FAIRVEST PROPERTY HOLDINGS LIMITED
Registration number 1998/005011/06
Six months ended 31 December 2018

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

FAIR VALUE HIERARCHY

Group	Level 2 Dec-18 R'000	Level 3 Dec-18 R'000	Fair value Dec-18 R'000
Financial assets			
Investment property	**–**	**3 074 666**	**3 074 666**
Investments	**4 768**	–	**4 768**
Total	**4 768**	**3 074 666**	**3 079 434**
Financial liabilities			
Interest-bearing borrowings	–	**857 030**	**857 030**
Derivative financial instruments	**2 869**	–	**2 869**
Total	**2 869**	**857 030**	**859 899**

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).

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

	Dec-18 R'000
1. INVESTMENT PROPERTY	
Investment property	**3 074 666**
Operating lease asset	**65 334**
Market value of investment property portfolio	**3 140 000**
Reconciliation of investment property	
Carrying amount at the beginning of the period	**2 928 514**
Additions and cost capitalised	**96 712**
Fair value adjustment	**49 440**
Carrying amount at the end of the period	**3 074 666**
Operating lease asset	**65 334**
Market value of investment property portfolio	**3 140 000**

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 R3.14 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:

- discount rate; and
- reversionary capitalisation rate.

Other unobservable inputs used were:

- estimated rental income; and
- assumptions regarding vacancy levels.

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 9.25% and 11.00% (Dec-17: between 9.00% and 11.00%) with the weighted average being 10.17% (Dec-17: 10.17%).
- The discount rates (annual effective rates) applied range between 14.00% and 16.00% (Dec-17: between 14.00% and 16.00%) with the weighted average being 14.73% (Dec-17: 15.01%).
- Changes in discount and capitalisation rates attributable to changes in market conditions can have a significant impact on property valuations.
    - A 25 basis points increase in the discount rate will decrease the value of the investment property by R27.2 million or 0.87% (Dec-17: R27.9 million or 1.00%).
    - A 25 basis points decrease in the capitalisation rate will increase the value of investment property by R49.8 million or 1.59% (Dec-17: R45.3 million or 1.62%).

FAIRVEST PROPERTY HOLDINGS LIMITED
Registration number 1998/005011/06
Six months ended 31 December 2018

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

	Dec-18 R'000
2. INVESTMENTS	
Fair value through profit or loss	
Cadiz Life Limited – Endowment Policy	**4 768**
Reconciliation of movements	
Carrying amount at the beginning of the period	**4 772**
Unrealised fair value losses	**(4)**
Carrying amount at the end of the period	**4 768**

R4.6 million was invested in 2015 and 2018 in Cadiz Life Limited's, Inyosi Enterprise and Supplier Development Investment, which contributes to Fairvest's Enterprise and Supplier Development spend for BBBEE purposes.

The investment, via an endowment policy, was valued at fair value at 31 December 2018 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

Reconciliation to the statements of financial position	
Non-current	**448 503**
Current	**408 527**
	857 030
Reconciliation of movements	
Carrying amount at the beginning of the period	**754 776**
Advanced during the period	**504 386**
Repaid during the period	**(404 488)**
Transaction cost capitalised	**523**
Finance costs accrued	**1 833**
Carrying amount at the end of the period	**857 030**

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.

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 has complied with all bank covenants during the reporting period.

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

		Dec-18 R'000
4.	**DERIVATIVE INSTRUMENTS**	
	Measured at fair value through profit or loss	
	RMB	**678**
	ABSA	**72**
	Standard Bank	**2 119**
		2 869
	Reconciliation of movement	
	Opening balance	**2 073**
	Fair value adjustment	**(796)**
	At fair value	**2 869**

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 POLCIES

a. Investment property

Investment property comprise both freehold and leasehold land and buildings and are properties held for the purpose of earning rental income and/or capital appreciation or both. Leasehold properties consist of buildings acquired and/or developed on leased land for which rental payments are made to the lessor. Leasehold properties that are leased to tenants under operating leases are accounted for as investment properties.

Investment property is initially measured at cost and subsequently measured at fair value with any change therein recognised in profit or loss.

Fair market value is the open market value, which, in the opinion of the directors, is the fair market price at which an asset 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.

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. Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

b. Investments

Investments comprise an investment in the Inyosi Enterprise and Supplier Development Investment, which upon initial recognition was designated 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 group 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. The measurement inconsistency this election creates is eliminated with the investment property also being recognised at fair value.

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

5. ACCOUNTING POLCIES 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. 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 subsequently measured at fair value. The gain or loss on remeasurement to fair value is recognised 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.