Hospitality
PROPERTY FUND

www.hpf.co.za
Hospitality Property Fund Limited
Palazzo Towers West, Montecasino Boulevard, Fourways
Gauteng, South Africa, 2055

2020

INTEGRATED **ANNUAL REPORT**

Hospitality
PROPERTY FUND

About this report

Hospitality Property Fund Limited ('Hospitality', 'the Fund' or 'the Company') and its subsidiaries ('the Group') are pleased to present the 2020 integrated annual report ('IAR') to our stakeholders.

Reporting suite

Our IAR was prepared to provide our target audience with a holistic and transparent view of our business model and strategy. More detailed information is also contained in our supplementary reporting suite, accessible on **http://www.hpf.co.za/investors**.

Using this report

The following icons are used within our report to reduce repetition and increase connectivity:

Further information available within this report

Further information available online: **www.hpf.co.za**

Our glossary on page 119 is included for terms and abbreviations used throughout this report.

Results presentations
A database of the presentation of our interim and year-end results to analysts and investors, can be accessed via **http://www.hpf.co.za/investors**.

Stock Exchange News Service ('SENS') of the JSE Limited ('JSE')
A database of all regulatory announcements published on the JSE's SENS, can be accessed via **http://www.hpf.co.za/investors**.

Curricula vitae ('CVs') of each Hospitality Board member can be accessed via **http://www.hpf.co.za/governance**.

Our **strategic objectives** are:

SUSTAIN | OPTIMISE | GROW

Radisson Waterfront 7

Contents

Reporting philosophy and target audience

Integrated thinking is a key component of how we manage our business and develop our internal strategy and reporting practices.

At Hospitality, we define value as delivering sustainable returns to our shareholders through the payment of dividends and capital appreciation, while positively contributing to our employees, business partners and the economy.

Hospitality uses distribution per share as the relevant performance measure for trading statement purposes in terms of the JSE Listings Requirements.

Our strategy was developed to ensure we manage the resources and relationships needed to create value over time. Our focus during the coronavirus ('Covid-19') pandemic is to protect the Fund's assets and to ensure the Fund's sustainability during these unprecedented times. Further information is included in the Chairman and Chief Executive Officer's ('CEO') report on page 14. A review of the interaction with our key resources and the various relationships held can be found on page 10.

Please refer to the statement on page IBC pertaining to any forward-looking statements that may be contained in this report.

In this report we present our target audience with an integrated and transparent overview of our strategy, business model and performance. Hospitality adopted the King Report on Corporate Governance™ for South Africa, 2016 ('King IV')* and applied governance practices that result in the achievement of the outcomes of King IV, being an ethical culture, good performance, effective control and legitimacy.

Reporting principle and frameworks

The financial and other information was prepared in accordance with regulatory requirements, namely International Financial Reporting Standards ('IFRS'), the South African Companies Act, 71 of 2008 ('Companies Act'), the JSE Listings Requirements, King IV, and the voluntary guidelines of the International Integrated Reporting Council's ('IIRC') International Integrated Reporting <IR> Framework as applicable. We believe these frameworks add objectivity to the report and, as far as possible, we demonstrated the connectivity and integration of these frameworks.

Scope and boundary

This report covers the material risks and opportunities specifically relating to the Fund. Hospitality believes a risk or opportunity is material if it substantially affects the Company's ability to create and sustain value. We considered all of Hospitality's direct and indirect risks and opportunities but excluded the risks and opportunities relating to the underlying hotel operations, unless these risks and opportunities are believed to be material to Hospitality. Our process for determining materiality is explained on page 24.

This report covers Hospitality's performance for the year ended 31 March 2020, compared to the prior year ended 31 March 2019. In addition, we included material subsequent events that occurred post-year end.

Assurance

The evolving process of integrated reporting continues. At this stage, apart from obtaining external assurance as indicated below, Hospitality did not seek external verification of the non-financial information provided in this report.

Assured element	Assurance provided	Assurance provider
Annual financial statements	Audit	PricewaterhouseCoopers Inc ('PwC')
Broad-Based Black Economic Empowerment ('B-BBEE') level 1 Group rating	Verification	EmpowerBEE
Property valuations	Valuation	De Leeuw Valuers Cape Town (RF) Proprietary Limited
Internal audit	Internal controls	GRIPP Advisory Proprietary Limited

Board responsibility and approval statement

The Board, assisted by its audit and risk committee and other sub-committees, is ultimately responsible for overseeing the integrity of the IAR. The audit and risk committee was mandated to oversee the reporting process. The Board applied its collective mind to the preparation and presentation of the IAR. The directors confirm they have collectively reviewed the output of the reporting process and the content of the IAR. The directors believe this IAR is transparent and addresses the material issues facing Hospitality. Therefore, the report is considered a fair presentation of the governance, strategy, performance and prospects of the Group in accordance with the International <IR> Framework.

Feedback on the report is welcome and can be sent to **info@hpf.co.za**.

Marcel von Aulock
Chairman

Mara de Lima
CEO

The Westin Cape Town

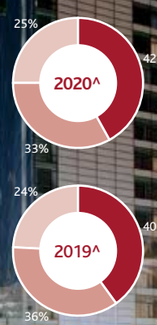
Geographic locations and class of hotels in South Africa

HOSPITALITY OWNS 54 PROPERTIES

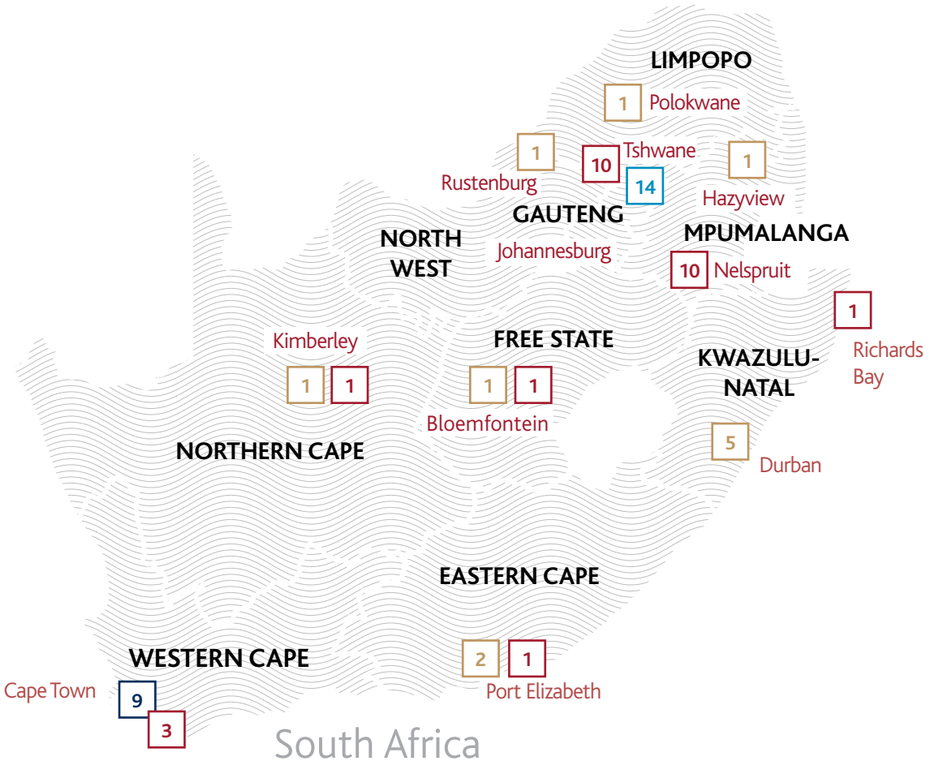
and receives rental income from its tenants. The leases for all our properties have a fixed and variable component.

Weighted average lease expiry of **13.3 years**
(2019: 14.5 years)

Loan to value ('LTV') for the year ended 31 March 2020 at **26%**
(2019: 16.3%)



Properties in our portfolio



9 Western Cape

- Westin Cape Town
- Radisson Blu Waterfront
- Protea Victoria Junction
- Arabella Hotel, Golf and Spa
- StayEasy Century City
- Southern Sun Newlands
- Sunsquare Cape Town
- Southern Sun Cullinan
- Southern Sun Waterfront

14 Gauteng

- Birchwood Hotel and Conference Centre
- Radisson Blu Gautrain
- Kopanong Hotel and Conference Centre
- Mount Grace Hotel and Spa*
- Southern Sun Rosebank
- Holiday Inn Sandton
- Garden Court Milpark
- Southern Sun Katherine Street
- Southern Sun Pretoria
- Garden Court Morningside
- Garden Court Eastgate
- Garden Court Hatfield
- StayEasy Eastgate
- Garden Court OR Tambo

12 Rest of South Africa

- Garden Court South Beach
- Garden Court Polokwane
- Southern Sun Bloemfontein
- Garden Court Kimberley
- StayEasy Rustenburg
- The Edward Hotel*
- Protea Marine
- Hazyview Sun*
- Champagne Sports Resorts
- Garden Court Kings Beach
- Garden Court Umhlanga
- StayEasy Pietermaritzburg

19 SUN1 hotels

- SUN1 Alberton
- SUN1 Benoni
- SUN1 Berea
- SUN1 Bloemfontein
- SUN1 Cape Town
- SUN1 Edenvale
- SUN1 Kimberley
- SUN1 Midrand
- SUN1 Milnerton
- SUN1 Nelspruit
- SUN1 OR Tambo
- SUN1 Parow
- SUN1 Port Elizabeth
- SUN1 Pretoria
- SUN1 Richards Bay
- SUN1 Southgate
- SUN1 Vereeniging
- SUN1 Witbank
- SUN1 Wynberg

** Subsequent to year end, the Protea Hotel Edward's lease expired on 30 June 2020. The tenants of Protea Hotel Hazyview and Mount Grace Country House and Spa, being separate operating companies owned by Marriott International Inc., terminated their lease agreements with Hospitality. These hotels will be operated by Tsogo Sun Hotels when they reopen, under a management agreement.*

Our top 10 properties by fair market value

as at 31 March 2020

1

Westin Cape Town
Convention Square, Cape Town, Western Cape

Luxury
483 rooms
Valuation FY2020: R1 528 million
Valuation FY2019: R1 712 million

2

Southern Sun Waterfront
Waterfront, Cape Town, Western Cape

Upscale
537 rooms
Valuation FY2020: R881 million
Valuation FY2019: R1 032 million

3

Southern Sun Cullinan
Waterfront, Cape Town, Western Cape

Upscale
394 rooms
Valuation FY2020: R828 million
Valuation FY2019: R960 million

4

Radisson Blu Gautrain
Sandton, Gauteng

Upscale
220 rooms
Valuation FY2020: R537 million
Valuation FY2019: R582 million

5

Birchwood Executive Hotel and Conference Centre
Boksburg, Gauteng

Midscale
665 rooms
Valuation FY2020: R486 million
Valuation FY2019: R845 million

6

Radisson Blu Waterfront
Waterfront, Cape Town, Western Cape

Luxury
177 rooms
Valuation FY2020: R439 million
Valuation FY2019: R497 million

7

Garden Court South Beach
South Beach, Durban

Midscale
414 rooms
Valuation FY2020: R395 million
Valuation FY2019: R542 million

8

Champagne Sports Resort
Central Berg, KwaZulu-Natal

Upscale
154 rooms
Valuation FY2020: R289 million
Valuation FY2019: R246 million

9

Garden Court OR Tambo
Kempton Park, Johannesburg, Gauteng

Midscale
253 rooms
Valuation FY2020: R275 million
Valuation FY2019: R392 million

10

Holiday Inn Sandton
Sandton, Gauteng

Upscale
301 rooms
Valuation FY2020: R249 million
Valuation FY2019: R347 million

History

THE ONLY SPECIALISED REIT investing solely in the hospitality and leisure sectors

2006

Hospitality lists on the main board of the JSE with 16 hotel properties.

Its capital structure comprises A and B linked units, which can only be issued in the ratio of 1:1.

In terms of its distribution policy, Hospitality distributes 99.99% of its net income. Distribution on the A linked units grow at 5% per annum for the first six years. After year six, the distribution on the A-linked units grow at the lesser of 5% per annum or CPIX. Hospitality's B-linked units receive the residual net income after settlement of the A-linked unit distribution entitlement.

Hospitality acquires Protea Hotel Victoria Junction for R105 million.

2007

Hospitality acquires The Richards Hotel, The Bayshore Hotel and Protea Hotel Imperial for a total consideration of R97.7 million.

During the same year, the Fund acquires The Hazyview Hotel, Hluhluwe Hotel & Safaris, the remaining 35% share in the originally acquired 90 sectional title units at the Radisson Hotel Waterfront in Cape Town, the remaining 32% share in the Park Inn Greenmarket Square in Cape Town and a newly developed extension to the Birchwood Executive Hotel and Conference Centre, comprising 120 new hotel rooms and approximately 10 000m² of conference space for a total purchase consideration of R235.1 million.

2008

Hospitality acquires Holiday Inn Sandton for R400 million.

2010

Hospitality acquires Protea Hotel The Edward for a total purchase consideration of R110.4 million.

2011

Acquisition of Westin Cape Town, Arabella Hotel, Golf and Spa and 460 hectares of undeveloped land adjoining AHS ('Phase 2 land') for a total purchase consideration of R756 million.

2013

Acquisition of the Radisson Blu Gautrain Hotel for a total purchase consideration of R443 million.

2015

Approval from the Western Cape Local Government to develop Arabella Phase 2 land, which includes 352 residential erven, a Private Nature Reserve and a 9-hole executive mashie golf course with associated infrastructure.

2016

The acquisition and integration of 10 hotel properties (effective 1 September 2016), through the issue of Hospitality shares to the Tsogo Sun Group, resulting in Tsogo Sun becoming Hospitality's majority shareholder with 50.6% interest.

The restructure of the Company's dual-share capital structure to a single-class capital structure, effective 11 October 2016, brought about the alignment of shareholder objectives. The terms of the restructure awarded one ordinary share for every A share and one ordinary share for every 3.5 B shares held.

2017

The acquisition and integration of a further 29 hotel properties from Tsogo Sun Group, effective 1 July 2017. Tsogo Sun's interest in Hospitality increases to 59.2%.

The acquisition of sections and exclusive use areas in the Sandton Eye sectional title scheme, of which Radisson Blu Gautrain forms part, together with the acquisition of a real right to extend the existing scheme by some 10 000m².

2019

Tsogo Sun Hotels, Hospitality's majority shareholder unbundles from the Tsogo Sun Group and lists separately on the JSE.

Hospitality's Board is reconstituted on 1 June 2018, resulting in improved gender and racial diversity by 3% (to 33%) and 16% (to 56%), respectively.

2020

Covid-19 sweeps across the globe. President Ramaphosa declares a national state of disaster on 15 March 2020 and a nationwide lockdown on 23 March 2020 in order to try and contain the spread of Covid-19, which sees the deactivation of the vast majority of Hospitality's hotels, with the exception of those that meet the government's prescribed requirements for the support of essential or critical business continuity services.

Tsogo Sun Hotel increases its holding in Hospitality to 75% by way of an acquisition issue in terms of the JSE Listings Requirements, whereby ordinary shares in the share capital of Tsogo Sun Hotels is issued in exchange for Hospitality shares.

Our investment case

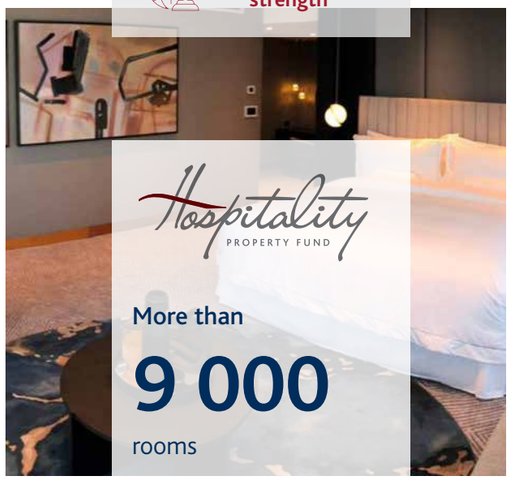
Why invest in Hospitality?

Unique REIT

A diverse portfolio

Delivery

Financial strength



UNIQUE REIT

Hospitality is a specialised Real Estate Investment Trust ('REIT') listed on the JSE, investing in the hospitality industry.

With a simplistic operating structure and a focus on sound corporate governance, we provide investors with exposure to the hospitality sector.

A DIVERSE PORTFOLIO

Our well-diversified portfolio of **54 properties across multiple geographic locations and classes of hotels** ensures we can service a wide range of guests with more than 9 000 rooms in South Africa.

DELIVERY

With distributable earnings of 90.37* cents per share, and a net asset value of R13.27 per share, we continue delivering tangible returns to our investors, even in a challenging economic climate. Hospitality performed consistently and distributed 100% of its distributable earnings during each financial year (in line with the JSE Listings Requirement, which requires a minimum distribution of 75% of distributable earnings) since its listing in 2006. However, in response to Covid-19, to conserve cash and due to not having received waivers from lenders on its net debt to EBITDA and interest cover covenant requirements for the measurement period 31 March 2021, the Board did not declare a dividend for the six months ended 31 March 2020.

FINANCIAL STRENGTH

The Fund's low gearing provides us with the ability in the short term to endure the Covid-19 pandemic and in the longer term headroom to grow our portfolio by investing to improve the quality of our existing properties and acquiring well-located, value-enhancing hotels in major urban centres with strong brands and diverse source markets.

** Total distributable earnings per share for the year amounted to 90.37 cents, of which 35.40 cents was distributed as an interim dividend on 17 December 2019. The Board did not declare a final dividend for the year ended 31 March 2020.*

Our Group structure

TSOGO SUN
Tsogo Sun Investments Proprietary Limited
Registration number 2018/626851/07
(75%^ shareholder)

Hospitality PROPERTY FUND
Registration number 2005/014211/06

- HPF Properties Proprietary Limited*
  Registration number 2005/020743/07
- Fezisource Proprietary Limited*#
  Registration number 2015/305572/07
- The Cullinan Hotel Proprietary Limited*#
  Registration number 1988/004685/07
- Merway Fifth Investments Proprietary Limited*#
  Registration number 1991/006478/07

^ Tsogo Sun Investments Proprietary Limited was a 59,2% shareholder in Hospitality at 31 March 2020. Tsogo Sun Investments is wholly owned by Tsogo Sun Hotels Limited ('Tsogo Sun Hotels'), formerly Southern Sun Hotels Proprietary Limited. Between 28 July 2020 and 19 August 2020 Tsogo Sun Hotels Limited acquired 15.8% of Hospitality's total shares in issue (increasing the total shareholding of the Tsogo Sun Group in Hospitality to 75%). This is in line with a SENS announcement made by Tsogo Sun Hotels Limited on 3 July 2020, wherein it advised its shareholders that due to Hospitality's share trading at a significant discount to net asset value, it intended on acquiring additional shares in Hospitality in exchange for the issue of shares in Tsogo Sun Hotels Limited.

** Wholly owned by Hospitality.*

 # Hospitality underwent an internal restructure, effective 1 April 2019, which resulted in the risks and benefits held by Fezisource Proprietary Limited, The Cullinan Hotel Proprietary Limited and Merway Fifth Investments Proprietary Limited in the Fund's property portfolio, transferring to HPF Properties Proprietary Limited.


The Westin Cape Town

Our business model

1 Resources and relationships – the six capitals

Financial^

We invest the financial capital received from our equity investors and debt funders.

- 26% LTV ratio (2019: 16%)
- Rental income of R768 million (2019: R828 million)
- R220 million invested in capital expenditure (2019: R212 million)
- R2.55 billion in debt (62% hedged) (2019: R1.9 billion)

Social and relationship

The strength of our relationships is key to our business, given the unique nature of our operations. We establish and maintain mutually beneficial relationships with tenants and their management companies.

- 100%* tenant retention rate
- Strong, mutually beneficial relationship with Tsogo Sun Hotels, the majority shareholder of the Fund

Manufactured

Our diverse and carefully managed property portfolio enables us to generate income.

- 54 (2019: 53) hotel and resort properties across multiple grades and geographic locations, valued at R10 billion (2019: R12 billion)
- Focused on metropolitan cities for scale

Natural

Although we rely on water and electricity provided by municipalities to our operations, we strive to be resource and self-sufficient where possible.

- Desalination plant and/or filtration plants at several of our Cape Town hotels
- Water and energy-saving initiatives implemented at all our hotels

Intellectual

The depth of our experience in the hotel industry coupled with the strength of our hotel brands are critical to our ability to grow the business.

- Average experience of executive and senior management team in the hotel industry is 16 years
- 15* international and domestic brands (2019: 15)
- Ongoing investment in internal systems and processes to build data analytic capability

Human

To deliver on our strategy, we have a highly specialised and experienced team.

- 10 employees (2019: 19)
- Access to specialised Group services, such as information technology ('IT'), human resources and risk management through our majority shareholder, Tsogo Sun Hotels

^ The impact of Covid-19 on the hospitality industry, the Company and its financial capital, as well as the measures taken to reduce the impact and to ensure Hospitality remains sustainable, are set out on page 17 of the Financial Director's ('FD') review.

** Subsequent to year end, the Protea Hotel Edward lease expired on 30 June 2020. The tenants of Protea Hotel Hazyview and Mount Grace Country House and Spa, being separate operating companies owned by Marriott International Inc., terminated their lease agreements with Hospitality. These hotels will be operated by Tsogo Sun Hotels, under management agreements when they reopen.*

2 Core business activities and processes

The hotel portfolio of well-located and appropriately branded hotels caters to a wide range of domestic and international target markets including business travel, leisure and conferencing clients.

Invest →	Acquire properties in key locations with good visibility, accessibility and proximity to major hubs
Capitalise →	Maintain properties to appropriate brand standards and expand where opportunities meet our investment criteria
Lease →	Lease properties to tenants associated with hotel brands across the classes of hotels
Enhance →	Enhance relationships with tenants and their hotel management companies to maximise rental income
Review →	Strategic disposal of non-core assets

Support processes

- Strategy implementation
- Capital allocation
- Product relevance
- Acquisitions and development
- Financial reporting and taxation
- Risk management
- Regulatory compliance
- Procurement management

3 Outputs – products and services delivered

- Attractive, well-located, maintained and resilient properties
- Capital funding for hotel maintenance and improvements
- Hotel management skills and advice to enhance hotel performance
- REIT investment product

4 Outcomes

Our purpose – to invest in quality properties in the South African hospitality industry

Our definition of value – to deliver sustainable returns to our shareholders through distributions and capital appreciation, while positively contributing to our employees, business partners and the economy

We do this by sustaining, optimising and growing value through our strategic objectives and initiatives:

SUSTAIN

Financial strength and durability

Maintain an appropriate capital structure and distribution policy to ensure the business survives through the economic cycles

Product relevance

Own and maintain a variety of quality properties that are relevant in their markets

OPTIMISE

Property portfolio management

Optimise operational efficiencies and grow rental income through effective contract management and robust tenant relationships

Business intelligence

Continue to refine internal processes and systems to support portfolio management and decision-making

GROW

Organic growth

Grow our portfolio through organic means

Acquisitions

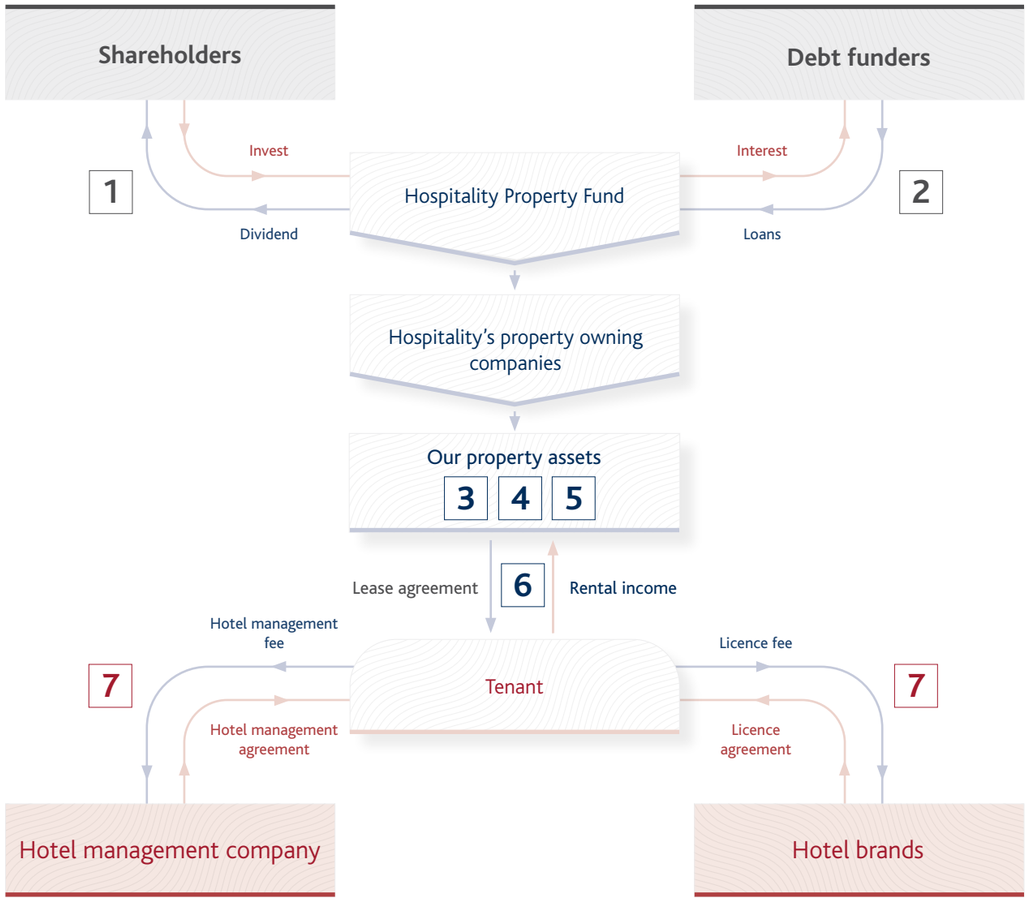
Continue to seek value-enhancing acquisitions, both through platform transactions and single-asset acquisitions that are well diversified both geographically and across brand segments

What we do

We earn our income through rentals received from our tenants. The hospitality industry is characterised by rental income subject to seasonal variability and a high level of capital expenditure. The potential upside allows Hospitality to leverage the assets for higher potential returns.

Our portfolio caters to a wide-ranging domestic and international market and accommodates various segments including corporate, government, leisure, Group conferencing and event business. Our properties are well diversified in terms of geographic location and class of hotel, thus mitigating some of the inherent risks associated within the cyclical nature of the hospitality industry.

As the property owner, we have a symbiotic relationship with our tenants and the hotel management companies who are typically the representatives of the brands in our portfolio. Our focus is the asset management of our properties and a long-term strategy in acquiring, disposing of and investing in a relevant portfolio to protect and grow shareholder returns. This strategy is delivered through responsible capital expenditure, an evaluation of acquisition opportunities and the optimal source of funding for these investments. Our strategy is to have dynamic and symbiotic relationships with the hotel management companies who focus on managing the hotel operations to maximise the income-generating capability of each hotel.



1 We raise equity/capital from shareholders through the issue of Hospitality shares. We pay dividends to our shareholders, complying with the JSE regulatory requirements for a REIT while taking cognisance of prevailing economic conditions and our cash requirements to maintain and improve the portfolio and manage debt levels.

2 We source funding to invest in organic and acquisitive growth opportunities, using debt and/or equity. We restructured our debt portfolio, including our medium-term note programme, normal bank debt and revolving credit facilities, to diversify between lenders, simplify the security structure and reduce the average cost of net debt.

3 We maintain and improve our properties through regular and responsible capital investments. Feasibility studies are conducted to analyse the return potential under prevailing trading conditions. Board approval is required for all capital expenditure projects and once approved, all expansions and major refurbishments are outsourced to third-party development consultants.

4 We measure the consumption of electricity and water and review municipal rates. Energy and water-saving initiatives are encouraged and supported through capital replacement where appropriate.

5 We evaluate acquisition opportunities to deliver on our objective to sustainably grow our assets under management. We review and dispose of certain properties that do not match our investment strategy to enhance the quality of our property portfolio. The proceeds of sales are applied to the reduction of debt or other growth opportunities.

6 We receive rental income from our tenants. The leases for all our hotel properties are fixed and variable leases. Typically, the fixed portion of the lease is 50% of the budgeted EBITDAR, escalating at the consumer price index ('CPI') on a varying cycle, of two or three years. The varied portion is between 75% and 98% of actual EBITDAR less the fixed portion.

7 Our tenants have management and licence agreements with reputable hotel management companies. We regularly engage with our tenants and their hotel management companies. We monitor the performance of our properties through monthly and quarterly reports provided by each hotel management company. In addition, we conduct peer group benchmarking, statistical analyses and reviews of economic trends to optimise the performance of the properties.

REIT 101

Hospitality is a REIT in terms of the JSE Listings Requirements. Below we summarise what a REIT is and how this investment vehicle benefits investors.

What governs a REIT?

REITs in South Africa are governed by the JSE Listings Requirements and the Income Tax Act, 1962 ('IT Act'). The IT Act allows for REITs to deduct dividends paid to shareholders for income tax purposes, as long as the dividends meet the definition of a 'qualifying distribution' in terms of section 25BB.

What are the REIT compliance requirements in accordance with the JSE Listings Requirements?

A REIT must:

- Own at least R300 million in property
- Keep its debt below 60% of its gross asset value
- Earn at least 75% of its revenue from rental revenue*
- Distribute at least 75% of its total distributable profits as a dividend to the holders of its listed securities, subject to meeting the solvency and liquidity requirements as per section 4 of the Companies Act
- Have a committee to monitor risk

To retain its REIT status, every REIT must, on an ongoing basis, meet the relevant REIT criteria prescribed by the JSE. Each member of the Board must sign an annual REIT compliance declaration confirming that the Company meets the relevant REIT criteria. The declaration is submitted to the JSE.

What are the benefits of a REIT to investors?

- Shareholders of a REIT do not pay securities transfer tax on buying or selling of REIT shares
- South African investors will receive gross dividends from a South African REIT entity, without the deduction of withholding tax being levied against the dividend. However, investors will have to pay tax on the dividends that they receive at their applicable marginal income tax rate when they include it in their taxable income
- Foreign shareholders of South African REITs will be levied a dividend withholding tax at 20% or the applicable double tax agreement rate could apply
- No capital gain tax liability arises in a REIT on the disposal of immovable property, a share in a REIT or a share in a controlled company

** Rental revenue is the Group's revenue derived from owning or leasing of immovable property let or sub-let to tenants plus dividends received from another REIT where the investment in that REIT is not consolidated in the Group's accounts.*

Chairman and Chief Executive Officer's report

Mara de Lima
CEO

Marcel von Aulock
Chairman

AS WE NAVIGATE THIS CHALLENGING TIME, OUR PRIORITY AS A LEADERSHIP TEAM IS ON PROTECTING THE LONGEVITY AND SUSTAINABILITY OF THE BUSINESS AND ENSURING ITS RESILIENCE INTO THE FUTURE.

Dear stakeholders

Challenges have become synonymous with business in South Africa. This financial year ended in a global meltdown due to Covid-19, which wreaked havoc across the globe. When the first case was diagnosed in South Africa in March 2020, we found ourselves in the eye of the storm at our financial year end. This, together with the declaration of a national lockdown, created a lot of uncertainty in the future outlook of many businesses, including ourselves, and it appears the worst is not yet behind us. The past three years saw a constant decline in GDP in South Africa (2017: 1.4%, 2018: 0.8%, 2019: 0.2%) and 2020 continues to follow the trend, with the Covid-19 crisis likely to push South Africa into a full recession. We remain focused on our strategic objectives to sustain, optimise and grow our business.

While the economic climate remained difficult, the business performed well, gaining momentum leading up to March. Revenue was expected to grow between 3% and 5% before the impact of Covid-19, which wiped out all growth prospects, and left the year's revenue down by 7% on the prior year.

The first quarter of FY2021 is characterised by the national lockdown announced by President Cyril Ramaphosa on 23 March 2020 in terms of his powers under the Disaster Management Act, 2002, and the State of Emergency Act, 1997. The lockdown was effective from 26 March 2020 to contain the spread of Covid-19. The lockdown was extended to 30 April 2020 and beyond to slow the spread of Covid-19. During this time, many industries came to a grinding halt and closing most hotels was necessary. Tenants sought relief from landlords through the supervening impossibility of performance, and with little to no revenue, municipal rates and other property-related costs remain a burden to be serviced.

The hospitality industry was hit hard by Covid-19, with severe restrictions placed on travel and entertainment. Although the restrictions are being lifted, the fear instilled, and the hype created through social media, will see the prospective traveller remaining cautious and delaying business and leisure travel, not to mention the obvious crunch on disposable income.

Hospitality did not declare a final dividend at 31 March 2020 in order to protect the sustainability of the business. In respect of the final distribution, the board of directors, after considering and applying the relevant solvency and liquidity test as defined in the Companies Act, could not reasonably conclude that the company would meet the liquidity requirement after completing the final distribution. This was as a result of the Company not expecting to meet its interim and year-end bank covenant liquidity requirements. Lenders provided a waiver to these requirements to 30 September 2020 and would only consider waiving the year-end covenant requirements to 31 March 2021, during September 2020. As a result of the partial waiver to 30 September 2020, Hospitality's debt becomes current and influences the outcome of the liquidity test. Distributable income ended 14% down on the prior year at R522 million.

Hotel occupancies for the Fund ended at 60.3% (down 3.7% on the prior year). This was driven by the significant impact of Covid-19 in March 2020, which traditionally is a high occupancy month in the South African market. The results over the year were inconsistent from month to month and from region to region. The Western Cape recovered from the water crisis in FY2019 and was achieving double digit growth of 18% on the prior year before the impact of Covid-19. The first quarter of trading included national elections in May and school holidays separated from the Easter holidays in April. This resulted in subdued business travel which had a negative impact on corporate hotels.

Hospitality acquired Southern Sun Pretoria in September 2019 for R200 million. The hotel comprises 240 rooms and is in the centre of Pretoria, which complements the Fund's portfolio, especially in the government sector. Hospitality also acquired three additional sections in the Sandton Eye Sectional Title Scheme ('the Scheme'), which comprises Radisson Gautrain Hotel, increasing the Fund's ownership of the Scheme to 82%.

Refurbishments at Westin Hotel in Cape Town and Arabella Hotel, Golf and Spa in Hermanus started in 2018. These refurbishments were completed in 2019 at a cost of R89 million. Garden Court Hatfield Hotel also started its refurbishment, with a capital spend of R11 million to March 2020, and is expected to be completed towards the latter part of FY2021 (trading dependent). The remaining capital expenditure of R120 million was spent on replacing hotel furniture, equipment and other smaller projects across the remaining 51 hotels.

Chairman and Chief Executive Officer's report continued

The Fund's property portfolio was independently valued at 31 March 2020 by a newly appointed valuation company, De Leeuw Group. At the time of the valuations, the South African 10-year bond yield increased to 10.5%, resulting in higher discount rates used to discount future cash flows, and significantly reduced future cash flows due to the uncertainty of the impact of Covid-19. The portfolio was valued at R10 billion, resulting in an impairment of R2.5 billion.

Hospitality's gearing remains within acceptable levels, with an LTV ratio of 26% at 31 March 2020. However, debt levels are expected to increase until some normality in hotel trading is achieved.

Ethical and responsible leadership is critical to the success and sustainability of the Fund and we remain committed to good governance. Hospitality's Board was reconstituted with a new executive management team, effective from 1 June 2019. The reconstituted Board increased black and female representation on the Board as set out on pages 44 and 45. Hospitality retained its level 1 B-BBEE rating under Tsogo Sun Hotels Limited.

As we navigate this challenging time, our priority as a leadership team is to protect the longevity and sustainability of the business and ensure its resilience into the future. Our relationships with our employees, shareholders and business partners are built on principles of trust, honesty and fairness. In adversity, these relationships create strong partnerships and we are grateful to all our partners. Our lenders were extremely supportive, suppliers were understanding and met our needs, employees agreed to furlough at reduced pay and we gained invaluable guidance and support from our majority shareholder, Tsogo Sun Hotels. The Board extends its appreciation to Hospitality's stakeholders for their invaluable support during this challenging time. The Fund has a strong diversified portfolio, an appropriate capital structure and the right ethical leaders to push through this adversity, and continue serving its stakeholders into the future.

