Hospitality PROPERTY FUND

Consolidated annual financial statements for the period ended 31 March 2017

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Consolidated annual financial statements
for the period ended 31 March 2017

Statement of responsibility by the board of directors

for the period ended 31 March 2017

The Hospitality Property Fund's directors are required by the Companies Act of South Africa to maintain adequate accounting records and to prepare financial statements for each financial year, which fairly present the state of affairs of the Company and the group at the end of the financial year and of the results of operations and cash flows for the year. In preparing the accompanying annual financial statements, the Listings Requirements of the JSE together with International Financial Reporting Standards ('IFRS') have been followed, suitable accounting policies have been used, applied consistently, and reasonable and prudent judgements and estimates have been made. Any changes to accounting policies are approved by the audit and risk committee and the effects thereof are fully explained in the annual financial statements. There were no changes to accounting policies during the year under review. The annual financial statements incorporate full and responsible disclosure. The board has oversight for the information included in the integrated annual report and are responsible for both its accuracy and its consistency with the annual financial statements.

The board has reviewed the group's budgets and cash flow forecasts for the year to 31 March 2018. On the basis of this review, and in light of the current financial position and existing borrowing facilities, the board is satisfied that the Company and the group is a going concern and they have accordingly adopted the going-concern basis in preparing the annual financial statements. The group's independent auditors, PricewaterhouseCoopers Inc., have audited the annual financial statements and their unqualified report appears on page 06. PricewaterhouseCoopers Inc. was given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The directors believe that all representations made to the independent auditors during their audit are valid and appropriate.

The board recognises and acknowledges its responsibility for the group's systems of internal financial control. The group's code of conduct, which covers ethical behaviour, compliance with legislation and sound accounting practice, underpins its internal financial control process. The control systems include written accounting and control policies and procedures and clearly defined lines of accountability and delegation of authority, which is approved by the board.

The effectiveness of the internal financial control systems is monitored by the Chief Executive Officer and Financial Director and through testing by internal auditors and the independent auditors' testing of appropriate aspects of the internal financial control systems during the course of their statutory examinations of the Company and the underlying subsidiaries.

Directors' approval of the annual financial statements

for the period ended 31 March 2017

The preparation of the financial statements set out on page 04 to page 46 has been supervised by the Financial Director ('FD'), MR de Lima CA(SA). These annual financial statements were approved by the board of directors on 11 August 2017 and are signed on its behalf by:

JA Copelyn
Chairman

KG Randall
Chief Executive Officer

Declaration by the Company Secretary

In terms of section 88(2)(e) of the Companies Act, in my capacity as Company Secretary, I confirm that for the period ended 31 March 2017, Hospitality Property Fund Limited has lodged with the Companies and Intellectual Property Commission all such returns and notices that are required by a public company in terms of the Companies Act and all such returns and notices are true, correct and up to date.

LR van Onselen
Company Secretary

11 August 2017

Report of the audit and risk committee

for the period ended 31 March 2017

The audit and risk committee ('the committee') is pleased to submit its report in compliance with section 94(7) (f) of the Companies Act. The committee has fulfilled its duties in terms of its statutory obligations contained in the Companies Act, the JSE Listings Requirements, its terms of reference and the King III Code on Corporate Governance in South Africa.

External auditor appointment and independence

On the recommendation of the audit and risk committee, shareholders in the general meeting on 22 November 2016 approved the appointment of PricewaterhouseCoopers Inc. ('PwC') as external auditors. KPMG Inc. (the Fund's previous external auditor) resigned following the Fezisource acquisition transaction which resulted in Hospitality becoming a subsidiary of Tsogo Sun, due to the risk of independence, as KPMG Inc. acts as Tsogo Sun's internal auditors. The audit plan, terms of engagement and audit fees for the 2017 external audit were considered and approved and the committee held at least one closed meeting with PwC, without management present, to afford the auditor a chance to raise any concerns or difficulties.

The committee is satisfied that the external auditor, PwC, and Victor Muguto, the appointed audit partner of the group are independent of the group. The committee also satisfied itself that the external auditor is a registered auditor in terms of the Auditing Profession Act and that the audit firm and designated auditor are listed on the JSE Limited's list of auditors and advisers.

The committee has, in terms of its non-audit services policy, considered the nature and extent of fees paid to PwC in respect of any non-audit services performed and other criteria relating to independence and conflicts of interests. Confirmation was given by the auditor that compliance with its internal policies and the prohibition of any shareholding in the group supports its claim of independence. The committee is therefore recommending the reappointment of PwC as external auditor.

The governance of risk and internal controls

A group risk management framework was adopted in 2014 and an updated risk management plan that flows from this framework, in accordance with industry practice, and which prohibits the Company from entering into derivative transactions not in the normal course of business was approved by the committee. The committee is satisfied that the Company is in compliance with its risk management policy. The internal controls, including internal financial controls, are documented and assessed by management and key aspects thereof are considered by the committee.

Internal audit

The committee is responsible for assessing the need for an internal audit function. In the current year, KPMG has been appointed as the group's internal auditors and KPMG performed the internal control testing at the Company. An internal audit plan will be assessed and reviewed for the 2018 financial year.

Key audit matters as agreed with external auditor

The key audit matters as agreed with the external auditor are areas of judgement, which could materially affect the financial statements and have been disclosed as such in note 2 to the annual financial statements.

Classification and valuation of Fezisource Proprietary Limited acquisition

The Fund acquired a letting operation, Fezisource Proprietary Limited, on 1 September 2016 from Southern Sun Hotels Proprietary Limited, a subsidiary of Tsogo Sun. The classification of the transaction as a business combination is disclosed in note 8 to the annual financial statements. The valuation of the Company was done on the same basis as the other property valuations and this is explained further in note 4 to the annual financial statements. Significant committee and board time was spent to oversee this transaction, including the accounting thereof.

Valuation and the classification of investment property

The group's accounting policy states that the investment property is held at fair value. In the current year, the merger of the two property portfolios, HPF properties and the acquisition of Fezisource, required management to refine and standardise their methodology on fair value calculations. The fair values of investment properties are determined using a discounted cash flow model and this methodology was also used by the independent valuators. The committee considered the property valuation aspects at a number of its meetings.

In determining the classification of the properties as investment properties, the committee considered its exposure to the risks of running the hotel business and their associated exposure to the variability of the cash flows of the underlying operations. The committee concluded that the properties meet the definition of investment property. The factors considered are included in notes 2.1 and 2.2.

Evaluation of the expertise and experience of the Financial Director and the finance team

MR de Lima was appointed as the Financial Director on 30 September 2016. The committee has considered and satisfied itself as to the appropriateness of expertise and experience of the Financial Director and the finance function.

Recommendation of the annual financial statements and accounting policies to the board for approval

The committee reviewed the accounting policies, judgements, estimates and content of the annual financial statements for the 2017 financial year. The committee is satisfied that they are adequate and appropriate and that the financial statements comply with International Financial Reporting Standards, the Companies Act, and the JSE Limited Listings Requirements. To this end, the committee recommended the annual financial statements to the board for approval.

L de Beer
Chairman

11 August 2017

Directors' report

for the period ended 31 March 2017

1. Nature of business

The Company is a Real Estate Investment Trust ('REIT') listed on the JSE Limited ('JSE'). The Company is the only specialised REIT in South Africa investing in the hotel and leisure sector, providing investors with exposure to both the property and hospitality industries.

The property portfolio consists of 24 properties valued at R8.1 billion.

Given the nature of the Company's business and its status as a REIT, the Company has adopted distribution per listed security as its relevant measure of financial results.

2. Share capital

The restructure of Hospitality's dual-class share capital structure to a single-class share capital structure was approved in a general meeting on 11 April 2016, by the requisite majority of shareholders. The applied ratio of shares issued, was one ordinary share for every one A share held and one ordinary share for every 3.5 B shares held. The change in the capital structure was effective from 11 October 2016.

3. Fezisource acquisition

On 1 September 2016, the Fund acquired the entire share capital of Fezisource Proprietary Limited, a letting operation, from Southern Sun Hotels Proprietary Limited, in consideration for which on 11 October 2016, the Fund issued 145 000 000 no par value ordinary shares on the new capital structure to Southern Sun Hotels Proprietary Limited, to the value of R2.7 billion. Fezisource owns 10 hotel properties, which are diversified by location (in South Africa) and by grading (upscale and midscale hotels). The ordinary shares were issued under the authority granted in a general meeting by shareholders to the board on 11 April 2016.

4. Subsequent events

As stated in the announcement released on SENS on Tuesday, 11 April 2017, 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; 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.

Furthermore, as first announced on SENS on Thursday, 18 May 2017, and as subsequently approved by shareholders in the general meeting on 10 July 2017, Hospitality 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 effective 1 July 2017. 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. The acquisition is funded by a fully underwritten rights offer of R1 billion and Hospitality shares to the value of R2.6 billion.

Subsequent to year end, on 24 May 2017, the board of directors declared a final gross cash dividend from income reserves in respect of the year ended 31 March 2017 of 44.92 cents per share. The number of ordinary shares in issue at the date of this declaration was 328 132 663 (excluding appraisal right shares).

Hospitality's R1 billion rights offer closed on Friday, 4 August 2017. A total of 71 428 571 rights offer shares were available for subscription in the ratio of 21.76820 rights offer shares for every 100 Hospitality shares held on the rights offer record date, at an issue price of R14.00 per rights offer share. Subscriptions for 64 462 652 rights offer shares were received and applications for 6 422 271 excess rights offer shares were fulfilled. Excess rights offer shares amounting to 543 648 were allocated to the underwriter.

Following the issue of the rights offer shares, the total issued share capital of the company increased to 576 003 351 ordinary shares.

5. Dividends

A final distribution of 78.62 cents per A share and 17.94 cents per B share was paid to shareholders on 19 September 2016, in respect of the year ended 30 June 2016.

A clean out dividend in respect of the two months, July and August 2016, of 9.29 cents per A share was paid to shareholders on 10 October 2016.

An interim dividend of 56.09 cents per ordinary share was paid to shareholders on 6 March 2017 in respect of the six months ended 31 December 2016.

A final dividend of 44.92 cents per ordinary share was declared on 23 May 2017 and paid on 19 June 2017, in respect of the three months ended 31 March 2017.

6. Directorate

The board of directors comprises:

Directors	Changes
JA Copelyn (Chairman)^	Appointed 1 September 2016
L de Beer (Lead Independent Director)#	
KG Randall (Chief Executive Officer)	Appointed 1 January 2017
MR de Lima (Financial Director)	Appointed 30 September 2016
J Booysen^	Appointed 8 June 2017
DG Bowden#	
SA Halliday#	
VM Joyner	Resigned 31 December 2016
ZJ Kganyago^	Appointed 1 September 2016
ZN Kubukeli#	
ZN Malinga#	
L McDonald^	Appointed 1 September 2016
GA Nelson#	
JR Nicolella^	Appointed 1 September 2016
WC Ross#	
MN von Aulock^	Appointed 1 September 2016, resigned 1 June 2017

On 30 November 2016, JA Copelyn was appointed as Chairman of the board, succeeding DG Bowden, who continues to serve on the board as an independent director. L de Beer, in her capacity as independent director, was appointed lead independent director.

#Independent non-executive director ^Non-executive director

7. Subsidiary companies

Information relating to the Company's interest in its subsidiaries is detailed in note 8 and note 25.

8. Associate companies

Information relating to the Company's interest in its associates is detailed in note 9.

9. External auditor

PricewaterhouseCoopers Inc. was appointed as external auditor of the Company, replacing KPMG Inc. to align with the majority shareholder. Refer to the audit and risk committee report.

Business address:
PricewaterhouseCoopers Inc.
2 Eglin Road
Sunninghill
2157

10. Company Secretary

The Company Secretary is HPF Management Proprietary Limited (Reg: 2009/021472/07). The appointed representative of HPF Management Proprietary Limited is LR van Onselen.

Postal address:	Business address:
PO Box 522195	The Zone II, Lofts East Wing, 2nd floor
Saxonwold	Corner Oxford Road and Tyrwhitt Avenue
2132	Rosebank
	2196

Independent auditor's report

To the shareholders of Hospitality Property Fund Limited

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Hospitality Property Fund Limited ('the Company') and its subsidiaries (together 'the group') as at 31 March 2017, and its consolidated financial performance and its consolidated cash flows for the nine months then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Hospitality Property Fund Limited's consolidated financial statements set out on pages 11 to 39 comprise:

- the consolidated statement of financial position as at 31 March 2017;
- the consolidated statement of comprehensive income for the period then ended;
- the consolidated statement of changes in equity for the period then ended;
- the consolidated statement of cash flows for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs'). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

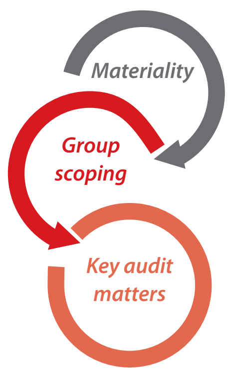
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the group in accordance with the *Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors ('IRBA Code')* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B).

Our audit approach

Overview



Overall group materiality

- R27 million, which represents 5% of consolidated profit before tax.

Group audit scope

- The group consists of twenty-four hotels that reside within subsidiaries; and
- Twenty-two of the hotels were subject to a full scope audit.

Key audit matters

- Classification of hotel properties as investment properties;
- Determination of the acquirer and valuation of the Fezisource Proprietary Limited business combination of R2.7 billion; and
- Valuation of investment properties at year end of R8 billion.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	R27 million
How we determined it	5% of consolidated profit before tax.
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark which best represents the performance of the group as most commonly measured by users and is a generally accepted benchmark for profit-oriented companies. We chose 5% which is consistent with quantitative materiality thresholds used for widely held, public companies.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates.

The group consists of twenty-four hotels. Revenue earned by the group is split between fixed and variable rental income. As part of our audit, we scoped in twenty-two hotels as components based on their contribution to revenue.

We considered the hotels as components of the group since the results of their operations are used as input in the revenue calculation of the group. In establishing the overall approach to the group audit, we determined the type of work to be performed by us as the group engagement team as well as the component auditors. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the group financial statements as a whole. As part of our group involvement procedures we visited two hotels to assess the functioning of the controls implemented by the group.

By performing the procedures outlined above, combined with additional procedures at a group level, we obtained sufficient and appropriate audit evidence regarding the financial information of the group to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters
Classification of hotel properties as investment properties In determining the classification of the properties as investment properties, management had to consider whether the group was significantly exposed to the risks of running the hotel business and the associated exposure to the variability of the cash flows of the underlying hotel operations. We considered this a matter of most significance to our audit due to the significant amount of management judgement involved to distinguish between investment properties and owner-occupied properties in the specialised hospitality real estate investment trust industry. Details of management's judgement relating to this assessment is disclosed in note 2.1.	To assess the classification of hotel properties as investment properties and not owner-occupied properties, we, with the assistance of our technical accounting experts, considered the indicators that management had used in determining the classification against the guidance in the accounting standards and other industry guidance. On a sample basis, we assessed the contractual arrangements between the group and the hotel operators against the indicators developed by management as disclosed in note 2.1. While management's judgements remain subjective, we considered the indicators developed by them as acceptable within the hospitality industry.

Key audit matters	How our audit addressed the key audit matters
Determination of the acquirer and valuation of the Fezisource Proprietary Limited business combination of R2.7 billion The acquisition of Fezisource Proprietary Limited during the financial period was considered a matter of most significance to our audit due to the complexities arising relating to the identification of the acquirer in the Fezisource Proprietary Limited business combination as well as the valuation of the assets and liabilities acquired. The acquisition further had a significant impact on the gearing of the group with the assets within Fezisource not being encumbered and the acquisition funded solely by issuing equity by the group to Tsogo Sun Holdings Limited. As disclosed in note 2.4, judgement had to be applied in determining the acquirer in the business combination. In addition, the fair values of the assets and liabilities acquired had to be determined at the acquisition date as part of the assessment of the business combination. The fair values were determined with reference to the results of the underlying hotel operations including management assumptions relating to the discount rate applied in the valuation. Refer to note 8 for the detailed disclosures in this regard.	*Determination of the acquirer in the business combination* With the assistance of our technical accounting experts, we assessed the significant judgement applied by management in determining the acquirer in the business combination against the contractual terms of the agreement between the group and Tsogo Sun Holdings Limited. We assessed the relative size of the group, which is mainly represented by investment property carried at fair value, as the combining entity, against the fair value of Fezisource Proprietary Limited. *Valuation of Fezisource Proprietary Limited* With the assistance of our internal valuation experts, we assessed the reasonableness of the fair value of the business enterprise. Our experts assessed the appropriateness of the assumptions used in the valuation, including among others, the discount rate which is based on the group's weighted average cost of capital ('WACC') by independently recalculating ranges of suitable discount rates with reference to comparable entities in the hospitality industry. In addition, we calculated our own independent ranges of the fair values of the business enterprise and compared these to management's fair values. While our independently derived fair values include subjective assumptions, we accepted that management's fair values fell within acceptable ranges compared to ours. Our internal property valuation experts also assessed the valuation methodology applied to determine whether the fair value of the business enterprise was in line with the aggregate of the fair values of the individual properties. This was done by assessing whether the discount rate was adjusted for any property specific risk factors or whether these risk factors were adequately accounted for within the cash flows of the respective hotels. While our fair value itself includes subjective assumptions, we accepted that management's aggregate fair value fell in an acceptable range. We agreed the fair value of the assets and liabilities recognised to the fair values assessed above. The difference between the fair value of the assets and the liabilities and the fair value of the consideration was recognised as goodwill of R16 million.
Valuation of investment properties at year end of R8 billion The valuation of investment properties at year end is considered a matter of most significance to our audit due to the significance of investment properties to the statement of financial position, and subjective nature of management's judgements relating to the determination of the discount rate, involved in arriving at their estimates of the fair value. In addition, given the merger of two property portfolios from different backgrounds, management had to standardise and refine how the fair values are determined on a consistent basis. Refer to note 4 for the detailed disclosure in this regard.	We obtained an understanding of and tested the relevant controls related to: • Entering and amending of leases in support of contractual rental income; • Setting and approval of budgets by the hotel operators and the Group; • Detailed analysis of forecasts and trends against actual results that inform management of the business; and • Board approval of the external valuations obtained. Management engaged an independent, qualified real estate appraiser ('the appraiser') to calculate the fair values of the investment properties. We assessed these independent valuations to determine if they could be relied on by performing the procedures listed below. We considered the objectivity, independence and expertise of the appraiser, by inspecting the appraiser's valuation reports for a statement of independence and compliance with generally accepted valuation standards and confirming the appraiser's affiliation with the relevant professional body. On a sample basis, we agreed our independently determined fair values of properties to the external valuation reports. Our internal property valuation expert assisted us in assessing the methodology as outlined in the above key audit matter. In addition, we also independently assessed the calculation of the fair values. Our procedures included, among others: • Assessment of the discount rate and terminal value growth rate against market related data; • Independent recalculation of the accuracy of the valuations; and • Reconciliation of the cash flows used by the appraiser to management's approved budgets for a representative sample of properties. While our fair value itself includes subjective assumptions, we accepted that management's aggregate fair values fell in acceptable ranges.

Other information

The directors are responsible for the other information. The other information comprises the Hospitality Property Fund consolidated annual financial statements for the period ended 31 March 2017 that include the directors' report, the report of the audit and risk committee and the declaration by the Company Secretary as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report, and the Hospitality Property Fund's integrated annual report, which is expected to be made available to us after that date. Other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent auditor’s report

To the shareholders of Hospitality Property Fund Limited continued

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Hospitality Property Fund Limited for one year.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: V Muguto
Registered auditor
Sunninghill

11 August 2017

Consolidated statement of financial position

as at 31 March

	Notes	31 March 2017 R'000	30 June 2016 R'000
ASSETS			
Non-current assets			
Investment property	4	**8 061 038**	5 169 000
Furniture, fittings and equipment	6	**198**	180
Investments in associates	9	**477**	318
Derivative asset	27.1	**1 870**	4 961
		8 063 583	5 174 459
Current assets			
Properties held for trading	7	**–**	22 643
Trade and other receivables	10	**115 536**	57 035
Non-current assets held for sale	5	**65 610**	129 491
Derivative asset	27.1	**280**	699
Cash and cash equivalents	11	**210 054**	194 260
		391 480	404 128
Total assets		**8 455 063**	5 578 587
EQUITY AND LIABILITIES			
Equity			
Share capital	12	**5 565 258**	2 909 957
Non-distributable reserve	13	**893 526**	714 335
Retained income		**138 719**	107 961
		6 597 503	3 732 253
LIABILITIES			
Non-current liabilities			
Interest-bearing liabilities	14	**1 488 493**	1 125 063
Derivative liability	27.1	**2 514**	1 477
		1 491 007	1 126 540
Current liabilities			
Trade and other payables	15	**111 876**	95 552
Interest-bearing liabilities – current portion	14	**230 000**	600 000
Derivative liability	27.1	**548**	113
Shareholder redemption	12	**24 129**	24 129
		366 553	719 794
Total liabilities		**1 857 560**	1 846 334
Total equity and liabilities		**8 455 063**	5 578 587

The notes on page 15 to page 39 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the period ended 31 March

	Notes	9 months ended 31 March 2017 R'000	12 months ended 30 June 2016 R'000
Rental income – contractual		**498 803**	474 553
Rental income – straight-line accrual		**–**	(225)
Gross profit	16	**498 803**	474 328
Other operating expenses		**(38 858)**	(44 852)
Operating profit	19	**459 945**	429 476
Interest income	20	**20 556**	12 737
Finance costs	20	**(136 060)**	(170 822)
Goodwill impairment	8	**(16 003)**	(12 000)
Fair value adjustments	21	**179 191**	257 412
Profit/(loss) on sale of properties	21	**36 528**	(13 556)
Profit before taxation		**544 157**	503 247
Taxation		**–**	(9)
Equity-accounted profit from associate net of tax	9	**409**	264
Debenture discount amortisation		**–**	(2 313)
Total profit and total comprehensive income for the period		**544 566**	501 189
Attributable to equity holders		**544 566**	501 189
Attributable to non-controlling interest		**–**	–
Basic and diluted earnings per share (cents)	17	**103.75**	148.65

The notes on page 15 to page 39 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

for the period ended 31 March

	Share capital R'000	Share premium R'000	Stated share capital R'000	Treasury share reserve R'000	Non distri-butable reserve R'000	Retained income R'000	Total equity R'000
Balance at 30 June 2015	28	515 903	–	–	457 148	(2 332)	970 747
Total comprehensive income for the year	–	–	–	–	–	501 189	501 189
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 par value treasury shares into no par value shares	–	–	–	(9 995)	–	–	(9 995)
Transfer to fair value reserves – investment properties	–	–	–	–	251 024	(251 024)	–
Transfer to fair value reserves – interest rate swaps	–	–	–	–	6 163	(6 163)	–
Dividends paid	–	–	–	–	–	(133 709)	(133 709)
Provision for shareholder redemption	–	–	(24 129)	–	–	–	(24 129)
Balance at 30 June 2016	–	–	2 919 952	(9 995)	714 335	107 961	3 732 253
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**544 566**	**544 566**
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**
Transfer to fair value reserves – investment properties	**–**	**–**	**–**	**–**	**184 173**	**(184 173)**	**–**
Transfer to fair value reserves – interest rate swaps	**–**	**–**	**–**	**–**	**(4 982)**	**4 982**	**–**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(334 617)**	**(334 617)**
Balance at 31 March 2017	**–**	**–**	**5 575 253**	**(9 995)**	**893 526**	**138 719**	**6 597 503**
Notes	12	12			13		

The notes on page 15 to page 39 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

for the period ended 31 March

	Notes	9 months ended 31 March 2017 R'000	12 months ended 30 June 2016 R'000
Cash flows from operating activities			
Cash generated from operations	23	**329 152**	453 473
Interest income received		**20 556**	12 737
Interest paid		**(136 060)**	(170 822)
Distribution to shareholders/unitholders	22	**(334 617)**	(247 561)
Tax paid		**–**	(109)
Net cash from operating activities		**(120 969)**	47 718
Cash flows from investing activities			
Acquisition and development of investment properties and non-current assets held for sale	4 and 5	**(73 262)**	(131 157)
Proceeds from disposal of investment properties	4	**146 872**	206 362
Acquisition of furniture and equipment	6	**(153)**	(202)
Cash acquired as part of acquisition of subsidiary	8	**88 047**	–
Dividends received from associates		**251**	200
Net cash from investing activities		**161 755**	75 203
Cash flows from financing activities			
Interest-bearing liabilities repaid	14	**(607 000)**	(365 011)
Interest-bearing liabilities raised	14	**600 000**	232 200
Transaction costs	8	**(17 992)**	–
Net cash from financing activities		**(24 992)**	(132 811)
Total cash movement for the period		**15 794**	(9 890)
Cash at the beginning of the period		**194 260**	204 150
Total cash at the end of the period	11	**210 054**	194 260

The notes on page 15 to page 39 form an integral part of these consolidated financial statements.

1. Accounting policies

The significant accounting policies adopted in the preparation of the consolidated annual financial statements are set out below. These policies have been consistently applied to all the periods presented unless otherwise stated.

1.1 Basis of preparation

The consolidated annual financial statements 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 SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council ('FRSC'), the Listings Requirements of the JSE, and the Companies Act of South Africa and have been prepared under the historical cost convention, as modified by the revaluation to fair value of investment properties and certain financial instruments as described in the accounting policies below. The term IFRS includes International Financial Reporting Standards and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') or the former Standing Interpretations Committee ('SIC'). The standards referred to are set by the International Accounting Standards Board.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the group's accounting policies. Actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

1.2 Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, identified as the group's CEO. The group's CEO reviews the group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on the reports reviewed by the group's CEO which are used to make strategic decisions and are disclosed in note 18.

1.3 Basis of consolidation and business combinations

The consolidated financial statements include the financial statements of subsidiaries and associates owned by the Company.

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Where the group's interest in subsidiaries is less than 100%, the share attributable to outside shareholders is reflected in non-controlling interests. Subsidiaries are included in the financial statements from the date control commences until the date control ceases. Increases in fair value of assets that occur on the group obtaining control, for nil consideration, of an entity previously accounted for as an associate or joint venture is transferred to a reserve called "surplus arising on change in control".

The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The classification of the acquisition of subsidiaries are based on judgement and is disclosed in note 2.4.

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

(ii) Associates

The group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition reserve movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the investee, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

The group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the investee and its carrying value and recognises the amount immediately in profit or loss.

Some of the group's associates have different local statutory accounting reference dates. These are equity accounted using management prepared information on a basis coterminous with the group's accounting reference date. Where management prepared information is at a different date from that of the group's, the group equity accounts that information but takes into account any changes in the subsequent period to 31 March that would materially affect the results.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the investee. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

1. Accounting policies continued

1.3 Basis of consolidation and business combinations continued

(iii) Goodwill

Goodwill arising on consolidation represents the excess of the costs of acquisition over the group's interest in the fair value of the identifiable assets (including intangibles), liabilities and contingent liabilities of the acquired entity at the date of acquisition. Where the fair value of the group's share of separable net assets acquired exceeds the fair value of the consideration, the difference is recognised immediately in profit or loss.

Goodwill is stated at cost less impairment losses and is reviewed for impairment on an annual basis. Any impairment identified is recognised immediately in profit or loss and is not reversed.

The carrying amount of goodwill in respect of associates is included in the carrying value of the investment in the respective associate.

Goodwill is allocated to cash-generating units ('CGUs') for the purpose of impairment testing. Each of those CGUs is identified in accordance with the basis on which the businesses are managed from both a business type and geographical basis.

1.4 Furniture, fittings and equipment

Property, plant and equipment are stated at cost net of accumulated depreciation and any impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the specific asset will flow to the group and the cost can be measured reliably. Repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Profit or loss on disposal

The profit or loss on the disposal of an asset is the difference between the disposal proceeds and the net carrying amount of the asset.

1.5 Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and where companies in the group occupy no or an insignificant portion, is classified as investment property. Investment property also includes property that is being constructed or developed for future use. The nature of these properties is mostly hotels and includes furniture, fixtures and equipment and the underlying letting enterprise. The classification of investment property is based on judgement and is disclosed in note 2.1.

Investment property is stated at fair value. Gains or losses arising on changes in the fair value are recognised immediately in profit or loss.

Properties are initially recognised at cost on acquisition, which comprises the purchase price and includes expenditure that is directly attributable to the acquisition of the property. Subsequent costs are included in the property's carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the specific asset will flow to the group and the cost can be measured reliably.

1.6 Financial instruments

Initial recognition and measurement

Financial assets are recognised when the group becomes a party to the contractual provisions of the respective arrangement. Such assets consist of cash, equity instruments, a contractual right to receive cash or another financial asset, or a contractual right to exchange financial instruments with another entity on potentially favourable terms. Financial assets are derecognised when the right to receive cash flows from the asset has expired or has been transferred and the group has transferred substantially all risks and rewards of ownership.

Financial liabilities are recognised when there is an obligation to transfer benefits and that obligation is a contractual liability to deliver cash or another financial asset or to exchange financial instruments with another entity on potentially unfavourable terms. Financial liabilities are derecognised when they are extinguished, that is discharged, cancelled or expired.

Finance costs are charged against income in the year in which they accrue using the effective interest rate method. Premiums or discounts arising from the difference between the net proceeds of financial instruments purchased or issued and the amounts receivable or repayable at maturity are included in the effective interest calculation and taken to finance costs over the life of the instrument.

The group classifies its financial assets in the following categories: at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial instruments designated as at fair value through profit or loss

Financial instruments at fair value through profit or loss are financial assets held for trading and/or designated by the entity upon initial recognition as at fair value through profit or loss. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets (trade and other receivables), except for maturities of greater than 12 months after the balance sheet date which are classified as non-current assets.

Purchases and sales of investments are recognised on the date on which the group commits to purchase or sell the asset.

1.6 Financial instruments continued

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost less provision for impairment.

Trade and other payables

Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Trade payables are analysed between current and non-current liabilities on the face of the balance sheet, depending on when the obligation to settle will be realised.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits and other short-term highly liquid investments. Cash and cash equivalents are measured at amortised cost which is equivalent to fair value.

1.7 Offsetting financial instruments

Where a legally enforceable right exists to set off recognised amounts of financial assets and liabilities and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously, which are in determinable monetary amounts, the relevant financial assets and liabilities are offset. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or counterparty.

1.8 Impairment of financial assets

The group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

For the loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Impairment testing of trade receivables is described in note 27.3.2.

1.9 Derivative financial assets and financial liabilities

Derivative financial assets and financial liabilities are financial instruments of which the value changes in response to an underlying variable, require little or no initial investment and are settled in the future.

Derivative financial assets and liabilities are analysed between current and non-current assets and liabilities on the face of the balance sheet, depending on when they are expected to mature.

For derivatives that are not designated to have a hedging relationship, all fair value movements thereon are recognised immediately in profit or loss.

1.10 Non-current assets held for sale

Non-current assets held for sale are those non-current assets of which the carrying amount will be recovered principally through sale rather than use. These non-current assets are available for immediate sale in their present condition, subject only to terms that are usual for the sale of such assets, and the sale is probable within a year as management is committed to a plan to dispose of the non-current assets, actively market them, and expect that these assets will be sold within a year.

1.11 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are shown in equity as a deduction from the proceeds.

1.12 Provisions

Provisions are recognised when there is a present obligation, whether legal or constructive, as a result of a past event for which it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability.

1.13 Revenue recognition

a) Rental income

Revenue from the letting of investment property comprises rentals (excluding VAT) recognised on a straight-line basis over the term of the lease. Contingent (variable) rentals are included in revenue when the amounts can be reliably measured.

b) Finance income

Interest earned on cash invested with financial institutions and by the Company on its investments in its subsidiaries is recognised on an accrual basis using the effective interest method.

1. Accounting policies continued

1.14 Expenses

a) Recoveries of costs from lessees

Where the group merely acts as agent and makes payment of these costs on behalf of lessees, these are offset against the relevant costs.

b) Finance costs

Finance costs are costs incurred on funds borrowed, these are expensed in the period in which they are incurred using the effective interest method.

1.15 Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to business combinations, or items recognised directly in equity or other comprehensive income.

Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: initial recognition of assets and liabilities in a transaction that is not a business combination, where the initial recognition affects neither accounting nor taxable profit or loss and on differences relating to investments in subsidiaries, associates and joint ventures to the extent that the parent company is able to control the timing of the reversal of the temporary differences and they will probably not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable group, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In respect of REIT assets and liabilities (investment properties) the measurement of deferred tax is based on a rebuttable presumption that the amount of the investment property will be recovered entirely through sale. Capital gains and losses from property sold by a REIT are disregarded and the rate relevant to recoupments is 28%. Investment properties are held as long-term income generating assets. Therefore, should any property no longer meet the Company's investment criteria and be sold, any profits or losses will be capital in nature and will be taxed at rates applicable to capital gains (currently nil). Allowances previously claimed will be recouped on sale. Where an accumulated loss is available to shield this recoupment, a deferred tax asset is raised.

In respect of other assets and liabilities deferred tax is provided based on the expected manner of realisation or settlement taking into account the entity's expectation that it will pay dividends and will receive a tax deduction making it in substance exempt.

1.16 Dividend distributions

Dividend distributions to the Company's shareholders are recognised as a liability in the group's financial statements in the period in which the dividends are approved by the Company's board of directors.

2. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Principles of critical accounting estimates and assumptions

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

2.1 Classification of investment properties

Investment properties include land and buildings that are held for long-term rental yields and/or for capital appreciation. Investment properties include properties that are being constructed or developed for future use as investment properties.

In determining the classification of the properties as investment properties, management considered its exposure to the risks of running the hotel business and their associated exposure to the variability of the cash flows of the underlying operations. Management took the following factors into account:

- Intention to hold land and buildings for rental income and capital appreciation and its role as a passive investor;
- The duration of the lease agreements;
- Control over the decision-making powers of the relevant hotel operations;
- The present value of the minimum lease payments in relation to the fair value of the investment properties; and
- Various financial ratios to determine its exposure to the variability in cash flows of the hotel operations.

Based on the above, management concluded that the properties meet the definition of investment property.

2. Critical accounting estimates and judgements continued

Principles of critical accounting estimates and assumptions continued

2.2 Valuation of investment property

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 debts costs. The discount rate takes into account a risk premium associated with the local economy.

2.3 Estimated impairment of goodwill

The group tests annually whether goodwill and indefinite life intangible assets have suffered any impairment in accordance with the accounting policy stated in note 1.3. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates as noted in note 8 of the group annual financial statements.

2.4 Business combinations

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. The acquisition of Fezisource is noted in note 8 of the group annual financial statements.

As part of the business combination, determining the acquirer required judgement and the following were considered by management in determining who the acquirer was:

- The entity that issued the equity interest; and
- The relative size of the acquirer usually being significantly greater than the entity being acquired.

3. New standards and interpretations

3.1 Standards and interpretations not yet effective

a) The following standards and amendments to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 April 2017 or later periods, which the group has not early adopted. The group is yet to assess the impact of these new standards, interpretations and amendments.

New and amended standard	Summary	Impact to the group
IFRS 16 *Leases* The group will apply IFRS 16 from 1 April 2019.	The standard introduces a single lease accounting model and requires a lessee to recognise a right to use asset and corresponding liability for all leases. The impact on lessors is not expected to be significant.	The group considered the impact of IFRS 16 to be immaterial.
IFRS 9 *Financial instruments* The group will apply IFRS 9 from 1 April 2018.	IFRS 9 addresses the initial measurement and classification of financial assets and will replace the relevant sections of IAS 39. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.	The group is in the process of assessing the potential impact of IFRS 9.
IFRS 15 *Revenue from contracts with customers* The group will apply IFRS 15 from 1 April 2018.	IFRS 15, which replaces the existing IFRS guidance and introduces a new revenue recognition model for contracts with customers. It also requires extensive new disclosures.	The group considered the impact of IFRS 15 to be immaterial.
Amendments to IAS 7 *Disclosure Initiative* The group will apply these amendments from 1 April 2017.	These amendments require entities to disclose information about changes in their financing liabilities.	The group considered the impact of the amendments to be immaterial.

b) No new interpretations are currently issued and are therefore not effective.

4. Investment property

	31 March 2017 R'000	30 June 2016 R'000
Reconciliation of investment property		
Opening balance	**5 169 000**	4 806 775
Acquisitions, capital expenditure and development of investment properties	**73 262**	116 492
Acquisition of subsidiary at fair value	**2 657 717**	–
Disposal of investment properties	**(107 639)**	–
Transfer of investment property from non-current assets held for sale/trading	**63 365**	–
Straight-line rental income accrual	**–**	225
Fair value adjustments recognised through profit or loss	**205 333**	245 508
Closing balance	**8 061 038**	5 169 000

Acquisitions of investment properties comprised the acquisition of 10 hotel properties from Tsogo Sun (see note 8).

The investment property portfolio serves as collateral against loans from funding banks and secured notes, as held by the Fund. Refer to note 14.

The Inn on the Square was disposed of for a net consideration of R145 million. Proceeds of R1.8 million were also received on the sale of two Kopanong units.

Measurement of fair value

Investment properties were independently valued at 31 March 2017. The valuation of the portfolio was performed by B Nyagah, Professional Associate Valuer, from JHI Properties Proprietary Limited. The valuations are done on an annual basis on the entire portfolio of investment properties.

The fair value of the investment properties has been categorised as a level 3 fair value based on the unobservable inputs to the valuation technique used as detailed below.

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 group has elected to measure investment properties at fair value. In the current year, the merger of the two property portfolios, HPF Properties and the acquisition of Fezisource, required management to refine and standardise their methodology on fair value calculations. 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 debts 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.

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

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

5. Non-current assets held for sale

	Valuation at 30 June 2016 R'000	Capital expenditure R'000	Disposals and transfers R'000	Fair value adjustment* R'000	Valuation at 31 March 2017 R'000
Reconciliation of non-current assets held for sale – 2017					
Protea Hotel – Hazyview(1)	**41 000**		**(41 000)**	**–**	**–**
Kopanong Hotel and Conference Centre(2)	**88 491**	**151**	**(1 872)**	**(21 160)**	**65 610**
	129 491	**151**	**(42 872)**	**(21 160)**	**65 610**

* *Fair value adjustment included as part of 'fair value adjustment' in profit or loss which is transferred to the fair value reserve*

(1) *The property was transferred to investment properties*

(2) *Kopanong Hotel and Conference Centre is a country estate with 57 chalets and conference facilities. Management disposed of two chalets in the current period and intends to sell the remaining chalets. The property is valued as a whole and chalets are not individually valued*

5. Non-current assets held for sale
continued

	Valuation at 30 June 2015 R'000	Capital expenditure R'000	Disposals R'000	Fair value adjustment* R'000	Valuation at 31 March 2016 R'000
Reconciliation of non-current assets held for sale – 2016					
Protea Hotel – The Winkler	26 000	1 470	(27 470)	–	–
Protea Hotel – Hazyview[1]	46 000	613	–	(5 613)	41 000
Protea Hotel – The Richards	46 000	2 655	(48 655)	–	–
The Bayshore Inn	36 000	1 222	(37 222)	–	–
Protea Hotel – Imperial	25 000	1 217	(26 217)	–	–
Protea Hotel – Hluhluwe & Safaris	14 500	1 121	(15 621)	–	–
Kopanong Hotel and Conference Centre[2]	79 728	2 556	(4 922)	11 129	88 491
Protea Hotel Richards Bay	28 000	1 124	(29 124)	–	–
Premier Hotel King David	28 000	2 687	(30 687)	–	–
	329 228	14 665	(219 918)	5 516	129 491

** Fair value adjustment included as part of 'fair value adjustment' in profit or loss which is transferred to the fair value reserve*

[1] Management's intention was to sell the properties as part of one sale transaction but the buyer did not want to acquire the Protea Hotel – Hazyview. Management has reclassified the property to investment properties in the current year

[2] Kopanong Hotel and Conference Centre is a country estate with 57 chalets and conference facilities. Management disposed of two chalets in the current period and intends to sell the remaining chalets. The property is valued as a whole and chalets are not individually valued

6. Furniture, fittings and equipment

	31 March 2017 R'000	30 June 2016 R'000
Cost		
Balance at beginning of the year	**2 378**	2 186
Acquisition during year	**153**	202
Disposals	**–**	(10)
Balance at end of the year	**2 531**	2 378
Depreciation and impairment losses		
Balance at beginning of the year	**2 198**	1 613
Depreciation for the year	**135**	323
Impairment for the year	**–**	265
Disposals	**–**	(3)
Balance at end of the year	**2 333**	2 198
Carrying amount		
Balance at beginning of the year	**180**	573
Balance at end of the year	**198**	180

7. Properties held for trading

	31 March 2017 R'000	30 June 2016 R'000
Properties acquired and held for trading	**–**	22 643

Properties held for trading in 2016 comprised land held for sale at the phase 2 development at the Arabella Hotel and Spa in Kleinmond, which is measured at cost. Hospitality has decided not to sell this land, the property meets the definition of an investment property and has been reclassified during the period ended 31 March 2017.

8. 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 R2.7 billion. Management determined that the acquisition meets the definition of a business combination as opposed to an asset acquisition.

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, which was subsequently impaired, 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, group income would have increased by an additional R185 million 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:

	31 March 2017 R'000
Investment properties	**2 657 717**
Cash and cash equivalents	**88 047**
Other current assets	**12 963**
Sundry creditors	**(56 661)**
Other current liabilities	**(44 776)**
Total identifiable assets acquired	**2 657 290**
Less: Purchase consideration	**2 673 293**
Goodwill[1]	**16 003**
Inflow 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**
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.	
Impairment of goodwill	
Opening balance	**16 003**
Impairment loss	**(16 003)**
Carrying amount at year end	**–**

[1] *The goodwill was subsequently impaired as noted below*

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 4.

9. Investments in associates

	31 March 2017 R'000	30 June 2016 R'000
Vexicure Proprietary Limited		
Opening balance	**318**	254
Profit attributable to HPF Properties Proprietary Limited	**409**	264
Dividends received	**(251)**	(200)
	477	318

9. Investments in associates continued

Vexicure Proprietary Limited

Vexicure Proprietary Limited ('Vexicure') was incorporated on 17 September 2009 and was purchased by HPF Properties Proprietary Limited for R120.

Vexicure was a dormant entity on acquisition date, and commenced trading on 13 May 2011 as the tenant for the Westin Cape Town hotel. Ninety-five percent of the shareholding in Vexicure was sold to Pan-African Capital Holdings Proprietary Limited on 13 May 2011. Subsequently, Pan-African Capital Holdings Proprietary Limited has sold 15% of Vexicure to the WCT Hotel Share Incentive Trust which was incorporated in the 2012 financial year.

Vexicure is a strategic partner and associate to the Company, as it leases the Westin Hotel property and contributed 28.7% (2016: 28.7%) to the rental income. The Company is represented by two (in terms of the shareholders' agreement) of the five directors of Vexicure's board of directors and therefore exercises significant influence.

Summarised financial information of material associates

	31 March 2017 R'000	30 June 2016 R'000
Summary of Vexicure statement of financial position which represents 100%		
Assets		
Non-current assets	**–**	528
Current assets	**63 123**	52 834
Total assets	**63 123**	53 362
Equities and liabilities		
Capital and reserves	**8 339**	6 406
Non-current liabilities	**106**	–
Current liabilities	**54 678**	46 956
Total equities and liabilities	**63 123**	53 362

	9 months 31 March 2017 R'000	12 months 30 June 2016 R'000
Summary of Vexicure statement of comprehensive income which represents 100%		
Gross profit	**254 929**	304 992
Total operating expenditure	**(122 900)**	(157 058)
Rental to HPF Properties Proprietary Limited	**(123 893)**	(139 152)
Taxation	**(2 278)**	(3 511)
Profit and total comprehensive income for the year	**5 858**	5 271
Profit attributable to the group	**409**	264

Ash Brook Investments 72 Proprietary Limited	**31 March 2017 R'000**
Opening balance (initial investment made by HPF Properties Proprietary Limited is R15)	**–**
Profit attributable to HPF Properties Proprietary Limited	**115**
Dividends received	**–**
	115

No profit attributable to the Company has been recognised in the prior year, as the accumulated loss to 30 June 2016 amounted to R57 835. The Company's liability to the accumulated loss is Rnil. The profit in the current year has been utilised to reduce the shareholder loan made by HPF Properties to Ash Brook.

Ash Brook Investments 72 Proprietary Limited

Ash Brook Investments 72 Proprietary Limited ('Ash Brook') was incorporated on 14 August 2007 and commenced trading on the same day. The Company was acquired on 30 April 2013 by HPF Properties Proprietary Limited for R100, with 85% being subsequently sold to Khomelela Investments Proprietary Limited for R85 on the same day.

Ash Brook is a strategic partner and associate to the Company, as it leases the Radisson Blu Gautrain property from HPF Properties Proprietary Limited and contributes significantly to the consolidated rental income. The Fund is represented by two (in terms of the shareholders' agreement) of the four directors of Ash Brook's board of directors and therefore exercises significant influence. The majority shareholder holds the casting vote in a general meeting.

9. Investments in associates continued

	31 March 2017 R'000	30 June 2016 R'000
Summary of Ash Brook statement of financial position which represents 100%		
Assets		
Non-current assets	**424**	1 073
Current assets	**37 503**	30 442
Total assets	**37 927**	31 515
Equities and liabilities		
Capital and reserves	**375**	(58)
Non-current liabilities	**13 244**	9 933
Current liabilities	**24 308**	21 640
Total equities and liabilities	**37 927**	31 515

	9 months 31 March 2017 R'000	12 months 30 June 2016 R'000
Summary of Ash Brook statement of comprehensive income which represents 100%		
Gross profit	**84 288**	110 980
Total operating expenditure	**54 218**	(72 261)
Rental to HPF Properties Proprietary Limited	**(28 988)**	(37 609)
Taxation	**(317)**	370
Profit and total comprehensive income for the year	**765**	1 480
Profit attributable to the group	**115**	222

10. Trade and other receivables

	31 March 2017 R'000	30 June 2016 R'000
Trade receivables	**62 126**	56 105
Prepayments	**407**	930
Sundry debtors	**3 223**	–
Operator loans	**19 137**	–
Other receivables	**20 675**	–
Income tax receivable	**9 968**	–
	115 536	57 035

11. Cash and cash equivalents

	31 March 2017 R'000	30 June 2016 R'000
Cash and cash equivalents consist of:		
Current accounts	**21 201**	194 260
Call accounts	**188 853**	–
	210 054	194 260

The Company has an unutilised facility of R232.8 million with Nedbank. Excess funds are deposited with Tsogo Sun treasury, as the interest income is earned at a rate of 8.0%, as opposed to 6.5% in a money market account.

12. Stated capital

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.

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) of the Companies Act, the dissenting shareholders have applied to the court to determine a fair value.

Increase in authorised share capital

As the voting power of the consideration shares for the Tsogo transaction will exceed 30% of the voting power of all the shares of that class held by Company's shareholders immediately before the issue of the consideration shares pursuant to the transaction, the issue of the consideration shares is required to be approved by a special resolution of Hospitality shareholders in terms of section 41(3) of the Companies Act. In addition, as a result of the number of shares to be issued in terms of the rights offer and the transaction, Hospitality is required to increase its authorised share capital. The capital increase is required to be approved by a special resolution of Hospitality shareholders. In this regard, the authorisation required in terms of section 41(3) of the Companies Act and for the capital increase was approved by the requisite majority of shareholders in terms of the section 60 notice issued to shareholders on 9 March 2017.

	31 March 2017 R'000	30 June 2016 R'000
Authorised		
2 000 000 000 shares of no par value		
The unissued shares are under the control of the directors of the Company subject to the provisions of the Companies Act.		
Issued		
330 509 919 shares of no par value	**5 565 258**	–
A shares – 144 285 503 no par value ordinary shares	**–**	1 872 200
B shares – 144 285 503 no par value ordinary shares)	**–**	1 037 757
	5 565 258	2 909 957
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**	182 569 902
– Shares in issue	**330 509 932**	185 509 932
– HPF Employee Incentive Trust shares	**(562 774)**	(562 774)
– Shareholder redemption	**(2 377 256)**	(2 377 256)
Weighted average number of shares(2)		
No par value ordinary shares	**327 569 902**	182 569 888
– Shares in issue	**330 509 932**	185 509 919
– HPF Employee Incentive Trust shares	**(562 774)**	(562 774)
– Shareholder redemption	**(2 377 256)**	(2 377 256)
Distribution per share (cents)(3)		
No par value share	**105,09**	148.54
– Interim	**60.17**	73.23
– Final	**44.92**	75.30
	105.09	148.54

(1) *Refer note 12 for the capital restructure*

(2) *The weighted average number of shares in the prior year have been adjusted into the current capital structure as required by IAS 33, and as explained in note 12*

(3) *The distribution per share has been adjusted as required by IAS 33*

13. Fair value reserve

	31 March 2017 R'000	30 June 2016 R'000
Fair valuation of investment properties	**1 008 181**	824 008
Fair valuation of interest rate swap	**(114 655)**	(109 673)
	893 526	714 335

