

**FAIRVEST PROPERTY HOLDINGS LIMITED**

Registration number 1998/005011/06

Six months ended 31 December 2017

**PRELIMINARY SUPPLEMENTARY REPORT WITH INFORMATION REQUIRED BY PARAGRAPH 16A(J) OF IAS 34****FAIR VALUE HIERARCHY**

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1 quoted prices (unadjusted) in active markets for identical financial assets.  
 Level 2 inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).  
 Level 3 inputs for the asset or liability that are not based on observable market data (unobservable inputs).

<b>Group</b>	<b>Level 2 Dec-17 R'000</b>	<b>Level 3 Dec-17 R'000</b>	<b>Fair value Dec-17 R'000</b>
<b>Financial assets</b>			
Investment property	–	2 750 636	2 750 636
Investments	2 196	–	2 196
<b>Total</b>	<b>2 196</b>	<b>2 750 636</b>	<b>2 752 832</b>
<b>Financial liabilities</b>			
Interest-bearing borrowings	–	929 964	929 964
Derivative financial instruments	4 279	–	4 279
<b>Total</b>	<b>4 279</b>	<b>929 964</b>	<b>934 243</b>

There were no transfers in or out of level 3 during the reporting period.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

**LEVEL 3 – RECONCILIATIONS**

	<b>Dec-17 R'000</b>
<b>1. INVESTMENT PROPERTY</b>	
Investment property	2 750 636
Operating lease asset	50 464
<b>Market value of investment property portfolio</b>	<b>2 801 100</b>
<b>Reconciliation of investment property</b>	
Carrying amount at the beginning of the period	2 157 747
Additions and cost capitalised	201 322
Acquisition of subsidiary	322 435
Fair value adjustment	69 132
Carrying amount at the end of the period	2 750 636
Operating lease asset	50 464
<b>Market value of investment property portfolio</b>	<b>2 801 100</b>

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**Six months ended 31 December 2017****PRELIMINARY SUPPLEMENTARY REPORT WITH INFORMATION REQUIRED BY PARAGRAPH 16A(J) OF IAS 34****1. INVESTMENT PROPERTY CONTINUED****Fair value measurement**

The fair value gains on investment property are included in profit or loss.

The fair value measurement for the investment property of R2.80 billion has been categorised as a level 3 fair value hierarchy using inputs that are not based on observable market data (unobservable inputs).

**Property valuations**

In determining the fair value of an investment property, the fair value is estimated on the basis of highest and best use, using an income approach which capitalises the estimated rental income, net of projected operating costs, using a discount rate derived from market yields. The estimated rental income takes into account current occupancy levels, estimates of future vacancy levels, the terms of in-place leases and expectations of rentals from future leases over the remaining economic life of the buildings.

The most significant inputs, all of which are unobservable, are the:

- estimated rental income;
- assumptions regarding vacancy levels;
- discount rate; and
- reversionary capitalisation rate.

The estimated fair value increases if the estimated rental increases, vacancy levels decline or if the discount rate (market yields) and reversionary capitalisation rate decline. The overall valuations are sensitive to all four assumptions. The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

The most significant inputs used in the valuations were:

- The range of the reversionary capitalisation rates applied to the portfolio are between 9.00% and 11.00% with the weighted average being 10.17%.
- The discount rates (annual effective rates) applied range between 14.00% and 16.00% with the weighted average being 15.01%.
- Changes in discount and capitalisation rates attributable to changes in market conditions can have a significant impact on property valuations.
  - o A 25 basis points increase in the discount rate will decrease the value of the investment property by R27.9 million or 1.00%.
  - o A 25 basis points decrease in the capitalisation rate will increase the value of investment property by R45.3 million or 1.62%.

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	Dec-17 R'000
<b>2. INVESTMENTS</b>	
<i>Fair value through profit or loss</i>	
Cadiz Life Limited – Endowment Policy	2 196
<b>Reconciliation of movements</b>	
Carrying value at the beginning of the period	2 154
Unrealised fair value gains	42
<b>Carrying value at the end of the period</b>	<b>2 196</b>

An investment of R2 million was made in Cadiz Life Limited's, Cadiz Enterprise Development Fund in 2015, which contributes to Fairvest's Enterprise Development spend for BBBEE purposes.

