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The Independent Board
Hospitality Property Fund Limited
Palazzo Towers East
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10 November 2020

Dear Sirs/ Mesdames

REPORT OF THE INDEPENDENT PROFESSIONAL EXPERT TO HOSPITALITY PROPERTY FUND LIMITED REGARDING THE TSOGO SUN HOTELS OFFER

Introduction

Further to the announcement released on the Stock Exchange News Service of the JSE Limited ("JSE") ("SENS") on 30 September 2020 ("Cautionary Announcement"), and in terms of the joint firm intention announcement published on SENS on 7 October 2020 ("Firm Intention Announcement" or "FIA"), shareholders of Hospitality Property Fund Limited ("Hospitality" or the "Company") ("Shareholders" or "Hospitality Shareholders") and Tsogo Sun Hotels Limited ("Tsogo Sun Hotels") were advised that Hospitality and Tsogo Sun Hotels have entered into an implementation agreement on 7 October 2020 ("Implementation Agreement") pursuant to which Tsogo Sun Hotels has delivered notice to Hospitality of its firm intention to make an offer ("Offer" or "Tsogo Sun Hotels Offer") to acquire all of the Hospitality ordinary shares ("Hospitality Shares"), other than the Hospitality Shares already owned by Tsogo Sun Hotels and its subsidiaries ("Tsogo Sun Hotels Group"), excluding shares held as treasury shares ("Treasury Shares") being a maximum of 142,303,946 Hospitality Shares, by the issue of ordinary shares in the issued share capital of Tsogo Sun Hotels ("Tsogo Sun Hotels Shares") at a ratio of 1.77 Tsogo Sun Hotels Shares per Hospitality Share acquired by Tsogo Sun Hotels. The Tsogo Sun Hotels Offer will be implemented by way of a single offer comprising:

- a scheme of arrangement in terms of section 114(1) of the Companies Act 71 of 2008 ("Companies Act"), proposed by the board of directors of Hospitality ("Hospitality Board" or "Directors of Hospitality") to Hospitality Shareholders in terms of which Tsogo Sun Hotels shall acquire all of the Hospitality Shares held by Hospitality Shareholders other than Tsogo Sun Hotels Group ("Scheme Participants"), net of Treasury Shares ("Scheme Shares") for a consideration of 1.77 Tsogo Sun Hotels Shares for every one Scheme Share held by Scheme Participants ("Scheme Consideration") ("Scheme");
- if the Scheme fails to be implemented in accordance with its terms, a general offer by Tsogo Sun Hotels to Hospitality Shareholders who are eligible to receive the Tsogo Sun Hotels Offer ("General Offer Participants") in terms of sections 117(1)(c)(v) of the Companies Act and paragraph 1.15(c) of section 1 of the listings requirements of the JSE ("Listings Requirements") ("General Offer") for a consideration of 1.77 Tsogo Sun Hotels Shares for every one Hospitality Share ("General Offer Share") held by General Offer Participants ("General Offer Consideration"); and
- the termination of the listing of all Hospitality Shares from the main board of the exchange operated by the JSE pursuant to the implementation of the Scheme or, if the Scheme fails, the General Offer being implemented, provided that the necessary shareholder approval is obtained ("Delisting").

To the extent that the General Offer proceeds, Hospitality Shareholders will be requested to vote on the Delisting in terms of paragraph 1.14 of the Listings Requirements.

As at the date of this letter, the authorised and issued share capital of the Company comprises the following:

- authorised ordinary share capital comprising:
 - 2,000,000,000 Hospitality Shares

BDO Corporate Finance (Pty) Ltd
Registration number: 1983/002903/07
VAT number: 4250218718

BDO Corporate Finance (Pty) Ltd, a South African company, is an affiliated company of BDO South Africa Inc, a South African company, which in turn is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is an international network of independent public accounting, tax and advisory firms ("the BDO network"), which perform professional services under the name of BDO (BDO is the brand name for the BDO International network and for each of the BDO Member Firms.)

- issued ordinary share capital comprising:
 - 578,154,207 Hospitality Shares of which 562,774 Hospitality Shares are held as Treasury Shares.

Full details of the Tsogo Sun Hotels Offer are contained in the circular to Shareholders, dated Friday, 16 October 2020 (“Circular”), which will include a copy of this letter.