Marcel von Aulock
Chairman

Mara de Lima
CEO

StayEasy Rustenburg

Financial Director's review

- Dividends paid per share for the year ended 31 March 2020 amounted to 35.40 cents. This dividend related to the interim period ended 30 September 2019. Hospitality did not declare a final dividend for the year ended 31 March 2020.
- Revenue for the year ended 31 March 2020 decreased by R60 million (7%) to R768 million (2019: R828 million). The decrease in revenue was mainly due to prevailing weak macro-economic conditions, particularly in Gauteng where rental income decreased by 14% year on year, and the impact of Covid-19. Rental income for March 2020 amounted to R16 million compared to rental income for March 2019 of R111 million.

LTV ratio at
26%
for the year ended 31 March 2020

Weighted average **cost of net debt** reduced to
9.1%
(2019: 9.6%)


Riaan Erasmus
FD

Financial Director's review continued

Distributions

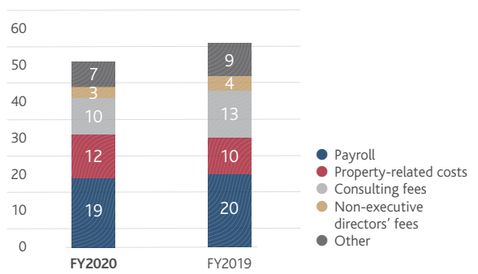
The Board did not declare a distribution for the six months ended 31 March 2020. Total distributable earnings per share for the year amounted to 90.37 cents (2019: 105.39 cents), of which 35.40 cents (2019: 42.11 cents) was distributed as a dividend on 17 December 2019. The Fund's distributable earnings for the year decreased by 14% to R522 million, mainly due to the significant impact of Covid-19, and the prevailing weaker trading conditions in Gauteng. The Fund owns 54 properties valued at R10 billion (2019: R12 billion). The Western Cape is the largest contributor to rental income at 40%, followed by Gauteng at 30%, with the rest of South Africa and SUN1 contributing 23% and 7% respectively. Fixed rental income represented 67% of rental income (2019: 60%).

Hospitality's operating expenses for the year decreased by R5 million, or 9%, to R51 million, excluding the R20 million transaction costs relating to the unsuccessful casino acquisition in the prior year. The decrease in costs relates primarily to payroll-related savings due to the implementation of efficiencies, and savings in legal and consulting fees.

Net finance costs of R195 million (2019: R167 million) are higher than the prior year due to the acquisition of Southern Sun Pretoria for R200 million and capital expenditures financed through borrowings, partially offset by lower margins negotiated in the new borrowing facilities raised during the year.

Year-on-year expenses (excluding transaction costs) are summarised as follows:

HPF expenses (R million)

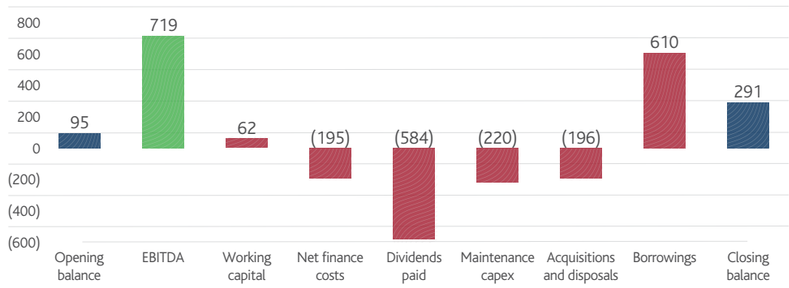



Edward Hotel KwaZulu-Natal

The decrease in payroll costs is largely due to implementing efficiencies and restructuring the staff complement. The short-term incentive ('STI') bonus objectives consist of four categories. More information is available in the remuneration section on page 47.

Property-related costs include levies and property taxes on sectional title schemes. Property taxes of freehold hotel properties are accounted for in the hotel income statement before rent. Consulting fees include audit, investor relations-related and legal fees.

Cash flow analysis (R)



Liquidity

Hospitality successfully refinanced maturing borrowings during the year at lower margins.

Hospitality issued a secured corporate bond (HPF12) in April 2019 of R300 million to refinance borrowings of R230 million (HPF08 and HPF09), and to fund capital expenditures.

Hospitality issued a secured corporate bond (HPF13) in December 2019 of R800 million to refinance borrowings of R560 million (term loan and HPF06) and raised an additional revolving credit facility with Nedbank of R250 million to fund capital spend.

Total cash and unutilised borrowings amounted to R691 million at year end, and should provide sufficient liquidity to Hospitality over the next 12 months.

Borrowings	Type	Maturity	Facility R million	Utilised R million
Standard Bank	Term	31 August 2022	500	500
Standard Bank	Revolving credit facility	19 December 2022	500	200
Nedbank	Revolving credit facility	13-month notice	250	150
Corporate bond – HPF11	Term	31 March 2023	600	600
Corporate bond – HPF12	Term	31 March 2024	300	300
Corporate bond – HPF13	Term	30 September 2024	800	800
Total facilities			**2 950**	**2 550**
Average maturity		**3.20 years**		

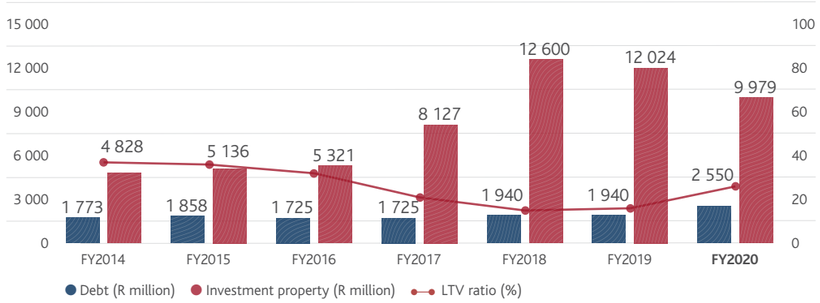
Hospitality entered into an interest rate swap of R500 million in January 2020 at a fixed rate of 6.69%, which will mature on 30 September 2024. Total effective fixed rate facilities amounted to R1.6 billion or 54%.

Interest rate hedges	Maturity	Fixed rate %	Nominal value R million
Swap 1	31 March 2022	7.42	500
Swap 2	30 June 2022	7.24	300
Swap 3	31 March 2023	7.16	300
Swap 4	30 September 2024	6.69	500
			1 600

Covenant requirements

Hospitality's LTV ratio reduced from 37% in FY2014 to 16% in FY2019, but increased to 26% at 31 March 2020 due to increased borrowings (R610 million) to fund the Southern Sun Pretoria property and capital expenditures across the portfolio, together with a significant decrease in the valuation of the property portfolio (R2.5 billion). The decrease in the property portfolio was mainly due to the significant impact of Covid-19 on the valuation of the property portfolio. Due to the uncertainty of future trading conditions, the forecasts were significantly reduced in year one and two when compared to actuals as at 31 March 2020. The South African 10-year bond yield increased by 1.9% from 31 March 2019 (8.61%) to 31 March 2020 (10.51%). Hospitality used a risk-free rate of 8.65% in 2019, compared to 10.50% in 2020, resulting in higher exit yields and higher discount rates across the portfolio. Hospitality's low gearing, together with its access to borrowing facilities, enables us to be financially resilient in volatile trading conditions.

LTV ratio



Financial Director's review continued

The interest cover ratio of 3.7 times (2019: 4.5 times) for the 12 months rolling to 31 March 2020 is well above the required debt covenant minimum of 2.0 times. Net debt to EBITDA for the 12-month rolling period to 31 March 2020 was 3.2 times (2019: 2.5 times), which was within the required maximum of 3.5 times. The weighted average cost of net debt to 31 March 2020 is 9.1% (2019: 9.6%). On 27 March 2020, Global Credit Ratings Co. affirmed Hospitality's national long-term and short-term issuer ratings of A-(ZA) and A2(ZA) respectively; however, the ratings were placed on Rates Watch Negative. Concurrently, the ratings assigned to the senior secured notes issued by HPF were affirmed at AA(ZA)(EL), also on Rating Watch Negative. The rationale for the Rates Watch Negative reflects the projected loss of earnings for hotel operators due to restrictions imposed to combat Covid-19.

Prospects

Hotel trading is expected to remain under pressure until the outlook for the South African economy improves. Covid-19 and the subsequent lockdown of the economy on 27 March 2020 had a profound impact on the tourism industry. Hospitality's portfolio comprises 54 hotels operating in the hospitality sector, which is one of the industries most severely impacted by Covid-19.

The measures taken by government to limit the spread of Covid-19 and the resultant inability of people to travel internationally and inter-provincially will limit the demand for hotel rooms, which will significantly impact Hospitality's revenue stream for FY2021.

Although the impact of Covid-19 is expected to have a longer-term impact on the hospitality industry and Hospitality, management could not quantify the full impact at the date of this report. It is expected that the recovery of the industry will be slow due to uncertainties around the health of travellers, and the negative economic impact on government, corporates and individuals to spend on hotel accommodation and conferences.

Due to the South African lockdown, we closed most of Hospitality's portfolio. Our portfolio could not generate revenue during lockdown, and together with the expected slow recovery once the hotels can open and operate, Hospitality will not be able to meet its net debt to EBITDA and interest cover covenant requirements in terms of its funding agreements for the measurement periods 30 September 2020 and possibly 31 March 2021. Hospitality's gearing levels remain manageable, with the LTV ratio being 26% at 31 March 2020.

To partially reduce the impact of Covid-19 on Hospitality, preserve cash and ensure we can continue operating as a going concern, the following steps were implemented:

- The capital expenditure programme was suspended, with only emergency capital expenditures to be considered
- Waivers were obtained from lenders on our net debt to EBITDA and interest cover covenant requirements for the measurement period 30 September 2020, with the request for waiver of 31 March 2021 to be considered after 30 September 2020
- The capitalisation of bank funding interest to the Group's revolving credit facilities was implemented
- Operating costs, such as salaries and wages, were reduced through implementing furlough
- Extended payment terms from major creditors were obtained
- Initiatives to support tenants to ensure their sustainability in terms of lease agreements are in place

Cash and undrawn facilities amounted to R691 million at year end, which will provide sufficient liquidity to Hospitality over the next 12 months. By regularly engaging with our lenders through updates on operations and cash flow forecasts, they remain informed and supportive of the Fund during this difficult period.

Due to the uncertainty regarding Hospitality's ability to comply with its covenant requirements (as detailed above), the Board of Directors did not declare a final dividend for the year ended 31 March 2020.

As we look ahead, I want to thank our staff and teams for their dedication in this difficult time. To our other stakeholders, we look forward to serving you in the year ahead, as we navigate this challenging operating context together.

Riaan Erasmus
Financial Director


Radisson Blu Cape Town

Future growth drivers

Brand affiliation

A strong brand supports a hotel's identity and competitiveness. The diversity of brands in our portfolio attracts key domestic and international market segments.

MACRO-ECONOMY

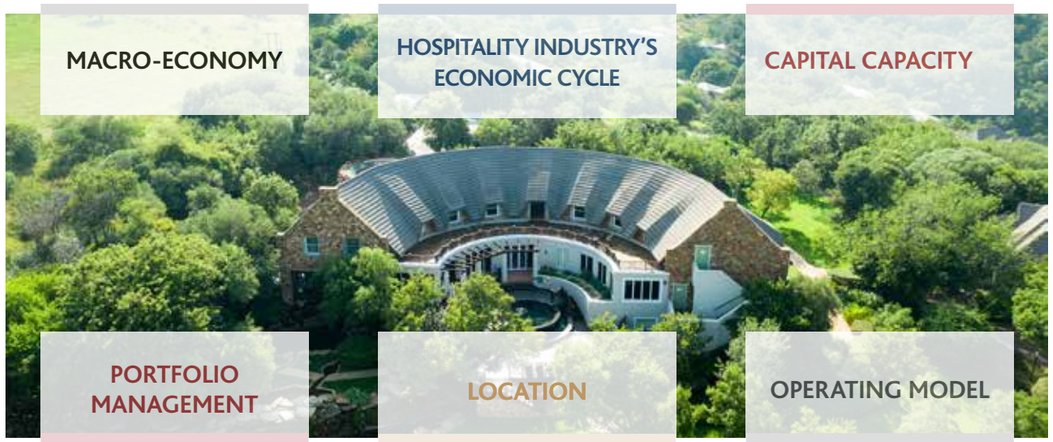
Hospitality invests solely in South Africa but it monitors both local and global macro-economic factors to identify trends. Property valuations and distributions are impacted by macro-economic factors, which require constant focus and attention from management.

HOSPITALITY INDUSTRY'S ECONOMIC CYCLE

The hotel economic cycle is generally closely tied to the macro-economic cycle. The cyclical and seasonal nature of the business links into the macro-economic environment and key analytics on trends remain crucial to support investment decisions.

CAPITAL CAPACITY

Maintaining an appropriate balance of our debt and equity is critical to our growth and sustainability. Our distributions need to balance our cash requirements for reinvestment with our shareholders' expectations. We need to ensure we have sufficient flexibility to adapt to prevailing economic conditions to maintain and improve the portfolio.



PORTFOLIO MANAGEMENT

Hotel operations require specialist expertise and are highly management and labour intensive. Creating strong partnerships with specialist hotel management companies protects the Fund's diversity. A constant focus on improvement and development for each hotel is necessary to maintain products that are relevant to their markets.

LOCATION

Strategic property investments in prime locations, where visibility and accessibility to major business hubs or points of leisure interest, are important demand drivers.

OPERATING MODEL

Developing and attracting a suitable management team over the short and medium term will enable us to benefit from their relevant knowledge and experience. To accurately analyse and evaluate tenant performance, we need to support the management team with the correct tools.

Future growth drivers continued

ENGAGING, UNDERSTANDING AND RESPONDING TO OUR STAKEHOLDERS

Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, senior management executives, customers, suppliers, financiers, government and communities. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

We believe stakeholder relationships create value and build trust, mutual respect and credibility with our stakeholders which are vital to our long-term sustainability. Our communication with employees and other stakeholders is open, honest and without prejudice and is supported by a code of ethics and disclosure of information policy to guide our behaviour, ensuring our stakeholders know what to expect from us. We took our stakeholders' views into account in formulating our strategic objectives and report content.

Southern Sun Bloemfontein

STAKEHOLDER GROUPS	Investors*	Tenants and hotel management companies	Professional suppliers and business partners	Employees (10 full-time employees based at Hospitality's head office in Montecasino, Fourways (2019: 19))	Government and regulatory authorities
NATURE OF ENGAGEMENT	– JSE SENS – Media releases and published results – IARs and financial statements – Annual general meetings ('AGMs') and general meetings – Analyst and investor presentations – Hospitality's website – One-on-one meetings	– Monthly and quarterly operational reviews through analytics and direct contact with hotel management companies to review each of their hotel's performance – Contract management as required – Sub-committee, body corporate and/or Board membership to ensure good governance – Annual audits, sign off of annual accounts and audited rental certificates obtained	– Vetted and approved development and maintenance suppliers – Vetted and approved specialist furniture, fixture and equipment ('FF&E') suppliers – Development consultants	– Communication from executives and human resources – Internal communications and posters – Induction programmes – Ongoing training and education – Performance management programmes – Anti-fraud, ethics and corruption hotline – Staff wellness programme	– Establish constructive relationships – Comment and interaction on developments in legislation – Membership of industry bodies, eg SA REIT Association and the Institute of Directors in South Africa
ISSUES AND EXPECTATIONS	– Sustainable growth and returns on investment – Results announcements – Dividends – Risks and opportunities of expansion – Transparent remuneration policy and implementation – Corporate governance and ethics – Liquidity and gearing	– Absolute and relative performance – Benchmarking and oversight – Trading environment – Capital investment requests – Maintenance of contract terms – Good governance practices	– Future business opportunities – Relationships – Project performance – Level of standard and service	– Job security – Engagement – Performance management – Clear understanding of reward structures – Health and safety performance – Access to counselling and wellness programmes – Career planning and skills development – Preferred employer	– Compliance with legislation – Job creation – Investment in public and tourism infrastructure – Investment in disadvantaged communities – Reduction in energy and water consumption
LINK TO MATERIAL MATTERS	– Macro-economic climate – Investment opportunity – Regulatory change and compliance – Capital capacity and opportunities – Portfolio management and product relevance	– Macro-economic climate – Local authority capability – Investment opportunity – Regulatory change and compliance – Crime, safety, security and health – Capital capacity and opportunities – Portfolio management and product relevance	– Macro-economic climate – Local authority capability – Investment opportunity – Regulatory change and compliance – Crime, safety, security and health – Capital capacity and opportunities – Portfolio management and product relevance	– Macro-economic climate – Regulatory change and compliance – Crime, safety, security and health – Human resources	– Local authority capability – Regulatory change and compliance – Crime, safety, security and health

*(*As detailed in the shareholder analysis on page 105 of the consolidated annual financial statements) and funding institutions, which include Rand Merchant Bank Limited, Standard Bank of South Africa Limited, Absa Bank Limited and Nedbank Limited.*

Our material risks and opportunities

Materiality determination

Guided by the IIRC's International <IR> Framework on materiality, this report includes matters that substantively affect the Company's ability to create and sustain value over the short, medium and long term.

Hospitality defines value as the delivery of sustainable returns and positive contributions to our shareholders, through distributions and capital appreciation, as well as our employees, business partners and the economy.

We determine the materiality of matters disclosed in our reports by considering substantial influences on our strategy, business model and the capitals we use to create value for our stakeholders.

Material risks and opportunities linked to strategy

We consider the global and domestic operating context as well as the outputs from our enterprise risk management system and stakeholder engagement processes.

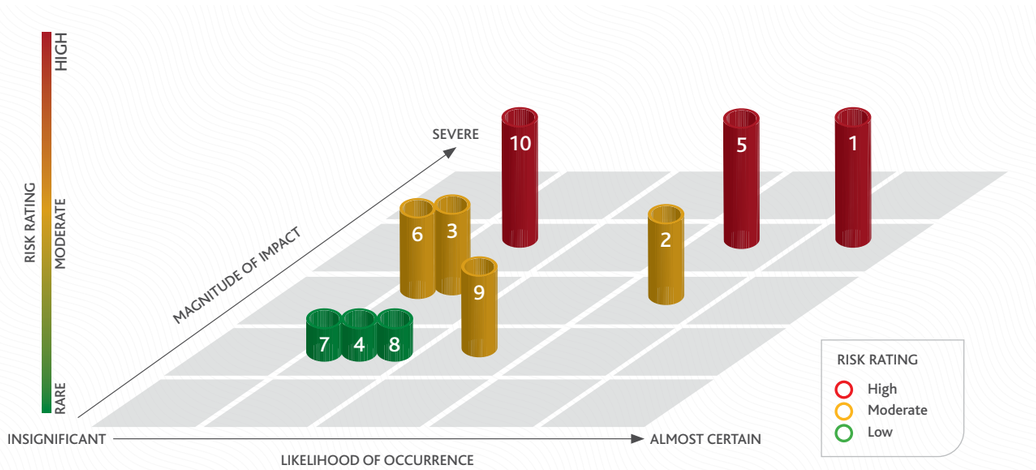
We then evaluate and prioritise relevant matters to determine our material risks and opportunities, which have a direct impact on our business (depicted in the heat map below).

Market research and comparisons with our majority shareholder are also conducted to ensure that matters relevant to the industry and the Group were not excluded from the process.

Our material risks and opportunities are determined by a process of:

Identification » Evaluation » Prioritisation « Disclosure «

Risk matters currently



Risk matter

1 Macro-economic climate	6 Capital capacity and opportunities
2 Local authority capability	7 Portfolio management and product relevance
3 Investment opportunity	8 Human resources
4 Regulatory change and compliance	9 Cyber and IT information
5 Crime, safety, security and health	10 Credit risk

Please refer to page 43 of the governance report for details on risk management.

What this means for us

1 MACRO-ECONOMIC CLIMATE – RISK AND OPPORTUNITY

Context:
- Our operations, concentrated in South Africa, are affected by the cyclical nature of the hospitality industry, which affects distributions and the fair value of the property valuations.
- Our growth is negatively affected by macro-economic factors and increased funding costs.
- Exchange rate volatility affects occupancy, particularly by foreign business and leisure travellers.
- Covid-19 is impacting severely on the global tourism sector due to restrictions on local and international travel.

Response:
- We mitigate inherent trading risks by managing a well-diversified portfolio across geographic locations and hotel gradings.
- Funding costs are mitigated by interest-rate hedges.
- Hospitality is currently hedged at 54% of total facilities. Our LTV ratio is low at 26% and is well within the statutory limits of a REIT. We maintain comfortable headroom on our covenants with debt capacity constrained to Group requirements.
- We work with industry bodies such as the Western Cape Tourism, Trade and Investment ('Wesgro') and the South African Tourism Services Association ('SATSA') to attract visitors to South Africa, which we believe is a competitive tourism destination.

Strength of risk response
Satisfactory
Magnitude of impact
High
Likelihood of occurrence
Almost certain
Risk rating
High
Strategic objective
SUSTAIN

2 LOCAL AUTHORITY CAPABILITY – RISK AND OPPORTUNITY

Context:
- Poor service delivery, limited infrastructure investment and funding challenges experienced by South African municipalities have hamstrung their capacity to supply water and electricity to ratepayers. Inconsistent water supply and unreliable electricity provision affect hotel operations and guest relations. Returns to shareholders are also affected by the additional cost burden of increases in rates and property taxes, and the cost of water and electricity which grows above inflation annually.

Response:
- Our capital expenditure budgets are aligned with measures to reduce dependency on utilities. We also contracted independent valuers and experts to conduct municipal valuations.
- The Fund earns 42% of its rental income from the Western Cape. Hospitality has rolled out a water resilience plan in the Western Cape and Eastern Cape hotels. A fire readiness and response programme was also put in place.
- Hospitality is working with industry bodies such as Wesgro, South African Tourism and SATSA to seek solutions that will benefit the province's hospitality industry.
- Hospitality continues to investigate options for alternative energy supply.

Strength of risk response
Good
Magnitude of impact
Moderate
Likelihood of occurrence
High
Risk rating
Moderate
Strategic objective
SUSTAIN
OPTIMISE

3 INVESTMENT OPPORTUNITY – RISK AND OPPORTUNITY

Context:
- Challenging economic conditions, coupled with an oversupply of hotels in certain markets, lead to subdued consumer spending. Some investments are therefore not yielding the returns expected amid low share liquidity or tradeability. It is in this operating environment that we assess hotel investment and major refurbishment opportunities, understanding the value, these opportunities could bring to our portfolio.

Response:
- We invest in quality properties in the South African hospitality industry to ensure we have a diversified portfolio across geographic locations and hotel gradings.
- Investment opportunities are evaluated and approved by our Board, and formal due diligence is conducted by expert service providers prior to final acquisition.
- We continue to investigate and identify refurbishment projects across our portfolio.
- We fund new acquisitions with debt.

Strength of risk response
Good
Magnitude of impact
Moderate
Likelihood of occurrence
Possible
Risk rating
Moderate
Strategic objective
SUSTAIN
OPTIMISE
GROW

Our material risks and opportunities continued

4 REGULATORY CHANGE AND COMPLIANCE – RISK

Context:
- We face increasingly complex compliance requirements, degradation of regulatory competence as well as policy uncertainty, including the possibility of land expropriation. At the same time, the cost of compliance is increasing while share liquidity and tradeability, as well as our share price, are low.
- Administrative burdens associated with visa regulations for foreign minors entering South Africa, for example, have directly affected occupancy.
- As a REIT, we are also subject to regulatory requirements in terms of the Companies Act, the JSE Listings Requirements, King IV, B-BBEE and the voluntary guidelines of the IIRC's International <IR> Framework, as applicable.

Response:
- We support the principles of sound corporate governance and continuously review covenants.
- We have effective compliance controls throughout the organisation and meet our annual declaration to the JSE on REIT compliance.
- We maintained our level 1 B-BBEE rating and continue monitoring government's plans for transformation. We assess our tourism and property charter accordingly.
- Our management team and employees are regularly trained in amendments to legislation and policy and we uphold compliance monitoring and processes already in place.

Strength of risk response
Good
Magnitude of impact
Low
Likelihood of occurrence
Possible
Risk rating
Low
Strategic objective
SUSTAIN
OPTIMISE

5 CRIME, SAFETY, SECURITY AND HEALTH – RISK

Context:
- We are concerned about the safety, security and wellbeing of our employees and tenants. Violent criminal activities, due to poverty and social unrest, have an adverse impact on our business and the hospitality industry. Fraud committed by staff, or other external parties, remains a threat to our industry and reputation.
- Pandemics, such as Covid-19 can have a severe impact on the global economy and tourism and poses significant health and financial risk to our guests and employees.
- The decline in the economy also has an impact on crime and therefore the safety of our guests and employees.

Response:
- We implement incident response procedures and apply preventive measures to combat and detect fraud and suspicious behaviours. To further strengthen our defences, we ensure segregation of duties throughout the Group.
- We hire skilled and experienced people to ensure completeness and accuracy in reporting.
- Construction, operation, protection and exposure reports are compiled by independent experts to early identify any possible risk or threat.
- We have adequate insurance cover against damage and theft and security procedures are in place.
- We have implemented protocols at our hotels and at head office to protect our guests and employees.

Strength of risk response
Good
Magnitude of impact
High
Likelihood of occurrence
High
Risk rating
High
Strategic objective
SUSTAIN
OPTIMISE

6 CAPITAL CAPACITY AND OPPORTUNITIES – OPPORTUNITY

Context:
- As a committed investor in the South African hospitality industry, the sustainability of our business depends on our ability to identify and fund opportunities aligning with our strategy.
- It is imperative that we do not miss opportunities to mitigate lower property values and the margin squeeze due to the fixed cost nature of the business.
- Covid-19 has severely impacted trading conditions and the ability to generate revenue and profitability, which limits the Fund's ability to invest in its properties, while protecting the Fund's long-term sustainability.

Response:
- We regularly conduct robust assessments of all opportunities. The performance of our existing portfolio is monitored by our Board and guides our appetite for disposals and/or acquisitions.
- Our capital expenditure programme is reviewed and approved by the Board, and is within our risk parameters. Our distribution policy and budgets are reviewed and approved by the Board, which mainly comprises independent directors.
- The flexibility of Hospitality's capital expenditure programme allows for a quick response to events such as Covid-19. All capital expenditure has been suspended to protect and conserve cash.
- Our covenants are continuously reviewed.

Strength of risk response
Satisfactory
Magnitude of impact
Moderate
Likelihood of occurrence
Possible
Risk rating
High
Strategic objective
GROW

7 PORTFOLIO MANAGEMENT AND PRODUCT RELEVANCE – OPPORTUNITY

Context:
- Our products are diversified across domestic and international brands. Product relevance in our target markets impacts our ability to create value over the long term.
- Hotel management companies manage our properties on behalf of tenants.
- Relationships and contract management are crucial aspects of our business.
- As we operate in a competitive space, ongoing maintenance and repairs are essential to avoid our offerings becoming obsolete.
- We invest in fire, life and safety insurance, relative to the age of the property, to protect our assets.
- To attract and retain more discerning guests, we keep abreast of technology and social trends that meet modern needs and protect our properties from damage.

Response:
- Our capital structure and capacity enable five-year capital expenditure programmes, which are updated annually, for each property. Our capital expenditure budgets are approved by our Board.
- We regularly review the performance of our hotel management companies, and conduct property visits and site inspections, as well as fire, life and safety surveys, in terms of organisational resilience management standards. We have comprehensive insurance cover as well as construction occupancy protection exposure reports, and maintain an up-to-date assets and infrastructure dossier.

Strength of risk response
Good
Magnitude of impact
Low
Likelihood of occurrence
Possible
Risk rating
Low
Strategic objective
OPTIMISE

8 HUMAN RESOURCES – RISK AND OPPORTUNITY

Context:
- Our independent Board and executive team have the skills, capabilities and expertise required to advise and lead the Group.
- The South African hospitality and tourism sectors are constantly evolving with the risk of skills shortages due to high turnover at management level.
- Changes in labour legislation and instability as well as employment equity requirements, particularly our ability to attract and retain skilled B-BBEE staff, are significant factors considered by the business.

Response:
- Our job specifications ensure effectiveness and clarity for managers and staff.
- Our employees are skilled appropriately and have the necessary experience. We invest in training programmes that develop specific skill sets.
- Central services are used for expert requirements.

Strength of risk response
Good
Magnitude of impact
Low
Likelihood of occurrence
Possible
Risk rating
Low
Strategic objective
OPTIMISE

9 CYBER AND IT INFORMATION – RISK

Context:
- The data-centric hospitality environment is prone to cybercrime, hacking, hacktivism and other IT breaches, which threaten data integrity and increase the risk of information loss.
- South African companies must comply with the Protection of Personal Information Act, which requires businesses to collect, process and store personal information responsibly or pay fines for abuse.

Response:
- We maintain robust IT infrastructure impervious to external attacks.
- Our IT systems are regularly backed up by reputable service providers.
- Our central servers are held with third parties who consistently monitor and audit our IT security systems.

Strength of risk response
Satisfactory
Magnitude of impact
Low
Likelihood of occurrence
Probable
Risk rating
Moderate
Strategic objective
OPTIMISE

10 CREDIT – RISK

Context:
- An uncertain economic climate increases the risk of tenant defaults and bad debts. Our management companies are affected by the same constraints, particularly in difficult trading conditions.
- Tenants are provided with working capital by the Fund on a short-term basis, according to their lease terms.

Response:
- We mitigate credit risk with a debtor management programme.
- Our deposit and bank guarantee procedures identify and monitor debtors and defaulters.
- Tenants are provided with working capital by the Fund, on a short-term basis, according to their lease terms, although the recoverability of these working capital loans could be at risk until such time that trading levels normalise. Tsogo Sun Hotels, Hospitality's controlling shareholder, can step into lease or management agreements on short notice.

Strength of risk response
Satisfactory
Magnitude of impact
High
Likelihood of occurrence
Possible
Risk rating
High
Strategic objective
SUSTAIN
OPTIMISE

Our strategy and performance

Our strategy provides a comprehensive and responsive framework to deliver value to our shareholders and other stakeholders.

Informed by our ever-changing operating environment and our stakeholder engagement, our strategy is regularly reviewed to ensure it proactively responds to our material risks and opportunities. The severe impact Covid-19 had on Hospitality, the tourism industry and businesses globally, informed the Fund's strategic approach to the crisis. Our strategic approach focuses on implementing the measures necessary to preserve our assets and cash resources and to ensure our sustainability beyond these uncertain times.

	Strategic objectives	Strategic enablers
SUSTAIN	**Financial strength and durability** Maintain an appropriate capital structure and dividend policy to ensure the business survives through the economic cycles.	**Product relevance** Own and maintain a variety of quality properties that are relevant in their markets.
OPTIMISE	**Property portfolio management** Optimise operational efficiencies and grow rental income through effective contract management and robust tenant relationships.	**Business intelligence** Continue to refine internal processes and systems to support portfolio management and decision-making.
GROW	**Organic growth** Grow our portfolio through organic means.	**Acquisitions** Continue seeking value-enhancing acquisitions, both through platform transactions and key single-asset acquisitions that are well diversified both geographically and across brand segments.

Demonstrating delivery

To demonstrate our strategy in action, we have built our performance and outlook reporting around our strategy.

Edward Hotel KwaZulu-Natal

SUSTAIN

Financial strength and durability

Maintain an appropriate capital structure and dividend policy to ensure sustainability through the economic cycles

Approach

- As a REIT, the majority of our profit (a minimum of 75%) is required to be distributed to shareholders, subject to the solvency and liquidity test, as per the Companies Act.
- Covid-19 had a significant influence on our ability to earn revenue and generate profits, which will have an impact on the dividend policy over the short, medium and long term.
- We rely on financial markets to source equity and debt capital to fund growth and optimise our capital structure.
- In the current climate, our focus is on ensuring business sustainability.
- Our portfolio is diversified in terms of locations, brands and classes of hotels. This offers us some resilience to reduce the impact of the challenging cycle we find ourselves in.
- We carefully manage our debt covenants, with our secured debt covenants requiring an LTV ratio below 40%, an interest cover ratio of not less than 2.0x, and a net debt:EBITDA ratio of no more than 3.5x.

Related material matters

- Macro-economic climate
- Investment opportunity
- Regulatory change and compliance
- Capital capacity and opportunities
- Credit risk

2020 performance

During the year under review, Hospitality enhanced its resilience and sustainability through several initiatives aimed at protecting the business now and into the future.

We successfully refinanced maturing borrowings during the year amounting to R790 million at lower margins, reducing the weighted average cost of debt to 9.1% (2019: 9.6%). We continue to benefit from a restructured, less complicated debt structure with one special-purpose vehicle as security for all our borrowings. Properties encumbered can be added or removed to facilitate efficient and effective lending, while ensuring appropriate asset management in decisions to be taken on asset acquisitions or disposals. Hospitality remained within its debt covenants at year end, with an LTV ratio of 26% (against a covenant of not more than 40%), an interest cover ratio of 3.7x (against a covenant of not less than 2.0x), and a net debt:EBITDA ratio of 3.2x (against a covenant of no more than 3.5x).

As a result of, and in response to, Covid-19 the Board did not declare a dividend for the six months ended 31 March 2020. After careful review, this decision was taken as a response to conserve cash as well as the absence of the necessary waivers from our lenders regarding our net debt:EBITDA and interest cover covenant requirements for the measurement period 31 March 2021.

Given the current context, the Fund is unlikely to pay dividends in the next financial year, as it is unlikely the Fund will meet the relevant net debt:EBITDA and interest cover covenant requirements at 31 March 2021. Hospitality's lenders were approached in this regard, details of which can be found on page 20 of the FD's review.

Key performance indicators

	Self-assessment	**12 months ended 2020**	12 months ended 2019	12 months ended 2018
Distributable earnings	●	**R522 million**	R606 million	R656 million
Dividend per share (cents)	●	**35.40^**	105.39	120.29
Interest cover ratio	●	**3.7x**	4.5x	5.0x
LTV ratio	●	**26%**	16%	15%
Average cost of net debt	●	**9.1%**	9.6%	10.3%
Market capitalisation	●	**R1.8 billion**	R5.7 billion	R6.8 billion

^ Only an interim dividend was paid due to the covenant requirements not being waived for the measurement period 31 March 2021. The earnings for the year were negatively impacted by Covid-19. Refer to the Financial Director's review on page 17 for further information.

- ● 2020 performance improved compared to prior year or achievement in line with strategy.
- ● Performance flat against prior year or strategic goals.
- ● Performance below prior year or strategic goals.

Key initiatives

- Ongoing review and management of our capital structure
- Ensure an appropriate distribution policy/ratio
- Ongoing review of our cost of debt

Reflecting on 2019's commitments

In our 2019 IAR, we stated certain priorities for FY2020. Below is the status of these goals:

2020 priorities	Status
Growth in distribution and distribution per share	✗
Increase gearing ratio to utilise cash more effectively	✓

- ✓ Completed
- ● Ongoing
- ✗ Not achieved

2021 objectives and future outlook

Preserve cash and ensure the business remains sustainable during uncertain and unprecedented times brought about by Covid-19.

Our strategy and performance continued

SUSTAIN

Product relevance

Own and maintain a variety of quality properties that are relevant in their markets

Approach

- Hospitality has a five-year capital expenditure programme per property, which is prepared in consultation with the hotel management companies. These programmes include major upgrades and extensions, smaller projects to improve hotel amenities as well as ongoing maintenance and IT capital expenditure. Capital investments and projects are proposed by management and approved annually by the Board.
- Under this programme, the investment cycle for major refurbishments is generally 10 to 14 years while softs, which include upholstery, linen and curtains, are replaced on average every five to seven years. FF&E consist of various components, with expected replacement cycles of between five and 12 years.
- Due to the impact of Covid-19, all capital expenditure was suspended in the short term. We understand this will create a need to recalibrate our investment cycle and to catch up on planned investment when trading improves, and debt levels are lower.

The Fund's capital expenditure benchmark is 20% (on average) of rental income and is evaluated on the investment criteria per property:

- Once projects are approved, Hospitality is tasked with overseeing projects outsourced to specialist service providers. Suppliers are assessed and approved to ensure standards are maintained at competitive prices.
- We continuously review the suitability of individual properties into the Fund's investment strategy and will, from time to time, dispose of properties that no longer meet our investment criteria.