14. Interest-bearing liabilities

	Interest rate	31 March 2017 R'000	30 June 2016 R'000
Non-current	Interest rate		
Nedbank Limited			
– Loan 1 – expiry: June 2020	3-month JIBAR +2.67%	**176 300**	176 300
– Loan 2 – expiry: November 2019	3-month JIBAR +2.8%	**346 070**	346 070
– Loan 3 – expiry: November 2018	3-month JIBAR +2.85%	**30 250**	30 250
– Loan 4 – expiry: February 2018	3-month JIBAR +2.38%	**–**	150 000
– Loan 7 – expiry: September 2018	3-month JIBAR +2.38%	**35 248**	35 248
– Loan 8 – expiry: August 2018 (revolving)	3-month JIBAR +2.75%	**14 995**	14 995
– Loan 9 – expiry: April 2019	3-month JIBAR +2.78%	**2 200**	2 200
		605 063	755 063
Domestic medium-term note programme			
– Secured note HPF06 – expiry: February 2020	3-month JIBAR +2.80%	**60 000**	60 000
– Secured note HPF07 – expiry: August 2017	3-month JIBAR +2.25%	**–**	80 000
– Unsecured note HPF08 – expiry April 2019	3-month JIBAR +3.00%	**80 000**	80 000
– Secured note HPF09 – expiry: April 2019	3-month JIBAR +2.25%	**150 000**	150 000
– Secured note HPF10 – expiry: February 2018 (with an option to extend to February 2021)	3-month JIBAR +1.20%	**600 000**	–
		890 000	370 000
Total non-current interest-bearing liabilities		**1 495 063**	1 125 063
Current			
Domestic medium-term note programme			
– Secured note HPF04 – expiry: February 2017	3-month JIBAR +2.00%	**–**	300 000
– Secured note HPF04.1 – expiry: February 2017	3-month JIBAR +2.00%	**–**	100 000
– Secured note HPF05 – expiry: February 2017	Fixed 9.89%	**–**	200 000
– Secured note HPF07 – expiry: August 2017	3-month JIBAR +2.25%	**80 000**	–
– Loan 4 – expiry: February 2018	3-month JIBAR +2.38%	**150 000**	–
Total current interest-bearing liabilities		**230 000**	600 000
Total interest-bearing liabilities		**1 725 063**	1 725 063
Total interest-bearing liabilities payable in the following annual financial years:			
31 March 2017		**600 000**	600 000
31 March 2018		**230 000**	230 000
31 March 2019		**80 493**	80 493
31 March 2020		**814 570**	814 570
		1 725 063	1 725 063

In March 2016, an annex facility of R100 million was secured from Nedbank Limited, the proceeds of which will be utilised for future capital expenditure.

The Nedbank loans 1 to 3, 7 and 9 of R590.1 million are secured in terms of a first mortgage bond over investment properties valued at R2.42 billion.

The current limit of the borrowing powers in terms of the JSE Listings Requirements amounts to R3.2 billion (2016: R3.2 billion), of which R1.73 billion (2016: R1.73 billion) has been utilised.

Included as part of trade and other creditors (note 15) is interest accrued of R19.0 million (2016: R24.8 million) relating to the abovementioned interest-bearing liabilities.

The unamortised portion of the debt raising fee amounted to R6.6 million (2016: R6.6 million) at year end.

14. Interest-bearing liabilities continued

Corporate bonds (DMTN programme)

The Fund has increased its DMTN programme to R5 billion in April 2017, with the objective of increasing its funding capacity in the debt capital markets, from the original DMTN programme of R2 billion.

On 20 February 2017, the Fund auctioned R600 million in secured notes at a variable rate of JIBAR plus 1.20%. The funds were utilised to settle notes HPF04, HPF04.1 and HPF05 that expired in February 2017.

In April 2016, the Fund auctioned R80 million unsecured and R150 million secured notes at a variable rate of JIBAR plus 3.00% and 2.25% respectively. The total proceeds of R230 million raised, was utilised to settle notes HPF01 and HPF03.

The secured notes HPF04 to 07 and 09, together with Nedbank loans 4 and 8 are secured in terms of a mortgage bond (including a cession of leases and rentals in respect of the bonded properties) over investment properties with a market value of R2.87 billion.

The Nedbank and secured note loans are subject to the following loan covenants:

Loan to value ('LTV')

The LTV as at 31 March 2017 is required to be 40% (2016: 40%) or lower.

As at 31 March 2017, the group LTV was 21.1% (2016: 32.4%), and the group guarantee SPV (shared security between Nedbank and secured notes) was 37.6% (2016: 36.6%).

Interest cover ratio ('ICR')

The ICR requirement for the year ended 31 March 2017 is a minimum of 2.0 times.

For the year ended 31 March 2017 the group ICR cover was 4.0 (2016: 2.7) times, and the group guarantee SPV (shared security between Nedbank and the secured note holders) was 3.6 (2016: 2.6) times.

Measurement of fair value

The group recognises and measures its long-term loans at amortised cost and the fair value approximates the amortised cost.

15. Trade and other payables

	31 March 2017 R'000	30 June 2016 R'000
Trade payables	**33 146**	46 339
VAT	**8 631**	3 855
Accrued interest	**19 000**	24 840
Tenant deposits	**18 936**	20 518
Operator loans	**27 641**	–
Related payables	**4 522**	–
	111 876	95 552

16. Revenue

	9 months 31 March 2017 R'000	12 months 30 June 2016 R'000
Rental income	**498 803**	474 553
Straight-line accrual	**–**	(225)
	498 803	474 328

17. Reconciliation between earnings and headline earnings

	9 months 31 March 2017 R'000	12 months 30 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
Number of shares in issue ('000)	**327 570**	185 510
Weighted average number of shares in issue ('000)[1]	**327 570**	185 510
Basic and diluted earnings per share (cents)	**166.24**	270.17
Basic and diluted headline earnings per share (cents)	**103.75**	148.65

[1] *The weighted average number of shares in the prior year have been adjusted into the current capital structure as required by IAS 33, and as explained in note 12*

18. Operating segments

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 arm's length basis.

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.

	9 months 31 March 2017 R'000	12 months 30 June 2016 R'000 (Restated)
Total assets		
Western Cape	**3 436 999**	2 607 000
Gauteng	**2 532 780**	2 062 491
Remainder of South Africa	**2 156 867**	588 000
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

Reconciliation of headline earnings to distributable earnings

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

Please refer to note 22 for dividends declared in the period

19. Operating profit/(loss)

	9 months 31 March 2017 R'000	12 months 30 June 2016 R'000
Operating profit is stated after charging the following:		
Auditor's remuneration – external	**2 146**	1 722
Audit fees	**1 321**	1 146
Audit fee – prior year extended audit scope	**443**	331
Non-audit-related fees	**382**	245
Management fee paid	**138**	136
Executive directors' and employee remuneration	**11 590**	13 385
Employee termination costs	**7 627**	–
Non-executive directors' remuneration	**2 287**	2 334
Legal fees	**3 402**	1 442
Debt raising fee amortisation	**–**	4 072
Cost to income ratio[(1)]		
Total revenue	**498 803**	474 553
Total head office costs	**38 858**	44 852
Percentage of revenue (%)	**7.79**	9.45

[(1)] *The cost to income ratio has been disclosed in accordance with the accepted REIT best practice. This ratio is not directly comparable to other REITs as the property-related expenditure is paid by the tenant in most instances*

20. Net finance costs

	9 months 31 March 2017 R'000	12 months 30 June 2016 R'000
Finance income		
Bank and other cash	**20 556**	12 737
Finance costs		
Interest-bearing liabilities	**(136 060)**	(170 822)
Net finance costs	**(115 504)**	(158 085)

21. Other non-operating gains/(losses)

	2017 R'000	2016 R'000
Gains/(losses) on disposals of		
Investment property	**36 528**	(13 556)
Fair value gains/(losses)	**184 173**	251 249
Investment property	**205 333**	245 504
Non-current assets held for sale	**(21 160)**	5 517
Derivatives	**(4 982)**	6 163
	179 191	257 412
Total other non-operating gains/(losses)	**215 719**	243 856

22. Dividends declared

	9 months 31 March 2017 R'000	12 months 30 June 2016 R'000
Final dividend	**137 164**	113 852
Clean out dividend	**13 406**	–
Interim dividend	**184 047**	133 709
	334 617	247 561
Final dividend declared on	**23 August 2016**	21 August 2015
Final dividend paid on	**19 September 2016**	21 September 2015
Final dividend cents per share[1]	**73.94 cents**	61.37 cents
Clean out dividend declared on	**22 September 2016**	
Clean out dividend paid on	**10 October 2016**	
Clean out dividend cents per share[1]	**7.23 cents**	
Interim dividend declared on	**10 February 2017**	18 February 2016
Interim dividend paid on	**4 March 2017**	22 March 2016
Interim dividend cents per share[1]	**56.09 cents**	72.08 cents

[1] *The weighted average number of shares in the prior year have been adjusted into the current capital structure as required by IAS 33, and as explained in note 12*

23. Cash generated from operations

	9 months 31 March 2017 R'000	12 months 30 June 2016 R'000
Profit before taxation	**544 157**	503 247
Adjustments for:		
Depreciation and amortisation	**135**	588
Loss/(profit) on disposals, of investment properties	**(36 528)**	13 556
Loss on disposal of furniture, fittings and equipment	**–**	7
Straight-lining accrual of rent	**–**	225
Interest income	**(20 556)**	(12 737)
Finance costs	**136 060**	170 822
Fair value gains	**(179 191)**	(257 412)
Goodwill impairment	**16 003**	12 000
Changes in working capital:		
Acquired through the acquisition of a subsidiary, excluding cash	**(88 474)**	–
Trade and other receivables	**(58 627)**	14 000
Capital expenditure/receipts on properties held for trading	**(151)**	(1 023)
Trade and other payables	**16 324**	10 200
	329 152	453 473

24. 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.

25. Related parties

Hosken Consolidated Investments Limited	Ultimate holding company
Tsogo Sun Holdings Limited	Majority shareholder
Southern Sun Hotels Proprietary Limited	Holding company
HPF Properties Proprietary Limited	100% subsidiary
HPF Management Proprietary Limited	100% subsidiary
Hospitality Property Fund Managers Proprietary Limited	100% subsidiary
Hosbrook Ventures Proprietary Limited	100% subsidiary
NIB 35 Proprietary Limited	100% subsidiary
Fezisource Proprietary Limited	100% subsidiary
HPF Employee Incentive Trust	Key staff benefit structure pre 2015

Vexicure is a subsidiary of Pan-African Capital Holdings Proprietary Limited (80% held), of which Z Kubukeli is a director. HPF Properties Proprietary Limited owns a 5% shareholding in the Company. M de Lima, L Meyer as well as Z Kubukeli are directors of Vexicure. Vexicure leases the Westin Cape Town Hotel from the group. Vexicure is accounted for as an associate entity.	Vexicure Proprietary Limited
HPF Properties Proprietary Limited owns 15% of Ash Brook, and both L Meyer and M de Lima are directors of Ash Brook. The Company is accounted for as an associate entity. Ash Brook leases the Radisson Blu Gautrain Hotel from HPF Properties.	Ash Brook Investments 72 Proprietary Limited
The HPF Employee Incentive Trust is a separate legal entity, which owns B shares in Hospitality Property Fund Limited. DG Bowden, GA Nelson and R Erasmus are trustees of the trust.	HPF Employee Incentive Trust
Fezisource Proprietary Limited leases property to Reshub Proprietary Limited which is a subsidiary of Southern Sun Hotels Proprietary Limited	Reshub Proprietary Limited

	2017 R'000	2016 R'000
Related party transactions and balances		
Associates		
Vexicure Proprietary Limited		
Rental received	**120 548**	135 408
Trade and other receivables	**13 234**	129
Trade and other payables	**19 259**	12 361
Tenant deposit and guarantee held as security on leases	**2 893**	3 301
Ash Brook Investments 72 Proprietary Limited		
Rental received	**29 621**	37 609
Trade and other receivables	**17 643**	18 009
Tenant deposit and guarantee held as security on leases	**1 746**	1 746
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 structure 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. Majormatic 194 Proprietary Limited is a subsidiary of Tsogo Sun and is the tenant to the Crowne Plaza Rosebank and the Holiday Inn Sandton.		
Fezisource Proprietary Limited		
Rental received	**122 089**	–
Trade and other receivables	**22 244**	–
Trade and other payables	**2 832**	–
Majormatic 194 Proprietary Limited		
Rental received	**36 333**	–
Trade and other receivables	**1 479**	–

26. Directors' remuneration

All directors' salaries, bonuses and consulting fees were borne by HPF Management Proprietary Limited.

