for the year ended
31 March 2021

Consolidated annual financial statements

Hospitality
PROPERTY FUND

Southern Sun Cullinan

Westin Cape Town

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

Statement of responsibility by the Board of Directors

for the year ended 31 March 2021

Hospitality Property Fund Limited ('the Company' or 'Hospitality') and its subsidiaries' directors are required by the Companies Act of South Africa, Act 71 of 2008 as amended ('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 2021 and of the results of operations and cash flows for the period. In preparing the accompanying consolidated annual financial statements, the JSE Debt Listings Requirements and the requirements of the Companies Act, 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 mindfully interpreted and applied the King Report on Corporate Governance for South Africa 2016 ('King IV') as appropriate for the organisation. The Company is a wholly-owned subsidiary of Tsogo Sun Hotels Limited ('TGO' or 'TGO Group') and is included in TGO Group's application of King IV, which is available on TGO's website at http://www.tsogosun.com/investors/governance/king-iv. The board has adopted an appropriate governance framework for the Group and ensures the implementation thereof.

The board believes this framework resulted in the Group being a good corporate citizen and achieving an honest and ethical culture, good performance, effective control in the organisation and legitimacy with stakeholders. The Board of Directors ('the Board') has oversight of the relevant JSE Debt Listings disclosures and King IV and governance compliance, which are made available with these consolidated annual financial statements and is responsible for both its accuracy and its consistency with the annual financial statements.

The Board has reviewed the Group's budgets and cash flow forecast and available liquidity for the year to 31 March 2022. 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 5. 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, 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 2021

The preparation of the financial statements set out on pages 10 to 48 have been supervised by the Financial Director, R Erasmus, CA(SA). These annual financial statements were approved by the Board of directors on 29 July 2021 and are signed on its behalf by the below directors for the year ended 31 March 2021.

M de Lima
Chief Executive Officer

R Erasmus
Chief Financial 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 2021, 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

29 July 2021

Report of the audit and risk committee

for the year ended 31 March 2021

The Company, as a wholly-owned subsidiary of TGO, has adopted the corporate governance framework of TGO. Accordingly, the audit and risk committee of TGO serves as and fulfils the roles and responsibilities of the Company's audit and risk committee as allowed under section 94(2) of the Companies Act. TGO's audit and risk committee comprises 4 independent non-executive directors. A brief description of the audit and risk committee mandate, the number of meetings held, and other relevant information is disclosed on page 67 and page 68 of TGO's 2021 integrated annual report and can be accessed on http://www.tsogosun.com/investors/financial-reports.

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

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 and in terms of the committee's terms of reference and as set out in the supplementary governance reporting suite. 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. S Hassim is the individual registered auditor and member of the aforegoing firm who undertakes the audit. PricewaterhouseCoopers has been the auditor of the Group from the 2018 financial year-end, with the rotation of the designated audit partner during 2020 for the 2021 financial year end;
- as required by paragraph 7.3(e)(iii) of the JSE Debt Listings Requirements, the committee obtained the information listed in paragraph 22.15(h) of the JSE Listings Requirements for the purpose of the reappointment of the external auditor, PwC, and satisfied itself that the external auditor and the audit partner, S Hassim, 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 Debt Listings Requirements of the JSE;
- evaluated and is satisfied with the quality of the external audit and reports issued by the external auditors;
- in consultation with executive management, agreed the engagement letter, terms, external audit plan and fees for the 2021 financial year;
- in accordance with the Group's non-audit services policy, 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, particularly the implications of new standards that became effective during the year;
- evaluated and is satisfied with the implementation of the combined assurance framework and plan;
- considered the JSE's most recent report back on proactive monitoring of financial statements, and where necessary those of previous reports, and taken appropriate action where necessary to respond to the findings as highlighted in the JSE report when preparing the annual financial statements for the year ended 31 March 2021;
- evaluated and is satisfied with the effectiveness of the outsourced internal audit function;
- considered the outsourced internal audit service provider and is satisfied with their independence and ability to effectively complete the internal audit plan;
- ensured the Company has estbalished appropriate financial reporting procedures and that those procedures are operating;
- reviewed the written assessment of internal audit on the design, implementation and effectiveness of the internal financial controls, in addition to the findings noted by the external auditors during the course of their annual audit in support of their annual audit opinion. 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 ensured that the appointment of the auditor is tabled as a resolution at the annual general meeting.

Evaluation of the expertise and experience of the Chief Financial Officer

The committee has also considered and satisfied itself of the appropriateness of the expertise and experience of the Chief Financial Officer, Mr R Erasmus CA(SA), 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 2021 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 Debt Listings Requirements. To this end the committee recommended the annual financial statements to the Board for approval.

MH Ahmed
TGO Audit and Risk Committee Chairman

29 July 2021

Directors' report

for the year ended 31 March 2021

1. Nature of business

The Company was a Real Estate Investment Trust ('REIT') listed on the JSE Limited ('JSE') until 2 February 2021, when the Company de-listed from the main board of the JSE as an equity issuer, however, its corporate bonds remain listed on the JSE and the Company will therefore continue to comply with the JSE Debt Listings Requirements.

The Company and all its subsidiaries are South African incorporated companies domiciled in the Republic of South Africa and engaged principally in the hotels industry. Hospitality is a wholly owned subsidiary of TGO and has adopted TGO's governance structures. TGO's audit and risk committee (as allowed under section 94(2) of the Companies Act), social and ethics and remuneration and nomination committees serve as and fulfill the roles and responsibilities of Hospitality's committees. Hospitality's governance and King IV compliance has been incorporated in TGO's King IV compliance and governance section of its Integrated Annual Report, which can be found on TGO's website at www.tsogosun.com/investors/governance and www.tsogosun.com/investors/financial-reports, respectively.

2. Share capital

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

3. Review of financial results

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

4. Dividends

No dividends were declared during the financial year due to the impact of Covid-19. The Board will assess the payment of future dividends once operations have returned to normality and all minimum financial covenant requirements have been met.

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. Going concern

Covid-19

The Covid-19 pandemic ('Covid-19') and subsequent lockdown of the economy on 27 March 2020, and particularly, the hospitality sector, continues to have a significant 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 consolidated annual financial statements are prepared on the going-concern basis. Based on the cash flow forecasts, available cash resources and the other measures the Group has taken or plans to take as detailed above, management believes that the Group has sufficient resources to continue operations as a going concern in a responsible and sustainable manner.

As at 31 March 2021, the Group had net cash and cash equivalents of R138 million (March 2020: R291 million). The Group has R2.63 billion (March 2020: R2.63 billion) of interest-bearing debt and access to R320 million in undrawn committed facilities to meet its obligations as they become due. In preparing the cash flow forecasts utilised to assess going concern, the impact of the Covid-19 pandemic on the Group's operations and liquidity was considered. The directors have assessed the cash flow forecasts together with the other actions taken or proposed by management and is of the view that the Group has sufficient liquidity to meet its obligations and to counteract the expected losses that may result from the Covid-19 impact on the Group's operations in the next financial year.

As the Group's properties were required to be closed during the initial lockdown period, the inability to generate revenue during this period, together with the slow recovery once the hotels re-opened, resulted in the Group not being able to meet its net debt to EBITDA covenant requirement in terms of its funding agreements for the measurement period ended 30 September 2020, as well as both its net debt to EBITDA and Interest Cover Ratios measurement for the period ended at 31 March 2021. It is not expected that the Group will meet either of these minimum covenant requirements for the measurement period ending 30 September 2021. The Group has however received waivers from all its lenders, which includes secured noteholders, to comply with these minimum financial covenant ratios. The Group's gearing levels continue to remain manageable, with the loan-to-value ratio at 27% at 31 March 2021.

The Group continues to implement strategies of cash preservation and liquidity in order ensure that the Group can continue to operate as a going concern. The following measures are currently in place:
- 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 ending 30 September 2021, with the request for waiver of the 31 March 2022 measurement period to be considered post 30 September 2021;
- no distribution or dividend pay-out;
- the decrease of operating costs, such as salaries and wages through furlough; 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 2022. This will only be considered post 30 September 2021 and management has no reason to believe that the necessary waivers will not be granted. During the year, lenders introduced an additional covenant requirement that a minimum liquidity level of R125 million, which consists of cash and cash equivalents plus unutilised committed facilities.

At year end, cash and undrawn facilities amounted to R458 million (headroom of R333 million), which will provide sufficient liquidity to the Group over the next 12 months. Through engagements with the Group's lenders, monthly 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. The Group is in the process of finalising its insurance claim relating to the business interruption suffered as a consequence of the Covid-19 pandemic, which is limited to R150 million. The will also assist the Group in managing its liquidity requirements over the next 12 months.

Directors' report continued

for the year ended 31 March 2021

7. Holding company

The company is owned by Tsogo Sun Hotels Limited 'TGO', with a 40.8% direct interest in the Company and a 59.2% indirect interest via its wholly owned subsidiary, Tsogo Sun Investments Proprietary Limited 'TSI'.

8. Directorate and Committees

- MN von Aulock^ (Chairman) (resigned 31 March 2021)
- M Ahmed# (Lead Independent director) (resigned 31 March 2021)
- MR de Lima+ (Chief Executive Officer)
- R Erasmus+ (Financial Director and Debt Officer)
- L McDonald^
- JR Nicolella^ (resigned 31 March 2021)
- LM Molefi# (resigned 31 March 2021)
- JG Ngcobo# (resigned 31 March 2021)
- SC Gina# (resigned 31 March 2021)
- CC September# (resigned 31 March 2021)
- JA Awbrey# (appointed 7 October 2020) (resigned 11 March 2021)
- TF Mosololi# (appointed 7 October 2020) (resigned 11 March 2021)
- DL Smith# (appointed 7 October 2020) (resigned 11 March 2021)

 # Independent non-executive director.

^ Non-executive director.

