Hospitality PROPERTY FUND

Hospitality Property Fund Limited
(Incorporated in the Republic of South Africa)
(Registration number 2005/014211/06)
Share code for A shares: HPA ISIN for A shares: ZAE000203022
Share code for B shares: HPB ISIN for B shares: ZAE000203030
Income tax reference number: 9770/799/1/47
("Hospitality" or "the Company" or "the Fund")

Condensed consolidated reviewed results and cash dividend distribution ("distribution") for the year ended **30 June 2016**

Salient features

- Rental income up 9,3% to R474,6 million
- Profit before distribution up 16,8% to R272,0 million
- Exceptional performance from Western Cape properties
- Disposal of seven non-core properties (for a total net consideration of R189,9 million)
- Tsogo Sun transaction receives Competition Tribunal approval
- Capital restructure in process

Trading environment

Despite the uncertain global and domestic economy, Hospitality delivered a pleasing performance for the year, with the combined distribution per A and B share improving 18,0% (2015: down 14,44%) to 190,43 cents (2015: 161,36 cents) compared to the prior year. This comprises the A share distribution, which is up 5,0% to 155,62 cents (2015: 148,21 cents) in line with the A share distribution policy and the B share distribution of 34,81 cents (2015: 13,15 cents), reflecting an increase of 164,7%.

Trading conditions remain challenging, however, the tourism sector has seen some increased growth, particularly in the Cape Town node. This was driven mainly by an increase in international and local leisure travellers as a result of the weak Rand.

The STR Global South Africa Hotel Review reflected improved occupancies and room rates for the hotel industry during the year under review. Occupancy levels increased year-on-year for the same period by 3,2% to 64,6% and average daily rates ("ADR") improved by 8,0% to R1 133. Revenue per available room ("RevPAR") grew 11,4% for the year ended 30 June 2016 to R733.

The Fund's portfolio delivered (excluding the properties sold) the following performance statistics for the year ended 30 June 2016:

	ADR		Variance	Occupancy		Variance	RevPar		Variance
	F2016	F2015		F2016	F2015		F2016	F2015	
Traditional Portfolio*	R1 457	R1 348	8,1%	69,1%	65,7%	5,2%	R1 007	R886	13,7%
Conference Portfolio#	R852	R751	13,3%	50,4%	44,3%	13,8%	R429	R333	29,0%
Total	R1 336	R1 233	8,4%	64,3%	60,1%	7,1%	R859	R740	16,0%

* **Traditional portfolio**: Properties which generate revenue from room nights sold

\# **Conference portfolio**: Properties which generate revenue predominantly from conference facilities and food and beverage

Results

Rental income for the Fund increased 9,3% to R474,6 million (2015: R434,1 million), including the impact of the seven non-core properties disposed of during the year and the disposal of the Fund's 50% interest in the Courtyard portfolio in the prior year. Like-for-like rental income (adjusted for the impact of disposals) grew 13,7% to R462,8 million.

The Fund's rental income growth was bolstered by its well-located hotel properties in the Western Cape that continue to appeal to domestic and international travellers alike, with overall rental income growth of 31,4% compared to the prior year. Furthermore, Mount Grace Country House and Spa showed a significant improvement as the management company bedded down its sales and marketing strategies with positive results, delivering a rental income growth of 68,1% to R15,3 million. The new fixed lease at Champagne Sports Resort, which commenced on 1 July 2015, dampened the overall growth in rental income by R6,2 million.

Hospitality's overall expenses increased 10,3% to R44,9 million (2015: R40,7 million). The major impact was the staff incentive bonus provision of R5,8 million, reflecting the improved performance of the Fund. Increases in other expenses were largely in line with inflation.

Net finance costs decreased marginally to R158,1 million (2015: R160,9 million) due to the application of excess proceeds from the sale of properties to reduce debt.