Related material matters

- Macro-economic climate
- Local authority capability
- Investment opportunity
- Regulatory change and compliance
- Crime, safety, security and health
- Capital capacity and opportunities
- Portfolio management and product relevance, which relies on available funding

2020 performance

A number of capital improvement projects were undertaken at a total cost of R220 million and included the following larger projects:

- The second phase of the FF&E refurbishment of the bedrooms at Westin and Arabella Hotel, Golf and Spa, which commenced in FY2019, were completed during FY2020 at a cost of R89 million.
- The refurbishment of The Garden Court Hatfield, at a cost of R11 million to March 2020, is expected to be completed towards the latter part of FY2021 (trading dependent).
- The remaining capital expenditure of R120 million was spent on replacing hotel furniture, equipment and other smaller projects across the remaining 51 hotels.

Key performance indicators

	Self-assessment	**12 months ended 2020**	12 months ended 2019	12 months ended 2018
Capital expenditure	○	**R220 million**	R212 million	R73 million
Capital expenditure as a percentage of rental income	○	**29%**	26%	17%
Disposals	○	**None**	None	Portion of Kopanong for R1 million

○ 2020 performance improved compared to prior year or achievement in line with strategy.
○ Performance flat against prior year or strategic goals.
○ Performance below prior year or strategic goals.

Reflecting on 2019's commitments

In our 2019 IAR, we stated certain priorities for FY2020. Below is the status of these goals:

2020 priorities	Status
The second phase of the FF&E refurbishment of bedrooms at Westin over the winter months. All bedrooms will be completed at the end of this phase	✓
The second phase of the FF&E refurbishment of bedrooms at Arabella Hotel, Golf and Spa over the winter months. All bedrooms will be completed at the end of this phase	✓
Refurbishment of the 'International Centre' conference facility at Birchwood Hotel and OR Tambo Conference Centre, refurbishment of smaller conference and meeting facilities, and the replacement of kitchen and laundry equipment	✓
Commencement of the FF&E refurbishment of the bedrooms at Garden Court Morningside	✗
Commencement of the FF&E refurbishment of bedrooms at Garden Court Hatfield. This project was placed on hold after two out of the five phases were completed	●
Façade repairs and repainting of Southern Sun Cullinan	✓
Façade repairs and repainting of StayEasy Century City	✓
The first phase of the refurbishment of loft rooms at Protea Hotel Marine	✓
Replacement of corridor carpets at Radisson Blu Gautrain	●
Replacement and upgrade of lifts at Garden Court South Beach	●
Softs refurbishment to conference rooms and restaurant at Champagne Sports Resort	✓

✓ Completed ● Ongoing ✗ Not achieved

Key initiatives

- Maintain and upgrade key properties, subject to available funding
- Develop initiatives to address utilities risk

2021 objectives and future outlook

We will continue to limit capital expenditure until trading levels normalise and debt reduces. Historically, the properties were well maintained, but we will need to catch up in future years to ensure the relevant refurbishment cycles are maintained and the properties remain relevant to the high levels of guests' expectations.

Our strategy and performance continued

OPTIMISE

Property portfolio management

Optimise operational efficiencies and grow rental income through effective contract management and robust tenant relationships

Approach

Our property portfolio management approach is outlined in our business model (see pages 10 and 11).

Related material matters

- Macro-economic climate
- Local authority capability
- Investment opportunity
- Regulatory change and compliance
- Crime, safety, security and health
- Capital capacity and opportunities
- Human resources
- Cyber and IT information
- Credit risk

2020 performance

- Southern Sun Rosebank (previously operating under the Crowne Plaza brand) was rebranded under the Southern Sun brand of hotels managed by Tsogo Sun Hotels to:
  - Leverage from Tsogo Sun Hotels' marketing and distribution platform
  - Gain access to Tsogo Sun Hotels' loyalty programme
  - Drive efficiencies and cost savings in the hotel businesses.
- The hotel operating plans and budgets are reviewed quarterly and prepared annually.
- Three additional sections were acquired in the Sandton Eye Sectional Title Scheme ('the Scheme'). The Scheme comprises Radisson Gautrain Hotel and the acquisition of the additional sections resulted in the Fund increasing its ownership in the Scheme to 82%.

Key performance indicators*

	Self-assessment	12 months ended 2020	12 months ended 2019	12 months ended 2018
Contractual rental income	○	**R768 million**	R828 million	R867 million
Occupancy	○	**60.3%**	61.1%	62.9%
Average daily rates ('ARR')	○	**R1 231**	R1 100	R1 089
Revenue per available room ('Revpar')	○	**R743**	R673	R685
B-BBEE rating	○	**Level 1**	Level 1	Level 1

** Includes Hospitality's portfolio of 54 properties and includes Southern Sun Pretoria, which was acquired effective 19 September 2019 (FY2019/8: 53 properties).*

○ 2020 performance improved compared to prior year or achievement in line with strategy.
○ Performance flat against prior year or strategic goals.
○ Performance below prior year or strategic goals.

Key initiatives

- Quarterly reviews with hotel management on business performance
- Reviews of operating plans, standards and brand opportunities

Reflecting on 2019's commitments

In our 2019 IAR, we stated certain priorities for FY2020. Below is the status of these goals:

2020 priorities	Status
Quarterly reviews with hotel management on the business's performance will continue	✓
The reviews of operating plans, standards and brand opportunities will continue	✓
Various initiatives under the approved capital expenditure plans are aimed at reducing the cost and/or consumption of water and electricity, improving operational resilience	●

✓ Completed
● Ongoing
✗ Not achieved

2021 objectives and future outlook

Although lockdown restrictions started to ease, allowing hotels to reopen, Covid-19 continues creating major economic and financial distress for the economy and consumers alike. This, coupled with the ban on international travel, will continue putting pressure on performance in the medium term, even once the ban is eased.

OPTIMISE

Business intelligence

Refine internal processes and systems to support portfolio management and decision-making

Approach

The Fund aims to act as opportunities arise or identify risks before they become material. This requires an information database with reports readily available to management.

Related material matters

- Regulatory change and compliance
- Crime, safety, security and health
- Portfolio management and product relevance
- Human resources
- Cyber and IT information

2020 performance

Information is consolidated and reported on business planning and consolidation software, with the underlying general ledger maintained in SAP Software Solutions. The capital expenditure process was matured in SAP and is running efficiently. We built a database to retain all relevant hotel information received to analyse information and improve decision-making. The efficiency of existing systems allowed reporting to continue, with employees working from home through the national lockdown imposed to curb the spread of Covid-19.

Key initiatives

- Continue building and refining internal processes and systems to support portfolio management and decision-making
- Accounting system integration and streamlining

Reflecting on 2019's commitments

In our 2019 IAR, we stated certain priorities for FY2020. Below is the status of these goals:

2020 priorities	Status
Continue improving the internal control environment through the use of systems at the Fund	✓
Continue analysing and enhancing systems and processes to effectively manage the portfolio	●
Refine monthly reporting internally and quarterly reporting to the Board using the system's available tools	●

✓ Completed ● Ongoing ✗ Not achieved

2021 objectives and future outlook

Looking ahead, we will continue analysing and enhancing systems and processes to effectively manage the portfolio. Furthermore, we plan to refine monthly reporting internally and quarterly reporting to the Board using the system's available tools.

Our strategy and performance continued

GROW

Organic growth

Grow our portfolio through organic means

Approach
- Monitor performance strategies of the management team at the hotel properties.
- Compare hotel performance against the market performance of the key regions.
- Review key initiatives to protect or enhance operating margins.

Related material matters
- Macro-economic climate
- Local authority capability
- Investment opportunity
- Crime, safety, security and health
- Capital capacity and opportunities
- Portfolio management and product relevance

2020 performance

The hotel trading results are compared on a like-for-like basis for the year ended 31 March 2020. Room occupancy (excluding SUN1) for the Fund's hotels declined by 3.7% to 60.3%, while the market experienced a decline of 3.9% to 59.9%. For comparison to the STR Global South African Hotel Review ('STR'), SUN1's trading results are excluded. The decrease was driven by the significant impact of Covid-19 in March 2020, which is traditionally a high occupancy month in the South African market. The ARR for the portfolio increased by 3% to R1 231, driven by the increase in ARR from the Western Cape, mainly due to the recovery of the water crisis in the prior year. The resultant Revpar decreased by 0.8% to R743. The STR figures reflect a decrease in ARR of 2.6% to R1 270 and a decline in Revpar of 6.4% to R760 over the year for the South African market.

In Gauteng, hotel occupancy over the year decreased by 8.1% to 55.1% with the ARR largely remaining flat, resulting in a Revpar decrease of 8% to R561. For the STR participating hotels in Gauteng, occupancies decreased by 6.7% to 57.3% and ARR decreased by 1% to R1 143, resulting in a Revpar decrease of 8% to R654. The portfolio situated in the rest of South Africa showed more resilience in the pre-Covid-19 economic environment, with occupancies remaining flat on the prior year at 67.3%, while increasing ARR by 3% to R997, resulting in an overall Revpar increase of 3% to R672. Occupancies for the STR comparative set decreased by 0.9% to 62.0%, the ARR decreased by 3% to R1 081 and Revpar decreased by 4% to R670. The SUN1 portfolio experienced marked pressure on volume, with occupancies decreasing by 7.1% to 50.2%, the ARR remained flat year on year at R507, resulting in a decrease in Revpar of 7% to R254.

Key performance indicators

Occupancy^	2020 %	2019 %	2018 %	2017 %	2016 %
Western Cape	**61.0**	61.8	67.0	68.8	65.7
Gauteng	**55.4**	59.9	59.3	60.2	59.3
Rest of South Africa	**67.3**	67.3	68.9	66.4	63.9
Sub-total (excluding SUN1)	**60.3**	62.6	64.4	64.6	62.6
SUN1	**50.2**	54.0	56.6	58.5	63.2
Total	**58.7**	61.1	63.0	63.6	62.7
South African hotel industry ('STR')* occupancy	**59.9**	62.4	64.2	65.1	64.0

^ Includes Hospitality's portfolio of 54 properties and excludes Champagne Sports Resort up to FY2018 and Southern Sun Pretoria up to FY2019.
** STR Global South African Review: April to March.*

Access Hospitality's annual results presentation on **http://www.hpf.co.za/investors** for more trading results.

Key initiatives
- Quarterly reviews with hotel management on business performance
- Reviews of operating plans, standards and brand opportunities

2021 objectives and future outlook

Trading is expected to remain under pressure in FY2021 due to the impact of Covid-19. Most hotels were closed for the first three months of the year and, although restrictions are being lifted, international and leisure travel remain prohibited. It is unlikely that 2020 will produce any relevant trading results for the full FY2021 since the greater part of the year had hotel trading restrictions.

GROW

Acquisitions

Continue to seek value-enhancing acquisitions, both through platform transactions and key single-asset acquisitions that are well diversified both geographically and across brand segments

Approach
- Our approach to growth is to invest in well-located, value-enhancing hotels in major urban centres with strong brands and diverse source markets.
- We evaluate acquisitions across several criteria including macro-economics, location and class of hotel, yield potential and debt sourcing.

Related material matters
- Macro-economic climate
- Local authority capability
- Investment opportunity
- Regulatory change and compliance
- Crime, safety, security and health
- Capital capacity and opportunities

2020 performance

Hospitality acquired Southern Sun Pretoria for R200 million on 19 September 2019.

Key performance indicators

	Self-assessment	12 months ended 2020	12 months ended 2019	12 months ended 2018
Property portfolio value	○	**R10 billion**	R12.0 billion	R12.6 billion
Number of hotels	○	**54**	53	53
Net asset value per share	○	**R13.27**	R17.77	R19.21

○ 2020 performance improved compared to prior year or achievement in line with strategy.
○ Performance flat against prior year or strategic goals.
○ Performance below prior year or strategic goals.

Reflecting on 2019's commitments

In our 2019 IAR, we stated certain priorities for FY2020. Below is the status of these goals:

2020 priorities	Status
Hospitality will continue considering hotel property acquisitions in key locations	✓

✓ Completed
Ongoing
✗ Not achieved

2021 objectives and future outlook

Hospitality will continue considering hotel property acquisitions in key locations.

Corporate governance

Introduction and compliance

Hospitality is committed to practising good corporate governance and implemented a sound corporate governance framework, which informs the manner in which business is conducted. The policies, practices and processes comprising the Group's governance framework, are based on its application of King IV, the Companies Act and the JSE Listings Requirements. The Board is responsible for the corporate governance of the Group.

Rosa van Onselen
Company Secretary

GROUP GOVERNANCE FRAMEWORK

Board
Hospitality's unitary Board maintains control of the Company. It leads ethically and effectively and is responsible for the Company's performance, compliance and strategic direction. The Board comprises five independent* non-executive directors, two executive directors and three non-executive directors.

AUDIT AND RISK COMMITTEE
Comprises three independent non-executive directors
Financial integrity, risk and compliance

NOMINATION COMMITTEE
Comprises two independent non-executive directors and one non-executive director
Board composition, diversity and succession

REMUNERATION COMMITTEE
Comprises two independent non-executive directors and one non-executive director
Fair remuneration and performance measurement

SOCIAL AND ETHICS COMMITTEE
Comprises one independent non-executive director, one executive director and one non-executive director
Ethical conduct, anti-corruption, empowerment, transformation and labour and employment

CHIEF EXECUTIVE OFFICER
Responsible for the implementation of Board strategy and policy and management of the business

EXECUTIVE COMMITTEE
Responsible for the day-to-day management of the Group

EXECUTIVE RISK COMMITTEE
Responsible for the identification and management of risks and opportunities

Assists the Board to discharge its duties and monitor compliance

** Hospitality considers the independence of directors holistically and on a substance-over-form basis, in line with the practices of King IV and based on the indicators as set out in the Companies Act and the JSE Listings Requirements.*

Southern Sun Cullinan

Corporate governance continued

Organisational ethics and responsible citizenship

The ethical tone of the Group is set by the Board and flows through to management, who are tasked to lead by example.

The code of ethics adopted by the Board is underpinned by supporting policies, including the code of conduct and conflicts of interest and share dealing policies. The social and ethics committee plays an amplified role in implementing anti-corruption and anti-fraud initiatives, as set out in its report on page 46.

The codes of ethics and conduct record the Company's culture, how business must be conducted and how people should be treated. The conflicts of interest policy explains real and perceived conflicts of interest, and details the process for disclosure. Directors are required to disclose personal financial interests in terms of section 75 of the Companies Act. General disclosures of directors' interests are made to the Company Secretary at least annually and are updated during the year. These disclosures are available to all Board members for inspection.

Dealing in the Company's securities by directors, their associates and senior Company officials is regulated and monitored in accordance with the JSE Listings Requirements and the Company's share dealing policy. Hospitality maintains a closed period from the end of a financial period to the day of publication of its financial results and any time the Company's shares are trading under cautionary.

The Group prohibits all directors and employees from disclosing confidential information or from using confidential information, not generally known or available to the public, for personal gain.

The Group's success depends on employing the most suitable people and establishing a working environment free from discrimination, harassment, intimidation or coercion based on race, religion, gender, age, nationality or disability. Training on the Group's governance policies and processes forms part of the Company's induction programme for employees and non-executive directors.

Whistle-blowing procedures are in place and are outlined in the social and ethics committee review on page 46.

The Board believes that the Group meets the definition of a 'responsible corporate citizen' due to the implementation of its corporate governance policies and the governance framework that oversees and monitors such implementation.

Board of Directors

Composition

Hospitality's unitary Board met on five occasions during the year under review. Board membership and analyses of its composition can be found on pages 44 and 45. The roles of the Chairman and the CEO are clearly defined to ensure a balance of power.

The Chairman is responsible for providing overall leadership to the Board and ensuring the Board performs effectively. The CEO is responsible for implementing strategy, as approved by the Board. The delegation of authority framework contributes to role clarity and the effective exercise of authority and responsibility. No one director has unfettered powers of decision-making. While the Chairman is a non-independent non-executive director, the Board appointed a strong lead independent non-executive director to ensure the necessary independence is upheld in the functioning of the Board. The lead independent non-executive director leads in the Chairman's absence, assists with the management of any actual or perceived conflicts of interest that may arise and leads the Chairman's performance appraisal. A clear division of responsibilities at Board level ensures a balance of power and authority.

Board members' terms of employment are included in the remuneration implementation report on page 48.

Responsibilities

The Board's main functions, as set out in its approved charter, include:

- Exercising control of the Group and providing leadership
- Adopting strategic plans, delegating and monitoring their implementation by management
- Considering risks and opportunities in line with the Company's agreed risk parameters and approving major issues, including the Company's investment policies, acquisitions, disposals and reporting as well as monitoring operational performance
- Monitoring the Company's performance
- Acting in the Company's best interest while remaining accountable to shareholders and stakeholders

Hospitality's Board charter is regularly reviewed.

Diversity

The directors' varied backgrounds and experience, as set out in their CVs, which can be found on Hospitality's website on **http://www.hpf.co.za**, provide an appropriate mix of knowledge and expertise necessary to manage the business effectively.

Although Hospitality adopted a Board diversification policy that includes gender, age, ethnicity and cultural diversity, no voluntary targets were set. Board diversity is assessed and monitored annually. The Board considers diversity as a core measurement in appointing new members. The nomination committee considers and applies the Company's approved policy in appointing and nominating directors.

Race and gender diversity at Board level improved due to the reconstitution of the Board, effective 1 June 2019. The Board is satisfied that its current composition, the components of which are set out in the graphs on pages 44 and 45, reflects an appropriate mix of knowledge, skills, experience, diversity and independence.

Appointments and succession

Board appointments are conducted in a formal and transparent manner. Directors are assessed by the nomination committee and suitable candidates are recommended to the Board for appointment. One-third of the directors retire annually at the AGM. In addition, any director appointed by the Board since the last AGM or any director who reached the age of 70, retires annually. If they are eligible, these directors may offer themselves for re-election and if appropriate, will be recommended by the Board to shareholders for re-election.

For the purpose of executive succession planning, Hospitality seeks to appoint from within the Company and has access to the available resources, skills and expertise of the larger Tsogo Sun Hotels Group.

The following changes in Board composition occurred during the reporting period:

- John Copelyn stepped down as Chairman and non-executive director on 31 May 2019.
- Marcel von Aulock, the CEO of Tsogo Sun Hotels, took on the role of Chairman on 1 June 2019.
- Rob Nicolella stepped down as CEO on 31 May 2019, but remains on the Board as a non-executive director.
- Mara de Lima, who had been the FD of Hospitality for the past two years, was appointed as CEO on 1 June 2019.
- Riaan Erasmus was appointed as FD to replace Mrs de Lima. Prior to his appointment, Mr Erasmus was the acting FD of Hospitality and the Tsogo Sun Hotels Group Treasurer managing the debt portfolio for Tsogo Sun Hotels, Tsogo Sun Gaming and Hospitality.
- Mohamed Ahmed, an existing Board member, assumed the role of lead independent non-executive director and Chairman of the audit and risk committee on 1 June 2019.
- Sydney Halliday, Mac Gani and Gerald Nelson resigned as independent non-executive directors on 31 May 2019.
- Zibusiso Kganyago resigned as a non-executive director on 31 May 2019.
- Moretlo Molefi, Jabu Ngcobo and Chris Gina were appointed as independent non-executive directors on 1 June 2019.
- Connie September was appointed as an independent non-executive director on 15 August 2019.

Accountability and compliance

The Board is held accountable by its stakeholders for its performance. The performance of the Board and its committees is regularly evaluated. Management is held accountable for its activities through quarterly performance reporting and budget updates. The CEO and FD are awarded annual STIs based on the pre-agreed financial performance of the Company and personal performance of the directors. For further information, please refer to the remuneration policy and remuneration implementation report on page 47. The Board is confident that it fulfilled its responsibilities in accordance with its charter and the Company's memorandum of incorporation ('MOI') for the reporting period and that the Group established an effective framework and processes for compliance with laws, codes, rules and standards. No material contraventions were reported during the year under review.

Board effectiveness

The Company Secretary is responsible for the statutory administration of the Group and ensures compliance and provides the Board with guidance on all regulations and governance codes and policies.

The Company Secretary is not a director of the Company and ensures Board and committee processes and procedures are implemented.

Directors have unrestricted access to the advice and services of the Company Secretary. The Board is satisfied that an arm's-length relationship exists between the Board of Directors, the executive team, individual directors and the Company Secretary.

The Company Secretary of the Group is Rosa van Onselen (Diploma (Law), Certificate (Advanced Corporate Law and Securities) and CIS (Management and Admin), who is the appointed representative of HPF Properties Proprietary Limited.

Committees

The Board constituted the following committees, to which it delegated certain Group responsibilities, as defined in their respective approved terms of reference, which are reviewed by the Board annually. The Board retains accountability for the execution of their responsibilities, even when these are delegated. All committee chairmen report back orally to the Board on the proceedings of their committee meetings.

Over and above the regular responsibilities of the Board and its committees, during the next financial year, as the full impact of Covid-19 takes effect, consideration will be given to the Group's governance framework and the adequacy of existing policies and processes.

Corporate governance continued

Board and committee meeting attendance

1 April 2019 to 31 March 2020	Board	Audit and risk committee	Social and ethics committee	Remuneration committee	Nomination committee
Number of meetings held	5	3	2	1	1
Executive					
MR de Lima[1]	5/5	3/3	2/2	1/1	1/1
R Erasmus[2]	4/5	3/3			
Independent non-executive					
MH Ahmed	5/5	3/3		1/1	1/1
SC Gina[3]	4/4		1/1		
LM Molefi[3]	4/4	2/2			
JG Ngcobo[3]	4/4	2			
CC September[4]	4/4				
Non-executive					
L McDonald	5/5	2/2^	1/1		
JR Nicolella	5/5	1/1*	1/1	1/1	1/1
MN von Aulock	5/5			1/1	1/1
Resigned					
JA Copelyn[5]	1/1				1/1
SA Halliday[6]	1/1	1/1			1/1
GA Nelson[6]	1/1		1/1	1/1	1/1
ZJ Kganyago[5]	1/1				
MSI Gani[6]	1/1	1/1			

[1] Appointed as CEO on 1 June 2019.
[2] Appointed as FD on 1 June 2019.
[3] Appointed 1 June 2019.
[4] Appointed 15 August 2019.
[5] Non-executive. Resigned 31 May 2019.
[6] Independent non-executive. Resigned 31 May 2019.
^ Attends by invitation as CFO of Tsogo Sun Hotels, effective 10 May 2019
** Attended by invitation as CEO. Stepped down as CEO on 31 May 2019.*

Remuneration committee

Members

- MH Ahmed (Chairman)^
- JG Ngcobo^
- MN von Aulock*

^ Independent non-executive.
** Non-executive.*

Key focus area addressed during FY2020

- Included a malus and clawback provision on short and long-term incentives in the remuneration policy, for material misstatements of financial statements or errors in calculations leading to the overpayment of incentives for executive directors

Key focus area to be addressed during FY2021

- To review the remuneration (including short and long-term incentives) of employees in the context of the furlough implemented to address the impact of Covid-19 and to respond appropriately

The remuneration committee is chaired by an independent non-executive director. The committee oversees the setting and implementation of the remuneration policy for the Group and ensures the policy and remuneration implementation report are tabled every year to shareholders at the Company's AGM for separate non-binding advisory votes.

The committee recommends the remuneration and incentivisation of the Company's directors to the Board, evaluates the performance of the executive directors and sets their annual key performance indicators.

The committee meets at least once a year. Ad hoc meetings are held to consider special business, as required. The CEO and FD attend meetings of the remuneration committee, or part thereof, by invitation if required to contribute pertinent insights and information.

The remuneration policy and remuneration implementation report can be found on pages 47 to 50.

The Board is satisfied that the committee has fulfilled its responsibilities in accordance with its terms of reference for the reporting period under review.

Audit and risk committee

Members

- MH Ahmed (Chairman)^
- JG Ngcobo^
- LM Molefi^

^ Independent non-executive.

Key focus areas addressed during FY2020

- Oversaw the adoption of new IFRS accounting standards
- Considered Hospitality's financial reporting taking into consideration the JSE's:
  - 2019 report on the proactive monitoring of financial statements
  - the thematic review for compliance with IFRS 9 and IFRS 15
  - the activities of the Financial Reporting Investigation Panel in 2019

Key focus areas to be addressed during FY2021

- Monitor the implementation of new IFRS and the impact of future standards
- Continue monitoring the control and risk environments in light of the challenging operating environment focusing on the fraud and cybercrime environments
- Monitor insurance renewal terms and claims
- Review the JSE's 2020 report on pro-active monitoring of financial statements and implement as appropriate

The audit and risk committee report can be found on page 54 of the consolidated annual financial statements for the year ended 31 March 2020.

The audit and risk committee comprised three independent non-executive directors at year end and is primarily responsible for:
- Carrying out its statutory duties as set out in section 90 of the Companies Act
- Providing independent oversight of the effectiveness of the Company's assurance functions and services
- Reviewing prospective accounting standard changes
- Reviewing prospective legal, legislative and regulatory developments
- Reviewing insurance, treasury and taxation matters
- Ensuring an effective risk management policy and process is in place to identify and monitor the management of key risks and opportunities in relation to the Group's risk tolerance and risk appetite levels and evaluation of appropriateness of management's responses to the risk
- Ensuring appropriate financial reporting procedures are established and are operating
- Ensuring the Group's financial performance is properly reported on and monitored, including reviewing the annual and interim accounts, results announcements, integrated annual reporting process, internal control systems and accounting policies and procedures
- Following an evaluation and assessment of the external auditor and the designated audit partner, making recommendations to shareholders regarding the appointment or reappointment of the independent external auditor, as well as the suitability for such appointment and independence of the external auditor and audit partner
- Approving the external audit plan and fee
- Appointing the internal auditor, approving the internal audit plan and audit fees and assessing the performance of the internal auditor for the necessary skills and resources to address the complexity and volume of risks faced by the Company
- Satisfying itself of the expertise and experience of the FD and the Company's finance function as set out on page 54 of the consolidated annual financial statements for the year ended 31 March 2020
- Considering the effectiveness of the internal financial controls
- Reviewing IT governance
- Ensuring effective governance

The Board concluded that, during the period under review, the audit and risk committee members had the necessary financial literacy, skills and experience to execute their duties effectively and make worthwhile contributions to the audit and risk committee's deliberations. The Board recommends the members of the reconstituted audit and risk committee for appointment at the AGM to be held on 20 October 2020.

The audit and risk committee considered and satisfied itself that the FD, Riaan Erasmus, has the appropriate expertise and experience to fulfil his role.

The audit and risk committee also:
- Confirmed that Hospitality has established financial reporting procedures and that those procedures are operating adequately
- Monitored compliance with the Group's risk management policy and confirmed that Hospitality complied with the policy in all material respects

Non-audit services approved throughout the year mainly relate to the issue of statutory certificates in terms of Hospitality's loan agreements.

The audit and risk committee met three times during the period under review. Ad hoc meetings are held to consider special business, as required. The CEO, FD, external auditor and internal auditor as well as Tsogo Sun Hotels' FD and Director of Risk, attend all meetings of the audit and risk committee by invitation to contribute pertinent insights and information.

The Board is satisfied that the audit and risk committee fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

Corporate governance continued

Social and ethics committee

Members
SC Gina (Chairman)^
MR de Lima#
L McDonald*

^ *Independent non-executive.*
* *Non-executive.*
# *Executive.*

Key focus area addressed during FY2020

- Ensured stakeholder engagement is appropriate for the size and nature of the organisation

Key focus areas to be addressed during FY2021

- Monitor employee health and safety, with the view to ongoing improvements in response to Covid-19
- Monitor employee wellness and engagement levels and respond appropriately

The social and ethics committee operated in line with approved terms of reference. The social and ethics committee oversees and reports on the following areas:

- The Group's organisational ethics in line with the Group's adopted code of conduct and ethics policies
- Responsible corporate citizenship, including:
  - The promotion of equality
  - The prevention of unfair discrimination
  - The environment
  - Health and public safety, including the impact of the Company's activities and of its products or services
  - Sustainable development
  - Stakeholder relationships
  - Transformation

The social and ethics committee draws the attention of the Board to matters within its mandate as required and reports to shareholders at the Company's AGM.

The social and ethics committee meets at least twice a year. Ad hoc meetings are held to consider special business, as required. The report of the social and ethics committee can be found on page 46.

The Board is satisfied that the committee fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

Nomination committee

Members
MN von Aulock (Chairman)*
SC Gina^
LM Molefi^

^ *Independent non-executive.*
* *Non-executive.*

Key focus area addressed during FY2020

- Supported the Board in its review and enhancements of its composition during the period, as well as reviewing the Board's composition to ensure appropriate diversity of skills, experience, gender, race and tenure to support the business and its strategic ambitions

Key focus area to be addressed during FY2021

- To conduct an internal evaluation of the Board and its committees

The nomination committee ensures the Board has the appropriate composition and balance of skills for it to execute its duties effectively. It ensures the appointment of directors is transparent and made on merit through a formal process, which includes identifying and evaluating potential candidates for appointment to the Board. The nomination committee considers and applies the Company's approved policy of gender, age, ethnicity and cultural diversity in nominating and appointing directors.

The nomination committee is responsible for induction and ongoing training and development of directors and succession planning. The nomination committee meets at least once a year. Ad hoc meetings are held to consider special business, as required. The CEO attends meetings of the nomination committee, or part thereof, by invitation if required to contribute pertinent insights and information.

The Board is satisfied that the nomination committee fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

Risk and opportunity

The Company treats risk identification and management as integral to how it makes decisions and executes its duties. The Group's risk governance encompasses both the opportunities and associated risks in developing strategy and the potential positive and negative effects of such risks on the achievement of its organisational objectives. The Board exercises ongoing oversight of risk management and the Group's risk governance function is delegated to the audit and risk committee. The responsibility for implementing and executing effective risk management is delegated to management.

The Group's risk management process identifies and analyses Group risks, sets appropriate limits and controls and monitors risks and adherence to limits. The risk management policy is in accordance with industry practice and specifically prohibits the Company from entering into any derivative transactions that are not in the ordinary course of Hospitality's business.

The directors have overall responsibility for the Group's internal controls and for reviewing its effectiveness. The controls identify and manage Group risks rather than completely eliminating failure. Therefore, internal controls provide reasonable, but not absolute, assurance against material misstatement or loss. The implementation and operation of these systems is the responsibility of management and processes are regularly communicated to employees informing them of their responsibilities.

Systems include strategic planning, appropriate levels of authority, segregation of duties, appointing qualified staff, regular reporting and monitoring of performance and effective control over Hospitality's investments.

Risks and opportunities are reviewed by the internal risk committee at least annually and presented to the audit and risk committee for review. This allows for risks to be identified and opportunities to be prioritised according to their potential impact on the Group.

Responses are designed and implemented to counter the effects of risks and to take advantage of opportunities. Significant risks identified are communicated to the Board, together with recommended actions.

The Group's internal audit function is performed by a professional firm that reports directly to the FD and the Chairman of the audit and risk committee. Internal audit forms part of the combined assurance framework. The internal auditor carries out control-based audits, based on the annual internal audit plan as required by the external auditor and as approved by the audit and risk committee. The focus of internal audit in the past financial year was on human resources, payroll and internal financial controls.

The audit and risk committee examines and discusses the appropriateness of internal controls with the internal auditor. The audit and risk committee is satisfied with the internal audit function and that internal audit has the necessary skills and resources to address the complexity and volume of risks faced by the organisation. The committee will continuously evaluate and review the Group's internal audit function, which is appropriate for the size and activities of the Group at this stage.

Hospitality's material risks and opportunities are set out on pages 24 to 27.

IT governance

The Board is accountable for IT governance. Being part of the Tsogo Sun Hotels Group, a decision was taken by the Board to leverage the IT support and governance from the Tsogo Sun Hotels Group's central IT department. The IT governance charter takes into account the requirements of King IV, globally accepted standards and good practice, together with the performance and sustainability objectives of the Group.

During the year, the central IT department's focus areas within Hospitality were:

- Integrating Hospitality onto Tsogo Sun Hotels' networks and improving support and efficiencies
- Evaluating emerging trends and potentially disruptive technologies
- Maintain operating systems, databases and applications

Although the IT function was outsourced to a central IT department, the CEO is responsible for the ownership and execution of IT governance.

The key IT risks are integrated into the enterprise-wide risk governance and management process. Independent IT assurance reviews are conducted annually to ensure governance and policies are adhered to, laws are complied with and data is secure and protected. No major incidents occurred during the year which required remedial action and the Board is satisfied with the effectiveness of IT governance.

Governance of the hotel portfolio

The selection of an appropriate tenant, a hotel management company and a hotel brand best suited to a specific property, is crucial to providing a particular product equipped to achieve optimum performance.

In this regard, Hospitality only contracts with reputable and reliable partners. New lease agreements and any variation to such existing agreements are proposed to the Board for consideration and approval. The nature of the agreements entered into between the parties includes the calculation of fixed and variable rentals based on the actual performance of the properties and align the interests of the parties. Specific performance clauses are included based on actual performance to budget. A detailed budget process is followed with each hotel annually.

The hotel management companies are representatives of the tenants and take on the full operational responsibilities of the hotels. They operate within defined limits of authority and report monthly and quarterly to management on operations, performance, marketing and strategy.

These reports are analysed by Hospitality's management and properties are individually compared against STR nodal performance benchmarks. Hospitality has representation on the boards of Ash Brook Investments Proprietary Limited, the tenant of Radisson Blu Gautrain and Vexicure Proprietary Limited, the tenant of The Westin Cape Town. Hospitality is also represented on the body corporates of Kopanong Hotel and Conference Centre, Protea Hotel Victoria Junction and Radisson Blu Waterfront, the Arabella Home Owners Association and Champagne Share Block Limited.

Corporate governance continued

Our Board as at 31 March 2020

Mara Raquel Dos Santos de Lima (42)
Chief Executive Officer
CA(SA)
Appointed to the Board: 30 September 2016
Appointed as CEO: 1 June 2019

Marcel Nikolaus von Aulock (46)
Chairman, non-executive director
CA(SA)
Appointed: 1 December 2018

Mohamed Haroun Ahmed (56)
Lead independent non-executive director
BCom (Accounting)
Appointed: 14 August 2018

Riaan Erasmus (37)
Financial Director
CA(SA)
Appointed: 1 June 2019

Sipho Christopher (Chris) Gina (61)
Independent non-executive director
Dip (Labour Law)
Appointed: 1 June 2019

Laurelle McDonald (38)
Non-executive director
CA(SA)
Appointed: 1 September 2016

Lynette Moretlo Molefi (51)
Independent non-executive director
BSc, MB ChB
Appointed: 1 June 2019

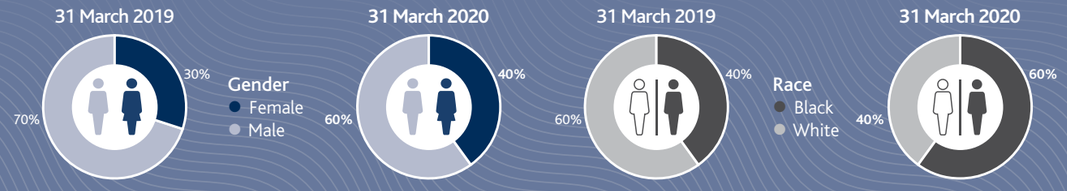
Jabulani Geffrey Ngcobo (69)
Independent non-executive director
Appointed: 1 June 2019

James Robert (Rob) Nicolella (51)
Non-executive director
CA(SA), PLD
Appointed: 1 September 2016

Cornelia Carol September (61)
Independent non-executive director
Masters in Technology Management, PGDip (Economics Policy)
Appointed: 15 August 2019

BOARD MEMBERSHIP

BOARD GENDER AND RACIAL DIVERSITY



** Refer to page 39 of the governance report for detailed information on the changes in the Board's composition during the reporting period.*
^ Summarised CVs can be found on page 109 of the notice of AGM and on Hospitality's website on http://hpf.co.za/governance.

Social and ethics committee review

IN EXECUTING ITS DUTIES AND RESPONSIBILITIES, THE SOCIAL AND ETHICS COMMITTEE CONSIDERS THE MONITORING FACTORS CONTAINED IN REGULATION 43 OF THE COMPANIES ACT AND THE RELATED INTERNAL CONTROLS IN PLACE.

