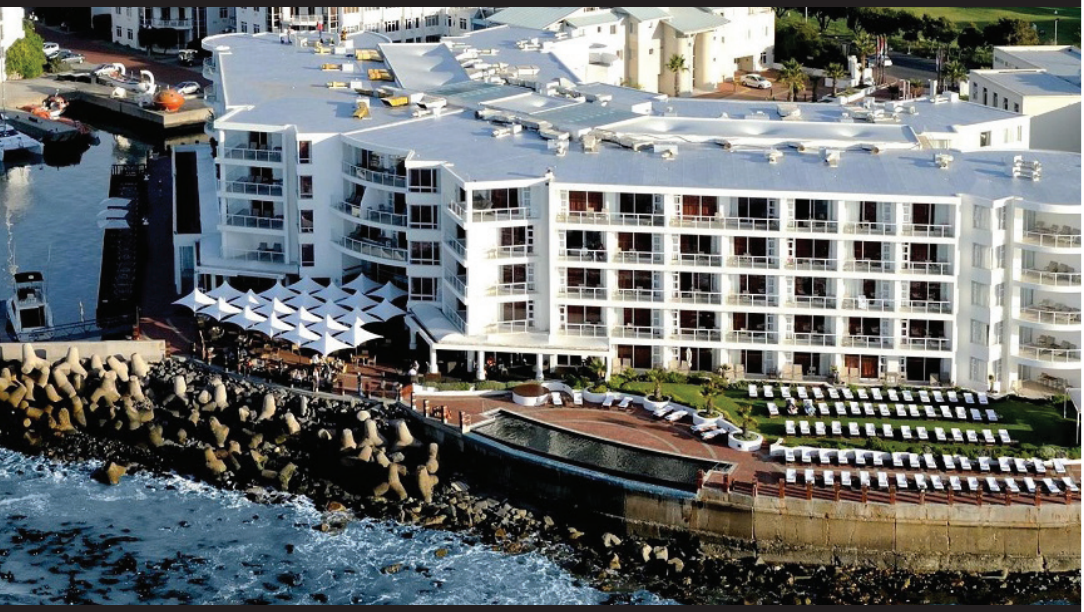
REVIEWED CONDENSED CONSOLIDATED FINANCIAL RESULTS

for the period ended 31 March 2017 and cash dividend declaration



Rental Income for 9 months increased to R499 million

Investment Property value increased to R8.1 billion

Distribution per share for 9 months 101.01 cents

Hospitality PROPERTY FUND

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

www.hpf.co.za

COMMENTARY

INTRODUCTION

The nine months ended 31 March 2017 incorporated the completion of the acquisition of 10 hotel properties from Tsogo Sun Holdings Limited ("Tsogo Sun") ("1st Transaction") as well as the restructure of the company's dual-class share capital structure to a single class share capital structure, in the ratio of one ordinary share for every A-share held and one ordinary share for every 3.5 B-shares held ("the Restructure"), which brought about the alignment of shareholder objectives.

FINANCIAL RESULTS

Hospitality's board has declared a distribution of 44.92 cents per share for the three months ended 31 March 2017 resulting in the total distribution per share for the nine months of 101.01 cents per share (in addition to a clean out dividend, declared as at 31 August 2016, to A-shareholders of 9.29 cents per share). The Fund's distributable earnings increased by 56.8% to R345 million compared to the nine months to 31 March 2016, mainly due to the inclusion of the 10 properties from the 1st Transaction, effective from 1 September 2016. The Fund currently owns 24 properties relative to the 15 properties at 30 June 2016.

The following table reflects the operating financial results for the nine months ended 31 March 2017 compared to the prior 12 month financial period and the prior corresponding illustrative nine month comparable period:

Summary of operating results	**Nine months ended March 2017[1] R'000**	Year ended June 2016 R'000	**Illustrative Nine months ended[2] March 2016 R'000**	Nine months Variance R'000	Nine months Variance %
Contractual revenue	**498 803**	474 553	**370 181**	128 622	35
Fund expenses	**(38 858)**	(44 852)	**(32 052)**	(6 806)	(21)
Net finance cost	**(115 504)**	(158 085)	**(118 289)**	2 785	2
Income from associates	**409**	264	**144**	265	184
Taxation	**–**	(9)	**–**	–	–
Profit before distribution	**344 850**	271 871	**219 984**	124 866	57
Distribution	**(344 850)**	(271 871)	**(219 984)**	(124 866)	(57)
A-share	**(13 406)**	(224 539)	**(167 816)**		
B-share	**–**	(47 332)	**(52 168)**		
No par value ordinary shares	**(331 444)**	–	**–**		
Distribution – A-share (cents)	**9.29**	155.62	**116.31**		
Distribution – B-share (cents)	**–**	34.81	**36.14**		
No par value ordinary shares	**101.01**	–	**–**		

(1) Hospitality changed its financial year end from June to March during the period under review. This was done to align Hospitality's financial year end with that of its controlling shareholder, Tsogo Sun.

(2) The illustrative information has been extracted, without adjustment from management accounts for the period 1 July 2015 to 31 March 2016. The illustrative information is the responsibility of the directors of Hospitality and has not been reviewed or reported on by Hospitality's auditors.

COMMENTARY

FINANCIAL RESULTS continued

Rental income for the nine month period increased by 35% to R499 million (2016: R370 million) and includes the impact of the 1st Transaction and the disposal of eight investment properties in the current and prior periods. Rental income on a like-for-like basis, for a 12 month comparable period, grew by 10% (adjusted for the impact of the 1st Transaction and the disposal of investment properties).

Hospitality's rental income is subject to seasonal variability and the nine months to 31 March 2017 included a robust summer period in the Western Cape.

Hospitality's expenses for the nine month period are up 21% to R39 million (2016: R32 million). A once-off expense of R8 million was incurred with the restructure of the asset management division and the termination costs of the previous CEO, in line with the change of control clause contained in his contract of employment. Net of these restructure costs, the Fund achieved a 3% reduction in expenses, predominantly due to payroll-related savings.

Net finance costs of R116 million (2016: R118 million) were in line with the previous comparable nine month period with debt levels constant. The weighted average cost of net debt for the year to March 2017 is 10.4% (Previously the company disclosed the gross cost of debt.)

TRADING RESULTS

For the purpose of comparison to the STR Global South African Hotel Review ("STR") and to mitigate against the effect of seasonality in the nine month results, trading for the 12 month period ended 31 March 2017 has been compared to the prior 12 month period. The trading results have been compared on a like-for-like basis and exclude the disposed properties. Room occupancy increased 2.3% to 65.5% and average daily rates ("ADR") increased by an above inflation 6.4% to R1 218. This resulted in revenue per available room ("RevPAR") growth of 8.9% to R797 and compares favourably with the STR reported RevPAR growth for South African hotels of 9.8%.

The Fund's hotel properties are predominantly located in the Western Cape and Gauteng provinces of South Africa and these properties generate more than 75% of the Fund's rental income.

The Western Cape properties, predominantly located in the Cape Town CBD performed well. Room occupancy grew 4.8% to 71.1% whilst ADR grew by 7.4% to R1 751 and resulted in RevPAR growth of 12.6% to R1 245, whilst RevPAR growth for the Western Cape properties participating in the STR survey was 17.9% . This was off a lower base than that of the Fund and was driven by aggressive growth in the ADR of the participating 4- and 5-star hotels.

The Gauteng properties increased occupancy to 60.4%, a growth of 1.9% whilst ADR grew by 4.0%, resulting in RevPAR growth of 6.0% which compares favourably with the growth in RevPAR of 4.5% for the STR participating hotels in Gauteng.

PROPERTY PORTFOLIO

The Fund's portfolio comprises interests in 24 hotel and resort properties in South Africa. The Fund's property portfolio was independently valued at 31 March 2017, resulting in a net fair value increase of R184 million to R8.1 billion (2016: R5.2 billion). The fund has elected to measure investment properties at fair value. The fair value is determined 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 weighted average lease expiry period is 13.4 years. As at 31 March 2017, the carrying amount of the portfolio was R8.1 billion and the net asset value (NAV) per ordinary share amounted to R19.96. The market value per share at 31 March 2017 traded at a 30% discount to the NAV.

ACQUISITIONS AND DISPOSALS

The Fund's investment strategy is to invest in well-located hotels in major urban centres with strong brands and diverse source markets.

The 1st Transaction, which became effective from 1 September 2016, comprised the acquisition of 10 hotel properties. Hospitality's inclusion in the Tsogo group, provided it with future growth prospects and an attractive pipeline of acquisitions in the medium-term.

As announced on the Stock Exchange News Service of the JSE ("SENS") on18 May 2017, Hospitality has entered into transaction agreements with Tsogo Sun and/or its subsidiaries ("Tsogo Group") ("2nd Transaction"), to acquire a portfolio of 29 established hotel properties for an aggregate purchase consideration of R3.6 billion, to be settled by R1.0 billion in cash and R2.6 billion in shares.

The 2nd Transaction remains subject to the requisite shareholders' approval being obtained at the general meeting scheduled for 5 July 2017. A circular containing the notice of the general meeting will be posted to shareholders on 5 June 2017 in terms of the Companies Act No 71 of 2008 ("the Companies Act") and the JSE Limited Listings Requirements.

The 2nd Transaction presents an attractive acquisition for Hospitality, in line with the Fund's growth strategy to acquire value enhancing property acquisitions, both from within Tsogo Sun's existing portfolio and from external opportunities, to increase the Fund's critical mass. The 2nd Transaction will continue to broaden Hospitality's earnings base, brand and product offering and result in greater presence in primary metropolitan areas.

Eight properties, which did not meet the Fund's investment strategy, have been disposed of in the last 18 months. The Inn on the Square was disposed of for a total cash consideration of R157 million on 20 November 2016. The Fund has provided certain warranties, which, in total, shall not exceed 10% of the purchase price or R5 million in respect of any one warranty.

As announced on SENS on 11 April 2017, the Fund has also concluded an agreement with Savana Property Proprietary Limited to acquire various additional sections and exclusive use areas in the Sandton Eye sectional title scheme ("the Scheme"), increasing the Fund's interest in the scheme from 58.13% to 81.54% and including the acquisition of an existing real right of extension of the scheme by some 10 000 bulk square meters or an additional seven floors.

RIGHTS OFFER

Subject to receiving the requisite JSE approvals, Hospitality intends to undertake a fully underwritten rights offer to raise R1.8 billion (the "Rights Offer"). Further details of the Rights Offer will be announced in due course and a circular in respect of the Rights Offer will be posted to shareholders. The Rights Offer proceeds will be used to partially settle the cash portion of the purchase consideration of the 2nd Transaction, with the balance being utilised to reduce Hospitality's interest bearing debt.

DEVELOPMENTS AND CAPITAL PROJECTS

In order to maintain the appeal of its properties the Fund continually upgrades and invests in its hotels. Total capital expenditure amounted to R73 million during the period. Most notably, this included an upgrade of the Spa at the Radisson Waterfront.

FUNDING

The group's debt facilities with financial institutions as at 31 March 2017 amounted to R2.0 billion. Total drawn down facilities were R1.7 billion resulting in a loan-to-value (LTV) ratio (total interest-bearing liabilities/ investment properties plus properties held for sale) of 22.4% (2016: 32.6%). The reduction in gearing is mainly due to the acquisition of the ungeared 1st Transaction portfolio. The interest cover ratio improved to 4.0 times (2016: 2.7 times), well above the required debt covenant limit of 2.0 times.

Global Credit Ratings upgraded the Fund's credit rating to long-term BBB+ (ZA) from BBB (ZA) while its short-term rating was upgraded from A3 (ZA) to A2 (ZA).

COMMENTARY

PROSPECTS

Growth in hotel trading is expected to remain under pressure given the weak economic growth prospects in South Africa. Growth will further depend on the economy's future performance and the degree of policy certainty emanating from the government going forward. The Fund remains positive that the rental income it derives from its tenants is well-diversified, both geographically and in terms of product offering across brand segments. The contribution from the elevated performances of the hotel properties in the Cape region could be at risk due to additional supply entering the market.

The Fund continues with the following:

- the integration of the 1st Transaction portfolio, which increased the Fund's room count by 1 978 rooms to 5 232 rooms;
- the implementation of the 2nd Transaction in relation to the acquisition of 29 additional hotels consisting of 3 771 rooms; and
- the implementation of the acquisition of various additional sections and exclusive use areas in the Sandton Eye Scheme.

