Hospitality
PROPERTY FUND

Unaudited condensed consolidated financial results for the six months ended 30 September 2017

Rental income for the six months to September increased to R314 million

Investment property value increased through acquisitions to R13 billion

Fully subscribed rights offer of R1 billion used to fund the acquisitions

Distribution per share of 41.83 cents for the six months to September 2017

Commentary

Introduction

The six months ended 30 September 2017 incorporated the completion of the acquisition of 29 hotel properties from Tsogo Sun Holdings Limited ("Tsogo Sun") as well as the acquisition of the additional sections in the Sandton Eye Sectional Title Scheme ("the Scheme") and the real right of extension on the Radisson Gautrain building, which forms part of the Scheme.

Hospitality's results are not comparable to the previous reporting period due to the seasonal variability in the rental income, a change in year end, as well as the additional properties acquired in September 2016 and July 2017.

Financial results

In accordance with the guidance issued in the trading statement on 9 November 2017, Hospitality's board has declared a distribution of 27.09 cents per share for the four months ended 30 September 2017. This results in the total distribution per share for the six months of 41.83 cents per share (including the clean out dividend of 14.74 cents per share, declared as at 31 May 2017). The Fund's distributable earnings increased by 100% to R204 million compared to the six months to 30 September 2016, mainly due to the inclusion of the 29 properties, effective from 1 July 2017. The distributable earnings increased by 4% when compared to the six months ended 31 December 2016.

The following table reflects the operating financial results for the six months ended 30 September 2017 compared to the prior six month financial period and the prior corresponding illustrative six month comparable period:

Summary of operating results

	Unaudited September 2017 R'000	Unaudited December 2016 R'000	Unaudited September Illustrative 2016[2] R'000	Variance on September 2016 R'000	Variance on September 2016 %
Contractual revenue	**313 813**	302 678	203 107	110 706	55
Fund expenses	**(26 855)**	(26 447)	(21 116)	(5 739)	(27)
Net finance cost	**(82 572)**	(78 789)	(79 889)	(2 683)	(3)
Income from associates	**–**	10	–	–	–
Profit before distribution	**204 386**	197 452	102 394	101 992	100
Distribution	**204 386**	197 452	102 394	101 992	100
No par value ordinary shares	**575 777**	328 133		247 644	0
Distribution comparative to prior years (cents)					
Clean out dividend[1]	**14.74**	4.09	–	14.74	100
No par value ordinary shares	**27.09**	56.09	31.20	(4.11)	(13)
Combined distribution	**41.83**	60.18	31.20	10.63	34

[1] *The clean out dividend for August 2016 was converted to an equivalent distribution on the ordinary shares. The dividend paid to A-share holders was 9.29 cents per share in the prior period.*

[2] *The illustrative information has been extracted, without adjustment from management accounts for the period 1 April 2016 to 30 September 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 continued

Rental income increased by 4% to R314 million on the six months to December 2016.

Rental income for the comparable six month period increased by 55% due to the inclusion of the 29 hotels, acquired from Tsogo Sun, for three months and Hospitality's rental income which is subject to seasonal variability, included the full winter period in the Western Cape for the six months to 30 September 2017.

Hospitality's expenses for the six month period were in line with the previously reported six month period. In the prior period, 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. Hospitality's expenses on the comparable six month period, increased by 27% predominantly due to the debt restructure fees of R4 million and the transaction fees, on the acquisitions, of R2 million. Net finance costs of R83 million (2016: R80 million) are higher than the prior period due to settlement fees paid on the former loans.

Trading results

The trading results below are compared on a like-for-like basis for the six month period ended 30 September 2017 which includes the acquired properties and excludes the disposed property for this full period. For the purpose of comparing to the STR Global South African Hotel Review ("STR") the Sun 1 trading results are excluded.

Room occupancy for the Fund's hotels grew 1.6% to 62.3% while the market experienced a decline of 0.9% to 62.3%. Average room rate ("ARR") growth below inflation for most hotels in the portfolio, with some of the larger hotels experiencing a decline in ARR, led to an overall decline in ARR of 0.5%. Revenue per available room ("RevPAR") increased by 1.1%. The STR figures show a growth in ARR of 2.8% and growth in RevPAR of 1.9% for the South African Market. Total rooms' revenue for all the hotels over the six month period, including Sun 1, at R985 million was 1.4% up on the prior year.

The Fund's hotel properties are predominantly located in the Western Cape and Gauteng provinces of South Africa and these properties generated nearly 70% of the Fund's rental income over this period.

