2018

Hospitality
PROPERTY FUND

Unaudited condensed consolidated financial results
for the six months ended 30 September 2018

Rental income for the six months ended September 2018 increased to R345 million

Investment property value decreased through revaluations to R12 billion

Distribution per share of 41.22 cents for the six months ended September 2018

Commentary

Hospitality's board of directors ("the board") declared a dividend of 41.22 cents per share for the six months ended 30 September 2018. The Fund's distributable earnings increased by 16% for the six months to R237 million when compared to the prior six months ended 30 September 2017.

Rental income for the six months increased by 10% to R345 million (2017: R314 million) mainly due to the inclusion of the 29 hotel properties for the full six months period. Hospitality's rental income is subject to seasonal variability and has been further impacted by the trading in the Western Cape. Hospitality's expenses for the six months are 5% or R1.4 million up on the prior six months to R28 million, in line with inflation. Net finance costs of R80 million (2017: R83 million) are lower than the prior six months due to the negotiated interest rates being lower on the current borrowings.

The following table reflects the operating financial results for the six months ended 30 September 2018 compared to the prior six months period ended 30 September 2017:

Summary of operating results for the period ended 30 September 2018

	Actual September 2018 R'000	Actual September 2017 R'000	Variance on September 2017 R'000	Variance on September 2017 %
Contractual rental income	**344 553**	313 813	30 740	10
Sundry income	**282**	–	282	–
Fund expenses	**(28 229)**	(26 855)	(1 374)	(5)
Net finance cost	**(79 567)**	(82 572)	3 005	4
Income from associates	**84**	–	84	100
Distributable earnings	**237 123**	204 386	32 737	16
Distribution	**(237 123)**	(204 386)	(32 737)	16
No par value ordinary shares	**575 214**	575 777	(563)	–
Distribution comparative to prior years				
Clean-out dividend[(1)]	**–**	14.74	(14.74)	(100)
Distribution per ordinary share	**41.22**	27.09	14.13	52
Combined distribution	**41.22**	41.83	(0.61)	(1)

(1) The clean-out dividend in the prior year of 14.74 cents per share was declared on 9 June 2017 and paid on 10 July 2017.

Hotel trading results

The hotel trading results are compared on a like-for-like basis for the six months ended 30 September 2018. Room occupancy for the Fund's hotels declined by 2.6% to 60.6% while the market experienced a decline of 2.0% to 60.0%. (For comparison to the STR Global South African Hotel Review ("STR") the Sun1 trading results are excluded.)

The general sentiment towards the economy saw increased pricing competitiveness across all the market segments. This reflected in the average room rate ("ARR") for the portfolio declining by 0.9% on the prior period, mainly due to the poor performance from the Western Cape hotels. Revenue per available room ("RevPAR") thus decreased by 3.5%. The STR figures show a growth in ARR of 0.9% and a decline in RevPAR of 1.2% for the South African market over the same period.

The Fund's hotel properties are predominantly located in the Western Cape and Gauteng provinces of South Africa and these properties generated 65% of the Fund's rental income over this period. Hotel occupancy for the Fund's Western Cape hotels declined by 14.3% to 51.8%. ARR in the Western Cape declined by 3.1% to R1 333, resulting in a RevPAR decline of 16.9% to R690. As reported by STR, occupancy for the region declined by 8.2% to 54.2%, the ARR is 4.6% behind the prior year resulting in a RevPAR decline of 12.4% to R695. The poor trading results in the Western Cape are largely due to a decrease in domestic corporate and government business as well as the poor sentiment stemming from the Cape Town water crisis.

In Gauteng, hotel occupancy over the period grew by 4.6% on the comparable period last year to an occupancy of 62.4%. Individual hotels' trading remained volatile over the period with ARR remaining flat and thus RevPAR grew by 4.6% to R627. For the STR participating hotels in Gauteng, RevPAR increased by 4.4% to R696. For the hotels in the Rest of South Africa, occupancy declined by 0.7% to 68.1%, the ARR increased by 7.4% to R956 resulting in a RevPAR growth of 6.7% to R651. Per STR, the remaining hotels in the rest of South Africa grew RevPAR by 3.1%.

For the Sun1 properties, hotel occupancy was 4.2% behind the comparable prior year period but with ARR increasing by 5.3%, RevPAR grew 0.8% to R273.

