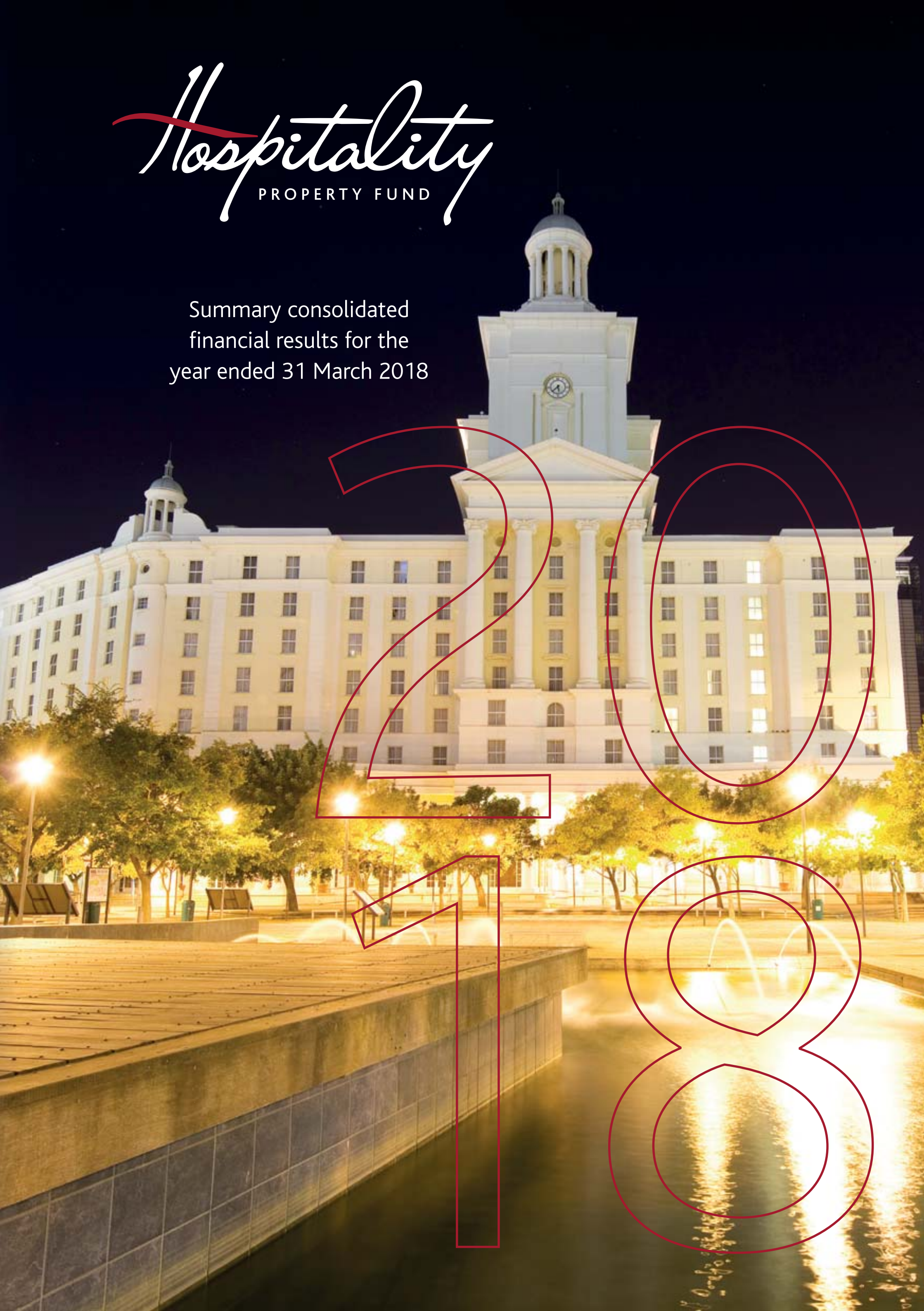
Hospitality
PROPERTY FUND
Summary consolidated financial results for the year ended 31 March 2018
2018

Rental income for the 12 months to March 2018 **increased** to **R867 million**

Investment property value increased through acquisitions to **R13 billion**

Fully subscribed **rights offer** of **R1 billion** used to fund the acquisitions

Distribution per share of **78.46 cents** for the six months to March 2018

Hospitality PROPERTY FUND

www.hpf.co.za

Introduction

The 12 months ended 31 March 2018 incorporated the completion of the acquisition of 29 hotel properties from Tsogo Sun Holdings Limited ("Tsogo Sun") as well as the acquisition of the additional sections in the Sandton Eye Sectional Title Scheme and the real right of extension on the Radisson Gautrain building.

Financial results

Hospitality's board of directors has declared a dividend of 78.46 cents per share for the six months ended 31 March 2018 resulting in the total dividend per share for the year of 120.29 cents per share (including the clean out dividend and the interim dividend). The Fund's distributable earnings increased by 66% for the year to R656 million when compared to the illustrative 12 months to 31 March 2017, mainly due to the inclusion of the 29 hotel properties, effective from 1 July 2017.