The investment, via an endowment policy, was valued at fair value at 31 December 2017 by Cadiz Life which is based on the aggregate of the market value of the investments in the underlying fund and the method is unchanged from the prior reporting period. The fair value is based on a level 2 fair value measurement hierarchy.

**3. INTEREST-BEARING BORROWINGS**

<b>Reconciliation to the statements of financial position</b>	
Long-term	531 866
Short-term	398 098
	<b>929 964</b>
<b>Reconciliation of movements</b>	
Carrying value at the beginning of the period	496 991
Advanced/repaid during the period	268 441
Transaction cost capitalised	1 517
Finance costs accrued	5 317
Subsidiary acquired	157 698
<b>Carrying value at the end of the period</b>	<b>929 964</b>

**Fair value measurement**

Variable interest rates are market related and therefore the fair value of loans bearing interest at variable rates is equal to the nominal value. For loans with fixed interest rates fair value has been determined by discounting the contractual cash flows at interest rates derived from the yield curve at reporting date applicable to the period to maturity.

The fair value of interest-bearing borrowings is based on a level 3 fair value hierarchy using inputs that are not based on observable market data (unobservable inputs).

The group have complied with all bank covenants during the reporting period.

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	Dec-17
	R'000
<b>4. DERIVATIVE INSTRUMENTS</b>	
<i>Measured at fair value through profit or loss</i>	
Nedbank	168
RMB	1 728
ABSA	503
Standard Bank	1 880
	<b>4 279</b>
<b>Reconciliation of movement</b>	
Opening balance	4 404
Fair value adjustment	(125)
<b>At fair value</b>	<b>4 279</b>

The derivative instruments were valued by Nedbank, ABSA, Standard Bank and RMB by discounting the future cash flows using the JIBAR swap curve.

**5. ACCOUNTING POLICIES****a. Investment property**

Investment property are properties held for the purpose of earning rental income and/or capital appreciation or both. Properties are stated initially at cost on acquisition, which comprises the purchase price and directly attributable expenditure.

Subsequent expenditure is capitalised to the extent that it is probable that future economic benefits will flow to the group as a result of the expenditure and the cost can be measured reliably. Costs include costs incurred initially and costs incurred subsequently to add to, or replace a part of, or service a property.

Subsequent to initial recognition investment property are measured at fair value. Fair market value is the open market value, which, in the opinion of the directors, is the fair market price at which an asset or liability would have been sold for or transferred unconditionally in an orderly transaction between market participants at reporting date. Independent valuations are obtained on a rotational basis, ensuring that every property is valued at least once every three years by an external independent valuer. The directors value the remaining properties annually on an open-market basis. The method used for valuations is either the discounted cash flow method or the capitalisation of net income method or a combination of these methods. Any surpluses or deficits arising from the change in the fair value of the investment property are included in profit or loss in the period in which they arise.

Immediately prior to disposal of an investment property, the investment property is revalued to the fair value less cost of disposal and such revaluation is recognised in profit or loss during the period in which it occurs.

**b. Investments**

Investments comprise an investment in the Inyosi Enterprise and Supplier Development Investment (previously Cadiz Enterprise Development Fund), which upon initial recognition was designated as at fair value through profit or loss. Investments are subsequently measured at fair value. The gain or loss on remeasurement to fair value is recognised in profit or loss.

**c. Interest-bearing borrowings**

The company has elected to recognise interest-bearing borrowings, at fair value through profit or loss, with gains or losses being recognised in profit or loss. The fair value is estimated by discounting the future cash payments using the market rate applicable at the reporting date.

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**5. ACCOUNTING POLICIES CONTINUED**

**d. Derivative instruments**

The group uses derivative financial instruments to hedge its exposure to interest rate risk arising from its financing activities. In accordance with its treasury policy, the group does not hold or issue derivative financial instruments for trading purposes. However, as the hedge relationship is not designated as a hedge for accounting purposes, the derivatives are accounted for as trading instruments.

Derivative financial instruments are initially recognised and subsequently measured at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. The group holds interest rate swap derivative instruments. The fair value of an interest rate swap is the estimated amount that the group would receive or pay to terminate or transfer the swap at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparty.