Notes to the consolidated and separate financial statements

for the year ended 30 June 2020

A. ACCOUNTING POLICIES

A1 SIGNIFICANT ACCOUNTING POLICIES

A1.1 Statement of compliance

Hyprop Investments Limited is a listed REIT, incorporated in South Africa whose registered office is 2nd Floor Cradock Heights, 21 Cradock Avenue, Rosebank, 2196. Hyprop owns and manages retail and office investment properties in South Africa, Eastern Europe and sub-Saharan Africa.

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 2019, save as disclosed in note A3 - *Changes in accounting policies and disclosures.*

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. ACCOUNTING POLICIES *continued*

A1. SIGNIFICANT ACCOUNTING POLICIES *continued*

A1.3 BASIS OF CONSOLIDATION *continued*

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.

A2 KEY JUDGEMENTS AND ESTIMATIONS

A2.1 Policy choices

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):

Item	Option	Policy choice and impact	Note
Investment property	IAS 40: *Investment property* 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: *Financial instruments* require all equity investments within their 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
Investments in subsidiaries, joint operations and associates	In terms of IAS 27: *Consolidated and separate financial statements, 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: *Investments in associates and joint ventures*.	The Group has elected to recognise these investments at cost in the separate financial statements.	E4 and E5

A2.2 Remaining accounting policies

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

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. The outbreak of Covid-19, declared by the World Health Organisation as a "Global Pandemic", has impacted global financial markets. Market activity has been impacted in many sectors and therefore less weight has been attached to market evidence for comparative purposes to inform opinions of the values. Given the unknown future impact that Covid-19 might have on the real estate market, less certainty should be attached to the valuations.	E1
Classification as an associate or joint venture: AttAfrica	Management has considered whether the investment in AttAfrica should be classified as a joint venture or an associate. Each of the two shareholders in AttAfrica (one of which is Hyprop Mauritius) have a 50% (2019: 37.5%) shareholding in AttAfrica. Based on the shareholders agreement (concluded during the 2020 financial year), decisions regarding the relevant activities need to be agreed to by both shareholders in respect of their shareholding. Accordingly, Hyprop concluded that Hyprop Mauritius has joint control of AttAfrica.	E5
Interests in co-owned assets/ joint operations: ***Canal Walk*** ***The Glen***	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 shared 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.	E5
Recovery of loans receivable and investment in AttAfrica: ***AttAfrica***	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 anticipated. In addition, during the 2019 financial 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. The outbreak of Covid-19 in the current financial year has impacted the real estate market globally and resulted in a decrease in the valuation of the underlying property assets of AttAfrica. The decrease in the NAV of AttAfrica impacted the already credit impaired (stage 3) loan receivable. The ordinary and preference shares in, and shareholder loan to AttAfrica, which reflect Hyprop's share of the value of the underlying property investments at Group level, have therefore been impaired. Key estimates and judgements made in determining the expected credit losses are as follows: - 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 conversion of loans receivable to preference shares in AttAfrica during the year - The expected realisation date of the loans - The expected performance of the underlying investments - The probability of the loans being restructured/refinanced beyond the current maturity dates. In calculating the recoverable amount, no probability-weighted outcomes are used as the directors have assumed a 100% loss given default on the calculated shortfall.	F1

A. ACCOUNTING POLICIES *continued*

A2. KEY JUDGEMENTS AND ESTIMATIONS *continued*

Item	Nature of judgement or estimation	Note
Control over an investee: *Hystead*	Management assessed whether it has control over Hystead based on the suite of agreements which govern the relationship between the shareholders of Hystead. Due to the strategic nature of the reserved 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.	E6
Classification as an equity-accounted investment or financial instrument: *Hystead*	Management has 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. Based on the provisions of the suite of agreements which govern the relationship between the shareholders of Hystead, Hystead has a contractual 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. Management reassessed the classification and accounting treatment of the investment in Hystead and concluded that the classification as a financial asset remains appropriate.	E6
Valuation of financial asset and deferral of day-one gain: *Hystead*	The fair value of the right to receive dividends from Hystead has been valued based on the present value of anticipated future cash flows (dividends). 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.	E6
Financial guarantees: *Hystead and Hyprop Mauritius*	The financial guarantees are valued at the higher of the IFRS 9 expected credit loss (ECL) allowance or the initial fair value. 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. All guaranteed loans are term loans with only interest being serviced quarterly. The capital is repayable at the end of the loan term.	H3
Allowances for expected credit losses: *Trade receivables*	Trade receivables have been assessed for impairment based on lifetime expected credit losses using the simplified approach permitted by IFRS 9. An estimate is made of credit losses based on a review of all outstanding amounts at year end. The expected credit losses are based on the payment profiles of trade receivables over a 24 month period and take into account the known financial circumstances of each tenant. The expected losses are adjusted for macroeconomic conditions which may affect the tenants' ability to pay as well as tenant-specific factors including: - historical defaults on payment terms, - known insolvency and - the legal status of the receivables. The impact of Covid-19 on the economies in which the Group operated has had a negative effect on many of the Group's tenants' businesses and resulted in a significant increase in the expected credit losses. Forward-looking information on economic and industry factors such as industry outlook, employment, trading conditions, Covid-19 related restrictions and lockdowns and GDP informs the probability of default going forward.	F2.2