The following table reflects the operating financial results for the year ended 31 March 2018 compared to the prior nine-month financial period and the prior corresponding illustrative 12-month comparable period:

Summary of operating results

	Year ended 31 March 2018 R'000	Nine months ended 31 March 2017 R'000	Illustrative 12 months ended 31 March 2017[2] R'000	Year on year variance R'000	Year on year variance %
Contractual revenue	**866 501**	498 803	599 684	266 817	44
Fund expenses	**(46 555)**	(38 858)	(48 675)	2 120	4
Net finance cost	**(164 063)**	(115 504)	(155 235)	(8 828)	(6)
Income from associates	**275**	409	413	(138)	(33)
Profit before distribution	**656 158**	344 850	396 187	259 971	66
Distribution	**(656 158)**	(344 850)	(396 187)	(259 971)	66
No par value ordinary shares (excluding appraisal right shares)	**575 777**	328 133	328 133	247 644	75
Distribution comparative to prior years					
Clean out dividend[1]	**14.74**	4.09		10.65	*
Interim dividend	**27.09**	56.09		(29.00)	(52)
Final dividend	**78.46**	44.92		33.54	75
Combined dividend	**120.29**	105.10		15.19	14

[1] *The clean out dividend in the prior year for August 2016 was converted to an equivalent distribution on the ordinary shares. The dividend paid to A-link shareholders was 9.29 cents per share.*

[2] *The illustrative information has been extracted from management accounts for the period 1 April 2016 to 31 March 2017. The illustrative information is the responsibility of the board of directors of Hospitality and has not been reviewed or reported on by Hospitality's auditors.*

* *Greater than 100%.*

Rental income for the year increased by 44% to R867 million (2017: R600 million) due to the inclusion of the 29 hotel properties for nine months. Hospitality's rental income is subject to seasonal variability and the trading has been impacted by the drought in the Western Cape.

Hospitality's expenses for the year are 4% or R2 million below the prior year at R47 million. In the prior period, a once-off expense of R8 million was incurred with the restructure of the asset management division and the termination costs in respect of the previous CEO, in line with the change of control clause contained in his contract of employment. Hospitality's expenses on the comparable 12 month period, increased by 14% predominantly due to the debt restructure fees of R3.6 million and the transaction fees of R1.9 million on the subsidiary acquisitions. Net finance costs of R164 million (2017: R155 million) are higher than the prior year due to increased debt facilities and the early settlement fees paid on former borrowings.

Hotel trading results

The hotel trading results are compared on a like-for-like basis for the 12-month period ended 31 March 2018 and thus include the acquired properties and exclude the disposed property for this full period. For the purpose of comparing to the STR Global South African Hotel Review ("STR") the Sun 1 trading results are excluded.

Room occupancy for the Fund's hotels declined by 0.4% to 64.4% while the market experienced a decline of 1.3% to 64.2%. Average room rate ("ARR") growth of below inflation, for most hotels in the portfolio, with some hotels experiencing a decline in ARR, led to an overall decline in ARR of 0.4%. Revenue per available room ("RevPAR") thus decreased by 0.9%. The STR figures show a growth in ARR of 2.4% and growth in RevPAR of 1.1% for the South African market over the same period. Total room revenue for all the hotels over the 12-month period, including Sun 1, at R2.2 billion was 0.5% down on the prior year.

The Fund's hotel properties are predominantly located in the Western Cape and Gauteng provinces of South Africa and these properties generated around 70% of the Fund's rental income over this period.

Hotel occupancy for the Fund's Western Cape hotels declined by 2.6% to 67.0%. Monthly performance was volatile and this is reflected in the ARR declining by 0.6% collectively to R1 647, resulting in a RevPAR decline of 3.1% to R1 104. As reported by STR, occupancy for the region declined 2.7% to 67.6%, however, ARR grew 4.0% resulting in RevPAR growth of 1.1% to R1 089. While some of the Fund's smaller Cape Town properties produced RevPAR growth, this was offset by declines at the larger properties due to a drop-off in higher rated international and association business as well as the poor sentiment stemming from the Cape Town water crisis.

In Gauteng, hotel occupancy over the period declined by 1.5% on the prior year to an occupancy of 59.3%. Individual hotels' trading was volatile over the period with ARR only increasing 2.1% on the prior year. This led to RevPAR growth of 0.6% to R603. For the STR participating hotels in Gauteng, RevPAR declined by 0.1% to R689.

For the hotels in the Rest of South Africa, occupancy grew 3.8% to 68.9%. Nearly all experienced monthly volatility, with ARR declining by 1.7% to R906 resulting in a RevPAR growth of 2.0% to R624.