	Salaries R'000	Bonuses R'000	Termination R'000	Total R'000
Executive				
2017				
KG Randall (CEO)[(1)]	**650**	**165**	**–**	**815**
MR de Lima (FD) [(2)]	**900**	**395**	**–**	**1 295**
VM Joyner (previous CEO) [(3)]	**1 425**	**569**	**5 787**	**7 781**
R Erasmus* (previous acting CFO) [(4)]	**730**	**115**	**–**	**845**
	3 705	**1 244**	**5 787**	**10 736**

** Prescribed officer*
[(1)] *1 January 2017 to 31 March 2017*
[(2)] *1 October 2016 to 31 March 2017*
[(3)] *1 July 2016 to 31 December 2016*
[(4)] *1 July 2016 to 31 December 2016*

HPF Employee Incentive Trust

HPF Employee Incentive Trust is a share-based payment "scheme", which is considered a share appreciation rights cash-settled scheme based on the appreciation of the B share under the prior capital structure.

Following the capital restructure, the HPF Employee Incentive Trust owns 562 774 ordinary shares of no par value, of which 293 204 are issued to employees under a share-based payment scheme. Rights vest in equal parts over a three-year period, which commenced on 30 September 2016. The number of shares issued for the purpose of the scheme, being 293 204, were the same at the beginning and the end of the financial year.

As at year end, a total of 269 570 shares remained available to the HPF Employee Incentive Trust.

	Salaries R'000	Bonuses R'000	Leave paid out R'000	Total R'000
2016				
VM Joyner (CEO)	2 148	2 700	–	4 848
R Asmal (previous FD)	202	–	541	743
R Erasmus* (acting CFO)	1 387	973	–	2 360
	3 737	3 673	541	7 951

** Prescribed officer*

All the above directors' payments are short-term employee benefits and there are no other employee benefits to the directors.

26. Directors' remuneration continued

	Directors' fees R'000	Consulting fees R'000	Total R'000
Non-executive			
2017			
JA Copelyn[(1)(2)]	**142**	**–**	**142**
L de Beer	**293**	**–**	**293**
DG Bowden	**283**	**–**	**283**
ZN Malinga	**238**	**–**	**238**
SA Halliday	**238**	**–**	**238**
GA Nelson	**230**	**177**	**407**
ZN Kubukeli	**219**	**–**	**219**
WC Ross	**192**	**–**	**192**
MN von Aulock[(1)(2)]	**113**	**–**	**113**
L McDonald[(1)(2)]	**113**	**–**	**113**
ZJ Kganyago[(1)(2)]	**113**	**–**	**113**
JR Nicolella[(1)(2)]	**113**	**–**	**113**
	2 287	**177**	**2 464**

	Directors' fees R'000	Consulting fees R'000	Total R'000
2016			
DG Bowden	371	–	371
GA Nelson	337	1 490	1 827
L de Beer	375	–	375
SA Halliday	341	–	341
ZN Kubukeli	323	–	323
ZN Malinga	297	–	297
WC Ross	290	–	290
	2 334	1 490	3 824

Payments to directors borne by group companies

	Salaries R'000	Bonuses R'000	Share incentive scheme R'000	Total R'000
2017				
MN von Aulock[(2)]	**4 112**	**–**	**–**	**4 112**
L McDonald[(2)]	**984**	**–**	**149**	**1 133**
ZJ Kganyago[(2)]	**1 680**	**–**	**–**	**1 680**

[(1)] *Fees are paid to the respective group companies and not to the individuals*

[(2)] *1 September 2016 to 31 March 2017*

27. Financial risk management and further financial instrument disclosures

Financial instruments consist mainly of deposits with banks, loans to the subsidiary companies, trade and other receivables, loans from banks, trade and other payables and interest rate swaps. Exposure to interest rate, liquidity and credit risks arises in the normal course of business.

Treasury policy

The group enters into derivative transactions such as interest rate swaps in order to help manage the financial risks arising from the group's activities as required by debt providers. The main risks arising from the entity's financing structure are market risk (in the form of interest rate risk) and liquidity risk. The policies for managing each of these risks and the principal effect of these policies on the results for the year are summarised below.

27.1 Interest rate risk

Management continuously monitors the group's exposure to interest rate volatility and determines the interest rate policy in this regard. Short-term debtors and creditors are not exposed to interest rate risk. As a consequence, the entity is exposed to market risk in respect of the fair value of its fixed rate financial instruments and cash flow risk in respect of variable rate financial instruments.

The group's debt carries both fixed and floating interest rates, however the group's current policy is to keep 60% to 70% of its borrowings on a fixed basis. Interest rate swaps have been entered into to achieve an appropriate mix of fixed and floating rate exposure. The interest rate swaps are not designated as cash flow hedges for accounting purposes and thus any changes to the interest rate at the date of reporting would affect profit or loss but, as these gains or losses are not available for distribution, they would be transferred to a fair value reserve.

The interest rate exposure of the group to interest-bearing financial instruments is as follows:

	Nominal value Group	
	2017 R'000	2016 R'000
Fixed rate instrument		
Financial assets	**–**	–
Financial liabilities	**–**	(200 000)
	–	(200 000)
Effect of interest rate swaps	**(1 096 000)**	(1 293 334)
	(1 096 000)	(1 493 334)
Variable rate instrument		
Financial assets	**–**	–
Financial liabilities[1]	**(1 718 493)**	(1 743 550)
	(1 718 493)	(1 743 550)
Effect of interest rate swaps	**1 096 000**	1 293 334
	(622 493)	(450 216)

[1] *Prepaid debt raising fees of R6,5 million have been included*

At the reporting date, the following interest rate swap agreements were in place:

	Nominal rate	Commence-ment date	Maturity	Nominal value R'000	**Fair value at 31 March 2017 R'000**	Fair value at 30 June 2016 R'000
Nedbank Limited – swap 2	6.40%	Oct 2013	Oct 2016	150 000	**–**	699
Nedbank Limited – swap 3	7.05%	Sep 2014	Sep 2017	100 000	**140**	528
Nedbank Limited – swap 4	7.60%	Oct 2016	Oct 2017	300 000	**(548)**	–
Rand Merchant Bank – swap 1	7.96%	Jun 2014	Jul 2016	346 667	**–**	(113)
Rand Merchant Bank – swap 3	7.05%	Sep 2014	Sep 2017	100 000	**141**	534
Rand Merchant Bank – swap 4	6.78%	Jul 2016	Feb 2018	346 667	**1 870**	3 899
Rand Merchant Bank – swap 5	7.88%	Feb 2016	Feb 2019	250 000	**(2 514)**	(1 477)
					(912)	4 070

27. Financial risk management and further financial instrument disclosures continued

27.1 Interest rate risk continued

Negative value denotes that swap is in the bank's favour.

Derivative asset/liability

	Non-current R'000	**Current R'000**	**Fair value at 31 March 2017 R'000**	Non-current R'000	Current R'000	Fair value at 30 June 2016 R'000
Derivative asset	**1 870**	**280**	**2 150**	4 961	699	5 600
Derivative liability	**(2 514)**	**(548)**	**(3 062)**	(1 477)	(113)	(1 590)

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates would have increased/decreased profit or loss by R17 million (2016: R16 million), including the effects of the interest rate swaps. This analysis assumes that all other variables remain constant.

27.2 Liquidity risk

Liquidity risk is the risk that the group will be unable to meet a financial commitment as it falls due. Cash flows are regularly monitored to ensure that cash resources are adequate to meet funding commitments. The group's policy is to seek to optimise its exposure to liquidity risk by balancing its exposure to interest rate risk and to refinancing risk. In effect, the entity seeks to borrow for as long as possible at the lowest acceptable cost.

The group regularly reviews the maturity profile of its financial liabilities and seeks to avoid a concentration of maturities through the regular replacement of facilities and by using a selection of maturity dates. Refinancing risk may be reduced by reborrowing prior to the contracted maturity date, effectively switching liquidity risk for market risk.

The Company's current liabilities exceed the current assets. However, the group will ensure that all short-term liabilities are settled as and when they arise.

The following are the contractual maturities of financial liabilities including finance costs. All financial liabilities, with the exception of derivative liabilities measured at fair value, are measured and carried at amortised cost.

	Carrying amount R'000	**0 – 12 months R'000**	**2 – 5 years R'000**	**More than 5 years R'000**
Group 31 March 2017				
Interest-bearing liabilities	**2 233 441**	**392 958**	**1 840 483**	**–**
Derivative liability	**3 062**	**548**	**2 514**	**–**
Trade and other payables	**111 876**	**111 876**	**–**	**–**
	2 348 379	**505 382**	**1 842 997**	**–**
Group 30 June 2016				
Interest-bearing liabilities	2 108 178	775 165	1 333 013	–
Derivative liability	10 730	4 811	5 919	–
Trade and other payables	95 552	95 552	–	–
	2 214 460	875 528	1 338 932	–

It is not expected that the cash flows from the above instruments would occur significantly earlier than presented.

The Company's borrowings are limited by its Memorandum of Incorporation and in terms of the JSE Listings Requirements to 60% of the directors' bona fide valuation of the consolidated property portfolio.

The Company's utilised borrowing capacity at year end can be summarised as follows:

	31 March 2017 R'000	30 June 2016 R'000
Property valuation	**8 126 648**	5 298 492
60% thereof	**4 875 989**	3 179 095
Effective borrowings	**1 718 493**	1 725 063
Unutilised borrowing capacity	**3 157 496**	1 454 032
Facilities available in terms of agreements at year end	**2 043 550**	2 043 550
Undrawn facilities	**325 057**	318 487
Gearing ratio	**21.1%**	32.6%

27. Financial risk management and further financial instrument disclosures continued

27.3 Credit risk

Credit risk arises from the risk that trade receivables may default and result in a loss to the entity. The entity has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral (in the form of cash deposits and bank guarantees), where appropriate, as a means of mitigating the risk of financial loss from default. Financial performance of the tenant's business is monitored on an ongoing basis.

Concentration risk	Properties	Income %	Receivable R'000
Tenant 1	1	24	13 053
Tenant 2	6	16	9 857
Tenant 3	12	32	22 135
Tenant 4	1	8	4 020
Balance	5	20	10 838
	25	100	59 903

In terms of the entity structure, there is a concentration risk in terms of the revenues earned and the resultant receivables. Management receives comprehensive monthly management reports and attends the monthly meeting with the hotel operators in order to monitor performance and identify elements of credit risk.

27.3.1 Credit exposure

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	31 March 2017 R'000	30 June 2016 R'000
Trade and other receivables		
Tenant and related receivables	**59 903**	56 105
	59 903	56 105
Tenant deposits	**20 518**	20 518
Bank guarantees	**17 836**	17 836

The group holds deposits over certain trade and other receivables in the form of cash tenant deposits and bank guarantees as indicated above.

The directors are of the opinion that the financial assets have a low credit risk.

27.3.2 Impairment losses

The ageing of tenant and related receivables at the reporting date was:

	Gross carrying amount 31 March 2017	Gross carrying amount 30 June 2016
Current (< 30 days)	**59 903**	56 019
Past due but not yet impaired (> 30 days)	**–**	85
Past due but not yet impaired (> 60 days)	**–**	1
Total	**59 903**	56 105

Tenant and related receivables as noted above are continuously assessed for impairment. There is no current indication of any default by any of the receivables at year end.

The group comprehensively assesses the individual circumstances and credit risk of each tenant and receivable and an impairment loss is recognised after the assessment indicates that recoverability is unlikely.

Management has assessed the credit quality of tenants and related receivables as being of low risk.

27. Financial risk management and further financial instrument disclosures continued

27.4 Capital structure

In prior years, the entity viewed its capital base as the sum of its shares and debentures as each share was linked to a debenture. During the current year, both par value shares and debentures converted into no par value shares as disclosed under note 12. The entity seeks to enhance shareholder value by both investing in the business so as to improve the return on investment and by managing the capital structure. The entity uses a mix of equity and debt financial instruments and aims to access both debt and equity capital markets with maximum efficiency and flexibility. The key ratios used to monitor the capital structure are the debt to assets ratio (in the prior year this ratio excluded debentures) and the interest coverage ratio. Notwithstanding the fact that the entity's total liabilities are limited by the JSE Listings Requirements for REITs at 60% of total assets, the current strategy is to maintain debt levels below 40% of the total investment properties portfolio as per the current loan agreements in place.

	31 March 2017 R'000	30 June 2016 R'000
Stated capital	**5 565 258**	2 909 957
Share capital and share premium	**–**	–
Debentures	**–**	–
Total capital	**5 565 258**	2 909 957
Total interest-bearing liabilities[(1)]	**1 725 063**	1 725 063

The above capital and interest-bearing liabilities are employed to acquire investment properties for the group.

[(1)] *The unamortised portion of the debt raising fee amounted to R6.6 million (2016: R6.6 million) at year end*

27.5 Carrying amounts and fair values of financial instruments

	Derivative financial asset R'000	**Derivative financial liability R'000**	**Loans and receivables R'000**	**Financial liabilities at amortised cost R'000**
Group 2017				
Financial asset				
Derivative asset	**2 150**	**–**	**–**	**–**
Trade and other receivables	**–**	**–**	**115 536**	**–**
Cash and cash equivalents	**–**	**–**	**210 054**	**–**
Financial liabilities				
Derivative liability	**–**	**3 062**	**–**	**–**
Trade and other payables	**–**	**–**	**–**	**111 876**
Interest-bearing liabilities	**–**	**–**	**–**	**1 725 063**
Group 2016				
Financial asset				
Derivative asset	5 660	–	–	–
Trade and other receivables	–	–	57 035	–
Cash and cash equivalents	–	–	194 260	–
Financial liabilities				
Derivative liability	–	1 590	–	–
Trade and other payables	–	–	–	95 552
Interest-bearing liabilities	–	–	–	1 725 063

The carrying amounts of trade and other receivables; cash and cash equivalents and trade and other payables reflected in the statement of financial position approximates the fair value.

The following summarises the significant methods and assumptions used in estimating the fair value of financial instruments. Where applicable, the fair values of financial assets and liabilities have been established using the market value, where available. For those instruments without a market value, a discounted cash flow approach is used.

Derivatives

Derivatives are acquired in line with the risk management policy and are not acquired for speculative purposes.

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.

Non-derivative financial liabilities

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.

27. Financial risk management and further financial instrument disclosures continued

27.5 Carrying amounts and fair values of financial instruments continued

Trade and other payables

The carrying amount of trade and other payables reasonably approximates its fair value due to their short-term nature.

Trade and other receivables

The carrying amount of trade and other receivables reasonably approximates its fair value due to their short-term nature.

Fair value hierarchy

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
31 March 2017				
Derivative financial assets	**–**	**2 150**	**–**	**2 150**
Derivative financial liabilities	**–**	**(3 062)**	**–**	**(3 062)**
	–	**(912)**	**–**	**(912)**
30 June 2016				
Derivative financial assets	–	5 660	–	5 660
Derivative financial liabilities	–	(1 590)	–	(1 590)
	–	4 070	–	4 070

There were no defaults on loans payable by the group and Company during the year.

28. Subsequent events

As stated in the announcement released on SENS on Tuesday, 11 April 2017, 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; 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.

Hospitality 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 effective 1 July 2017. 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.

The transaction is deemed to be a transaction under common control and consequently falls outside the scope of IFRS 3 *Business Combinations*. The estimated impact on the common control reserve:

	R'000
Estimation of at acquisition common control reserve in Cullinan	**51 062**
Total purchase consideration	**(3 466 908)**
Net asset value acquired	**2 317 443**
– Merway	**754 541**
– Cullinan	**1 562 902**
Total claims acquired relating to interest-bearing liabilities	
– Cullinan	**1 464 128**
– Deferred tax released to retained earnings	**968 173**
Total impact on common control reserve	**1 333 898**

Subsequent to year end, on 24 May 2017, the board of directors declared a final gross cash dividend from income reserves in respect of the year ended 31 March 2017 of 44.92 cents per share. The number of ordinary shares in issue at the date of this declaration was 328 132 663 (excluding appraisal right shares).

Hospitality's R1 billion rights offer closed on Friday, 4 August 2017. A total of 71 428 571 rights offer shares were available for subscription in the ratio of 21.76820 rights offer shares for every 100 Hospitality shares held on the rights offer record date, at an issue price of R14.00 per rights offer share. Subscriptions for 64 462 652 rights offer shares were received and applications for 6 422 271 excess rights offer shares were fulfilled. Excess rights offer shares amounting to 543 648 were allocated to the underwriter.

Following the issue of the rights offer shares, the total issued share capital of the company increased to 576 003 351 ordinary shares.

29. Property portfolio information

	Valuation %	Gross rental income %	Number of rooms* %
Lease expiry profile			
One year	**0**	**0**	**0**
Two to five years	**34**	**38**	**43**
After five years	**66**	**62**	**57**
	100	**100**	**100**

** Indicates number of rooms at 31 March 2017 and does not account for pro rata ownership where HPF owns less than 100% of a specific hotel*

	Gross rental income %	Number of rooms* %
By lease type		
Fixed leases	**5**	**3**
Fixed and variable leases	**95**	**97**
	100	**100**

** Indicates number of rooms at 31 March 2017 and does not account for pro rata ownership where HPF owns less than 100% of a specific hotel*

	Average room rate R	Valuation %	Gross rental income %	Number of rooms* %
Property grading[(1)]				
Luxury	**2 104**	**27**	**31**	**14**
Upscale	**1 396**	**35**	**37**	**36**
Midscale	**861**	**38**	**32**	**50**
		100	**100**	**100**

** Indicates number of rooms at 31 March 2017 and does not account for pro rata ownership where HPF owns less than 100% of a specific hotel*

[(1)] *All tenants are graded as A tenants, being large national tenants*

Average property yield	
2017*	**9.6%**
2016**	9.9%

** The 2017 average property yield is determined as follows: F2017 year rental income/investment properties 2016 value*
*** The 2016 average property yield is determined as follows: F2016 year rental income/investment properties 2015 value*

Property portfolio

Property name	Property title	HPF ownership	Property location	Star grading	No of rooms	Agreement type	Lease expiry date	Valuation (30 June 2016) (R'000)
Western Cape region								
Westin – Cape Town	Freehold	Direct	Convention Square, Cape Town, Western Cape	Luxury	483	Fixed and variable lease	31/12/37	1 626 000
Arabella Hotel and Spa	Freehold	Direct	Hermanus, Western Cape	Luxury	145	Fixed and variable lease	13/05/21	176 000
Arabella Phase 2 land	Land	Direct	Hermanus, Western Cape	N/A	N/A	N/A	N/A	
Radisson Hotel – Waterfront	Freehold	90 sectional title units	Waterfront, Cape Town, Western Cape	Upscale	177	Fixed and variable lease	01/08/19	454 000
Protea Hotel – Victoria Junction	Freehold	147 sectional title units (84% units in the scheme)	Waterfront, Cape Town, Western Cape	Upscale	172	Fixed and variable lease	31/01/27	245 000
Southern Sun – Newlands	Freehold	Direct	Newlands, Cape Town, Western Cape	Upscale	162	Fixed and variable lease	31/03/36	
Stay Easy – Century City	Freehold	Direct	Milnerton, Cape Town, Western Cape	Midscale	175	Fixed and variable lease	31/03/36	
Sunsquare – Cape Town	Freehold	Direct	Gardens, Cape Town, Western Cape	Midscale	136	Fixed and variable lease	31/03/36	
Inn on the square(1)	Freehold	Direct	Cape Town CBD, Western Cape	Midscale	N/A	N/A	N/A	106 000
Western Cape total					1 450			2 607 000
Gauteng region								
Mount Grace Country House & Spa	Freehold	Direct	Magaliesburg, Gauteng	Luxury	121	Fixed and variable lease	01/12/33	184 000
Crowne Plaza Johannesburg – The Rosebank	Freehold	Direct	Rosebank, Johannesburg, Gauteng	Upscale	318	Fixed and variable lease	01/03/21	338 000
Holiday Inn – Sandton	Freehold	Direct	Sandton, Gauteng	Upscale	301	Fixed and variable lease	01/03/21	340 000
Radisson Gautrain	Freehold	Direct – sectional title	Sandton, Gauteng	Upscale	220	Fixed and variable lease	31/12/30	439 000
Birchwood Executive Hotel and Conference Centre	Freehold	Direct	Boksburg, Gauteng	Midscale	665	Fixed and variable lease	01/07/21	673 000
Garden Court – OR Tambo	Freehold	Direct	Kempton Park, Gauteng	Midscale	253	Fixed and variable lease	31/03/36	
Garden Court – Milpark	Freehold	Direct	Auckland Park, Gauteng	Midscale	251	Fixed and variable lease	31/03/36	
Kopanong Hotel and Conference Centre(2)	Freehold	Sectional title	Benoni, Gauteng	Midscale	168	Fixed and variable lease	30/11/18	88 491
Gauteng total					2 297			2 062 491
Remainder of South Africa								
Champagne Sports Resort	Freehold	Combined share block and direct	Central Berg, KwaZulu-Natal	Upscale	152	Fixed lease agreement	01/07/18	286 000
Southern Sun – Bloemfontein	Freehold	Direct	Bloemfontein, Free State	Upscale	147	Fixed and variable lease	31/03/36	
Protea Edward	Freehold	Direct	OR Tambo Parade Drive, Durban, KwaZulu-Natal	Upscale	131	Fixed and variable lease	01/07/20	167 000
Protea Hotel Marine – Port Elizabeth	Freehold	Direct	Port Elizabeth, Eastern Cape	Upscale	114	Fixed and variable lease	01/02/21	135 000
Garden Court – South Beach	Freehold	Direct	South Beach, Durban, KwaZulu-Natal	Midscale	414	Fixed and variable lease	31/03/36	
Garden Court – Polokwane	Freehold	Direct	Polokwane, Limpopo	Midscale	180	Fixed and variable lease	31/03/36	
Garden Court – Kimberley	Freehold	Direct	Kimberley, Northern Cape	Midscale	135	Fixed and variable lease	31/03/36	
Stay Easy – Rustenburg	Freehold	Direct	Rustenburg, North West	Midscale	125	Fixed and variable lease	31/03/36	
Protea Hotel Hazyview	Freehold	Direct	Hazyview, Mpumalanga	Midscale	87	Fixed and variable lease	30/06/21	
Remainder of South Africa total					1 485			588 000
Total					5 232			5 257 491

(1) *Sold in the current period*
(2) *Classified as non-current asset held for sale*

Acquisitions (R'000)	Disposals (R'000)	Transfer (R'000)	Development (R'000)	Capital expenditure (R'000)	Revaluation surplus/ (deficit) (R'000)	Carrying amount (March 2017) (R'000)	Original cost (R'000)	Capitalised post-acquisition (R'000)	Total cost (R'000)	Surplus/ deficit on valuation to cost (R'000)
				18 554	206 084	**1 850 638**	648 895	85 393	734 288	1 116 350
				1 866	(11 416)	**166 450**	83 368	30 760	114 128	52 322
		22 643				**22 643**	22 643	–	22 643	–
			3 481	9 418	52 393	**519 292**	232 963	69 671	302 634	216 658
2 000				762	82 743	**330 505**	122 839	52 975	175 814	154 691
160 986				323	(20 438)	**140 871**	160 986	323	161 309	(20 438)
252 288				507	32 040	**284 834**	252 288	507	252 794	32 040
99 489				200	22 077	**121 766**	99 489	200	99 689	22 077
	(107 692)			1 692		**–**	–	–	–	–
514 763	(107 692)	22 643	3 481	33 322	363 483	**3 436 999**	1 623 471	239 829	1 863 299	1 573 700
			2 617	2 579	(57 049)	**132 147**	131 562	187 402	318 964	(186 817)
				445	(29 900)	**308 545**	70 000	336 334	406 334	(97 789)
			170	591	(31 212)	**309 549**	409 247	31 261	440 508	(130 959)
				3 972	28 541	**471 513**	458 878	17 641	476 519	(5 006)
				12 938	(98 564)	**587 374**	460 859	59 179	520 038	67 336
422 122				848	(89 137)	**333 833**	422 122	848	422 970	(89 137)
374 652				752	(51 194)	**324 210**	374 652	752	375 405	(51 195)
	(1 845)			124	(21 160)	**65 610**	78 130	8 468	86 598	(20 988)
794 929	(1 845)	–	2 787	22 249	(349 676)	**2 532 780**	2 405 450	641 884	3 047 335	(514 555)
				3 074	59 414	**348 488**	148 792	68 354	217 146	131 342
148 676				299	(22 548)	**126 427**	148 676	299	148 975	(22 548)
			68	1 191	32 450	**200 709**	110 400	44 597	154 997	45 712
			608	3 451	(4 900)	**134 159**	73 000	50 176	123 176	10 983
592 637					136 212	**728 849**	592 637	–	592 637	136 212
292 050					(15 239)	**276 811**	292 050	–	292 050	(15 239)
196 326				394	(67 731)	**128 989**	196 326	394	196 720	(67 731)
118 490				238	14 600	**133 328**	118 490	238	118 728	14 600
		41 000			38 107	**79 107**	41 508	14 947	56 455	22 652
1 348 180	–	41 000	676	8 647	170 364	**2 156 867**	1 721 880	179 005	1 900 885	255 982
2 659 717	(109 537)	63 643	6 944	64 217	184 173	**8 126 648**	5 750 801	1 060 717	6 811 519	1 312 128

