D. PROFIT OR LOSS

D1 REVENUE AND MINIMUM LEASE PAYMENTS

D1.1 Revenue

D1.1.1 Accounting policy

Revenue consists of:

a. Rental and other lease income – governed by IAS 17: *Leases*
b. Recoveries – governed by IFRS 15: *Revenue from contracts with customers*.

Rental and other lease income

Rental and other lease income represents the amounts receivable for services provided, net of value added tax, and is measured at the fair value of the consideration received or receivable.

Rental and other lease income comprise contractual rental income, 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 parking is recognised when the service is rendered.

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

Recoveries

Recoveries income represent the transaction price, i.e. the amount of the consideration which the entity expects to receive for services provided, net of value added tax. The group retains primary responsibility for the provision of the services, and considers itself the principal supplier of such services in this respect.

Recoveries are recognised on an accruals basis in line with the service being provided. Accordingly the group maintains its recording of service charge income on a gross basis.

Performance obligations related to recovery income

a. When the entity typically satisfies its performance obligations	• Services are rendered during the month. Revenue is recognised at a point in time (the end of the month in which the service is rendered).
b. The significant payment terms	• Payment from tenants is due on the 1st of each month.
c. Variability of the consideration payable	• Recoveries are typically fixed for cleaning, security and marketing contributions based on contracted expenses for a period • Utility recoveries are charged either at a flat rate per unit or at a variable rate per unit depending on time of use.
d. The nature of the goods or services that the entity has undertaken/agreed to transfer	• Services rendered include the provision of utilities, cleaning, security and marketing services for a calendar month.

D1.1.2 Profile

	GROUP		COMPANY	
	30 June 2019 R000	30 June 2018 R000	30 June 2019 R000	30 June 2018 R000
Rental and other lease income (recorded in accordance with IAS 17: *Leases*)	2 330 177	2 244 650	2 157 540	2 071 763
Contractual rental income	2 123 044	2 030 287	1 958 379	1 865 546
Turnover rent	40 610	46 246	40 610	46 246
Parking income	102 389	103 876	99 976	101 846
Marketing and promotions recovery	64 134	64 241	58 575	58 125
Straight-line rental income accrual	(87 887)	(3 847)	(81 399)	(4 696)
Lease income	2 242 290	2 240 803	2 076 141	2 067 067
Recoveries (non-lease income recorded in accordance with IFRS 15)	975 558	872 910	927 706	822 068
Municipal cost recoveries	720 434	630 536	696 444	606 431
Operating cost recoveries	236 973	226 752	214 862	200 715
Other recoveries	18 151	15 622	16 400	14 922
Revenue	3 217 848	3 113 713	3 003 847	2 889 135

Notes to the consolidated and separate financial statements continued

for the year ended 30 June 2019

D. PROFIT OR LOSS continued

D1 REVENUE AND MINIMUM LEASE PAYMENTS continued

D1.2 Minimum lease payments receivable

Minimum lease payments comprise contractual rental income and operating costs recoverable from tenants in terms of existing lease agreements.

	GROUP AND COMPANY	
	30 June 2019 R000	30 June 2018 R000
The minimum lease payments receivable from tenants have been classified into the following time periods:		
– Short term (up to one year)	2 104 186	1 992 472
– Medium term (greater than one year and up to five years)	4 163 614	3 876 110
– Long term (greater than five years)	1 284 452	1 138 838
Total minimum lease payments receivable	7 552 252	7 007 420

Minimum lease payment disclosures exclude held-for-sale properties.