The material interests of the Directors of Hospitality are set out in paragraph 14 of the Circular and the effects of the Scheme on those interests and persons are set out in this section of the Circular.

Extracts of sections 115 and 164 of the Companies Act are set out in Annexures 7 and 8 respectively of the Circular and are incorporated herein by reference for purposes of section 114(3)(g) of the Companies Act.

Reports required in respect of the Tsogo Sun Hotels Offer

The Tsogo Sun Hotels Offer (which includes the Scheme and the General Offer) constitutes an “affected transaction” as defined in section 117(1)(c) of the Companies Act. It will be implemented in accordance with the Companies Act and the Companies Regulations, 2011 (“Takeover Regulations”) and will be regulated by the Takeover Regulation Panel (“TRP”).

In terms of the Tsogo Sun Hotels Offer and if the Scheme is implemented, Tsogo Sun Hotels will acquire the Scheme Shares from the Scheme Participants for the Scheme Consideration, whereupon Hospitality will become a wholly owned subsidiary of Tsogo Sun Hotels.

The independent board of Hospitality appointed in accordance with Regulation 108(8) of the Takeover Regulations (“Hospitality Independent Board”) is required to retain an independent expert to express an opinion dealing with the matters set out in sections 48(8), 114(2) and 114(3) of the Companies Act and regulations 90, 110(1) and 113(1)(a) of the Takeover Regulations, on whether the Scheme Consideration in relation to the Tsogo Sun Hotels Offer is fair and reasonable to Scheme Participants (the “Fair and Reasonable Opinion”).

The Hospitality Independent Board has appointed BDO Corporate Finance Proprietary Limited (“BDO Corporate Finance” or “the Independent Expert”) as the independent expert, as required in terms of section 114(2) of the Companies Act and the Takeover Regulations, to issue the Fair and Reasonable Opinion.

In terms of paragraph 1.15(d) of the Listings Requirements, the Hospitality Board is required to obtain a fairness opinion from an independent professional expert confirming whether the General Offer is fair insofar as Hospitality Shareholders are concerned.

BDO Corporate Finance has been appointed as the independent professional expert by the Hospitality Independent Board to provide the Fairness Opinion in respect of the General Offer.

Responsibility

Compliance with the Listings Requirements is the responsibility of the Hospitality Board. Compliance with the Companies Act and the Takeover Regulations is the responsibility of the Hospitality Independent Board. Our responsibility is to report to the Hospitality Independent Board and Hospitality Shareholders on whether the terms and conditions of the Tsogo Sun Hotels Offer are fair and reasonable to Hospitality Shareholders.

Explanation as to how the terms “fair” and “reasonable” apply in the context of the Tsogo Sun Hotels Offer

The “fairness” of a transaction is based on quantitative issues. A transaction will generally be considered to be fair to a company’s shareholders if the benefits received, as a result of the transaction, are equal to or greater than the value given up.

The Tsogo Sun Hotels Offer will be considered fair if the Scheme Consideration and General Offer Consideration is considered to be equal to or more than the fair value per Hospitality Share and unfair if the Scheme Consideration and General Offer Consideration is less than the fair value per Hospitality Share.

The assessment of reasonableness of the Tsogo Sun Hotels Offer (in respect of the Scheme) is generally based on qualitative considerations surrounding the transaction. Hence, even though the consideration to be paid in respect of an offer may be lower than the fair value, the offer may be considered reasonable after considering other significant qualitative factors. The offer may be said to be reasonable if the offer consideration is greater than the trading price of an offer share as at the time of announcement of the offer consideration, or at some other more appropriate identifiable time.