Trading volumes for the Fund's Western Cape hotels were generally good with occupancy at 60.4%, a growth of 3.2% on the prior year. Monthly performance was volatile and this is reflected in the ARR declining by 1.3% to R1 376, resulting in a RevPAR growth of 2.0% to R831. For the region, as reported by STR, occupancy grew 0.7% to 59.9%, however ARR grew 7.7% resulting in RevPAR growth of 7.0%. While some of the Cape Town properties produced double digit RevPAR growth, this was offset by poor performances at hotels experiencing a drop-off in higher rated international business and association business.

In Gauteng, trading volumes over the period declined by 1.3% on the prior year to an occupancy of 59.7%. Individual hotels' trading was volatile over the period with ARR only increasing 2.0% on the prior year. This led to RevPAR growth of 0.6%. For the STR participating hotels in Gauteng, RevPAR declined by 2.1%.

For the hotels in the Rest of South Africa occupancy grew 4.1% to 68.6%. Nearly all hotels experienced monthly volatility and with ARR declining by 3.4% to R890 resulted in a RevPAR growth of 0.5% to R610.

For the Sun 1 properties, trading increased marginally by 0.6% and total room revenue increased in line with inflation.

Property portfolio

The Fund's portfolio includes 53 hotel and resort properties in South Africa. The weighted average lease expiry period is 15.3 years. As at 30 September 2017, the carrying amount of the portfolio is R13 billion and the net asset value (NAV) per ordinary share amounted to R20.09. The market value per share at 30 September 2017 traded at a 44% discount to the NAV.

Acquisitions

The acquisition of 29 hotel properties presents an attractive acquisition for Hospitality, in line with the Fund's growth strategy to acquire value enhancing properties, both from within Tsogo Sun's existing portfolio and from external opportunities, to increase the Fund's critical mass. The acquisition will continue to broaden Hospitality's earnings base, brand and product offering and result in greater presence in primary metropolitan areas.

The Fund has also concluded the transaction with Savana Property Proprietary Limited to acquire various additional sections and exclusive use areas in the Sandton Eye sectional title 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 metres or an additional seven floors.

Rights offer

A fully committed rights offer to raise R1.0 billion closed successfully on 4 August 2017, through the issue of 71 428 571 new Hospitality shares at an issue price of R14.00 each, in the ratio of 21.76820 new Hospitality shares for every 100 Hospitality shares held.

Capital projects

In order to maintain the appeal of its properties, the Fund continually upgrades and invests in its hotels. Total capital expenditure amounting to R33 million was spent during the period. Most notably, this included the refurbishment to the board rooms, the bar and the kitchen at The Westin, as well as the refurbishment to the public areas at the Arabella Hotel and Spa.

Commentary continued

Funding

During the six months to September 2017, Hospitality restructured its long-term borrowings with its existing funders due to substantially more favourable terms being achieved, even after the early settlement fees on the existing loans. The existing loans were settled on 6 October 2017. The group's debt facilities with financial institutions as at 30 September 2017 amounted to R2.1 billion resulting in a loan-to-value (LTV) ratio (total interest-bearing liabilities/investment properties plus properties held for sale) of 16% (Dec 2016: 22%). The reduction in gearing is mainly due to the larger portfolio of hotels without incremental debt. The interest cover ratio improved to 4.1 times (Dec 2016: 3.5 times), well above the required debt covenant limit of 2.0 times.

Global Credit Ratings maintained the Fund's long-term credit rating at BBB+(ZA) while its short-term credit rating was maintained at A2 (ZA).

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 government going forward. Rental income which the Fund derives from its tenants is well diversified, both geographically and in terms of product offering across brand segments. The contribution from the hotel properties in the Cape region may be at risk due to additional supply of hotel rooms entering the market and the severe water shortage.

The Fund's gearing is low at 16% and the Fund is committed to and able to fund its ongoing capital expenditure programme over a five-year planning horizon.

Directorate

Mr WC Ross has served on the board of Hospitality from 10 April 2007 and has retired at the Annual General Meeting held on 19 October 2017. The board wishes to thank Mr Ross for his commitment and contribution, during his tenure as a member of the board.

Dividend payment

The board has approved and notice is hereby given of a gross dividend payment number 25 of 27.09491 cents per share for the four months ended 30 September 2017.