D2 PROPERTY EXPENSES AND OTHER OPERATING COSTS

		GROUP		COMPANY	
	Note	30 June 2019 R000	30 June 2018 R000	30 June 2019 R000	30 June 2018 R000
D2.1 Property expenses comprise:		1 132 002	1 018 803	1 068 708	943 321
Municipal expenses		722 734	624 528	707 874	609 455
Other utilities		35 063	29 959	15 494	11 967
Security		55 081	51 570	52 975	49 720
Cleaning		44 421	42 159	43 025	40 907
Marketing		44 333	42 059	42 577	40 063
Maintenance		38 491	36 564	35 054	33 424
Air-conditioning		17 003	17 010	15 581	15 244
Depreciation		41 809	37 773	40 123	36 021
Legal fees		3 544	1 435	3 049	509
Salaries and staff-related expenses		73 753	66 722	69 022	61 746
Audit fees – external	D2.3	1 991	2 790	1 581	1 478
Audit fees – internal		789	567	789	567
Insurance		8 248	7 762	6 747	6 380
Professional fees		3 486	2 702	2 795	2 282
Computer expenses and licences		3 117	3 223	3 112	3 204
Net foreign exchange losses		2 974	16 943	–	–
Other property costs		35 165	35 037	28 910	30 354
D2.2 Other operating expenses comprise:		41 600	55 778	40 526	54 586
Salaries and staff-related expenses		37 519	55 265	37 519	55 265
Share-based payment expense		10 365	11 174	10 365	11 174
Non-executive directors' remuneration		4 319	3 646	4 319	3 646
Audit fees – external	D2.3	2 937	1 168	2 708	916
Audit fees – internal		850	521	850	521
Insurance		306	193	306	193
Professional fees		1 748	598	1 675	522
Computer expenses and licences		1 770	1 464	1 770	1 464
Legal fees		1 178	1 175	1 178	1 175
Corporate social investment		1 925	1 884	–	–
Depreciation		400	376	400	376
Hystead asset management and accounting fees received		(27 715)	(17 338)	(27 715)	(17 338)
Net foreign exchange gains		(3 113)	(10 699)	(3 113)	(10 699)
Investor relations and related costs		2 457	2 091	2 457	2 091
Ratings and regulatory fees		1 835	1 564	1 835	1 564
Other		4 819	2 696	5 972	3 716

D2.3 Audit fees

	GROUP		COMPANY	
	30 June 2019 R000	30 June 2018 R000	30 June 2019 R000	30 June 2018 R000
Included in expenses are the following amounts:				
Paid to the external auditors for the attest function (KPMG and Ernst & Young Nigeria)	4 928	2 646	4 289	2 394
Paid to the external auditors for the other approved services (KPMG Services)	271	–	271	–
Paid to KPMG Nigeria for the other approved services	204	420	–	–

D3 INTEREST

D3.1 Accounting policy

Interest income – Interest earned on cash invested at financial institutions is recognised on an accrual basis using the effective interest rate method. Interest earned on loans receivable is recognised on an accrual basis using the effective interest rate method, other than loans which are credit impaired (stage 3 loans) where interest is only accrued on the net balance (i.e. the outstanding balance less credit impairments).

Interest expense – Interest expense is calculated on the effective interest rate method. Borrowing costs, except those capitalised to a qualifying asset, are recognised as an expense in the period in which they are incurred.

Capitalised interest expense – Interest 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 borrowed funds 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.

	GROUP		COMPANY	
	30 June 2019 R000	30 June 2018 R000	30 June 2019 R000	30 June 2018 R000
Interest income	156 043	312 550	77 152	70 511
Positive bank balances	72 969	90 412	72 920	69 941
Loans receivable	83 074	222 138	4 232	570
Interest expense	(617 198)	(594 823)	(313 257)	(351 357)
Borrowings	(570 118)	(580 353)	(313 257)	(358 022)
Capitalised	–	6 665	–	6 665
Non-controlling shareholder loan	(27 675)	(39 671)	–	–
Fair value adjustment on non-controlling shareholder loan	(19 404)	18 536	–	–
Net interest	(461 155)	(282 273)	(236 105)	(280 846)

D4 DIVIDENDS RECEIVED

D4.1 Accounting policy

Dividend income is recognised in the statement of profit or loss and other comprehensive income when the dividend has been declared.				
Hystead	221 190	180 525	221 190	180 525
Hyprop share scheme	–	–	–	3 491
Word4Word	–	2 253	–	2 253
Hyprop Mauritius	–	–	–	55 403
Total	221 190	182 778	221 190	241 672

Notes to the consolidated and separate financial statements continued

for the year ended 30 June 2019

D. PROFIT OR LOSS continued

D5 OPERATING COMMITMENTS

Hyprop has entered into various service contracts for the cleaning, upkeep and general maintenance of its investment property portfolio. Operating expense commitments payable under existing service contracts to service providers in future years have been classified as follows:

	GROUP		COMPANY	
	30 June 2019 R000	30 June 2018 R000	30 June 2019 R000	30 June 2018 R000
Short term (up to one year)	1 826	2 768	1 826	1 909
Total	1 826	2 768	1 826	1 909

The operating commitments disclosures exclude held-for-sale properties.