For the Sun 1 properties, hotel occupancy was flat on the prior year with the occupancy drop offset by the increased rooms available due to the extension at the Sun 1 Southgate in the prior year. Total room revenue grew by 4.7%.

Property portfolio

The Fund's portfolio includes 53 hotel and resort properties in South Africa. The Fund's property portfolio was independently valued at 31 March 2018, resulting in a fair value decrease of R538 million through the income statement, mainly due to the decline in trading results and the fair value uplift of the acquisition properties through other comprehensive income. The fair value is determined by discounting the rental income (based on expected net future cash flows of the underlying hotels) after considering capital expenditure requirements. The expected cash flows are discounted using an appropriate discount rate. The weighted average lease expiry period is 14.9 years. As at 31 March 2018, the carrying amount of the portfolio was R12.6 billion and the net asset value (NAV) per ordinary share amounted to R19.21.

Acquisitions

The acquisition of 29 hotel properties, effective 1 July 2017, presents an attractive acquisition for Hospitality, in line with the Fund's growth strategy to acquire value-enhancing property acquisitions, both from within Tsogo Sun's existing portfolio and from external opportunities, to increase the Fund's critical mass. The acquisition will continue to broaden Hospitality's earnings base, brand and product offering and result in greater presence in primary metropolitan areas.

The Fund has also concluded the acquisition, effective 22 August 2017, with Savana Property Proprietary Limited to acquire various additional sections and exclusive use areas in the Sandton Eye sectional title scheme ("the Scheme"), of which Hospitality's Radisson Blu Gautrain Hotel is part of, increasing the Fund's interest in the Scheme from 58.13% to 81.54% and including the acquisition of an existing real right of extension of the Scheme by some 10 000 bulk square metres or an additional seven floors.

Rights offer

A fully committed rights offer to raise R1 billion closed successfully on 4 August 2017, through the issue of 71 428 571 new Hospitality shares at an issue price of R14.00 each, in the ratio of 21.76820 new Hospitality shares for every 100 Hospitality shares held.

Capital projects

In order to maintain the appeal of its properties, the Fund continually upgrades and invests in its hotels. Total capital expenditure amounting to R148 million was spent during the year. This includes all capital expenditure spent on refurbishment projects, replacement of hotel furnishing, equipment and IT equipment refresh at the units. The major refurbishment projects included 92 Value Stay bedrooms, restaurant and conference rooms at the Birchwood, meeting rooms and bar at The Westin, preparation of the leased area for a Spur restaurant at Garden Court South Beach, conference rooms at Holiday Inn Sandton, public areas at Arabella, and various water resilience initiatives at the Cape Town properties including filtration plants, desalination plants and adding additional water storage capacity.

Funding

During the year, Hospitality restructured its long-term borrowings due to favourable terms being achieved. The former loans were settled on 6 October 2017. The group's debt facilities with financial institutions as at 31 March 2018 amounted to R2.4 billion and the total drawn down facilities amounted to R1.9 billion resulting in a loan-to-value ("LTV") ratio (total interest-bearing liabilities/ investment properties plus properties held for sale) of 15% (2017: 21%). The reduction in gearing is mainly due to the acquisition of the additional portfolio of hotels without a corresponding incremental debt. The interest cover ratio of 5.0 times (2017: 4.0 times), is well above the required debt covenant limit of 2.0 times. The weighted average cost of net debt for the year ended 31 March 2018 is 10.3% (2017: 10.4%), which includes early settlement fees paid on the former borrowings.

Global credit ratings maintained the Fund's long-term credit rating at BBB+(ZA) while its short-term credit rating was maintained at A2 (ZA).

Proposed transaction

As announced on SENS on 2 March 2018, Hospitality has agreed, in principle, to the acquisition of seven casino precinct properties ("Properties"), currently owned by the Tsogo group of companies ("Tsogo Group"), in consideration for the issue of new shares in Hospitality ("Proposed Transaction").

The Properties will be let to use in terms of a head lease, which will be a triple net lease and will be concluded for an initial period enduring until 31 March 2023, whereafter the head lease can be terminated by either party on 15 years' written notice.

Based on an equity valuation of PropCo of R15 billion (being the value of the PropCo property portfolio of R23 billion net of PropCo debt of R8 billion and an agreed forward yield of 8.45%), the number of Hospitality consideration shares to be issued to the Tsogo Group will be approximately 1.2 billion at an issue price of R12.50 per share. This will result in Tsogo Sun's total shareholding in Hospitality increasing to approximately 1.5 billion Hospitality shares (approximately 87% of Hospitality's total issued share capital, net of treasury shares), which shareholding Tsogo Sun intends to distribute to its shareholders in terms of an unbundling in accordance with section 46 of the Income Tax Act.

For Hospitality, the Proposed Transaction will be classified as a category 1 related party transaction and a reverse listing in terms of the JSE Limited Listings Requirements, which will require approval by the requisite majority of Hospitality's shareholders (excluding related parties).