The Fund's gearing is low at 22.4% and the Fund is committed to and able to fund its ongoing capital expenditure programme over a five-year planning horizon.

DIVIDEND PAYMENT

The Board has approved and notice is hereby given of a gross dividend payment number 23 of 44.92012 cents per share for the three months ended 31 March 2017.

The number of shares in issue at the date of the dividend declaration is 330 509 919 ordinary shares (for the purposes of the dividend declaration, 2 377 256 ordinary shares have been excluded from the dividend payment due to dissenting shareholder rights having been exercised).

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").

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 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 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. On 22 February 2017, the dividends withholding tax rate was increased from 15% to 20% and any distribution received by a non-resident from a REIT will be subject to dividend withholding tax at 20%, 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 20%, the net amount due to non-resident shareholders will be 35.93610 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 distribution 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 distribution if such documents have not already been submitted, if applicable. Shareholders are requested to seek professional advice on the appropriate action to take.

The distribution is payable in accordance with the timetable below:

Last day to trade *cum* distribution	Monday, 12 June 2017
Shares will trade *ex* distribution	Tuesday, 13 June 2017
Record date	Thursday, 15 June 2017
Payment date	Monday, 19 June 2017

Shareholders may not dematerialise or rematerialise their shares between Tuesday, 13 June 2017 and Thursday, 15 June 2017, both days inclusive.

Payments of the distribution will be made to shareholders on Monday, 19 June 2017. In respect of dematerialised shares, the dividend will be transferred to the CSDP accounts/broker accounts on Monday, 19 June 2017. Certificated shareholders' dividend will be deposited on or about Monday, 19 June 2017.

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

SUBSEQUENT EVENTS

Shareholders are referred to the announcement released on SENS on Tuesday, 11 April 2017, wherein shareholders were advised that HPF Properties Proprietary Limited, a wholly-owned subsidiary of Hospitality has, subject to certain conditions precedent, concluded:

– an agreement with Savana Property Proprietary Limited to acquire various sections and exclusive use areas of the Sandton Eye sectional title scheme;

– an agreement with Sandton Isle Investments Proprietary Limited to acquire an existing Real Right of Extension in the scheme;

  for an aggregate purchase consideration of R302 million.

Shareholders are also referred to the Category 1 announcement released on SENS on Thursday, 18 May 2017, wherein shareholders were advised that Hospitality, subject to conditions precedent, concluded an agreement with Tsogo Sun to acquire 100% of the share capital in The Cullinan Hotel Proprietary Limited and Merway Fifth Investments Proprietary Limited. The acquisition of the portfolio includes 29 letting operations for an aggregate purchase consideration of R3.6 billion, which was calculated on an income for income basis.

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.

By order of the Board

JA Copelyn
(Chairman)

KG Randall
(Chief Executive Officer)

24 May 2017

INDEPENDENT AUDITOR'S REVIEW REPORT ON CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF HOSPITALITY PROPERTY FUND LIMITED

We have reviewed the condensed consolidated financial statements of Hospitality Property Fund Limited, set out on pages 8 – 16 of the provisional report, which comprise the condensed consolidated statement of financial position as at 31 March 2017 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the period 1 July 2016 to 31 March 2017, and selected explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports, as set out in note 1 to the financial statements, and the requirements of the Companies Act No.71 of 2008 ("the Companies Act"), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express a conclusion on these financial statements. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2410, which applies to a review of historical financial information performed by the independent auditor of the entity. ISRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements are not prepared in all material respects in accordance with the applicable financial reporting framework. This standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with ISRE 2410 is a limited assurance engagement. We perform procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluate the evidence obtained. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements of Hospitality Property Fund Limited for the period 1 July 2016 to 31 March 2017 are not prepared, in all material respects, in accordance with the requirements of the JSE Listings Requirements for provisional reports, as set out in the "basis of preparation and accounting policies" note to the financial statements, and the requirements of the Companies Act.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.