About the committee and its activities during the year

Information on the committee's composition, its responsibilities and efforts can be found on page 42 of the report. During the period under review, the committee considered various initiatives, policies and procedures, business processes and business and stakeholder relationships that could impact its areas of focus. These areas include ethics management, compliance and anti-corruption; monitoring stakeholder relationships; labour and employment; empowerment and transformation; enterprise and supplier development; bursaries and learnerships; environmental awareness; and employee wellness.

Ethics management, compliance and anti-corruption

Hospitality endeavours to ensure its ethical tone is shared and implemented by its contracted tenants and their representative hotel management companies. Hospitality does not tolerate any form of bribery or corruption. Whistle-blowing and anti-corruption procedures are in place. Stakeholders are encouraged to report, if necessary, the actions and individuals who compromise or threaten the Company's values, reputation and code of ethics. These actions and individuals can be reported through anonymous and independently conducted ethics hotlines. Investigations are carried out and findings reported, and disciplinary, civil or criminal action is taken as and when appropriate. A dedicated ethics hotline is in place at Hospitality's head office. This ethics hotline also serves Kopanong Hotel and Conference Centre, Birchwood Executive Hotel and OR Tambo Conference Centre. Each management company also has an ethics hotline in place for the hotel properties it operates. The audit and risk committee provides an additional level of oversight to support the social and ethics committee in these matters.

All whistle-blowing incidents reported during the period under review were investigated and addressed. These related mainly to staff grievances. No incidents of misconduct were found.

Labour, employment, bursaries and learnerships

The Company aims to act responsibly and to contribute to the development of the societies it operates in through employing and training staff from the nearby communities, mentorships and sponsorships, donations or charitable giving. Some examples are as follows:

- MCON, Hospitality's enterprise development project, continues operating at Arabella Hotel, Golf and Spa. MCON was established in 2013 to meet the requirement for clearing alien vegetation on the Arabella Phase 2 site, to protect the biosphere and surrounding areas and to reduce the consumption of water by alien vegetation
- Hospitality focuses on developing its future leaders and providing basic hospitality skills. The Company continues partnering with industry bodies to develop the talent of chefs and sommeliers in the hospitality industry

The Group is an integral part of the communities it operates in and is committed to building sound relationships based on trust, honesty and fairness.

Environmental awareness

Not only is environmental compliance legally obligatory, it is also an important component of the Group's commitment to the community and developing its good reputation. Therefore, Hospitality is dedicated to minimising the environmental impact of its activities on natural resources, having implemented various water and energy-saving programmes across its property portfolio in prior years. These include installing of aerators in taps to reduce the consumption and cost of water, using grey water for irrigation purposes and most recently installing an onsite desalination plant at Westin Cape Town, which will produce more than 400 000 litres of desalinated water to supply Westin Cape Town, Southern Sun Waterfront and Southern Sun Cullinan, when running at optimum capacity. This initiative will help save water and reduce the hotels' dependency on municipal water. Other water-saving initiatives include installing reverse osmosis plants and water filtration plants, and adding water storage tanks at selected properties.

Usage of energy and natural resources is monitored and managed by tenants and their hotel management companies. Installing LED globes and occupancy sensors reduced the cost and usage of energy.

Monitoring stakeholder relationships

Healthy stakeholder relationships remain a vital contributor to the successful implementation of the Company's strategies and achievement of its objectives. Communication with its employees, shareholders and other stakeholders is open, honest and without prejudice. Communication is underpinned by the Group's code of ethics, code of conduct and disclosure of information policies. Refer to the section on stakeholders on pages 22 and 23 of this report.

Employee wellness

The Group's employees are essential to its success and it is committed to treating them with dignity, trust and respect, and to build long-term relationships based on enforceable employment legislation and respect for human rights. An employee wellness programme is available free to staff for bereavement counselling, financial guidance, legal advice and mentoring.

Empowerment, transformation and enterprise and supplier development

The committee receives regular feedback on the status of Hospitality's B-BBEE strategy. The Company achieved a level 1 B-BBEE rating due to the strong B-BBEE credentials of its majority shareholder. The committee reviews compliance at a hotel level with the B-BBEE Act, 53 of 2003, and the resultant achievement of suitable B-BBEE ratings, to maintain existing and secure new business.

Material incidences of non-compliance

The committee executed its responsibilities as set out in the Companies Act and in accordance with its written terms of reference. The committee is not aware of any material incidences of non-compliance with legislation during the reporting period.

Remuneration policy and remuneration implementation report

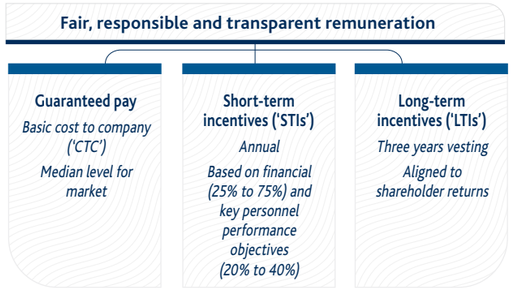
Remuneration philosophy

The key goals of Hospitality's remuneration philosophy is to remunerate fairly, responsibly and competitively to:

- attract, reward and retain executive directors and staff of the requisite calibre, with the appropriate knowledge, attributes, skills and experience to allow them to add meaningful value to the Company;
- align the behaviour and performance of executive directors with the Company's strategic goals in the overall interests of shareholders and other stakeholders; and
- promote a culture that supports initiative and innovation, with appropriate short and long-term rewards that are fair and achievable.

Remuneration policy

Hospitality aligned its grading philosophy and contracts of employment with its majority shareholder, Tsogo Sun Hotels.



The remuneration committee approves the fixed and variable mix of the remuneration structure, which differs based on the employee grade.

Basic salaries and a 13th cheque are guaranteed for employees other than executive directors and management level, and the cost of benefits are shared between the employee and employer on a 50:50 basis. Basic salaries for executive directors and management are guaranteed and are structured on a CTC basis.

Hospitality seeks to remunerate responsibly, fairly and transparently and seeks to achieve a balance of STIs and LTIs as part of a complete remuneration package that will motivate short-term returns and long-term value creation for shareholders.

The combination of these components ensures above average pay is only received for above average performance and above average sustainable shareholder returns.

Malus and clawback provision

Having considered the need for the increased alignment of objectives between executive management and shareholders, and the growing emphasis on executive accountability, the Board approved the inclusion of a malus and clawback provision on short and long-term incentives in the Company's remuneration policy. This provision provides for clawbacks to be implemented by the Board for material misstatements of financial statements or errors in calculations that led to the overpayment of incentives to executives. Clawbacks may be implemented from all gains derived from any short-term or long-term incentive award in the form of a reduction in the value of these awards in future years, or (other than for executive directors) in the form of a repayment plan over a period of up to 12 months. Executive directors are required to repay the amount in on demand full. In the event that an employee has left the services of the company, or there is limited possibility of recovering amounts from future incentive awards, the company may institute proceedings to recover such amounts.

STIs

Executive directors and management participate in STIs, which are based on financial targets and personal key performance objectives in a range from 75:25 to 60:40, dependent on the employee grade. Executive directors have a larger portion of their potential total remuneration subject to the achievement of financial targets. To allow for financial elements over which executive directors and management could exercise direct control and to keep management motivated towards achieving improved returns for shareholders, the Board increased the number of financial targets from two to four in the prior financial year and included EBITDAR, distributable earnings, operating expenditure and capital expenditure, weighted 30%, 30%, 15%, 25% respectively.

Key performance objectives, over which there is influence to ensure the achievement of short-term financial performance is not at the expense of future opportunities, are agreed upfront annually between the STI participant and his or her immediate manager.

LTIs

Hospitality adopted a share appreciation bonus scheme, based on its existing capital structure:

- Notional shares are allocated annually to eligible employees as agreed by the Board. Each notional share confers the right on the holder to be paid a share appreciation bonus equal to the difference between the fair market value of the notional share on the date on which notice is given to surrender the notional share and the fair market value of the notional share on the date on which the offer was made to an eligible employee to participate in the scheme ('the allocation date').
- The notional shares will vest on the third anniversary of their allocation date and will lapse, and accordingly not be capable of surrender for payment of a share appreciation bonus upon the sixth anniversary of their allocation date.
- On settlement, the value accruing to participants will be the full appreciation of Hospitality's share price over the allocation price plus dividends declared and paid, post the allocation date of the notional shares (net of a notional corporate tax), which value will be settled in cash.
- LTI allocations are listed in the remuneration implementation report.
- LTIs are allocated on 1 April each year, however, due to the impact of Covid-19 and the Company's focus on cash preservation, the allocation of LTIs for FY2021 have been deferred.

Prior to adopting the Hospitality share appreciation bonus scheme, executive directors and management of Hospitality, according to their employee grade, participated in the Tsogo Sun Holdings ('Tsogo Holdings') Share Appreciation Bonus Plan ('Tsogo Holdings AB Plan'), which was replaced by the Tsogo Sun Hotels Limited ('Tsogo Sun Hotels') Share Appreciation Rights Plan ('SAR Plan') at the time of Tsogo Holdings' unbundling in June 2019. Share Appreciation Rights ('SARs') vest within three years after the date of grant and are further subject to the continued employment of the participants for the employment period. SARs can be exercised for a further three years post the vesting date before being exercised, after which it will automatically lapse.

Remuneration policy and remuneration implementation report
continued

On settlement, the value accruing to participants will be the full appreciation of Tsogo Sun Hotels' share price over the allocation price plus dividends declared and paid post the allocation date of the notional shares, which value will be settled through the issue of Tsogo Sun Hotels' shares

Participants in the Tsogo Holdings AB Plan were given the option to: (a) accelerate the vesting of their notional shares and receive settlement in cash or (b) to elect to convert their notional shares held under the Tsogo Holdings AB Plan to SARs administered in terms of the Tsogo Sun Holdings SAR Plan. The conversion calculation was done on the basis to ensures that participants received SARs under the Tsogo Sun Hotels SAR Plan that equate to the same fair value of their notional shares which they previously held under the Tsogo Holdings AB Plan on the conversion date, being 21 June 2019. The conversions were based on the seven-day volume weighted average price ('VWAP') of Tsogo Holdings at close on 11 June 2019 of R20.61 plus dividends paid from award date until 11 June 2019 and the seven-day VWAP of Tsogo Sun Hotels from 12 June 2019 to 21 June 2019 of R4.34.

Remuneration implementation report

Executive directors' service contracts at 31 March 2020

Both the CEO and the FD are full-time salaried employees of HPF Properties Proprietary Limited#, a wholly owned subsidiary of Hospitality. Their employment contracts are subject to three months' notice periods, contain no restraint of trade clauses and have no specific contractual conditions related to termination.

Non-executive directors' terms of appointment

Non-executive directors are not subject to any other fixed terms of employment other than the conditions contained in the Company's MOI and, as such, no service contracts were entered into with the Company. Hospitality's remuneration for non-executive directors consists of either:

- A basic annual fee for Board and audit and risk committee
- A per-meeting attendance fee for members of the social and ethics, nomination and remuneration committees

Non-executive directors' fees are approved in advance by shareholders by special resolution at the Company's AGM.

No share options or other incentive awards geared to share price or corporate performance are made to non-executive directors.

Directors' emoluments

	2020				2019			
	MR de Lima R'000	**R Erasmus R'000**	**JR Nicolella R'000^**	**Total R'000**	JR Nicolella R'000	KG Randall* R'000	MR de Lima R'000	Total R'000
Salaries	**2 254**	**1 399**	**249**	**3 902**	542	2 548	1 654	4 774
Benefits	**403**	**237**	**–**	**640**	–	463	424	887
Current year STI accrued#	**931**	**687**	**–**	**1 618**	–	1 439	862	2 301
Fair value liability of Tsogo Sun Hotels SAR Plan at year-end	**133**	**125**	**–**	**258**	–	–	–	–
Fair value of cash-based LTI on award date	**1 019**	**497**	**–**	**1 516**	–	698	174	872
Total single figure of remuneration	**4 740**	**2 945**	**249**	**7 934**	542	5 148	3 114	8 804
Fair value of cash-based LTI on award date^	**(1 019)**	**(497)**	**–**	**(1 516)**	–	(698)	(174)	(872)
Settlement of cash-based LTI	**–**	**–**	**–**	**–**	–	370	62	432
Financial statement remuneration	**3 721**	**2 448**	**249**	**6 148**	542	4 820	3 002	8 364
Fair value liability of Tsogo Sun Hotels SAR Plan at year-end	**(133)**	**(125)**	**–**	**(258)**	–	–	–	–
Current year STI not settled#	**(931)**	**(687)**	**–**	**(1 618)**	–	(1 439)	(862)	(2 301)
Prior year STI settled	**862**	**–**	**–**	**862**	–	449	323	772
Total cash equivalent value of remuneration	**3 519**	**1 636**	**249**	**5 404**	542	3 830	2 463	6 835

** Upon his resignation as CEO on 1 November, KG Randall was appointed as the Chief Operating Officer of Hospitality and has since joined Tsogo Sun Hotels as Group Development Director. Being a member of Hospitality's key in management FY2019, benefits were shown for the full financial year.*

^ JR Nicolella served as the CEO of Hospitality from 1 November 2018 to 31 May 2019. He was seconded by HCI to Hospitality as set out in the remuneration implementation report. JR Nicolella did not participate in the STIs or LTIs of the Company. Following his resignation as CEO, JR Nicolella remained on the Board as a non-executive director.

 # STIs are paid in May each year. However, due to the impact of Covid-19 and the Company's focus on cash preservation, STIs for FY2020 were calculated and approved by the remuneration committee, but payment thereof was deferred until such time that it would be appropriate and responsible for payment to be made.

Achievement of STIs in FY2020	**Financial score %**	**Strategic score %**	**Total score %**	**Bonus accrued R'000**
MR de Lima	**37**	**17**	**54**	**931**
R Erasmus	**37**	**17**	**54**	**687**

LTI allocations in FY2020	**Number of appreciation shares**	**Issue price**	**Market price at 31 March 2020**	Shares vesting date
MR de Lima	**419 223**	**R9.78**	**R3.05**	31 March 2022
R Erasmus	**204 499**	**R9.78**	**R3.05**	31 March 2022
HPF Management	**204 499**	**R9.78**	**R3.05**	31 March 2022

LTI conversions from Tsogo Holdings AB Plan to Tsogo Sun Hotels SAR Plan in FY2020	**Number of notional shares held under Tsogo Holdings AB Plan**	**Average award price**	**Converted to number of SARs held under Tsogo Sun Hotels SAR Plan in FY2020**	**Average award price after conversion**	Conversion price
MR de Lima	**190 527**	**R26.24**	**1 080 162**	**R4.63**	R4.34
R Erasmus	**77 243**	**R25.89**	**411 288**	**R4.89**	R4.34

The conversions were based on the seven-day VWAP of Tsogo Holdings at close on 11 June 2019 of R20.61 plus dividends paid from award date until 11 June 2019 and the seven-day VWAP of Tsogo Sun Hotels from 12 June 2019 to 21 June 2019 of R4.34.

	Appreciation shares granted and still outstanding			Appreciation shares vested and still outstanding				Liability	
Grant date	**2020**	2019	Strike price	**2020**	2019	Fair value of award on grant date[1]	Expiry date	**2020**	2019
MR de Lima									
1 April 2014	**–**	29 160	4.22[2]	**177 840[2]**	29 160	98 316	31 March 2020	**–**	105 851
1 April 2015	**166 553[2]**	28 260	4.50[2]	**166 553[2]**	28 260	98 830	31 March 2021	**238 821**	54 259
1 April 2016	**249 071[2]**	43 821	4.01[2]	**249 071[2]**	43 821	159 685	31 March 2022	**138 938**	207 273
1 April 2017	**486 698[2]**	89 286	5.14[2]	**486 698[2]**	59 524	381 518	31 March 2023	**163 152**	–
1 April 2018	**105 485**	105 485	11.85	**70 323**	35 162	174 442	31 March 2024	**–**	–
1 April 2019	**419 223**	–	9.78	**139 741**	–	1 018 986	31 March 2025	**–**	–
								540 911	367 383
R Erasmus									
1 April 2017	**194 683[2]**	35 715	5.14[2]	**194 683[2]**	23 810	152 610	31 March 2023	**72 553**	–
1 April 2018	**216 605[2]**	41 528	4.57[2]	**144 403[2]**	13 843	68 675	31 March 2024	**53 362**	19 933
1 April 2019	**204 499**	–	9.78	**68 166**	–	497 066	31 March 2025	**–**	–
								125 915	19 933

[1] Calculated using a Black Scholes model at grant date.

[2] Converted from Tsogo Holdings AB Plan to THL SAR Plan at a conversion price of R4.34.

LTIs granted in Hospitality's share appreciation bonus scheme are cash-settled, resulting in no dilutionary impact to shareholders. The notional appreciation shares issued to executive directors and management on 1 April 2019 are based on the Hospitality share price and the Hospitality share scheme. The notional appreciation shares are based on a three-year vesting period equivalent to a factor of their respective CTC and the price is determined on the volume weighted average trading price of Hospitality's share prior to the date of issue.

Refer to the consolidated annual financial statements for further information.

Remuneration policy and remuneration implementation report
continued

Non-executive directors 2020

	Directors' fees R'000	Total R'000
JA Copelyn^	77	77
SA Halliday^	71	71
GA Nelson^	76	76
MN von Aulock	402	402
L McDonald	278	278
ZJ Kganyago^	45	45
JR Nicolella	226	226
MH Ahmed	492	492
MSI Gani^	74	74
LM Molefi*	318	318
JG Ngcobo*	318	318
SC Gina*	234	234
CC September#	170	170
	2 781	2 781

^ Resigned 31 May 2019.
** Appointed 1 June 2019.*
 # Appointed 15 August 2019.

Fees are exclusive of VAT.

Non-executive directors 2019

	Directors' fees R'000	Total R'000
JA Copelyn	407	407
DG Bowden[1]	359	359
ZN Malinga[1]	210	210
SA Halliday	366	366
GA Nelson	278	278
ZN Kubukeli[1]	291	291
MN von Aulock[3]	64	64
J Booysen[1]	213	213
L McDonald	256	256
ZJ Kganyago	256	256
JR Nicolella	150	150
RB Huddy[2]	22	22
MH Ahmed	166	166
MSI Gani	399	399
	3 437	3 437

[1] Resigned prior to 31 March 2019.
[2] Not part of directorate.
[3] Appointed 1 November 2018.

Fees are exclusive of VAT.

Voting results at the 2019 AGM

The results of the non-binding advisory endorsement of the Company's remuneration policy and remuneration implementation report at the AGM on 17 October 2019 were 98.49% (2018: 95.07%) and 98.53% (2018: 98.10%) in favour, respectively. In the event that the remuneration policy or remuneration implementation report, or both, are voted against by more than 25% of the votes cast at any AGM of the Company, the Group will engage with dissenting shareholders within 30 days of the AGM, to address all legitimate and reasonable objections and concerns.

Non-executive directors' fees for approval by shareholders

The increase in non-executive directors' fees for FY2020 was approved by shareholders at the 2019 AGM by up to a maximum of 8%, subject to Board approval. However, in response to the impact of Covid-19 on the business and Hospitality's focus on conserving its cash resources, the Board, on recommendation by the remuneration committee, agreed no inflationary increase to directors' fees for the period 1 April 2020 to 31 March 2021.

Furthermore, non-executive directors' fees were reduced by 40% for the month of April 2020 and by 60% for the months thereafter and may be adjusted upwards or downwards until the AGM (subject to the maximum amount approved at the previous AGM), based on an assessment of what the Company is likely to afford during the time the business is impacted by Covid-19.

Approval will be sought for the Board to increase non-executive directors' fees for the period 1 April 2021 to 31 March 2022 by up to a maximum of 8%. A resolution to this effect was included in the notice of AGM on page 111 for the AGM of shareholders to be held on 20 October 2020.

Shareholders approved an hourly ad hoc fee of R1 995 for non-executive directors for special assignments or additional work requested by the Board. This fee is only payable if time in excess of 20 hours per non-executive director, per annum, is spent on any special assignment or additional work.


Southern Sun Cullinan

Westin Cape Town

Hospitality
PROPERTY FUND

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

Statement of responsibility by the Board of Directors

for the year ended 31 March 2020

Hospitality Property Fund Limited ('the Company') and its subsidiaries' directors are required by the Companies Act to maintain adequate accounting records and to prepare financial statements for each financial year which fairly present the state of affairs of the Company and its subsidiaries ('the Group') for the financial year ended 31 March 2020 and of the results of operations and cash flows for the period. In preparing the accompanying consolidated annual financial statements, the JSE Listings Requirements and the requirements of the Companies Act of South Africa 2008, as amended, together with the International Financial Reporting Standards ('IFRS') have been followed, suitable accounting policies have been used, applied consistently, and reasonable and prudent judgements and estimates have been made. Any changes to accounting policies are approved by the audit and risk committee and the effects thereof are fully explained in the annual financial statements. The annual financial statements incorporate full and responsible disclosure. The Board of Directors ('the Board') has oversight for the information included in the integrated annual report and is responsible for both its accuracy and its consistency with the annual financial statements.

The Board has reviewed the Group's cash flow forecast for the year to 31 March 2021. On the basis of this review, and in light of the current financial position and existing borrowing facilities, the Board is satisfied that the Group is a going concern and they have accordingly adopted the going concern basis in preparing the annual financial statements. The Group's independent auditors, PricewaterhouseCoopers Inc., have audited the annual financial statements and their unqualified report appears on page 57. PricewaterhouseCoopers Inc. was given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the Board of Directors and committees of the Board. The directors believe that all representations made to the independent auditors during their audit are valid and appropriate.

The Board recognises and acknowledges its responsibility for the Group's systems of internal financial control. The Group's code of conduct, which covers ethical behaviour, compliance with legislation and sound accounting practice, underpins its internal financial control process. The control systems include written accounting and control policies and procedures, clearly defined lines of accountability and delegation of authority, and comprehensive financial reporting and analysis against budgets and forecasts which are approved by the Board.

The Board considers that the systems are appropriately designed to provide reasonable, but not absolute, assurance that assets are safeguarded against material loss or unauthorised use and that transactions are properly authorised and recorded.

The effectiveness of the internal financial control systems is monitored by the Chief Executive Officer and Financial Director and through testing by internal auditors and the independent auditors' testing of appropriate aspects of the internal financial control systems during the course of their statutory examinations of the Company and its subsidiaries.

Directors' approval of the annual financial statements

for the year ended 31 March 2020

The preparation of the financial statements set out on pages 62 to 99 have been supervised by the Financial Director, R Erasmus, CA(SA). These annual financial statements were approved by the Board of Directors on 28 May 2020 and are signed on its behalf by for the year ended 31 March 2020.

M von Aulock
Chairman

M de Lima
Chief Executive Officer

Declaration by the Company Secretary

In terms of section 88(2)(e) of the Companies Act, as amended, in my capacity as Company Secretary, I confirm that for the year ended 31 March 2020, Hospitality Property Fund Limited has lodged with the Companies and Intellectual Property Commission all such returns and notices that are required by a public company in terms of the Companies Act, as amended, and that all such returns and notices are true, correct and up to date.

LR van Onselen
Company Secretary

28 May 2020

Report of the audit and risk committee

for the year ended 31 March 2020

The audit and risk committee ('the committee') is pleased to submit its report in compliance with section 94(7)(f) of the Companies Act, 2008. The committee has fulfilled its duties in terms of its statutory obligations contained in the Companies Act, 2008, the JSE Listings Requirements, its terms of reference and the King IV Code on Corporate Governance in South Africa.

Statutory duties

The committee is satisfied that in respect of the financial year it has performed all the functions required by law to be performed by an audit and risk committee, including as set out in section 94 of the Companies Act of South Africa and in terms of the committee's terms of reference and as set out in the corporate governance report. In this connection, and with specific regard to the preparation of the annual financial statements, the committee has:

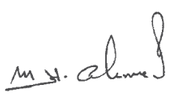
- evaluated the independence and effectiveness of the external auditors, PricewaterhouseCoopers Inc. ('PwC'), and is satisfied that the external auditors are independent of the Group having given due consideration to the parameters enumerated under section 92 of the Companies Act of South Africa. The committee accordingly nominates PwC as independent auditors to continue in office. AG Taylor is the individual registered auditor and member of the aforegoing firm who undertakes the audit. PricewaterhouseCoopers has been the auditor of the Group for four years, with the rotation of the designated audit partner during 2017 for the 2018 financial year end;
- as required by paragraph 3.84(g)(iii) of the JSE Listings Requirements, the committee obtained the information listed in paragraph 22.15(h) for the purpose of the reappointment of the external auditor, PwC, and satisfied itself that the external auditor and the audit partner, AG Taylor, have the necessary accreditation and are suitable for appointment;
- ensured and satisfied itself that the appointments of the external auditors, the designated auditor and IFRS adviser are in compliance with the Companies Act of South Africa, the Auditing Profession Act, 2005, and the Listings Requirements of the JSE;
- evaluated and is satisfied with the quality of the external audit and reports issued by the external auditors;
- considered and pre-approved all audit and non-audit services provided by the external auditors, ensuring that the independence of the external auditors is not compromised;
- reviewed and assessed the Group's risk identification, measurement and control systems and their implementation;
- reviewed and approved the Group accounting policies (refer note 1 to the annual financial statements);
- considered all significant transactions and accounting matters that occurred during the year and evaluated whether the accounting treatment is in terms of IFRS;
- considered the impact of auditing, regulatory and accounting developments during the year;
- evaluated and is satisfied with the implementation of the combined assurance framework and plan;
- evaluated and is satisfied with the effectiveness of the outsourced internal audit function;
- reviewed the written assessment of internal audit on the design, implementation and effectiveness of the internal financial controls. Based on these results the committee is of the opinion that the internal financial controls provide reasonable assurance that financial records may be relied upon for the preparation of reliable annual financial statements; and
- dealt with concerns or complaints relating to accounting practices and internal audit of the Group, the content or auditing of the Group's financial statements, the internal financial controls of the Group, or any other related matter.

Evaluation of the expertise and experience of the Financial Director

The committee has also considered and satisfied itself of the appropriateness of the expertise and experience of the Financial Director, Mr R Erasmus, and the finance function.

Recommendation of the annual financial statements and accounting policies to the Board for approval

The committee reviewed the accounting policies, judgements, estimates and content of the annual financial statements for the 2020 financial year. The committee is satisfied that they are adequate and appropriate and that the financial statements comply with International Financial Reporting Standards, the Companies Act, 2008 and the JSE Limited Listings Requirements. To this end the committee recommended the annual financial statements to the Board for approval.



MH Ahmed
Chairman

28 May 2020

Directors' report

for the year ended 31 March 2020

1. **Nature of business**
   The Company is a Real Estate Investment Trust ('REIT') listed on the JSE Limited ('JSE') and domiciled in the Republic of South Africa. The Company is the only specialised REIT in South Africa investing in the hotel and leisure sector, providing investors with exposure to both the property and hospitality industries.

2. **Share capital**
   There were no changes to the authorised and issued share capital during the year under review.

   Shareholder redemption rights
   At 31 March 2019, a provision of R24 million was held relating to a dissenting shareholder exercising its rights in terms of section 164(14)(b) of the Companies Act. On 12 June 2019, the High Court of South Africa ('the Court') ruled in the matter between Standard Bank Nominees (RF) Proprietary Limited ('Standard Bank Nominees'), The Standard Bank of South Africa Limited, Nedbank Collective Investments (RF) Proprietary Limited, Nedgroup Investment Advisors Proprietary Limited and Hospitality, that shareholder appraisal rights had not been properly exercised. The Court ordered that Standard Bank Nominees be reinstated as a Hospitality shareholder and that Hospitality make payment to Standard Bank Nominees of all dividends previously declared by the Company from February 2016 to 12 June 2019. Accordingly, on 7 August 2019 Hospitality made payment of R10 663 390 to Standard Bank Nominees, in settlement of the Court order.

3. **Review of financial results**
   The results of the Group are set out in the financial statements and notes.

4. **Dividends**
   The following ordinary dividends were declared during the financial year:
   - A shareholder appraisal rights dividend of R10.7 million was paid on 7 August 2019 in terms of the High Court ruling.
   - An interim dividend of 35.40 cents was declared on 20 November 2019 and paid on 17 December 2019.
   - No final dividend has been declared and the Board may assess the payment of a final dividend once the impact of Covid-19 has been assessed and operations have returned to normality.

5. **Subsequent events**
   The directors are not aware of any matter or circumstance arising since the end of the financial year, not otherwise dealt with within the financial statements that would affect the operations or results of the Company significantly.

6. **Subsequent events, going concern and Covid-19**
   Covid-19
   The Covid-19 pandemic ('Covid-19') and subsequent lockdown of the economy on 27 March 2020, and particularly, the hospitality sector, has had a profound impact on the Group. The Group's portfolio comprises 54 hotels operating in the hospitality sector, which is one of the industries that has been impacted negatively as a result of Covid-19.

   The measures taken by government to limit the spread of Covid-19 and the resultant inability for travellers to travel internationally and inter-provincially will limit the demand for hotel rooms, which will impact the Group's revenue stream significantly for the 2021 financial year. Hotel trading is therefore expected to remain under pressure until the outlook on the South African economy improves.

   Although the impact of Covid-19 is expected to have a longer-term impact on the hospitality industry and the Group, management is not able to quantify the full impact at the date of this report. It is expected that the recovery of the industry will be slow due to the uncertainties around the health of travellers, and the negative economic impact on government, corporates and individuals to spend on hotel accommodation and conferences.

   As the Group's properties are required to be closed, the inability to generate revenue during the lockdown period, together with the expected slow recovery once the hotels can open and operate, the Group will not be able to meet its net debt to EBITDA covenant requirement (and possibly interest cover ratio) in terms of its funding agreements for the measurement period 30 September 2020 and possibly 31 March 2021. The Group's gearing levels remain manageable, with the loan-to-value ratio at 26% at 31 March 2020.

   Subsequent events
   The Group's property valuation methodology incorporates the use of the South African Government bond yield 10Y. As at 31 March 2020, the rate applied was 10.50%. As at 26 May 2020, the yield has reduced to 9.01%, however, this would be offset by an increase in the risk premium due to the sentiment and uncertainty in the market. These are considered non-adjusting subsequent events.

Directors' report continued

for the year ended 31 March 2020

Going concern

In order to partially reduce the impact of Covid-19 on the Group, the following steps have been implemented to preserve cash and to ensure that the Group can continue to operate as a going concern:

- capital expenditure programme suspended, with only emergency capital expenditures to be considered;
- waiver from lenders on its net debt to EBITDA covenant requirements for the measurement period 30 September 2020, with the request for waiver of the 31 March 2021 to be considered post 30 September 2020;
- the capitalisation of bank funding interest to the Group's revolving credit facilities;
- review of the dividend retention policy;
- the decrease of operating costs, such as salaries and wages through furlough;
- extended payment terms from major creditors; and
- supporting of tenants to ensure their sustainability in terms of the lease agreements in place.

At the date of the annual financial statements, the lenders are not able to provide waivers on the minimum covenant requirements for the measurement period ending 31 March 2021. This will only be considered post 30 September 2020 and management has no reason to believe that the necessary waivers will not be granted.

At year end, cash and undrawn facilities amounted to R691 million, which will provide sufficient liquidity to the Group over the next 12 months. Through engagements with the Group's lenders, regular updates on operations and cash flow forecasts, lenders have noted their support to the Group. Management is of the view that the Group will continue to operate as a going concern in a responsible and sustainable manner.

7. Holding company

The Company is owned by Tsogo Sun Investments Proprietary Limited, which owns 59.2% of the Company's shares. The Company's ultimate holding company is Hosken Consolidated Investments Limited.

8. Directorate

The Board of Directors comprised the following directors during the year:

- MN von Aulock^ (Chairman)
- MH Ahmed# (Lead independent director)
- MR de Lima (Chief Executive Officer) (previously the Chief Financial Officer)
- R Erasmus (Financial Director) (appointed 1 June 2019)
- L McDonald^
- JR Nicolella^
- LM Molefi# (appointed 1 June 2019)
- JG Ngcobo# (appointed 1 June 2019)
- SC Gina# (appointed 1 June 2019)
- CC September# (appointed 15 August 2019)
- JA Copelyn^ (Chairman – resigned 31 May 2019)
- GA Nelson# (Lead independent director – resigned 31 May 2019)
- SA Halliday# (resigned 31 May 2019)
- ZJ Kganyago^ (resigned 31 May 2019)

 # Independent non-executive director.

^ Non-executive director.

9. Subsidiary companies

Information relating to the Company's interest in its subsidiaries is detailed in note 24.

10. Associate companies

Information relating to the Company's interest in its associates is detailed in note 7.

11. External auditors

PricewaterhouseCoopers Inc. were the Company's external auditors during the year and will continue in office in accordance with section 90 of the Companies Act, as amended.

12. Company Secretary

The Company Secretary is HPF Properties Proprietary Limited (registration number: 2005/020743/07). The appointed representative of HPF Properties Proprietary Limited is LR van Onselen. The business and registered office is:

Palazzo Towers West
Montecasino Boulevard
Fourways
2055

Independent auditor's report

To the Shareholders of Hospitality Property Fund Limited

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Hospitality Property Fund Limited ('the Company') and its subsidiaries (together 'the Group') as at 31 March 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Hospitality Property Fund Limited's consolidated financial statements set out on pages 62 to 99 comprise:

- the consolidated statement of financial position as at 31 March 2020;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs'). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

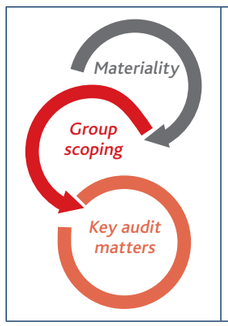
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively.

Our audit approach

Overview



Overall Group materiality
R76.7 million, which represents 1% of consolidated net assets.

Group audit scope
The Group consists of ten components, which include 54 hotels owned by the operating subsidiary.

We performed full scope audits on the components that are financially significant to the consolidated financial statements.

Key audit matters
Valuation of investment properties at year end of R9.98 billion.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Independent auditor's report continued

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall Group materiality	R76.7 million.
How we determined it	1% of consolidated net assets.
Rationale for the materiality benchmark applied	We chose consolidated net assets as the benchmark, because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users and is considered to be appropriate due to the nature of the company and industry practice. Although the entity is profit-orientated, its strategic focus is to deliver long-term shareholder returns through the acquisition and development of investment property. As a Real Estate Investment Trust the users are likely to be more concerned with the net assets underlying the fund than the profitability of the entity. In addition the Loan to value (ratio of loans to the value of assets) is a key metric for the company. We chose 1%, which is consistent with the quantitative materiality thresholds for companies in this sector.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Two components that contributed significantly to consolidated net assets were subject to full scope audits. We performed analytical reviews over the remaining components considered to be financially inconsequential, individually and in aggregate. All testing was performed centrally by the Group audit team. By performing the procedures outlined above, we obtained sufficient and appropriate audit evidence regarding the financial information of the Group to provide a basis of our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties at year end of R9.98 billion The majority of the Group's investment properties comprise hotel properties. At 31 March 2020, the carrying value of the Group's total investment property portfolio was R9 979 million representing a R2 045 million decrease compared to the prior year (refer to note 4 *'Investment properties'* of the consolidated financial statements). This overall decrease comprises a decrease in the fair value of the hotel properties of R2 461 million and a decrease of R4 million due to a disposal of investment property, offset by an increase of R220 million in capital expenditure and an increase of R200 million due to the acquisition of Southern Sun Pretoria. The Group's accounting policy is to measure investment properties at fair value using the discounted cash flow approach. The value of investment properties is dependent on the operating results of the respective hotel operations and the inputs into the valuation model. Factors such as prevailing market conditions and country-specific risks directly impact fair values, and are taken into account in calculation of the discount rate by use of a risk premium. The impact of the novel coronavirus and the associated impact on the hospitality industry has resulted in changes to the expected growth rate and cash flows. Cash flows are expected to decrease significantly in year one and two. These have resulted in a decrease in the fair value of the hotel properties. Among others, the following assumptions are key in determining the fair value: – the discount rate applied by management; – net cash flows; and – the expected growth rate which drives the exit capitalisation rate. The valuation accounting policy applied during the year requires properties to be externally valued by a qualified real estate appraiser ('the appraiser'), which was performed on the entire portfolio of investment properties. We considered the valuation of the investment properties to be a matter of most significance to our current year audit due to the following: – significant judgements made by management in determining the net cash flows, exit capitalisation and discount rates; and – the magnitude of the balance of the investment properties recorded in the consolidated statement of financial position as at 31 March 2020.	We updated our understanding of and tested the relevant controls related to the budgeting process, which included controls in relation to the following: – the entering and amending of leases in support of contractual rental income; – the setting and approval of budgets by the Group; and – Board approval of the valuations obtained. We tested capital expenditure incurred and capitalised on existing investment properties, by agreeing the consideration amounts capitalised to underlying documents, in order to determine whether the capitalisation criteria had appropriately been met. We considered the accounting for the acquisition of the Southern Sun Pretoria property. No exceptions were noted. In respect of the appraiser (management's expert), we: – considered his objectivity, independence and expertise by inspecting the external appraiser's valuation reports for a statement of independence and compliance with generally accepted valuation standards; and – confirmed the external appraiser's affiliation with the relevant professional body. On a sample basis we tested the fair values in the appraiser's valuation reports by performing the following procedures: – utilising our internal property valuation expertise, we assessed the appropriateness of the valuation methodology used; – we evaluated the cash flows in year one and two of the valuation. The cash flows were expected to be significantly affected by the restrictions as a result of Covid-19. Based on our work performed, we accepted the impact that management has projected; – we evaluated the cash flows in the valuations from year three to assess the reasonableness of the expected cash flows with reference to historical cash flows; – we assessed the reasonableness of the growth, exit capitalisation and discount rates used in the valuations by independently calculating a range of rates which would be considered reasonable against similar properties; and – we determined a range of acceptable valuations of a sample of hotels based on industry benchmarks and noted that the valuations prepared by the appraiser fell within these ranges. We agreed all of the fair values in the final valuation reports to the fair values recorded in the Group's accounting records as at 31 March 2020.