Prospects

Hotel trading is expected to remain volatile but should settle and improve as the outlook on the South African economy improves. The contribution from the hotel properties in Cape Town is expected to come under pressure due to the increase in supply of hotel rooms and the poor sentiment stemming from the water shortage.

The Fund's gearing is currently low at 15% and is expected to grow to 28% should the Proposed Transaction proceed. The Fund is committed to and able to fund its ongoing capital expenditure programme over a five-year planning horizon.

Dividend payment

The board has approved and notice is hereby given of a gross dividend payment number 26 of 78.46293 cents per share for the six months ended 31 March 2018.

The number of shares in issue at the date of the dividend declaration is 578 154 207 ordinary shares (for the purposes of the dividend declaration, 2 377 256 ordinary shares have been excluded from the dividend payment due to dissenting shareholder rights having been exercised).

In accordance with Hospitality's REIT status, shareholders are advised that the dividend meets the requirements of a "qualifying distribution" for the purposes of section 25BB of the Income Tax Act.

Local tax residents

Qualifying distributions received by local tax residents must be included in the gross income of such shareholders (as a non-exempt dividend in terms of section 10(1)(k)(aa) of the Income Tax Act), with the effect that the qualifying distribution is taxable as income in the hands of the shareholder. These qualifying distributions are, however, exempt from dividend withholding tax in the hands of South African tax resident shareholders, provided that the South African resident shareholders provided the following forms to their Central Securities Depository Participant ("CSDP") or broker, as the case may be, in respect of uncertificated shares, or the company, in respect of certificated shares:

a. a declaration that the dividend is exempt from dividends tax; and
b. a written undertaking to inform the CSDP, broker or the company, as the case may be, should the circumstances affecting the exemption change or the beneficial owner cease to be the beneficial owner;

both in the form prescribed by the Commissioner for the South African Revenue Service. Shareholders are advised to contact their CSDP, broker or the company, as the case may be, to arrange for the abovementioned documents to be submitted prior to payment of the dividend, if such documents have not already been submitted.

Non-resident

Qualifying distributions received by non-resident shareholders will not be taxable as income and instead will be treated as ordinary dividends but which are exempt in terms of the usual dividend exemptions per section 10(1)(k) of the Income Tax Act. Unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation ("DTA") between South Africa and the country of residence of the shareholder, the net amount due to non-resident shareholders will be 62.77034 cents per share. A reduced dividend withholding tax rate in terms of the applicable DTA may only be relied on if the non-resident shareholder has provided the following forms to their CSDP or broker, as the case may be, in respect of uncertificated shares, or the company, in respect of certificated shares:

a. a declaration that the dividend is subject to a reduced rate as a result of the application of a DTA; and
b. a written undertaking to inform their CSDP, broker or the company, as the case may be, should the circumstances affecting the reduced rate change or the beneficial owner cease to be the beneficial owner;

both in the form prescribed by the Commissioner for the South African Revenue Service. Non-resident shareholders are advised to contact their CSDP, broker or the company, as the case may be, to arrange for the abovementioned documents to be submitted prior to payment of the dividend if such documents have not already been submitted, if applicable. Shareholders are requested to seek professional advice on the appropriate action to take.

The dividend is payable in accordance with the timetable below:

Last day to trade *cum* dividend	Tuesday, 12 June 2018
Shares will trade *ex* dividend	Wednesday, 13 June 2018
Record date	Friday, 15 June 2018
Payment date	Monday, 18 June 2018

Shareholders may not dematerialise or rematerialise their shares between Wednesday, 13 June 2018 and Friday, 15 June 2018, both days inclusive.

Payments of the dividend will be made to shareholders on Monday, 18 June 2018. In respect of dematerialised shares, the dividend will be transferred to the CSDP accounts/broker accounts on Monday, 18 June 2018. Certificated shareholders' dividend will be deposited on or about Monday, 18 June 2018.

Income tax reference number: 9770/799/1/47.

Subsequent events

Subsequent to year end, the board of directors declared a final gross cash dividend for the year ended 31 March 2018 of 78.46 cents per share. The number of ordinary shares in issue at the date of declaration was 575 776 951 (excluding appraisal rights shares).

Change in directorate

The following changes in directorate occurred during the year under review:

Mr MN von Aulock resigned as a non-executive director of Hospitality, with effect from 1 June 2017. Mr von Aulock was succeeded by Mr J Booysen on 8 June 2017.

Mr WC Ross retired as an independent non-executive director on 19 October 2017. Mr Ross served on the board of Hospitality since 10 April 2007.

Ms L de Beer resigned as an independent non-executive director and lead independent director of Hospitality on 5 February 2018, due to her pursuance of new opportunities. Ms de Beer served on the board since August 2011 and was Chair of the audit and risk committee.