Item	Nature of judgement or estimation	Note
Investment in Edcon	In April 2020 Edcon filed for business rescue citing the loss of revenue due to Covid-19 as the main reason. The business rescue practitioners' plan was approved by the creditors of Edcon on 22 June 2020. The plan is based on a successful sale of the remaining Edcon brands, which process is ongoing. Depending on the proceeds realised through the sale of the Edcon brands, holders of the Tranche C mandatory convertible instruments and A class ordinary shares in Edcon (which includes Hyprop) may receive a liquidation distribution from Edcon. The directors consider it prudent to adjust the fair value of the Group's investment in Edcon to zero until there is tangible evidence of any liquidation distribution or other recovery of this investment.	F4
Taxation	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. 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. 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. 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.	I1

A. ACCOUNTING POLICIES *continued*

A3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended IFRS Standards that are effective for the current year

IFRS 16: *Leases*

With effect from 1 July 2019, the Group has applied IFRS 16 (as issued by the IASB in January 2016) which is effective for annual periods that begin on or after 1 January 2019. The Group applied IFRS 16.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between an operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

The impact of the adoption of IFRS 16 on the Group's consolidated financial statements is described below.

(a) Impact of the new definition of a lease

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered into or modified before 1 July 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on "risks and rewards" in IAS 17 and IFRIC 4.

The Group applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after 1 July 2019. The new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Group.

(b) Impact on lessor accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases, and accounts for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular, with regard to how a lessor manages the risks arising from its residual interest in leased assets.

IFRS 16: *Leases* contains detailed guidance on how to account for lease modifications. A lease modification is defined as a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease. A lease modification includes adding or terminating the right to use one or more of the underlying assets, or extending or shortening the contractual lease term. Therefore, the Group has reassessed those leases affected by modifications of the consideration or the lease term due to Covid-19.

Amendments to IAS 28: Long-term interests in associates and joint ventures

The Group has adopted the amendments to IAS 28 for the first time in the current year. The Group applied the amendment with effect from 1 July 2019.

The amendment clarifies that IFRS 9, including its impairment requirements, applies to other financial instruments in an associate or joint venture to which the equity method is not applied.

These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The Group applies IFRS 9 to such long-term interests before it applies IAS 28. In applying IFRS 9, the Group does not take account of any adjustments to the carrying amount of long-term interests required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

IFRIC 23: *Uncertainty over income tax treatments*

The Group has adopted IFRIC 23 for the first time in the current year. The Group applied the amendment with effect from 1 July 2019.

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments.

The interpretation requires the Group to:

a) determine whether uncertain tax positions are assessed separately or as a Group; and

b) assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:

- If yes, the Group should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
- If no, the Group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

The adoption of the new accounting standards set out above did not have a material effect on the consolidated or separate financial statements.

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):

There are no standards in this category.

(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:

A. ACCOUNTING POLICIES *continued*

A4. STANDARDS ISSUED BUT NOT YET EFFECTIVE *continued*

Amendments to IFRS 3: *Business Combinations*
The amendments narrow and clarify the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments are effective for the Group from 1 July 2020 and will be applied prospectively to future business combinations.

Amendments to IAS 1 and IAS 8 - Definition of material
The amendments clarify and align the definition of '"materiality" and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of "obscuring" material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from "could influence" to "could reasonably be expected to influence".

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term "material" to ensure consistency.

The amendments are effective for the Group from 1 July 2020 and will be applied prospectively.

Amendments to IAS 1: *Presentation of financial statements*
The amendments provide guidance on the classification of liabilities as current or non-current in the statement of financial position and do not impact the amount or timing of recognition of any asset, liability, income or expenses, or the information that entities disclose about those items. The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in place at the end of the reporting period which enable the reporting entity to defer settlement by at least twelve months and also make it explicit that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. The amendments are effective for the Group from 1 July 2023, will be applied retrospectively and are not expected to significantly impact the Group.

Amendments to references to the conceptual framework in IFRS standards
Together with the revised conceptual framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to references to the conceptual framework in IFRS standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised conceptual framework.

The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted.