are measured at the original invoice amount when the effect of discounting is immaterial.

1.11.6 Non-derivative financial liabilities: Borrowings

Non-derivative financial liabilities, comprising long-term interest-bearing loans, are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption amount of borrowings, is recognised over the term of the borrowings, in accordance with the group's accounting policy for borrowing costs.

1.11.7 Non-derivative financial liabilities: Financial guarantees

Financial guarantee liabilities are recognised initially at fair value and subsequently at the higher of the amount determined in accordance with IAS 37: *Provisions, contingent liabilities and contingent assets*, as follows:

- Its initial amount (less amortisation, if appropriate); and
- The amount that it is probable that the group will pay (based on it being likely that the guarantee will be called).

At year-end, the group had issued guarantees to certain banks in respect of credit facilities granted to related companies.

1. Accounting policies and presentation of consolidated financial statements continued

1.11 Financial instruments continued

1.11.8 Derivative instruments

Derivatives are initially measured at fair value and are subsequently remeasured at fair value. Any directly attributable transaction costs are recognised in profit or loss as incurred.

1.12 Impairment

Financial assets

Financial assets, other than those at fair value through profit or loss, are assessed at each reporting date to determine whether there is any evidence of impairment. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss is recognised immediately in profit or loss.

Objective evidence that financial assets are impaired includes:

- Default or delinquency by a debtor;
- Restructuring of an amount due to the group on terms that the group would not consider otherwise;
- Indications that a debtor will enter bankruptcy;
- Adverse changes in the payment status of tenants;
- The disappearance of an active market because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

Non-financial assets

The carrying amounts of the group's non-financial assets 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.

The recoverable amount of an asset is the greater of its value-in-use and its fair value less costs to sell. Value-in-use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount, and is recognised in profit or loss. Goodwill is tested for impairment annually.

An impairment loss is reversed, with the exception of goodwill, if there has been a change in the estimates used to determine the recoverable amount and there is an indication that the impairment loss no longer exists.

An impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

1.13 Stated capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction from equity.

1.14 Treasury shares

Company shares held by the Hyprop Investments Employee Incentive Scheme Proprietary Limited (incorporated for the benefit of employees) that have not yet vested are classified as treasury shares on consolidation and presented as a deduction from equity. These shares are held at cost.

On purchase, the cost of the shares acquired is deducted from equity. Subsequently, any gain or loss on the sale or cancellation of the company's own equity instruments is recognised directly in equity.

Both distributions and unrealised losses on own shares are eliminated from group profit or loss for the year.

1.15 Foreign currency

Foreign currency transactions are translated to the respective functional currency of the group at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rates at the reporting date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rates at the dates that the fair values were determined.

Foreign currency differences arising on translation are recognised in profit or loss.

Notes to the consolidated financial statements continued

for the year ended 30 June

1. Accounting policies and presentation of consolidated financial statements continued

1.15 Foreign currency continued

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the group's presentation currency (Rand) at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to Rand at the dates of the transactions (an average rate is used).

Foreign currency differences are recognised in other comprehensive income (OCI) and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interest (NCI).

Foreign currency translation reserve

If the group disposes, in its entirety or partially, of a foreign operation, such that control or joint control is lost, the cumulative amount in the foreign currency translation reserve in respect of the foreign operation that is disposed of, is reclassified to profit or loss as part of the disposal. If the group disposes of a part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the group disposes of only part of a joint venture while retaining joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

1.16 Employee benefits

Short-term benefits

The cost of short-term employee benefits is recognised as an expense during the period in which the employees render the related service.

Short-term employee benefits are measured on an undiscounted basis. The accrual for employee entitlements to salaries, bonuses and annual leave represents the amount in respect of which the group has a present legal or constructive obligation to pay as a result of the employees' services provided up to the reporting date.

Post-employment benefits

Defined contribution plan

The defined contribution plan is a post-employment benefit plan under which the group pays contributions to a separate entity and has no legal or constructive obligation to pay further amounts if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions are recognised as an employee benefit expense when the related services have been rendered.

Long-term benefits

Share-based payments

Equity-settled share-based employee remuneration

The group operates equity-settled share-based conditional share plans (CUP) for its employees.

The grant date fair value of equity-settled share-based payment arrangements granted to employees is recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

All share-based remuneration is ultimately recognised as an expense in profit or loss, with a corresponding increase in equity. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of shares expected to vest.

1.17 Revenue

Investment property income

Investment property income comprises contractual rental income, operating cost recoveries, income from marketing and promotions and parking income. Contractual rental income (including tenant parking income) is recognised on a straight-line basis over the term of the lease. Income from marketing, promotions and casual parking is recognised when the amounts can be reliably measured.

Turnover rentals (variable rentals based on the turnover achieved by a tenant) are included in revenue when the amounts can be reliably measured.

1. Accounting policies and presentation of consolidated financial statements continued

1.18 Interest earned

Interest earned on cash invested at financial institutions is recognised on an accrual basis using the effective interest method.