The following table reflects the operating financial results for the year ended 30 June 2016 compared to the corresponding previous financial year:

Summary of operating results for the year ended 30 June 2016	Actual 2016 (R'000)	Actual 2015 (R'000)	Variance (R'000)	Variance (%)
Contractual rental income	**474 553**	434 112	40 441	9,3
Fund expenses	**(44 852)**	(40 674)	(4 178)	10,3
Net finance cost	**(158 085)**	(160 888)	2 803	1,7
HPF Employee Incentive Trust net effects	**–**	178	(178)	(100,0)
Taxation	**(9)**	(116)	107	92,2
Income from associates	**264**	203	60	29,6
Profit before distribution/ debenture interest	**271 871**	232 815	39 056	16,8
Distribution to shareholders/ linked-unit holders	**(271 871)**	(232 815)	(39 056)	16,8
A – share distribution	**(224 539)**	(213 845)	(10 694)	5,0
B – share distribution	**(47 332)**	(18 970)	(28 362)	149,5

Funding

The group's debt facilities with financial institutions as at 30 June 2016 amounted to R2.04 billion. Total drawn facilities were R1.73 billion resulting in a loan to value (LTV) ratio (total interest-bearing liabilities/investment properties plus properties held for sale) of 32.6% (2015: 36.2%). The interest cover ratio improved to 2.72 times (2015: 2.45 times), well above the required debt covenant limit of 2.00 times.

The weighted average cost of borrowings (WACC) was 9.58% (2015: 9.12%) for the period under review, with 63.5% of the group's borrowings being hedged.

Summary of funding (R'000)	Facility	Drawn-down
Nedbank Limited	1 073 550	755 063
Corporate bonds	370 000	370 000
Total non-current	**1 443 550**	**1 125 063**
Corporate bonds	600 000	600 000
Total current	**600 000**	**600 000**
Total interest-bearing borrowings	**2 043 550**	**1 725 063**
% of debt hedged	**63%**	

A new interest rate swap was entered into for R250 million at a rate of 7,88%, commencing February 2016, which replaced an existing swap of the same amount.

The Fund is currently engaging with financial institutions and potential investors to refinance or issue new notes to the total value of R600 million, to replace the current notes of the same value, expiring in February 2017.

When issuing new debt the group endeavours to optimally spread the maturity to minimise its exposure to large debt maturities in any single year.

REIT capital structure

As previously announced, in order to comply with REITs gearing requirement in terms of the JSE Limited Listings Requirements, restructuring of the Company's linked unit capital structure to a simple "all share" structure, by way of a scheme of arrangement in terms of sections 114 and 115 of the Companies Act, 71 of 2008 ("the Act") and the adoption of a new Memorandum of Incorporation to take account of the change in the Company's capital structure, received the requisite approval from both A and B linked unitholders at Special General Meetings ("SGMs") held on 21 August 2015.

Dissenting shareholder appraisal rights

Subsequent to the SGMs, shareholders representing 2,8% of total shares in issue or 8 320 397 B shares ("the appraisal shares") exercised their appraisal rights and demanded fair value for their shares in terms of section 164(5) of the Act.

The Board determined a fair value of R2,90 per appraisal share, which amounts to a total fair value of R24,1 million. In terms of section 164(14)(b), the dissenting shareholders have applied to the court to determine a fair value. In-line with section 164(9), the appraisal shares have no further rights, other than to be paid their fair value and as a result, the appraisal shares are now considered treasury shares by the Company for accounting treatment purposes.

Had appraisal rights not been exercised, the B share distribution, for the period under review, would have amounted to 15,93 cents, as opposed to declared distribution number 21 of 17,94 cents and would have amounted to an increase of 293,7%, instead of the current increase of 345,2%.

Tsogo Transaction ("the Transaction") and Capital Restructure ("the Restructure")

Salient terms

The acquisition by Hospitality from Southern Sun Hotels Proprietary Limited ("SSH"), (a wholly-owned subsidiary of Tsogo Sun Holdings Limited ("Tsogo")) of a portfolio of 10 hotel properties valued at R1,78 billion ("the Transaction") through the acquisition of 100% of the issued shares of a newly incorporated company ("Newco"), and the restructure of Hospitality's dual-class share capital structure to a single-class share capital structure ("the Restructure"), was approved in general meeting by the requisite majority of shareholders. The applied ratio of shares being issued in the Restructure is one ordinary share for every one A share held and one ordinary share for every 3,5 B shares held.