Mr DG Bowden served as acting Chair on the audit and risk committee and Mr GA Nelson was appointed in the capacity of lead independent director.

Mr MSI Gani has been appointed to the board as an independent non-executive director of Hospitality and as a member and the Chair of the audit and risk committee with effect from 8 May 2018.

The board wishes to thank Ms de Beer and Messrs Von Aulock and Ross for their commitment and contribution, during their tenures as members of the board, and welcomes Mr Booysen and Mr Gani to the board.

Presentation

Shareholders are advised that a presentation that provides additional analysis and information, will be available on the company's website at www.hpf.co.za from 23 May 2018.

By order of the board

JA Copelyn
(Chairman)

KG Randall
(Chief Executive Officer)

23 May 2018

Summary consolidated statement of comprehensive income

for the year ended 31 March 2018

	Audited Year March 2018 R'000	Audited Nine months March 2017 R'000
Revenue	**866 917**	498 803
Rental income – contractual	**866 501**	498 803
– straight-line accrual	**416**	–
Operating expenses	**(46 555)**	(38 858)
Operating profit	**820 362**	459 945
Net finance cost	**(164 063)**	(115 504)
Finance income	**27 706**	20 556
Finance costs	**(191 769)**	(136 060)
Profit before fair value adjustments, goodwill and taxation	**656 299**	344 441
Profit on sale of investment properties	**–**	36 528
Profit on sale of furniture, fittings and equipment	**109**	–
Goodwill impairment	**–**	(16 003)
Fair value adjustments	**(542 931)**	179 191
Investment properties, before straight-lining adjustment	**(537 144)**	184 173
Change in fair value as a result of the straight-lining adjustment	**(416)**	–
Interest rate swaps	**(5 371)**	(4 982)
Profit before taxation	**113 477**	544 157
Equity accounted profit from associate after tax	**274**	409
Profit for the year	**113 751**	544 566
Other comprehensive income		
Items that may not be reclassified subsequently to profit or loss:		
– Fair value adjustment of the properties acquired under common control	**2 388 848**	–
Total comprehensive income	**2 502 599**	544 566
Profit attributable to:		
– Equity holders	**113 751**	544 566
Other comprehensive income attributable to:		
– Equity holders	**2 388 848**	–
Earnings and diluted earnings per share (cents)	**22.97**	166.24
Headline earnings and diluted headline earnings per share (cents)	**131.42**	103.75

Summary consolidated statement of comprehensive income continued

for the year ended 31 March 2018

	Audited Year March 2018 R'000	Audited Nine months March 2017 R'000
Reconciliation between earnings and headline earnings		
Total profit for the year	**113 751**	544 566
Adjustments:		
Profit on sale of investment properties	**–**	(36 528)
Profit on sale of property, plant and equipment	**(109)**	–
Straight-line adjustment	**(416)**	–
Goodwill impairment	**–**	16 003
Fair value – investment properties revaluation	**537 560**	(184 173)
Headline earnings	**650 786**	339 868
Number of shares/units		
No par value ordinary shares	**575 214 177**	327 569 888
– Shares in issue	**578 154 207**	330 509 919
– HPF Employee Incentive Trust shares	**(562 774)**	(562 774)
– Shareholder redemption	**(2 377 256)**	(2 377 256)
Weighted average number of shares		
No par value ordinary shares	**495 203 569**	327 569 889
– Shares in issue	**498 143 599**	330 509 919
– HPF Employee Incentive Trust shares	**(562 774)**	(562 774)
– Shareholder redemption	**(2 377 256)**	(2 377 256)
Earnings and diluted earnings per share (cents)	**22.97**	166.24
Headline earnings and diluted headline earnings per share (cents)	**131.42**	103.75

Summary consolidated statement of financial position

as at 31 March 2018

	Audited March 2018 R'000	Audited March 2017 R'000
ASSETS		
Non-current assets	**12 534 884**	8 063 583
Investment properties	**12 533 970**	8 061 038
Furniture, fittings and equipment	**163**	198
Derivative asset	**–**	1 870
Investment in associates	**751**	477
Current assets	**590 106**	391 480
Non-current assets held for sale	**65 600**	65 610
Derivative asset	**–**	280
Trade and other receivables	**133 915**	115 536
Cash and cash equivalents	**390 591**	210 054
Total assets	**13 124 990**	8 455 063
EQUITY AND LIABILITIES		
Equity	**11 104 603**	6 597 503
Stated capital	**9 027 065**	5 565 258
Retained earnings	**444 108**	138 719
Common control	**(1 106 013)**	–
Non-distributable reserve	**2 739 443**	893 526
Non-current liabilities	**1 941 596**	1 491 007
Interest-bearing liabilities	**1 936 071**	1 488 493
Long-term incentive liabilities non-current portion	**1 483**	–
Derivative liability	**4 042**	2 514
Current liabilities	**78 791**	366 553
Trade and other payables	**51 919**	111 876
Short-term portion of interest-bearing liabilities	**–**	230 000
Provision for shareholder redemption	**24 129**	24 129
Long-term incentive liabilities current portion	**502**	–
Derivative liability	**2 241**	548
Total equity and liabilities	**13 124 990**	8 455 063