Director: V. Muguto

Registered Auditor

Sunninghill

24 May 2017

NOTES TO THE REVISED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the period ended 31 March 2017

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated financial statements for the year ended 31 March 2017 have been prepared in accordance with the requirements of the JSE Listings Requirements for provisional reports and the requirements of the Companies Act. The JSE Listings Requirements require provisional 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 the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS:34 Interim Financial Reporting. Financial Director, M R de Lima CA(SA), supervised the preparation of the condensed consolidated financial statements. 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 as at 30 June 2016. A copy of the auditors' review report is available for inspection at the company's registered address together with the financial statements identified in the auditors' report. The auditor's report does not necessarily report on all the information contained in these results. The directors take full responsibility for the preparation of these results and confirm that the financial information has been correctly extracted from the underlying financial statements. The condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 30 June 2016, which have been prepared in accordance with IFRS.

These condensed consolidated financial statements for the year ended 31 March 2017 have been reviewed by PricewaterhouseCoopers Inc., and their unmodified review conclusion is included on page 7.

2. RESTRUCTURE OF SHARE CAPITAL

As previously announced, in order to comply with REIT's 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 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 the Special General Meetings held on 21 August 2015. The change in the share capital structure was effective from 11 October 2016.

3. INVESTMENT PROPERTY

	R'000
Opening net carrying amount	5 169 000
Acquisition of subsidiary at fair value (refer note 5)	2 657 717
Acquisitions, maintenance and development of investment properties	73 262
Fair value adjustments recognised through profit or loss	205 333
Disposal of investment property	(107 639)
Transfer of investment property from non-current assets held for sale/trading	63 365
Closing net carrying amount	8 061 038

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 appointed valuer.

As at 31 March 2017 the significant unobservable inputs were as follows:

- A weighted average rental growth rate of 5.5%;
- A revisionary capitalisation rate of 7.26%; and
- A risk-adjusted discount rate of 12.76%

The table below indicates the sensitivities of the aggregate property values for a 5% change in the net cash flows:

	Increase Rm	Decrease Rm
5% change in the net cash flows	402	(402)
25bps change in the terminal capitalisation rate	(199)	162
50bps change in the discount rate	(301)	279

4. PROFIT ON SALE OF INVESTMENT PROPERTY

The Inn on the Square was disposed of for a cash consideration of R157 million on 20 November 2016. The fair value of the property at the date of sale was R108 million and a break fee of R12 million was paid to the management company due to the sale. The profit realised on the sale amounted to R36 million. Other profit on sale of investment properties realised in the period amounted to R1 million.

5. ACQUISITION OF SUBSIDIARY

On 1 September 2016, the Fund acquired the entire share capital of Fezisource Proprietary Limited ("Fezisource"), a letting operation, from Southern Sun Hotels Proprietary Limited, in consideration for which, the Fund issued 145 000 000 no par value ordinary shares on the new structure to Southern Sun Hotels Proprietary Limited, to the value of R2 673 293. Management determined that the acquisition meets the definition of a business combination as opposed to an asset acquisition.

5.1 The fair valuation of the net assets acquired equates to the fair value of the consideration paid at the date of acquisition, and the group has recognised goodwill of R16 million with no intangible assets having been identified in respect of this acquisition. The acquired business contributed incremental revenues of R119 million and distributable income of R119 million to the group for the period from date of control to 31 March 2017. Had the acquisition occurred on 1 April 2016, rental income and distributable income would have increased by an additional R66 million. These amounts have been calculated using the group's accounting policies. The fair value of net assets acquired is as follows:

	Rm
Investment properties	2 657 717
Other current assets	12 963
Cash and cash equivalents	88 047
Other current liabilities	(101 437)
Total identifiable net assets acquired	2 657 290
Less: Purchase consideration in the form of 145 000 000 no par value ordinary shares	2 673 293
Goodwill [1]	16 003
Outflow of cash to acquire Fezisource net of cash acquired	
Cash consideration to acquire Fezisource	–
Add cash and cash equivalents acquired with Fezisource	88 047
Net inflow of cash – investing activities	88 047

[1] The goodwill was subsequently impaired as noted below

5.2 **Acquisition-related costs**
Transaction costs of R18 million were incurred with respect to the share restructure. The transaction cost is recognised in Stated Capital as shown on the Statement of Changes in Equity.