Detail and sources of information

In arriving at our opinion, we have relied upon the following principal sources of information:

- The Implementation Agreement;
- The terms and conditions of the Tsogo Sun Hotels Offer, as set out in the Circular and FIA;
- Audited consolidated financial statements of Hospitality and Tsogo Sun Hotels for the year ended 31 March 2020 (“2020 Annual Financial Statements”);
- Unaudited year-to-date management accounts of Tsogo Sun Hotels and Hospitality for the six month period ended 30 September 2020;
- Forecast financial information of Tsogo Sun Hotels for the financial years ending 31 March 2021 to 31 March 2026 and of Hospitality for the financial years ending 31 March 2021 and 31 March 2022;
- Working capital packs of Tsogo Sun Hotels and Hospitality on a per month basis for the financial years ending 31 March 2021 and 31 March 2022;
- Independent valuation reports as at 31 March 2020 for the domestic property portfolio of Tsogo Sun Hotels (“Tsogo Sun Hotels Independent Property Valuations”), comprising 9 properties, prepared by Norman Griffiths & Associates;
- Internal valuation reports as at 31 March 2020 for the international property portfolio, comprising 7 properties, prepared by management of Tsogo Sun Hotels (“Tsogo Sun Directors Property Valuations”);
- Independent valuation reports as at 31 March 2018 for the vacant land property portfolio (“Vacant Land Property Valuations”) of Tsogo Sun Hotels (“Tsogo Sun Hotels Vacant Land Property Valuations”), comprising 3 properties, prepared by Norman Griffiths & Associates, being the most recent valuation reports performed in respect of vacant land held by Tsogo Sun Hotels;
- Independent valuation reports as at 31 March 2020 for the property portfolio of Hospitality (“Hospitality Independent Property Valuations”), comprising 54 properties, prepared by the De Leeuw Group;
- Discussions with Directors and/or management of Hospitality and management and/or advisors of Tsogo Sun Hotels Group regarding the rationale for the Tsogo Sun Hotels Offer;
- Discussions with Directors and/or management of Hospitality and management and/or advisors of Tsogo Sun Hotels Group regarding historical and forecast financial information of Tsogo Sun Hotels and Hospitality respectively;
- Trading history in respect of Tsogo Sun Hotels and Hospitality and exchange rates as per Thomson Reuters and Iress Limited;
- Discussions with Directors and/or management of Hospitality and management and/or advisors of Tsogo Sun Hotels Group on prevailing market, economic, legal and other conditions which may affect underlying value; and
- Publicly available information relating to Tsogo Sun Hotels and Hospitality as well as peer companies of Tsogo Sun Hotels and Hospitality and the hospitality property sector in general.

The information above was secured from:

- Directors and/or management of Hospitality and management and/or advisors of Tsogo Sun Hotels Group; and
- Third party sources, including information related to publicly available economic, market and other data which we considered applicable to, or potentially influencing Hospitality.

Procedures

In arriving at our opinion, we have undertaken the following procedures in evaluating the fairness and reasonableness of the Tsogo Sun Hotels Offer:

- Reviewed the terms and conditions of the Tsogo Sun Hotels Offer;
- Reviewed the audited and other financial information related to Tsogo Sun Hotels and Hospitality, as detailed above;

- Reviewed and obtained an understanding from Directors and/or management of Hospitality and management and/or advisors of Tsogo Sun Hotels Group as to the historical and forecast financial information of each company and in respect of the underlying investment property assets owned by Tsogo Sun Hotels and Hospitality;
- Reviewed the historical and forecast financial information of Tsogo Sun Hotels and Hospitality as detailed above;
- Considered the professional competency and qualifications of the Independent Property Valuers;
- Reviewed the Tsogo Sun Hotels Independent Property Valuations, Tsogo Sun Directors Property Valuations, Vacant Land Property Valuations and Hospitality Independent Property Valuations and considered the valuation methodologies and assumptions applied. Based on our review, we are satisfied that the valuation approaches adopted are consistent with standard valuation practice and the valuation assumptions are consistent with market parameters. Consequently, we are satisfied with the Tsogo Sun Hotels Independent Property Valuations, Tsogo Sun Directors Property Valuations, Vacant Land Property Valuations and Hospitality Independent Property Valuations and are placing reliance thereon;
- Analysed publicly available financial information for companies selected as peer companies of Tsogo Sun Hotels and Hospitality;
- Prepared a valuation of a Tsogo Sun Hotels Share and a Hospitality Share as detailed hereafter;
- Performed a sensitivity analysis on key assumptions included in the valuations;
- Held discussions with certain Directors and/or management of Hospitality and management and/or advisors of Tsogo Sun Hotels Group to further corroborate the underlying assumptions used in the forecast financial information;
- Performed such other studies and analyses as we considered appropriate and have taken into account our assessment of general economic, market and financial conditions and our experience in other transactions, as well as our experience in securities valuation and knowledge of the hospitality property sector generally;
- Assessed the long-term potential of Tsogo Sun Hotels' and Hospitality's businesses and prospects;
- Considered the volume weighted average price ("VWAP") per share of a Tsogo Sun Hotels Share and a Hospitality Share on a 30 -, 60 - and 90 - day period;
- Evaluated the relative risks associated with Tsogo Sun Hotels and Hospitality and the hospitality property sector in the markets where they operate;
- Reviewed certain publicly available information relating to Tsogo Sun Hotels and Hospitality including company announcements, media articles and available analyst coverage;
- Where relevant, representations made by Directors and/or management of Hospitality, management and/or advisors of Tsogo Sun Hotels Group were corroborated to source documents or independent analytical procedures were performed by us, to examine and understand the industry in which Tsogo Sun Hotels and Hospitality operate, and to analyse external factors that could influence the companies; and
- Held discussions with Directors and/or management of Hospitality and management and/or advisors of Tsogo Sun Hotels Group as to their strategy and the rationale for the Tsogo Sun Hotels Offer and assessed prevailing economic and market conditions and trends in the hospitality property sector in the markets where Tsogo Sun Hotels and Hospitality operate.