Property portfolio

The Fund's portfolio includes 53 hotel and resort properties in South Africa. Management performed desktop valuations on all investment properties and applied a materiality of R50 million to any single property. Where material changes were identified, these properties were independently valued and a fair value adjustment of R431 million has been made. The fair value is determined by discounting the rental income (based on expected net future cash flows of the underlying hotels) after considering capital expenditure requirements. The expected cash flows are discounted using an appropriate discount rate. For more detail on the six properties revalued, please refer to note 3 on page 12. The weighted average lease expiry period is 13.1 years. As at 30 September 2018, the carrying amount of the portfolio was R12.3 billion and the net asset value ("NAV") per ordinary share amounted to R18.13 (2017: R20.09).

Capital projects

In order to maintain the appeal of its properties, the Fund continually upgrades and invests in its hotels. Total capital expenditure amounting to R100 million was spent during the six months and capitalised to investment properties. This includes all capital expenditure spent on refurbishment projects, replacement of hotel furnishing, equipment and IT equipment upgraded at the hotels. The major refurbishment projects included part of the rooms' refurbishments at The Westin and the Arabella Hotel & Spa. These projects will continue into 2019.

Funding

In the prior year, Hospitality restructured its long-term borrowings with more favourable terms being achieved. The group's debt facilities with financial institutions as at 30 September 2018 amounted to R2.4 billion and the total drawn down facilities amounted to R1.9 billion resulting in a loan-to-value ("LTV") ratio (total interest-bearing liabilities/investment properties plus properties held for sale) of 16% (2017: 16%).

The interest cover ratio of 4.6 times (2017: 4.1 times) for the 12 months rolling to September 2018 is well above the required debt covenant limit of 2.0 times. The weighted average cost of net debt to 30 September 2018 is 9.5% (excluding debt settlement fees paid in October 2017). Global credit ratings upgraded the Fund's long-term credit rating to A- (ZA) and its short-term credit rating to A1- (ZA).

Prospects

Hotel trading is expected to remain under pressure until the outlook for the South African economy improves. Ongoing capital expenditure requirements will be funded partially from a dividend retention and partially from debt facilities.

Dividend payment

The board has approved and notice is hereby given of a gross dividend payment number 27 of 41.22343 cents per share for the six months ended 30 September 2018. The number of shares in issue at the date of the dividend declaration is 578 154 207 ordinary shares (for the purposes of the dividend declaration, 2 940 030 ordinary shares have been excluded from the dividend payment. 2 377 256 ordinary shares relate to dissenting shareholder rights having been exercised and 562 774 ordinary shares are held as treasury shares). In accordance with Hospitality's REIT status, shareholders are advised that the dividend meets the requirements of a "qualifying distribution" for the purposes of section 25BB of the Income Tax Act.

Local tax residents

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

(a) a declaration that the dividend is exempt from dividends tax; and

(b) a written undertaking to inform the CSDP, broker or the company, as the case may be, should the circumstances affecting the exemption change or the beneficial owner cease to be the beneficial owner;

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

Non-resident

Qualifying distributions received by non-resident shareholders will not be taxable as income and instead will be treated as ordinary dividends but which are exempt in terms of the usual dividend exemptions per section 10(1)(k) of the Income Tax Act. Unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation ("DTA") between South Africa and the country of residence of the shareholder, the net amount due to non-resident shareholders will be 32.97874 cents per share. A reduced dividend withholding tax rate in terms of the applicable DTA may only be relied on if the non-resident shareholder has provided the following forms to their CSDP or broker, as the case may be, in respect of uncertificated shares, or the company, in respect of certificated shares:

(a) a declaration that the dividend is subject to a reduced rate as a result of the application of a DTA; and

(b) a written undertaking to inform their CSDP, broker or the company, as the case may be, should the circumstances affecting the reduced rate change or the beneficial owner cease to be the beneficial owner;

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

The dividend is payable in accordance with the timetable below:

Last day to trade *cum* dividend	Tuesday, 11 December 2018
Shares will trade *ex* dividend	Wednesday, 12 December 2018
Record date	Friday, 14 December 2018
Payment date	Tuesday, 18 December 2018

Shareholders may not dematerialise or rematerialise their shares between Wednesday, 12 December 2018 and Friday, 14 December 2018, both days inclusive.

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

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

Change in directorate

The following changes in directorate occurred during the period under review.

Mr Mohamed Ahmed was appointed to the board as an independent non-executive director, with effect from 14 August 2018.