Independent auditor's report continued

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Hospitality Property Fund Consolidated annual financial statements for the year ended 31 March 2020", which includes the Directors' Report, the Report of the Audit and Risk Committee and the Declaration by the Company Secretary as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report, and the other sections of the document titled "Hospitality Property Fund Integrated Annual Report 2020", which is expected to be made available to us after that date. The other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Hospitality Property Fund Limited for four years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: A Taylor
Registered Auditor

Johannesburg

28 May 2020

Consolidated statement of financial position

as at 31 March

	Notes	2020 R'000	2019 R'000
ASSETS			
Non-current assets			
Investment properties	4	**9 978 983**	12 023 914
Furniture, fittings and equipment	6	**8**	337
Investments in associates	7	**979**	771
Derivative asset	26.1	**–**	1 783
		9 979 970	12 026 805
Current assets			
Trade and other receivables	8	**72 479**	144 510
Cash and cash equivalents	9	**290 575**	95 282
		363 054	239 792
Total assets		**10 343 024**	12 266 597
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Stated capital	10	**9 051 194**	9 027 065
Non-distributable reserve	11	**(553 392)**	1 957 968
Common control reserve		**(1 106 013)**	(1 106 013)
Retained earnings		**281 979**	343 035
		7 673 768	10 222 055
LIABILITIES			
Non-current liabilities			
Interest-bearing borrowings	12	**2 546 606**	1 647 358
Derivative liability	26.1	**50 229**	1 971
Long-term incentive liabilities non-current portion	25.2	**1 337**	446
		2 598 172	1 649 775
Current liabilities			
Trade and other payables	13	**69 697**	79 219
Interest-bearing borrowings	12	**–**	290 000
Long-term incentive liabilities current portion	25.2	**1 387**	1 419
Provision for shareholder redemption	10	**–**	24 129
		71 084	394 767
Total liabilities		**2 669 256**	2 044 542
Total equity and liabilities		**10 343 024**	12 266 597

The notes from page 66 to 99 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 March

	Notes	2020 R'000	2019 R'000
Revenue	14	**767 644**	827 786
Rental income – contractual		**767 695**	827 631
Rental income – straight-line accrual		**(51)**	155
Operating expenses	17	**(51 112)**	(76 096)
Operating profit		**716 532**	751 690
Other income		**1 665**	1 767
Insurance proceeds		**1 088**	655
Sundry income		**577**	1 112
Net finance costs		**(195 440)**	(166 988)
Finance income	18	**11 069**	17 206
Finance costs	18	**(206 509)**	(184 194)
Profit before sale of fixed assets, fair value adjustments, equity-accounted profits and taxation		**522 757**	586 469
Profit on sale of furniture, fittings and equipment		**173**	–
Fair value adjustments	19	**(2 511 309)**	(781 475)
Investment properties, before straight-lining adjustment		**(2 461 320)**	(787 414)
Change in fair value as a result of the straight-lining adjustment		**51**	(155)
Interest rate swaps		**(50 040)**	6 094
Loss before taxation		**(1 988 379)**	(195 006)
Equity-accounted profit from associate net of tax	7	**208**	720
Income tax expense	20	**–**	191
Loss for the year		**(1 988 171)**	(194 095)
Other comprehensive income			
Items that may not be reclassified subsequently to profit or loss:			
Total comprehensive income		**(1 988 171)**	(194 095)
Loss attributable to:			
Equity holders		**(1 988 171)**	(194 095)
Earnings and diluted earnings per share (cents)	15	**(344.22)**	(33.74)

The notes from page 66 to 99 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 March

	Attributable to equity holders of the Company					
	Share capital R'000	Treasury share reserve R'000	Retained income R'000	Common control reserve R'000	Non-distributable reserve R'000	Total R'000
Balance at 1 April 2018	9 037 060	(9 995)	444 108	(1 106 013)	2 739 443	11 104 603
Total comprehensive income for the year	–	–	(194 095)	–	–	(194 095)
Dividend declared on 23 May 2018	–	–	(451 330)	–		(451 330)
Dividend declared on 21 November 2018	–	–	(237 123)	–	–	(237 123)
Transfer to non-distributable reserves – investment properties	–	–	787 569	–	(787 569)	–
Transfer to non-distributable reserves – interest rate swaps	–	–	(6 094)	–	6 094	–
Balance at 31 March 2019	**9 037 060**	**(9 995)**	**343 035**	**(1 106 013)**	**1 957 968**	**10 222 055**
Total comprehensive income for the year	**–**	**–**	**(1 988 171)**	**–**	**–**	**(1 988 171)**
Dividend declared on 23 May 2019	**–**	**–**	**(369 124)**	**–**	**–**	**(369 124)**
Dividend paid 7 August 2019 relating to appraisal rights matter	**–**	**–**	**(10 663)**	**–**	**–**	**(10 663)**
Dividend declared on 20 November 2019	**–**	**–**	**(204 458)**	**–**	**–**	**(204 458)**
Reinstatement of shareholding (appraisal rights matter)	**24 129**	**–**	**–**	**–**	**–**	**24 129**
Transfer to non-distributable reserves – investment properties	**–**	**–**	**2 461 320**	**–**	**(2 461 320)**	**–**
Transfer to non-distributable reserves – interest rate swaps	**–**	**–**	**50 040**	**–**	**(50 040)**	**–**
Balance at 31 March 2020	**9 061 189**	**(9 995)**	**281 979**	**(1 106 013)**	**(553 392)**	**7 673 768**
Notes	10	10			11	

The notes from page 66 to 99 form an integral part of these consolidated financial statements.

Consolidated cash flow statement

for the year ended 31 March

	Notes	2020 R'000	2019 R'000
Cash flows from operating activities			
Cash generated from operations	22	**781 245**	771 480
Interest received	18	**11 069**	17 206
Finance costs paid	18	**(206 509)**	(184 194)
Dividends paid to shareholders		**(584 245)**	(688 453)
Net cash generated/(utilised) from operating activities		**1 560**	(83 961)
Cash flows from investment activities			
Proceeds from disposal of furniture, fittings and equipment		**173**	–
Acquisition and development of investment properties	4	**(420 008)**	(211 992)
Proceeds from disposal of investment property	4	**3 568**	234
Acquisition of furniture, fittings and equipment	6	**–**	(290)
Dividends received from associate	7	**–**	700
Net cash utilised for investment activities		**(416 267)**	(211 348)
Cash flows from financing activities			
Interest-bearing liabilities raised		**2 080 000**	100 000
Interest-bearing liabilities repaid		**(1 470 000)**	(100 000)
Net cash inflow from financing activities		**610 000**	–
Net increase/(decrease) in cash and cash equivalents		**195 293**	(295 309)
Cash and cash equivalents at the beginning of the year		**95 282**	390 591
Cash and cash equivalents at the end of the year	9	**290 575**	95 282

The notes from page 66 to 99 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. Accounting policies

The significant accounting policies adopted in the preparation of the consolidated annual financial statements and Company annual financial statements are set out on the following pages. These policies have been consistently applied to all the periods presented unless otherwise stated.

1.1 Basis of preparation

The consolidated annual financial statements have been prepared in accordance with the framework concepts and the recognition and measurement criteria of IFRS as issued by the International Accounting Standards Board ('IASB'), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council ('FRSC'), the Listings Requirements of the JSE and the Companies Act of South Africa, and have been prepared under the historical cost convention, as modified by the revaluation to fair value of certain financial instruments and investment properties as described in the accounting policies below. The term IFRS includes International Financial Reporting Standards and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') or the former Standing Interpretations Committee ('SIC'). The standards referred to are set by the IASB.

The financial statements are presented in Rand and are rounded to the nearest thousand, unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. Actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

1.2 Changes in accounting policies

The Group has adopted all the new, revised or amended accounting pronouncements as issued by the International Accounting Standards Board ('IASB') which were effective for the Group from 1 April 2019. In particular, the following standards had an impact on the Group's financial statements:

(i) Amendment to IFRS 9 *Prepayment Features with Negative Compensation*

The narrow-scope amendment covers two issues:

- the amendments allow companies to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met instead of at fair value through profit or loss. It is likely to have the biggest impact on banks and other financial services entities;
- how to account for the modification of a financial liability. The amendment confirms that most such modifications will result in immediate recognition of a gain or loss. This is a change from common practice under IAS 39 today and will affect all kinds of entities that have renegotiated borrowings.

The effective date of the amendment is for years beginning on or after 1 January 2019 and the Company has adopted the amendment for the first time in the 2020 annual financial statements.

The amendment has no impact on the Group.

(ii) Annual Improvements to IFRS 2015 – 2017 cycle: Amendments to IAS 23 *Borrowing Costs*

The amendment specifies that when determining the weighted average borrowing rate for purposes of capitalising borrowing costs, the calculation excludes borrowings which have been made specifically for the purposes of obtaining a qualifying asset, but only until substantially all the activities necessary to prepare the asset for its intended use or sale are complete.

The effective date of the amendment is for years beginning on or after 1 January 2019.

The Company has adopted the amendment for the first time in the 2020 annual financial statements; however, it has not had any impact on the 2020 annual financial statements.

(iii) IFRIC 23 *Uncertainty over Income Tax Treatments*

The effective date of the interpretation is for years beginning on or after 1 January 2019.

The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments.

IFRIC 23, uncertainty over income tax treatments, is expected to have no impact on the Group.

1. Accounting policies continued

1.2 Changes in accounting policies continued

(iv) IFRS 16 *Leases*

IFRS 16 *Leases* is a new standard which replaces IAS 17 *Leases*, and introduces a single lessee accounting model. The main changes arising from the issue of IFRS 16 which are likely to impact the Company are as follows:

Where the Company is a lessee:

- Lessees are required to recognise a right-of-use asset and a lease liability for all leases, except short-term leases or leases where the underlying asset has a low value, which are expensed on a straight-line or other systematic basis.
- The cost of the right-of-use asset includes, where appropriate, the initial amount of the lease liability; lease payments made prior to commencement of the lease less incentives received; initial direct costs of the lessee; and an estimate for any provision for dismantling, restoration and removal related to the underlying asset.
- The lease liability takes into consideration, where appropriate, fixed and variable lease payments; residual value guarantees to be made by the lessee; exercise price of purchase options; and payments of penalties for terminating the lease.
- The right-of-use asset is subsequently measured on the cost model at cost less accumulated depreciation and impairment and adjusted for any re-measurement of the lease liability. However, right-of-use assets are measured at fair value when they meet the definition of investment property and all other investment property is accounted for on the fair value model. If a right-of-use asset relates to a class of property, plant and equipment which is measured on the revaluation model, then that right-of-use asset may be measured on the revaluation model.
- The lease liability is subsequently increased by interest, reduced by lease payments and re-measured for reassessments or modifications.
- Re-measurements of lease liabilities are effected against right-of-use assets, unless the assets have been reduced to nil, in which case further adjustments are recognised in profit or loss.
- The lease liability is re-measured by discounting revised payments at a revised rate when there is a change in the lease term or a change in the assessment of an option to purchase the underlying asset.
- The lease liability is re-measured by discounting revised lease payments at the original discount rate when there is a change in the amounts expected to be paid in a residual value guarantee or when there is a change in future payments because of a change in index or rate used to determine those payments.
- Certain lease modifications are accounted for as separate leases. When lease modifications which decrease the scope of the lease are not required to be accounted for as separate leases, then the lessee re-measures the lease liability by decreasing the carrying amount of the right-of-lease asset to reflect the full or partial termination of the lease. Any gain or loss relating to the full or partial termination of the lease is recognised in profit or loss. For all other lease modifications which are not required to be accounted for as separate leases, the lessee re-measures the lease liability by making a corresponding adjustment to the right-of-use asset.
- Right-of-use assets and lease liabilities should be presented separately from other assets and liabilities. If not, then the line item in which they are included must be disclosed. This does not apply to right-of-use assets meeting the definition of investment property which must be presented within investment property. IFRS 16 contains different disclosure requirements compared to IAS 17 *Leases*.

Where the Company is a lessor:

- Accounting for leases by lessors remains similar to the provisions of IAS 17 in that leases are classified as either finance leases or operating leases. Lease classification is reassessed only if there has been a modification.
- A modification is required to be accounted for as a separate lease if it both increases the scope of the lease by adding the right to use one or more underlying assets; and the increase in consideration is commensurate to the stand alone price of the increase in scope.
- If a finance lease is modified, and the modification would not qualify as a separate lease, but the lease would have been an operating lease if the modification was in effect from inception, then the modification is accounted for as a separate lease. In addition, the carrying amount of the underlying asset shall be measured as the net investment in the lease immediately before the effective date of the modification. IFRS 9 is applied to all other modifications not required to be treated as a separate lease.
- Modifications to operating leases are required to be accounted for as new leases from the effective date of the modification. Changes have also been made to the disclosure requirements of leases in the lessor's financial statements.

Notes to the consolidated financial statements continued

1. **Accounting policies** continued

1.2 **Changes in accounting policies** continued

(iv) IFRS 16 *Leases continued*

Sale and leaseback transactions:

- In the event of a sale and leaseback transaction, the requirements of IFRS 15 are applied to consider whether a performance obligation is satisfied to determine whether the transfer of the asset is accounted for as the sale of an asset.
- If the transfer meets the requirements to be recognised as a sale, the seller-lessee must measure the new right-of-use asset at the proportion of the previous carrying amount of the asset that relates to the right-of-use retained. The buyer-lessor accounts for the purchase by applying applicable standards and for the lease by applying IFRS 16.
- If the fair value of consideration for the sale is not equal to the fair value of the asset, then IFRS 16 requires adjustments to be made to the sale proceeds. When the transfer of the asset is not a sale, then the seller-lessee continues to recognise the transferred asset and recognises a financial liability equal to the transfer proceeds. The buyer-lessor recognises a financial asset equal to the transfer proceeds.

The effective date of the standard is for years beginning on or after 1 January 2019 and the Company has adopted the standard for the first time in the 2020 annual financial statements.

As the Group is a lessor, the new standard has not a had a material impact on the annual financial statements.

1.3 **Segmental reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's executive committee, who are the Group's chief operating decision-makers. The Group's executive committee reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on the reports reviewed by the Group's executive committee which are used to make strategic decisions and are disclosed in note 16.

1.4 **Basis of consolidation and business combinations**

The consolidated financial statements include the financial statements of subsidiaries and associates owned by the Company.

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Where the Group's interest in subsidiaries is less than 100%, the share attributable to outside shareholders is reflected in non-controlling interests. Subsidiaries are included in the financial statements from the date control commences until the date control ceases. Increases in fair value of assets that occur on the Group obtaining control, for nil consideration, of an entity previously accounted for as an associate or joint venture is transferred to a reserve called 'surplus arising on change in control'.

The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Intragroup balances, and any unrealised gains or losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

(ii) Associates

An investment is considered to be an associate when significant influence is exercised by the Company. The existence of significant influence is evidenced by:

- Representation on the Board of Directors or equivalent governing body of the investee.
- Participation in the policy-making process.
- Material transactions between the Company and the investee.
- Interchange of managerial personnel.
- Provision of essential technical information.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition reserve movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the investee, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

1. **Accounting policies** continued

1.4 **Basis of consolidation and business combinations** continued

(ii) Associates continued

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the investee and its carrying value and recognises the amount immediately in profit or loss.

Some of the Group's associates have different local statutory accounting reference dates. These are equity accounted using management prepared information on a basis coterminous with the Group's accounting reference date. Where management prepared information is at a different date from that of the Group's, the Group equity accounts that information, but takes into account any changes in the subsequent period to 31 March that would materially affect the results.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

1.5 **Furniture, fittings and equipment**

Furniture, fittings and equipment are stated at cost net of accumulated depreciation and any impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying value or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the specific asset will flow to the Group and the cost can be measured reliably. Repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

(i) Profit or loss on disposal

The profit or loss on the disposal of an asset is the difference between the disposal proceeds and the net book amount of the asset and is accounted for during the period in which the asset is disposed of.

1.6 **Investment property**

Property that is held for long-term rental yields or for capital appreciation or both, and where companies in the Group occupy no or an insignificant portion, is classified as investment property. Investment property also includes property that is being constructed or developed for future use. The nature of these properties is mostly hotels and includes furniture, fixtures and equipment and the underlying letting enterprise.

Investment property, including property that is being constructed or developed for future use, is stated at fair value. Gains or losses arising on changes in the fair value are recognised immediately in profit or loss.

Properties are initially recognised at cost on acquisition, which comprises the purchase price and includes expenditure that is directly attributable to the acquisition of the property. Subsequent costs are included in the property's carrying value or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the specific asset will flow to the Group and the cost can be measured reliably.

1.7 **Financial instruments**

Initial recognition and measurement

Financial assets are recognised when the Group becomes a party to the contractual provisions of the respective arrangement. Such assets consist of cash, equity instruments, a contractual right to receive cash or another financial asset, or a contractual right to exchange financial instruments with another entity on potentially favourable terms. Financial assets are derecognised when the right to receive cash flows from the asset has expired or has been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial liabilities are recognised when there is an obligation to transfer benefits and that obligation is a contractual liability to deliver cash or another financial asset or to exchange financial instruments with another entity on potentially unfavourable terms. Financial liabilities are derecognised when they are extinguished, that is discharged, cancelled or expired.

Finance costs are charged against income in the year in which they accrue using the effective interest rate method. Premiums or discounts arising from the difference between the net proceeds of financial instruments purchased or issued and the amounts receivable or repayable at maturity are included in the effective interest calculation and taken to finance costs over the life of the instrument.

The Group classifies its financial assets in the following categories: at fair value through profit or loss and financial assets at amortised cost. The classification depends on the purpose for which the financial assets were acquired. In accordance with IFRS 9, the Group applies two criteria when classifying and measuring the financial assets, namely the business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. Management determines the classification of its financial assets at initial recognition.

Notes to the consolidated financial statements continued

1. Accounting policies continued

1.7 Financial instruments continued

Financial instruments designated as at fair value through profit or loss

Financial instruments at fair value through profit or loss are financial assets held for trading and/or designated by the entity upon initial recognition as at fair value through profit or loss. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Financial assets at amortised cost

Financial assets at amortised cost consist of assets which are held to collect the contractual cash flows, which consist solely of payments of principal and interest.

They are included in current assets (trade and other receivables), except for maturities of greater than 12 months after the balance sheet date which are classified as non-current assets.

Purchases and sales of investments are recognised on the date on which the Group commits to purchase or sell the asset.

Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost less provision for impairment.

Trade and other payables

Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Trade payables are presented as current on the face of the balance sheet, unless there is an unconditional right to defer payment beyond 12 months.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits and other short-term highly liquid investments. Cash and cash equivalents are measured at amortised cost which is equivalent to fair value.

1.8 Offsetting financial instruments

Where a legally enforceable right exists to set off recognised amounts of financial assets and liabilities and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously, which are in determinable monetary amounts, the relevant financial assets and liabilities are offset. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or counterparty.

1.9 Impairment of financial assets

The Group applies IFRS 9 *Financial Instruments*, and uses the simplified approach to measure expected credit losses for all financial assets. However, this had an insignificant impact on the Group's numbers. In addition, there have been no significant historic issues or losses relating to the collectability of these assets.

The loss considerations for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the Company's past history, existing market conditions, as well as forward-looking estimates at the end of each reporting period.

All of the disclosures required for the expected credit loss measurement have not been included as the impairment is not considered to be material in respect of the Company's financial assets carried at amortised cost.

1. Accounting policies continued

1.10 Derivative financial assets and financial liabilities

Derivative financial assets and financial liabilities are financial instruments whose value changes in response to an underlying variable, require little or no initial investment and are settled in the future.

Derivative financial assets and liabilities are analysed between current and non-current assets and liabilities on the face of the balance sheet, depending on when they are expected to mature.

For derivatives that are not designated to have a hedging relationship, all fair value movements thereon are recognised immediately in profit or loss.

1.11 Non-current assets held for sale

Non-current assets held for sale are those non-current assets of which the carrying amount will be recovered principally through sale rather than use. These non-current assets are available for immediate sale in their present condition, subject only to terms that are usual for the sale of such assets, and the sale is probable within a year as management is committed to a plan to dispose of the non-current assets, actively market them, and expect that these assets will be sold within a year.

1.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are shown in equity as a deduction from the proceeds.

1.13 Provisions

Provisions are recognised when there is a present obligation, whether legal or constructive, as a result of a past event for which it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability.

1.14 Acquisition of assets under common control

Transactions in which assets or businesses are ultimately controlled by the same party before and after the transaction and where that control is not transitory, are referred to as common control transactions. Where a transaction meets the definition of a common control transaction, predecessor accounting is applied. Any costs directly attributable to the acquisition are written off to reserves.

Predecessor accounting values assets and liabilities using the existing carrying value on the effective date with no goodwill or bargain purchase price being recognised. Any excess/deficit of the purchase price, over the pre-combination recorded ultimate holding company's carrying values, is adjusted directly to equity.

1.15 Revenue recognition

(a) Rental income

Revenue from the letting of investment property comprises rentals (excluding VAT) recognised on a straight-line basis over the term of the lease. Contingent (variable) rentals, including rentals from parking income and rentals from advertising, are included in revenue when the amounts can be reliably measured and the inflow of economic benefits are considered probable.

1.16 Finance income

Interest earned on cash invested with financial institutions is recognised on an accrual basis using the effective interest method.

1.17 Expenses

(a) Recoveries of costs from lessees

Where the Group merely acts as an agent and makes payment of these costs on behalf of lessees, these are offset against the relevant costs.

(b) Finance costs

Finance costs are costs incurred on funds borrowed. These are expensed in the period in which they are incurred using the effective interest method.

Notes to the consolidated financial statements continued

1. Accounting policies continued

1.18 Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to business combinations, or items recognised directly in equity or other comprehensive income.

Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: initial recognition of assets and liabilities in a transaction that is not a business combination, where the initial recognition affects neither accounting nor taxable profit or loss and on differences relating to investments in subsidiaries and joint ventures to the extent that the parent company is able to control the timing of the reversal of the temporary differences and they will probably not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable group, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In respect of REIT assets and liabilities (investment properties) the measurement of deferred tax is based on a rebuttable presumption that the amount of the investment property will be recovered entirely through sale. Capital gains or losses from property sold by a REIT are disregarded and the rate relevant to recoupments is 28%. Investment properties are held as long-term income-generating assets. Therefore, should any property no longer meet the Company's investment criteria and be sold, any profits or losses will be capital in nature and will be taxed at rates applicable to capital gains (currently nil). Allowances previously claimed will be recouped on sale. Where an accumulated loss is available to shield this recoupment, a deferred tax asset is raised.

Deferred tax is provided based on the expected manner of realisation, taking into account the entities' expectation that it will pay a dividend and will receive a tax deduction, making it in substance exempt.

1.19 Dividend distributions

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's Board of Directors.

1.20 Employee benefits

Short-term employee benefits are recognised in the period in which they are incurred.

Long-term benefits, which have been recently implemented, are recognised at the fair value of the liability incurred and are expensed when consumed. The liability is remeasured at each balance sheet date to its fair value, with all changes recognised immediately in profit or loss. Allocations vest in full three years after date of allocation.

The fair value of the long-term incentive plan liability is determined at each balance sheet date by reference to the parent entity's share price. This is adjusted for management's best estimate of the appreciation, bonus and units expected to vest.

2. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Principles of critical accounting estimates and judgements

The Group makes estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below and on the following page.

2.1 Classification of investment properties (judgement)

Investment properties include land and buildings that are held for long-term rental yields and/or for capital appreciation. Investment properties include properties that are being constructed or developed for future use as investment properties.

In determining the classification of the properties as investment properties, management considered its exposure to the risks of running the hotel business and their associated exposure to the variability of the cash flows of the underlying operations. Management took the following factors into account:

- Intention to hold land and buildings for rental income and capital appreciation and its role as a passive investor.
- The duration of the lease agreements.
- Control over the decision-making powers of the relevant hotel operations.
- The present value of the minimum lease payments in relation to the fair value of the investment properties.
- Various financial ratios to determine its exposure to the variability of the hotel operations.

Based on the above, management concluded that the properties meet the definition of investment property.

2.2 Valuations of investment properties (estimate)

Refer to note 4 for the valuation methodology applied.

3. New standards and interpretations

3.1 Standards and interpretations not yet effective

The following standards and amendments to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 April 2020 or later periods, which the Group has not early adopted:

New and amended standard	Summary	Impact to the Group
Amendment to IFRS 3 *Business Combinations* The Group will apply the amendments to IFRS 3 from 1 April 2020.	This amendment revises the definition of a business. According to feedback received by the IASB, the application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations. More acquisitions are likely to be accounted for as asset acquisitions.	The changes to the definition of a business will likely result in future acquisitions being accounted for as asset acquisitions instead of business combinations.
Effective for annual periods beginning on or after January 2020.	To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present (including for early stage companies that have not generated outputs). To be a business without outputs, there will now need to be an organised workforce.	
	An entity can apply a 'concentration test' that, if met, eliminates the need for further assessment. Under this optional test, where substantially all of the fair value of gross assets acquired is concentrated in a single asset (or group of similar assets), the assets acquired would not represent a business.	
Amendment to IAS 1 and IAS 8 The Group will apply the amendments to IAS 1 and IAS 8 from 1 April 2020.	The standard requires the use of a consistent definition of materiality, the explanation for the definition of materiality to be clarified and the guidance in IAS 1 about immaterial information to be incorporated.	The Group is still in the process of assessing the potential impact of the amendments to IAS 1 and IAS 8.
Effective for annual periods beginning on or after January 2020.		

Notes to the consolidated financial statements continued

	2020 R'000	2019 R'000
4. Investment properties		
Opening fair value amount	**12 023 914**	12 533 970
Acquisitions and capital expenditure of investment properties	**420 008**	211 992
Fair value adjustments recognised through profit or loss	**(2 461 320)**	(787 569)
Transfers from non-current assets held for sale	**–**	65 600
Straight-line rental income accrual	**(51)**	155
Disposal of investment property	**(3 568)**	(234)
Closing fair value amount	**9 978 983**	12 023 914

The investment property portfolio serves as collateral against loans from funding banks and secured notes, as held by the Fund. Refer to note 12.

The current year acquisitions include the acquisition of Southern Sun Pretoria amounting to R200 million.

Amounts recognised in profit or loss for investment properties

	2020 R'000	2019 R'000
Rental income	**767 644**	827 786
Direct operating expenses from properties that generated rental income	**11 722**	10 352

Measurement of fair value

Investment properties were independently valued at 31 March 2020. The valuation of the portfolio was performed by P Venter, Professional Associate Valuer, from De Leeuw Valuers Cape Town (RF) Proprietary Limited. The valuations have been done on an annual basis on the entire portfolio of investment properties.

The fair value of the investment properties has been categorised as a level 3 fair value based on the unobservable inputs to the valuation technique used as detailed below.

As at 31 March 2020 the significant unobservable inputs were as follows:
– a weighted average rental growth rate of 5.19% (2019: 5.25%);
– a terminal capitalisation rate of 9.00% to 13.50% (2019: 7.25% to 7.75%) (only five properties exceed 11.00%); and
– a risk-adjusted discount rate of 12.00% to 14.50% (2019: 12.50% to 13.00%) (only one property is lower than 13.00%).

The impact of Covid-19 and the associated impact on the hospitality industry has had a significant impact on the fair value of hotels at 31 March 2020. Due to the uncertainty of future trading conditions, the forecasts reduced in year one with 75% and in year two with 25% when compared to actuals as at 31 March 2020. The South African bond yield 10Y increased by 1.9 percentage points from 31 March 2019 (8.61%) to 31 March 2020 (10.51%). HPF had used a risk-free rate of 8.65% in 2019, compared to 10.50% in 2020, resulting in higher exit yields and higher discount rates across the portfolio.

The Group measures 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 South African bond yield 10Y (long bond) at the time of valuation, to which premiums are added for market risk, and cost of equity. 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.

The table below indicates the sensitivities of the aggregate investment property portfolio by increasing or decreasing value inputs as follows:

	2020		2019	
	Increase Rm	Decrease Rm	Increase Rm	Decrease Rm
5% change in the net cash flows	**1 264**	**(497)**	707	(707)
25 bps change in the terminal capitalisation rate	**(221)**	**141**	(291)	313
50 bps change in the discount rate	**(336)**	**350**	(233)	239

	2020 R'000	2019 R'000
5. Non-current assets held for sale		
Opening fair value amount	**–**	65 600
Transfer of assets held for sale to investment properties	**–**	(65 600)
Closing net carrying amount	**–**	–

	2020 R'000	2019 R'000
6. Furniture, fittings and equipment		
Cost		
Balance at the beginning of the year	**2 876**	2 586
Acquisition during the year	**–**	290
Disposal during the year	**(244)**	–
Balance at the end of the year	**2 632**	2 876
Depreciation and impairment losses		
Balance at the beginning of the year	**2 539**	2 423
Depreciation for the year	**85**	116
Balance at the end of the year	**2 624**	2 539
Carrying amount		
Balance at the beginning of the year	**337**	163
Balance at the end of the year	**8**	337

7. Investments in associates

The Group has the following interests in its principal associates:

Unlisted
– 15% in Ash Brook Investments 72 Pty Ltd, a strategic partner and associate to the companies, as it leases the Radisson Blu Gautrain hotel property from HPF.
– 5% in Vexicure Pty Ltd, a strategic partner and associate to the companies, as it leases the Westin Cape Town hotel property from HPF.

	2020 R'000	2019 R'000
Unlisted		
Opening balance	**771**	751
Profit attributable to HPF Properties Proprietary Limited	**208**	720
Dividends received	**–**	(700)
At 31 March	**979**	771
Made up as follows:		
Listed	**–**	–
Unlisted	**979**	771
	979	771

Notes to the consolidated financial statements continued

7. **Investments in associates** continued

Vexicure Proprietary Limited

Vexicure is a strategic partner and associate to the Company, as it leases the Westin Cape Town hotel property situated in the city of Cape Town, and contributed 12.7% (2018: 15.2%) to the rental income. The Company is represented by two (in terms of the shareholders' agreement) of the five directors of Vexicure's board of directors and therefore exercises limited influence.

Summarised financial information of material associates

	2020 R'000	2019 R'000
Summary of Vexicure statement of financial position which represents 100%		
Assets		
Non-current assets	**2 554**	2 100
Current assets	**82 074**	111 668
Total assets	**84 628**	113 768
Equity and liabilities		
Capital and reserves	**4 111**	2 879
Current liabilities	**80 517**	110 889
Total equities and liabilities	**84 628**	113 768
Summary of Vexicure statement of comprehensive income which represents 100%		
Gross profit	**235 153**	289 620
Total operating expenditure	**(131 581)**	(169 210)
Rental to HPF Properties Proprietary Limited	**(101 106)**	(104 597)
Taxation	**(993)**	(1 420)
Profit and total comprehensive income for the year	**1 473**	14 393
Profit attributable to the Group	**74**	720
Vexicure Pty Ltd		
Opening balance	**504**	484
Profit attributable to HPF Properties Proprietary Limited	**74**	720
Dividends	**–**	(700)
	578	504

7. **Investments in associates** continued

Ash Brook Investments 72 Proprietary Limited

Ash Brook is a strategic partner and associate to the Fund, as it leases the Radisson Blu Gautrain hotel property situated in Sandton, from HPF Properties Proprietary Limited and contributes significantly to the consolidated rental income. The Fund is represented by two (in terms of the shareholders' agreement) of the four directors of its board of directors and therefore exercises limited influence. The majority shareholder holds the casting vote in a general meeting.

	2020 R'000	2019 R'000
Summary of Ash Brook statement of financial position which represents 100%		
Assets		
Non-current assets	**23**	23
Current assets	**33 210**	32 860
Total assets	**33 233**	32 883
Equity and liabilities		
Capital and reserves	**1 886**	1 489
Non-current liabilities	**9 933**	9 933
Current liabilities	**21 414**	21 461
Total equities and liabilities	**33 233**	32 883

	2020 R'000	2019 R'000
Summary of Ash Brook statement of comprehensive income which represents 100%		
Gross profit	**77 675**	129 632
Total operating expenditure	**(46 646)**	(91 910)
Rental to HPF Properties Proprietary Limited	**(29 788)**	(36 569)
Taxation	**(348)**	(1 302)
Profit and total comprehensive income for the year	**893**	(149)
Profit attributable to the Group	**134**	–
Ash Brook Investments 72 Proprietary Limited		
Opening balance	**269**	269
Profit attributable to HPF Properties Proprietary Limited	**134**	–
	403	269
Vexicure Proprietary Limited		
Reconciliation to carrying amounts		
Opening net assets 1 April	**2 879**	10 784
Profit for the period	**1 473**	14 393
Other reconciling items	**(241)**	(22 299)
Closing net assets	**4 111**	2 879
Group's share in percentage (%)	**5**	5
Group's share in associate	**206**	144
Carrying amount	**206**	144
Ash Brook Investments 72 Proprietary Limited		
Reconciliation to carrying amounts		
Opening net assets 1 April	**1 489**	1 000
Profit for the period	**894**	(149)
Year end adjustment	**(497)**	638
Closing net assets	**1 886**	1 489
Group's share in percentage (%)	**15**	15
Group's share in associate	**283**	223
Carrying amount	**283**	223

Notes to the consolidated financial statements continued

	2020 R'000	2019 R'000
8. Trade and other receivables		
Financial instruments		
Trade receivables	**26 709**	75 925
Deposits	**377**	378
Operator loans	**25 300**	24 315
Other receivables	**9 111**	14 612
Guarantees	**3 341**	20 658
Sundry debtors	**2 620**	1 269
Non-financial instruments		
Prepayments	**329**	787
VAT receivable	**4 692**	6 566
	72 479	144 510

Trade receivables are written off when there is no expectation of recovering additional cash. Indicators that there is no reasonable expectation of recovery is the failure of a debtor to engage in a repayment plan with the Group, and a failure to make timely payments on a regular basis. The creation of the provisions for doubtful debts is offset by the release of provisions for receivables where impairment has reversed and has been included in other expenses in the income statement.

The loss considerations for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the existing market conditions as well as forward-looking estimates at the end of each reporting period.

Trade receivables

The Group applies IFRS 9 *Financial Instruments*, and uses the simplified approach to measure lifetime expected credit losses for all trade receivables. This has not had a significant impact on the Group's numbers, due to the short-term nature of trade receivables. In addition, there have been no significant historic losses or issues relating to the collectability of receivables. The contractual terms of agreements were considered in particular, which requires fixed rental to be paid in advance and variable rental to be paid within 15 days.

Operator loans

Operator loans, which consist of loans provided to hotel operators through signed agreements, use the general approach to measure credit losses. However, this had an insignificant impact on the Group's numbers. There have been no significant historic losses or issues related to the collectability of other receivables from the relevant hotel operators.