1.19 Fair value measurements

Fair value is the price that would be received on sale of an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the group has access at that date. The fair value of a liability reflects its non-performance risk.

The group measures the fair value of an instrument using the quoted price in an active market when this is available. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

1.20 Borrowing costs

Borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is substantially ready for its intended use. Qualifying assets are those that necessarily take a substantial period of time to prepare for their intended use.

The amount of borrowing costs eligible for capitalisation is the actual borrowing costs incurred on funds specifically borrowed in respect of the qualifying asset. Investment income earned on the temporary investment of borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost capitalised. Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.21 Taxation

1.21.1 Current taxation

Hyprop is a REIT (Real Estate Investment Trust) in terms of the South African Income Tax Act (the Act) and in terms of the JSE Listings Requirements. In terms of section 25BB of the Act, the twice yearly dividend declared to Hyprop shareholders is deductible against Hyprop's taxable income. As a consequence of this deduction, South African income taxation is usually reduced to zero, and dividends received by South African Hyprop shareholders are received free of any South African income taxation.

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the year.

The charge for current taxation includes expected tax payable or receivable on the taxable income or loss for the year and any adjustment for taxation payable or receivable for previous years.

Current taxation liabilities or assets for the current and prior periods are measured at the amount expected to be paid to/(recovered from) the taxation authorities, using the taxation rates and taxation laws that have been enacted or substantively enacted by the reporting date.

Notes to the consolidated financial statements continued

for the year ended 30 June

1. Accounting policies and presentation of consolidated financial statements continued

1.21 Taxation continued

1.21.2 Deferred taxation

Deferred taxation is recognised for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxation is not recognised for the following temporary differences:

- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit
- goodwill that arises on initial recognition in a business combination
- differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

A deferred taxation asset is recognised for all deductible temporary differences to the extent that it is probable that future 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.

Deferred taxation assets and liabilities are measured at the taxation rates that are expected to apply to the period when the asset is realised or the liability is settled, based on taxation rates and taxation laws that have been enacted or substantively enacted by the reporting date.

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.

The effect on deferred taxation of any changes in taxation rates is recognised in profit or loss for the period, except to the extent that it relates to items previously charged or credited directly to other comprehensive income or equity.

Deferred taxation assets and liabilities are offset if there is a legally enforceable right to offset current taxation liabilities and assets, and they relate to income taxes levied by the same taxation authority on the same taxable entity.

1.22 Segment reporting

The group determines and presents operating segments based on information that is provided internally to the executive management committee (exco) and to the board of directors. The exco reviews the internal management reports of each segment monthly, while the board reviews internal management reports in respect of each segment at least quarterly.

On a primary basis, the operations are organised into the following business segments: shopping centres, value centres, standalone offices, investments in sub-Saharan Africa (excluding South Africa) and investments in South-Eastern Europe.

1.23 Basic headline and distributable earnings per share

Earnings per share are calculated based on the weighted average number of shares in issue for the year and profit attributable to shareholders. Headline earnings per share is calculated in terms of the requirements set out in Circular 4/2018: *Headline earnings* issued by SAICA.

Distributable earnings per share is calculated in terms of the SA REIT Association's Best Practice Recommendations.

1.24 Non-distributable reserves

The non-distributable reserves relate to items that are not distributable to shareholders, such as fair value adjustments on the revaluation of investment property and derivatives, any impairment adjustments, share-based payment transactions, profit or loss on sale of assets, the straight-line lease income adjustment, deferred taxation and reserves held by the non-controlling interests.

1.25 Key estimations and uncertainties

Estimates and assumptions 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.

Information on the key estimations and uncertainties that have the most significant effect on amounts recognised are set out below:

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. Refer to *note 2 – Investment property*.

1. Accounting policies and presentation of consolidated financial statements continued

1.25 Key estimations and uncertainties continued

Interests in co-ownerships

Judgement is required to identify the relevant activities of the co-ownerships. Interests in co-ownerships are seen as interests in joint operations. There is a sharing of control of the co-owned assets and decisions regarding major capital expenditure projects require unanimous consent by the parties sharing control.

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.

Control over an investee

Management assessed the acquisition of its interest in Hystead and whether it has control over Hystead. It concluded that the company has joint control, and not control, over Hystead.

Investments in joint ventures – equity-accounted investments versus financial instruments

In prior years, management assessed the acquisition of Hystead and considered whether it should form part of joint ventures and be equity accounted or whether the contractual right to receive dividends should be accounted for as a financial asset. The existing contracts give rise to a financial obligation in the Hystead entity to pay dividends.

Accordingly, Hyprop accounts for this investment as a financial asset. During the current year, Hystead acquired AP Retail in Sofia, Bulgaria and Manta in Croatia. Management reassessed the classification and accounting treatment of the investment in Hystead and concluded that classification as a financial asset remained appropriate.

Investments in joint ventures – valuation of financial instrument and deferral of day-one gain

The fair value of the right to receive dividends from Hystead has been valued, based on the present value of future cash flows, at the year-end.