Summary consolidated statement of changes in equity

for the year ended 31 March 2018

	Stated capital R'000	Treasury share reserve R'000	Retained earnings R'000	Common control reserve R'000	Non-distributable reserve R'000	Total R'000
Balance at 1 July 2016	2 919 952	(9 995)	107 961	–	714 335	3 732 253
Total comprehensive income for the year	–	–	544 566	–	–	544 566
Conversion of par value shares into no par value shares/transaction costs (capital restructure and Tsogo transaction)	(17 992)	–	–	–	–	(17 992)
Conversion of debentures into stated capital	2 673 293	–	–	–	–	2 673 293
Dividends paid	–	–	(334 617)	–	–	(334 617)
Transfer to fair value reserve – investment property	–	–	(184 173)	–	184 173	–
Transfer to fair value reserve – interest rate swaps	–	–	4 982	–	(4 982)	–
Balance at 1 April 2017	5 575 253	(9 995)	138 719	–	893 526	6 597 503
Total comprehensive income for the year	**–**	**–**	**2 502 599**	**–**	**–**	**2 502 599**
Total other comprehensive income for the year	**–**	**–**	**(2 388 848)**	**–**	**2 388 848**	**–**
Transaction costs (Tsogo transaction) (note 2)	**(5 256)**	**–**	**–**	**–**	**–**	**(5 256)**
Issue no par value ordinary shares	**3 467 063**	**–**	**–**	**–**	**–**	**3 467 063**
Dividend declared on 24 May 2017	**–**	**–**	**(147 192)**	**–**	**–**	**(147 192)**
Dividend declared on 9 June 2017	**–**	**–**	**(48 312)**	**–**	**–**	**(48 312)**
Dividend declared on 22 November 2017	**–**	**–**	**(155 789)**	**–**	**–**	**(155 789)**
Common control reserve	**–**	**–**	**–**	**(1 106 013)**	**–**	**(1 106 013)**
Transfer to fair value reserve – investment property	**–**	**–**	**537 560**	**–**	**(537 560)**	**–**
Transfer to fair value reserve – interest rate swaps	**–**	**–**	**5 371**	**–**	**(5 371)**	**–**
Balance at 31 March 2018	**9 037 060**	**(9 995)**	**444 108**	**(1 106 013)**	**2 739 443**	**11 104 603**

Summary consolidated statement of cash flows

for the year ended 31 March 2018

	Audited March 2018 R'000	Audited March 2017 R'000
Cash flows from operating activities		
Cash generated from operations	**725 127**	329 152
Finance income received	**27 706**	20 556
Finance costs paid	**(191 769)**	(136 060)
Distribution to shareholders	**(351 293)**	(334 617)
Net cash inflow/(outflow) from operating activities	**209 771**	(120 969)
Cash flows from investing activities		
Acquisition and development of investment properties	**(416 873)**	(73 262)
Proceeds on disposal of investment properties	**–**	146 872
Proceeds on disposal of non-current assets held for sale	**911**	–
Proceeds on disposal of furniture, fittings and equipment	**109**	
Acquisition of furniture, fittings and equipment	**–**	(153)
Cash acquired through acquisition of subsidiary	**202 640**	88 047
Acquisition of subsidiary	**(1 030 000)**	–
Dividends received from associates	**–**	251
Net cash (outflow)/inflow from investing activities	**(1 243 213)**	161 755
Cash flows from financing activities		
Interest-bearing liabilities raised	**1 928 935**	600 000
Interest-bearing liabilities paid	**(1 709 700)**	(607 000)
Cash proceeds from rights issue	**1 000 000**	–
Transaction costs	**(5 256)**	(17 992)
Net cash inflow/(outflow) from financing activities	**1 213 979**	(24 992)
Net increase in cash and cash equivalents	**180 537**	15 794
Cash and cash equivalents at beginning of year	**210 054**	194 260
Cash and cash equivalents at end of year	**390 591**	210 054

Summary consolidated segmental information

for the year ended 31 March 2018

Information regarding the results of each reportable segment is included below. Performance is measured based on operating profit before finance costs, as included in the internal management reports that are reviewed by the group's CEO. Geographical segments are used to measure performance as the group's CEO believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries, particularly post the acquisition of the additional hotel properties during the period. Sun 1 is disclosed as a separate segment as the grading is different to the existing portfolio.