Sundry debtors, guarantees, other receivables and deposits

Sundry debtors, guarantees, other receivables and deposits were initially recognised at fair value and subsequently measured at amortised cost less provision for impairment.

Other receivables and deposits do not contain significant credit risk and there are no significant receivables past due, not impaired or impaired. No further disclosure is provided in this regard.

Impairment – trade receivables

At 31 March 2020, trade receivables of R0.7 million (2019: R3 million) were past due but not impaired. Based on communications with these debtors and agreements reached, there is no reason to believe that these amounts will not be recovered.

At 31 March 2020, trade receivables of R0.1 million (2019: R0.1 million) were impaired and provided for. The impaired receivable for 2020 relates to the VAT portion on a capital project completed in prior years. The impaired receivables for 2019 mainly relate to rent receivables from two tenants at the Sandton Eye with long outstanding balances.

	2020 R'000	2019 R'000
9. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Current accounts	**29 569**	31 036
Call accounts	**261 006**	64 246
	290 575	95 282

The Company has an unutilised revolving credit facility of R300 million with the Standard Bank of South Africa Limited and R100 million with Nedbank Limited at 31 March 2020. The call account consists of excess funds which are deposited with Nedbank Limited.

Credit ratings of banks with whom the Group has cash deposits		
– Absa Bank Limited	**Ba1**	Baa3
– FirstRand Bank Limited	**Ba1**	Baa3
– Nedbank Limited	**Ba1**	Baa3

10. Share capital

Provision for shareholders' redemption

At 31 March 2019, a provision of R24 million was held relating to a dissenting shareholder exercising its rights in terms of section 164(14) b) of the Companies Act. On 12 June 2019, the High Court of South Africa ('the Court') ruled in the matter between Standard Bank Nominees (RF) Proprietary Limited ('Standard Bank Nominees'), The Standard Bank of South Africa Limited, Nedbank Collective Investments (RF) Proprietary Limited, Nedgroup Investment Advisors Proprietary Limited and Hospitality, that shareholder appraisal rights had not been properly exercised. The Court ordered that Standard Bank Nominees be reinstated as a Hospitality shareholder and that Hospitality make payment to Standard Bank Nominees of all dividends previously declared by the Company from February 2016 to 12 June 2019. Accordingly, on 7 August 2019 Hospitality made payment of R10 663 390 to Standard Bank Nominees, in settlement of the Court order.

	2020 R'000	2019 R'000
Authorised		
2 000 000 000 shares of no par value		
The unissued shares are under the control of the directors of the Company subject to the provisions of the Companies Act.		
Issued		
578 154 207 shares of no par value (2019: 578 154 207)	**9 051 194**	9 027 065
Reconciliation		
Opening balance	**9 027 065**	9 027 065
Reinstatement of appraisal right shares	**24 129**	–
Closing balance	**9 051 194**	9 027 065
Number of shares		
No par value ordinary shares	**577 591 433**	575 214 177
– Shares in issue	**578 154 207**	578 154 207
– HPF Employee Incentive Trust shares	**(562 774)**	(562 774)
– Shareholders' redemption	**–**	(2 377 256)
Weighted average number of shares		
No par value ordinary shares	**577 591 433**	575 214 177
– Shares in issue	**578 154 207**	578 154 207
– HPF Employee Incentive Trust shares	**(562 774)**	(562 774)
– Shareholders' redemption	**–**	(2 377 256)
Distribution per share (cents)		
No par value share	**35.40**	105.39
– Interim	**35.40**	41.22
– Final	**–**	64.17

11. Non-distributable reserve		
Fair valuation of investment properties	**(2 778 269)**	(316 949)
Fair valuation of interest rate swap	**(163 971)**	(113 931)
Fair value uplift recognised as part of the common control transaction	**2 388 848**	2 388 848
	(553 392)	1 957 968

Notes to the consolidated financial statements continued

		2020 R'000	2019 R'000
12. Interest-bearing borrowings			
Non-current			
Domestic medium-term note programme			
– Secured note HPF11 – expiry: 31 March 2023	3-month JIBAR +1.95%	**600 000**	600 000
– Secured note HPF12 – expiry: 31 March 2024	3-month JIBAR +1.60%	**300 000**	–
– Secured note HPF13 – expiry: 30 September 2024	3-month JIBAR +1.50%	**800 000**	–
		1 700 000	600 000
Standard Bank of South Africa Limited			
– Facility A – expiry: 31 August 2020	3-month JIBAR +1.78%	**–**	550 000
– Facility B – expiry: 31 August 2022	3-month JIBAR +1.98%	**500 000**	500 000
– Revolving credit facility (R500 million) – expiry: 19 December 2022	Prime less 1.90%	**200 000**	–
		700 000	1 050 000
Nedbank Limited			
– Revolving credit facility (R250 million) – expiry: 13 month notice	3-month JIBAR +1.25%	**150 000**	–
Debt raising fee		**(3 394)**	(2 642)
Total non-current interest-bearing liabilities		**2 546 606**	1 647 358
Current			
Domestic medium-term note programme			
– Secured note HPF06 – expiry: February 2020	3-month JIBAR +2.80%	**–**	60 000
– Unsecured note HPF08 – expiry: April 2019	3-month JIBAR +3.00%	**–**	80 000
– Secured note HPF09 – expiry: April 2019	3-month JIBAR +2.25%	**–**	150 000
Total current interest-bearing liabilities		**–**	290 000
Total interest-bearing liabilities		**2 546 606**	1 937 358
Total interest-bearing liabilities payable in the following financial years:			
31 March 2020		**–**	290 000
31 March 2021		**–**	–
31 March 2022		**150 000**	1 050 000
31 March 2023		**1 300 000**	600 000
31 March 2024		**300 000**	–
31 March 2025		**800 000**	–
		2 550 000	1 940 000

The Fund has no facilities that are repayable within the next 12 months and the average maturity profile of the Fund's facilities is 3.20 years. Global Credit Ratings maintained the Fund's long-term credit rating at A- (ZA) and revised its short-term credit rating to A2 (ZA).

The Fund settled corporate notes HPF08 and HPF09, which matured on 15 April 2019, of R80 million and R150 million respectively. A new corporate note for R300 million was issued (HPF12) and will mature in March 2024.

On 19 December 2019, the Fund issued corporate note HPF13 for R800 million for five years in order to refinance the Standard Bank Term A facility that was maturing on 31 August 2020, and to fund capital expenditure incurred for the current year.

12. Interest-bearing borrowings continued

The Group's facilities of R2.95 billion and the total drawn down facilities of R2.55 billion are secured in terms of a first mortgage bond over investment properties valued at R10.0 billion (2019: R11.5 billion). The current limit of the borrowing powers in terms of the JSE Listings Requirements amounts to R6.0 billion (2019: R7.2 billion), of which R2.55 billion (2019: R1.94 billion) has been utilised. Included as part of trade and other payables (note 13) is interest accrued of R0.1 million (2019: R19 million) relating to the abovementioned interest-bearing liabilities. The unamortised portion of the debt raising fee amounted to R3.3 million (2019: R2.6 million).

Loan to value ('LTV')

The LTV as at 31 March 2020 is required to be 45% (2019: 45%) or lower.

As at 31 March 2020, the Group's LTV was 26% (2019: 16%).

Interest cover ratio ('ICR')

The ICR requirement for the year ended 31 March 2020 is a minimum of 2.0 times.

For the year ended 31 March 2020, the Group ICR cover was 3.7 times (2019: 4.5 times).

Net debt to EBITDA

The net debt to EBITDA requirement for the year ended 31 March 2020 is a maximum of 3.5 times.

For the year ended 31 March 2020, the Group net debt to EBITDA was 3.2 times (2019: 2.5 times).

Net debt reconciliation

This section sets out an analysis of the net debt and movements in debt for each of the periods presented.

	Cash R'000	Borrowings R'000
Net debt as at 31 March 2018	390 591	1 940 000
Cash received	–	–
Cash paid	(295 309)	–
Other non-cash movements (capitalised prepaid borrowing costs)	–	–
Net debt as at 31 March 2019	**95 282**	**1 940 000**
Cash received	**195 293**	**2 080 000**
Cash paid	**–**	**(1 470 000)**
Other non-cash movements (capitalised prepaid borrowing costs)	**–**	**–**
Net debt as at 31 March 2020	**290 575**	**2 550 000**

Notes to the consolidated financial statements continued

	2020 R'000	2019 R'000
12. Interest-bearing borrowings continued		
Financial liabilities measured at amortised cost		
Bank borrowings	**850 000**	1 050 000
Corporate bonds (domestic medium-term note programme)	**1 700 000**	890 000
	2 550 000	1 940 000
Less: Facility raising fees	**(3 394)**	(2 642)
	2 546 606	1 937 358
13. Trade and other payables		
Trade payables	**21 422**	12 543
Accrued interest	**116**	19 247
Tenant deposits	**2 374**	1 977
Short-term incentive	**4 314**	4 169
Operator loans	**15 356**	14 505
Other payables	**26 115**	26 778
	69 697	79 219
14. Revenue		
Contractual rental income		
– Fixed	**517 112**	497 611
– Variable	**250 583**	330 020
Rental income – straight-line accrual	**(51)**	155
	767 644	827 786
15. Reconciliation between earnings and headline earnings		
Total profit for the year	**(1 988 171)**	(194 095)
Adjustments:		–
Profit on sale of furniture, fittings and equipment	**(173)**	–
Fair value – investment properties revaluation	**2 461 269**	787 569
Straight-line adjustment	**51**	(155)
Headline earnings (shares)	**472 976**	593 319
Number of shares in issue ('000)	**577 591**	575 214
Weighted average number of shares in issue ('000)	**577 591**	575 214
Earnings and diluted earnings per share (cents)	**(344.22)**	(33.74)
Headline earnings and diluted headline earnings per share (cents)	**81.88**	103.15

16. Operating segments

Information regarding the results of each reportable segment is included below. Performance is measured based on operating profit including other income before finance costs (segmental profit), as included in the internal management reports that are reviewed by the Group's executive committee. Segment profit is used to measure performance as the Group's executive committee, who are the chief operating decision-makers, believe that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Intersegment pricing is determined on an arm's length basis. Generally, geographical segments are used to measure performance as the Group's executive committee 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 2018 year. SUN1 is disclosed as a separate segment as the grading is different to the existing portfolio.

	2020 R'000	2019 R'000
Total assets		
Western Cape	**4 474 900**	5 087 453
Gauteng	**2 776 883**	3 603 185
Rest of South Africa	**2 076 900**	2 493 286
SUN1	**650 300**	839 990
Head office	**364 041**	242 683
	10 343 024	12 266 597
Rental revenue		
Western Cape	**308 428**	312 387
Gauteng	**231 396**	266 785
Rest of South Africa	**175 152**	186 438
SUN1	**52 668**	62 176
	767 644	827 786
Operating profit and other income for the period		
Western Cape	**305 844**	312 387
Gauteng	**222 252**	266 785
Rest of South Africa	**175 152**	186 438
SUN1	**52 668**	62 176
Head office income	**1 665**	1 767
Head office expense	**(39 384)**	(76 096)
	718 197	753 457
Reconciliation of headline earnings to distributable earnings		
Headline earnings (shares)	**472 976**	593 319
Insurance proceeds	**(1 088)**	(655)
Fair value – interest rate swaps	**50 040**	(6 094)
Income tax expense	**–**	(191)
Exceptional transaction costs	**–**	19 834
Distributable earnings[1]	**521 928**	606 213

[1] *Distributable earnings are defined as per the JSE Listings Requirements.*

Please refer to note 21 on dividends declared in the year and note 26.3, where the percentage of revenue from the Group's largest customer is disclosed.

Notes to the consolidated financial statements continued

	2020 R'000	2019 R'000
17. Operating profit		
Operating profit is stated after charging the following:		
Auditor's remuneration – external	**2 597**	3 176
– Audit fees	**2 997**	1 862
– Audit fee – prior year	**(400)**	313
– Non-audit-related fees	**–**	1 001
Auditor's remuneration – internal	**25**	873
Management fee paid	**(83)**	289
Executive directors' and employee remuneration	**20 520**	20 767
Transaction costs	**–**	19 834
Non-executive directors' remuneration	**3 127**	3 981
Legal fees	**1 203**	3 437
Other	**23 723**	23 739
Cost to income ratio[1]		
Total revenue	**767 644**	829 553
Total head office costs	**51 112**	76 096
Percentage of revenue (%)	**6.66**	9.17

[1] *The cost to income ratio has been disclosed in accordance with the accepted REIT best practice. This ratio is not directly comparable to other REITs as the property-related expenditure is paid by the tenant in most instances.*

	2020 R'000	2019 R'000
18. Net finance costs		
Finance income		
Bank and other cash	**11 069**	17 206
Finance costs		
Interest-bearing liabilities	**(206 509)**	(184 194)
	(195 440)	(166 988)
19. Other non-operating gains/(losses)		
Gains on disposal of furniture, fittings and equipment	**(173)**	109
Fair value (losses)/gains	**(2 511 309)**	(781 475)
– Investment properties	**(2 461 269)**	(787 569)
– Derivatives	**(50 040)**	6 094
Total other non-operating losses	**(2 511 482)**	(781 366)

	2020 R'000	2019 R'000
20. Reconciliation of taxation expense		
Profit before tax	**(556 688)**	(54 602)
Straight-lining adjustment	**(14)**	43
Equity-accounted profit from associate	**58**	202
Fair valuation of investment property	**689 170**	220 432
Fair valuation of swaps	**14 011**	(1 706)
Insurance proceeds	**(305)**	(183)
Transaction costs	**–**	5 554
Dividend (qualifying distribution)	**(146 232)**	(169 740)
Tax expense	**–**	–
Current tax – under/(over) provision prior year	**–**	(191)
	–	(191)

The Group has no liability for normal taxation as all profits are paid out as a dividend (qualifying distribution) and shareholders are consequently subject to tax according to the individual shareholder's tax status.

	2020 R'000	2019 R'000
21. Dividends declared		
Ordinary		
Final dividend	**–**	451 771
Interim dividend	**204 458**	237 123
Shareholder appraisal rights dividend	**10 663**	–
	215 121	688 894
Final dividend declared on	**–**	23 May 2018
Final dividend paid on	**–**	18 June 2018
Final dividend cents per share	**–**	78.46 cents
Shareholder appraisal rights dividend paid on	**7 August 2019**	–
Shareholder appraisal rights dividend per total number of shares	**1.85 cents**	–
Interim dividend declared on	**20 November 2019**	21 November 2018
Interim dividend paid on	**17 December 2019**	18 December 2018
Interim dividend cents per share	**35.40**	41.22
Reconciliation to the statement of change in equity		
Final dividend declared (refer note 27)	**–**	451 771
Employee Incentive Trust inter-company dividend eliminated on consolidation	**–**	(441)
Final dividend per statement of change in equity	**–**	451 330
Interim dividend declared	**204 458**	237 123
Interim dividend per statement of change in equity	**204 458**	237 123

Notes to the consolidated financial statements continued

	2020 R'000	2019 R'000
22. Cash generated from operations		
Loss before tax	**(1 988 379)**	(195 006)
Adjustments for:		
Amortisation and depreciation	**85**	116
Profit on disposal of furniture, fittings and equipment	**(173)**	–
Straight-lining accrual of rent	**51**	(155)
Interest income	**(11 069)**	(17 206)
Finance costs	**206 509**	184 194
Fair value adjustments	**2 511 360**	781 475
Other non-cash items	**245**	1 477
Changes in working capital		
Trade and other receivables	**72 031**	(10 595)
Trade and other payables	**(10 274)**	27 300
LTI liability	**859**	(120)
	781 245	771 480

23. Commitments

Until the impact of the Covid-19 pandemic has been determined, limited capital expenditure will be incurred. At year end, R34 million (2019: R32 million) of capital expenditure was committed and contracted for.

24. Related parties

Hosken Consolidated Investments Limited (HCI)	Ultimate holding company
Tsogo Sun Hotels Limited	Holding company of Tsogo Sun Investments Proprietary Limited
Tsogo Sun Investments Proprietary Limited	Holding company
HPF Properties Proprietary Limited	100% subsidiary
HPF Management Proprietary Limited	100% subsidiary
Hospitality Property Fund Managers Proprietary Limited	100% subsidiary
Hosbrook Ventures Proprietary Limited	100% subsidiary
NIB 35 Proprietary Limited	100% subsidiary
Fezisource Proprietary Limited	100% subsidiary
Merway Fifth Investments Proprietary Limited	100% subsidiary
The Cullinan Hotel Proprietary Limited	100% subsidiary
HPF Employee Incentive Trust	Key staff benefit structure (no longer operational)
Tsogo Sun Gaming Limited	Subsidiary of HCI
Vexicure is a subsidiary of Pan-African Capital Holdings Proprietary Limited (80% held). HPF Properties Proprietary Limited owns a 5% shareholding in the Company. M de Lima, R Erasmus, N Khan and Z Kubukeli are directors of Vexicure. Vexicure leases the Westin Cape Town Hotel from the Group. Vexicure is accounted for as an associate entity.	Vexicure Proprietary Limited
HPF Properties Proprietary Limited owns 15% of Ash Brook. M de Lima, R Erasmus and M Madumise are directors of Ash Brook. The Company is accounted for as an associate entity. Ash Brook leases the Radisson Blu Gautrain Hotel from HPF Properties.	Ash Brook Investments 72 Proprietary Limited
The HPF Employee Incentive Trust is a separate legal entity, which owns shares in Hospitality Property Fund Limited. DG Bowden, GA Nelson and R Erasmus are trustees of the trust.	HPF Employee Incentive Trust
HPF Properties Proprietary Limited leases the Crowne Plaza Rosebank and the Holiday Inn Sandton to Majormatic 194 Proprietary Limited which is a subsidiary of Tsogo Sun Hotels Limited.	Majormatic 194 Proprietary Limited
Fezisource Proprietary Limited, Merway Fifth Investments Proprietary Limited and The Cullinan Hotel Proprietary Limited lease property to Reshub Proprietary Limited which is a subsidiary of Southern Sun Hotels Proprietary Limited. On 1 April 2019, these properties have been transferred in terms of an amalgamation agreement to HPF Properties Proprietary Limited.	Reshub Proprietary Limited

	2020 R'000	2019 R'000
24. Related parties continued		
Related-party transactions and balances		
Associates		
Vexicure Proprietary Limited		
Rental received	**107 984**	91 527
Dividend received	**–**	700
Trade and other receivables	**–**	13 070
Trade and other payables	**11 437**	6 192
Tenant deposit and guarantee held as security on leases	**181**	181
Ash Brook Investments 72 Proprietary Limited		
Rental received	**25 177**	29 045
Trade and other (payables)/receivables	**(182)**	1 124
Tenant deposit and guarantee held as security on leases	**1 746**	1 746

All related party transactions were done at arm's length.

	2020 R'000	2019 R'000
Reshub Proprietary Limited		
Rental received	**412 117**	402 664
Trade and other (payables)/receivables	**(11 616)**	39 785
Majormatic 194 Proprietary Limited		
Rental received	**42 655**	36 918
Trade and other (payables)/receivables	**(3 721)**	2 870

	Salaries R'000	Benefits R'000	Bonus[2] R'000	Share incentive scheme R'000	Total R'000
25. Directors' emoluments					
Executive					
2020					
JR Nicolella (previous CEO – resigned 1 June 2019)[1]	**249**	**–**	**–**	**–**	**249**
MR de Lima (CEO – appointed 1 June 2019)	**2 254**	**403**	**931**	**133**	**3 721**
R Erasmus (FD – appointed 1 June 2019)	**1 399**	**237**	**687**	**125**	**2 448**
	3 902	**640**	**1 618**	**258**	**6 418**

[1] Upon JR Nicolella's resignation, he was appointed a non-executive director.
[2] Provision approved related to current financial year.

	Salaries R'000	Benefits R'000	Bonus R'000	Share incentive scheme R'000	Total R'000
2019					
KG Randall (previous CEO – resigned 1 November 2018)[1]	2 548	463	1 439	370	4 820
JR Nicolella (CEO – appointed 1 November 2018)	542	–	–	–	542
MR de Lima (CFO)	1 654	424	862	62	3 002
	4 744	887	2 301	432	8 364

[1] Upon his resignation on 1 November 2018, KG Randall was appointed as the Chief Operating Officer of the Group. Being a member of key management (executive decision-maker), emoluments for the full 12 months have been disclosed.

Notes to the consolidated financial statements continued

	Directors' fees R'000	Total R'000
25. Directors' emoluments continued		
Non-executive		
2020		
JA Copelyn (resigned 31 May 2019)	**77**	**77**
SA Halliday (resigned 31 May 2019)	**71**	**71**
GA Nelson (resigned 31 May 2019)	**76**	**76**
MN von Aulock	**402**	**402**
L McDonald	**278**	**278**
ZJ Kganyago (resigned 31 May 2019)	**45**	**45**
JR Nicolella	**226**	**226**
MH Ahmed	**492**	**492**
MSI Gani (resigned 31 May 2019)	**74**	**74**
LM Molefi# (appointed 1 June 2019)	**318**	**318**
JG Ngcobo# (appointed 1 June 2019)	**318**	**318**
SC Gina# (appointed 1 June 2019)	**234**	**234**
CC September# (appointed 15 August 2019)	**170**	**170**
	2 781	**2 781**
2019		
JA Copelyn	407	407
DG Bowden*	359	359
ZN Malinga*	210	210
SA Halliday	366	366
GA Nelson	278	278
ZN Kubukeli*	291	291
MN von Aulock	64	64
J Booysen*	213	213
L McDonald	256	256
ZJ Kganyago	256	256
JR Nicolella	150	150
RB Huddy	22	22
MH Ahmed	166	166
MSI Gani	399	399
	3 437	3 437

** Resigned prior to 31 March 2019.*
 # Not part of the directorate.

Fees are exclusive of VAT.

	Salaries R'000	Benefits R'000	Bonus R'000	Share incentive scheme R'000	Total R'000
25. Directors' emoluments continued					
Payments to directors borne by Group companies					
2020					
MN von Aulock	**7 358**	**594**	**2 678**	**3 439**	**14 069**
L McDonald	**2 428**	**436**	**1 000**	**709**	**4 573**
ZJ Kganyago (resigned 31 May 2019)	**454**	**63**	**999**	**–**	**1 516**
2019					
MN von Aulock	5 191	435	–	–	5 626
J Booysen	6 997	836	2 562	1 138	11 533
L McDonald	1 627	324	469	350	2 770
ZJ Kganyago	2 561	364	655	–	3 580
JR Nicolella (CEO)	1 421	37	2 028	162	3 648

25.1 Equity and cash-settled – Tsogo Sun and Hospitality Property Fund Share Appreciation Bonus Plan

The Tsogo Sun Share Bonus Plan is a bonus scheme whereby participants receive shares, the number of which are determined with reference to the growth in the share price of Tsogo Sun Hotels Limited. Allocations vest in full three years after date of allocation.

The HPF Appreciation Bonus Plan is a bonus scheme whereby participants receive cash bonuses, the amounts of which are determined with reference to the growth in the Company's share price. Participants under this bonus appreciation plan are not entitled to take up shares or options. Allocations vest in full three years after date of allocation.

The fair value is expensed over the period as services are rendered by the employees. In terms of the rules, the allocation price of the payments are determined using the seven-day volume weighted average trading price of the Company's share prior to the determination of the fair value of the long-term incentive bonus. The following is pertinent to this bonus plan:

Tsogo Sun Hotels Share Appreciation Bonus Plan

	2020	2019
Average share price utilised to value the liability (R)	**5.46**	23.5
Number of appreciation units granted and outstanding ('000)	**2 066**	844
Number of appreciation units vested and outstanding ('000)	**1 594**	709

The Group recognised an expense of R0.9 million (2019: R0.1 million income) related to this bonus appreciation plan during the year and at 31 March 2020, the Group had recorded liabilities of R2.7 million (2019: R1.9 million) in respect of this plan. The current portion of this liability is R1.4 million (2019: R1.4 million).

Notes to the consolidated financial statements continued

25. Directors' emoluments continued

25.1 Equity and cash-settled – Tsogo Sun and Hospitality Property Fund Share Appreciation Bonus Plan continued

Hospitality Property Fund Share Appreciation Bonus Plan

The Group recognised an expense of Rnil (2019: R0.2 million) related to this bonus appreciation plan during the year and at 31 March 2020, the Group had recorded liabilities of Rnil (2019: R0.2 million) in respect of this plan. The current portion of this liability is Rnil (2019: Rnil). The strike price at grant date amounted to R9.78 per share for the current year's allocation.

	2020 R'000	2019 R'000
Average share price utilised to value the liability (R)	**9.78**	11.85
Number of appreciation units granted and outstanding ('000)	**828**	802
Number of appreciation units vested and outstanding ('000)	**–**	–
25.2 Total long-term incentive liabilities		
Opening balance	**1 865**	1 985
Charge to P&L	**859**	312
Cash-settled, share-based, long-term incentive plan	**–**	(432)
	2 724	1 865
Less: Current portion	**1 387**	1 419
Non-current portion	**1 337**	446

26. Financial risk management and further financial instrument disclosures

Financial instruments consist mainly of deposits with banks, trade and other receivables, loans from banks, debentures, trade and other payables and interest rate swaps. Exposure to interest rate, liquidity and credit risks arises in the normal course of business.

Treasury policy

The Group enters into derivative transactions such as interest rate swaps in order to help manage the financial risks arising from the Group's activities. The main risks arising from the entity's financing structure are market risk (in the form of interest rate risk) and liquidity risk. The policies for managing each of these risks and the principal effect of these policies on the results for the year are summarised below.

26.1 Interest rate risk

Management continuously monitors the Group's exposure to interest rate volatility and determines the interest rate policy in this regard. Short-term debtors and creditors are not exposed to interest rate risk. As a consequence, the Group is exposed to cash flow risk in respect of variable rate financial instruments.

The Group's debt carries floating interest rates; however, the Group's current policy is to keep 40% to 70% of its borrowings on a fixed basis. Interest rate swaps have been entered into to achieve an appropriate mix of fixed and floating rate exposure. The interest rate swaps are not designated as cash flow hedges for accounting purposes and thus any changes in the fair value of the interest rate swaps at the date of reporting to the interest rate at the date of reporting would affect profit or loss but, as these gains or losses are not available for distribution, they would be transferred to a non-distributable reserve.

26. Financial risk management and further financial instrument disclosures continued

26.1 Interest rate risk continued

The interest rate exposure of the Group to interest-bearing financial instruments is as follows:

	Nominal value Group	
	2020 R'000	2019 R'000
Variable rate instrument		
Financial liabilities[1]	**(2 546 606)**	(1 937 358)
	(2 546 606)	(1 937 358)
Effect of interest rate swaps	**1 600 000**	1 100 000
	(946 606)	(837 358)

[1] *Prepaid debt raising fees of R3.4 million (2019: R2.6 million) have been included.*

At the reporting date, the following interest rate swap agreements were in place:

	Nominal rate	Commencement date	Maturity	Nominal value R'000	**Fair value at 31 March 2020 R'000**	Fair value at 31 March 2019 R'000
ABSA Limited – swap 1	7.42%	Feb-19	Mar-22	300 000	**(12 206)**	(199)
ABSA Limited – swap 2	7.24%	Aug-17	Jun-22	500 000	**(19 950)**	(1 772)
Nedbank Limited – swap 1	7.16%	Feb-18	Mar-23	300 000	**(12 661)**	1 783
Rand Merchant Bank – swap 1	6.69%	Jan-20	Sep-24	500 000	**(5 412)**	–
				1 600 000	**(50 229)**	(188)

Negative value denotes that swap is in the bank's favour.

Derivative asset/liability

	Non-current R'000	**Current R'000**	**Fair value at 31 March 2020 R'000**	Non-current R'000	Current R'000	Fair value at 31 March 2019 R'000
Derivative asset	**–**	**–**	**–**	1 783	–	1 783
Derivative liability	**(50 229)**	**–**	**(50 229)**	(1 971)	–	(1 971)
	(50 229)	**–**	**(50 229)**	(188)	–	(188)

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates would have increased/decreased profit or loss by R8.9 million (2019: R9 million), including the effects of interest rate swaps. This analysis assumes that all the other variables remain constant.

Notes to the consolidated financial statements continued

26. Financial risk management and further financial instrument disclosures continued

26.2 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet a financial commitment as it falls due. Cash flows are regularly monitored to ensure that cash resources are adequate to meet funding commitments. The Group's policy is to seek to optimise its exposure to liquidity risk by balancing its exposure to interest rate risk and to refinancing risk. In effect, the entity seeks to borrow for as long as possible at the lowest acceptable cost.

The Group regularly reviews the maturity profile of its financial liabilities and seeks to avoid a concentration of maturities through the regular replacement of facilities and by using a selection of maturity dates. Re-financing risk may be reduced by reborrowing prior to the contracted maturity date, effectively switching liquidity risk for market risk.

The following are the contractual maturities of financial liabilities including finance costs. All financial liabilities, with the exception of derivative liabilities measured at fair value, are measured and carried at amortised cost.

	Carrying amount R'000	0 – 12 months R'000	1 – 5 years R'000	More than 5 years R'000
Group 31 March 2020				
Interest-bearing liabilities	**2 879 755**	**195 223**	**2 684 532**	**–**
Derivative liability	**50 229**	**–**	**50 229**	**–**
Trade and other payables	**69 697**	**69 697**	**–**	**–**
	2 999 681	**264 920**	**2 734 761**	**–**
Group 31 March 2019				
Interest-bearing liabilities	2 816 775	471 928	2 344 847	–
Derivative liability	1 971	–	1 971	–
Trade and other payables	79 219	79 219	–	–
	2 897 965	551 147	2 346 818	–

It is not expected that the cash flows from the above instruments would occur significantly earlier than presented.

The Company's borrowings are limited by its Memorandum of Incorporation and in terms of JSE Listings Requirements to 60% of the directors' bona fide valuation of the consolidated property portfolio.

The Company's utilised borrowing capacity at year end can be summarised as follows:

	31 March 2020 R'000	31 March 2019 R'000
Property valuation	**9 978 983**	12 023 914
60% thereof	**5 987 389**	7 214 348
Effective borrowings	**2 546 606**	1 937 358
Unutilised borrowing capacity	**3 440 783**	5 276 990
Facilities available in terms of agreements at year end	**2 950 000**	2 440 000
Undrawn facilities	**403 394**	502 642
Gearing ratio	**25.5**	16.1

26. Financial risk management and further financial instrument disclosures continued

26.3 Credit risk

Credit risk arises from the risk that trade receivables may default and result in a loss to the entity. The entity has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral (in the form of cash deposits and bank guarantees), where appropriate, as a means of mitigating the risk of financial loss from default. Financial performance of the tenants' business is monitored on an ongoing basis.

	Properties	Income %	Receivable/ (payable)* R'000
Concentration risk			
2020			
– Tenant 1	**42**	**57**	**(15 337)**
– Tenant 2	**7**	**21**	**(10 389)**
– Tenant 3	**2**	**7**	**1 744**
– Balance	**3**	**15**	**(2 009)**
	54	**100**	**(25 991)**
2019			
– Tenant 1	41	58	42 655
– Tenant 2	7	20	14 321
– Tenant 3	2	7	5 833
– Balance	3	15	13 116
	53	100	75 925

** Due to the negative impact of Covid-19 (as explained in note 27) on the performance of the various tenants in March 2020, variable rental earned during the year is due back to tenants as the leases are fixed and variable.*

In terms of the entity structure, there is a concentration risk in terms of the revenues earned and the resultant receivables. Management receives comprehensive monthly management reports and attends the monthly meeting with the hotel operators in order to monitor performance and identify elements of credit risk.

26.3.1 Credit exposure

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Group 2020 R'000	Group 2019 R'000
Cash and cash equivalents	**290 575**	95 282
Trade receivables	**26 709**	75 925
Deposits	**377**	378
Operator loans	**25 300**	24 315
Other receivables	**9 111**	14 612
Guarantees	**3 341**	20 658
Sundry debtors	**2 620**	1 269
	358 033	232 439
Tenant deposits	**33 174**	32 776
Bank guarantees	**30 800**	30 800

The Group holds deposits over certain trade and other receivables in the form of cash tenant deposits and bank guarantees as indicated above.

The directors are of the opinion that the financial assets have an insignificant credit risk.

Notes to the consolidated financial statements continued

26. Financial risk management and further financial instrument disclosures continued

26.3 Credit risk continued

26.3.1 Credit exposure continued

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only Group audit and risk committee approved parties are accepted (on behalf of the Board). The Group has policies that limit the amount of credit exposure to any bank and financial institution. The Group limits its exposure to banks and financial institutions by setting credit limits based on their credit ratings and generally only with counterparties with a minimum credit rating of BBB by Standard & Poor's and Baa3 from Moody's. For banks with a lower credit rating, or with no international credit rating, limits are set by the audit and risk committee on behalf of the Board. The utilisation of credit limits is regularly monitored.

Operator loans and receivable

The Company does not require collateral for these loans. The Company accounts for credit risk by providing on a timely basis, which historically has been insignificant. In calculating expected loss rates the Company would consider historic loss rates and forward-looking information. Each loan is monitored individually. Before a loan is advanced, appropriate credit procedures are followed.

26.3.2 Impairment losses

The ageing of tenant and related receivables at the reporting date was:

	Gross carrying amount 31 March 2020 R'000	Gross carrying amount 31 March 2019 R'000
Current (< 30 days)	**25 487**	95 524
Past due but not yet impaired (30 to 60 days)	**(645)**	3 584
Past due but not yet impaired (60 to 90 days)	**1 163**	1
> 90 days	**41 454**	38 048
Total	**67 459**	137 157

Of the total over 90 days, only R0.7 million (2019: R0.3 million) is past due, with R25 million (2019: R24 million) relating to operator loans and the balance relating to various receivables from numerous debtors.

Due to the structure of the leases, tenant and related receivables as noted above are continuously assessed for impairment. There is no current indication of any default by any of the above receivables at year end. In total, R0.1 million of receivables have been written off as at 31 March 2020.

The Group comprehensively assesses the individual circumstances and credit risk of each tenant and receivable on a continuous basis and an impairment loss is recognised after the assessment indicates that recoverability is unlikely.

Management has assessed the credit quality of tenants and related receivables as being of low risk.

26. Financial risk management and further financial instrument disclosures continued

26.4 Capital structure

The entity seeks to enhance shareholder value by both investing in the business so as to improve the return on investment and by managing the capital structure. The entity uses a mix of equity and debt financial instruments and aims to access both debt and equity capital markets with maximum efficiency and flexibility. The key ratios used to monitor the capital structure are the debt to assets ratio and the interest coverage ratio. Notwithstanding the fact that the entity's total liabilities are limited by the JSE Limited Listings Requirements for REITs at 60% of total assets, the current strategy is to maintain debt levels below 40% of the total investment properties portfolio as per the current loan agreements in place.

	31 March 2020 R'000	31 March 2019 R'000
Stated capital	**9 051 194**	9 027 065
Total capital	**9 051 194**	9 027 065
Total interest-bearing liabilities[1]	**2 550 000**	1 940 000

[1] *The unamortised portion of the debt raising fee amounted to R3.4 million (2019: R2.6 million) at year end.*

The above capital and interest-bearing liabilities are employed to acquire investment properties for the Group.

26.5 Carrying amounts and fair values of financial instruments

	Derivative financial asset R'000	**Derivative financial liability R'000**	**Financial assets at amortised cost R'000**	**Financial liabilities at amortised cost R'000**
Group 2020				
Financial asset				
Trade and other receivables	**–**	**–**	**67 459**	**–**
Cash and cash equivalents	**–**	**–**	**290 575**	**–**
Financial liabilities				
Derivative liability	**–**	**50 229**	**–**	**–**
Trade and other payables	**–**	**–**	**–**	**69 697**
Interest-bearing liabilities	**–**	**–**	**–**	**2 550 000**
Group 2019				
Financial asset				
Derivative asset	1 783	–	–	–
Trade and other receivables	–	–	137 157	–
Cash and cash equivalents	–	–	95 282	–
Financial liabilities				
Derivative liability	–	1 971	–	–
Trade and other payables	–	–	–	79 219
Interest-bearing liabilities	–	–	–	1 940 000

Notes to the consolidated financial statements continued

26. Financial risk management and further financial instrument disclosures continued

26.5 Carrying amounts and fair values of financial instruments continued

The carrying amounts of trade and other receivables, cash and cash equivalents and trade and other payables reflected in the statement of financial position approximate the fair value.