The valuation method includes assumptions derived from unobservable inputs and therefore management has determined that the day-one gain should still be deferred but the fair value movement subsequent to that date should be taken through profit and loss.

Financial guarantees

Hyprop has provided guarantees to banks that have provided funding to Hyprop Mauritius and Hystead. The guarantees are supported by mortgage bonds over certain of Hyprop's South African shopping centres. On consolidation the Hyprop Mauritius guarantees are eliminated. In the case of Hystead (which is a holding company for the investments in South-Eastern Europe), Hyprop has provided guarantees for approximately 18,3% in excess of its 60% shareholding for which it receives an additional 11% share of the Hystead dividend as compensation.

Management assessed the obligations under the guarantees and concluded that these meet the definition of financial guarantees, and the change in value of the guarantees represents a charge or a credit to profit or loss.

The Hazard rate model is used for the valuation of the guarantees, which includes estimates relating to the possibility of a default on the repayment of these loans.

Municipal recoveries

Hyprop acts as a principal in regard to municipal recoveries and accounts for municipal recoveries on a gross basis.

Recovery of loans receivable

Manda Hill and certain of the properties in the AttAfrica portfolio have been negatively affected by the economic conditions of recent years and are producing lower investment returns than what was originally anticipated. The income received from those properties over the next few years is likely be lower than previously modelled. 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. Refer to *note 10 – Loans receivable*.

Key estimates and judgements made in determining the impairments were as follows:

- the long-term nature of the underlying investments;
- the remaining period of the loan (two years);
- the probability that the loans would be restructured and extended in 2020 (with respect to AttAfrica only as Manda Hill has no set maturity date);
- that the negative net asset value included deferred tax liabilities on the revaluation of investment properties that the company believes would not realise on the sale of shares in the SPVs;
- That Kumasi (Ghana) recently opened in April 2017 and future growth is expected.

Notes to the consolidated financial statements continued

for the year ended 30 June

1. Accounting policies and presentation of consolidated financial statements continued

1.26 Standards issued but not yet effective

At the date of approval of these consolidated financial statements, certain new accounting standards, amendments and interpretations to existing standards have been published but are not yet effective, and 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 financial statements or those for which the impact has not yet been assessed, is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the consolidated financial statements namely:

- IFRS 2: *Share-based payment* (effective periods beginning on/after 1 January 2018)
- IAS 40: *Investment property* (effective periods beginning on/after 1 January 2018)
- IFRIC 22: *Foreign currency* transactions and advance considerations (effective periods beginning on/after 1 January 2018)
- IFRIC 23: *Uncertainty over income tax treatments* (effective periods beginning on/after 1 January 2019).

New or amended standard and effective date	Summary of the requirements	Possible impact on group
IFRS 9: *Financial instruments* (annual periods beginning on or after 1 January 2018, retrospectively except for hedge accounting)	The IASB issued the final IFRS 9: *Financial instruments*, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39: *Financial instruments: recognition and measurement*. The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted.	**Classification and measurement:** The group measures its financial instruments at amortised cost and at fair value though profit and loss (FVTPL), however the criteria for classification into these categories are significantly different. This may result in changes in classification between amortised cost and FVTPL. More specific assessment of these impacts will follow closer to the implementation date of the standard. **Impairment:** In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model in IAS 39 to an "expected credit loss" model, which is expected to increase the provision for bad debts recognised in the group as the forward-looking component may introduce additional losses. **Hedge accounting:** The hedge accounting chapter in IFRS 9 incorporates limited changes to (a) increase the eligibility of both hedged items and hedging instruments and (b) introduces a principle-based approach to assessing hedge effectiveness. It is not expected to have a significant effect as the group does not apply hedge accounting.

1. Accounting policies and presentation of consolidated financial statements continued

1.26 Standards issued but not yet effective continued

New or amended standard and effective date	Summary of the requirements	Possible impact on group
IFRS 16: *Leases* (annual periods beginning on or after 1 January 2019)	IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (lessee) and the supplier (lessor). IFRS 16 replaces the previous leases standard, IAS 17: *Leases*, and related interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the statement of financial position. No significant changes have been included for lessors. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted only if the entity also adopts IFRS 15. The transitional requirements are different for lessees and lessors.	**As lessor:** This new standard is not expected to have a significant impact on how the group (as lessor) accounts for leases due to the carry forward of the lessor accounting model from IAS 17. However, the group anticipates providing enhanced disclosures as required by IFRS 16, namely components of lease income, and information on risk management with respect to exposures to residual asset risk. **As lessee:** In the less common instance where the group is a lessee, we do not anticipate significant changes to the accounting as the single material leasehold property in the group is already capitalised in terms of IAS 40. More specific assessment of the impacts on other non-material leases will follow closer to the implementation date of the standard.
IFRS 15: *Revenue from contracts with customers* – Effective for the financial reporting period ending 30 June 2019	IFRS 15 requires entities to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is achieved through a five-step methodology that is required to be applied to all contracts with customers.	Leases are specifically scoped out of IFRS 15. The standard will have an immaterial impact on the group when implemented.