The purchase consideration will be settled through the issue of 145 million Hospitality shares ("consideration shares"). On completion of the transaction, Tsogo's holding will increase to more than 50% of Hospitality's ordinary shares. Rationale

The Transaction presents a highly attractive acquisition of 10 successful and established hotel properties for Hospitality, all of which are well located within their respective nodes. The Transaction will contribute to a diversification of Hospitality's earnings base and should introduce an additional element of stability to earnings, through exposure to the relatively predictable cash flows generated by the Tsogo Portfolio. As the Tsogo Portfolio will be acquired free of any debt, the Transaction will also bring about the reduction of Hospitality's gearing ratio from 32,6% as at 30 June 2016 to 24,4%, which together with Hospitality's greater scale and inclusion as part of the Tsogo group, is expected to both enhance Hospitality's BEE ownership and credit rating. This should in turn reduce the Fund's future cost of funding.

The simplified capital structure will enable Hospitality to more fully deliver on its strategic objectives in the longer term. It is also anticipated that the Transaction will see Hospitality forming the platform for Tsogo's stated strategy of growing a hospitality-focused REIT. It therefore provides Hospitality with exciting future growth prospects and an attractive pipeline of acquisitions in the medium term.

Competition Tribunal and effective date

The Transaction was approved by the Competition Tribunal, subject to conditions accepted by both parties, and a merger clearance certificate has been issued.

Accordingly, save for certain administrative conditions precedent that remain to be fulfilled, including, *inter alia*, receipt of confirmation by the Companies and Intellectual Properties Commission that it has accepted and placed on file all relevant documents required to effect the Transaction.

Hospitality anticipates that the remaining conditions precedent to the Transaction will be fulfilled by 31 August 2016, such that the effective date of the Transaction will be 1 September 2016.

A further announcement will be released regarding fulfilment of the outstanding conditions precedent to the Transaction at the appropriate time, which announcement will include a detailed timetable for its implementation.

Property portfolio

The Fund's portfolio comprises interests in 15 hotel and resort properties in South Africa. The weighted average lease expiry period is 10,72 years. As at 30 June 2016, the carrying value of the portfolio was R5,3 billion and the net asset value (NAV) per combined A and B share amounted to R12,93, an increase of 10,2% from 2015. The market value per combined A and B share at the end of the financial year traded at a 41,3% discount to the NAV.

Acquisitions and disposals

To date, the Fund's investment strategy has been to invest in well-located, large hotels in major urban centres with strong brands and diverse source markets and to dispose of certain properties which do not meet these criteria. The Fund also continues to investigate long-term growth and investment opportunities. The Tsogo transaction will provide additional scale to the current portfolio and present opportunities for further growth in line with the Funds' property investment strategy.

The Fund had previously identified several non-core properties for disposal. In the last 12 months, seven properties were disposed of amounting to a total net consideration of R189,9 million. These included the Protea Hotel The Richards; Protea Hotel Hluhluwe and Safaris; Premier Hotel King David and Protea Hotel Imperial: Protea Hotel The Winkler, Bayshore Inn and the Protea Hotel Richards Bay properties. The Protea Hotel Hazyview and Kopanong Hotel and Conference Centre remain on the disposal list.

During the year, the Fund acquired three additional units at the Radisson Blu Waterfront for R14,3 million, bringing its total interest in the property rental pool to 55,8%.

Developments and capital projects

In order to maintain the appeal of its properties, the Fund continually upgrades and invests in its properties. During the year, the total capital expenditure amounted to R102,9 million, which included:

- during the year, 30 additional rooms were developed at the Protea Hotel Edward, at a total cost of R19,8 million increasing the number of rooms to 131;
- at Birchwood Hotel R14,0 million was spent on the refurbishment of 82 rooms that now forms part of the Silverbirch hotel section; and
- at Champagne Sports Resorts, R14,0 million was spent on acquiring all movable assets from the tenant.

The Fund is cognisant of future refurbishment projects that will require additional capital investment and continues to investigate options to deal with this on a sustainable basis going forward.

Prospects

Although the local currency stabilised after the end of the financial year, the overall weakening of the Rand buoyed the South African hospitality sector, despite the weak domestic economy. South Africa has become a more affordable destination for international tourists and there has been an increase in domestic travellers opting to travel locally. Although public sector spending remains under pressure, the approval of increased rates on travel budgets is positive for the Fund.