The following summarises the significant methods and assumptions used in estimating the fair value of financial instruments. Where applicable, the fair values of financial assets and liabilities have been established using the market value, where available. For those instruments without a market value, a discounted cash flow approach is used.

Derivatives

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the reporting date.

Non-derivative financial liabilities

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Trade and other payables

The carrying amount of trade and other payables reasonably approximates its fair value due to their short-term nature.

Trade and other receivables

The carrying amount of trade and other receivables reasonably approximates its fair value due to their short-term nature.

Cash and cash equivalents

The carrying amount of cash and cash equivalents approximates its fair value due to their short-term nature.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
31 March 2020				
Derivative financial assets	–	–	–	–
Derivative financial liabilities	–	50 229	–	50 229
	–	50 229	–	50 229
31 March 2019				
Derivative financial assets	–	1 783	–	1 783
Derivative financial liabilities	–	(1 971)	–	(1 971)
	–	(188)	–	(188)

There were no defaults on loans payable by Group and the Company during the year.

27. Subsequent events, going concern and Covid-19

Covid-19

The Covid-19 pandemic ('Covid-19') and subsequent lockdown of the economy on 27 March 2020, and particularly, the hospitality sector, has had a profound impact on the Group. The Group's portfolio comprises 54 hotels operating in the hospitality sector, which is one of the industries that has been impacted negatively as a result of Covid-19.

The measures taken by government to limit the spread of Covid-19 and the resultant inability for travellers to travel internationally and inter-provincially will limit the demand for hotel rooms, which will impact the Group's revenue stream significantly for the 2021 financial year. Hotel trading is therefore expected to remain under pressure until the outlook on the South African economy improves.

Although the impact of Covid-19 is expected to have a longer-term impact on the hospitality industry and the Group, management is not able to quantify the full impact at the date of this report. It is expected that the recovery of the industry will be slow due to the uncertainties around the health of travellers, and the negative economic impact on government, corporates and individuals to spend on hotel accommodation and conferences.

As the Group's properties are required to be closed, the inability to generate revenue during the lockdown period, together with the expected slow recovery once the hotels can open and operate, the Group will not be able to meet its net debt to EBITDA covenant requirement (and possibly interest cover ratio) in terms of its funding agreements for the measurement period 30 September 2020 and possibly 31 March 2021. The Group's gearing levels remain manageable, with the loan-to-value ratio at 26% at 31 March 2020.

Subsequent events

The Group's property valuation methodology incorporates the use of the South African Government bond yield 10Y. As at 31 March 2020, the rate applied was 10.50%. As at 26 May 2020, the yield has reduced to 9.01%, however, this would be offset by an increase in the risk premium due to the sentiment and uncertainty in the market. These are considered non-adjusting subsequent events.

Going concern

In order to partially reduce the impact of Covid-19 on the Group, the following steps have been implemented to preserve cash and to ensure that the Group can continue to operate as a going concern:

- capital expenditure programme suspended, with only emergency capital expenditures to be considered;
- waiver from lenders on its net debt to EBITDA covenant requirements for the measurement period 30 September 2020, with the request for waiver of the 31 March 2021 to be considered post 30 September 2020;
- the capitalisation of bank funding interest to the Group's revolving credit facilities;
- review of the dividend retention policy;
- the decrease of operating costs, such as salaries and wages through furlough;
- extended payment terms from major creditors; and
- supporting of tenants to ensure their sustainability in terms of the lease agreements in place.

At the date of the annual financial statements, the lenders are not able to provide waivers on the minimum covenant requirements for the measurement period ending 31 March 2021. This will only be considered post 30 September 2020 and management has no reason to believe that the necessary waivers will not be granted.

At year end, cash and undrawn facilities amounted to R691 million, which will provide sufficient liquidity to the Group over the next 12 months. Through engagements with the Group's lenders, regular updates on operations and cash flow forecasts, lenders have noted their support to the Group. Management is of the view that the Group will continue to operate as a going concern in a responsible and sustainable manner.

Notes to the consolidated financial statements continued

	Valuation %	Gross rental income %	Number of rooms* %
28. Property portfolio information			
2020			
Lease expiry profile			
One year	**7**	**8**	**9**
Two to five years	**9**	**12**	**12**
After five years	**84**	**80**	**79**
	100	**100**	**100**
2019			
Lease expiry profile			
One year	–	–	–
Two to five years	19	22	23
After five years	81	78	77
	100	100	100

** Indicates number of rooms at 31 March 2020 and does not account for pro rata ownership where HPF owns less than 100% of a specific hotel.*

	Gross rental income %	Number of rooms* %
2020		
By lease type		
Fixed leases	**1**	**3**
Fixed and variable leases	**99**	**97**
	100	**100**
2019		
By lease type		
Fixed leases	–	–
Fixed and variable leases	100	100
	100	100

** Indicates number of rooms at 31 March 2020 and does not account for pro rata ownership where HPF owns less than 100% of a specific hotel.*

28. Property portfolio information continued

	Average room rate R	Valuation R'000	Gross rental income R	Number of rooms*
2020				
Property grading				
Luxury	**1 916**	**2 234 100**	**148 243 454**	**926**
Upscale	**1 346**	**4 001 063**	**290 744 247**	**3 010**
Midscale	**907**	**3 093 000**	**276 038 578**	**3 800**
Economy	**507**	**650 300**	**52 668 304**	**1 508**
		9 978 463	**767 694 583**	**9 244**
2019				
Property grading				
Luxury	2 047	2 009 934	122 048 934	926
Upscale	1 376	4 875 432	327 698 123	2 216
Midscale	906	4 297 986	315 708 094	4 354
Economy	504	839 990	62 175 561	1 508
		12 023 342	827 630 712	9 004

** Indicates number of rooms at 31 March 2020 and does not account for pro rata ownership where HPF owns less than 100% of a specific hotel.*

	%
Average property yield	
2020*	**6.3**
2019**	6.6

** The 2020 average property yield is determined as follows: F2020 year rental income/investment properties 2019 value.*
*** The 2019 average property yield is determined as follows: F2019 year rental income/investment properties 2018 value.*

Minimum lease rentals receivable

At 31 March 2020, the Group had contracts with tenants for the following minimum lease rentals for periods between 10 and 20 years. The rentals disclosed relate to fixed rentals and do not include variable rentals, escalations or resets.

	2020 R'000	2019 R'000
Less than one year	**294 747**	512 576
Between one and five years	**921 050**	1 789 920
After five years	**2 291 467**	5 054 518
	3 507 264	7 357 014

Details of the property portfolio

at 31 March 2020

Property name	Property title	Hospitality ownership	Property location	Star grading	No of rooms	Agreement type	Lease expiry date	Valuation March 2019 R'000	Acquisitions R'000	Disposals R'000	Capital expenditure R'000	Revaluation surplus/ (deficit) R'000	Valuation March 2020 R'000	Original cost R'000	Capitalised post-acquisition R'000	Total cost March 2019 R'000
Western Cape																
Westin Cape Town	Land lease	Direct	Convention Square, Cape Town, Western Cape	Luxury	483	Fixed and variable lease	12/31/2037	1 712 052		(773)	70 409	(253 688)	**1 528 000**	648 895	257 452	**906 347**
Arabella Hotel, Golf and Spa	Freehold	Direct	Hermanus, Western Cape	Luxury	145	Fixed and variable lease	3/31/2041	128 800			18 518	(18 761)	**128 557**	83 368	70 808	**154 176**
Arabella Phase 2 land	Land	Direct	Hermanus, Western Cape	N/A	N/A	N/A	N/A	22 643			–	–	**22 643**	22 643	–	**22 643**
Southern Sun Cullinan	Freehold	Direct	Waterfront, Cape Town, Western Cape	Upscale	394	Fixed and variable lease	3/31/2037	960 158		(8)	8 704	(140 854)	**828 000**	1 114 108	15 656	**1 129 764**
Southern Sun Waterfront	Freehold	Direct	Waterfront, Cape Town, Western Cape	Upscale	537	Fixed and variable lease	3/31/2037	1 032 457			1 899	(153 256)	**881 100**	1 186 176	14 368	**1 200 544**
Radisson Hotel Waterfront	Sectional title	90 sectional title units	Waterfront, Cape Town, Western Cape	Luxury	177	Fixed and variable lease	8/1/2039	497 120		(300)	11 989	(70 009)	**438 800**	232 963	89 707	**322 670**
Protea Hotel Victoria Junction	Sectional title	147 sectional title units (84% units in the Scheme)	Waterfront, Cape Town, Western Cape	Upscale	172	Fixed and variable lease	1/31/2027	228 362			2 456	(56 318)	**174 500**	122 839	61 896	**184 735**
Southern Sun Newlands	Freehold	Direct	Newlands, Cape Town	Upscale	162	Fixed and variable lease	3/31/2036	173 453			680	(9 933)	**164 200**	160 986	6 071	**167 056**
StayEasy Century City	Freehold	Direct	Milnerton, Cape Town	Midscale	175	Fixed and variable lease	3/31/2036	238 240			2 192	(21 232)	**219 200**	252 288	6 798	**259 086**
Sunsquare Cape Town	Freehold	Direct	Gardens, Cape Town	Midscale	136	Fixed and variable lease	3/31/2036	94 167			992	(5 259)	**89 900**	99 489	5 151	**104 640**
Western Cape total					2 381			5 087 452	–	(1 081)	117 839	(729 310)	**4 474 900**	3 923 755	527 907	**4 451 661**
Gauteng																
Mount Grace Country House and Spa	Freehold	Direct	Magaliesburg, Gauteng	Luxury	121	Fixed and variable lease	1/12/2023	146 439			2 536	(32 875)	**116 100**	131 562	201 337	**332 899**
Southern Sun Rosebank	Freehold	Direct	Rosebank, Johannesburg, Gauteng	Upscale	318	Fixed and variable lease	1/3/2021	310 539		(8)	9 226	(77 257)	**242 500**	70 000	350 209	**420 209**
Holiday Inn Sandton	Freehold	Direct	Sandton, Gauteng	Upscale	301	Fixed and variable lease	1/3/2021	347 059		(28)	2 268	(100 299)	**249 000**	409 247	43 454	**452 701**
Radisson Gautrain	Sectional title	81.54% owned	Sandton, Gauteng	Upscale	220	Fixed and variable lease	31/12/2030	582 345		(2 350)	27 064	(69 896)	**537 163**	458 878	53 886	**512 764**
Southern Sun Katherine Street	Freehold	Direct	Sandton, Gauteng	Upscale	122	Fixed and variable lease	3/31/2037	134 151			557	(43 208)	**91 500**	86 175	1 286	**87 461**
Birchwood Executive Hotel and Conference Centre	Freehold	Direct	Boksburg, Gauteng	Midscale	665	Fixed and variable lease	7/1/2026	846 872			14 315	(375 087)	**486 100**	460 859	107 946	**568 805**
Garden Court OR Tambo	Freehold	Direct	Kempton Park, Johannesburg, Gauteng	Midscale	253	Fixed and variable lease	3/31/2036	391 768		(0)	811	(117 379)	**275 200**	422 122	5 849	**427 971**
Garden Court Milpark	Freehold	Direct	Auckland Park, Johannesburg, Gauteng	Midscale	251	Fixed and variable lease	3/31/2036	306 071		(14)	946	(107 203)	**199 800**	374 652	3 529	**378 181**
Garden Court Morningside	Freehold	Direct	Sandton, Gauteng	Midscale	150	Fixed and variable lease	3/31/2037	162 562			955	(51 317)	**112 200**	171 334	1 782	**173 116**
Garden Court Hatfield	Freehold	Direct	Hatfield Pretoria, Gauteng	Midscale	157	Fixed and variable lease	3/31/2037	187 172			11 221	(44 493)	**153 900**	170 266	13 818	**184 084**
Garden Court Eastgate	Freehold	Direct	Bruma, Johannesburg, Gauteng	Midscale	157	Fixed and variable lease	3/31/2037	87 225			394	(41 619)	**46 000**	151 389	735	**152 124**
StayEasy Eastgate	Freehold	Direct	Bruma, Johannesburg, Gauteng	Midscale	135	Fixed and variable lease	3/31/2037	34 811			346	(20 557)	**14 600**	86 423	705	**87 128**
Kopanong Hotel and Conference Centre	Sectional title	68% owned	Benoni, Gauteng	Midscale	169	Fixed and variable lease	11/30/2023	65 600			1 187	(14 487)	**52 300**	78 130	9 655	**87 785**
Southern Sun Pretoria	Freehold	Direct	Pretoria Arcadia, Gauteng	Upscale	240	Fixed lease	6/30/2028	–	200 000		–	–	**200 000**	200 000	–	**200 000**
Gauteng total					3 259			3 602 614	200 000	(2 400)	71 824	(1 095 675)	**2 776 363**	3 271 037	794 189	**4 065 227**

Details of the property portfolio continued

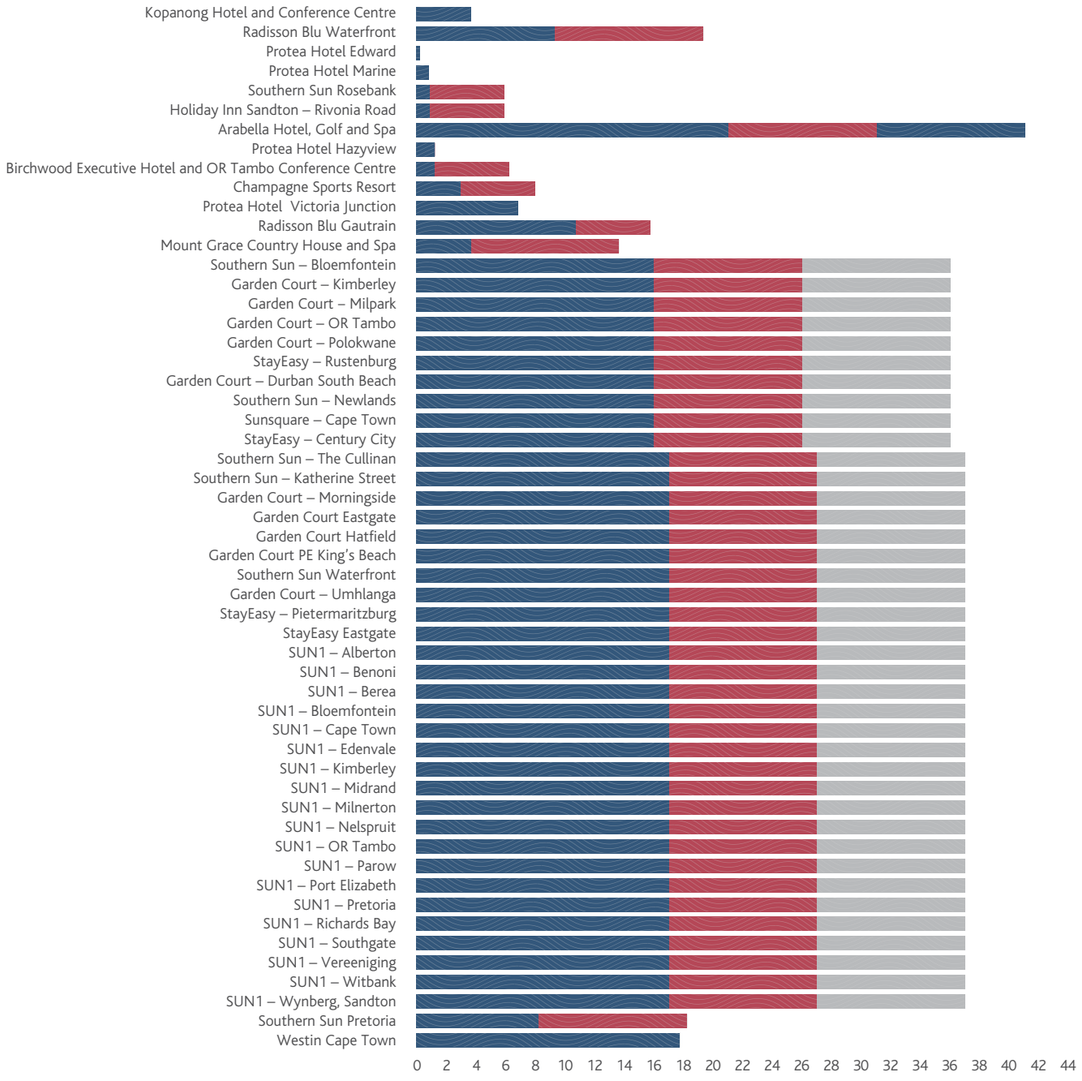
at 31 March 2020

Property name	Property title	Hospitality ownership	Property location	Star grading	No of rooms	Agreement type	Lease expiry date	Valuation March 2019 R'000	Acquisitions R'000	Disposals R'000	Capital expenditure R'000	Revaluation surplus/ (deficit) R'000	Valuation March 2020 R'000	Original cost R'000	Capitalised post-acquisition R'000	Total cost March 2019 R'000
Remainder of South Africa																
Champagne Sports Resort	Freehold	Combined share block and direct	Central Berg, KwaZulu-Natal	Upscale	152	Fixed lease agreement	31/3/2023	246 280			5 293	37 127	**288 700**	148 792	84 467	**233 259**
Southern Sun Bloemfontein	Freehold	Direct	Bloemfontein	Upscale	147	Fixed and variable lease	3/31/2036	103 602			1 174	(7 576)	**97 200**	148 676	3 015	**151 691**
Protea Edward	Freehold	Direct	OR Tambo Parade Drive, Durban	Upscale	131	Fixed and variable lease	7/1/2020	172 241			2 725	(32 266)	**142 700**	110 400	53 704	**164 104**
Protea Hotel Marine	Freehold	Direct	Port Elizabeth, Eastern Cape	Upscale	114	Fixed and variable lease	2/1/2021	87 665			3 064	13 771	**104 500**	73 000	55 178	**128 178**
Garden Court South Beach	Freehold	Direct	South Beach, Durban	Midscale	414	Fixed and variable lease	3/31/2036	541 969		(87)	5 660	(152 242)	**395 300**	592 637	19 487	**612 124**
Garden Court Polokwane	Freehold	Direct	Polokwane	Midscale	180	Fixed and variable lease	3/31/2036	254 344			552	(40 996)	**213 900**	292 050	3 090	**295 140**
Garden Court Kimberley	Freehold	Direct	Kimberley	Midscale	135	Fixed and variable lease	3/31/2036	132 989			378	(21 667)	**111 700**	196 326	2 784	**199 110**
Garden Court Kings Beach	Freehold	Direct	Port Elizabeth, Eastern Cape	Midscale	280	Fixed and variable lease	3/31/2037	307 827			1 409	(71 936)	**237 300**	190 305	9 506	**199 811**
Garden Court Umhlanga	Freehold	Sectional title	Umhlanga, KwaZulu-Natal	Midscale	204	Fixed and variable lease	3/31/2037	303 683			2 081	(101 964)	**203 800**	298 942	8 934	**307 876**
StayEasy Pietermaritzburg	Sectional title	Beneficial holding	Pietermaritzburg, KwaZulu-Natal	Midscale	127	Fixed and variable lease	3/31/2037	164 986			623	(20 509)	**145 100**	137 199	3 947	**141 146**
StayEasy Rustenburg	Freehold	Direct	Rustenburg, North West	Midscale	125	Fixed and variable lease	3/31/2036	110 433			2 804	(29 037)	**84 200**	118 490	5 680	**124 170**
Protea Hotel Hazyview	Freehold	Direct	Hazyview, Mpumalanga	Midscale	87	Fixed and variable lease	6/30/2021	67 267			656	(15 423)	**52 500**	41 508	19 995	**61 503**
Remainder of South Africa total					2 096			2 493 286	–	(87)	26 419	(442 718)	**2 076 900**	2 348 326	269 787	**2 618 113**
SUN1 Hotels																
SUN1 Alberton	Freehold	Direct	Alberton, Johannesburg, Gauteng	Economy	76	Fixed and variable lease	3/31/2037	61 627			243	(13 870)	**48 000**	69 410	521	**69 931**
SUN1 Benoni	Freehold	Direct	Benoni, Johannesburg, Gauteng	Economy	58	Fixed and variable lease	3/31/2037	28 434			143	(8 177)	**20 400**	24 334	347	**24 681**
SUN1 Berea	Freehold	Direct	Berea, Johannesburg, Gauteng	Economy	69	Fixed and variable lease	3/31/2037	18 613			210	(1 822)	**17 000**	32 132	396	**32 528**
SUN1 Bloemfontein	Freehold	Direct	Bloemfontein, Free State	Economy	64	Fixed and variable lease	3/31/2037	35 180			56	(6 237)	**29 000**	35 230	284	**35 514**
SUN1 Cape Town	Freehold	Direct	Cape Town, Western Cape	Economy	64	Fixed and variable lease	3/31/2037	66 199			150	(9 748)	**56 600**	60 005	547	**60 552**
SUN1 Edenvale	Freehold	Direct	Edenvale, Johannesburg, Gauteng	Economy	76	Fixed and variable lease	3/31/2037	8 485			260	(445)	**8 300**	11 786	446	**12 232**
SUN1 Kimberley	Freehold	Direct	Kimberley, Northern Cape	Economy	64	Fixed and variable lease	3/31/2037	15 710			101	(5 311)	**10 500**	21 841	266	**22 107**
SUN1 Midrand	Freehold	Direct	Midrand, Gauteng	Economy	94	Fixed and variable lease	3/31/2037	51 825			210	(11 034)	**41 000**	88 022	437	**88 459**
SUN1 Milnerton	Freehold	Direct	Cape Town, Western Cape	Economy	70	Fixed and variable lease	3/31/2037	65 830			47	(23 177)	**42 700**	67 516	491	**68 007**
SUN1 Nelspruit	Freehold	Direct	Nelspruit, Mpumalanga	Economy	76	Fixed and variable lease	3/31/2037	52 806			659	(9 365)	**44 100**	52 042	1 002	**53 044**
SUN1 OR Tambo	Freehold	Direct	Kempton Park, Johannesburg, Gauteng	Economy	78	Fixed and variable lease	3/31/2037	24 403			504	(11 107)	**13 800**	33 244	705	**33 949**
SUN1 Parow	Freehold	Direct	Cape Town, Western Cape	Economy	76	Fixed and variable lease	3/31/2037	63 811			121	(32 332)	**31 600**	64 796	542	**65 338**
SUN1 Port Elizabeth	Freehold	Direct	Port Elizabeth, Eastern Cape	Economy	88	Fixed and variable lease	3/31/2037	70 704			355	(11 559)	**59 500**	69 922	615	**70 537**
SUN1 Pretoria	Freehold	Direct	Pretoria, Gauteng	Economy	135	Fixed and variable lease	3/31/2037	108 154			165	(19 219)	**89 100**	135 612	581	**136 193**
SUN1 Richards Bay	Freehold	Direct	Richards Bay, KwaZulu-Natal	Economy	64	Fixed and variable lease	3/31/2037	13 697			90	(3 087)	**10 700**	27 774	776	**28 550**
SUN1 Southgate	Freehold	Direct	Mondeor, Johannesburg South, Gauteng	Economy	138	Fixed and variable lease	3/31/2037	88 578			129	(15 007)	**73 700**	91 231	377	**91 608**
SUN1 Vereeniging	Freehold	Direct	Vereeniging, Gauteng	Economy	41	Fixed and variable lease	3/31/2037	7 996			83	(2 179)	**5 900**	16 462	366	**16 828**
SUN1 Witbank	Freehold	Direct	Emalahleni, Mpumalanga	Economy	90	Fixed and variable lease	3/31/2037	25 339			61	(600)	**24 800**	29 881	313	**30 194**
SUN1 Wynberg	Freehold	Direct	Sandton, Johannesburg, Gauteng	Economy	87	Fixed and variable lease	3/31/2037	32 600			341	(9 341)	**23 600**	30 229	658	**30 887**
SUN1 Hotels total					1 508			839 990	–	–	3 926	(193 617)	**650 300**	961 469	9 668	**971 137**
Total portfolio					9 244			12 023 342	200 000	(3 568)	220 008	(2 461 320)	**9 978 463**	10 504 587	1 601 551	**12 106 138**

Lease expiry profile

at 31 March 2020

Lease profile expiry (years)



Analysis of ordinary shareholdings

as at 31 March 2020

Shareholder spread	Number of shareholdings	% of total shareholdings	Number of shares	% of issued Capital
1 – 1 000	208	24.67	47 863	0.01
1 001 – 10 000	226	26.81	956 100	0.17
10 001 – 100 000	219	25.98	8 741 361	1.51
100 001 – 1 000 000	145	17.20	44 055 198	7.62
Over 1 000 000	45	5.34	524 353 685	90.69
Total	**843**	**100.00**	**578 154 207**	**100.00**
Distribution of shareholders				
Assurance companies	21	2.49	4 065 673	0.70
Close corporations	10	1.19	757 672	0.13
Collective investment schemes	141	16.73	125 595 158	21.72
Control accounts	1	0.12	14	0.00
Custodians	2	0.24	5 074 038	0.88
Foundations and charitable funds	21	2.49	46 295 223	8.01
Hedge funds	2	0.24	1 398 273	0.24
Insurance companies	7	0.83	2 297 274	0.40
Investment partnerships	5	0.59	41 353	0.01
Managed funds	14	1.66	488 835	0.08
Medical aid funds	8	0.95	1 552 692	0.27
Organs of state	3	0.36	5 125 289	0.89
Private companies	27	3.20	348 525 726	60.28
Public companies	2	0.24	426 534	0.07
Public entities	2	0.24	102 576	0.02
Retail shareholders	376	44.60	3 460 059	0.60
Retirement benefit funds	148	17.56	27 706 486	4.79
Scrip lending	4	0.47	1 579 361	0.27
Share schemes	1	0.12	562 774	0.10
Stockbrokers and nominees	12	1.42	587 344	0.10
Trusts	36	4.27	2 511 853	0.43
Total	**843**	**100.00**	**578 154 207**	**100.00**

Analysis of ordinary shareholdings continued

as at 31 March 2020

Shareholder spread	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Shareholder type				
Non-public shareholders	6	0.80	343 263 663	59.37
>10% Tsogo Sun Investments Proprietary Limited	1	0.11	341 992 565	59.15
Share schemes	1	0.11	562 774	0.10
Directors and associates	4	0.57	708 324	0.12
Public shareholders	866	99.20	234 890 544	40.63
Total	872	100.00	578 154 207	100.00
Fund managers with a holding greater than 3% of the issued shares				
Coronation Fund Managers			99 330 874	17.18
Prudential Investment Managers			17 571 623	3.04
Total			116 902 497	20.22
Beneficial shareholders with a holding greater than 3% of the issued shares				
Tsogo Sun Investments Proprietary Limited			341 992 565	59.15
Coronation Fund Managers			67 446 381	11.67
HCI Foundation			42 857 144	7.41
Total			452 296 090	78.23
Total number of shareholdings	843			
Total number of shares in issue	578 154 207			
Share price performance				
Opening price 1 April 2019	R9.60			
Closing price 31 March 2020	R3.05			
Closing high for period	R10.98			
Closing low for period	R2.05			
Number of shares in issue	578 154 207			
Volume traded during period	40 349 324			
Ratio of volume traded to shares issued	6.98%			
Rand value traded during the period	R353 675 930			
Price/earnings ratio as at 31 March 2020	3.29			
Earnings yield as at 31 March 2020	30.37			
Dividend yield as at 31 March 2020	32.65			
Market capitalisation at 31 March 2020	R1 763 370 331			

Directors' interests

	31 March 2020				31 March 2019			
	Director		Associate	Total	Director		Associate	Total
	Direct beneficial	Indirect beneficial			Direct beneficial	Indirect beneficial		
GA Nelson[1]	–	148 577	–	148 577	–	–	490 129	490 129
L McDonald[2]	–	–	139 937	139 937	–	–	104 848	104 848
MN von Aulock[3]	–	–	419 809	419 809	–	120 355	314 544	434 899
R Erasmus[4]	1	–	–	1	n/a	n/a	n/a	n/a
	1	148 577	559 746	708 324	–	120 355	909 521	1 029 876

[1] *Resigned 31 May 2019.*

[2] *Elsitime Proprietary Limited ('Elsitime') owns 419 392 Hospitality shares. L McDonald is a director and a 25% shareholder of Elsitime. Elsitime disposed of its entire interest in Hospitality on or about 19 August 2020. This is in line with a SENS announcement made by Tsogo Sun Hotels Limited on 3 July 2020, wherein it advised its shareholders that due to Hospitality's shares trading at a discount to net asset value, it intended on acquiring additional shares in Hospitality in exchange for the issue of shares in Tsogo Sun Hotels Limited in the ratio of 1.77 Tsogo Sun Hotels share for every Hospitality share.*

[3] *MN van Aulock was appointed on 1 December 2018. He has an indirect beneficial interest in 120 355 Hospitality shares. He is also a director and 75% shareholder of Elsitime, which owns 559 746 Hospitality shares. Elsitime disposed of its entire interest in Hospitality on or about 19 August 2020. This is in line with a SENS announcement made by Tsogo Sun Hotels Limited on 3 July 2020, wherein it advised its shareholders that due to Hospitality's shares trading at a discount to net asset value, it intended on acquiring additional shares in Hospitality in exchange for the issue of shares in Tsogo Sun Hotels Limited in the ratio of 1.77 Tsogo Sun Hotels share for every Hospitality share.*

[4] *Appointed CFO on 01 June 2019.*

Notice of annual general meeting of shareholders

Hospitality Property Fund Limited
(Incorporated in the Republic of South Africa)
(Registration number 2005/014211/06)
JSE Share code: HPB
ISIN: ZAE000214656
Company code: HPAI
(Approved as a REIT by the JSE Limited)
('Hospitality' or 'the Company')

Notice is hereby given to shareholders of the Company that the annual general meeting ('AGM') of the Company will be held on Tuesday, 20 October 2020 at 08:00 to (i) deal with such business as may lawfully be dealt with at the meeting and (ii) consider and, if deemed fit to pass, with or without modification, the ordinary and special resolutions set out hereunder in the manner required by the Companies Act, 71 of 2008, as amended ('the Companies Act'), as read with the Listings Requirements of the JSE Limited ('the JSE Listings Requirements'). This document is available in English only. The proceedings at the meeting will be conducted in English.

In light of the restrictions on travel and the holding of public gatherings pursuant to the regulations published in terms of section 27(2) of the Disaster Management Act, 2002 relating to Covid-19, it is not currently possible or legally permissible to hold the AGM in person at the company's registered office. **The Board has therefore decided to proceed with the AGM by way of electronic participation only and not by way of a physical meeting.** The AGM will accordingly be accessible through electronic communication, as permitted by the JSE and in accordance with the provisions of the Companies Act and the company's memorandum of incorporation ('MOI'). **'Attendance' throughout this notice will refer to electronic attendance.**

The AGM will be hosted via Microsoft Teams, a remote interactive electronic platform.

Section 63(1) of the Companies Act: Identification of meeting participants

Meeting participants (including proxies) are required to provide reasonably satisfactory identification before being entitled to attend or participate in a meeting. Forms of identification that will be accepted include original and valid identity documents, drivers' licences and passports.

Salient dates

The following dates apply to the AGM:

Record dates
In terms of sections 59(1)(a) and (b) of the Companies Act, the directors have determined that the date on which a shareholder must be registered in the Company's register of shareholders in order to:
- Receive notice of the AGM is Friday, 14 August 2020, and
- Participate in and vote at the AGM is Friday, 9 October 2020.

The last day to trade in order to be registered in the Company's register of shareholders to be able to participate in and vote at the AGM will therefore be Tuesday, 6 October 2020.

- The recommended date for shareholders to lodge proxy forms is 08:00 on Friday, 16 October 2020.
- The recommended date for shareholders or their duly authorised proxies who wish to participate in the AGM, to register to do so by lodging a completed electronic participation application form with the Company's Transfer Secretaries, Computershare Investor Services Proprietary Limited ('Computershare'), is Friday, 16 October 2020.

Voting requirements

All ordinary resolutions will, in terms of the Companies Act, require support of more than 50% (fifty percent) of the voting rights of shareholders, in their capacity as shareholders, exercised thereon at the AGM, to be approved. All special resolutions will, in terms of the Companies Act, require support of at least 75% (seventy-five percent) of the total voting rights of shareholders, in their capacity as shareholders, exercised thereon at the AGM, to be approved.

1. **Presentation of the audited consolidated annual financial statements of the Company, including the reports of the directors, external auditors, the audit and risk and the social and ethics committees, for the year ended 31 March 2020**
   In accordance with the Companies Act, the audited consolidated annual financial statements of the Company (including the reports of the directors, the independent external auditors and the audit and risk committee for the period ended 31 March 2020, as approved by the Board of Directors as set out on pages 53 to 99 is presented to shareholders.

   The Company's social and ethics report, which deals with matters within the committee's mandate and the execution of its statutory duties and responsibilities as set out in its terms of reference, for the financial year ended 31 March 2020 is included on page 46. Any specific questions to the social and ethics committee may be addressed to the company secretary prior to the meeting at rosao@hpf.co.za.

2. **Ordinary resolution number 1: Election and re-election of the Company's directors by separate resolutions**
   2.1 Ordinary resolution number 1.1
   'Resolved that Mr MH Ahmed, who retires by rotation in terms of the Memorandum of Incorporation of the Company and who is eligible and available for re-election, is re-elected as a non-executive director of the Company.'

   2.2 Ordinary resolution number 1.2
   'Resolved that Mr SC Gina, who retires by rotation in terms of the Memorandum of Incorporation of the Company and who is eligible and available for re-election, is re-elected as a non-executive director of the Company.'

   2.3 Ordinary resolution number 1.3
   'Resolved that Dr LM Molefi, who retires by rotation in terms of the Memorandum of Incorporation of the Company and who is eligible and available for re-election, is re-elected as a non-executive director of the Company.'

   2.4 Ordinary resolution number 1.4
   'Resolved that Mrs CC September, who was appointed by the Board to serve as an independent executive director of the Company, with effect from 15 August 2019 and who is eligible and available for election, is elected as a non-executive director of the Company.'

Reason for ordinary resolution number 1: Election and re-election of directors at the AGM
In accordance with the Company's Memorandum of Incorporation, one-third of the Company's directors are required to retire at each AGM and may offer themselves for re-election. In addition any director who is 70 years or older shall retire annually and any director appointed by the Board, must be approved by the shareholders at the next AGM.

The nomination committee has considered the past performance and contribution to the Company of the directors standing for election and re-election and recommends their election and re-election to shareholders.

Abridged *curriculum vitae* of the directors standing for election and re-election appear below.

MH Ahmed
Lead Independent, Independent non-executive director
BCom (Accounting)
Date of appointment: 14 August 2018

With 25 years of experience in finance and leadership, Mohamed is a businessman who has served on the boards of various listed companies, including as an alternate director for MTN Group Limited. He is currently an independent non-executive director of Tsogo Sun Hotels Limited, Montauk Holdings and Deneb Investments, where he also serves as the chair of the audit, risk and remuneration committees. Mohamed is the founder of the Gallagher Charitable Trust. He was appointed to the Board on 14 August 2018.

Committee membership: audit and risk (Chairman); remuneration (Chairman)

SC Gina
Independent non-executive director
Dip (Labour Law)
Date of appointment: 1 June 2019

Chris resigned as the deputy secretary general of the South African Clothing and Textile Workers' Union in September 2019. Chris serves on the boards of Tsogo Sun Hotels, Ithala Development Finance Corporation, Star Knitting (Mauritius) and Edafund ('NPO'). He also serves as a labour convenor for KwaZulu-Natal Provincial Government Economic Council. Chris formed part of the International Labour Organisation to Thailand in 2015, where he presented a South African Labour Law perspective in collective bargaining and trade unions.

Committee membership: social and ethics (Chairman); nomination

LM Molefi
Independent non-executive director
BSc, MB ChB
Date of appointment: 1 June 2019

Moretlo is a versatile, well-qualified entrepreneur and an experienced business executive. She has been one of a few pioneers of Telemedicine in South Africa and Africa with representation at various levels of government and non-governmental organisations. She has a broad knowledge of mobile health industry and the technology world in general. Moretlo runs her own business and is involved in social entrepreneurship programmes locally and internationally. She has a BSc and a MB ChB degree and serves on a number of boards, including Tsogo Sun Hotels Limited and The International Society for Telemedicine.