Key qualitative considerations

In arriving at our opinion, we have considered, in addition to the procedures referred to above, other key factors, including *inter alia* the rationale for the Tsogo Sun Hotels Offer as set out in the Circular.

Assumptions

We arrived at our opinion based on the following assumptions:

- That all agreements that have been entered into in terms of the Tsogo Sun Hotels Offer will be legally enforceable;
- That the Tsogo Sun Hotels Offer will have the legal, accounting and taxation consequences described in discussions with, and materials furnished to us by representatives and advisors of Hospitality; and

- That reliance can be placed on the financial information of Hospitality.

Appropriateness and reasonableness of underlying information and assumptions

We satisfied ourselves as to the appropriateness and reasonableness of the information and assumptions employed in arriving at our opinion by:

- Placing reliance on audit reports in the financial statements of Hospitality and Tsogo Sun Hotels;
- Conducting analytical reviews on the historical financial results and the forecast financial information, such as key ratio and trend analyses; and
- Determining the extent to which representations from management were confirmed by documentary and audited financial evidence, as well as our understanding of Tsogo Sun Hotels and Hospitality and the economic environment in which the companies operates.

Limiting conditions

This opinion has been given to the Hospitality Independent Board for the sole purpose of assisting the Hospitality Independent Board in forming and expressing an opinion for the benefit of the Hospitality Shareholders. The opinion does not purport to cater for each individual Hospitality Shareholders' perspective, but rather that of the general body of Hospitality Shareholders. Should a Hospitality Shareholder be in doubt as to what action to take, he or she should consult an independent adviser.

An individual shareholder's decision as to whether to vote in favour of the Tsogo Sun Hotels Offer may be influenced by his particular circumstances. The assessment as to whether or not the Hospitality Independent Board decides to recommend the Tsogo Sun Hotels Offer is a decision that can only be taken by the Hospitality Independent Board.

We have relied upon and assumed the accuracy of the information used by us in deriving our opinion. While our work has involved an analysis of the annual financial statements and other information provided to us, our engagement does not constitute, nor does it include, an audit conducted in accordance with generally accepted auditing standards.

Where relevant, forward-looking information of Hospitality and Tsogo Sun Hotels relates to future events and is based on assumptions that may or may not remain valid for the whole of the forecast period. Consequently, such information cannot be relied upon to the same extent as that derived from audited financial statements for completed accounting periods. We express no opinion as to how closely the actual future results of Tsogo Sun Hotels and Hospitality will correspond to those projected. We have however compared the forecast financial information to past trends as well as discussing the assumptions inherent therein with management.

We have also assumed that the Tsogo Sun Hotels Offer will have the legal consequences described in discussions with, and materials furnished to us by representatives and legal advisors of Hospitality and we express no opinion on such consequences.

Our opinion is based on current economic, regulatory and market as well as other conditions. Subsequent developments may affect the opinion, and we are under no obligation to update, review or re-affirm our opinion based on such developments.

Independence, competence and fees

We confirm that neither we nor any person related to us (as contemplated in the Companies Act) have a direct or indirect interest in Hospitality Shares or the Tsogo Sun Hotels Offer, nor have had within the immediately preceding two years, any relationship as contemplated in section 114(2)(b) of the Companies Act, and specifically declare, as required by Regulation 90(6)(i) and 90(3)(a) of the Takeover Regulations, that we are independent in relation to the Tsogo Sun Hotels Offer and will reasonably be perceived to be independent. We also confirm that we have the necessary competence to provide the Fair and Reasonable Opinion and meet the criteria set out in section 114(2)(a) of the Companies Act.

We confirm that neither we, nor any person related to us (as contemplated in the JSE Listings Requirements), have any relationship with Hospitality or with any party involved in the Delisting as contemplated in paragraph 5.12 of schedule 5 of the Listings Requirements and have not had such relationship within the immediately preceding two years.

Furthermore, we confirm that our professional fees of R150,000 (excluding VAT) are not contingent upon the success of the Tsogo Sun Hotels Offer.

Valuation approach

In considering the terms and conditions of the Tsogo Sun Hotels Offer, we performed an independent valuation of a Tsogo Sun Hotels Share and Hospitality Share on a “sum of the parts” (“SOTP”) basis, as at 30 September 2020 using property valuations as at 31 March 2020. Whilst we note that both Hospitality and Tsogo Sun Hotels have performed forecast cash flows, in the case of Tsogo Sun Hotels to 31 March 2026 and in the case of Hospitality to 31 March 2022, due to the inherent forecast risk arising from COVID-19 we are of the opinion that a SOTP valuation is the most appropriate under these circumstances. The valuations were based on the following principal valuation methodologies:

- Property valuations for Tsogo Sun Hotels are based on the Tsogo Sun Hotels Independent Property Valuations, Tsogo Sun Directors Property Valuations and Vacant Land Property Valuations whereas property valuations for Hospitality are based on the Hospitality Independent Property Valuations. We note that Vacant Land Property Valuations were performed as at 31 March 2018. We have applied a 15% discount to the Vacant Land Property Valuations as at 31 March 2018 to reflect the fair value of vacant land under current market conditions as at 30 September 2020. The Tsogo Sun Hotels Independent Property Valuations, Tsogo Sun Directors Property Valuations and the Hospitality Independent Property Valuations have been performed as at 31 March 2020 and consider the effects of COVID-19 and the associated impact on the hospitality industry. Even though hotels may have been closed as at 31 March 2020 and are now open (albeit that most of the hotels are trading at below break-even occupancy) the valuations reflect the fair value of each hotel to a market participant under COVID-19 and we are of the opinion that the property valuations performed as at 31 March 2020 are still relevant as at 30 September 2020. To illustrate this, the independent property valuers have performed 10-year DCF valuations and all inputs and assumptions are based on historic trends and expectations without considering the impact of COVID-19. Explicit adjustments have then been made to FY2021 and FY2022 earnings before interest, tax, depreciation and amortization (“EBITDA”) to account for COVID-19 (i.e. EBITDA forecasts utilized in the property valuation were reduced in year one with 75% and in year two with 25% when compared to forecasts that would have been utilised absent COVID-19), effectively applying a discount to the valuations and assuming the hotels will return to the occupancy levels in FY2023 that would have been expected absent COVID-19. Whilst there is no industry standard approach to accounting for COVID-19, based on our review, we are satisfied that these assumptions adequately and consistently address the impact of COVID-19 on the Tsogo Sun Hotels and Hospitality property portfolios. Market consensus is that the hospitality industry could return to 2019 activity levels at 24-30 months from now. This is however quite a binary outcome. If a vaccine materializes before 2022, the recovery would be expected to be quicker. If no vaccine materializes by 2022, the recovery would be expected to lag. We have used the forecast debt and cash balances as at 31 March 2021 in the valuations of a Tsogo Sun Hotels Share and Hospitality Share rather than the actual debt and cash balances as at 30 September 2020 to allow for changes in assumptions from the date of the property valuations as at 31 March 2020 to the effective date of the valuation of a Tsogo Sun Hotels Share and Hospitality Share;
- The valuations of the management division through which the Tsogo Sun Group operates its hotel portfolio (“Tsogo Sun Manco”) and Hospitality head office were performed by applying the discounted cash flow (“DCF”) methodology as our primary approach. In addition, we considered the market approach (based on financial data for comparable publicly traded companies and for recent transactions) as a secondary methodology to support the results of the DCF valuation. Both the Manco and Hospitality head office have been valued based on a DCF approach using a discount rate of 14.5% which implies a base case multiple of 8 times EBITDA; and
- Debt and cash balances include the expected funding requirements related to the COVID-19 pandemic, i.e. being the forecast debt and cash balances as at 31 March 2021 rather than the cash balances as at 30 September 2020.

We determined an appropriate discount of 25% to the SOTP which we used in our valuation to derive a fair value per Tsogo Sun Hotels Share and Hospitality Share, i.e. price to SOTP of 0.75x. Dividend Discount Model (“DDM”) valuations of REIT counters have historically supported a Price to NAV ratio of 0.85x - 0.95x. In addition, we have considered the sensitivity analysis per the property valuation reports and have applied a further 0.10x reduction in SOTP to derive fair value per share (i.e. the valuation case based on -5% net cashflow, +25 basis points (“bps”) on terminal capitalisation rate and +25bps on the discount rate). We are of the opinion that the continued uncertainty in the sector warrants this discount which allows for a delay in returning to 2019 activity levels in 2022. We are therefore of the opinion that a 25% discount to SOTP reflects a fundamental valuation in the current environment. Tsogo Sun Hotels’ attributable 75.46% interest in Hospitality was determined based on the fair value per Hospitality Share using the above approach.

The valuations were performed taking cognisance of risk and other market and industry factors affecting Tsogo Sun Hotels and Hospitality. The nature of the business of Tsogo Sun Hotels and Hospitality are substantially similar and have in-principle the same economic drivers.

We found that the key value drivers in the property valuations comprises a fair market rental which would be paid by any other non-related hotel tenant to occupy and trade from the premises. The net operating income has then been discounted over the forecast period and capitalised in the terminal at appropriate market rates for the South African hotels and for the offshore hotels in other African countries, the Middle East and the Seychelles depending on location, property quality, star rating and long-term viability for the South African hotel operations.

Rental income is a function of number of rooms available, guest occupancy and rental rate per room in respect of each property.

As at 31 March 2020 the significant inputs to the DCF valuations of the combined property portfolios were as follows, being the key external value drivers:

- A weighted average rental growth rate of 5.19%;
- A terminal capitalisation rate of 9.00% - 13.50% (only five properties exceed 11.00%); and
- A risk-adjusted discount rate of 12.00% - 14.50% (only one property is lower than 13.00%). We are of the opinion that these discount rates are still applicable as at 30 September 2020 and that the decrease in the risk free rate is offset by a similar but opposite increase in the systematic risk premium).

The key internal value driver of the Manco and Hospitality head office is the earnings attributable to the Manco and the cost of the Hospitality head office.

BDO Corporate Finance determined the value range by decreasing and increasing the discounts to SOTP to between 20% and 30%, i.e. a price to SOTP of between 0.70x and 0.80x and increasing and decreasing the implied EBITDA multiple for the Manco and Hospitality head office valuations by 0.5x. We note that the both companies are exposed to the same sector and that the valuations are relative. Also, the fair value of Tsogo Sun Hotels' attributable interest in Hospitality comprises 55.6% of the SOTP value of Tsogo Sun Hotels. The sensitivity analysis did not indicate a sufficient effect to alter our opinion in respect of the Tsogo Sun Hotels Offer with the change in the fair swap ratio of a maximum of 2.1%.

Valuation results

In undertaking the valuation exercise above, we determined the following valuation ranges and implied swap ratios:

Rand per share	Hospitality Share	Tsogo Sun	Implied ratio
Low end of range	8.51	5.32	1.60
Core value	9.12	5.76	1.58
High end of range	9.73	6.21	1.57

Based on the above value ranges the minimum number of Tsogo Sun Shares to be issued as consideration for each Hospitality Share would be 1.57 Tsogo Sun Shares for each Hospitality Share. The Scheme Consideration and General Offer Consideration of 1.77 Tsogo Sun Shares for each Hospitality Share falls above the suggested range calculated from our valuations, i.e. a premium of 12.74%.