5.3 **Impairment of goodwill**

Opening balance	16 003
Impairment loss	(16 003)
Carrying amount at year end	–

The goodwill resulted from the acquisition of the subsidiary noted above.

Impairment testing for cash-generating unit containing goodwill
For the purpose of the annual impairment testing of goodwill, the recoverable amount of the cash-generating unit was based on its value in use and a full impairment loss of R16 million was recognised.

The recoverable amount was calculated by discounting the projected future cash flows for a period of five years generated from the continuing use of the unit and was based on the same assumptions noted in Note 3.

6. PROVISION FOR SHAREHOLDERS REDEMPTION

The provision relates to the dissenting shareholders appraisal rights. The Board determined a fair value of R2.90 per appraisal share, which amounts to a total fair value of R24 million. In terms of section 164(14)(b), the dissenting shareholders have applied to the court to determine a fair value.

7. SEGMENTAL POLICY

Information regarding the results of each reportable segment is included below. The reportable segments have been changed from the previous reporting period. 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. Geographical segments are used to measure performance as the group's CEO 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 period.

8. CONTINGENT LIABILITY

On 20 November 2016, the Inn on the Square was sold. The Fund has given certain guarantees, which in total shall not exceed 10% of the sales price of R157 million or R5 million in respect of any one guarantee, these guarantees expire on 19 October 2017. Management is of the view that the likelihood of any of the guarantees being claimed, which may result in a cash outflow, is remote.

9. RELATED PARTY TRANSACTIONS

Tsogo Sun acquired 55% of the HPF B-linked units (27% of the voting interest) in August 2015. Tsogo Sun then acquired a controlling stake in the Fund, through the injection of hotel assets such that the issue of shares to Tsogo Sun resulted in Tsogo Sun owning 50.6% of the shares following the reconstitution of HPF's capital into a single class of shares. The remaining administrative conditions precedent to the transaction were fulfilled in August 2016 and the effective date of the transaction was 1 September 2016. The acquisition was in line with the Fund's strategy and has therefore not changed the composition of the Fund. Rental income received from Tsogo Sun, for the period 1 September 2016 to 31 March 2017, was R119 million.

10. CAPITAL COMMITMENT

The board has committed a total of R127 million for maintenance and expansion capital items at its hotel properties of which R127 million is anticipated to be spent during the next financial year. R7 million of the committed capital expenditure has been contracted for.

CONDENSED CONSOLIDATED INCOME STATEMENT
for the period ended 31 March 2017

	Reviewed Nine months March 2017 R'000	Audited Year June 2016 R'000
Revenue	**498 803**	474 328
Rental income – contractual	**498 803**	474 553
– straight-line accrual	**–**	(225)
Operating expenses	**(38 858)**	(44 852)
Operating profit	**459 945**	429 476
Profit/(loss) on sale of investment properties	**36 528**	(13 556)
Goodwill impairment	**(16 003)**	(12 000)
Net finance cost	**(115 504)**	(158 085)
Finance income	**20 556**	12 737
Finance costs	**(136 060)**	(170 822)
Profit before fair value adjustments and taxation	**364 966**	245 835

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the period ended 31 March 2017

	Reviewed Nine months March 2017 R'000	Audited Year June 2016 R'000
Profit before fair value adjustments and taxation	**364 966**	245 835
Fair value adjustments	**179 191**	257 412
Investment properties, before straight-lining adjustment	**184 173**	251 024
Straight-line rental income accrual	**–**	225
Total fair value of investment properties	**184 173**	251 249
Interest-rate swaps	**(4 982)**	6 163
Profit before taxation	**544 157**	503 247
Debenture discount amortisation	**–**	(2 313)
Equity accounted profit from associate after tax	**409**	264
Taxation	**–**	(9)
Total profit and comprehensive income for the year	**544 566**	501 189