Committee membership: audit and risk; nomination

CC September
Independent non-executive director
Masters Technology Management, PGDip (Economics Policy)
Date of appointment: 15 August 2019

Connie served as chair of the Portfolio Committee on Higher Education and Training in the Fifth Parliament. She previously served as Minister of Human Settlements. Connie first became a Member of Parliament in 1999 and served in various Portfolio Committees including as chair of the Portfolio Committee on Water Affairs & Forestry. She also served as Whip in the National Assembly in 2004. She obtained a Master's degree in Technology Management from Da Vinci Institute for Technology Management. Connie retired from Parliament in May 2019. She also serves on the Board of Tsogo Sun Hotels Limited.

Notice of annual general meeting of shareholders continued

3. **Ordinary resolution number 2: Reappointment of the external auditor**
   'Resolved that PricewaterhouseCoopers Inc. be reappointed as the Company's independent external auditor (to report on the financial year ending 31 March 2021).'

   Reason for ordinary resolution number 2: Reappointment of external auditor
   In terms of section 90(1) of the Companies Act, each year at its AGM, the Company must appoint an auditor who complies with the requirements of section 90(2) of the Companies Act. PricewaterhouseCoopers Inc. ('PWC') has indicated its willingness to continue in office. AG Taylor shall serve as the registered audit partner in relation to the audit.

   The Company's audit and risk committee has considered PWC's independence in accordance with the Companies Act and is satisfied that PWC is independent as contemplated by the Companies Act and the applicable rules of the International Federation of Accountants ('IFAC').

   Furthermore, the Company's audit and risk committee has, in terms of paragraphs 3.84(g)(iii) and 3.86 of the JSE Listings Requirements, considered and satisfied itself that PWC, the reporting accountant and individual auditor are accredited to appear on the JSE list of Accredited Auditors in compliance with section 22 of the JSE Listings Requirements and are suitable for appointment.

   As proposed by ordinary resolution number 2, the audit and risk committee can therefore recommended PWC for appointment as the registered independent external auditor of the Company until the next AGM, subject to shareholder approval as required in terms of section 90(1) of the Companies Act.

4. **Ordinary resolution number 3: Election of the members of the audit and risk committee by separate resolutions**
   4.1 Ordinary resolution number 3.1: Election of Mr MH Ahmed as a member and the chair of the audit and risk committee
   'Resolved that Mr MH Ahmed, being an independent, non-executive director of the Company, be elected as a member and chair of the audit and risk committee of the Company with effect from the conclusion of this meeting (in terms of section 94(2) of the Companies Act), subject to his re-election as an independent non-executive director in terms of ordinary resolution number 1.1.'

   4.2 Ordinary resolution number 3.2: Election of Dr LM Molefi as a member of the audit and risk committee
   'Resolved that Dr LM Molefi, being an independent, non-executive director of the Company, be elected as a member of the audit and risk committee of the Company with effect from the conclusion of this meeting (in terms of section 94(2) of the Companies Act), subject to her re-election as an independent non-executive director in terms of ordinary resolution number 1.3.'

   4.3 Ordinary resolution number 3.3: Election of Mr JG Ngcobo as a member of the audit and risk committee
   'Resolved that Mr JG Ngcobo, being an independent, non-executive director of the Company, be elected as a member of the audit and risk committee of the Company with effect from the conclusion of this meeting (in terms of section 94(2) of the Companies Act).'

   Reason for ordinary resolution number 3: Election of the members of the audit and risk committee
   In terms of section 94(2) of the Companies Act and the King Report on Governance for South Africa ('King IV') the audit and risk committee is a committee of the Board elected by the shareholders at each AGM. In terms of the regulations to the Companies Act, at least one-third of the members of a Company's audit and risk committee at any particular time must have academic qualifications, or experience in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs or human resource management.

   The Company's Board, having satisfied itself, among others, of the independence, qualifications, experience and expertise of the independent non-executive directors offering themselves for election as members of the Company's audit and risk committee, recommends their election to shareholders.

5. **Advisory endorsement number 1: Non-binding advisory endorsement of the remuneration policy**
   To endorse, through a non-binding advisory vote, the Company's remuneration policy as set out on page 47 of the integrated annual report.

   Reason for endorsement of the remuneration policy
   In terms of King IV recommendations, the Company's remuneration policy should be tabled for a non-binding advisory vote at the AGM. The essence of this vote is to enable the shareholders to express their views on the remuneration policies adopted by the Company.

   Should 25% (twenty-five percent) or more of the voting rights exercised by shareholders on this non-binding vote, be cast against the remuneration policy, the Company undertakes to invite such dissenting shareholders to engage with the Company in order to ascertain the reasons therefor and to address legitimate and reasonable objections and/or concerns.

6. **Advisory endorsement number 2: Non-binding advisory endorsement of the remuneration implementation report**
   To endorse, through a non-binding advisory vote, the Company's remuneration implementation report with regard to the remuneration of directors set out on page 48 of the integrated annual report.

   Reason for endorsement of the implementation report
   In terms of King IV recommendations, the Company's remuneration implementation report should be tabled for a non-binding advisory vote at the AGM. The essence of this vote is to enable the shareholders to express their views on the Company's remuneration implementation report.

   Should 25% (twenty-five percent) or more of the voting rights exercised by shareholders on this non-binding vote, be cast against the remuneration implementation report, the Company undertakes to invite such dissenting shareholders to engage with the Company in order to ascertain the reasons therefor and to address legitimate and reasonable objections and/or concerns.

7. **Special resolution number 1: Non-executive directors' remuneration for the period 1 April 2021 to 31 March 2022**
   At the Company's AGM held on 17 October 2019, shareholders approved a maximum increase of 8% to the remuneration of non-executive directors of the Company, for their services as directors, for the period 1 April 2020 to 31 March 2021, subject to Board approval. However, in response to the impact of the Covid-19 pandemic on the business and Hospitality's focus on conserving its cash resources, the Board, on recommendation by the remuneration committee agreed that no inflationary increase be applied to directors' fees for the period 1 April 2020 to 31 March 2021.

   Furthermore, non-executive directors' fees were reduced by 40% (forty percent) for the month of April 2020 and by 60% (sixty percent) for the months thereafter and may be adjusted upwards or downwards (subject to the maximum amount approved at the previous AGM), based on an assessment of what the Company is likely to be able to afford during the time that the business is impacted by the Covid-19 pandemic.

   Approval is now sought for the Board to increase non-executive directors' fees for the period 1 April 2021 to 31 March 2022, within a specific mandate.

   'Resolved that, in terms of the Company's Memorandum of Incorporation and sections 66(8) and 66(9) of the Companies Act, the payment of the remuneration of the non-executive directors of the Company, for their services as directors, for the period 1 April 2021 to 31 March 2022, unless amended by a special resolution of shareholders, be equal to the non-executive directors' remuneration for the period 1 April 2020 to 31 March 2021 (as set out below), escalated as approved by the Board of the Company, by up to a maximum of 8%.'

   Reason for special resolution number 1: Non-executive directors' remuneration for the period 1 April 2021 to 31 March 2022
   The reason and effect of special resolution number 1 is to obtain shareholder approval for the remuneration of each of the non-executive directors of the Company for the period 1 April 2021 to 31 March 2022 in accordance with section 66(8) and 66(9) of the Companies Act. The proposed special resolution excludes value added tax ('VAT'), which will be added by directors in accordance with current VAT legislation, where applicable.

	Fees for the period 1 April 2020 to 31 March 2021		Fees for the period 1 April 2021 to 31 March 2022, assuming a maximum increase of 8%	
	Chairman Rand	**Member Rand**	Chairman Rand	Member Rand
Board members (per annum) (excluding the lead independent director)	**410 000**	**272 000**	442 800	293 760
Lead independent director (per annum)	**–**	**325 000**	–	351 000
Audit and risk committee (per annum)	**170 000**	**109 000**	183 600	117 720
*Nomination committee	**17 500**	**15 000**	18 900	16 200
*Remuneration committee	**17 500**	**15 000**	18 900	16 200
*Social and ethics committee	**14 500**	**11 500**	31 320	24 840

** Members earn a fee per meeting, for actual attendance. Two meetings per annum has been assumed in total fees for the period.*

9. **Special resolution number 2: Financial assistance to subsidiaries and other related and inter-related entities in terms of section 44 and 45 of the Companies Act**
   'Resolved that, to the extent required by the Companies Act, the Board may, subject to compliance with the requirements of the Company's Memorandum of Incorporation, the Companies Act and the JSE Listings Requirements, each as presently constituted and as amended from time to time, authorise the Company to provide direct or indirect financial assistance by way of loan, guarantee, the provision of security or otherwise, to any of its present or future subsidiaries and/or any other Company or entity that is or becomes related or inter-related to the Company for any purpose or in connection with any matter including, but not limited to, the subscription of any option or any shares issued or to be issued by the Company or a related or inter-related Company or entity, or for the purchase of any shares of the Company or a related or inter-related Company or entity, including any direct or indirect financial assistance as contemplated in section 44 and 45 of the Companies Act, on such terms and conditions as the Board may determine, such authority to endure for a period of 2 (two) years commencing on the date of passing of this resolution.'

   Reason for special resolution number 2: Authority to provide financial assistance to subsidiaries and other related and inter-related entities
   The Company requires the ability to provide financial assistance to related and inter-related persons and entities, such as its subsidiaries, if necessary, in accordance with section 44 and 45 of the Companies Act. The Company will, however require a special resolution, as set out above, to be adopted before such financial assistance may be provided. In the circumstances and in order to, among others, ensure that the Company's related and inter-related companies and entities have access to financing and/or financial backing from the Company (as opposed to banks), it is necessary to obtain the approval of shareholders, as set out in special resolution number 2.

Notice of annual general meeting of shareholders continued

11. **Special resolution number 3: General authority to acquire shares**
'Resolved that the Company and/or a subsidiary of the Company is authorised by way of a general authority to repurchase or purchase, as the case may be, ordinary shares issued by the Company, from any person, upon such terms and conditions and in such number as the directors of the Company or the subsidiary may from time to time determine, subject to the applicable requirements of the Company's Memorandum of Incorporation, the Companies Act and the JSE Listings Requirements, each as presently constituted and as amended from time to time on the following bases:
   - each repurchase of shares must be effected through the main order book operated by the JSE trading system and done without any prior understanding or arrangement between the Company and the counterparty (reported trades are prohibited);
   - the repurchase or purchase, as the case may be, by the Company and/or any of its subsidiaries, of shares in the Company of any class under this authority shall not, in aggregate in any one financial year, exceed 20% of the Company's issued share capital as at the commencement date of such financial year;
   - repurchases of ordinary shares may not be made at a price greater than 10% above the weighted average of the market value of ordinary shares for the five business days immediately preceding the date on which the repurchase is effected (the maximum price). The JSE will be consulted for a ruling if the Company's shares have not traded in such a five-business day period;
   - repurchases of ordinary shares by the Company or its subsidiaries may not take place during a prohibited period as defined in the Listings Requirements, unless the Company has in place a repurchase programme where the dates and quantities of ordinary shares to be traded are fixed (not subject to any variation) and full details of the programme have been disclosed in writing to the JSE prior to the commencement of the prohibited period;
   - the Company shall release an announcement on SENS, as soon as it or its subsidiary has, on a cumulative basis purchased or repurchased ordinary shares, which constitute 3% of the number of ordinary shares in issue (at the time that this authority from shareholders for the repurchase was granted), and for each 3% in aggregate of such number of ordinary shares purchased or repurchased, as the case may be, thereafter;
   - this general authority shall be valid only until the next AGM of the Company to be held in 2021, provided that it shall not extend beyond 15 months from the date of passing of this special resolution;
   - at any point in time, the Company may only appoint one agent to effect any repurchases on the Company's behalf;
   - the number of ordinary shares purchased and held by a subsidiary or subsidiaries of the Company shall not exceed 10% in the aggregate of the number of issued shares in the Company at the relevant times;
   - no voting rights attached to ordinary shares acquired by the Company's subsidiaries may be exercised while the ordinary shares are held by them and they remain subsidiaries of the Company;
   - a resolution has been passed by the Board of the Company confirming that it has authorised the general repurchase, that the Company and its subsidiaries will satisfy the solvency and liquidity test immediately after the repurchase of ordinary shares and that since the test was done there have been no material changes to the financial position of the group; and
   - any such general repurchase will be subject to exchange control regulations, if applicable.'

Reason for special resolution number 3: General authority to acquire shares
The reason for special resolution number 3 is to grant the Board a general authority for the acquisition of the Company's shares by the Company, or by a subsidiary or subsidiaries of the Company.

Having considered the effect of acquisition of the Company's shares up to a maximum limit, the directors of the Company are of the opinion that, if such acquisitions were implemented:
- the Company and the Group are in a position to repay their debt in the ordinary course of business for a period of 12 months after the date of the notice of the meeting;
- the Company and the Group's assets will be in excess of the liabilities of the Company and the Group for a period of 12 months after the date of the notice of the meeting. For this purpose, the assets and liabilities will be recognised and measured in accordance with the accounting policies used in the latest audited consolidated annual financial statements of the Group for the year ended 31 March 2020 which comply with the Companies Act;
- the share capital and reserves of the Company and the Group will be adequate for the ordinary business purposes of the Company and the Group for a period of 12 months following the date of the notice of the meeting; and
- the available working capital of the Company and the Group will be adequate for ordinary business purposes for a period of 12 months after the date of the notice of the meeting.

Statement of the Board's intention
Although there is no immediate intention to effect a repurchase of shares of the Company, the Board believes that it should retain flexibility so that the directors may utilise the general authority to repurchase shares as and when suitable opportunities present themselves and which opportunities may require immediate action.

Other disclosure in accordance with section 11.26 of the JSE Listings Requirements
The following additional information, some of which may appear elsewhere in the IAR is provided in terms of the JSE Listings Requirements for purposes of this general authority:
- Major shareholders – page 106 of the IAR.
- Share capital of the Company – page 79 of the IAR.

Directors' responsibility statement
The directors, collectively and individually, accept full responsibility for the accuracy of the information given and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the special resolutions contain all information required by law and the JSE Listings Requirements.

Material change statement
As at Tuesday, 18 August 2020, being the last practicable date before the finalisation of this notice, there have been no material changes in the financial or trading position of the Company and its subsidiaries that have occurred between 31 March 2020 and 18 August 2020 other than the facts and developments as reported on in the integrated annual report of the Company for the financial year ended 31 March 2020.

Electronic participation
In light of the measures put in place by the South African government in response to the Covid-19 pandemic, the Board has decided that the annual general meeting will only be accessible through a remote interactive electronic platform as detailed below.

Any shareholder (or representative or proxy for a shareholder) who wishes to participate in the AGM by way of electronic participation, should complete the electronic participation application form, which forms part of this notice and should email same to the Company's Transfer Secretaries, Computershare at proxy@computershare as soon as possible after receipt of this notice, but in any event no later than 08:00 on Friday, 16 October 2020. Shareholders or their duly appointed proxies are required to provide satisfactory identification before being entitled to participate in the AGM, as noted on the first page of the AGM Notice.

Upon receipt of a duly completed electronic participation application form, the Company's Transfer Secretaries will follow a verification process to verify each applicant's entitlement to participate in and/or vote at the AGM. On successful verification, such shareholder or their duly appointed proxy will receive, on their nominated email, a Microsoft Teams meeting invitation, which will be required to access the AGM.

Fully verified shareholders, who will participate electronically in the AGM are still required to submit their proxies in accordance with the instructions below, as Microsoft Teams allows for participation, but does not include a voting platform.

Meeting participants will be liable for their own network charges in relation to electronic participation in and/or voting at the AGM. Any such charges will not be for the account of the Company or its Transfer Secretaries who will also not be held accountable in the case of loss of network connectivity or other network failure due to insufficient airtime, internet connectivity, internet bandwidth and/or power outages which prevents any such shareholder or their proxy from participating in and/or voting at the AGM.

Notice of annual general meeting of shareholders continued

Proxies, authority for representatives to act and voting

Shareholders who are entitled to attend, participate in and vote at the AGM, are entitled to appoint a proxy (or more than one proxy in respect of different shares held by them) to attend electronically, speak and vote in their stead. A proxy need not be a shareholder of the Company and shall be entitled to vote on a show of hands or a poll. For the convenience of registered shareholders of the Company, a form of proxy is enclosed herewith to be completed by them in their capacity as shareholders.

The enclosed form of proxy is only to be completed by those shareholders who are:
- holding shares in certificated form; or
- recorded on the Company's sub-register in dematerialised electronic form with 'own name' registration.

It is recommended that forms of proxy be completed and delivered to the Transfer Secretaries, Computershare by no later than 08:00 Friday, 16 October 2020. If shareholders who have not dematerialised their shares or who have dematerialised their shares with 'own name' registration, and who are entitled to attend electronically, participate in and vote at the AGM, do not deliver forms of proxy to the transfer secretary by the relevant time, such shareholders will nevertheless be entitled to lodge the form of proxy in respect of the AGM immediately prior to the exercising of the shareholders' voting rights at the AGM, in accordance with the instructions therein, with the chairman of the AGM via the Transfer Secretaries. Any shareholder who completes and lodges a form of proxy will nevertheless be entitled to attend electronically, participate in and vote in person at the AGM should the shareholder decide to do so.

All other beneficial owners who have dematerialised their shares through a CSDP or broker and wish to attend electronically the AGM should contact their CSDP or broker:
- To provide them with the necessary letter of representation in order to attend electronically the AGM, or
- To furnish the CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker.

These shareholders must not use a form of proxy.

A company that is a shareholder wishing to attend electronically and participate at the AGM should ensure that a resolution authorising a representative to so attend and participate at the AGM on its behalf is passed by its directors. Resolutions authorising representatives in terms of section 57(5) of the Companies Act must be lodged with the Company's transfer secretaries prior to the AGM.

Every shareholder present in person at the electronic meeting or represented by proxy and entitled to vote shall, in his/her/its capacity as shareholder, on a show of hands, have only one vote irrespective of the number of shares he/she/it holds or represents. On a poll, every shareholder present in person or represented by proxy at the electronic AGM and entitled to vote, shall, in his/her/its capacity as shareholder, be entitled to that proportion of the total votes in the Company which the aggregate amount of the nominal value of all the shares held by him/her/it bears to the aggregate amount of the nominal value of all the shares issued by the Company.

By order of the Board

LR van Onselen
For HPF Properties Proprietary Limited
Company Secretary

18 August 2020

Application form for electronic participation at the annual general meeting

Hospitality Property Fund Limited
(Incorporated in the Republic of South Africa)
(Registration number 2005/014211/06)
JSE Share code: HPB
ISIN: ZAE000214656
Company code: HPAI
(Approved as a REIT by the JSE Limited)
('Hospitality' or 'the Company')

Annual general meeting ('AGM')

Instructions

Shareholders or their proxies, have the right, as provided for in the Company's Memorandum of Incorporation and the Companies Act, to participate in the AGM by way of electronic communication.

Shareholders or their duly appointed proxies who wish to participate in the AGM must complete this application form and email it (together with the relevant supporting documents referred to below) to the Company's Transfer Secretaries at proxy@computershare.co.za by no later than 8:00 on Friday, 16 October 2020.

Upon receiving a completed electronic participation application form, the Company's Transfer Secretaries will follow a verification process to verify each applicant's entitlement to participate electronically in and/or vote at the AGM. The Company's Transfer Secretaries will provide the Company with the nominated email address of each verified shareholder or their duly appointed proxy to enable the Company to forward them a Microsoft Teams meeting invitation required to access the AGM.

Please note

Participants will be liable for their own network charges in relation to electronic participation in and/or voting at the AGM. Neither the Company, nor the Transfer Secretaries will be held accountable in the case of loss of network connectivity or other network failure due to insufficient airtime, internet connectivity, internet bandwidth and/or power outages which prevents any such particpant from participating electronically in and/or voting at the AGM.

By signing this application form, the participant indemnifies and holds the Company harmless against any loss, injury, damage, penalty or claim arising in any way from the use of the telecommunication lines to participate in the AGM or any interruption in the ability of the participant to participate in the AGM via electronic communication, whether or not the problem is caused by any act or omission on the part of the participant or anyone else, including without limitation the Company and its employees.

Information required for participation by electronic communication at the AGM

Full name of shareholder: _____

Identity or registration number of shareholder: _____

Full name of authorised representative (if applicable): _____

Identity number of authorised representative: _____

Email address: _____

** Note: this email address will be used by the Company to share the Microsoft Teams meeting invitation required to access the AGM electronically.*

Cell phone number: _____ Telephone number, including dialling codes: _____

** Note: The electronic platform to be utilised for the AGM does not provide for electronic voting during the meeting. Accordingly, shareholders are strongly encouraged to submit votes by proxy in advance of the AGM, by completing the proxy form found at page 117.*
Participants who indicate in this form that they wish to exercise their votes during the AGM will be contacted by the Company's Transfer Secretaries to make the necessary arrangements.

Indicate (by marking with an 'X') whether:
- ☐ votes will be submitted by proxy (in which case, please enclose the duly completed proxy form with this form); or
- ☐ the participant wishes to exercise votes during the AGM. If this option is selected, the Company's Transfer Secretaries will contact you to make the necessary arrangements.

By signing this application form, I consent to the processing of my personal information above for the purpose of participating in the Company's AGM.

Signed at _____ on _____ 2020

Signed: _____

Please read documents required to be attached to this application form overleaf.

Application form for electronic participation at the annual general meeting continued

Documents required to be attached to this application form

In order to exercise their voting rights at the AGM, shareholders who choose to participate electronically may appoint a proxy, which proxy may participate electronically in the AGM, provided that a duly completed proxy form has been submitted in accordance with the instructions on that form, and as envisaged in the notice of the AGM. A copy of the proxy form can be found on page 117 of this AGM notice.

Documentary evidence establishing the authority of the shareholder or duly appointed proxy, including any person acting in a representative capacity, who is to participate electronically in the AGM, must be attached to this application. This includes the shareholder's full title to the shares issued by the Company, in the form of share certificates (in the case of certified shares) and (in the case of dematerialised shares) written confirmation from the shareholders Central Securities Depository Participant ('CSDP') confirming the shareholders title to the dematerialised shares.

A certified copy of the valid identity document/passport of the person attending the AGM by electronic participation, including any person acting in a representative capacity, must be attached to this application.

Applications to participate by electronic communication will only be considered if this application form is completed in full, signed by the shareholder, its proxy or representative, and delivered as detailed above. The Company may in its sole discretion accept any incomplete application forms.

Form of proxy

Hospitality Property Fund Limited
(Incorporated in the Republic of South Africa)
(Registration number 2005/014211/06)
Share code for ordinary shares: HPB
ISIN: ZAE000214656
(Approved as a REIT by the JSE Limited)
('Hospitality' or 'the Company')

This form of proxy is for use by shareholders registered as such who hold certificated shares in the Company and shareholders who hold 'own-name' dematerialised shares in the Company, to appoint a proxy or proxies for the AGM of the Company to be held at 08:00 on Tuesday, 20 October 2020.

Shareholders who have dematerialised their shares in the Company and do not have 'own-name' registration, must inform their Central Securities Depository Participant ('CSDP') or broker if they wish to attend the AGM electronically and must request their CSDP or broker to issue them with the necessary letters of representation authorising them to attend electronically, alternatively, they must provide their CSDP or broker with their voting instructions should they not wish to attend the AGM electronically. Such dematerialised shareholders must not return this form of proxy to the transfer secretaries.

It is recommended that forms of proxy be completed and delivered to the transfer secretaries, Computershare Investor Services Proprietary Limited, to be received by 08:00 on Friday, 16 October 2020.

I/We (name/s in BLOCK LETTERS) _____

of (address) _____

being the registered holder/s of _____ ordinary shares, hereby appoint:

1. _____ or failing him/her,
2. _____ or failing him/her,
3. the chairman of the AGM, as my/our proxy to attend, speak and vote for me/us on my/our behalf or to abstain from voting at the AGM of the Company and at any adjournment thereof in respect of the ordinary share registered in my/our name/s, as follows:

Resolutions	For	Against	Abstain
Presentation of the audited annual financial statements			
Ordinary resolution number 1.1: Re-election of Mr MH Ahmed as an independent non-executive director			
Ordinary resolution number 1.2: Re-election of Mr SC Gina as an independent non-executive director			
Ordinary resolution number 1.3: Re-election of Dr LM Molefi as an independent non-executive director			
Ordinary resolution number 1.4: Election of Mrs CC September as independent non-executive director			
Ordinary resolution number 2: Reappointment of the external auditor			
Ordinary resolution number 3.1: Election of Mr MH Ahmed as a member and chair of the audit and risk committee			
Ordinary resolution number 3.2: Election of Dr LM Molefi as a member of the audit and risk committee			
Ordinary resolution number 3.3: Election of Mr JG Ngcobo as a member of the audit and risk committee			
Advisory endorsement 1: Non-binding advisory endorsement of the remuneration policy			
Advisory endorsement 2: Non-binding advisory endorsement of the implementation report			
Special resolution number 1: Approval of non-executive directors' remuneration			
Special resolution number 2: Financial assistance to subsidiaries and other related and inter-related entities in terms of sections 44 and 45 of the Companies Act			
Special resolution number 3: General authority to acquire shares			

Signed at _____ on _____ 2020

Signature(s) _____

Assisted by (where applicable) _____

Name _____ Capacity _____

Signature _____

Please read notes overleaf.

Notes to the form of proxy

and summary of rights under section 58 of the Companies Act, 2008

1. Only shareholders who are registered in the register of the Company under their own name may complete a form of proxy or attend the AGM. This includes shareholders who have not dematerialised their shares or who have dematerialised their shares with 'own name' registration. A shareholder entitled to attend and vote at the AGM is entitled to appoint one individual as a proxy to attend, speak and, on a poll, to vote in his/her place at the AGM. A proxy need not be a shareholder of the Company. Such shareholder may insert the name of a proxy of the shareholder's choice in the space provided, with or without deleting 'the chairman of the AGM', provided that any such deletion must be signed in full by the shareholder. The person whose name stands first on the form of proxy and who is present at the AGM will be entitled to act as proxy to the exclusion of those whose names follow. Should a proxy not be specified, this will be exercised by the chairman of the class AGM.
2. The date must be filled in on this form of proxy and when it is signed.
3. The completion and lodging of this form will not preclude the relevant shareholder from attending the AGM and speaking and voting in person thereat to the exclusion of any proxy appointed, should such shareholder wish to do so.
4. The appointment of a proxy or proxies:
   - 4.1 is suspended at any time to the extent that the shareholder chooses to act directly and in person in the exercise of any rights as a shareholder;
   - 4.2 is revocable in which case the shareholder may revoke the proxy appointment by:
     - 4.2.1 cancelling it in writing or making a later inconsistent appointment of a proxy; and
     - 4.2.2 delivering a copy of the revocation instrument to the proxy and to the Company.
5. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the relevant shareholder as of the later of the date:
   - 5.1 stated in the revocation instrument, if any; or
   - 5.2 upon which the revocation instrument is delivered to the proxy and the relevant company as required in section 58(4) (c)(ii) of the Companies Act.
6. Should the instrument appointing a proxy or proxies have been delivered to the relevant company, as long as that appointment remains in effect, any notice that is required by the Companies Act or the relevant company's memorandum of incorporation to be delivered by such company to the shareholder must be delivered by such company to:
   - 6.1 the shareholder, or
   - 6.2 the proxy or proxies if the shareholder has in writing directed the relevant company to do so and has paid any reasonable fee charged by the company for doing so.
7. The proxy appointment remains valid only until the end of the relevant meeting at which it was intended to be used unless revoked as contemplated in section 58(5) of the Companies Act.
8. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies. The completion of any blank space(s) need not be signed or initialled.
9. A power of attorney or other documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form unless previously recorded by the transfer secretaries of the Company or waived by the chairman of the AGM.
10. A minor must be assisted by his/her parent/guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.
11. A company holding shares in the Company that wishes to attend and participate in the AGM should ensure that a resolution authorising a representative to act is passed by its directors. Resolutions authorising representatives in terms of section 57(5) of the Companies Act must be lodged with the Company's transfer secretaries prior to the AGM.
12. Where there are joint holders of shares, only one of such persons need sign the form of proxy. If more than one of such joint shareholder votes, whether in person or by proxy, only the vote of one of the said persons whose name appears first in the securities register in respect of such shares or his/her proxy, as the case may be, shall be counted.
13. Every shareholder present in person or represented by proxy and entitled to vote shall, in his/her/its capacity as shareholder, on a show of hands, have only one vote irrespective of the number of shares he/she/it holds or represents. On a poll every shareholder present in person or represented by a proxy and entitled to vote, shall, in his/her/its capacity as shareholder, be entitled to that proportion of the total votes in the Company which the aggregate amount of the nominal value of the shares held by him/her bears to the aggregate amount of the nominal value of all the shares of the relevant class issued by the Company.
14. The chairman of the AGM may reject or accept any proxy which is completed and/or received, other than in accordance with these notes, provided that he shall not accept a proxy unless he/she is satisfied as to the matter in which a shareholder wishes to vote.
15. A proxy may not delegate his/her authority to act on behalf of the shareholder, to another person.
16. You are not obliged either to cast all your votes or to cast all your votes in the same way. A shareholder's instruction to the proxy must be indicated either by:
    - 16.1 the insert of an 'X' in the appropriate box next to the resolution (i.e. in favour of and/or against and/or by way of abstention), in which event the proxy will cast all your votes in the manner so specified; or
    - 16.2 setting out the relevant number of shares to be voted on behalf of that shareholder in the appropriate box provided next to the resolution, provided that, if for any resolution the aggregate number of votes to be cast would exceed the total number of shares held, you will be deemed to have given no specific instruction as to how you wish your proxy to vote in respect of that resolution.

    Failure to comply with the above will be deemed to authorise the chairman of the AGM, if the chairman is the authorised proxy, to vote in favour of the resolutions at the AGM or other proxy to vote or to abstain from voting at the AGM as he/she deems fit, in respect of the shares concerned. A shareholder or the proxy is not obliged to use all the votes exercisable by the shareholder or the proxy, but the total of votes cast in respect whereof abstention is recorded may not exceed the total of the votes exercisable by the shareholder or the proxy.
17. Where a proxy is appointed, the enclosed proxy form must be completed, signed and lodged, together with proof of the authority of the person signing the form in a representative capacity, with Computershare Investor Services Proprietary Limited, the transfer secretaries of the Company. It is recommended that such form of proxy be lodged with the transfer secretaries, by 08:00 on Friday, 16 October 2020.

Glossary

AGM	Annual General Meeting
ARR	Average room rate, sometimes referred to as average daily rate
Ash Brook	Ash Brook Investments Proprietary Limited (Registration number 2007/022550/07, a private company incorporated and registered in accordance with the laws of South Africa. HPF Properties Proprietary Limited owns 15% of Ash Brook.
B-BBEE	Broad-Based Black Economic Empowerment as per the B-BBEE Act
Capex	Capital expenditure
Companies Act	Companies Act, No 71 of 2008, as amended
CEO	Chief Executive Officer
CSDP	Central Securities Depository Participant
Covid-19 or Covid-19 pandemic	An infectious disease caused by a newly discovered coronavirus, as defined by the World Health Organisation
CTC	Cost to company
Directors	The directors of Hospitality from time to time
EBITDA	Earnings before interest, tax, depreciation and amortisation
EBITDAR	Earnings before interest, tax, depreciation, amortisation and rent
FD	Financial Director
FF&E	Furniture, fittings and equipment
F&V	Fixed and variable
GDP	Gross domestic product
Group	Hospitality and its subsidiaries
HCI	Hosken Consolidated Investments Limited (Registration number 1973/007111/06), a public company incorporated and registered in accordance with the laws of South Africa and listed on the JSE
Hospitality or the Company or the Fund	Hospitality Property Fund Limited (Registration number 2005/014211/06), a public company incorporated and registered in accordance with the laws of South Africa and listed on the JSE.
HPF Properties	HPF Properties Proprietary Limited, (Registration number 2005/020743/07), a wholly owned subsidiary of Hospitality
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IAR	Integrated annual report

Glossary continued

IT	Information Technology
JSE	The Johannesburg Stock Exchange operated by the JSE Limited (Registration number 2005/022939/06), a public company incorporated and registered in accordance with the laws of South Africa, and licensed to operate an exchange under the Financial Markets Act, 10 of 2012.
JSE Listings Requirements	The Listings Requirements of the JSE, as amended from time to time
King IV	The King Code of Governance Principles for South Africa 2016
LTIs	Long-term incentives
LTV	Loan-to-value and a wholly owned subsidiary of Hospitality
MOI	Memorandum of Incorporation
POPI	Protection of Personal Information
PwC	PricewaterhouseCoopers Inc.
Rand or R	South African Rand, the lawful currency of South Africa
REIT	Real Estate Investment Trust
Revpar	Revenue per available room
SATSA	South African Tourism Services Association
SENS	Stock Exchange News Service of the JSE Limited
SPV	Special-purpose vehicle
STI	Short-term incentives
STR	STR Global South African Hotel Review
STT	Securities transfer tax
The Board	The Board of Directors of Hospitality Property Fund Limited
The trust	The HPF Employee Incentive Trust
Tsogo Sun Group	Collectively, Tsogo Sun and its subsidiaries
Tsogo Sun	Tsogo Sun Holdings Limited
Tsogo Sun Hotels	Tsogo Sun Hotels Limited, previously known as Southern Sun Hotels Proprietary Limited, registration number 2002/006356/06 incorporated as a private company and converted to a public company on 15 May 2019.
VAT	Value added tax
WESGRO	Western Cape tourism, trade and investment

Corporate information

COMPANY SECRETARY
LR van Onselen for HPF Properties Proprietary Limited

REGISTERED OFFICE
Palazzo Towers West, Montecasino Boulevard, Fourways
Johannesburg, 2055
(Private Bag X200, Bryanston, Gauteng, 2021)

COMMERCIAL BANKERS
Nedbank Limited
(Registration number 1966/010630/06)
1st Floor, Corporate Park
Nedcor Sandton, 135 Rivonia Road
Sandown, Johannesburg, 2196
(PO Box 1144, Johannesburg, 2000)

Standard Bank of South Africa Limited
(Registration number 1962/000738/06)
3rd Floor, East Wing, 30 Baker Street, Rosebank
Johannesburg, 2196

TRUSTEES TO NOTE HOLDERS
TMF Corporate Services (South Africa) Proprietary Limited
(Registration number 2006/013631/07)
3rd Floor, 200 on Main
Cnr Main and Bowwood Roads
Claremont, Cape Town, 7708
(Postnet Suite 294, Private Bag X1005, Claremont, 7735)

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4 Lisbon Lane, Waterfall City, Jukskei View, Midrand, 2090
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SPONSOR AND CORPORATE ADVISER
Java Capital
6th Floor, 1 Park Lane,
Wierda Valley, Sandton 2196
(PO Box 522606, Saxonwold, 2132)

TRANSFER SECRETARIES
Computershare Investor Services Proprietary Limited
(Registration number 2004/003647/07)
Rosebank Towers
15 Biermann Avenue
Rosebank, Johannesburg, 2196
Private Bag X9000, Saxonwold, 2132

ATTORNEYS
Bowman Gilfillan Incorporated
(Registration number: 1998/021409/21)
11 Alice Lane, Sandton, Johannesburg, 2196
(PO Box 785812, Sandton, 2146)

Edward Nathan Sonnenbergs Inc.
(Registration number 2006/018200/21)
150 West Street
Sandown, Johannesburg, 2196
(PO Box 783347, Sandton, 2146)

Nortons Inc.
(Registration number 2009/006902/21)
135 Daisy Street
Sandton, Johannesburg, 2196
(PO Box 41162, Craighall, 2024)

Shapiro-Aarons Inc.
(Registration number 1997/002933/21)
1 Unity Street
Fellside, Johannesburg, 2192
(PO Box 1107, Johannesburg, 2000)

Forward-looking statement
Certain statements in this document may constitute 'forward-looking statements'. Such forward-looking statements reflect the Company's beliefs and expectations and involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Hospitality and its subsidiaries to be materially different from the future results, performance or achievements expressed or implied by such forward-looking statements. The Company undertakes no obligation to update publicly or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this document, or to reflect the occurrence of anticipated events. Past performance of the Company cannot be relied on as a guide to future performance. Forward-looking statements speak only as at the date of this document. You are cautioned not to place any undue reliance on such forward-looking statements. No statement in this document is intended to be a profit forecast.

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