Contracts which can be terminated on one month's notice have been included for one month only.

D6 TAXATION

D6.1 Accounting policy

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

The charge for normal 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.

Normal taxation liabilities/(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.

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 biannual dividend declared to Hyprop shareholders is deductible against Hyprop's taxable income. As a consequence of this deduction (which historically has exceeded the company's taxable income) South African taxable income and income taxation is usually reduced to zero.

D6.2 Taxation expense

		GROUP		COMPANY	
	Note	30 June 2019 R000	30 June 2018 R000	30 June 2019 R000	30 June 2018 R000
Major components of the taxation expense					
Normal taxation		427	4 381	–	–
Current year		427	3 583	–	–
Prior year		–	798	–	–
Deferred taxation		(93 455)	35 105	1 730	11 838
Current year		(93 800)	32 178	1 385	11 820
Prior year		345	2 927	345	18
Total taxation expense		(93 028)	39 486	1 730	11 838

D6.3 Reconciliation of taxation charge

	Note	GROUP 30 June 2019 R000	GROUP 30 June 2018 R000	COMPANY 30 June 2019 R000	COMPANY 30 June 2018 R000
Profit before tax		18 508	2 560 409	322 092	2 254 988
Notional taxation at 28%		5 182	716 915	90 186	631 397
Adjusted for:		(98 210)	(677 429)	(88 456)	(619 559)
REIT dividend		(508 258)	(485 752)	(508 258)	(485 752)
Income exempt from tax and non-tax deductible expenses	D6.4	392 834	(184 731)	390 750	(164 257)
Prior year tax adjustments: Normal taxation		–	798	–	–
Prior year tax adjustments: Deferred taxation		345	2 927	345	18
Imputed income from Hyprop Mauritius and Hystead		28 707	30 433	28 707	30 432
Adjustment in respect of foreign tax rates		(11 838)	(41 103)	–	–
Total taxation expense		(93 028)	39 486	1 730	11 838

D6.4 Income exempt from tax and non-tax deductible expenses

	GROUP		COMPANY	
	30 June 2019 R000	30 June 2018 R000	30 June 2019 R000	30 June 2018 R000
Income exempt from tax and non-tax deductible expenses comprises the following:				
Changes in fair value:				
Investment property	44 473	(182 436)	44 473	(182 436)
Derivative instruments	12 908	(8 144)	10 526	(4 133)
Financial asset	23 864	(24 573)	23 864	(24 573)
Convertible loan – Gruppo	(16 300)	20 760	–	–
Derecognition of financial guarantees	(51 992)	(3 356)	(61 258)	(21 635)
Straight-line rental income accrual	22 792	1 315	22 792	1 315
Profit on disposal of assets	(791)	(755)	(791)	(755)
Non-taxable dividend received	(61 933)	(50 547)	(61 933)	(66 060)
Impairment of joint venture	–	2 829	–	–
Impairment of loan to joint venture/intercompany loan	427 642	46 603	415 909	–
Impairment in investment in subsidiary	–	–	4 562	130 188
Reversal of wear and tear allowances on asset sales	(8 510)	(265)	(8 510)	(264)
Other	681	13 837	1 116	4 096
Total income exempt from tax and non-tax deductible expenses	392 834	(184 732)	390 750	(164 257)
Net unrecognised tax losses	–	–	–	–
Assessed tax losses available for utilisation against future taxable income	279 008	279 008	279 008	279 008
Applied to reduce deferred taxation liability	(279 008)	(279 008)	(279 008)	(279 008)

E. PROPERTY INVESTMENTS AND RELATED ITEMS

E1 INVESTMENT PROPERTY

E1.1 Accounting policy

Investment properties are properties held to earn rental income and/or for capital appreciation.

Rental income from investment property is recognised as revenue on a straight-line basis over the term of the lease.

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 at least an annual basis by an independent registered valuer, or fair value less cost to sell, based on market evidence.

Gains or losses arising from changes in fair value, after deducting the straight-line rental income accrual, are included in net 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 when 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/from non-distributable reserves in the statement of changes in equity.