Mrs Zola Malinga retired from the board at the annual general meeting of the company held on 18 October 2018.

Mr Robert Nicolella, who had served on the board as a non-executive director since 1 September 2016, was appointed as an executive director and the chief executive officer of Hospitality, following the resignation of Mr Keith Randall as an executive director and CEO, effective 1 November 2018. Mr Randall has stepped into the role of chief operating officer.

The board welcomes Mr Ahmed to Hospitality and Mr Nicolella in his new role as CEO. The board thanks Mrs Malinga and Mr Randall for their valued contribution to the company during their tenures on the board.

Presentation

Shareholders are advised that a presentation that provides additional analysis and information, will be available on the company's website at www.hpf.co.za from 22 November 2018.

By order of the board

JA Copelyn
(Chairman)

JR Nicolella
(Chief executive officer)

21 November 2018

Condensed consolidated statement of comprehensive income

for the six months ended 30 September 2018

	Note	Unaudited September 2018 R'000	Unaudited September 2017 R'000
Revenue		**344 922**	313 901
Rental income – contractual		**344 553**	313 813
– straight-line accrual		**87**	88
– sundry income		**282**	–
Operating expenses		**(28 229)**	(26 855)
Operating profit		**316 693**	287 046
Net finance cost		**(79 567)**	(82 572)
Finance income		**10 819**	16 062
Finance costs		**(90 386)**	(98 634)
Profit before fair value adjustments, equity accounted profit and taxation		**237 126**	204 474
Profit on sale of investment property		**134**	37
Fair value adjustments		**(408 094)**	(3 496)
Interest-rate swaps		**22 763**	(3 496)
Fair value adjustment on investment properties	3	**(430 857)**	–
Profit before taxation		**(170 834)**	201 015
Equity accounted profit from associate after tax		**84**	–
Other comprehensive income			
Fair value adjustment on investment properties		**–**	2 388 848
Total comprehensive (loss)/income for the year		**(170 750)**	2 589 863
(Loss)/profit attributable to:			
– Equity holders		**(170 750)**	201 015
Other comprehensive income attributable to:			
– Equity holders		**–**	2 388 848
Earnings and diluted earnings per share (cents)		**(29.68)**	623.12
Headline earnings and diluted headline earnings per share (cents)		**45.20**	48.36

	Unaudited September 2018 R'000	Unaudited September 2017 R'000
Reconciliation between total comprehensive (loss)/ income for the period and headline earnings		
Total comprehensive (loss)/income for the period	**(170 750)**	2 589 863
Adjustments:		–
Profit on sale of investment property	**(134)**	(37)
Fair value adjustment on investment properties	**430 857**	(2 388 848)
Headline earnings	**259 973**	200 978
Number of shares/units		
No par value ordinary shares	**575 214 177**	575 214 177
– Shares in issue	**578 154 207**	578 154 207
– HPF Employee Incentive Trust shares	**(562 774)**	(562 774)
– Shareholder redemption	**(2 377 256)**	(2 377 256)
Weighted average number of ordinary shares		
No par value ordinary shares	**575 214 177**	415 630 178
– Shares in issue	**578 154 207**	418 570 208
– HPF Employee Incentive Trust shares	**(562 774)**	(562 774)
– Shareholder redemption	**(2 377 256)**	(2 377 256)
Earnings and diluted earnings per ordinary share (cents)	**(29.68)**	623.12
Headline earnings and diluted headline earnings per ordinary share (cents)	**45.20**	48.36

Condensed consolidated statement of financial position

as at 30 September 2018

	Note	Unaudited September 2018 R'000	Restated Unaudited September 2017 R'000	Audited March 2018 R'000
ASSETS				
Non-current assets		**12 221 173**	12 957 643	12 534 884
Investment properties	2	**12 202 628**	12 956 947	12 533 970
Furniture, fittings and equipment		**205**	219	163
Derivative asset		**17 506**	–	–
Investment in associates		**834**	477	751
Current assets		**270 235**	568 560	590 106
Non-current assets held for sale		**64 969**	62 572	65 600
Derivative asset		**–**	422	–
Straight-lining of operating leases current portion		**–**	88	–
Trade and other receivables		**89 674**	117 651	133 915
Cash and cash equivalents		**115 592**	387 827	390 591
Total assets		**12 491 408**	13 526 203	13 124 990
EQUITY AND LIABILITIES				
Equity		**10 482 523**	11 347 384	11 104 603
Stated capital		**9 027 065**	9 037 060	9 027 065
Retained earnings		**230 122**	147 454	444 108
Common control reserve	6	**(1 106 013)**	(1 106 013)	(1 106 013)
Non-distributable reserve		**2 331 349**	3 268 883	2 739 443
Non-current liabilities		**1 707 248**	1 342 331	1 941 596
Interest-bearing liabilities		**1 706 655**	1 337 684	1 936 071
Derivative liability		**–**	4 647	4 042
Long-term incentive liabilities non-current portion		**593**	–	1 483
Current liabilities		**301 637**	836 488	78 791
Trade and other payables		**45 496**	19 124	51 919
Short-term portion of interest-bearing liabilities		**230 000**	790 327	–
Provision for shareholder redemption		**24 129**	24 129	24 129
Long-term incentive liabilities current portion		**986**	2 725	502
Derivative liability		**1 026**	183	2 241
Total equity and liabilities		**12 491 408**	13 526 203	13 124 990

Condensed consolidated statement of changes in equity

for the six months ended 30 September 2018

	Stated capital R'000	Treasury share reserve R'000	Retained earnings R'000	Common control reserve R'000	Non-distributable reserve R'000	Total R'000
Balance at 1 April 2017 (audited)	5 575 253	(9 995)	138 719	–	893 526	6 597 503
Total comprehensive income for the year	–	–	2 502 599	–	–	2 502 599
Transaction costs (Tsogo transaction)	(5 256)	–	–	–	–	(5 256)
Issue of no par value ordinary shares	3 467 063	–	–	–	–	3 467 063
Dividend declared on 24 May 2017	–	–	(147 192)	–	–	(147 192)
Dividend declared on 9 June 2017	–	–	(48 312)	–	–	(48 312)
Dividend declared on 22 November 2017	–	–	(155 789)	–	–	(155 789)
Common control reserve	–	–	–	(1 106 013)	–	(1 106 013)
Transfer to fair value reserve – investment property	–	–	(1 851 288)	–	1 851 288	–
Transfer to fair value reserve – interest rate swaps	–	–	5 371	–	(5 371)	–
Balance at 31 March 2018 (audited)	9 037 060	(9 995)	444 108	(1 106 013)	2 739 443	11 104 603
Total comprehensive loss for the period	–	–	(170 750)	–	–	(170 750)
Dividend declared on 23 May 2018	–	–	(451 330)	–	–	(451 330)
Transfer to fair value reserve – investment property	–	–	430 857	–	(430 857)	–
Transfer to fair value reserve – interest rate swaps	–	–	(22 763)	–	22 763	–
Balance at 30 September 2018 (unaudited)	**9 037 060**	**(9 995)**	**230 122**	**(1 106 013)**	**2 331 349**	**10 482 523**

Condensed consolidated statement of cash flows

for the six months ended 30 September 2018

	Unaudited September 2018 R'000	Unaudited September 2017 R'000
Cash flows from operating activities		
Cash generated from operations	**355 285**	201 746
Finance income received	**10 819**	16 062
Finance costs paid	**(90 386)**	(98 634)
Distribution to shareholders	**(451 330)**	(195 776)
Net cash outflow from operating activities	**(175 612)**	(76 602)
Cash flows from investing activities		
Acquisition and development of investment properties	**(99 662)**	(304 013)
Acquisition of furniture and equipment	**(93)**	(21)
Acquisition of subsidiary, net of cash acquired	**–**	(827 360)
Proceeds from disposal of investment property	**234**	–
Proceeds from disposal of furniture, fittings and equipment	**134**	37
Net cash outflow from investing activities	**(99 387)**	(1 131 357)
Cash flows from financing activities		
Interest-bearing liabilities raised	**–**	1 050 000
Interest-bearing liabilities paid	**–**	(658 764)
Cash proceeds from rights issue	**–**	1 000 000
Transaction costs capitalised	**–**	(5 504)
Net cash inflow from financing activities	**–**	1 385 732
Net (decrease)/increase in cash and cash equivalents	**(274 999)**	177 773
Cash and cash equivalents at beginning of the period	**390 591**	210 054
Cash and cash equivalents at end of the period	**115 592**	387 827

Condensed consolidated segmental information

as at 30 September 2018

Information regarding the results of each reportable segment is included below. Performance is measured based on operating profit before finance costs, as included in the internal management reports that are reviewed by the group's board. Geographical segments are used to measure performance as the group's board 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 previous period. Sun 1 is disclosed as a separate segment as the grading is different to the rest of the portfolio.

