

# Notes to the consolidated financial statements continued

for the year ended 30 June

## 7. Financial asset

Hyprop has a 60% interest in Hystead, a UK-based property investment company. The effective date of the investment was 3 December 2015.

The shareholders' agreement between Hyprop and the 40% shareholder (PDI investment Holdings Limited) includes reserved matters and voting rights such that Hyprop has joint control of Hystead. Hystead invests, directly or indirectly, in shopping centres in Europe.

	2018 R000	2017 R000
Percentage ownership interest (%)	60	60
Dividends received by Hyprop	180 525	146 350

In prior years, management assessed the provisions of the Hystead shareholders' agreement and considered whether the investment 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 contracts in place give rise to a financial obligation in the Hystead entity to pay dividends.

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

The fair value of Hyprop's investment in Hystead was initially determined as R1,5 billion (EUR89,8 million) at the date of acquisition. The day-one gain of R1,5 billion was deferred (in accordance with IFRS), as the valuation method included assumptions derived from unobservable inputs. Subsequently the day-one gains on all acquisitions have been treated in the same manner and deferred. Subsequent fair value movements in the financial asset are recognised, resulting in a total deferred gain of R3,8 billion (EUR235,5 million) at year-end.

In return for credit enhancement provided to PDI by Hyprop, Hyprop receives an increased right to dividends from Hystead (disproportionate to its shareholding), while the guarantee is in place (refer to *note 8 – Financial guarantees*).

The fair value of Hyprop's investment in Hystead at 30 June 2018 was based on its right to receive estimated dividends from Hystead as a result of its ownership of 60% (2017: 60%) of the company as well as its right to the credit enhancement fee, equivalent to a further shareholding of 11% (2017: 18%) until the expiry of the shareholders' agreement in May 2021.

The most significant inputs to the valuation process, all of which are unobservable, are the discount rate and the exit capitalisation rate. The estimated fair value increases if the discount rates and exit capitalisation rates decline or if the growth rates increase.

The inputs used in the valuations at 30 June 2018 were:

- Growth rates between (17,8%) and 0,6% with a weighted average of (0,3%)
- Discount rates between 7% and 8% with a weighted average of 7,4%
- Exit capitalisation rates between 5,3% and 7,3% with a weighted average of 6%
- Terminal growth rates between 0,8% and 2% with a weighted average of 1,5%.

## 7. Financial asset continued

The following table provides a reconciliation of the opening balances and closing balances of the Hystead financial asset:

	2018 R000	2017 R000
<b>7.1 Net financial asset</b>	121 576	
Financial asset	3 891 691	2 022 282
Deferred gains on financial asset	(3 770 115)	(2 022 282)
<b>Balance at 1 July – financial asset</b>	2 022 282	1 472 754
Additions (new properties acquired)	2 626 646	661 868
Unrealised foreign exchange gain/(loss)	194 480	(112 340)
Change in percentage held (reduction in level of credit enhancement)	(402 631)	
Fair value movement through profit or loss	(549 086)	
Subtotal (fair value) at 30 June	3 891 691	2 022 282
Additions (directly related to financial guarantees)	33 815	163 855
Fair value movement through profit or loss	(33 815)	(163 855)
<b>Balance at 30 June – financial asset</b>	3 891 691	2 022 282
<b>Balance at 1 July – deferred gains on financial asset</b>	(2 022 282)	(1 472 754)
Additions (new properties acquired)	(2 626 646)	(661 868)
Unrealised foreign exchange (loss)/gain	(138 923)	112 340
Change in percentage held	393 864	
Fair value movement through profit or loss	623 872	
<b>Balance at 30 June – deferred gains on financial asset</b>	(3 770 115)	(2 022 282)
<b>Net financial asset</b>	121 576	
<b>7.2 Movements through profit or loss</b>	87 761	(163 855)
<i>Total movements on financial asset before guarantees</i>	121 576	
Movement on financial asset	1 869 409	549 528
Movement on deferral of financial asset	(1 747 833)	(549 528)
Fair value adjustment to financial asset on guarantees	(33 815)	(163 855)
<b>7.3 Reconciliation of share of net assets to statement of financial position</b>		
Opening balance	(1)	(1)
Additions (capital injection)	30 980	
Total movements on financial asset before guarantees	121 576	
<b>Balance at end of the year</b>	152 556	

<sup>(1)</sup> Value less than R1 000