The number of shares in issue at the date of the dividend declaration is 578 154 207 ordinary shares (for the purposes of the dividend declaration, 2 377 256 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 above mentioned 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 21.67593 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 above mentioned 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.

Commentary continued

The distribution is payable in accordance with the timetable below:

Last day to trade *cum* distribution	Tuesday, 12 December 2017
Shares will trade *ex* distribution	Wednesday, 13 December 2017
Record date	Friday, 15 December 2017
Payment date	Monday, 18 December 2017

Shareholders may not dematerialise or rematerialise their shares between Wednesday, 13 December 2017 and Friday, 15 December 2017, both days inclusive.

Payments of the distribution will be made to shareholders on Monday, 18 December 2017. In respect of dematerialised shares, the dividend will be transferred to the CSDP accounts/broker accounts on Monday, 18 December 2017. Certificated shareholders' dividend will be deposited on or about Monday, 18 December 2017.

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

Subsequent events

The directors are not aware of any matter or circumstance arising since the end of the financial period, not otherwise dealt with within the financial statements that would affect the operations or results of the group significantly.

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)*

22 November 2017

Condensed consolidated statement of comprehensive income

for the six months ended 30 September 2017

	Note	**Unaudited September 2017 R'000**	Unaudited December 2016 R'000
Revenue		**313 901**	302 678
Rental income – contractual		**313 813**	302 678
– straight-line accrual		**88**	–
Operating expenses		**(26 855)**	(26 447)
Operating profit		**287 046**	276 231
Net finance cost		**(82 572)**	(78 789)
Finance income		**16 062**	11 232
Finance costs		**(98 634)**	(90 021)
Profit before fair value adjustments and taxation		**204 474**	197 442
Profit/(loss) on sale of investment properties		**–**	36 132
Profit/(loss) on sale of property, plant and equipment		**37**	–
Fair value adjustments		**(3 496)**	(2 049)
Investment properties, before straight-lining adjustment		**–**	1 680
Interest-rate swaps		**(3 496)**	(3 729)
Profit before taxation		**201 015**	231 525
Equity accounted profit from associate after tax		**–**	10
Other comprehensive income			
Fair value adjustment on investment properties	4	**2 388 848**	–
Total comprehensive income for the year		**2 589 863**	231 535
Reconciliation between earnings and headline earnings			
Total comprehensive income for the year		**2 589 863**	231 535
Adjustments:			
(Profit)/loss on sale of investment properties		**–**	(36 132)
(Profit)/loss on sale of property, plant and equipment		**(37)**	–
Fair value – investment properties revaluation	4	**(2 388 848)**	(1 680)
Headline earnings		**200 978**	193 723

Condensed consolidated statement of comprehensive income continued

for the six months ended 30 September 2017

	Unaudited September 2017 R'000	Unaudited December 2016 R'000
Number of shares/units		
No par value ordinary shares[1]	**575 214 177**	327 569 888
– Shares in issue	**578 154 207**	330 509 919
– HPF Employee Incentive Trust shares	**(562 774)**	(562 774)
– Shareholder redemption	**(2 377 256)**	(2 377 256)
Weighted average number of shares		
No par value ordinary shares[1]	**415 630 178**	327 569 888
– Shares in issue	**418 570 208**	330 509 919
– HPF Employee Incentive Trust shares	**(562 774)**	(562 774)
– Shareholder redemption	**(2 377 256)**	(2 377 256)
Earnings and diluted earnings per share (cents)		
No par value ordinary shares [1]	**623.12**	59.14
	623.12	59.14
Headline earnings and diluted headline earnings per share (cents)		
No par value ordinary shares[1]	**48.36**	59.14
	48.36	59.14

[1] *The weighted average number of shares in the prior period have been restated into the current capital structure as required by IAS 33.*