Our locations

Gauteng 8

Birchwood Hotel and OR Tambo Conference Centre
Garden Court Milpark*
Holiday Inn Sandton – Rivonia Road
Mount Grace Country House and Spa
Crowne Plaza Johannesburg – The Rosebank
Garden Court OR Tambo*
Kopanong Hotel and Conference Centre
Radisson Blu Gautrain Sandton

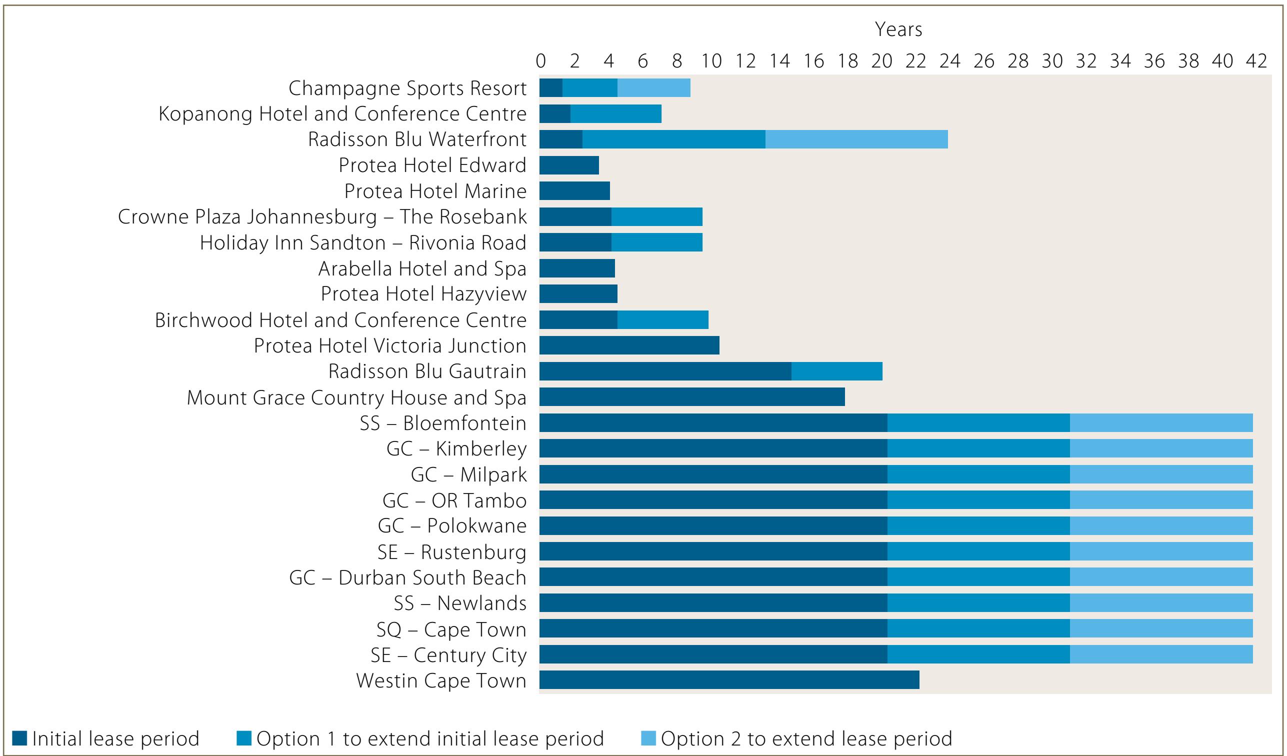
Western Cape 8

Arabella Hotel and Spa
Protea Hotel Victoria Junction
StayEasy Century City Hotel*
Southern Sun Newlands*
Inn on the Square[(1)]
Radisson Blu Waterfront
SunSquare Cape Town*
The Westin Cape Town

Rest of South Africa 9

Limpopo **(1)** Garden Court Polokwane*
North West **(1)** StayEasy Rustenburg*
Northern Cape **(1)** Garden Court Kimberley*
Mpumalanga **(1)** Protea Hotel Hazyview
Free State **(1)** Southern Sun Bloemfontein*
Eastern Cape **(1)** Protea Hotel Marine
KwaZulu-Natal **(3)** Champagne Sports Resort, Garden Court South Beach*, Protea Hotel Edward

* Acquired with effect from 1 September 2016 as part of the Tsogo transaction
(1) Disposed of on 20 November 2016



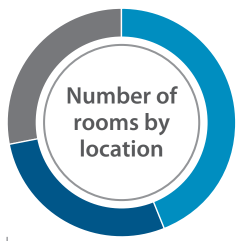
No vacancies exist within the portfolio

(Including disposal property)

- Gauteng – 30%
- Western Cape – 47%
- Remainder of South Africa – 23%

(Excluding disposal property)

- Gauteng – 31%
- Western Cape – 42%
- Remainder of South Africa – 27%



(Excluding disposal property)

- Gauteng – 44%
- Western Cape – 28%
- Remainder of South Africa – 28%

Analysis of ordinary shareholdings

Shareholder spread	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
1 – 1 000	185	20.95	61 820	0.02
1 001 – 10 000	302	34.20	1 170 103	0.36
10 001 – 100 000	227	25.71	8 375 310	2.53
100 001 – 1 000 000	134	15.18	40 932 752	12.38
Over 1 000 000	35	3.96	279 969 934	84.71
Total	**883**	**100.00**	**330 509 919**	**100.00**
Distribution of shareholders				
Assurance companies	11	1.25	7 790 570	2.35
Close corporations	17	1.93	845 873	0.25
Collective investment schemes	115	13.02	105 724 733	31.99
Control accounts	1	0.11	14	0.00
Custodians	6	0.68	4 214 967	1.28
Foundations and charitable funds	16	1.81	2 294 781	0.69
Hedge funds	6	0.68	2 194 931	0.66
Insurance companies	6	0.68	803 072	0.24
Investment partnerships	5	0.57	29 523	0.01
Managed funds	11	1.25	482 488	0.15
Medical aid funds	12	1.36	2 498 668	0.76
Organs of state	2	0.23	2 949 439	0.89
Private companies	29	3.28	169 239 923	51.21
Public companies	2	0.23	18 061	0.01
Public entities	3	0.34	394 452	0.12
Retail shareholders	427	48.35	3 261 288	0.99
Retirement benefit funds	143	16.19	24 282 406	7.35
Scrip lending	2	0.23	363 600	0.11
Share schemes	1	0.11	562 774	0.17
Stockbrokers and nominees	12	1.36	890 949	0.27
Trusts	55	6.23	1 667 405	0.50
Unclaimed scrip	1	0.11	2	0.00
Total	**883**	**100.00**	**330 509 919**	**100.00**

Shareholder spread	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Shareholder type				
Non-public shareholders	6	0.68	168 714 810	51.04
> 10% Southern Sun Hotels Proprietary Limited	1	0.11	167 384 056	50.64
Share schemes	1	0.11	562 774	0.17
Directors and associates[(1)]	4	0.46	767 980	0.23
Public shareholders	877	99.32	161 795 109	48.96
Total	**883**	**100.00**	**330 509 919**	**100.00**
Fund managers with a holding greater than 3% of the issued shares				
Coronation Fund Managers			78 675 000	23.80
Prudential Investment Managers			17 405 721	5.27
Sanlam Investment Management			10 619 703	3.21
Total			**106 700 424**	**32.28**
Beneficial shareholders with a holding greater than 3% of the issued shares				
Southern Sun Hotels Proprietary Limited			167 384 056	50.64
Coronation Fund Managers			53 164 691	16.09
Sanlam Group			13 643 470	4.13
Nedbank Group			11 477 456	3.47
Total			**245 669 673**	**74.33**
Total number of shareholdings	**883**			
Total number of shares in issue	**330 509 919**			
Share price performance				
Opening price 1 April 2016	R3.20			
Closing price 31 March 2017	R13.90			
Closing high for period	R14.85			
Closing low for period	R2.80			
Number of shares in issue	330 509 919			
Volume traded during period	37 796 162			
Ratio of volume traded to shares issued	11.44%			
Rand value traded during the period	R437 551 542			
Price/earnings ratio as at 31 March 2017	6.378			
Earnings yield as at 31 March 2017	15.679			
Dividend yield as at 31 March 2017	–			
Market capitalisation at 31 March 2017	R4 594 087 874			

[(1)] *Refer to details on directors and associates on page 46*

Analysis of ordinary shareholdings continued

as at 31 March 2017

Directors' interests

The directors' holdings of shares at 30 June 2016 were:

A shares (prior to capital restructure)

	Direct beneficial	Indirect beneficial	Associate	Total shares held
GA Nelson	–	–	288 169	288 169
Total	–	–	288 169	288 169

B shares (prior to capital restructure)				
ZN Kubukeli	–	118 715	–	118 715
GA Nelson	–	–	825 625	825 625
	–	118 715	825 625	944 340

The directors' holdings of shares at 31 March 2017 were:

Ordinary share (subsequent to capital restructure)

	2017			
	Director			
	Direct beneficial	**Indirect beneficial**	**Associate**	**Total**
ZN Kubukeli	**–**	**–**	**33 919**	**33 919**
GA Nelson	**–**	**–**	**524 062**	**524 062**
L McDonald	**–**	**–**	**52 500**	**52 500**
M von Aulock*	**–**	**–**	**157 500**	**157 500**
	–	**–**	**767 981**	**767 981**

Note: *Executive directors' interest in the HPF Employee Scheme is disclosed in note 26.*
Subsequent to year end, on 18 July 2017, L McDonald via an associate, acquired an additional 11 866 ordinary shares. The directors followed their rights in the recent rights offer concluded on 4 August 2017. Other than disclosed, there have been no further changes to directors' interests subsequent to year end.

** Resigned 1 June 2017.*

The directors' holdings of shares at 11 August 2017 were:

Ordinary shares (subsequent to rights offer)

	Director			
	Direct beneficial	**Indirect beneficial**	**Associate**	**Total**
J Booysen^	**133 957**	**–**	**–**	**133 957**
ZN Kubukeli	**–**	**–**	**33 919**	**33 919**
GA Nelson	**–**	**–**	**524 062**	**524 062**
L McDonald	**–**	**–**	**69 232**	**69 232**
	133 957	**–**	**627 213**	**761 170**

^ Appointed 8 June 2017.

Adjusted HEPS	Adjusted headline earnings per share
AGM	Annual General Meeting
Ash Brook	Ash Brook Investment 72 Proprietary Limited
BBBEE	Broad-based black economic empowerment
the board	The board of directors of Hospitality Property Fund Limited
CAGR	Compound annual growth rate
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Companies Act	The Companies Act, No 71 of 2008, as amended
the Company	Hospitality Property Fund Limited
CSDP	Central Securities Depository Participant
Ebitdar	Earnings before interest, tax, depreciation, amortisation, rentals and exceptional items
EME	Emerging micro-enterprise
Fedhasa	Federated Hospitality Association of South Africa
Fezisource	Fezisource Proprietary Limited
FICA	Financial Intelligence Centre Act
FD	Financial Director
Free cash flow	Cash generated from operations adjusted for net finance costs, taxation paid, operating equipment purchased and maintenance capital expenditure
HCI	Hosken Consolidated Investments Limited
HEPS	Headline earnings per share
Hospitality	Hospitality Property Fund Limited
HPF	Hospitality Property Fund Limited
HPF Properties	HPF Properties Proprietary Limited
HPF Management	HPF Management Proprietary Limited
IAS	International Accounting Standards
IIRC	International Integrated Reporting Council
IFRS	International Financial Reporting Standards
IT	Information technology
JSE	JSE Limited
King III	The King Code of Governance Principles for South Africa 2009
NPAT	Net profit after tax
PP	Percentage points
Revpar	Revenue per available room
SENS	Securities Exchange News Service of the JSE
Systemwide	Including both owned and managed businesses
SSH	Southern Sun Hotels Proprietary Limited
TBCSA	Tourism Business Council of South Africa
the group	Hospitality Property Fund Limited and its subsidiaries, associates and joint ventures
the Fund	Hospitality Property Fund Limited
Tsogo Sun	Tsogo Sun Holdings Limited
VAT	Value Added Tax
Vexicure	Vexicure Proprietary Limited

Corporate information

Company Secretary
LR van Onselen

Registered office
HPF Management Proprietary Limited
(Registration number: 2009/021472/07)
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Sponsor and corporate adviser
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Transfer secretaries
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(Registration number: 2004/003647/07)
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Bastion

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