Inflation is expected to rise as a consequence of the weaker Rand and the drought impact, thereby putting upward pressure on hotel operating costs.

Looking forward, the Fund is well positioned, with upside potential for rates in hotels located in high tourist areas particularly the Western Cape. The domestic business and leisure sector is expected to be stable. Public sector conferencing, which slowed in the run up to the municipal elections, is expected to normalise.

Share trading liquidity

During the period under review, 20.8% of the A shares/linked units and 78,0% of the B shares/linked units were traded on the JSE Limited. Of the total number B shares/linked unit traded, 55,0% related to open market acquisitions by Tsogo, as disclosed on SENS on 26 August 2015.

Dividend payment

Shareholders will receive a gross distribution payment number 21 for the six-month period ended 30 June 2016 of 78,62 cents per A-share and 17,94 cents per B-share respectively.

In accordance with Hospitality's REIT status, shareholders are advised that the distribution meets the requirements of a "qualifying distribution" for the purposes of section 25BB of the Income Tax Act, No. 58 of 1962 ("Income Tax Act").

The number of shares in issue at the date of the declaration is 144 285 503 A shares and 135 965 106 B shares.

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 distribution 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 ceases to be the beneficial owner, both in the form prescribed by the Commissioner for the South African Revenue Service. Linked 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 distribution, 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. It should be noted that until 31 December 2013 qualifying distributions received by non-residents were not subject to dividend withholding tax. From 1 January 2014, any qualifying distribution received by a non-resident from a REIT will be subject to dividend withholding tax at 15%, 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. Assuming dividend withholding tax is withheld at a rate of 15%, the net amount due to non-resident shareholders will be 66,827 cents per A-share and 15,249 cents per B-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 ceases 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 distribution if such documents have not already been submitted, if applicable. Shareholders are requested to seek professional advice on the appropriate action to take.

Last day to trade cum distribution	Tuesday, 13 September 2016
Shares will trade ex-distribution	Wednesday, 14 September 2016
Record date	Friday, 16 September 2016
Payment date	Tuesday, 19 September 2016

Shareholders may not dematerialise or rematerialise their shares between Wednesday, 14 September 2016 and Friday, 16 September 2016 both days inclusive.

By order of the Board

D G Bowden
(Chairman)

V M Joyner
(Chief Executive Officer)

Approved by the Board: 23 August 2016

Released on SENS: 24 August 2016

Directors: D G Bowden (Chairman)*+, V M Joyner (CEO), L de Beer *+, S A Halliday *+, Z N Kubukeli*+, G A Nelson*, Z Malinga*+, W C Ross *+
(*Non-Executive, +Independent)

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Sponsor: Rand Merchant Bank (A division of FirstRand Bank Limited)

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BASIS OF PREPARATION AND ACCOUNTING POLICIES

These results were prepared under the supervision of the Acting CFO, Riaan Erasmus CA(SA).

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

The directors take full responsibility for the preparation of the preliminary report.

AUDITORS REPORT

These condensed consolidated financial statements for the year ended 30 June 2016 have been reviewed by KPMG Inc, who expressed an unmodified review conclusion. A copy of the auditor's review report is available for inspection at the company's registered office together with the financial statements identified in the auditor's report.

The auditor's report does not necessarily report on all of the information contained in this announcement/financial results. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of the auditor's report together with the accompanying financial information from the issuer's registered office.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2016

	Reviewed June 2016 R'000	Audited June 2015 R'000
Revenue	**474 328**	433 287
Rental income – contractual	474 553	434 112
– straight-line accrual	(225)	(825)
Operating income	–	–
Expenditure	(44 852)	(40 674)
Operating expenses	(44 852)	(40 674)
Operating profit	429 476	392 613
Net finance cost	(158 085)	(160 888)
Finance income	12 737	9 696
Finance costs	(170 822)	(170 584)
Profit before debenture interest, goodwill, fair value adjustments and taxation	271 391	231 725
Debenture interest	–	(232 815)
Profit/(loss) before fair value adjustments, goodwill and taxation	271 391	(1 090)
(Loss)/profit on sale of investment properties	(13 556)	390
Fair value adjustments	245 412	143 531
Investment properties, before straight-lining adjustment	251 024	143 734
Straight-line rental income accrual	225	825
Total fair value of investment properties	251 249	144 559
Goodwill impairment	(12 000)	(7 200)
Interest-rate swaps	6 163	6 172
Profit before taxation	503 247	142 831
Debenture discount amortisation	(2 313)	(8 633)
Equity accounted profit from associate after tax	264	203
Taxation	(9)	(116)
Total profit and comprehensive income for the year	501 189	134 285
Reconciliation between earnings, headline earnings and distributable earnings		
Total profit and comprehensive income for the year	501 189	134 285
Adjustment : Debenture interest	–	232 815
Profit (shares/linked units)	501 189	**367 100**
Adjustments :		
Loss/(profit) on sale of investment properties	13 556	(390)
Goodwill impairment	12 000	7 200
Impairment to furniture, fittings and equipment	265	–
Loss on disposal of furniture, fitting and equipment	7	–
Fair value – investment properties revaluation	(251 024)	(143 734)
Fair value – straight-line rental income	(225)	(825)
Headline earnings (shares/linked units)	275 768	**229 351**
Fair value – interest rate swaps	(6 163)	(6 172)
Debenture discount amortisation	2 313	8 633
HPF Employee Incentive Trust effects	–	78
Taxation	–	100
Impairment to furniture, fittings and equipment	(265)	–
Loss on disposal of furniture, fitting and equipment	(7)	–
Straight-line rental income	225	825
Distributable earnings	271 871	**232 815**
Number of shares/units		
A shares/linked unit	144 285 503	144 285 503
B shares/linked unit	133 995 396	142 315 793
– Shares/units in issue	144 285 503	144 285 503
– HPF Employee Incentive Trust shares/units	(1 969 710)	(1 969 710)
– Shareholder redemption	(8 320 397)	–
Weighted average number of shares/units		
A shares/linked unit	144 285 503	142 380 569
B shares/linked unit	135 154 796	140 410 859
– Shares/units in issue	144 285 503	142 380 569
– HPF Employee Incentive Trust shares/units	(1 969 710)	(1 969 710)
– Shareholder redemption	(7 160 997)	–
Dividend per share/distribution per linked unit (cents)		
A shares/linked unit	155,62	148,21
– Interim	77,00	73,33
– Final	78,62	74,88
B shares/linked unit	34,81	13,15
– Interim	16,87	9,12
– Final	17,94	4,03
	190,43	161,36
Earnings and diluted earnings per share/linked unit (cents)		
A shares/linked unit	179,35	129,81
B shares/linked unit	179,35	129,81
	358,70	259,62
Headline earnings and diluted headline earnings per share/linked unit (cents)		
A-linked share/unit	98,69	81,10
B-linked share/unit	98,69	81,10
	197,38	162,20

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2016

	Reviewed June 2016 R'000	Audited June 2015 R'000
ASSETS		
Non-current assets	5 174 459	4 823 982
Investment properties	5 169 000	4 806 775
Straight-line rent income accrual	–	225
Investment properties and related accrual	5 169 000	4 807 000
Furniture, fittings and equipment	180	573
Goodwill	–	12 000
Derivative asset	4 961	4 155
Investment in associates	318	254
Current assets	404 128	626 033
Non-current assets held for sale	129 491	329 228
Properties held for trading	22 643	21 620
Derivative asset	699	–
Trade and other receivables	57 035	71 035
Cash and cash equivalents	194 260	204 150
Total assets	5 578 587	5 450 015
EQUITY AND LIABILITIES		
Equity	3 732 253	970 747
Stated capital	2 909 957	–
Share capital and share premium	–	515 931
Retained earnings	107 961	(2 332)
Fair value reserve	714 335	457 148
Non-current liabilities	1 126 540	4 049 964
Debentures	–	2 415 842
Interest-bearing liabilities	1 125 063	1 627 874
Derivative liability	1 477	6 248
Current liabilities	719 794	429 304
Trade and other payables	95 552	85 352
Short-term portion of interest-bearing liabilities	600 000	230 000
Taxation	–	100
Provision for shareholder redemption	24 129	–
Derivative liability	113	–
Debenture interest payable	–	113 852
Total equity and liabilities	5 578 587	5 450 015
Net asset value per share/linked unit (Rand)		
A share/linked unit	12,93	11,74
B share/linked unit	12,93	11,74

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2016

	Share capital R'000	Share premium R'000	Stated capital R'000	Retained earnings R'000	Fair value reserve R'000	Treasury share reserve R'000	Total R'000
Balance at 1 July 2014	**27**	**481 289**	–	**13 289**	**307 242**	–	**801 847**
Total profit and comprehensive income for the year	–	–	–	134 285	–	–	134 285
Transactions with owners, recorded directly in equity	1	34 614	–	(149 906)	149 906	–	34 615
Issue of shares	1	34 614	–	–	–	–	34 615
Transfer to fair value reserve – investment properties	–	–	–	(143 734)	143 734	–	–
Transfer to fair value reserve – interest rate swaps	–	–	–	(6 172)	6 157	–	–
Balance at 1 July 2015	**28**	**515 903**	–	**(2 332)**	**457 148**	–	**970 747**
Total profit and comprehensive income for the year	–	–	–	501 189	–	–	501 189
Transactions with owners, recorded directly in equity	(28)	(515 903)	2 919 952	(390 896)	257 187	(9 995)	2 260 317
Conversion of par value shares into no-par value shares	(28)	(515 903)	515 931	–	–	–	–
Conversion of debentures into no-par value shares	–	–	2 428 150	–	–	–	2 428 150
Conversion of treasury shares into no-par value shares	–	–	–	–	–	(9 995)	(9 995)
Provision for shareholder redemption	–	–	(24 129)	–	–	–	(24 129)
Dividend paid (interim)	–	–	–	(133 709)	–	–	(133 709)
Transfer to fair value reserve – investment properties	–	–	–	(251 024)	251 024	–	–
Transfer to fair value reserve – interest rate swaps	–	–	–	(6 163)	6 163	–	–
Balance at 30 June 2016	–	–	**2 919 952**	**107 961**	**714 335**	**(9 995)**	**3 732 253**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2016

	Reviewed June 2016 R'000	Audited June 2015 R'000
Cash flows from operating activities		
Cash generated from operations	453 473	377 433
Finance income received	12 737	9 696
Finance costs paid	(170 822)	(170 584)
Taxation	(109)	(150)
Dividends paid/distribution to unitholders	(247 561)	(237 105)
Net cash inflow/(outflow) from operating activities	47 718	(20 710)
Cash flows from investing activities		
Acquisition and development of investment properties	(131 157)	(244 204)
Disposal of investment properties	206 362	80 000
Acquisition of furniture and equipment	(202)	(224)
Dividends received from associates	200	200
Net cash inflow/(outflow) from investing activities	75 203	(164 228)
Cash flows from financing activities		
Proceeds from the issue of linked units	–	116 638
Interest-bearing liabilities repaid	(365 011)	(240 000)
Interest-bearing liabilities raised	232 200	325 247
Net cash (outflow)/inflow from financing activities	(132 811)	201 885
Net (decrease)/increase in cash and cash equivalents	(9 890)	16 947
Cash and cash equivalents at beginning of year	204 150	187 203
Cash and cash equivalents at end of year	194 260	204 150

CONDENSED CONSOLIDATED SEGMENTAL INFORMATION

for the year ended 30 June 2016

Information regarding the results of each reportable segment is included below. Performance is measured based on operating profit before finance costs, as included in the internal management reports that are reviewed by the group's CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arms' length basis.