	Audited March 2018 R'000	Audited March 2017 R'000
Total assets		
Western Cape	**5 860 680**	3 436 999
Gauteng	**3 330 214**	2 532 780
Rest of South Africa	**2 474 430**	2 156 867
Sun 1	**933 830**	–
Head Office	**525 836**	328 417
	13 124 990	8 455 063
Rental revenue		
Western Cape	**368 587**	238 487
Gauteng	**259 774**	149 697
Rest of South Africa	**186 693**	110 619
Sun 1	**51 863**	–
	866 917	498 803
Operating profit for the period		
Western Cape	**368 587**	238 487
Gauteng	**259 774**	149 697
Rest of South Africa	**186 693**	110 619
Sun 1	**51 863**	–
Head Office	**(46 555)**	(38 858)
	820 362	459 945
Reconciliation between headline earnings and distributable earnings		
Headline earnings	**650 786**	339 868
Fair value – interest rate swaps	**5 371**	4 982
Distributable earnings	**656 158**	344 850
Distribution per share (cents)		
No par value share	**120.29**	105.10
– Clean out	**14.74**	4.09
– Interim	**27.09**	56.09
– Final	**78.46**	44.92
	120.29	105.10

Notes to the summary consolidated financial statements

for the year ended 31 March 2018

1. Basis of preparation and accounting policies

The summary consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports and the requirements of the Companies Act applicable to summary financial statements. The Listings Requirements require preliminary reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS") and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 *Interim Financial Reporting*. The accounting policies applied in the preparation of the consolidated financial statements from which the summary consolidated financial statements were derived are in terms of International Financial Reporting Standards and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements.

This summarised report is extracted from audited information, but is not itself audited. The annual financial statements were audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon. The audited annual financial statements and the auditor's report thereon are available for inspection at the company's registered office.

The directors take full responsibility for the preparation of the preliminary report and that the financial information has been correctly extracted from the underlying annual financial statements.

2. Acquisition of subsidiary

Hospitality concluded an agreement with Tsogo Sun to acquire 100% of the share capital in The Cullinan Hotel Proprietary Limited and Merway Fifth Investments Proprietary Limited effective 1 July 2017. The acquisition of the portfolio includes 29 investment properties for an aggregate purchase consideration of R3.6 billion, which includes a cash consideration of R1.03 billion and the issue of 174 064 861 shares at R14.00. The transaction is deemed to be a transaction under common control and consequently falls outside the scope of IFRS 3 *Business Combinations*. Hospitality will apply the same accounting policy relating to common control transactions applied by Tsogo Sun, its holding company. The policy is to apply predecessor accounting in common control transactions.

Under the predecessor accounting method, assets and liabilities are recognised at the predecessor values with the difference between the acquisition value and the aggregate purchase consideration recognised as a separate reserve in equity.

Goodwill had previously been recognised in the interim results but through subsequent review, management have not been able to identify cash flows attributable to goodwill and as such, have not recognised goodwill in this transaction.

2. Acquisition of subsidiary continued

The reconciliation between the assets and liabilities acquired, the purchase consideration and the common control reserve is as follows:

	31 March 2018 R'000
2.1 Purchase consideration	
Total purchase consideration	(3 466 908)
Net asset value acquired	2 360 895
– Merway	260 260
– Cullinan	2 100 635
Total impact on common control reserve	(1 106 013)

2.2 Identifiable assets acquired and liabilities assumed

	Merway R'000	Cullinan R'000	Total R'000
Cash and cash equivalents	316	202 325	202 640
Investment property	226 856	1 946 036	2 172 892
Trade and other receivables	50 424	1 542	51 967
Trade and other liabilities	(17 336)	(49 268)	(66 604)
Net asset value acquired	260 260	2 100 635	2 360 895

2.3 Acquisition of subsidiary, net of cash acquired

	R'000
Purchase consideration in cash	(1 030 000)
Cash and cash equivalents	26 449
Treasury deposit – Tsogo Sun Proprietary Limited	176 191
	(827 360)

2.4 Acquisition-related costs

Transaction costs of R7.2 million were incurred with respect to the rights issue, of which R5.3 million was incremental and directly attributable to the issue of shares and R1.9 million was expensed.

3. Savana acquisition

Hospitality concluded the agreements for an aggregate purchase consideration of R302 million:

- an agreement with Savana Property Proprietary Limited to acquire various sections and exclusive use areas of the Sandton Eye sectional title scheme; and
- an agreement with Sandton Isle Investments Proprietary Limited to acquire an existing Real Right of Extension in the scheme any time until February 2031.

The purchase consideration includes a cash consideration of R271.4 million and R30.2 million by way of the issue of 2 150 856 shares at R14.02. Management has determined that the acquisition is an asset acquisition as it does not meet the definition of a business combination and has therefore accounted for the acquisition as an asset acquisition.