Condensed consolidated statement of financial position

as at 30 September 2017

	Note	**Unaudited September 2017 R'000**	Unaudited December 2016 R'000
ASSETS			
Non-current assets		**13 222 600**	7 836 211
Investment properties (note 5)	4	**12 956 947**	7 817 008
Furniture, fittings and equipment		**219**	256
Goodwill	2	**264 957**	16 003
Derivative asset		**–**	2 616
Investment in associates		**477**	328
Current assets[1]		**568 560**	508 701
Non-current assets held for sale		**62 572**	88 475
Derivative asset		**422**	490
Straight-lining of operating leases current portion		**88**	–
Trade and other receivables		**117 651**	61 845
Cash and cash equivalents		**387 827**	357 891
Total assets		**13 791 160**	8 344 912
EQUITY AND LIABILITIES			
Equity		**11 612 341**	6 468 207
Stated capital	2	**9 037 060**	5 565 258
Retained earnings		**147 454**	192 343
Common control reserve	2.1	**(841 056)**	–
Fair value reserve		**3 268 883**	710 606
Non-current liabilities		**1 342 331**	1 047 632
Interest-bearing liabilities		**1 337 684**	1 045 492
Derivative liability		**4 647**	2 140
Current liabilities [1]		**836 488**	829 073
Trade and other payables		**19 124**	124 320
Short-term portion of interest-bearing liabilities		**790 327**	680 000
Provision for shareholder redemption		**24 129**	24 129
Long-term incentive liabilities current portion		**2 725**	–
Derivative liability		**183**	624
Total equity and liabilities		**13 791 160**	8 344 912

[1] *The current liabilities exceed the current assets due to the R600 million bridging facility. An option on the loan existed to extend the loan into a three-year note but Hospitality will refinance the loan before the expiration in February 2018.*

Condensed consolidated statement of changes in equity

for the six months ended 30 September 2017

	Stated capital R'000	Retained earnings R'000	Common control reserve R'000	Fair value reserve R'000	Treasury share reserve R'000	Total R'000
Balance at 1 July 2016	2 919 952	107 961	–	714 335	(9 995)	3 732 253
Total comprehensive income for the year	–	231 536	–	–	–	231 536
Conversion of par value shares into no-par value shares/transaction costs (capital restructure and Tsogo transaction)	(17 992)	–	–	–	–	(17 992)
Conversion of debentures into stated capital	2 673 293	–	–	–	–	2 673 293
Dividend paid – final for 30 June 2016 year-end	–	(137 476)	–	–	–	(137 476)
Dividend paid – clean out regarding Tsogo transaction	–	(13 407)	–	–	–	(13 407)
Transfer to fair value reserve – interest rate swaps	–	3 729	–	(3 729)	–	–
Balance at 31 December 2016	5 575 253	192 343	–	710 606	(9 995)	6 468 207
Dividends paid for three months	–	(183 734)	–	–	–	(183 734)
Transfer to fair value reserve for the three months – interest rate swaps	–	1 253	–	(1 253)	–	–
Transfer to fair value reserve – investment property	–	(184 173)	–	184 173	–	–
Total profit for the three months	–	313 030	–	–	–	313 030
Balance at 1 April 2017	5 575 253	138 719	–	893 526	(9 995)	6 597 503
Total profit for the period	**–**	**201 015**	**–**	**–**	**–**	**201 015**
Total other comprehensive income for the period	**–**	**–**	**–**	**2 388 848**	**–**	**2 388 848**
Transaction costs (capital restructure and Tsogo transaction) (note 3.3)	**(5 256)**	**–**	**–**	**–**	**–**	**(5 256)**
Issue no par value ordinary shares	**3 467 063**	**–**	**–**	**–**	**–**	**3 467 063**
Dividend paid – final for 31 March 2017 year-end	**–**	**(147 398)**	**–**	**–**	**–**	**(147 398)**
Dividend paid – clean out for 31 May 2017	**–**	**(48 378)**	**–**	**–**	**–**	**(48 378)**
Common control reserve	**–**	**–**	**(841 056)**	**–**	**–**	**(841 056)**
Transfer to fair value reserve – interest rate swaps	**–**	**3 496**	**–**	**(3 496)**	**–**	**–**
Balance at 30 September 2017	**9 037 060**	**147 454**	**(841 056)**	**3 278 878**	**(9 995)**	**11 612 341**

Condensed consolidated statement of cash flows

for the six months ended 30 September 2017

	Unaudited September 2017 R'000	Unaudited December 2016 R'000
Cash flows from operating activities		
Cash generated from operations	**201 746**	199 248
Finance income received	**16 062**	11 232
Finance costs paid	**(98 634)**	(90 021)
Distribution to shareholders	**(195 776)**	(150 883)
Net cash (outflow)/inflow from operating activities	**(76 602)**	(30 423)
Cash flows from investing activities		
Acquisition and development of investment properties	**(304 013)**	(32 885)
Disposal of investment properties	**–**	157 000
Acquisition of furniture and equipment	**(21)**	(116)
Acquisition of subsidiary, net of cash acquired (note 2.4)	**(827 360)**	88 047
Dividends received from associates	**–**	–
Disposal of property, plant and equipment	**37**	–
Net cash (outflow)/inflow from investing activities	**(1 131 357)**	212 046
Cash flows from financing activities		
Interest-bearing liabilities raised	**1 050 000**	–
Interest-bearing liabilities paid	**(658 764)**	–
Cash proceeds from rights issue	**1 000 000**	–
Transaction costs capitalised (note 2.4)	**(5 504)**	(17 992)
Net cash inflow/(outflow) from financing activities	**1 385 732**	(17 992)
Net increase/(decrease) in cash and cash equivalents	**177 773**	163 631
Cash and cash equivalents at 1 April 2017	**210 054**	194 260
Cash and cash equivalents for the period	**387 827**	357 891