R'000	Traditional portfolio*	Conference# portfolio#	Head office°	Total of all operating segments
Statement of Comprehensive Income – 30 June 2016				
Segment revenue	412 261	62 292	–	474 553
Expenditure	–	–	(44 852)	(44 852)
Segment results	412 261	62 292	(44 852)	429 701
Statement of Comprehensive Income – 30 June 2015				
Segment revenue	370 416	63 585	111	434 112
Expenditure	–	–	(40 674)	(40 674)
Segment results	370 416	63 585	(40 563)	393 438
Statement of Financial Position – 30 June 2016				
Non-current assets				
Investment properties	4 407 509	761 491	–	5 169 000
Current assets				
Non-current assets held for sale	41 000	88 491	–	129 491
Trade and other receivables	56 116	–	919	57 035
Segment assets	4 504 625	849 982	919	5 355 526
Statement of Financial Position – 30 June 2015				
Non-current assets				
Investment properties	4 045 272	761 728	–	4 807 000
Current assets				
Non-current assets held for sale	249 500	79 728	–	329 228
Trade and other receivables	3 584	1 236	66 215	71 035
Segment assets	4 298 356	842 692	66 215	5 207 263

* **Traditional portfolio**: Properties to which revenue is generated predominately from occupation

\# **Conference portfolio**: Properties to which revenue is generated predominantly from conference facilities and food and beverage

° **Head office**: Head office represents all the costs at Fund level and is reviewed separately from the property portfolio

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

Revenues	**2016**	2015
Total revenue for reportable segments		
Other revenue	474 553	434 112
Straight-line of leases	(225)	(825)
Elimination of discontinued operations	–	–
Consolidated revenue	474 328	433 287
Profit or loss		
Total profit or loss for reportable segments	429 701	393 438
Other profit or loss		
Elimination of inter-segment profits	–	–
Operating income	–	–
Net finance costs	(158 085)	(160 888)
Debenture interest	–	(232 815)
Recoupment of debenture interest	–	–
(Loss)/profit on disposal of investment properties	(13 556)	390
Fair value adjustments	245 187	142 706
Profit before taxation	503 247	142 831

SUBSEQUENT EVENTS

The board is not aware of any matter or circumstances arising since the end of the financial year to the date of this report, not otherwise dealt with in this report that would significantly affect the operations, the results and the financial position of the Group.

As announced on SENS on 11 August 2016, the Competition Tribunal has given their approval regarding the Tsogo Transaction, subject to conditions which have been accepted by the Fund and Tsogo Sun Holdings Limited (Tsogo). A merger clearance certificate has been issued. The Fund anticipates that the remaining conditions precedent to the Tsogo Transaction will be fulfilled by 31 August 2016, such that the effective date of the Tsogo Transaction will be 1 September 2016.

NOTES TO THE CONDENSED ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2016

		Reviewed June 2016 R '000	Audited June 2015 R '000
1	**Interest bearing borrowings**		
	Non-current	1 125 063	1 627 874
	Current	600 000	230 000
	Total interest bearing borrowings	1 725 063	1 857 874
	Measurement of fair value		
	The group recognises and measures its long-term loans at amortised cost. The fair value of the loans was determined using both external and internal inputs and is presented for disclosure purposes only.		
	The external inputs applied, related to the interest rates contracted with the various sources of funding linked to jibar, whereas the internal inputs applied, related to the weighted average cost of funding (WACC) 9.58% (2015: 9.12%) determined for the group.		
	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.		
	As both external and internal data was used to determine the fair value, the fair value measurement has been classified under Level 2.		
	Non-current	1 234 749	1 743 757
	Current	1 017 230	237 661
	Total interest bearing borrowings at fair value	2 251 979	1 981 418
2	**Derivative assets/(liabilities)**		
	Non-current asset	4 961	4 155
	Current asset	699	–
	Non-current liability	(1 477)	(6 248)
	Current liability	(113)	–
	Net derivative asset/(liability)	4 070	(2 093)
	Measurement of fair value		
	Derivative financial instruments are recognised and measured at fair value through profit or loss, using both internal and external inputs.		
	The external inputs applied, related to the interest rates contracted with the various sources of funding linked to jibar, whereas the internal inputs applied, related to the weighted average cost of capital (WACC) 9.58% (2015: 9.12%) determined for the group.		
	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.		
	As both external and internal data was used to determine the fair value, the fair value measurement has been classified under Level 2.		
3	**Other financial instruments**		
	Trade and other receivables	57 035	71 035
	Cash and cash equivalents	194 260	204 150
		251 295	275 185
	Trade and other payables	95 552	85 352
	The above financial assets and liabilities are carried at amortised cost, which approximates their fair value.		