4. Investment property

	2018	2017
Opening balance	**8 061 038**	5 169 000
Acquisition of Fezisource	**–**	2 657 717
Acquisition of Merway and Cullinan	**2 172 892**	–
Acquisition of Savana	**301 550**	–
Transfer of investment property from non-current assets held for sale/trading	**–**	63 365
Disposal of investment property	**–**	(107 639)
Additions to investment properties	**145 478**	73 262
Fair value adjustment recognised through profit or loss	**(536 252)**	205 333
Fair value adjustment recognised through other comprehensive income	**2 388 848**	–
Straight-line rental income accrual	**416**	–
	12 533 970	8 061 038

The fair value uplift is as a result of applying the predecessor accounting. The fair value uplift does not represent financial performance of the current period and was recognised through OCI.

for the year ended 31 March 2018

5. Fair value estimation

As shown below, the group fair values its investment properties, interest rate swaps and its available-for-sale investments. There were no transfers into or out of level 3 financial instruments.

Investment properties

The group's investment properties have been categorised as level 3 values based on the inputs to the valuation technique used. The group has elected to measure investment properties at fair value. The fair value is determined by using the discounted cash flow method by discounting the rental income (based on expected net cash flows of the underlying hotels) after considering the capital expenditure requirements. The expected cash flows are discounted using an appropriate discount rate. The core discount rate is calculated using the R186 (long bond) at the time of valuation, to which is added premiums for market risk and equity and debt costs. The discount rate takes into account a risk premium associated with the local economy as well as that specific to the local property market and the hotel industry. Fair values are estimated annually by an external appointed valuer.

As at 31 March 2018 the significant unobservable inputs were as follows:

– a weighted average rental growth of 5%
– a revisionary capitalisation rate of between 7.23% to 8.07%; and
– a risk-adjusted discount rate of between 12.23% to 13.07%.

The table below indicates the sensitivities of the aggregate property values for the following changes to assumptions:

	Increase Rm	Decrease Rm
5% change in the net cash flows	623	(623)
25bps change in the terminal capitalisation rate	(292)	312
50bps change in the discount rate	(811)	927

5. Fair value estimation continued

Interest rate swaps

The group has interest rate swaps that are not hedge accounted which are level 2 fair value measurements.

The fair value of the derivatives used is a net liability of R6 million (31 March 2017: R1 million net liability) and is calculated as the present value of the estimated future cash flows based on observable yield curves, which is consistent with the prior year.

6. Related parties

Acquisition of 29 hotel properties by Hospitality from Tsogo Sun

Hospitality acquired two Tsogo Sun subsidiaries which in aggregate hold a portfolio of 29 hotel properties for an aggregate fair value purchase consideration of R3.6 billion settled R1.0 billion in cash (by way of a renounceable rights offer to Hospitality shareholders) and R2.6 billion in shares. This transaction received shareholder approval at the HPF general meeting held on 10 July 2017. The impact of this transaction is that Tsogo Sun's effective holding increased from 50.6% to 59.4%.

Rental income received from Tsogo Sun for the period 1 April 2017 to 31 March 2018 was R420 million.

Sandton Eye and real right of extension

With effect 31 August 2017, Hospitality issued the last tranche of 2 150 856 shares to Savana Property Proprietary Limited as part settlement in terms of an agreement concluded with Savana to acquire various sections and exclusive use areas of the Sandton Eye sectional title scheme, of which Hospitality's Radisson Blu Gautrain Hotel is part of, and an agreement with Sandton Isle Investments Proprietary Limited to acquire an existing real right of extension in the scheme for an aggregate purchase consideration of R302 million of which R271 million was settled in cash and 2 150 856 Hospitality shares were issued. As a result of this issue, Tsogo Sun's effective holding was diluted from 59.4% (refer note above) to 59.2%.

7. New accounting standards

The impact of IFRS 9 *Financial Instruments* relates to the use of forward looking information in impairing receivables. We are of the view that no material adjustments would arise in calculating the impairment on the proposed new basis. Additional disclosure on the impairment models used will be provided.

The impact of IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases* are not expected to be material.

8. Commitments

The board has committed a total of R236 million for maintenance and expansion capital items at its hotel properties of which R236 million is anticipated to be spent during the next financial year, R26 million of the committed capital expenditure has been contracted for.

Hospitality Property Fund Limited

(Incorporated in the Republic of South Africa)
(Registration number 2005/014211/06)
JSE share code: HPB
ISIN: ZAE000214656
Bond company code: HPAI
(Approved as a REIT by the JSE)
("Hospitality" or "the company" or "the Fund" or "the group")

Registered office

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KG Randall (CEO), MR de Lima (FD), DG Bowden*#, MSI Gani*#, ZJ Kganyago*, ZN Kubukeli*#,
SA Halliday*#, ZN Malinga*#, L McDonald*, JR Nicolella*

*Non-executive #Independent

Company Secretary

LR van Onselen

Transfer secretaries

Computershare Investor Services Proprietary Limited

Sponsor

Java Capital Trustees and Sponsors Proprietary Limited

Hospitality
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