** On the conclusion of TGO's acquisition of the Company, the Independent Board, established by Hospitality on 7 October 2020 to consider the acquisition transaction, was dissolved. JA Awbrey, TF Mosololi and DL Smith resigned from the Board as independent non-executive directors with effect from 11 March 2021.*

+ Executive director.

From the date that the Company became a wholly-owned subsidiary of TGO, it has relied on the corporate governance structures of its holding company and as a result, Hospitality's existing audit and risk, social and ethics and remuneration and nomination committees were dissolved and their roles were assumed by TGO's respective committees. All board members, with the exception of MR de Lima, R Erasmus and L McDonald resigned as a result with effect from 31 March 2021. The company's Chief Executive Officer and Financial Director attends meetings of TGO's board and audit and risk committee, respectively, by invitation.

A brief CV of each director standing for re-election has been included in the Notice of the Annual General Meeting to TGO, the sole shareholder of the Company. Summarised CV's of the board can be viewed at www.hpf.co.za/governance/our-board. The board of directors have further executed their responsibility under the evaluation policy.

9. Debt Officer

The board of directors considered and was satisfied with the competence, qualifications and experience of the debt officer, R Erasmus CA(SA), on appointment.

10. Subsidiary companies

Information relating to the Company's interest in its subsidiaries is detailed in note 31.

11. Associate companies

Information relating to the Company's interest in its associates is detailed in note 8.

On 1 October 2020, the Group acquired a further 80% of the shares in Vexicure Proprietary Limited, increasing its shareholding to 85%. On 1 November 2020, the Group acquired the 85% shares in Ash Brook Investments 72 Proprietary Limited not already owned, increasing its shareholding to 100%. As a consequence, both companies previously accounted for as associates are now accounted for as subsidiaries.

12. 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 2021, 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's consolidated financial statements set out on pages 10 to 48 comprise:

- the consolidated statement of financial position as at 31 March 2021;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statements of changes in equity for the year then ended;
- the consolidated cash flows 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.

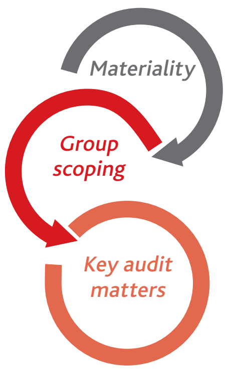
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the Independent Regulatory Board for Auditors' Code of Professional *Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards).*

Our audit approach

Overview



Overall Group materiality

R65.9 million, which represents 1% of consolidated net assets.

Group audit scope

The Group consists of twelve 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 R7.37 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	R65.9 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 an investment property company the users are likely to be more concerned with the net assets underlying the property portfolio 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.

The Group's financial statements are a consolidation of the Company, its ten subsidiaries, and a restricted employee share plan trust.

Our scoping included two components which were financially significant (based on its contribution to consolidated net assets), and two components of which identified financial statement line items were considered to be significant. For the remaining eight financially insignificant components we performed risk assessment procedures.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by us, as the Group engagement team and other firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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 R7.37 billion The majority of the Group's investment properties comprise hotel properties. At 31 March 2021, the carrying value of the Group's total investment property portfolio was R7,375 million representing a R2,604 million decrease compared to the prior year (refer to note 5 'Investment properties of the consolidated financial statements). This overall decrease comprises a decrease in the fair value of the hotel properties of R360 million, a decrease of R0.36 million due to a disposal of investment property and a decrease due to the transfer of investment property to owner occupied property amounting to a value of R2,264 million, offset by an increase of R19.7 million in capital expenditure. The Group's accounting policy is to measure investment properties at their fair value based on annual external valuations performed by independent valuers using the discounted cash flow model. The fair value 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 inputs made by management in determining the fair value of the investment properties are set out in Note 3.2 and Note 5 to the consolidated financial statements and include amongst others the key assumptions relating to property-specific exit capitalisation rates, discount rates and cash flows. The impact of COVID-19 and the associated impact on the property investment industry have resulted in changes to the inputs and assumptions into the valuation techniques applied and the inputs into the valuation models. We considered the year-end valuation of investment properties as a matter of most significance to our current year audit due to the: – inherent subjectivity of the key assumptions that underpin the valuation of investment properties and the heightened uncertainty involved in making these assumptions arising out of the COVID-19 pandemic; and – magnitude of the investment properties balance at year-end recorded in the consolidated statement of financial position, as well as the changes in fair value relating to the investment properties recorded in the consolidated statement of comprehensive income.	We obtained an understanding of the approaches followed by management and the independent valuers for the valuation of the Group's investment property portfolio through discussions with management and the external valuers, as well as inspection of minutes of meetings of the board of directors. We obtained an understanding of the following through enquiry with management and inspection of the relevant documents: – Entering and amending of leases in support of contractual rental income; – Setting and approval of budgets by HPF; – Consideration of external valuation reports by management; and – Board approval of the valuations obtained. We assessed the transfer of investment property to owner occupied property at the transfer date by performing the following procedures: – Assessed the fair value of the properties transferred; and – Evaluated the effective date of transfer. We noted no aspects requiring further consideration. We have evaluated the independent valuers by assessing their competence, independence and capabilities with reference to their qualifications and industry experience, and noted no aspects requiring further consideration. On a risk-based sample basis, we assessed the calculation of the fair values in the external valuers' valuation reports by performing the following procedures: – Utilised our internal valuation experts to assess the appropriateness of the valuation methodology and noted it to be consistent with industry norms; – Assessed the reasonableness of the cash flows of each property used by the valuers in the discounted cash flow models by assessing the forecasted cash flows against market information; – We noted no aspects in this regard requiring further consideration; – Assessed the reasonableness of the exit capitalisation rates and discount rates against market related data for similar investment properties and based on our work performed, we accepted management's assumptions; and – Making use of our internal valuation expertise, we performed a high-level reasonability assessment on a sample of properties based on industry benchmarks referred to above, and noted them to be within an acceptable range. We inspected the final valuation reports and agreed the fair values to the Group's accounting records noting no material exceptions.

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 2021', which includes the Directors' report, Report of the audit and risk committee and the Declaration by the Company Secretary as required by the Companies Act of South Africa. The other information does not include the consolidated 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 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, 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 and the Company'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 and the Company'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 and/or Company 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, actions taken to eliminate threats or safeguards applied.

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 5 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: S. Hassim
Registered Auditor

Johannesburg, South Africa

29 July 2021

Consolidated statement of financial position

as at 31 March

	Notes	2021 R'000	2020 R'000
ASSETS			
Non-current assets			
Investment properties	5	**7 374 895**	9 978 983
Property, plant and equipment	6	**2 215 024**	8
Other intangible assets	7	**1 379**	–
Investments in associates	8	**–**	979
Deferred income tax assets	9	**22 254**	–
		9 613 552	9 979 970
Current assets			
Inventories	10	**19 076**	–
Trade and other receivables	11	**106 533**	72 479
Cash and cash equivalents	12	**137 912**	290 575
		263 521	363 054
Total assets		**9 877 073**	10 343 024
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Stated capital	13	**9 051 194**	9 051 194
Non-distributable reserve	14	**(931 785)**	(553 392)
Common control reserve		**(1 106 013)**	(1 106 013)
Retained earnings		**(410 619)**	281 979
Total shareholders' equity		**6 602 777**	7 673 768
Non-controlling interests		**(12 376)**	–
Total equity		**6 590 401**	7 673 768
LIABILITIES			
Non-current liabilities			
Interest-bearing borrowings	15	**2 627 563**	2 546 606
Derivative financial instruments	33.1	**58 747**	50 229
Deferred income tax liabilities	9	**479 913**	–
Long-term incentive liabilities non-current portion	32.2	**2 651**	1 337
Provisions	16	**543**	–
		3 169 417	2 598 172
Current liabilities			
Trade and other payables	17	**106 796**	69 697
Long-term incentive liabilities current portion	32.2	**250**	1 387
Current portion of derivative financial instrument	33.1	**10 209**	–
		117 255	71 084
Total liabilities		**3 286 672**	2 669 256
Total equity and liabilities		**9 877 073**	10 343 024

The notes on page 14 to page 48 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 March

	Notes	2021 R'000	2020 R'000
Revenue		**244 263**	767 644
Revenue from contracts with customers	18	**78 075**	–
Revenue other than from contracts with customers	19	**166 392**	767 695
Rental income – straight-line accrual		**(204)**	(51)
Cost of sales	22	**(13 201)**	–
Amortisation and depreciation	23	**(27 488)**	(85)
Impairment of goodwill	35	**(30 156)**	–
Operating expenses	24	**(191 293)**	(51 027)
Operating (loss)/profit		**(17 875)**	716 532
Other income		**446**	1 665
Insurance proceeds		**–**	1 088
Sundry income		**447**	577
Net finance costs	25	**(194 497)**	(195 440)
Finance income		**5 927**	11 069
Finance costs		**(200 424)**	(206 509)
(Loss)/profit before sale of fixed assets, fair value adjustments, equity accounted profits and taxation		**(211 925)**	522 757
Profit on sale of property, plant and equipment		**103**	173
Fair value adjustments		**(378 189)**	(2 511 309)
Investment properties, before straight-lining adjustment		**(359 667)**	(2 461 320)
Change in fair value as a result of the straight-lining adjustment		**204**	51
Interest rate swaps		**(18 726)**	(50 040)
Loss before taxation		**(590 011)**	(1 988 379)
Equity-accounted profit from associate net of tax	8	**–**	208
Income tax expense	27	**(493 357)**	–
Loss for the year		**(1 083 368)**	(1 988 171)
Other comprehensive income			
Items that may not be reclassified subsequently to profit or loss:			
Total comprehensive income		**(1 083 368)**	(1 988 171)
Loss attributable to:			
Equity holders		**(1 070 991)**	(1 988 171)
Non-controlling interests		**(12 376)**	–
Earnings and diluted earnings per share (cents)		**(185.42)**	(344.22)

The notes on page 14 to page 48 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-distri-butable reserve R'000	Non-controlling interests R'000	Total R'000
Balance at 1 April 2019	9 037 060	(9 995)	343 035	(1 106 013)	1 957 968	–	10 222 055
Total comprehensive loss 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**
Total comprehensive loss for the year	**–**	**–**	**(1 070 991)**	**–**	**–**	**(12 376)**	**(1 083 367)**
Transfer to fair value reserves – investment properties	**–**	**–**	**359 667**	**–**	**(359 667)**	**–**	**–**
Transfer to fair value reserves – interest rate swaps	**–**	**–**	**18 726**	**–**	**(18 726)**	**–**	**–**
Balance at 31 March 2021	**9 061 189**	**(9 995)**	**(410 619)**	**(1 106 013)**	**(931 785)**	**(12 376)**	**6 590 401**
Notes	13	13			14		

The notes on page 14 to page 48 form an integral part of these consolidated financial statements.

Consolidated cash flow statement

for the year ended 31 March

	Notes	2021 R'000	2020 R'000
Cash flows from operating activities			
Cash generated from operations	28	**(5 991)**	781 245
Interest received	25	**5 927**	11 069
Finance costs paid	25	**(200 424)**	(206 509)
Income tax paid	27	**(32 451)**	–
Dividends paid to shareholders		**–**	(584 245)
Net cash (utilised)/generated from operating activities		**(232 939)**	1 560
Cash flows from operating activities			
Cash flows from investment activities			
Proceeds from disposal of property, plant and equipment		**103**	173
Acquisition and development of investment properties	5	**(19 722)**	(420 008)
Purchase of property, plant and equipment- replacement		**(3 653)**	–
Proceeds from disposal of investment property	5	**261**	3 568
Purchase of intangible assets	7	**(390)**	–
Acquisition of cash on business combination		**23 677**	–
Net cash from/(utilised) for investment activities		**276**	(416 267)
Cash flows from financing activities			
Interest-bearing liabilities raised		**107 111**	2 080 000
Interest-bearing liabilities repaid		**(27 111)**	(1 470 000)
Net cash inflow for investment activities		**80 000**	610 000
Net increase/(decrease) in cash and cash equivalents		**(152 663)**	195 293
Cash and cash equivalents at beginning of the year		**290 575**	95 282
Cash and cash equivalents at end of the year	12	**137 912**	290 575

The notes on page 14 to page 48 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 Debt 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 2020. In particular, the following standards had an impact on the Group's financial statements:

(i) Amendment to IFRS 3 *Business Combinations*

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.

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.

The effective date of the amendment is for years beginning on or after 01 January 2020 and the Group has adopted the amendment for the first time in the 2021 annual financial statements.

The changes to the definition of a business will likely result in future acquisitions being accounted for as asset acquisitions instead of business combinations.

(ii) Amendment to *IAS 1 and IAS 8*

The amendment 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 effective date of the amendment is for years beginning on or after 01 January 2020.

The Group has adopted the amendment for the first time in the 2021 annual financial statements, however, it has not had any impact on the 2021 annual financial statements.

1. Accounting policies continued

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 21.

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.

Notes to the consolidated financial statements continued

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 Property, plant and equipment

Property, plant 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.

1. Accounting policies continued

1.7 Financial instruments continued

Initial recognition and measurement 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 Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the Group'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 Group's financial assets carried at amortised cost.

Notes to the consolidated financial statements continued

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.

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) (up until the Group delisted from the JSE Limited) 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.

Notes to the consolidated financial statements continued

2. Adoption of significant accounting policies

During the year, four of the properties leased to a third party, namely Mount Grace, Edward, Hazyview Sun and SS Marine, were vacated due to the impact of Covid-19 on the tenants. These properties are now internally managed by the HPF Group. The Group signed management agreements with its controlling shareholder, Southern Sun Hotel Interests Proprietary Limited, resulting in these properties now being accounted for as owner-occupied properties, with the related assets, liabilities, revenues and expenditures of the properties being accounted for accordingly. As per note 8, *Investments in associates*, the Group increased its shareholding in its associates leasing the Westin and Radisson Blu Gautrain hotels. As a consequence, the associate companies are now accounted for as subsidiaries and the two hotels are now accounted for as owner-occupied properties. This resulted in a number of accounting policies being adopted for the year ended 31 March 2021, being:

- IAS 16 *Property, Plant and Equipment*
- IAS 2 *Inventories*
- IFRS 15 *Revenue*
- IAS 36 *Impairment*

2.1 Property, plant and equipment

Property that is held for use in the supply of services or held for long-term rental yields, and where companies in the Group occupy a significant portion, is classified as property, plant and equipment. Hotel properties that are managed by companies within the Group are classified as property, plant and equipment.

Property, plant 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.

Assets' residual values and useful lives are reviewed by management and adjusted, if appropriate, at each balance sheet date and annual independent valuations of land and buildings are completed by external valuators. Land and buildings comprise mainly hotels.

(i) Assets in the course of construction

Assets in the course of construction are carried at cost less any impairment loss. Cost includes professional fees and for qualifying assets certain borrowing costs as determined below. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

(ii) Depreciation

No depreciation is provided on freehold land or assets in the course of construction. In respect of all other property, plant and equipment, depreciation is provided on a straight-line basis at rates calculated to write off the cost less the estimated residual value, of each asset over its expected useful life as follows:

– Freehold properties	– 20 – 50 years
– Leasehold building improvements	– Shorter of the lease term or 50 years
– Computer equipment and software	– 2 – 10 years
– Vehicles	– 5 years
– Operating equipment	– 2 – 3 years

Operating equipment that meets the definition of property, plant and equipment (which includes kitchen utensils, crockery, cutlery, linen and uniforms) is recognised as an expense based on usage. The period of usage depends on the nature of the operating equipment and varies between two and three years.

(iii) 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.

(iv) Capitalisation of borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. The Group considers a period of greater than 12 months to be substantial. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

2. Adoption of significant accounting policies continued

2.2 Intangible assets (other than goodwill)

Intangible assets are stated at cost less accumulated amortisation which is determined on a straight-line basis (if applicable) and impairment losses. Cost is usually determined as the amount paid by the Group, unless the asset has been acquired as part of a business combination. Intangible assets acquired as part of a business combination are recognised at fair value at the acquisition date. Amortisation is included together with depreciation in the income statement.

Intangible assets with finite lives are amortised over their estimated useful economic lives, and only tested for impairment where there is a triggering event. The directors' assessment of the useful life of intangible assets is based on the nature of the asset acquired, the durability of the products to which the asset attaches and the expected future impact of competition on the business. Intangible assets acquired as part of a business combination are recognised separately when they are identifiable, and it is probable that economic benefits will flow to the Group.

(i) Computer software

Where computer software is not an integral part of a related item of property, plant and equipment, the software is capitalised as an intangible asset.

Capitalised computer software, licence and development costs are amortised over their estimated useful economic lives of two to 10 years which are reassessed on an annual basis.

2.3 Inventories

Inventories are valued at the lower of cost or net realisable value. Operating equipment utilised within 12 months is recognised as an expense based on usage. Provision is made for slow-moving goods and obsolete materials are written off. Cost is determined on the following basis:

- Consumable stores are valued at invoice cost on a first in, first out ('FIFO') basis; and
- Food and beverage inventories and operating equipment are valued at weighted average cost.

Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

2.4 Revenue from contracts with customers

Income comprises revenue from rental income (already in place), contracts with customers and other income.

The Group is in the business of providing hotel rooms, food and beverage, banqueting and venue hire, parking revenue and hotel sundry revenues. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Rooms revenue is recognised over time due to the nature of accommodation being consumed by customers over a period of time. The customer simultaneously receives and consumes the benefits provided as provision of a room is made to the customer.

Food and beverage revenue is recognised at a point in time. Banqueting and venue hire, and parking revenues are recognised over time as the customer receives and consumes the economic benefits. No element of financing is deemed present as the sales are made generally by cash or negotiated credit terms of 30 days. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer. The Group does not have significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers as the revenues mentioned above are all based on stand-alone selling prices and pre-determined settlement dates. The Group considers whether there are other promises in the contract that are separable performance obligations to which a portion of the transaction price needs to be allocated (customer loyalty programmes).

Customers purchasing the Group's facilities may enter the manager of the properties' customer reward programmes and earn rewards that are redeemable against future purchases of the Group's hotel rooms. The Group allocates a portion of the consideration received to these rewards programmes based on stand-alone selling prices. The amount allocated to the reward programme is deferred and is recognised as revenue when rewards are redeemed. When estimating standalone selling price of the rewards, the manager considers the likelihood that the customer will redeem the points based on historical usage and forfeiture rates and any adjustments to the contract liability are allocated to revenue (the rewards programme is held by the Group's shareholder, Tsogo Sun Hotels Limited).

Banqueting and venue hire, parking fees and hotel sundry revenues have been included as 'Other revenue' as these do not represent material revenue streams for the Group.

Notes to the consolidated financial statements continued

2. Adoption of significant accounting policies continued

2.5 Employee benefits

(i) Defined contribution plans

A defined contribution plan is a pension or provident plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

(ii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value in a similar manner to all long-term employee benefits.

(iii) Bonus plans – short-term incentives

The Group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments and the performance of the respective employees. The criteria are only finalised after the Group's year end. The Group recognises the liability where an estimate can be made of the amount to be paid and it is contractually obliged to do so or there is a past practice that has created a constructive obligation and the directors are of the opinion that it is probable that such bonuses will be paid. This liability is included in 'Provisions' in the balance sheet.

(iv) Share-based payments – equity-settled schemes

The manager of the properties under management operates an equity-settled share-based compensation plans.

The fair value of the employee services received by the company and/or its subsidiaries in exchange for the grant of the options is recognised as an expense.

(v) Goods or services settled in cash

Goods or services, including employee services received in exchange for cash-settled, share based payments, 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.

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

(vi) Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated liability to the employees for annual leave up to the balance sheet date. This liability is included in 'Trade and other payables' in the balance sheet.

(vii) Long-service awards

The Group recognises a liability and an expense for long-service awards where cash is paid to employees at certain milestone dates in their careers with the Group. The method of accounting and frequency of valuation are similar to those used for defined benefit schemes. The actuarial valuation to determine the liability is performed annually. This liability is included in 'Provisions' in the balance sheet.

2.6 Impairment of non-financial assets

At each balance sheet date the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit ('CGU') to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. If the recoverable amount of a CGU is estimated to be less than its carrying amount, the carrying amount of the CGU is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss may not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in profit or loss.

3. 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.

3.1 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.

3.2 Valuations of investment properties (estimate)

The Group has elected to measure investment properties at fair value. The fair value is determined by using the discounted cash flow method by discounting the rental income (based on expected net cash flows of the underlying hotels) after considering the capital expenditure requirements. The expected cash flows are discounted using an appropriate discount rate. The core discount rate is calculated using the R186 (long bond) at the time of valuation, to which premiums are added for market risk and equity and debt costs. The discount rate takes into account a risk premium associated with the local economy.

4. New standards and interpretations

4.1 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 2021 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 2022.	The amendments give clarity to determine what constitutes an asset or a liability in a business combination by referring to the 2018 Conceptual Framework for Financial Reporting.	The changes to the definition of a business will likely result in future acquisitions being accounted for as an asset acquisition instead of a business combination.
Effective for annual periods beginning on or after January 2022.	For some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets'.	The Group is still in the process of assessing the potential impact of the amendments to IFRS 3.
	The acquirer should not recognise contingent assets at the acquisition date.	
Amendment to IAS 1 The Group will apply the amendments to IAS 1 from 1 April 2022.	The amendments clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by expectations of the entity or events after the reporting date.	The Group is still in the process of assessing the potential impact of the amendments to IAS 1.
Effective for annual periods beginning on or after January 2022.		
Amendment to IAS 16 Property, Plant and Equipment. The effective date of the amendment is for years beginning on or after 1 January 2022.	The amendments to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received in selling items produced while the entity is preparing the asset for its intended use.	The Group is still in the process of assessing the potential impact of the amendments to IAS 16.
Amendment to IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The effective date of the amendment is for years beginning on or after 1 January 2022.	The amendment clarifies which costs an entity includes in assessing whether a contract will be loss-making. This assessment is made by considering unavoidable costs, which are the lower of the net cost of exiting the contract and the costs to fulfil the contract. The amendment clarifies the meaning of 'costs to fulfil a contract'. Under the amendment, costs to fulfil a contract include incremental costs and the allocation of other costs that relate directly to fulfilling the contract.	The Group is still in the process of assessing the potential impact of the amendments to IAS 37.

Notes to the consolidated financial statements continued

	2021 R'000	2020 R'000
5. Investment properties[1]		
Opening fair value amount	**9 978 983**	12 023 914
Acquisitions, capital expenditure and development of investment properties	**19 722**	420 008
Transfers to property, plant and equipment	**(2 263 575)**	–
Fair value adjustments recognised through profit or loss	**(359 667)**	(2 461 320)
Straight-line rental income accrual	**(204)**	(51)
Disposal of investment property	**(364)**	(3 568)
Closing fair value amount	**7 374 895**	9 978 983

[1] *The investment property portfolio serves as collateral against loans from funding banks and secured notes, as held by the Fund. Refer to note 15.*

During the year under review, assets for Mount Grace, Hazyview, Edward, Marine, Radisson Blu Gautrain and the Westin Cape Town were transferred from investment properties to property, plant and equipment in accordance with IAS 16 *Property, Plant and Equipment* and IAS 40 *Investment Property*. Refer to note 6 Property, Plant and Equipment for further details.

Amounts recognised in profit or loss for investment properties

	2021 R'000	2020 R'000
Rental income	**166 392**	767 644
Direct operating expenses from property that generated rental income	**45 068**	11 722

Measurement of fair value

Investment properties were independently valued at 31 March 2021. 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 2021 the significant unobservable inputs were as follows:
- A weighted average rental growth rate of 25.75%* (2020: 5.19%);
- A terminal capitalisation rate of 9.00% – 11.00% (2020: 9.00% – 13.50%); and
- A risk-adjusted discount rate of 13.00% – 14.50% (2020: 12.00% – 14.50%)

The Covid-19 pandemic has had a significant impact on the hospitality sector, with continued restrictions in traveling and conferencing. The recovery period in the sector is dependant on the vaccine rollout in South Africa, and feeder countries, which raises uncertainty in travel and the future expected trading in each hotel. A conservative view with a slow recovery has been forecast, and each property individually considered, resulting in increased values in some properties and decreased values in others but a further decrease of 3% in the fair value of the total portfolio. The risk free rate applied decreased by 1.01 percentage points to 9.49% at 31 March 2021 when compared to the prior year (31 March 2020: 10.50%). Although the risk free rate decreased, the independent valuer has taken a further conservative view on the discount rate and terminal capitalisation rates, supported by management, which has resulted in higher discount rates being maintained in the current year, in line with rates used in the prior year.

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 weighted average rental growth calculated at 25.75% is as a result of the initial recovery in Ebitdar in year one to three from the low and in some instances negative Ebitdar base due to the impact of the Covid-19 pandemic. From year four, most of the Ebitdar growth rates are in line with the long-term growth rate of 6%.*

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

	2021		2020	
	Increase Rm	**Decrease Rm**	Increase Rm	Decrease Rm
50bps change in the net cash flows	**368**	**(366)**	1 264	(497)
25bps change in the terminal capitalisation rate	**(100)**	**105**	(221)	141
50bps change in the discount rate	**(252)**	**262**	(336)	350

5. Investment properties continued

Minimum lease payments

At the balance sheet date the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following periods. The rentals below relate only to fixed rentals and do not include any variable rentals or escalations based on CPI:

	2021 R'000	2020 R'000
Not later than 1 year	150 695	294 747
Later than 1 year and not later than 5 years	588 344	921 050
Later than 5 years	1 262 093	2 291 467
	2 001 132	3 507 264

	Land and buildings R'000	Plant and equipment R'000	Total R'000
6. Property, plant and equipment			
Year ended 31 March 2021			
Opening net carrying amount	–	8	8
Additions	548	3 105	3 653
Transfers from investment property (refer note 5)	2 190 402	73 173	2 263 575
Depreciation charge	(20 114)	(7 258)	(27 372)
Impairments	(24 840)	–	(24 840)
Closing net carrying amount	2 145 996	69 028	2 215 024
At 31 March 2021			
Cost	2 190 950	78 910	2 269 860
Accumulated depreciation and impairment	(44 954)	(9 882)	(54 836)
Net carrying amount	2 145 996	69 028	2 215 024
Year ended 31 March 2020			
Opening net carrying amount	–	337	337
Additions	–	–	–
Disposals and operating equipment usage	–	(244)	(244)
Depreciation charge	–	(85)	(85)
Closing net carrying amount	–	8	8
At 31 March 2020			
Cost	–	2 632	2 632
Accumulated depreciation	–	(2 624)	(2 624)
Net carrying amount	–	8	8

The assets for Mount Grace, Edward, Hazyview and Marine hotels were transferred from investment properties to property, plant and equipment during the year due to premature termination of the lease agreement with the Marriott hotel group. The Group chose to no longer lease out the properties but to sign management agreements over the properties. As a result, the properties are now owner-occupied and need to be classified as Property, Plant and Equipment. The assets for the Radisson Blu Gautrain and Westin Cape Town hotels were also transferred from investment properties to property, plant and equipment during the year due to the Group increasing its shareholding to 100% of Ash Brook and 85% of Vexicure.

The properties transferred from Investment Properties to Property, Plant and Equipment are located as follows:

Property	Location
Mount Grace Country House & Spa	Magaliesburg – Gauteng
The Edward hotel	Durban – Kwazulu-Natal
Southern Sun Marine hotel	Port Elizabeth – Eastern Cape
Hazyview Sun	Hazyview – Mpumalanga
Radisson Blu Gautrain Hotel	Sandton – Gauteng
Westin Cape Town	Cape Town – Western Cape

A deemed cost of the assets was calculated as at the date of transfer. The difference in value between the cost at acquisition date to date of transfer resulted in a fair value adjustment in the properties. The fair value adjustments for Mount Grace, Hazyview, Edward, Marine, Radisson Gautrain and Westin Cape Town amounted to R26.77 million and is included with fair value adjustments in the income statement.

Investment properties were independently valued by P Venter, Professional Associate Valuer, from De Leeuw Valuers Cape Town (RF) Proprietary Limited at 31 March 2021. This resulted in impairments being recognised on the Marine, Edward and Westin hotels amounting to R24.84 million.

The Group reassessed the useful lives of property, plant and equipment during the year. Changes in useful lives and residual values are not considered significant estimates and judgements as any changes in useful lives and residual values have historically been gradual and any adjustments made, where necessary, have not been significant. There was no impact on depreciation for the year.

Notes to the consolidated financial statements continued

	Computer software R'000	Total R'000
7 Other intangible assets		
Year ended 31 March 2021		
Opening net carrying amount	–	–
Additions	390	390
Transfers	1 105	1 105
Amortisation charge	(116)	(116)
Closing net carrying amount	1 379	1 379
At 31 March 2021		
Cost	1 495	1 495
Accumulated amortisation	(116)	(116)
Net carrying amount	1 379	1 379
Year ended 31 March 2020		
Opening net carrying amount	–	–
Additions	–	–
Disposals	–	–
Amortisation charge	–	–
Closing net carrying amount	–	–
At 31 March 2020		
Cost	–	–
Accumulated amortisation	–	–
Net carrying amount	–	–

8. Investments in associates

The Group had the following interests in its principal associates:

Unlisted

- 15% in Ash Brook Investments 72 Proprietary Limited, a strategic partner and associate to the companies, as it leases the Radisson Blu Gautrain hotel property from HPF Properties Proprietary Limited (HPF). On 1 November 2020, the Group acquired the 85% shares in Ash Brook Investments 72 Proprietary Limited, increasing its shareholding to 100%. This resulted in Ash Brook Investments 72 Proprietary Limited being consolidated as a wholly-owned subsidiary from this date.
- 5% in Vexicure Proprietary Limited, a strategic partner and associate to the companies, as it leases the Westin Cape Town hotel property from HPF. On 1 October 2020, the Group acquired a further 80% of the shares in Vexicure Proprietary Limited, increasing its shareholding to 85%. This resulted in Vexicure Proprietary Limited being consolidated as a subsidiary from this date.

	2021 R'000	2020 R'000
Unlisted		
Opening balance	979	771
Profit attributable to HPF Properties Proprietary Limited	–	208
Associates now accounted for as subsidiary	(979)	–
At 31 March	–	979
Made up as follows:		
Listed	–	–
Unlisted	–	979
	–	979

Vexicure Proprietary Limited

In the prior year, Vexicure was a strategic partner and associate to the Group, as it leased the Westin Hotel property and contributed 13.2% to the rental income. The Group was represented by two (in terms of the shareholders' agreement) of the five directors of Vexicure's board of directors and therefore exercised significant influence. On 1 October 2020, Vexicure became an 85% subsidiary and the below summarised information is disclosed as at 30 September 2020.

Summarised financial information of material associates

	2021 R'000	2020 R'000
Summary of Vexicure statement of financial position which represents 100%		
Assets		
Non-current assets	2 554	2 554
Current assets	34 461	82 074
Total assets	37 015	84 628
Equity and liabilities		
Capital and reserves	(31 422)	4 111
Current liabilities	68 437	80 517
Total equities and liabilities	37 015	84 628
Summary of Vexicure statement of comprehensive income which represents 100%		
Gross (loss)/profit	(78)	235 153
Total operating expenditure	(14 267)	(131 581)
Rental to HPF Properties Proprietary Limited	(21 188)	(101 106)
Taxation	–	(993)
(Loss)/profit and total comprehensive (loss)/profit for the year	(35 533)	1 473
(Loss)/profit attributable to the Group	(1 777)	74
Vexicure Pty Ltd		
Opening balance	578	504
(Loss)/Profit attributable to HPF Properties Proprietary Limited	(1 777)	74
Derecognition of associate	1 199	–
	–	578

Notes to the consolidated financial statements continued

8 Investments in associates continued

Ash Brook Investments 72 Proprietary Limited

In the prior year, Ash Brook was a strategic partner and associate to the Group, as it leased the Radisson Blu Gautrain hotel property from HPF Properties Proprietary Limited and contributed significantly to the consolidated rental income. The Group was represented by two (in terms of the shareholders' agreement) of the four directors of its board of directors and therefore exercised significant influence. The majority shareholder held the casting vote in a general meeting. On 1 November 2020, all the shares not already owned by the Group, was acquired resulting in Ash Brook becoming a wholly-owned subsidiary and the below summarised information is disclosed as at 31 October 2020.

	2021 R'000	2021 R'000
Summary of Ash Brook statement of financial position which represents 100%		
Assets		
Non-current assets	333	23
Current assets	18 672	33 210
Total assets	19 005	33 233
Equity and liabilities		
Capital and reserves	(20 293)	1 886
Non-current liabilities	9 932	9 933
Current liabilities	29 366	21 414
Total equities and liabilities	19 005	33 233
Summary of Ash Brook statement of comprehensive income which represents 100%		
Gross profit	8 597	77 675
Total operating expenditure	(21 918)	(46 646)
Rental to HPF Properties Proprietary Limited	(9 272)	(29 788)
Taxation	–	(348)
(Loss)/profit and total comprehensive (loss)/profit for the year	(22 593)	893
Profit attributable to the Group	(3 389)	134
Ash Brook Investments 72 Proprietary Limited		
Opening balance	403	269
(Loss)/Profit attributable to HPF Properties Proprietary Limited	(3 389)	134
Derecognition of associate	2 986	–
	–	403
Vexicure Proprietary Limited		
Reconciliation to carrying amounts		
Opening net assets 1 April	4 111	2 879
Loss/(profit) for the period	(35 533)	1 473
Other reconciling items	–	(241)
Derecognition of associate	31 422	–
Closing net assets	–	4 111
Group's share in percentage (%)	5	5
Group's share in associate	–	206
Carrying amount	–	206
Ash Brook Investments 72 Proprietary Limited		
Reconciliation to carrying amounts		
Opening net assets 1 April	1 886	1 489
(Loss)/profit for the period	(22 593)	894
Year end adjustment	–	(497)
Derecognition of associate	20 707	–
Closing net assets	–	1 886
Group's share in percentage (%)	15	15
Group's share in associate	–	283
Carrying amount	–	283

		2021 R'000	2020 R'000
9.	**Deferred income tax**		
	The gross movements on the deferred tax account are as follows:		
	Net deferred tax liability at 1 April	–	–
	Acquisition of businesses	(3 247)	–
	Net income statement expense	460 906	–
	Net deferred tax liability at 31 March	**457 659**	–

The movement in deferred tax assets and liabilities during the year, without taking into account the offsetting of balances of entities within the Group, is as follows:

	Accelerated tax allowances R'000	Other assets[1] R'000	Provisions and accruals[2] R'000	Deferred revenue R'000	Tax losses R'000	Fair value gains on cash flow hedges R'000	Total R'000
Deferred tax liabilities							
Balance at 1 April 2019	–	–	–	–	–	–	–
Income statement expense/(credit)	–	–	–	–	–	–	–
Deferred tax expense relating to components of other comprehensive income	–	–	–	–	–	–	–
Balance at 31 March 2020	–	–	–	–	–	–	–
Income statement (credit)/expense	(33 563)	(2 764)	(345)	–	(78 291)	(5 243)	(120 207)
Income statement (credit)/expense - prior period under provision	756 852	(395)	(4 356)	–	(137 918)	(14 064)	600 120
Deferred tax expense relating to components of other comprehensive income	–	–	–	–	–	–	–
Deferred tax liability at 31 March 2021	723 289	(3 159)	(4 701)	–	(216 209)	(19 307)	479 913
Deferred tax assets							
Balance at 1 April 2019	–	–	–	–	–	–	–
Income statement credit/(expense)	–	–	–	–	–	–	–
Acquisition of subsidiary	–	–	–	–	–	–	–
Deferred tax credit relating to components of other comprehensive income	–	–	–	–	–	–	–
Balance at 31 March 2020	–	–	–	–	–	–	–
Acquisition of subsidiary					3 247	–	3 247
Income statement credit/(expense)	–	–	–	–	19 007	–	19 007
Income statement credit/(expense) - prior period under provision	–	–	–	–	–	–	–
Deferred tax credit relating to components of other comprehensive income	–	–	–	–	–		–
Deferred tax asset at 31 March 2021	–	–	–	–	22 254	–	22 254
Total net deferred tax liability/(asset)	723 289	(3 159)	(4 701)	–	(238 463)	(19 307)	457 659

[1] *Includes investment property, financial assets at FVOCI and prepaid expenditure.*
[2] *Includes remeasurements of post-employment defined benefit liability.*

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

Deferred tax has been provided on estimated tax losses of the Group of R768 million (2020: nil) mainly incurred by HPF Properties Proprietary Limited. The directors have considered the future profitability of this entity and, on the basis that the entity is projected to produce taxable income in the foreseeable future, these deferred tax assets are considered fully recoverable.

The net deferred tax liability of R600m relating to the prior year, is as a consequence of the Group no longer qualifying as a REIT and the resultant deferred tax being recognised on historical allowances and assessed losses.

Notes to the consolidated financial statements continued

	2021 R'000	2020 R'000
10. Inventories		
Food and beverage	**2 141**	–
Operating equipment	**1 762**	–
Consumable stores	**15 173**	–
	19 076	–

Inventory utilised during the year to generate income amounted to R13.2 million (2020: Rnil) and were recognised in cost of sales.

	2021 R'000	2020 R'000
11. Trade and other receivables		
Financial instruments		
Financial assets measured at amortised cost		
Trade receivables – net	**11 926**	26 709
Trade receivables – gross	**31 269**	26 709
Trade receivables – loss allowance	**(19 343)**	–
Deposits	**5 554**	377
Operator loans	**56 452**	25 300
Other receivables	**10 077**	9 111
Guarantees	**3 341**	3 341
Sundry debtors	**–**	2 620
Non-Financial instruments		
Prepayments	**1 737**	329
VAT receivable	**17 446**	4 692
	106 533	72 479

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 2021, trade receivables of R4.5 million (2020: R0.7 million) were past due but not impaired. Of this amount, R2.4m relates to Birchwood and the balance comprises various smaller amounts.

At 31 March 2021, trade receivables of R19.3 million (2020: R0.1 million) were impaired and provided for. The impaired receivables for 2021 relates to rent owing from Radisson Gautrain retail tenants, Kopanong, Edward, Hazyview and Mount Grace hotels; as well as Radisson Gautrain and Westin Cape Town hotels prior to Ash Brook and Vexicure becoming subsidiaries of the Group. The impaired receivable of R0.1 million for 2020 relates to the VAT portion on a capital project completed in prior years.

11. Trade and other receivables continued

Credit risk

Trade receivables

The loss allowance as at 31 March 2021 (on adoption of IFRS 9) was determined as follows for trade receivables:

	Current R'000	30 to 60 days R'000	60 to 90 days R'000	More than 90 days R'000	Total R'000
Expected loss rate %	0.9%	9.8%	20.2%	80.4%	23.0%
Gross carrying amount	19 998	2 176	812	8 283	31 269
Loss allowance	(173)	(214)	(164)	(6 656)	(7 207)

	2021 Rm	2020 Rm
At 1 April calculated under IFRS 9	–	–
Increase in loss allowance	19 343	–
At 31 March	19 343	–

The loss allowance relates to tenants experiencing financial difficulties and where rent owing to the Group seems to be unrecoverable or would take a significant time to recover, if at all. Bad debts have been provided for rent owing from Radisson Gautrain hotel and the retail tenants, Westin Cape Town, Kopanong, Edward, Hazyview and Mount Grace hotels.

	2021 R'000	2020 R'000
12. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Current accounts	67 699	29 569
Call accounts	70 213	261 006
	137 912	290 575
The Company has an unutilised committed revolving credit facility of R300 million with the Standard Bank of South Africa Limited and R20 million with Nedbank Limited at 31 March 2021. 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	Ba2	Ba1
– FirstRand Bank Limited	Ba2	Ba1
– Nedbank Limited	Ba2	Ba1

Notes to the consolidated financial statements continued

		2021 R'000	2020 R'000
13. Share Capital			
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 (2020: 578 154 207)		9 051 194	9 051 194
Reconciliation			
Opening balance		9 051 194	9 027 065
Reinstatement of appraisal right shares		–	24 129
Closing balance		9 051 194	9 051 194
Number of shares			
No par value ordinary shares		577 591 433	577 591 433
– Shares in issue		578 154 207	578 154 207
– HPF Employee Incentive Trust shares		(562 774)	(562 774)
Weighted average number of shares			
No par value ordinary shares		577 591 433	577 591 433
– Shares in issue		578 154 207	578 154 207
– HPF Employee Incentive Trust shares		(562 774)	(562 774)
Distribution per share (cents)			
No par value share		–	35,40
– Interim		–	35,40
– Final		–	–
14. Non-distributable reserve			
Fair valuation of investment properties		(3 137 936)	(2 778 269)
Fair valuation of interest rate swap		(182 697)	(163 971)
Fair value uplift recognised as part of the common control transaction		2 388 848	2 388 848
		(931 785)	(553 392)
15. 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	300 000
– Secured note HPF13 – expiry: 30 September 2024	3-month JIBAR +1.50%	800 000	800 000
		1 700 000	1 700 000
Standard Bank of South Africa Limited			
– Facility B (expiry: 31 August 2022)	3-month JIBAR +1.98%	500 000	500 000
– Facility C (revolving credit facility of R500 million) (expiry: 19 December 2022)	Prime less 1.90%	200 000	200 000
		700 000	700 000
Nedbank Limited			
– Revolving Credit Facility (R250 million) - expiry: 13 month notice	3-month JIBAR +1.50%	230 000	150 000
Debt raising fee		(2 437)	(3 394)
Total non-current interest-bearing liabilities		2 627 563	2 546 606
Total interest-bearing liabilities		2 627 563	2 546 606
Total interest-bearing liabilities payable in the following financial years:			
31 March 2022		–	150 000
31 March 2023		1 530 000	1 300 000
31 March 2024		300 000	300 000
31 March 2025		800 000	800 000
		2 630 000	2 550 000

15. Interest-bearing borrowings

The Fund has no facilities that are repayable within the next 12 months and the average maturity profile of the Fund's facilities is 2.29 years. In March 2021, Global Credit Ratings (GCR) downgraded the Fund's long-term credit rating to BBB-(za) and short-term credit rating to A3(za). The secured notes credit rating was downgraded to A(za)(EL) and the overall outlook has been placed on negative.

The Group's facilities of R2.95 billion and the total drawn down facilities of R2.63 billion are secured in terms of a first mortgage bond over investment properties valued at R9.6 billion (2020: R10.0 billion) as independently valued by P Venter, Professional Associate Valuer, De Leeuw Valuers Cape Town (RF) Proprietary Limited. Included as part of trade and other payables (note 17) is interest accrued of R0.3 million (2020: R0.1 million) relating to the abovementioned interest-bearing liabilities. The unamortised portion of the debt raising fee amounted to R2.4 million (2020: R3.4 million).

Loan to value ('LTV')

The LTV as at 31 March 2021 is required to be 45% (2020: 45%) or lower.

As at 31 March 2021, the Group's LTV was 27% (2020: 26%).

Interest cover ratio ('ICR')

The ICR requirement for the year ended 31 March 2021 is a minimum of 2.0 times (2020: 2.0 times). Lender approval received to waive this covenant requirement for the measurement periods ended 30 September 2020, 31 March 2021 and 30 September 2021.

For the year ended 31 March 2021, the Group ICR cover was 0.3 times (2020: 3.7 times).

Net debt to EBITDA

The net debt to EBITDA requirement for the year ended 31 March 2021 is a maximum of 3.5 times (2020: 3.5 times). Lender approval received to waive this covenant requirement for the measurement periods ended 30 September 2020, 31 March 2021 and 30 September 2021.

For the year ended 31 March 2021, the Group net debt to EBITDA was 39.4 times (2020: 3.2 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 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**
Cash received	**–**	**107 111**
Cash paid	**(152 663)**	**(27 111)**
Other non-cash movements (capitalised prepaid borrowing costs)	**–**	**–**
Net debt as at 31 March 2021	**137 912**	**2 630 000**

	2021 R'000	2020 R'000
Financial liabilities measured at amortised cost		
Bank borrowings	**930 000**	850 000
Corporate bonds (Domestic Medium-term Note Programme)	**1 700 000**	1 700 000
	2 630 000	2 550 000
Less: Facility raising fees	**(2 437)**	(3 394)
	2 627 563	2 546 606

Notes to the consolidated financial statements continued

	2021 R'000	2020 R'000
16. Provisions		
At 1 April		
Long-service awards	–	–
	–	–
Created during the year		
Long-service awards	543	–
	543	–
Utilised during the year		
Long-service awards	–	–
	–	–
At 31 March		
Long-service awards	543	–
Total provisions	543	–
Less: Current portion	–	–
Non-current portion	543	–

Long-service awards

The Group pays its employees a long-service benefit. The benefit is paid when employees reach predetermined years of service. The method of accounting and frequency of valuation are similar to those used for defined benefit schemes. The actuarial valuation to determine the liability is performed annually by independent actuaries using the projected unit credit method.

	2021 R'000	2020 R'000
17. Trade and other payables		
Trade payables	6 425	21 422
Accrued interest	259	116
Tenant deposits	17 438	2 374
Short-term incentive	4 993	4 314
Operator loans	10 831	15 356
Other payables	66 850	26 115
	106 796	69 697
18. Revenue from contracts with customers		
Rooms revenue	45 248	–
Food and beverage revenue	19 877	–
Other revenue	12 950	–
– Spa treatments	7 144	–
– Cancellation fees/guest services	1 968	–
– Equipment/room rentals	1 096	–
– Parking revenue	1 791	–
– Other sundry revenue	951	–
	78 075	–
19. Revenue other than from contracts with customers		
Contractual rental income	166 392	767 695
– Fixed	176 866	517 112
– Variable	(10 474)	250 583
Rental income – straight-line accrual	(204)	(51)
	166 188	767 644

	2021 R'000	2020 R'000
20. Reconciliation between earnings and headline earnings		
Total loss for the year	(1 070 991)	(1 988 171)
Adjustments:		
Profit on sale of property, plant and equipment	(103)	(173)
Impairment of property, plant and equipment	24 840	–
Fair value – investment properties revaluation	359 667	2 461 269
Straight-line adjustment	204	51
Total tax effect of adjustments	(107 690)	–
Headline earnings (shares)	(794 073)	472 976
Number of shares in issue ('000)	577 591	577 591
Weighted average number of shares in issue ('000)	577 591	577 591
Earnings and diluted earnings per share (cents)	(185,42)	(344,22)
Headline earnings and diluted headline earnings per share (cents)	(137,48)	81,89

21. 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.

	2021 R'000	2020 R'000
Total Assets		
Western Cape	4 158 755	4 474 900
Gauteng	2 758 318	2 776 883
Rest of Africa	2 049 705	2 076 900
SUN1	624 520	650 300
Head Office	285 775	364 041
	9 877 073	10 343 024
Rental Revenue		
Western Cape	48 430	308 428
Gauteng	61 438	231 396
Rest of Africa	39 534	175 152
SUN1	16 991	52 668
Hotel Revenue		
Western Cape	26 725	–
Gauteng	45 527	–
Rest of Africa	5 822	–
SUN1	–	–
	244 467	767 644
Operating profit for the period		
Western Cape	(2 309)	305 844
Gauteng	37 472	222 252
Rest of Africa	(2 569)	175 152
SUN1	14 780	52 668
Head Office income	446	1 665
Head Office expense	(65 248)	(39 384)
	(17 428)	718 197
Reconciliation of headline earnings to distributable earnings		
Headline earnings (shares)	(794 073)	472 976
Insurance proceeds	–	(1 088)
Fair value – interest rate swaps	18 726	50 040
Income tax expense	493 357	–
Distributable earnings[1]	(281 990)	521 928

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

Please refer to note 29 on dividends declared in the period.

Notes to the consolidated financial statements continued

	2021 R'000	2020 R'000
22. Cost of sales		
Cost of sales – Food & Beverage	6 827	–
Cost of sales – Other	6 374	–
	13 201	–
23. Amortisation and depreciation		
Amortisation of intangible assets	116	–
Depreciation of property, plant and equipment	27 372	85
	27 488	85
24. Operating profit		
Operating profit is stated after charging the following:		
Auditor's remuneration – external	2 390	2 597
– Audit fees	2 466	2 997
– Audit fee – prior year	(76)	(400)
Auditor's remuneration – internal	490	25
Management fee paid	4	(83)
Impairment charge for bad and doubtful debts, net of reversals	19 050	–
Property costs – rates, water and electricity	42 675	8 014
Rooms departmental expenses	6 817	–
Security and surveillance costs	3 411	–
Executive directors' and employee remuneration	53 103	20 520
Impairment of property, plant and equipment	24 840	–
Non-executive directors' remuneration	1 563	3 127
Legal fees	1 180	1 203
Property and equipment rentals	1 632	884
Pre-opening expenses	3 051	–
Other	31 087	14 825
Cost to income ratio[1]		
Total revenue	166 188	767 644
Total head office costs	56 163	51 112
Total hotel operating costs	135 130	–
Percentage of revenue (%)	33,79	6,66

[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.*

	2021 R'000	2020 R'000
25. Net finance costs		
Finance income		
Bank and other cash	5 927	11 069
Finance costs		
Interest-bearing liabilities	(200 424)	(206 509)
	(194 497)	(195 440)
26. Other non-operating gains/(losses)		
Gains on disposal of property, plant and equipment	103	(173)
Fair value losses	(378 189)	(2 511 309)
– Investment properties	(359 463)	(2 461 269)
– Derivatives	(18 726)	(50 040)
Total other non-operating losses	(378 086)	(2 511 482)

	2021 R'000	2020 R'000
27. Income tax expense		
Major components of the tax expense		
Current taxation		
South African normal tax – current year	–	–
South African normal tax – prior period under provision	32 451	–
	32 451	–
Deferred taxation		
South African deferred tax – current year (credit)/charge	(139 214)	–
South African deferred tax – prior period under provision	600 120	–
	460 906	–
	493 357	–

	2021 %	2020 %
Reconciliation of the tax expense		
Reconciliation between applicable tax rate and average effective tax rate		
South African normal tax rate	28,00	28,00
Dividend (qualifying distribution)	0,00	(28,00)
Prior year under provision of current tax	(5,50)	0,00
Accelerated tax allowances	(122,57)	0,00
Provisions and accruals	0,80	0,00
Other assets	0,54	0,00
Tax losses	8,44	0,00
Fair value gains on cash flow hedges	3,27	0,00
Deferred tax – current year credit	3,40	0,00
Effective tax rate	(83,62)	0,00

	2021 R'000	2020 R'000
Tax expense		
Current tax – current year charge	–	–
– Ash Brook and Vexicure taxable losses	(20 057)	–
Current tax – under provision prior year	32 451	–
Deferred tax – current year credit	(119 156)	–
Deferred tax – under provision prior year	600 120	–
	493 357	–

In the prior year, the Group had no liability for normal taxation as all profits were expected to be paid out as a dividend (qualifying distribution) and shareholders were consequently subject to tax according to the individual shareholder's tax status. Due to the Group not paying all the distributable profit out in the prior year, a consequential tax amount of R32.4 million was paid in the current year.

During the year, the Group delisted from the JSE Limited exchange, resulting in it no longer qualifying as a REIT company in terms of Section 25BB of the Income Tax Act. As a result, the Group can claim certain allowances on its properties that could not be claimed whilst the Group was a REIT, as well as pay capital gains tax on any gains on disposal of its assets. Therefore, the net impact of no longer qualifying as a REIT, is the recognition in the current year of a net deferred tax liability of R600 million before the current year's adjustments/movements are taken into account.

Notes to the consolidated financial statements continued

	2021 R'000	2020 R'000
28. Cash generated from operations		
Profit before tax	(590 011)	(1 988 379)
Adjustments for:		
Amortisation and depreciation	27 488	85
Impairment charge for bad and doubtful debts, net of reversals	19 050	–
Profit on disposal of furniture, fittings and equipment	(103)	(173)
Straight-lining accrual of rent	204	51
Movement in provisions	543	
Interest income	(5 927)	(11 069)
Finance costs	200 424	206 509
Impairment of property, plant and equipment	24 840	–
Impairment of goodwill	30 156	–
Fair value gains	378 392	2 511 360
Other non-cash items	–	245
Changes in working capital		
Increase in inventories	(19 076)	
Trade and other receivables	(126 202)	72 031
Trade and other payables	54 054	(10 274)
LTI liability	177	859
	(5 991)	781 245

	2021 R'000	2020 R'000
29. Dividends declared		
Ordinary		
Final dividend	–	–
Interim dividend	–	204 458
Shareholder appraisal rights dividend	–	10 663
	–	215 121
Final dividend declared on	–	–
Final dividend paid on	–	–
Final dividend cents per share	–	–
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
Interim dividend paid on	–	17 December 2019
Interim dividend cents per share	–	35,40
Reconciliation to the Statement of Changes in Equity		
Final dividend declared	–	–
Employee Incentive Trust inter-company dividend eliminated on consolidation	–	–
Final dividend per statement of changes in equity	–	–
Interim dividend per statement of changes in equity	–	204 458
Shareholder appraisal rights dividend	–	10 663
Shareholder appraisal rights dividend per statement of changes in equity	–	10 663

30. Commitments

Until the Covid-19 pandemic has passed, limited capital expenditure will be incurred. At year end, R10 million (2020: R34 million) of capital expenditure was committed and contracted for.

31. Related parties

Tsogo Sun Hotels Limited	Ultimate holding company
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)

Up until 30 September 2020, Vexicure was a subsidiary of Pan-African Capital Holdings Proprietary Limited (80% held). HPF Properties Proprietary Limited owned a 5% shareholding in the Company. On 1 October 2020, the Group acquired a further 80% of the shares in Vexicure from Pan-African Capital Holdings, increasing its shareholding to 85%. This resulted in Vexicure being consolidated as a subsidiary from this date. M de Lima and R Erasmus, N Khan (resigned 1 October 2020) and Z Kubukeli (resigned 1 October 2020) are directors of Vexicure. Vexicure leases the Westin Cape Town Hotel property from the Group.	**Vexicure Proprietary Limited**
Up until 31 October 2020, HPF Properties Proprietary Limited owned 15% of Ash Brook. On 1 November 2020, the Group acquired the remaining 85% shares in Ash Brook, increasing its shareholding to 100%. This resulted in Ash Brook being consolidated as a wholly-owned subsidiary from this date. M de Lima and R Erasmus and M Madumise (resigned 1 November 2020) are directors of Ash Brook. Ash Brook leases the Radisson Blu Gautrain Hotel property 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. R Erasmus is the trustee 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**
Southern Sun Hotel Interests Proprietary Limited manages the Mount Grace, Edward, Hazyview Sun and SS Marine.	**Southern Sun Hotel Interests Proprietary Limited**

	2021 R'000	2020 R'000
Related-party transactions and balances		
Associates		
Vexicure Proprietary Limited		
Rental received	**9 822**	107 984
Dividend received	**–**	–
Trade and other receivables	**–**	–
Trade and other payables	**–**	11 437
Tenant deposit and guarantee held as security on leases	**181**	181
Ash Brook Investments 72 Proprietary Limited		
Rental received	**6 503**	25 177
Trade and other receivables	**–**	(182)
Tenant deposit and guarantee held as security on leases	**262**	1 746
Southern Sun Hotel Interests Proprietary Limited		
Management fees paid	**(1 322)**	–

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

	2021 R'000	2020 R'000
Reshub Proprietary Limited		
Rental received	**111 862**	412 117
Trade and other receivables	**1 814**	(11 616)
Majormatic 194 Proprietary Limited		
Rental received	**7 411**	42 655
Trade and other receivables	**–**	(3 721)

Notes to the consolidated financial statements continued

	Salaries R'000	Benefits R'000	Bonus[2] R'000	Share incentive scheme R'000	Total R'000
32. Directors' emoluments					
Executive					
2021					
MR de Lima (CEO)	**1 451**	**106**	**–**	**22**	**1 579**
R Erasmus (CFO)	**1 119**	**108**	**–**	**105**	**1 332**
	2 570	**214**	**–**	**127**	**2 911**
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 (CFO – 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 2020 financial year.

	Directors' fees R'000	Total R'000
Non-executive		
2021		
MN von Aulock*	**198**	**198**
L McDonald	**132**	**132**
JR Nicolella*	**129**	**129**
M Ahmed*	**239**	**239**
LM Molefi*	**181**	**181**
JG Ngcobo*	**184**	**184**
SC Gina*	**132**	**132**
CC September*	**129**	**129**
J Awbrey#	**136**	**136**
D Smith#	**136**	**136**
T Mosololi#	**136**	**136**
	1 732	**1 732**
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
M 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

** Resigned 31 March 2021*
 # Appointed 7 October 2020 and resigned 11 March 2021

Fees are exclusive of VAT

	Salaries	Benefits	Bonus	Share incentive scheme	Total
32. Directors' emoluments continued					
Payments to directors borne by group companies					
2021					
MN von Aulock	**2 216**	**146**	**–**	**–**	**2 362**
L McDonald	**1 613**	**118**	**–**	**–**	**1 731**
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

32.1 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 was a bonus scheme whereby participants received cash bonuses, the amounts of which was 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 vested 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

	2021	2020
Average share price utilised to value the liability (R)	**2.12**	5.46
Number of appreciation units granted and outstanding ('000)	**1 686**	2 066
Number of appreciation units vested and outstanding ('000)	**3 660**	1 594

The Group recognised an expense of R0.2 million (2020: R0.9 million) related to this bonus appreciation plan during the year and at 31 March 2021, the Group had recorded liabilities of R2.9 million (2020: R2.7 million) in respect of this plan. The current portion of this liability is R0.3 million (2020: R1.4 million).

Hospitality Property Fund Share Appreciation Bonus Plan

The Group recognised an expense of Rnil (2020: Rnil) related to this bonus appreciation plan during the year and at 31 March 2021, the Group had recorded liabilities of Rnil (2020: Rnil) in respect of this plan. The current portion of this liability is Rnil (2020: Rnil). The strike price at grant date amounted to R0 per share for 31 March 2021. The shares allocated to employees will be converted to the Tsogo Sun Hotels Share Appreciation Bonus Plan during the next financial year.

	2021	2020
Average share price utilised to value the liability (R)	**–**	9.78
Number of appreciation units granted and outstanding ('000)	**1 630**	828
Number of appreciation units vested and outstanding ('000)	**–**	–

32.2 Total long-term incentive liabilities

	2021	2020
Opening balance	**2 724**	1 865
Charge to profit or loss	**177**	859
	2 901	2 724
Less: Current portion	**250**	1 387
Non-current portion	**2 651**	1 337

Notes to the consolidated financial statements continued

33. Financial risk management & further financial instrument disclosures

Financial instruments consist mainly of deposits with banks, trade and other receivables, loans from banks, 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.