Condensed consolidated segmental information

as at 30 September 2017

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 management. Geographical segments are used to measure performance as the group's 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, particularly post the acquisition of the additional hotel properties during the period. Sun 1 is disclosed as a separate segment as the grading is different to the existing portfolio.

	Unaudited September 2017 R'000	Unaudited December 2016 R'000
Total assets		
Western Cape	**5 737 283**	3 052 794
Gauteng	**3 532 535**	2 874 566
Rest of South Africa	**2 783 313**	1 978 123
Sun 1	**961 469**	–
Head Office	**755 254**	439 429
	13 769 854	8 344 912
Rental revenue		
Western Cape	**92 476**	111 988
Gauteng	**120 162**	117 019
Rest of South Africa	**82 532**	73 671
Sun 1	**18 731**	–
	313 901	302 678
Operating profit for the period		
Western Cape	**92 476**	111 988
Gauteng	**120 162**	117 019
Rest of South Africa	**82 532**	73 671
Sun 1	**18 731**	–
Head Office	**(26 855)**	(26 447)
	287 046	276 231
Reconciliation between headline earnings and distributable earnings		
Headline earnings	**200 978**	193 723
Fair value – interest rate swaps	**3 496**	3 729
Straight-line rental income	**(88)**	–
Distributable earnings	**204 386**	197 452
Distribution per share (cents)		
No par value share	**41.83**	60.18
– Clean out	**14.74**	4.09
– Interim	**27.09**	56.09

Notes to the unaudited condensed consolidated financial statements

for the six months ended 30 September 2017

1. Basis of preparation and accounting policies

The unaudited condensed consolidated financial statements for the six months ended 30 September 2017 have been prepared in accordance with the framework concepts and the recognition and measurement criteria of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), the preparation and disclosure requirements of IAS 34 *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by Financial Reporting Standards Council ("FRSC"), the Listings Requirements of the JSE Limited and the requirements of the Companies Act of South Africa. The accounting policies are consistent with IFRS as well as those applied in the most recent audited annual financial statements as at 31 March 2017 other than as described below. The unaudited condensed consolidated financial statements for the six months ended 30 September 2017 should be read in conjunction with the annual financial statements for the year ended 31 March 2017, which have been prepared in accordance with IFRS. This interim report, together with any forward looking information contained in this report, has not been audited or reviewed by the company's auditors. These financial statements have been prepared under the supervision of the financial director, MR de Lima CA(SA).

2. Acquisition of subsidiary

Hospitality concluded an agreement with Tsogo Sun to acquire 100% of the share capital in the Cullinan Hotel Proprietary Limited ("Cullinan") and Merway Fifth Investments Proprietary Limited ("Merway") effective 1 July 2017. The acquisition of the portfolio includes 29 investment properties for an aggregate purchase consideration of R3.6 billion, which includes a cash consideration of R1.03 billion and the issue of 174 064 861 shares at R14.00. The transaction is deemed to be a transaction under common control and consequently falls outside the scope of IFRS 3 *Business Combinations*. The Fund will apply the same accounting policy relating to common control transactions applied by Tsogo Sun its parent shareholder. The policy is to apply predecessor accounting in common control transactions.

Under the predecessor accounting method, assets and liabilities, including goodwill acquired, are recognised at the predecessor values with the difference between the acquisition value and the aggregate purchase consideration recognised as a separate reserve in equity.