The valuation range above is provided solely in respect of this opinion and should not be used for any other purposes.

The offer consideration compared to the trading price

The Scheme Consideration represents a:

- 0% premium to the swap ratio implied by the closing price per Share on the JSE as at 29 September 2020, being the last business day immediately prior to the date of publication of the Tsogo Sun Hotels Offer; and
- 15.77% premium to the swap ratio of 1.53 implied by the 30-day volume weighted average prices ("VWAP") up to and including 29 September 2020 being the last trading day prior to the issue of the Cautionary Announcement.

In arriving at our opinion, we have considered, in addition to the procedures referred to above, other key qualitative factors, which are set out below:

Rationale for the Tsogo Sun Hotels Offer as set out in the Circular

We have considered the rationale for the Tsogo Sun Hotels Offer which entails significantly reduced head office costs and the elimination of costs associated with maintaining a listing on the exchange operated by the JSE for Hospitality.

Real Estate Investment Trust (“REIT”) status and COVID-19 implications

COVID-19 has resulted in the Mount Grace and Hazyview hotel tenants applying for liquidation, resulting in these two hotels being vacant without any tenants. The lease agreement for The Edward in Durban came to an end at 30 June 2020 and has subsequently not been renewed. Tsogo Sun Hotels has taken over the management of the Mount Grace, Hazyview and The Edward hotels subsequent to 31 March 2020. We note that the hotel trading results will be accounted for in Hospitality’s financial results as opposed to rentals only. Due to these changes along with further potential similar instances, there is a risk that Hospitality rental revenue may be less than 75% of its income which would risk Hospitality’s REIT status. We note that, together with the hotels mentioned previously, the Radisson Blu Gautrain Hotel is also accounted for as owner occupied from 1 October 2020.

Breach of lending covenants

As disclosed in the 2020 Annual Financial Statements, Hospitality’s properties were required to be closed, and Hospitality was unable to generate revenue during the lockdown period. This, together with the slow recovery since the hotels have begun to open and operate, result in Hospitality 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 and is also not expected to meet its net debt to EBITDA covenant requirement (and possibly interest cover ratio) at 31 March 2021. We understand that the lenders have waived the net debt to EBITDA covenant requirements for the measurement period 30 September 2020 and 31 March 2021. Until the hotels reach certain minimum occupancy levels, the risk remains that the covenants will be breached beyond 31 March 2021.

Expected dividends

Due to the high uncertainty of, *inter alia*, future cashflows we do not expect any distributions to be paid by Hospitality in the 2021 and 2022 financial years.

Opinion

The Scheme Consideration represents a premium of 15.77% to the 30-day VWAP per share on the JSE up to 29 September 2020 and is above the suggested range calculated from our valuation. The rationale for the Tsogo Sun Hotels Offer is set out in paragraph 4 of the Circular. We are not aware of any material adverse effects of the Tsogo Sun Hotels Offer.

BDO Corporate Finance has considered the proposed terms and conditions of the Tsogo Sun Hotels Offer in respect of the Scheme Consideration and General Offer Consideration.

Based upon and subject to the conditions set out herein, BDO Corporate Finance is of the opinion that the terms and conditions of the Scheme and the Scheme Consideration, in respect of the Scheme, are fair and reasonable to Scheme Participants.

For purposes of paragraph 1.15(d) of the Listings Requirements, BDO Corporate Finance confirms that it is of the opinion that the General Offer Consideration is fair insofar as the General Offer is concerned.

Our opinion is necessarily based upon the information available to us up to the date of this opinion, including in respect of the financial, market and other conditions and circumstances existing and disclosed to us at the date thereof. We have furthermore assumed that all conditions precedent, including any material regulatory and other approvals and consents required in connection with the Tsogo Sun Hotels Offer have been fulfilled or obtained.

Accordingly, it should be understood that subsequent developments may affect this opinion, which we are under no obligation to update, revise or re-affirm.

Consent

We hereby consent to the inclusion of this letter and references thereto in Company announcements in the form and context in which they appear.

Yours faithfully

A handwritten signature in black ink, appearing to read 'N. Lazanakis', with a horizontal line underneath.

BDO Corporate Finance Proprietary Limited

Nick Lazanakis

Director

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