33.1 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.

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

	Nominal value Group	
	2021 R'000	2020 R'000
Variable-rate instrument		
Financial liabilities[1]	**(2 627 563)**	(2 546 606)
	(2 627 563)	(2 546 606)
Effect of interest rate swaps	**1 600 000**	1 600 000
	(1 027 563)	(946 606)

[1] *Prepaid debt raising fees of R2.4 million (2020: R3.4 million) have been included.*

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

	Nominal rate	Commence-ment date	Maturity	Nominal value R'000	**Fair value at 31 March 2021 R'000**	Fair value at 31 March 2020 R'000
ABSA Limited – Swap 1	7,42%	Feb-19	Mar-22	300 000	**(10 209)**	(12 206)
ABSA Limited – Swap 2	7,24%	Aug-17	Jun-22	500 000	**(19 234)**	(19 950)
Nedbank Limited – Swap 1	7,16%	Feb-18	Mar-23	300 000	**(15 603)**	(12 661)
Rand Merchant Bank – Swap 1	6,69%	Jan-20	Sep-24	500 000	**(23 910)**	(5 412)
				1 600 000	**(68 956)**	(50 229)

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 2021 R'000**	Non-current R'000	Current R'000	Fair value at 31 March 2020 R'000
Derivative asset	**–**	**–**	**–**	–	–	–
Derivative liability	**(58 747)**	**(10 209)**	**(68 956)**	(50 229)	–	(50 229)
	(58 747)	**(10 209)**	**(68 956)**	(50 229)	–	(50 229)

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 R10.3 million (2020: R8.9 million), including the effects of interest rate swaps. This analysis assumes that all the other variables remain constant.

33. Financial risk management & further financial instrument disclosures continued

33.2 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 re-borrowing 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
Group 31 March 2021			
Interest-bearing liabilities	**2 604 855**	**173 840**	**2 431 015**
Derivative liability	**68 956**	**10 209**	**58 747**
Trade and other payables	**106 796**	**106 796**	**–**
	2 780 607	**290 845**	**2 489 762**
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

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 to 60% of the directors' bona fide valuation of the consolidated property portfolio. Interest bearing borrowings are however limited to a maximum of 45% of the independent valuation prepared on the property portfolio.

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

	31 March 2021 R'000	31 March 2020 R'000
Property valuation	**9 665 083**	9 978 983
60% thereof	**5 799 050**	5 987 389
Effective borrowings	**2 627 563**	2 546 606
Unutilised borrowing capacity	**3 171 486**	3 440 783
Facilities available in terms of agreements at year end	**2 950 000**	2 950 000
Undrawn facilities	**322 437**	403 394
Gearing ratio	**27.2**	25.5

Notes to the consolidated financial statements continued

33. Financial risk management & further financial instrument disclosures continued

33.3 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			
2021			
– Tenant 1	**42**	**60%**	**1 814**
– Tenant 2	**6**	**27%**	**(63)**
– Tenant 3	**2**	**3%**	**(147)**
– Balance	**4**	**10%**	**118**
	54	**100%**	**1 722**
2020			
– Tenant 1	42	57%	(15 337)
– Tenant 2	7	21%	(10 389)
– Tenant 3	2	7%	1 744
– Balance	3	15%	(2 008)
	54	100%	(25 990)

** Due to the negative impact of Covid-19 (as explained in note 34) 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.

33.3.1 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 2021 R'000	Group 2020 R'000
Cash and cash equivalents	**137 912**	290 575
Trade receivables	**31 270**	26 709
Deposits	**5 554**	377
Operator loans	**56 452**	25 300
Other receivables	**10 077**	9 111
Guarantees	**3 341**	3 341
Sundry debtors	**–**	2 620
	244 606	358 033
Tenant deposits	**34 476**	33 174
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.

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 receivables

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

33 Financial risk management & further financial instrument disclosures continued

33.3 Credit risk continued

33.3.2 Impairment losses

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

	Gross carrying amount 31 March 2021 R'000	Gross carrying amount 31 March 2020 R'000
Current (< 30 days)	19 825	25 487
Past due but not yet impaired (30 – 60 days)	1 962	(645)
Past due but not yet impaired (60 – 90 days)	748	1 163
> 90 days	64 815	41 454
Total	**87 350**	67 459

Of the total over 90 days, only R1.5 million (2020: R0.7 million) is past due but not impaired, with R56 million (2020: R25 million) relating to operator loans and the balance relating to various receivables from numerous debtors.

Tenant and related receivables as noted above are continuously assessed for impairment. At 31 March 2021, trade receivables of R19.3 million (2020: R0.1 million) were impaired and provided for. The impaired receivables for 2021 relates to rent owing from Radisson Gautrain retail tenants, Kopanong, Edward, Hazyview and Mount Grace hotels. The impaired receivable of R0.1 million for 2020 relates to the VAT portion on a capital project completed in prior years.

The Group comprehensively assesses the individual circumstances and credit risk of each tenant and receivable 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.

33.4 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. 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 2021 R'000	31 March 2020 R'000
Stated Capital	9 051 194	9 051 194
Total capital	**9 051 194**	9 051 194
Total interest-bearing liabilities[1]	**2 630 000**	2 550 000

[1] *The unamortised portion of the debt raising fee amounted to R2.4 million (2020:R3.4 million) at year end.*

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

Notes to the consolidated financial statements continued

33. Financial risk management & further financial instrument disclosures continued

33.5 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 2021				
Financial asset				
Trade and other receivables	–	–	87 350	–
Cash and cash equivalents	–	–	137 912	–
Financial liabilities				
Derivative liability	–	68 956	–	–
Trade and other payables	–	–	–	106 796
Interest-bearing liabilities	–	–	–	2 630 000
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

The carrying amounts of trade and other receivables; cash and cash equivalents and trade and other payables reflected in the statement of financial position approximates 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 the 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.
Level 1: Quoted unadjusted prices in active markets for identical assets or liabilities that the company can access at measurement date.
Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly or indirectly.
Level 3: Unobservable inputs for the asset or liability.

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 2021				
Derivative financial assets	–	–	–	–
Derivative financial liabilities	–	(68 956)	–	(68 956)
	–	(68 956)	–	(68 956)
31 March 2020				
Derivative financial assets	–	–	–	–
Derivative financial liabilities	–	(50 229)	–	(50 229)
	–	(50 229)	–	(50 229)

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

34 Going concern and subsequent events

Going concern

The Covid-19 pandemic ('Covid-19') and subsequent lockdown of the economy on 27 March 2020, and particularly, the hospitality sector, continues to have a significant 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 restrictions on travellers to travel internationally and inter-provincially has limited the demand for hotel rooms, which has impacted the Group's revenue stream significantly for the 2021 financial year. Hotel trading is therefore expected to remain under pressure with a slow recovery into the 2022 and 2023 financial years.

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 were required to be closed during the initial lockdown period, the inability to generate revenue during this period, together with the slow recovery once the hotels re-opened, resulted in the Group not being able to meet its net debt to EBITDA covenant requirement in terms of its funding agreements for the measurement period 30 September 2020, as well as both its net debt to EBITDA and Interest Cover Ratios for the measurement period ending 31 March 2021. It is not expected that the Group will meet either of these minimum covenant requirements for the measurement period ending 30 September 2021. The Group has however received waivers from all its lenders, which includes secured noteholders, to comply with these minimum financial covenant ratios. The Group's gearing levels continue to remain manageable, with the loan-to-value ratio at 27% at 31 March 2021.

The Group continues to implement strategies of cash preservation and liquidity in order to 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. The following measures are currently in place:

- 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 2021, with the request for waiver for the 31 March 2022 measurement period to be considered post 30 September 2021;
- no distribution or dividend pay-out;
- the decrease of operating costs, such as salaries and wages through furlough; 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 2022. This will only be considered post 30 September 2021 and management has no reason to believe that the necessary waivers will not be granted. During the year, lenders introduced an additional covenant requirement that a minimum liquidity level of R125 million, which consists of cash and cash equivalents plus unutilised committed facilities.

At year end, cash and undrawn facilities amounted to R458 million (headroom of R333 million), which will provide sufficient liquidity to the Group over the next 12 months. Through engagements with the Group's lenders, monthly 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. The Group is in the process of finalising its insurance claim relating to the business interruption suffered as a consequence of the Covid-19 pandemic, which is limited to R150 million. The will also assist the Group in managing its liquidity requirements over the next 12 months.

Subsequent events

Other than those subsequent events disclosed elsewhere, the directors are not aware of any other material subsequent that requires disclosure in or amendments to these annual financial statements.

Notes to the consolidated financial statements continued

35. Business acquisition

Acquisition of non controlling interests - Vexicure (Pty) Ltd and Ash Brook Investments 72 (Pty) Limited

On 1 October 2020 and 1 November 2020, HPF increased its interests in Vexicure (Pty) Limited (the operating/tenant company at its Westin hotel) from 5% to 85% and increased its interest in Ash Brook Investments 72 (Pty) Limited (the operating/tenant company in its Radisson Blu Gautrain hotel) from 15% to 100%.

The provisional fair value of net assets acquired is as follows:

	Ash Brook R'000	Vexicure R'000	Total R'000
Fair value of net liabilities acquired	(14 778)	(15 378)	(30 156)
Less: Purchase consideration paid in cash – investing activities	–	–	–
Cash outflow on acquisition of business – investing activities	(14 778)	(15 378)	(30 156)
Cost of the acquisition			
Purchase consideration paid	–	–	–
Fair value of net liabilities acquired	(14 778)	(15 378)	(30 156)
Goodwill raised on acquisition and impaired	(20 448)	(32 656)	(30 156)

On the date of acquisition, goodwill of R30.2 million was recognised. Due to both Ash Brook and Vexicure being technically insolvent and the recovery period of future cash flow generation as a result of the pro-longed Covid-19 pandemic, the goodwill recognised on day one was fully impaired resulting in a Rnil goodwill balance at year-end.

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