SUPPLEMENTARY INFORMATION

for the period ended 31 March 2017

Reconciliation between earnings, headline earnings and distributable earnings	**Reviewed Nine months March 2017 R'000**	Audited Year June 2016 R'000
Total profit and comprehensive income for the year	**544 566**	501 189
Adjustments:		
(Profit)/Loss on sale of investment properties	**(36 528)**	13 556
Goodwill impairment	**16 003**	12 000
Impairment to furniture, fitting and equipment	**–**	265
Loss on disposal of furniture, fitting and equipment	**–**	7
Fair value – investment properties revaluation	**(184 173)**	(251 024)
Fair value – straight line rental income	**–**	(225)
Headline earnings (shares/linked units)	**339 868**	275 768
Fair value – interest rate swaps	**4 982**	(6 163)
Debenture discount amortisation	**–**	2 313
Impairment to furniture, fitting and equipment	**–**	(265)
Loss on disposal of furniture, fitting and equipment	**–**	(7)
Straight-line rental income	**–**	225
Distributable earnings	**344 850**	271 871
Number of shares/units		
A – shares	**–**	144 285 503
B – shares	**–**	133 995 396
– Shares in issue	**–**	144 285 503
– HPF Employee Incentive Trust shares	**–**	(1 969 710)
– Shareholder redemption	**–**	(8 320 397)
No par value ordinary shares[1]	**327 569 902**	–
– Shares in issue	**330 509 932**	–
– HPF Employee Incentive Trust shares	**(562 774)**	–
– Shareholder redemption (refer to note 6)	**(2 377 256)**	–
Weighted average number of shares		
No par value ordinary shares[1]	**327 569 902**	182 569 902
– Shares in issue	**330 509 932**	185 509 932
– HPF Employee Incentive Trust shares	**(562 774)**	(562 774)
– Shareholder redemption (refer to note 6)	**(2 377 256)**	(2 377 256)
Distribution per share (cents)[2]		
No par value share	**105.09**	148.54
– Interim	**60.17**	73.23
– Final	**44.92**	75.30
	105.09	148.54
Earnings and diluted earnings per share (cents)		
No par value ordinary shares[1]	**166.24**	274.52
Headline earnings and diluted headline earnings per share (cents)		
No par value ordinary shares[1]	**103.75**	151.05

(1) The weighted average number of shares in the prior year, have been restated into the current capital structure as required by IAS 33, and as explained in note 3.

(2) The distribution per share has been restated as required by IAS 33.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the period ended 31 March 2017

	Reviewed Nine months March 2017 R'000	Audited Year June 2016 R'000
Cash flows from operating activities		
Cash generated from operations	**329 152**	453 473
Finance income received	**20 556**	12 737
Finance costs paid	**(136 060)**	(170 822)
Taxation	**–**	(109)
Net cash (outflow)/inflow from operating activities	**213 648**	295 279
Cash flows from investing activities		
Acquisition, maintenance and development of investment properties	**(73 262)**	(131 157)
Proceeds from the disposal of investment properties	**146 872**	206 362
Acquisition of furniture and equipment	**(153)**	(202)
Acquisition of subsidiary, net of cash acquired (**note 5.2**)	**88 047**	–
Distribution paid to shareholders	**(334 617)**	(247 561)
Dividends received from associates	**251**	200
Net cash inflow from investing activities	**(172 862)**	(172 358)
Cash flows from financing activities		
Interest-bearing liabilities raised	**–**	232 200
Interest-bearing liabilities paid	**(7 000)**	(365 011)
Transaction costs	**(17 992)**	–
Net cash inflow/(outflow) from financing activities	**(24 992)**	(132 811)
Net increase/(decrease) in cash and cash equivalents	**15 794**	(9 890)
Cash and cash equivalents at beginning of year	**194 260**	204 150
Cash and cash equivalents at end of year	**210 054**	194 260

CONDENSED CONSOLIDATED SEGMENTAL INFORMATION

for the period ended 31 March 2017

	Nine months March 2017 R'000	Year June 2016 R'000
Total assets		
Western Cape	**3 593 343**	2 742 000
Gauteng	**2 532 781**	2 062 491
Remainder of South Africa	**2 000 522**	494 000
Head Office	**328 417**	280 096
	8 455 063	5 578 587
Rental revenue		
Western Cape	**238 487**	224 398
Gauteng	**149 697**	174 483
Remainder of South Africa	**110 619**	75 672
	498 803	474 553
Operating profit for the period		
Western Cape	**238 487**	224 398
Gauteng	**149 697**	174 483
Remainder of South Africa	**110 619**	75 672
Head Office	**(38 858)**	(45 077)
	459 945	429 476