	Unaudited September 2018 R'000	Unaudited September 2017 R'000
Total assets		
Western Cape	**5 292 395**	5 737 283
Gauteng	**3 555 534**	3 532 535
Rest of Africa	**2 484 376**	2 783 313
Sun 1	**935 292**	961 469
Head Office	**223 811**	755 254
	12 491 408	13 769 854
Rental revenue		
Western Cape	**84 189**	92 476
Gauteng	**138 242**	120 162
Rest of Africa	**90 688**	82 532
Sun 1	**31 803**	18 731
	344 922	313 901
Operating profit for the period		
Western Cape	**84 189**	92 476
Gauteng	**138 242**	120 162
Rest of Africa	**90 688**	82 532
Sun 1	**31 803**	18 731
Head Office	**(28 229)**	(26 855)
	316 693	287 046
Reconciliation between headline earnings and distributable earnings		
Headline earnings	**259 973**	200 978
Fair value – interest rate swaps	**(22 763)**	3 496
Straight-line rental income	**(87)**	(88)
Distributable earnings	**237 123**	204 386
Distribution per share (cents)		
No par value share	**41.22**	41.83
– Clean out	**–**	14.74
– Interim	**41.22**	27.09
	41.22	41.83

Notes to the unaudited condensed consolidated financial statements

for the six months ended 30 September 2018

1. Basis of preparation and accounting policies

The unaudited condensed consolidated financial statements for the six months ended 30 September 2018 have been prepared in accordance with the framework concepts and the recognition and measurement criteria of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), the preparation and disclosure requirements of IAS 34 *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by Financial Reporting Standards Council ("FRSC"), the Listings Requirements of the JSE Limited and the requirements of the Companies Act of South Africa. Except for IFRS 9 and IFRS 15 as disclosed in note 5 the accounting policies are consistent with IFRS as well as those applied in the most recent audited annual financial statements as at 31 March 2018. The unaudited condensed consolidated financial statements for the six months ended 30 September 2018 should be read in conjunction with the annual financial statements for the year ended 31 March 2018, which have been prepared in accordance with IFRS. This interim report, together with any forward-looking information contained in this report, has not been audited or reviewed by the group's auditors. These financial statements were prepared under the supervision of the financial director, MR de Lima CA(SA).

2. Investment properties

	2018 R'000	2017 R'000
Opening balance as at 1 April	**12 533 970**	8 061 038
Additions to investment properties	**99 662**	32 618
Fair value adjustment	**(430 857)**	–
Disposal of investment property	**(234)**	–
Straight-line accrual rental income	**87**	–
Acquisition of Merway and Cullinan	**–**	2 172 893
Acquisition of Savana	**–**	301 550
Fair value uplift	**–**	2 388 848
Closing balance as at 30 September	**12 202 628**	12 956 947

3. Fair value estimation

The group fair values its investment properties and interest rate swaps. There were no transfers into or out of level 3 financial instruments.

Management reviewed the valuations on the investment properties performed at 31 March 2018, by JHI, being the independent valuer. Due to the unexpected variation in trading, management applied a materiality threshold of R50 million, based on management's experience and judgement, to any single property. Desktop valuations were conducted and where a property exceeded the materiality threshold, an independent valuation was requested from JHI. Material adverse changes to valuations at 31 March 2018 include The Westin, Southern Sun Cullinan, Southern Sun Waterfront and the Protea Hotel Victoria Junction hotels. The material change in the rental income has been largely due to the change in sentiment towards Cape Town stemming from the drought and the impact this had on the summer season in Cape Town, as well as the lower domestic corporate business. Material favourable changes in the valuations of the Birchwood Hotel and the Holiday Inn Sandton are due to improved trading conditions and better operating margins.

3. Fair value estimation continued

The fair value changes from 31 March 2018 to 30 September 2018, are noted below.

	Investment properties revalued as at 30 September 2018 R'000	Investment properties as at 31 March 2018 R'000	Fair value adjustments R'000
Fair value (decrease)/increase	**12 103 113**	**12 533 970**	**(430 857)**

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

As at 30 September 2018, the significant observable inputs were as follows:

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

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

	Increase Rm	Decrease Rm
5% change in the net cash flows	600 451	(600 451)
25bps change in the terminal capitalisation rate	(259 729)	300 136
50bps change in the discount rate	(222 782)	250 367

Interest rate swaps

The group has interest rate swaps which are level 2 fair value measurements.