Notes to the unaudited condensed consolidated financial statements continued

for the six months ended 30 September 2017

2. Acquisition of subsidiary continued

The reconciliation between the assets and liabilities acquired, the purchase consideration and the common control reserve is as follows:

		30 September 2017 R'000
2.1	**Purchase consideration**	
	Total purchase consideration	**(3 466 908)**
	Net asset value acquired	**2 625 852**
	– Merway	**513 757**
	– Cullinan	**2 112 095**
	Total impact on common control reserve	**(841 056)**

2.2 Identifiable assets acquired and liabilities assumed

	Merway R'000	Cullinan R'000	Total R'000
Cash and cash equivalents	**316**	**26 133**	**26 449**
Treasury deposit – Tsogo Sun	**–**	**176 191**	**176 191**
Investment property	**226 856**	**1 946 036**	**2 172 892**
Trade and other receivables	**50 424**	**1 543**	**51 967**
Trade and other liabilities	**(17 336)**	**(49 268)**	**(66 604)**
Add: Goodwill	**253 497**	**11 460**	**264 957**
Net asset value acquired	**513 757**	**2 112 095**	**2 625 852**

2.3 Acquisition of subsidiary, net of cash acquired

	R'000
Purchase consideration in cash	**(1 030 000)**
Cash and cash equivalents	**26 449**
Treasury deposit – Tsogo Sun	**176 191**
	(827 360)

2.4 Acquisition related costs

Transaction costs of R7.4 million were incurred with respect to the rights issue, of which R5.5 million was incremental and directly attributable to the issue of shares and R1.9 million was expensed.

3. Savana acquisition

Hospitality concluded the agreements for an aggregate purchase consideration of R302 million:

– an agreement with Savana Property Proprietary Limited to acquire various sections and exclusive use areas of the Sandton Eye sectional title scheme; and
– an agreement with Sandton Isle Investments Proprietary Limited to acquire an existing Real Right of Extension in the scheme any time until February 2031.

The purchase consideration includes a cash consideration of R271.4 million and R30.2 million by way of the issue of 2 150 856 shares at R14.02.

Management has determined that the acquisition is an asset acquisition as it does not meet the definition of a business combination.

4. Investment property

	R'000
Opening balance	**8 061 038**
Acquisition of Merway and Cullinan	**2 172 893**
Acquisition of Savana	**301 550**
Additions to investment properties	**32 618**
Fair value uplift	**2 388 848**
	12 956 947

The fair value uplift is as a result of applying the predecessor accounting. The fair value uplift does not represent financial performance of the current period and was recognised through OCI.

5. Fair value estimation

As shown below, the group fair values its investment properties, interest rate swaps together with its available-for-sale investments. There were no transfers into or out of level 3 financial instruments.

Investment properties

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

Interest rate swaps

The group has interest rate swaps that are not hedge accounted which are level 2 fair value measurements.

The fair value of the derivatives used for hedge accounting is a net liability of R4 million (31 March 2017: R1 million net liability) and is calculated as the present value of the estimated future cash flows based on observable yield curves, which is consistent with the prior year.

Notes to the unaudited condensed consolidated financial statements continued

for the six months ended 30 September 2017

6. Related parties

Acquisition of 29 hotel properties by HPF from Tsogo Sun

HPF acquired two Tsogo Sun subsidiaries which in aggregate hold a portfolio of 29 hotel properties for an aggregate fair value purchase consideration of R3.6 billion settled R1.0 billion in cash (by way of a renounceable rights offer to Hospitality shareholders) and R2.6 billion in shares. This transaction received shareholder approval at the HPF general meeting held on 10 July 2017. The impact of this transaction is that Tsogo Sun's effective holding increased from 50.6% to 59.4%.

Sandton Eye and real right of extension

With effect 31 August 2017, HPF issued the last tranche of 2 150 856 shares to Savana Property Proprietary Limited as part settlement in terms of an agreement concluded with Savana to acquire various sections and exclusive use areas of the Sandton Eye sectional title scheme and 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 of which R271 million was settled in cash and 2 150 856 HPF shares were issued. As a result of this issue, Tsogo Sun's effective holding was diluted from 59.4% (refer note above) to 59.2%.

7. New accounting standards

From the perspective of HPF the main impact of IFRS 9 *Financial Instruments* relates to the use of forward looking information in impairing receivables. At this point in time we are of the view that no material adjustments would arise in calculating the impairment on the proposed new basis.

The impact of IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases* are not expected to be material.

8. Commitments

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. In total, R7 million of the committed capital expenditure has been contracted for.

Administration

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" or "the group")

Registered office

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Tel: +27 11 994 6320

Directors

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

* *Non-executive*

\# *Independent*

Company secretary

LR van Onselen

Transfer secretaries

Computershare Investor Services Proprietary Limited

Sponsor

Java Capital

www.hpf.co.za