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 March 2017

	Reviewed March 2017 R'000	Audited June 2016 R'000
ASSETS		
Non-current assets	**8 063 583**	5 174 459
Investment properties	**8 061 038**	5 169 000
Furniture, fittings and equipment	**198**	180
Derivative asset	**1 870**	4 961
Investment in associates	**477**	318
Current assets	**391 480**	404 128
Non-current assets held for sale	**65 610**	129 491
Properties held for trading	**–**	22 643
Derivative asset	**280**	699
Trade and other receivables	**115 536**	57 035
Cash and cash equivalents	**210 054**	194 260
Total assets	**8 455 063**	5 578 587
EQUITY AND LIABILITIES		
EQUITY	**6 597 503**	3 732 253
Stated capital	**5 565 258**	2 909 957
Retained earnings	**138 719**	107 961
Fair value reserve	**893 526**	714 335
LIABILITIES		
Non-current liabilities	**1 641 007**	1 126 540
Interest-bearing liabilities	**1 638 493**	1 125 063
Derivative liability	**2 514**	1 477
Current liabilities	**216 553**	719 794
Trade and other payables	**111 876**	95 552
Short-term portion of interest-bearing liabilities	**80 000**	600 000
Provision for shareholder redemption	**24 129**	24 129
Derivative liability	**548**	113
Total equity and liabilities	**8 455 063**	5 578 587

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the nine months ended 31 March 2017

R'000	Share capital R'000	Share premium R'000	Stated Capital R'000	Treasury share reserve R'000	Retained earnings R'000	Fair value reserve R'000	Total R'000
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	(9 995)	(390 896)	257 187	2 260 317
Conversion of par value shares into no–par value shares	(28)	(515 903)	515 931	–	–	–	–
Conversion of debentures into stated capital	–	–	2 428 150	–	–	–	2 428 150
Conversion of no-par value treasury shares into no-par value shares	–	–	–	(9 995)	–	–	(9 995)
Dividend paid – interim for 31 December 2016	–	–	–	–	(133 709)	–	(133 709)
Provision for shareholders redemption	–	–	(24 129)	–	–	–	(24 129)
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**	**(9 995)**	**107 961**	**714 335**	**3 732 253**
Total profit and comprehensive income for the year	**–**	**–**	**–**	**–**	**544 566**	**–**	**544 566**
Transactions with owners, recorded directly in equity	**–**	**–**	**2 655 301**	**–**	**(513 808)**	**179 191**	**2 320 684**
Transaction costs (capital restructure and Tsogo transaction)	**–**	**–**	**(17 992)**	**–**	**–**	**–**	**(17 992)**
Issue of 145 000 000 no par value ordinary shares	**–**	**–**	**2 673 293**	**–**	**–**	**–**	**2 673 293**
Dividend paid – final for 30 June 2016 year–end	**–**	**–**	**–**	**–**	**(137 165)**	**–**	**(137 165)**
Dividend paid – clean–out dividend regarding the Tsogo transaction	**–**	**–**	**–**	**–**	**(13 406)**	**–**	**(13 406)**
Dividend paid – interim for 31 December 2016					**(184 046)**		**(184 046)**
Transfer to fair value reserve – investment properties					**(184 173)**	**184 173**	**–**
Transfer to fair value reserve – interest rate swaps	**–**	**–**	**–**	**–**	**4 982**	**(4 982)**	**–**
Balance at 31 March 2017	**–**	**–**	**5 575 253**	**(9 995)**	**138 719**	**893 526**	**6 597 503**

Directors: J A Copelyn (Chairman)*, L de Beer*# (Lead Independent Director), K G Randall (CEO), M R de Lima (FD), D G Bowden*#, Z J Kganyago*, Z N Kubukeli*#, S A Halliday*#, L McDonald*, J R Nicolella*, G A Nelson*#, Z N Malinga*#, W C Ross*#, M N Von Aulock*

* non-executive
\# independent

Company Secretary: L R van Onselen

Transfer Secretaries: Computershare Investor Services Proprietary Limited

Sponsor: Java Capital Trustees and Sponsors Proprietary Limited

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