The fair value of the derivatives is a net asset of R16 million (30 September 2017: R4 million net liability) and is calculated as the present value of the estimated future cash flows based on observable yield curves, which is consistent with the prior year.

4. Related parties

Rental income received from Tsogo Sun for the period 1 April 2018 to 30 September 2018 amounted to R216 million (30 September 2017: R162 million) of which R20 million is receivable at 30 September 2018 (30 September 2017: R18 million).

5. New accounting standards

This note explains the impact of the adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* on the group's financial statements.

IFRS 9 *Financial Instruments*

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The group applies IFRS 9 *Financial Instruments*, and measures lifetime expected credit losses for all trade receivables, however, this has had an insignificant impact on the group's numbers, both in the current and prior periods, due to the short-term nature of trade receivables. In addition, there have been no historic issues relating to the collectibility 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.

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.

On 1 April 2018 (the date of initial application of IFRS 9), the group's management had assessed the financial instruments held by the group and had classified its financial instruments into the appropriate IFRS 9 categories. The classification was based on the group's business model for managing the financial instruments as well as the contractual terms of the cash flows.

Based on this assessment, there have been no changes to the classification of the financial instruments from the previous financial year. A summary of the salient features which were considered in this assessment is included below:

5. New accounting standards continued

Trade and other receivables

The group's business model is to hold the asset for collection of contractual cash flows and the cash flows represent solely payments of principal and interest on principal, therefore; the IFRS 9 criteria for classification at amortised cost is met.

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 and other payables continue to be measured initially at fair value and subsequently at amortised cost. Trade and other payables are analysed between current and non-current liabilities on the face of the statement of financial position, depending on when the obligation to settle will be realised.

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.

Financial liabilities

There has been no changes to the classification and measurement of debt, which is still measured at amortised cost under IFRS 9.

Based on the above, IFRS 9 has not had a significant impact on either the measurement or the classification of the group's financial instruments.

IFRS 15 Revenue from contracts with customers

The impact of IFRS 15 *Revenue from Contracts with Customers* is not material to the group's numbers.

IFRS 16 Leases

The impact of IFRS 16 Leases is not expected to be material to the group's numbers.

6. Restatement of September 2017

As at 30 September 2017, goodwill of R265 million and a common control reserve of R841 million was recognised in relation to the acquisition of the 29 properties by Hospitality from Tsogo Sun. The accounting of the transaction was finalised in March 2018. This resulted in no goodwill being recognised and R1 106 million being recognised in the common control reserve.

for the six months ended 30 September 2018

7. Subsequent events

Shareholders are referred to the Tsogo Sun Holdings Limited ("Tsogo") announcement published on SENS on 12 November 2018 where shareholders were to consider Tsogo's proposed disposal of a portfolio of seven mixed-use casino properties to Hospitality ("transaction") and the subsequent distribution by Tsogo, of its entire Hospitality shareholding to Tsogo shareholders. The Tsogo board had withdrawn the resolutions that were to have been considered at the reconvened general meeting scheduled for 09:00 on Monday, 12 November 2018. As such, the transaction detailed in the circular issued to Hospitality shareholders on 21 September 2018 will not be implemented.

Please refer to page 3 for details on dividends declared.

8. Commitments

The board has committed a total of R240 million for maintenance items at its hotel properties of which R240 million is anticipated to be spent within the financial year. In total, R147 million of the committed capital expenditure has been contracted for, of which R99 million has been spent at 30 September 2018.

Administration

Hospitality Property Fund Limited

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

Registered office

The Zone 2, Loft Offices East Wing
2nd Floor, corner Oxford Road and Tyrwhitt Avenue
Rosebank, 2196
Tel: +27 11 994 6320

Directors

JA Copelyn (Chairman)*, GA Nelson*#(Lead Independent Director), J Booysen*,
JR Nicolella (CEO), MR de Lima (FD), M Ahmed*#, DG Bowden*#, MSI Gani*#, ZJ Kganyago*,
ZN Kubukeli*#, SA Halliday*#, L McDonald*

*Non-executive #Independent

Company Secretary

LR van Onselen

Transfer secretaries

Computershare Investor Services Proprietary Limited

Sponsor

Java Capital